

**VALUE ADDED TAX AND ITS REVENUE
POTENTIAL IN NEPAL**

A Thesis

Submitted to

Office of the Dean

Central Department of Management

Tribhuvan University

**In partial fulfillment of the requirements for the degree of
Master of Business Studies (MBS)**

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DECLARATION

I hereby declare that the work reported in this thesis entitled "**Value Added Tax and Its Revenue Potential in Nepal**" submitted to Central Department of Management, Tribhuvan University is my original work. It is done in the form of partial fulfillment of the requirements for the Master of Business Studies (M.B.S.) under the supervision and guidance of Dr. Gopi Nath Regmi.

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ACKNOWLEDGEMENTS

My indebtedness and gratitude goes to the many individuals, who have assisted to shape this thesis in the present form, cannot be adequately conveyed in a few sentences. First I would like to express my sincere gratitude to Dr. Gopi Nath Regmi as my guide who is not only inspired me but also provided constructive suggestions and outstanding guidance's to prepare this thesis successfully.

My special thanks go to Prof. Dr Bal Krishna Shrestha, Head of the Central Department of Management. Likewise, I would like to thank all my teachers and staffs of the Central Department of Management and special thanks to my teacher Ramakanta Bhattarai whose sound theoretical knowledge provided me the basis for the preparation of this thesis. Their valuable suggestions and comments help me to make this thesis. I also express my heartfelt thanks to my parents Duba Prasad Raila and Dilli Kumari Raila and my sister Swastika Raila who always encouraged me to complete my education and giving economical support for making my thesis presentable. I also express my sincere thank to all my friends especially Manmol Gajurel for their unforgettable help throughout the study. There are many others, who have helped me undertake this study; I express my sincere thanks to all of them.

At last I acknowledged to all the writers and researchers whose idea and information were used in this thesis and Liberians who help me to provide secondary sources which used in this thesis.

Rajan Raila
Researcher

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ABBREVIATION

\$:	Dollar
%	:	Percentage
&	:	And
A.D	:	Anno Domini
BOP	:	Balance of Payment.
EEC	:	European Economic Community.
Fig	:	Figure
FNCCI	:	Federation of Nepal Chambers of Commerce and Industry.
FY	:	Fiscal Year
G.D.P	:	Gross Domestic Product
G.N.P	:	Gross National Product.
GATT	:	General Agreement on Tariff and Trade
Govt.	:	Government.
i.e.	:	That is
IMF	:	International Monetary Fund.
IRD	:	Inland Revenue Department.
IT	:	Information Technology.
LDT	:	Local Development Tax
M.S.P	:	Multi Stage Tax.
MODVAT	:	Modifies Value Added Tax.
Mof	:	Ministry of Finance
N.G	:	Nepal Government.
N.N.P	:	Net National Product
N.R.S	:	Nepali Rupees.
No.	:	Number
p	:	Page
PAN	:	Permanent Account Number.

R.S.T	:	Retail Stage Sales Tax
Rev.	:	Revenue
RS.	:	Rupees
SAARC	:	South Asian Association for Regional Co-operation
TPIN	:	Tax Payer Identification Number.
UDCS	:	Under developed countries.
VAT	:	Value Added Tax.
Viz	:	Namely
W.B	:	World Bank
W.S.T	:	Whole Stage Tax.

CHAPTER-I

INTRODUCTION

1.1 Background

Taxation is the most effective and powerful tool reserved in the hands of government of a country. It is taxation, which invest paramount power in the government to hold over the economy of country. The major objective of taxation is to make fund available for the economic development and economic stability. A major part of government revenue comes from taxation is much better than external resource mobilization. It is better for developing countries to maximize revenue through domestic source, which is much safer and fruitful as well. Taxation not only contributes in economic development and stability but also helps equal distribution of national income of a country.

Taxes are usually classified into direct taxes and indirect taxes. There is a predominant role of indirect taxes in Nepalese tax structure. VAT system has been considered as an attractive alternative to exist as an indirect tax system spreading around the world. Although it is the youngest form of taxation which; was innovated in the second half of the twentieth century. It has been emerging as a main element of the worldwide tax reform, in every attempt of tax reform; VAT is now gaining the primary preference.

For the replacement of sales tax, entertainment tax, contract tax and hotel tax, the government of Nepal has introduced VAT in Nepal on November 16, 1997. Specially it is supplementary of sales tax or improved form of sales tax. Since VAT generates less cost to the economy than other taxes, including customs duties and other domestic trade taxes except retail level sales tax, it is considered an efficient way of generating revenue. The goods are passed through different channels (i.e. producer-agent-whole seller –retailer-consumer) by adding the value in each channel. In this process, after beginning government has charged 10% on the added value that is called value added

tax (VAT). Therefore, at present, VAT rate is 13% collected at every stage of selling goods and services. (Dhamala , 2012)

VAT is a recent and an important innovation in the field of modern taxation system. After its origin in France, it gained worldwide popularity at the academic level as well as practical level. After France adopted VAT for the first time in 1954, the Ivory Coast adopted it in 1960 and then Senegal in 1961. Since 1967 onwards VAT gained worldwide momentum and as a result from that time to 2001, with the exception of 1974, 1978, 1979 and 1981, each year some or the other country has been adopting VAT. In Nepal VAT was introduced in mid-November 1997 as a major part of tax reform program and in the process of implementation various other reform-oriented activities have taken place. VAT was adopted after following preparations were made.

Formulation of VAT Act and regulation, establishment of an appropriate organizational structure and personnel system, computerization system, imparting knowledge regarding various aspect of this tax to potential tax payers and to various sections of the society, etc. VAT is a modern tax that is based on the principle of self-assessment. VAT has done with administrative procedures such as taking approval of the price of the purpose of sales tax, submission of annual statement of accounts tax, assessment by the tax officer stamping of invoice, submission of the invoice at the tax office along with the tax returns.

(Dhamala ,2012)

VAT is the transparence tax system that is based on the taxpayer's transaction. VAT is not only transparent but also it demands transparency as other tax system as well. Unless such environment is created vat cannot be implemented effectively. Vat is the youngest member of the sales tax family, which is broad based. Since the base of the vat is extensive, under this tax resume more revenue can be collected through lower rates. The effective implementation of this tax can help in reducing the rates of custom duties and income tax along with reducing smuggling of imported goods and hence improves the balance of payment, reduces the unintended distortions, services

horizontal equity in a greater degree and makes the tax system simple and natural. In similar manner vat has many provisions to correct its regressive nature.

“VAT is levied on all goods and services, unless specifically exempt by the law and collected at different stages in the process of production and distribution.” (Lamichhane 2011)

“Value added tax is the most recent innovation in the field of taxation. It is levied on the value added of goods and services. Theoretically, the tax is broad based as it covers the value added to each commodity by a firm during all stages of production and distribution (Lamichhane 2011)

“VAT is a modern and scientific tax system. It is not similar to custom, excise duty, income tax, or sales tax that has born the tradition and historical heritage. It is not a tax that has imposed and amended and accordingly inserted or deleted. It is a tax of the 21st century since it highly developed and refined. It is a tax that suits the present speeds of knowledge, development and skills .Moreover; it conforms to the present context of liberalization, privatization and globalization. It is easily adoptable with the open economy system and matches with the private sectors and the market economy of present days. It is a tax that is transparent and has an in-built system of self control.” (Thapa, 2001)

“VAT is the attractive, effective and alternative of sales tax on the ground of revenue productivity, equity norms, supporting economy growth without economic distortions, exports promoting price stability and neutrality as production and distribution.” (Katuwal, 2003)

Generally, Value Added Tax is imposes on goods and services on the bases of value added i.e. when we receive gross receipt in different amount as monetary form during all the stages of production and distribution proceeds in business activities “except provision of exempt by rule in Nepal.”(Mulya Abhibridddhi Kar Ain 2052,)

VAT is new concept on collection of revenue, which is recently innovated in the field of the taxation. Each step of the goods and services are levied to tax on its added

value. It covers the value added to each commodity by a firm during each stages of the production and the distribution and the vat is forward completely to the ultimate consumers. In Nepal after several years' preparation the value added tax act was finally passed on parliament in December 1995. Even after the passage of the law there were a lot of constraint and a difficulty in introducing and implementing vat in Nepal. The business community was against vat and various groups carried out 11 days strike against VAT. The first two years of VAT remained very turbulent. Despite this entire VAT system has increased the motivation and dedication of people.

1.2 Statement of the Problem

Nepal's revenue mobilization could not gain momentum for a long time. It is unable to reach at least 12% of GDP. All the improvements required and known in customs excise duty, sales tax and income tax had already been put in place. The improvements identified by International Monetary Fund (IMF) and the World Bank (WB) had also been implemented. Still, the revenue mobilization cannot take any speed. Thereafter, new taxes were introduced instead to identifying problems with in the existing tax system and trying to rectify them. Where the revenue collection did not increase even after improvements in the prevailing taxes, it should have been understood that only an effective tax system is not adequate for Revenue mobilization but it also requires capable and motivated tax administration, honest taxpayers, as well as political commitment. But in our context, instead of finding solution to these, efforts were made to find a new tax system. VAT is one example. This was also natural at that time when vat and its success were being widely discussed in the world, especially in the developing countries. The news that countries, implementing VAT were experiencing an encouraging level of increase in revenue collection was being relayed. Countries were competing with each other to implement vat and in a short duration of time more than 125 countries had implemented VAT. Besides negative aspects of this tax was not coming from any of the country which implemented VAT against this global scenario, Nepal had yet to implement VAT. Since the prevailing tax systems were not able to increase revenue collection even with all the improvements put in place it was but natural to expect that Nepal would benefit form

implementing the renewed VAT system. In this context, Nepal put forward the intention to implement VAT.

VAT was implemented after several preparations. Programs such as publicity, campaigns, workshops, training advertisements, publication of articles discussion on radio and television, commenced various booklets and other materials were published. In this process only the positive aspects of VAT were discussed and publicized. The negative aspects were not taken into consideration. So that shortcomings that can enter on the process of VAT implementation could not discuss. The tax system was explained in such a manner that it seemed to be the solution to all the problems related to revenue collection. People who expressed their doubts about the effective implementation of VAT were told that smuggling would automatically be uprooted, revenue leakage would automatically be controlled, exports would automatically increase and that revenue collection would increase so much that foreign aid would not be required with the implementation of VAT.

In Nepal, the full implementation of vat till the retail level has crossed its eleven-year but still the revenue collection has not been able to increase as expected. VAT was implemented to replace then existing sales tax, contract tax, hotel tax and entertainment tax. Therefore, vat should have been able to successfully displace the revenue that this sector had been paying in the past. In other words, the revenue collection from this sector has to increased manifold compared to the revenue collection in the past. Otherwise, there was no need to bring in a new tax system abolishing the old ones.

The revenue collections from the four taxes that have been replaced by vat (until 2053/54 beside the FY 2047/48) were a maximum of 35% and minimum of 33.2% of the total tax revenue. But after the implementation of VAT, the revenue received through this tax dropped to approximately 30% of the total tax revenue. This indicates that VAT collected less revenue than the four taxes that are replaced. Therefore, it can be said that there has been no real increase in revenue collection with the implementation of VAT. This proves that only a scientific and modern tax system is

not sufficient to increase revenue collection. The present situation of VAT shows the need of understanding and commitment at general tax payers, political level, motivated tax administration, serious study of the negative aspects of the tax system and honest and earnest attempts and environment to tackle them in order to make any tax system revenue productivity. At present, Nepal has practiced a flat rate of 13% of VAT and the threshold level is Rs. 2 million on annual transaction. Now it is the time to review the exciting provisions, which are the subject matter of the studies. This study is concerned to know the trend of VAT collection and to project the VAT for the particular future period. by knowing the trend and making the projection VAT implementation may become more effective.(Dhamala 2012)

This Thesis has been focused on the following issues:–

- a. In which trend, Nepalese government has been collecting it's revenue from tax and non-tax sources ?
- b. What is the trend of tax revenue collection in Nepal?
- c. In which trend, the value added tax has been contributing to total tax revenue collection in Nepal?

1.3 Objectives of the study

The main objective of the study is to show “A study on vat: trend analysis and projection”. The other objectives are as follows:

- a) To analyze the trend of Total Government Revenue
- b) To analyze the trend of Total Tax Revenue.
- c) To analyze the trend of VAT
- d) To provide suggestions for the improvement of VAT system in Nepal.

1.4 Significance of the study

The implementation of the VAT has crossed its eleven years. VAT was expected to occupy an important part of Nepalese Tax Revenue. This study could be a great signification to identify and rectify the existing position of revenue collection through VAT and for the future implementation.

1.5 Limitations of the study

The main limitations of the study are as follows

- a) This study is mainly based on the published secondary data and no attempts have been made to examine the reliability of the data.
- b) This study is mainly concentrated 5 to 10 years data.
- c) Most of the data in the study are used from the secondary sources.
- d) Limited time and resources.
- e) This study concentrated within the valley.

1.6 Organization of the study

The organization of the study has followed five separate chapters which are as follows:

Chapter I: Introduction

This chapter includes background, statement of the problem, objectives of the study, significance of the study, limitations of the study and organization of the study.

Chapter II: Review of Literature:

This chapter includes the review of literature, Conceptual aspect to VAT and revenue of related studies.

Chapter III: Research Methodology:

This chapter focuses on research methodology. Most of the information for the study is collected from the books, tax journals, tax newspaper, budget and websites related to tax and VAT.

Chapter IV: Presentation and analysis of data:

This chapter deals with the presentation and analysis of data.

Chapter V: Summary, Conclusion and recommendation.

This chapter includes summary of the study, Conclusion and recommendation.

CHAPTER–II

CONCEPTUAL FRAMEWORK AND LITERATURE REVIEW

2.1 Conceptual Framework of VAT

Vat is an improved form of sales tax. It is a substitute for sales, hotel tax, contract tax, and entertainment tax. It is more transparent than sales tax. Although it is eventually borne by the final consumer, VAT is collected at each stage of production & distribution chain.

Most of the developing countries have made tax reform program as an integral part of their development efforts for last three decades. Many more studies & research have been conducted in the world about its prospectus, issues, problem, option & its practices.

From the economist point of view, Musgrave and Musgrave, “ A properly implemented VAT is equivalent to corresponding single stage tax, unlike the expenditure tax, the VAT is not a genuinely new form of taxation but merely a sales tax administered in a different form.”

As per the Indian taxation inquiry committee, “VAT in its comprehensive form is a tax on goods & service except export & government services, its special characteristics is being that it falls on the Value Added of each stage from the stage of production to retail stage.”

2.1.1 An Introduction of VAT

VAT is levied on sales of all goods and services excluding those that have been exempted by the law. Although the laws of different countries have a short or long list of tax-exempted goods and services based on the experience of the past tax system, economic condition, the revenue requirement, the standard of the accounting system, political and social will etc. VAT exemption is generally granted to those goods and services, which are administratively difficult to tax or on those goods and services that

are of day-to day basic necessities of a large number of people. It is also believed that the exemption list should be as short as possible in order to implement VAT more effectively.(Dhamala ,2012)

Value added tax is a twentieth century in the tax system. This tax is based on goods and services. It is also considered to be a tax that is based on consumption. Since this tax is based on consumption, the burden of this tax has to be born by the consumers. VAT is regarded to be a member o the sales tax family, since it is imposed on the sales of goods and services. This tax is levied on the value addition at each stage of economic activities from the time of production to consumption of all goods and services. Value addition implies the difference between the purchase and sales price that has been addition implies the difference between the purchase and sales price that has been incurred in labor, capital, etc. in relation to the production or distribution of goods and services. This also includes the profit amount that is due to the businessman for taking the risk. Therefore, value addition includes the entire expenses and profits incurred in the process of preparing the goods or services for sale after its purchases. Since VAT is levied only on the value addition made at each stage in the process of production and distribution, this tax system seems more neutral, efficient, elastic and fair and it also said to be an improved version of the sales tax. (Lamichhane 2011)

VAT is levied on each level of sale from the production and imports to distribution of all goods and services except exempt ones. But for those small businesspersons engaged in the sale of good and services below the specified threshold level, it is not mandatory for them to register under VAT. However they can register voluntarily. To keep small businesspersons outside the tax purview, a threshold has been specified under the vat system. The wholesalers, retailers, dealers, or producers who sell goods or services below the threshold level do not have to be register under VAT and neither do they have to collect VAT on their sales.

2.1.2 Origin and Development

As the experience shows, VAT still, has not become a perfect substitute for the taxes like excise duties, special consumption tax etc. This further implies that VAT has not

caught the fancy of the extent as it is claimed in theory. So far as developing countries are concern, the system of VAT adopted is less neutral and less comprehensive. Therefore, most of the developing countries are facing problems of Tax administration, tax evasion and high cost of collection. Besides, VAT has gaining a growing attraction in both the developed and developing countries. The countries adopting VAT are listed following:

Momentum of VAT

Year of Introduction	Name of countries
1954	France
1960	Ivory Coast
1961	Senegal
1967	Brazil, Denmark
1968	Germany, Uruguay
1969	Netherland, Sweden
1970	Ecuador, Luxembourg
1971	Belgium
1972	Ireland
1973	Austria, Bolvia, Italy, UK, Vietnam.
1975	Argentina, Chile, Colombia, Coastal Rica, Nicaragua
1976	Honduras, Israel, Peru
1977	Korea, Panama
1980	Mexico
1982	Haiti
1983	Dominican Republic, Guatemala
1984	China
1985	Indonesia, Turkey
1986	Morocco, NewZealand, Niger, Portugal, Spai, Taiwan
1987	Greneda, Greece
1988	Hungary, Philippines, Tunisia

1989	Japan, Malawi
1990	Iceland, Kenya, Pakistan, Trinidad and Tobago
1991	Bangladesh, Benin, Canada, Jamaica, South Africa, Egypt
1992	Algeria, Armenia, Azerbaijan, Belarus, El Salvador, Estonia, Fiji, Kazakhstan, Kyrgyz Republic, Moldavia, Russia, Tazikiathan, Thailand, Turkmenisthan, Ukrine, Uzbekisthan,
1993	Burkina Faso, Chez Republic, Mongolia, Paraguay,
Poland,	Rominia, Slovakia, Venezuala
1994	Bulgeria, Finland, Lithuania, Singapore, Tanzania, WesternSamoa, Madagascar, Nigeria.
1995	Gabon, Ghana, Sri Lanka, Swizerland, Zambia, Malta, Mauritania, Togo, Latvia.
1996	Albania, Guinea, Uganda
1997	Congo Republic, Nepal
1998	Crotia, Mongolia, Tanzania, Bhanu Atu,
1999	Combodia, Cameroon, Mozambique, Netherlands, Antils, Pupua New Guina, Slonesia
2000	Australia, Chad, Macedonia, Namibia, Sudan
2001	Rwanda 2002 Lebanon
2003	Ithopiya, Lesotho, Sarbiya, Montenegro

Source: Dhamala, 2012)

While going to the origin point of the VAT, it was proposed for the first time by Wilhelm von Siemens for Germany in 1919 as an improved turnover tax. The improvement consisted in the subtraction of previous outlays from taxable sales with the result that the tax base of each firm would be reduced to the value, which is added to the product (Sullivan, 1965:12). Thereafter in 1921, Prof. Thomas S. Adams suggested the tax for the United States of America to replace the existing corporate income tax. Further, same tax was recommended in 1949 by the Soup Mission for the purpose of reconstructing the Japanese economy by avoiding the existing defects of

the turnover taxes. Although, these proposal and recommendation were not come into practice. Argentina and Brazil instead introduced a partial value added dorm to the existing manufactures' sales tax respectively in 1935 and 1948 by allowing manufactures to pay tax on the excess of sales over their purchase. However, VAT was not actually introduced by any country till 1953. Thus, the development of VAT remained limited only in theory up to the early years of 1950s.(Bhatta,2002)

Real practice of VAT started since 1954 in France; however it covered only the industrial sector and was designed only up to the wholesale level. After a gap of six years. Ivory Coast becomes first follower of France when it adopted VAT in 1960. Next African country, Senegal also implemented VAT since 1961. VAT in these both African countries limited to import and manufacturing stage only. Since the 1960s VAT become a popular subject matter of taxation in many countries. In the year of 1968, France redesigned the existing VAT system and extended to the retail level. Germany also adopted VAT in the same year. Since 1969, VAT was in operation in Netherlands and Sweden and also other three Equador, Luxembourg and Norway included VAT in their tax system. VAT was also effective in Belgium and Ireland since 1971 and 1972 respectively. Thus, the trends showed that VAT become most popular in the Europe, where VAT was suggested and implemented for the first time.(Bhatta,2002)

Vietnam was the first Country in Asia to introduce VAT, which introduced it in 1943. Pakistan introduced VAT in 1990 as the first among the SARRC countries. In this process Nepal adopted VAT since 1997. However, India, the biggest in the SAARC, has following only MODVAT since 1996. The basic purpose of this kind of system is to relive inputs from taxation so that production distortional due to taxation is avoided. In the system of MOD VAT, the excise duty and countervailing duty of custom in respect of inputs used in manufacturing process are allowed to subtract from taxes on outputs. Further, American tax system has not included VAT until now. (Dhungana ,2001)

Value-added tax, a recent innovation in the field of taxation, is being a major step in process of tax reform in many countries in the world. Such widespread popularity of VAT in last some years has become one of the most astonishing phenomenons of public finance. The evolution of VAT is the most significant event in the history of commodity taxes and the speed with which the value added tax has spread around the world is unmatched by that of any other tax in modern time (Soup, 1988)

2.1.3 Origin and Destination Principle

While considering the international trade, the origin and the destination principle have greater significances. Choice among these two principles largely depends on the goals and the policies of the nation, accession to international trade, computing method and the type of VAT. In case of the international trade, two serious alternatives appear while implementing VAT in any country. They are taxing all domestically produced goods including exported ones and exempting all imports or taxing all the imports and making exempting for all exported goods and services to the foreign countries.(Bhatta,2002)

2.3.1.1 Origin Principle

Under this principle, goods and services produced in a country are subjected to tax at the place where they are produced or rendered, wherever they are consumed, and the goods and services imported from the abroad are beyond the tax base. Hence this principle is in the favor of imports and against exports where there is open broader and cross-country trade. Thus, this principle affects BOP of the country negatively specially for those who have a poor performance in the world economy. The principle could be followed, with appropriate changes in the exchange rate, but countries are reluctant to attempt this approach (Shoup, 1988).

As the country can enforce jurisdiction over firms located within its jurisdiction, the principle is much simpler and there would be no export rebates on sale delivery within the Common Market countries, rather each country would give credit for tax imposed in the country of origin. Under such circumstances, the origin principle has gaining

more importance in EEC countries to achieve the ultimate objectives. The three methods-subtraction, addition, and tax credit; are all equally well adopted to use of a single rate origin-principle value-added tax with respect to exports. Imports, in contrast, are bound to present a difficult problem for the origin principle if the tax credit method is used (Shoup, 1969). Administrative complexity widens when the tax credit method is adopted along with an origin-principle VAT having different rates at different stages.

2.1.3.2 Destination Principle

In conclusion, destination principle is more appropriate, for a country having consumption type of value-added tax with the tax-credit method of consumption. Special benefit by this destination principle can attain by those countries who have open border and cross-country trade, and less competent in the open market.(Bhatta,2002)

Also, the principle origin does not need any adjustment among subtraction and addition to reach the goal of taxing only domestic value that is added to the foreign imports at the tax rates identical to those applying to similar values added to the domestically produced goods. This principle will have negative impact for most of the developing countries where the tourism has a significant importance and the government is intended to encourage tourism and domestic purchases by tourists. Further, the origin principle converts into the destination country, in the sense that the rate of tax of country of importation determines the combined tax of both countries.(Dhungaana 2001)

Initial adoption of origin principle requires that the VAT rate should be more or less uniform among the countries; otherwise until such time as exchange rate or relative price levels are adjusted, manufacturers in the low-tax countries will have an advantage over those in the high-tax countries, which are unable to protect their firms by tariff barriers within a Common Market Area (Due 1976).

Destination principle includes all the imports in the tax net while exports are free from tax. As, the principle taxes imports and exempts exports, it will have favorable effect on the country's BOP. Under these principles, tax would be collected at importation and the firm would receive credit for this tax and a refund when the products are exported. This means tax levied on the import of the basic raw materials, semi-manufactured goods etc., which are imported for the production in the domestic market, will be refunded when the product is exported. Indeed, by principle, no tax is collected upon importation at all, other than by the ultimate user. The broad result is that the relative ability of one country to another will be unaffected by a destination arrangements which treats imported and home prepared goods. Thus, neutrality, one of the essential features of the goods taxation, is provided by the destination principle by means of no discrimination between imported and domestic product.

VAT is universally established on a destination basis, imports being subject to tax at the time of importation (but not necessarily at the same rate) and on subsequent sales and exports being free of tax with full refund of all taxes paid on previous transaction in the goods in questions. At given exchange rates, the destination principle is the most satisfactory whereby to protect the country's position in the world market and ensure that within the country imports are not favored over domestic goods (Due, 1976). Destination principle can be implemented easily and precisely for both rebate of cumulated tax on exports and compensating tax on imports. Under the destination principle, tax-credit method is superior than other two, since it provides the precise information on cumulated tax paid without breaking the credit chain. Administrative simplicity and the non-discrimination are the main reason for the popularity of the destination principle. However, this principle does not function smoothly in a Common Market Area when the fiscal frontiers are abandoned. Difficulty arises to enforce payment of a tax when the sale is made to an individual.

2.1.4 Vat Records and Accounts

2.1.4.1 Background

Value Added Tax (VAT) is tax based on the transaction of goods and services. The taxpayer has to maintain accounts of his /her transactions. This type of accounting is simple. For this purpose, the taxpayer has to maintain a purchase book, a sales book and Vat accounts. Besides that has to issue tax invoice or abbreviated tax invoice while selling/supplying goods or service. A brief introduction to the accounting system related to these is described below.

2.1.4.2 Purchase Book

For the Vat purpose all VAT registrants vendor should be required maintain their business's purchase books according to their invoice purchase. In addition, VAT registrants must have separately total the VAT amount of taxable or tax exempt purchase or imports and the tax paid on purchase or imports at end of the accounting period.

2.1.4.3 Sales Book

The VAT registrants should be required to maintain a sales book for VAT purpose of their goods and services' sales in order to invoice basis .At the end of the each accounting period, the VAT registrant should total amount of taxable and tax collected on sales.

2.1.4.4 VAT Account

VAT accounts are an integrated, abbreviated version of the purchase book and sales book as described above. The VAT account shows the tax paid on purchase, the tax collected through sales and the self-assessed tax amount that has to be paid to the Government by the taxpayer. An example of Vat accounts is given below.

The taxpayer has to maintain this account each month and keep it with oneself. This does not have to be submitted at the Inland Revenue Office along with the Vat statement but has to be shown to the Tax Officer when he/she wishes to see it.

2.1.4.5 Tax Invoice

There are two types of tax invoice:

) Tax Invoice

A registered taxpayer has to issue a tax invoice while selling goods or services. But Tax

Invoice' has to be stated as 'title' only in the first copy of the bill and not in the other two, out of a total of three copies. The first original copy has to be given to the recipient, the second copy has to be maintained in a separate record to be submitted at the tax office if and when asked for and the third copy should be maintained as record for the purpose of one's transaction.

An Example of Tax Invoice

Invoice number: Transaction date:

Seller's taxpayer identification number: Date of issue invoice:

Seller's name

Address:

Buyer's name:

It is not necessary that all sellers have to issue the invoice in the pattern given above. Based on one's transaction, the invoice pattern can be changed with the permission of the tax officer, but all information contained in the sample pattern above has to be entered.

-) 'Tax Invoice' should be stated as title only in the original copy of the invoice.
-) Issuing and receiving invoice is one of the prime duties of a Vat registrant.
-) If a tax invoice is not issued, the VAT registrant has to face penalty and will also fore go the facility of tax deduction.

) Abbreviated Tax Invoice

In the sale of up to NRS 5000, including tax, an abbreviated tax invoice can be issued. An example of an Abbreviated tax invoice is given below. To issue an abbreviated tax invoice the taxpayer has to take the permission of the tax officers.

An Example of an Abbreviated Tax Invoice

Date.....

Invoice Number:

Seller's Name: Address:

Taxpayer identification Number

Tax Rate (%)

-) In cases where most sales comprise of small and low costs, the invoice can be issued by combining the items as 'some goods 'under particulars.
-) If the buyer demands a tax invoice instead of an abbreviated one then a tax invoice has to be issued.
-) When calculating the tax amount to prepare the tax statement to be presented, the total amount in the tax invoice has to be multiplied by the tax fraction.

2.1.4.6 Credit or Debit Note

-) If there is a difference in value after the commodity or service has been supplied based on the tax invoice, then a debit or credit note has to be issued.
-) When issuing such a note it has to be stated whether it is a credit note or a debit note.
-) The date and the names of the buyer and seller along with their taxpayer identification number and address have to be stated in the \credit or debit note.
-) The relevant tax invoice number also has to be stated.
-) If the goods have been returned the reason for doing so has to be stated.
-) The item returned along with its cost has to be stated.
-) The difference arising in the tax amount after the debit or credit note has been issued also has to be clearly stated.

2.1.4.7 When an Item Purchased is to be returned.

The quantity, quality and the nature of the item is the same:

-) If an item purchased is damaged, torn or stained and is exchanged with the same or similar item, the same tax amount stated in the tax invoice has to be maintained. Or, since the tax invoice has already been issued, preparing a credit note and issuing a new invoice can exchange the item.
-) If an item purchased is damaged, torn or stained and is exchanged with the same or similar item, the same tax amount stated in the tax invoice has to be maintained. Or, since the tax invoice has already been issued, preparing a credit note and issuing a new invoice can exchange the item. If the item is similar but the cost is different:
 -) Let us assume that the cost of the item purchased was NRS.100. But at the time of exchange, if for some reason the cost has come down to NRS, 75, and then a credit note has to be issued.
 -) If for some reasons the cost of the above item purchased at NRS.100 has reached NRS.150 at the time of exchange, then the tax amount on the additional NRS.50 have to be charged and a reference to the tax invoice number has to be made.

2.1.4.8 Other

Once the purchase book, sales book and the VAT Accounts have been prepared, it will be easy for the taxpayer to calculate the tax amount that he/she has to pay while preparing the Vat return. To estimate how much tax has to be submitted to the Government within a stipulated time period, the tax incurred has to be deducted from the tax collected within that period. If the tax collected is more than the tax paid, then the person has to submit that extra tax amount received from sales to the Government. But if the tax paid in purchase is more than the tax collected from sales then the person can adjust the extra amount in the tax due in the following month. If this process continues for six consecutive months and the amount is still not adjusted then the taxpayer can write an application to the concerned Inland Revenue Office to get a

refund of the amount that has not been adjusted. Once such an application is received, the tax officer has to refund this amount within 60 days from the date that the application has been received. If the amount due is not refunded within 60 days, it has to be paid back along with interest

2.1.5 Types of VAT

There are several bases to classify the different types of VAT. However, the classification of VAT on the basis of the treatment of capital goods is much important. Considering the treatment of capital goods, the following classification has been made in broad sense.

2.1.5.1 The Gross National Product Type

The base for this type of VAT includes capital goods along with the value added on the other raw materials, semi-manufactured goods etc, purchased from other firms. Hence, under these variants, capital goods purchased from other are not allowed to deduct from sales while calculating the tax base. Even the depreciation in subsequent years is not deductible from the tax base. Thus, the base of VAT consists of consumption and gross investment, which is equivalent to gross national product (GNP). The tax is therefore equivalent in its coverage, to a retail sales tax, which includes in its base durable capital goods.

Base of VAT = GNP = C + Ig; Where, C = Consumption; Ig = Gross investment

2.1.5.2 The Income Type

Under the income type of VAT capital goods purchased from other firm are not deducted from the tax base, however, the depreciation in the subsequent years are allowed to deduct from the base. Similarly, it requires that an access of year-end inventory over year-beginning inventory over year-end inventory to be deducted (Soup, 1969; 252). Thus, tax base under this variant, includes consumption and net investment, which is equivalent to the net national product (NNP). Therefore, tax base is given as,

Base of VAT =NNP =C + In; Where C = Consumption; In = Net investment

2.1.5.3 The Consumption Type

All capital goods purchased from other firms in the sense tax year are allowed to deduct from the sales value while calculating the base under the consumption type VAT. Although, description in the subsequent years can not be beyond the tax base. As the consumption is only the case of VAT, this type is known as the consumption type. Under the destination principle, this type of VAT has an identical base with the retail sale tax on consumer goods and service. No distinction is made between parts and materials physically incorporated into the product, supplies and fuel and durable capital goods. Among this three types VAT and GNP type has broader base than the remaining two and has received serious consideration in various countries. In GNP type both capital goods and depreciation goods are under the tax net while the income type exclude depreciation and consumption type excludes capital goods from the tax base, in the recent years, the consumption type of VAT has gaining popularity in several countries in Europe and elsewhere. The reason for the popularity of this type is that this variant doesn't affect decision regarding investment and growth since it relieves investment from any tax burden (Lind Holm, 1970). Since the tax does not discriminate against the capital intensive techniques in favor of labor incentive technique, there is no need for a firm to switch over from capital to labor incentive methods (Bhatta,2002). But GNP type of VAT discourage firm to use capital incentive methods of production and encourage using the methods, which don't involve frequent year to year fluctuation in physical volume of inventories. Moreover, this GNP type creates substantial disincentive for saving and investment for which reason the tax is not accepted by the countries. From the economic growth respective both the income and gross product VAT has an anti investment bias (Crow ford, 1993). The distinction between the purchase of Capital Goods and intermediate goods is not needed under consumption variant, which is essential under other two variant. The income type also needs the computation of depreciation in subsequent year, which further complicate administration. Thus consumption variant is attractive from the point of tax administration. Even from the consideration of foreign trade, consumption variant is

more attractive than the income variant since the former is compatible with destination principle and later with origin principle. Thus, the consumption variant is most desirable than the other two variants in several respect.

VAT can also be classified on the basis of the vertical coverage through production and distribution stages. Under this classification extent of vertical coverage forwarded from manufacturing has more practical importance which has three sub-divisions with different bases. Firstly, the value-added principle may be used within the manufacturing sector only, with tax applying to each manufacturer on his value-added but not by wholesalers or retailers, except to a limited degree. Secondly, the tax may be extended through the last wholesale transaction usually called a pre-retail VAT. Lastly, VAT may be extended through the retail level from the earlier stages of production. This type of VAT is known as comprehensive or full-fledged VAT. Under the same classification, next type is based on the extent of vertical coverage backward from manufacturer. Under this type, VAT may be extended to all producers of basic raw materials including farmers. However, this type creates administrative difficulties due to the large number of small establishments and scattered units.

2.1.6 Methods of Computing VAT

Value-added tax can be collected by using the different methods of computation however the choice of the appropriate method depends basically on the type of VAT employed and the principle under which VAT is adopted. The VAT can be computed by employing any of the three methods; I) addition method, ii) subtraction method, and iii) tax-credit method; among which "the last method has never been utilized" (Due, 1976)

2.1.6.1 Addition Method

Under this method, value-added is the total sum of the factor payments made by the business firms, which is equivalent to the gross income received by the factors of production. The tax base is computed by adding the payments made by the firms to factors of productions employed in turning out the product, such as wages, interest,

rent, royalties and profits (Sullivan, 1965). Thus, VAT under addition method is the function of the total factor payments as given by;

$VAT = f(W+R+I+P)$; where W= Wage, R= Rent, I= Interest, P= Profit

If the firm constructs its own capital good rather than purchasing it, this addition method captures the value added by the firm. The capital method is readily applicable to the income type but clumsy for the consumption type of value-added tax (Musgrave and Musgrave, 1976:401). Virtually, no country uses the addition method, although, Argentina and Israel have applied it to selected economic activities, such as banking and finance, where value of inputs and outputs is difficult to measure (Cnossen, 1992; 217,218). From the practical point of view, this method is more complex to compute. It would be awkward to use the addition method to compute the base of the consumption type of value-added tax, since to the net profit figure there would have to be added depreciation and the excess of opening inventory over closing inventory (deducted, as a part of cost of goods sold, in computing net profits), with subtraction of capital goods purchased or produced within the firm and subtraction of an excess of closing inventory over opening inventory (Soup, 1969).

2.1.6.2 Subtraction Method

Under this method, value added is determined as net turnover which is obtained by subtracting the cost of materials from sales proceeds (Bhatta,2002) and the procedure was used in the Michigan VAT (Due, 1976). Value added is obtained by subtracting purchases of produced goods from the figure of sales during the period, as given in functional form by,

$VAT = f(Sv - PV)$ Where, Sv = Sales value; PV = Purchase value

This method of calculating VAT is suitable for the consumption variants of VAT. This method is not well suited for discrimination among types of consumer goods but it need not only any adjustment to operate correctly for imports under the origin principle. Same thing also happens to the addition method. However, under the destination principle, these both methods of direct calculation cannot supply the

information need to compute precisely the export rebate or the import compensating tax, when there is not uniform rate to all stages of value added of all goods and services.

2.1.6.3 Tax Credit Method

Tax credit method is also known as the invoice method and uses as indirect subtraction technique to compute the tax liability. Value added, as such, is never calculated at all, in this method, but the effect is exactly the same as if the figure was calculated and the tax rate applied. Since, the firm deducts the amount of the tax paid on its purchases during the period from the figure calculated by applying the tax rate to its figure of taxable sales for the period. Under this method, tax payers are allowed to subtract the taxes already paid by their suppliers and passed on to them from the gross tax liability which is levied on the total value of their sales. Thus, in contrast to the subtraction method, which deducts purchases from sales and levies taxes on the differences, tax on purchases is subtracted from the tax on sales under the tax credit method (Bhatta,2002). Hence, net tax liability is given by

$$\text{VAT} = f(\text{outputs-inputs}) = \text{Tax paid on sales} - \text{Tax paid on purchases}$$

Among the three methods of computing VAT the tax credit method is widely favored in the countries of the European Economic Community and elsewhere. The invoice method is used generally in European countries and constitutes an advantage of the value added approach, especially in countries where tax compliance is otherwise poor (Musgrave and Musgrave, 1976). The tax credit method is so superior to the other methods in terms of the application and enforcement, as well as adaptability to various rate modifications. That is now universally employed. The tax credit methods can be especially useful if it is desired to reduce the rate of the value added tax at some stage in the production and distribution process, say the raw materials or farm products stage, for administration reason, without reducing the total tax paid on total value added (Shoup, 1969). However, this tax credit method fails to give credit for tax prior to the exempt that is given to either of pre-import domestic stages except the first stage, because the tax credit chain is broken. The tax credit method encounters still

more difficulties under an origin principle value added tax that imposes different stage simply for administrative reasons. Beyond this positive and negative aspect of tax credit method, it has a power to make the overall rate depend on the imposed at the stage of production or distribution. Whatever may be the rate at various earlier stages?

Table 1: Calculation of VAT Liability by Different Methods (13% VAT)

		Stage of production and Distribution			
		Manufacturer	Wholesaler	Retailer	total
A	Addition Method				
	a. Wages	1000	550	750	2300
	b. Rent	300	150	150	600
	c. Interest	150	100	50	300
	d. Profit	350	200	250	800
	e. value-added(a+b+c+d)	1800	1300	1200	4000
	f. VAT liability(13% of e)	234	130	156	520
B	Subtraction methods				
	a. sales	8600	9600	10800	29000
	b. Purchase	6800	8600	9600	25000
	c. Value-added(a-b)	1800	1000	1200	4000
	d. VAT liability(13% of c)	234	130	156	520
C	Tax credit methods				
	a. Sales	8600	9600	10800	29000
	b. Tax on sales	1118	1248	1404	3770
	c. Purchase	6800	8600	9600	25000
	d. Tax on purchases	884	1118	1248	3250
	e. Net VAT liabilities(b-d)	234	130	156	520

Note: All sales and purchase are exclusive of Tax and figure are arbitrary assumed.

Thus, all tax credit method has the following major benefits over the other two types of VAT computation.

- i). In the tax credit method, tax liability is attached to transaction that makes it legally and technically superior.
- ii). Tax collection is easy.

- iii). Cross-checking is possible.
- iv). It provides the benefit of catch up effect that makes under evaluation and evasion impossible,
- v). There will be no loss of revenue due to the exemptions granted to the small traders.
- vi). It never demands for the calculation of value-added total tax.
- vii). Liability entirely depends on the rate on the last stage, so rate differentiation is possible for the same revenue yield.

This mechanism is further desirable since it puts an equal burden of taxation on both imports and domestic products, irrespective of channels of distribution and proportion of value added at various stages. Thus, the tax credit method is desirable for several reasons and has been adopted by many countries of the world.

From the above table, it is clear that VAT liability calculated by any of the three methods is same that Rs. 520. In the table, VAT rate is same that is 13% for all methods. However, if there is rate differentiation in different stage VAT liability will differ for different method. Although, the change in the VAT liability will be same under both the addition and subtraction method, as there is same amount of value added at each stage of production and distribution. Assuming that the transactions(Figure) presented in the table are for economy as a whole in a specific period of time, a VAT of 13% rate gives Rs. 520 as tax under the first two methods having the amount of value added Rs. 4000. In tax credit method, value added, as such is never calculated, however VAT liability exactly equals to that by other methods. Thus, VAT is levied on the basis of value added but not directly. (Bhatta,2002)

2.1.7 Value-added Tax and Other Sales Taxes

2.1.7.1. VAT versus Turnover Tax

The turnover tax, the earliest form of the sales tax, offers the advantage of simplicity- all transaction are taxed, typically at a uniform rate, and the yields the maximum revenue for given tax rate. As the tax is imposed on the gross monetary value of a

product at multiple stages of business activity, it is multistage and broad based in nature. The turnover tax or cascade tax is levied as a percentage of sales, regardless of value added, at each stage of sale right from the initial production of materials to the final sales to the consumers. Thus, the burden of tax as a percentage of consumer expenditures vary widely on different goods because of the varying number of transactions involved in different commodities between initial production and final sale to the consumer. Since, turnover is proportional to a firm's turnover, gives an incentive to vertical integration, as the tax may-make it cheaper to produce an intermediate product within a firm than to buy a similar input produced more efficiently by an outside supplier. In contrast, value added tax do not provide this artificial adjustment to vertical integration so have been very widely adopted in preference to turnover tax. Under the system of turnover tax, taxable value of any commodity depends on the number of stages it passes through the production and distribution process. This makes the larger base for the cascade tax so the revenue productivity is high. Instead, value-added tax is less productive since the base is only value-added. Thus, "a serious advantage of the turnover tax is the cumulative taxation that occurs as goods more through successive stages of production and distribution" (Goode, 1984).

In Europe, the turnover tax was used after World War I, from Germany, France, Italy, Belgium, the Netherlands and Austria but has been superseded by the VAT. Similarly, in many developing countries, the turnover taxes have been replaced by other forms of sales tax. However, the turnover tax will do less harm where there is little manufacturing and exports consist of primary products or the output of integrated enterprises than in countries with more diversified economies (Goode, 1984).

Since the turnover tax applies to the total volume of transaction of the product at each stage of production and distribution, it creates a strong incentive for reducing the economic activities at earlier stages like performing many activities of production and distribution under a single roof. Thus, turnover tax encourages integration and discourages specialization. Such artificially encouraged integration results in loss of efficiency and lowers output and growth rate and many in any case lead to undesirable

concentrations of economic power and monopolistic tendencies. There will not be any incentive for integration in a VAT system, since the total amount of tax on the product will be the production and distribution system, and the taxable price is always equal to the final price of the product. Thus, from the view point of neutrality VAT is so far superior to the turnover tax.

The turnover tax is comparatively easy to administer as it applies on gross sales so that there is no need of tax credit. The double-checking and several provisions associated with VAT create complicity however makes the tax system transparent, efficient and equitable. Comparative easiness and simplicity also can be found in turnover tax in the viewpoint of tax compliance. But due to the self-enforcing feature of VAT, it is more attractive to check the tax evasion. An uneven burden is also created on various commodities by turnover tax and further the burden varies with the typical number of transaction through which a commodity passes on its way to the final consumer. The cascade form of tax also tends to discriminate against domestically produced goods and compared with imports, since the former pass through a large number of taxable sales transactions within the country than the latter. VAT avoids these problems, since the imported goods will either bear tax on their full value at the time of importation or (under the tax credit method) have this value taxed at the first subsequent sale, and then subsequent value added will be taxed same fashion as with domestic goods (Due 1975).

Once the tariff protection is eliminated, the harmonization of sales taxes becomes essential in a Common Market Area, which is served by VAT in a satisfactory limit rather than the turnover tax.

2.1.7.2. VAT versus Manufacturers' Sales Tax

Manufacturers' sales tax is levied on the sales value of manufacturers in case of the domestic product and on the import value in case of the imported product. Basically, the tax is not levied on the sale to other sales tax registered vendors, in such cases the sellers had to note on the invoices the buyers sales tax registration number and particular of the goods. Thus, sales tax registered manufacturers could purchase their

raw materials, auxiliary raw materials and chemical becoming physical ingredients of taxable products free of tax. So, the tax base of a manufacturers' sales tax narrows too much as compared to VAT which covers value added in each stages. The broader base of VAT is not only due to the inclusion of value added of each stage but also due to the coverage of services as well. If the make-up system is introduced in the tax, it will cover the various costs including transportation and profit margin of the importers in the sales tax base. MST, however, being a single stage sales tax, will avoid the worst evils of the cascade tax, if it is properly designed. Under the MST, the exclusion of unprocessed foods and many artisans' products-either legally or because of noncompliance-mitigates the burden on the lowest income classes. Unlike the cascade tax, MST creates as incentive to the firms to push various functions beyond the point of impact of the tax in order to reduce the amount of the tax due. Thus, forward integration of the manufacturer is discouraged and helps for specialization. However, when the manufacturers transfer their own activities to dealers and wholesalers, establish artificial sales depots, undervalue sales etc, it brings inefficiency in the production and distribution channel.(Dhamala,2012)

Under a VAT, the taxable price always equals to the final sales price of the goods so that the net tax liability cannot be reduced by altering the methods of doing business. So, there will not be incentive neither for vertical integration nor for disintegration. This makes the tax system neutral, which helps VAT to stand superior to the MST. However, VAT is difficult to administer than the MST. Basically, the difficulties arise due to the provisions like tax credit, refund, exemption, zero-rating, cross-checking etc and further, the taxpayers are in large number than the MST. However, the VAT can be made simple and effective by some measures, which are carried by the tax itself. They are; i) actual invoice based self-assessment mechanism, ii) VAT serves catch-up effects, which make tax evasion likely impossible; iii) VAT has a self policing features; iv) cross-checking of tax liability and credit is possible; v) net tax liability is distributed to all production and distribution stages rather than concentrating only in a single stage. Lastly, to conclude, more advantages of VAT

over the MST can be attained when the tax is extended to the retail level.(Dhmalaa, 2012)

The distribution of the tax burden under the MST is not uniform to various consumer goods, and to the domestically produced and imported goods because of variation in magnitude of wholesale and retail level margin. The variation is haphazard, if anything, the burden will be greater on the basic necessities, which tend to have low margins than on the most luxurious goods on which the margins tend to be high. There is a particular danger of favoring imports, since advertising and other distributive activities with respect to these goods may be performed after the point of importation, whereas the costs of these activities will be reflected in the manufacturers' prices of domestically produced goods, if they are performed by manufacturers. VAT would put an equal burden on both imports and domestic products since the burden of this tax depends upon the final price irrespective of the proportion of the value added at different stages in the process of imports, production and distributions. It would improve the efficiency and competitiveness of domestic products in the international market by relieving exports from taxation. (Lamichhane 2011)

Under MST, one serious defect, cascading becomes inevitable when goods and services are purchased from registered firms by non-registered firms and supplied again to registered firms. In practice, it is possible in many developing countries, where importers directly sell their imports to non-registered firms or persons, which may be raw materials for manufacturing industries. Even the purchase of raw materials from registered firms or primary producers are also taxed, which further extended the cascading effect and hence strikes a growing economic sector. Further, the refund system is not perfect in MST. In contrast, VAT does not suffer from cascading or pyramiding effects and it does not affect economic growth negatively.(Lamsal,2011)

2.1.7.3 VAT versus Wholesalers' Sales Tax

Wholesalers' sales tax, as such, is a tax on the sales value of the wholesalers, and hence it has a broader base than the MST since it covers the margins of the

wholesalers into the tax base as well. Although, the significant difference between WST and MST depends on the extent to which wholesaler's sales tax is applied to the sales to retailers. Since the wholesaling is not carried on exclusively by separated enterprises and is done also by importers and manufactures, it is necessary to register all three kinds of enterprises (manufacturers, importers and wholesalers) and collect tax on their sales to unregistered buyers including retailers and consumers. It has been recommended for developing countries by some well-known experts but in practice has been only in Portugal and a few developed countries, including the United Kingdom, Australia, and New Zealand. An administrative advantage of the wholesalers' sales tax that is relevant for equal treatment is that manufacturers who sell direct to retailers do not need to be taxed on a hypothetical price that is less than the actual price, to be able to compete with manufacturers selling it independent wholesalers (Soup, 1969).

WST encourages manufacturers or importers to sell directly to the retailers or consumers so that product remains beyond the tax net. This results a loss in the revenue on the one hand, and on the other it discriminates against those products by means of competitive advantages, which bear the tax burden, favoring those firms and products which do not pay or bear the tax burden. In contrast, VAT does not create such discrimination since it is levied at every stage of production and distribution, and tax evasion is also more difficult. Thus, VAT is neutral among the process of production and distribution, and the consumer choices.

The problem of cascading remains coherent under WST because of imperfect poorly utilized tax credit method whereas VAT easily avoids the problem. Such cascading effect of WST creates less incentive for or competitive loss while it fails to provide proper amount of tax refunds on exports. Discrimination effects associated with WST hamper the output and economic growth. Instead of this, VAT being a neutral tax does not distort the economic growth.

2.1.7.4 VAT versus Retailers' Sales Tax

Retailers' sales tax is applied to the sales value of the retailers so retailers are required to register for sales tax purpose and tax is levied on their sales to consumers or non-registered firms or other persons. Among the all types of single stages taxes, RST is that one which has the broadest base. A retail sales tax in its pure form is the equivalent of a comprehensive consumption type of tax on value added except that it does not offer an option between the destination principle and the origin principle. Like the IT and the MST, RST includes all the services into the tax base, which is not true in case of the MST and WST. Both the taxes RST and VAT with the similar rate and coverage would raise the same amount of revenue. However, the tax is levied only on single stage under RST and on multiple stages under VAT.

There is no incentive to alter distribution system, most import and domestic goods can be treated equally, pyramiding is avoided, and the desired pattern of the distribution can be attained. Thus, RST avoids virtually all the problems associated with the MST because of the imposition at the final sale to the consumer.

The actual amount of tax under RST is not affected by the number of stages through which a commodity passes but depends on the tax rate and the final price of the commodity. In the similar manner, under a VAT system the net tax liability remains unchanged regardless the choice of production and distribution system, since tax is levied only on the value added at each stage. In addition, some aspects like reliving producers' goods from taxation, free export from tax and broader tax adjustment are possible feasible in both the taxes VAT and RST, however, is a lesser degree in the latter. Thus, both taxes are neutral but RST is less than VAT. The problem of cascading does not appear in both VAT and RST because there is no possibility for tax being levied on tax, since inputs are relieved from taxation through the suspension technique under the RST while the same objective is achieved through the tax credit method. Both are similar while considering the treatment of imported and domestically produced goods. Further, similarity appears on the avoidance of the pyramiding problems since vendors need not be apply a mark up on the tax amount

levied on earlier stages, under both the taxes. In this regard, RST may be considered a serious competitor of the VAT. (Lamasal, 2011)

Beyond the various similarities between VAT and RST, there are also some basic differences between them. The collection of a retail sales tax places the entire impact of the sales tax upon retailers while much of VAT is collected at pre-retail levels. Under the RST, if the manufacturers or wholesalers or importers directly sell to the consumers, the whole tax amount from that community is lost, while under a VAT, it will reduce only a part of total tax liability that is amount of VAT liable at that stage. In developing countries, most of the retail traders are small entrepreneurs with relatively inadequate records and a high propensity to evade tax. Thus, particularly in a developing country, the danger of complete evasion is far less with VAT, since any sales can be collected more effectively from typical manufacturers and wholesalers than from retailers. (Dhungana, 2002)

The only one advantage of RST over VAT is that the number of taxpayers is small; however, a significant problem is created because of the large number of small retailers having only limited records. If such very small retailers are kept beyond the tax net from the administrative difficulty, resulting decrease in the tax base is much larger under an RST than VAT. It is because RST loses entire amount of tax on the sale of exempted seller while such exemption causes a loss of tax only in a small amount. Taxation on services is difficult under RST than the VAT. In general, the services like telecommunication, transportation charges, construction etc are not taxed under the RST. Taxation on such services demands the separation of the services into i) sales to consumers and ii) sales to business firms, which complicates the tax system. If services are not taxed, discrimination will appear which makes sales incentive to use of goods than services. This distorts the economic choices of both consumers and producers, and unnecessarily accentuates the regressive impact of the tax, because the demand for services is generally more income elastic than the demand for goods (Cnossen, 1981). Further, RST cannot provide precise amount of tax refund because of the difficulty to identify producer's goods or consumer's goods.

2.1.8 Principles of VAT

2.1.8.1 Territorial Scope

Because the VAT is an indirect tax focusing on the transaction or activity rather than on the economic operator, the primary determination of the territorial scope of the charge to VAT is by reference to the location of a transaction if the transaction occurs within the state, then it is within the charge to VAT. Attention must also be paid to the person to be charged to VAT on the transaction, to ensure that the amount of VAT due can be enforced and collected. It is therefore necessary to provide rules to determine the identity of the person responsible for payment of the VAT when some element of the transaction being taxed takes place outside the jurisdiction of the state. (Dhungana,2002)

There are two conflicting principles on which the territorial scope of a VAT can be based: the origin principle and the destination principle. As these names suggest, the origin principle charges a transaction, only part of which occurs within the jurisdiction, if the transaction originates or is created within the state and the destination principle charges the transaction if it is destined for consumption in the state. Potential problems of double taxation and absence of taxation arise if these rules clash. To avoid double taxation; states that impose a VAT on imports remove exports from the charge to tax. This will also remove double taxation if both states have the same system. There is no international agreement either determining that states should follow one of these principles rather than the other of seeking to reach common rules to avoid double taxation. In practice, however, and with limited exceptions, states have adopted the destination basis as the primary basis. (Dhungana,2002)

The main exception is that of Russia and states within the commonwealth of Independent states, adopting an origin basis. The European commission had formally proposed that the European Union change from the present destination basis to a form of origin basis, originally for 1997 for transaction within the EU, although that date now been deferred.

Internal Charge to VAT

The common pattern of invoice based VAT is that a charge to VAT is imposed on all transactions within the state and within the scope of the VAT. Each taxable person is allowed a deduction against the total VAT charged by the person to take account of any VAT paid by the person on inputs related to transactions within the scope of VAT.

A transaction within the scope of VAT and on which VAT is imposed is commonly called an output and the VAT collected on it is called output tax .A transaction made to the person making the output is known as an input, and the VAT paid by that person when obtaining the input is an input tax. The internal charge to tax is a charge amounting to the output tax received by a person less the input tax paid by that person. (Dhungana,2002)

The normal approach is to impose output tax on transactions and persons if:

-) The transactions are” supplies of goods and services”
-) Those supplies are” taxable and exempt from VAT”.
-) Those taxable supplies are made by a “taxable person,” that is a person within the scope of the charge to VAT; and
-) The taxable person makes those supplies as part of the person’s business activities and not as part of a hobby of non-commercial activity.

2.1.8.2 Approach to VAT on imports

States have normally adopted the practice of treating imports of goods separately from imports of services. Imports of goods are identified by the physical entry of the goods.

Services can not be identified in this way. Instead states have chosen to adopt rules that treat a supply of services as occurring within a state if the supply meets certain criteria. An import of services is taxable only if the supplier is a taxable person. Since there is usually a registration threshold for VAT, a foreign supplier that supplies only services with a low annual value may not be a taxable person.

2.1.8.3 Principle of Non discrimination

The existence of separate charge on locally supplied goods and imported goods gives rise to the possibility of discrimination between the two classes of supplies. Most states are obliged by international agreement not to discriminate against supplies by way of import. The primary source of this obligation is Article III of GATT. A growing number of states are also under other obligations include the terms of customs unions and free trade area agreements, double tax agreements, and bilateral trading and investment agreements. (Dhungana,2002)

2.1.9 Taxable persons

2.1.9.1 Taxable person within the scope of law

A person within the scope of VAT is usually described as a taxable person. A VAT law should include all legal persons created under the law of the state that engage in economic activities of any kind, as well as all physical persons. A VAT law may regard an association or partnership, although the association does not for general legal purposes, have separate personality. Governmental bodies at the national, regional and levels are to be included as taxable persons.

2.1.9.2 Excluding person with low levels of Business Activity

Most states require only some of the many persons active in business within the state to be taxable persons. Setting a minimum level or threshold of business activity and requiring only those persons with levels of activity above the minimum to be taxable person normally achieves this. Those with levels of activity below that level are not required to be taxable persons, although they are often given the right to voluntarily choose to be taxable persons. The usual measure of business activity is the total turnover of taxable goods and services supplied by the person over a set period.

2.1.9.3 A VAT Register

To administer the VAT, it is standard practice to establish a formal state register of those who are registered persons. There must be a requirement that any person who is, or should be a taxable person take the necessary action to seek to be registered for the VAT.

2.1.9.4 VAT Number

States sometimes decide to adopt and adapt an existing register such as the register for companies or a general register of tax payers to act as the VAT register. That is for a state to decide, but the register must be capable of generating a unique VAT number for each taxable person as well as providing the tax authorities with up-to –date list of those, and only those, who are taxable persons.

2.1.9.5 Voluntary Registration

States often allow those who are not required to be registered to register voluntarily. This may be appropriate for many organizations that intend to have a large turnover, but have not yet reached it: incur large expenditure in one year, expecting the income in the next year: or are carrying out business with this information to be known by the customers. Voluntary registration also allows those operating just below the threshold level to avoid any competitive disadvantage compared with other operators who are required to register.

2.1.9.6 Exporters and Persons engaged in international activities

In most of the states VAT is not levied to the exporters. To avoid the exporters from paying VAT provision is made for them to claim back any input tax they have paid in making the exports.

Therefore, exporters and those in a similar position must be registered. If they have not registered then they are not entitled to claim back the input tax.

2.1.9.7 Effect of not registered

A person who is to register for the VAT is taxable person who is subject to collect VAT on all supplies whether or not the person is registered.

2.1.9.8 Cancellation of Registration

There are main three conditions for the cancellation of VAT registration. The first case is where a person has been registered for VAT properly or not, the person registered for VAT but if his current level of business is below the threshold then his registration for VAT is cancelled. The second case is when the person is not allowed to carry any business activity by the law. The third case is when the person has registered for VAT by mistakenly or by misrepresentation on the part of the person.

2.1.9.9 Continuing registration despite a change in the taxable person

Situations will arise where a person ceases carrying on a business unavoidably. For example, the death, insolvency, winding up of a company may mean that the person registered as running a business is no longer running it. The business will usually continue at least for a time to be run by some other person.

2.1.10 Supplies of goods and services

2.1.10.1 Transactions within the scope of Law

A broad-based VAT brings its charge every kind of economic transactions, subject to limited exemptions. Transactions are usually stated to be within the scope of VAT if they are supplies of goods and services. The aim is to bring within the charge of all economic activity. The terms cover transaction dealing with land or other immovable property and with intellectual property rights.

2.1.10.2 Supplies of goods

Supply of goods is a transfer of right to dispose of tangible movable property or of immovable property other than land. A supply of goods is not constituted merely by transfer of possession, which is a transfer of the use of goods, not of the goods themselves.

2.1.10.3 Land

A sale of land by a private person couldn't, in any event, be within the scope of tax, because the sale of land would not be part of business activity and in many cases the seller.

2.1.10.4 Supplies of services

A supply of services is often defined as any supply within the scope of VAT that is not a supply of goods or a supply of land. A supply will occur whenever there is some transaction or event involving a taxable person whereby the taxable person receives payment for the effects of that transaction or event.

2.1.10.5 Supplies by employees

The service undertaken by an employee for the employer that employee does not form a supply made by that employee. An employee can never be a taxable person by providing that a person is taxable person in respect only of supplies made³ by that person immediately.

2.1.10.6 Supplies by Agent

When a supplier goods or services through an agent to another person, the supply is made not by the agent but the supplier. An employee is the employer's agent. The employee's service, if supplied directly or indirectly to a third person, is a supply by the employer

2.1.10.7 Mixed supplies and multiple supplies

One broad practical rule is to treat any supply incidental to a main supply as part of that main supply.

2.1.10.8 When a supply of goods takes place

Generally a supply of goods takes place when a VAT invoice issued for the supply goods are delivered, goods are made available, the goods are removed or transported to the customer, or the goods are paid fully or partially.

2.1.10.9 When a supply of service takes place

Services are not delivered or appropriated in the same way as goods. Instead, it is usual to determine the time of supply by reference to when the services have been rendered.

2.1.10.10 where a supply of goods takes place

The VAT usually based on the destination principle that is with goods being subject to VAT where they are either received or consumed. For this reason, the goods crossing frontier are subject to a regime similar to custom duties on arrival. Therefore it is necessary to clarify where goods are received. In the case of imported goods, the adoption of customs laws will help deal with this problem.

2.1.10.11 where a supply of services takes place

Determining the location of a supply of service can be a matter of considerable difficulty, especially for international services. Custom rules cannot be used because they do not apply to services. There is no clear and universally accepted answer to the question of how to treat international services. The primary rule in the European Union is that the service is supplied where the supplier has established his business or has a fixed establishment or his permanent address or where he usually resides.

2.1.11 Taxable Value Supplies

2.1.11.1 Charge to VAT

VAT is designed as a tax levied as a proportion of the value added on any taxable supply. It is therefore necessary to attribute a value to all taxable supplies to ensure that this objective is achieved. To be consistent with the fundamental principles of the tax the value to be taxed must reflect the value added by the supply.

2.1.11.2 Value of International supplies

The general rule for valuing a supply for VAT purpose is to value it at the total of all payments, or consideration, that the supplier receives or is entitled to receive as a result of the supply. In other words, the value is taken as the actual realized value.

2.1.11.3 Tax Inclusive VS. Exclusive Base

The value of a supply should be taken as including all other taxes paid on that supply. VAT is not an alternative form of excise tax or custom duty, but is a separate tax. Both custom duties and excise taxes reflect the stat's separate decisions to increase the price of the dutiable and excisable products by the amount of the duty or tax. That represents the value of final consumption of the goods for the VAT purpose and is therefore the basis of the Value for vat.

If it is felt that the combined effect of excise duty and VAT on a product is too high, the answer lies in adjusting the level of excise duty not of the VAT.

2.1.11.4 Fair market value of supply

The open market price or some other objectively determined price will need to be determined in any case where a supply is treated as made for consideration although no consideration is actually paid or payable.

2.1.11.5 Adjustments and Rebates

The Value added is always the discounted price. This is both consistent with the principles of the tax and the most practical answer. Complication arises where the effect of a discount or an arrangement on purchase results in later adjustment. In this case no account should be taken of the change in connection with the first transaction.

2.1.11.6 Value of imports

In the special case of imports of goods it is standard practice to use the customs value of goods as the amount for VAT calculation, subject to specific adjustments. The customs value generally represents an international agreed upon approach to the valuation of goods subject to customs duty and therefore minimizes the scope for difficulty or dispute in levying VAT on import.

2.1.12.1 Payment of VAT

There are two elements to establish how much VAT the taxable person must pay to the tax authorities. The first is the rate of VAT to be paid on the value of the supply. The second effect is the offset of input tax against output tax to identify the net VAT payable.

2.1.12.2 Rates of VAT

It is generally accepted that the VAT should not be used as a vehicle for imposing luxury rates of indirect tax. VAT will have a main or basic rate and one or more lower rates. Arguments for lower rates therefore concentrate on socially important goods such as food and socially important service that are not exempted or outside the scope of VAT.

2.1.12.2 Zero Rates

A zero rate means that, while no VAT is due on the supply, the supplier remains entitled to claim any tax incurred in making that supply and is therefore entitled to a refund of that input tax if there is no output tax against which to offset the input tax

.From one point of view a tax rate of 0% is nonsense. It is not a rate of tax, and no tax is collected. A zero rate is therefore an exemption of the supply from output tax. (Dhungana,2002)

2.1.12.3 Zero Rating exports and international supplies

The main use of Zero rating is to deal with exports of goods and exported supplies of international services. The destination principle calls not only for removing a direct charge to VAT from exports and international services but also for removing any VAT indirectly imposed on those supplies in the form of the input tax paid by a supplier .Few states zero rate some internal supplies .This is widely viewed as inappropriate because it amounts to subsidy of the activity or transaction treated in this way. It would be better to identify the policy reason for the subsidy and address it through a direct subsidy.

2.1.12.4 Paying VAT to tax authorities

A taxable person is liable to pay VAT to the state authorities at regular intervals after deduction of any allowed input tax.

2.12.5 Entitlement to Credit for Input Tax

Any V AT incurred by a taxable person as input tax should be repaid to that person in some way. The usual method of repayment is to allow the input tax to be set off as a deduction of credit against output tax collection during the same period .A duty is imposed on the taxable person to pay only the net amount to the tax authorities.

2.1.12.6 Partial Exemption

The principles are that input tax incurred only for the purpose of making taxable supplies is allowed, but input tax incurred only some other purpose or purposes should not be allowed. .Input tax incurred partially for the purpose of making taxable supplies and partly for other purpose should be apportioned so that only the part devoted for making taxable supplies is available for credit.

2.1.12.7 Disallowed Input Tax

It is increasing common practice for states to deny input tax credits for certain kinds of supply. The main group may be described as supplies of or for luxuries, amusement or entertainment.

2.1.12.8 Capital Goods

For revenue protection reasons, some states have rules that input tax on capital goods or certain kinds of capital goods to be set off over a period of years in much the same way as the deduction of capital expenditure is controlled by capital allowances or depreciation for income tax purposes.

2.1.13 Procedures and Administration

2.1.13.1 Need for specific VAT Rules

Legislative approaches to dealing with administrative and procedural provisions of tax laws vary from state to state .In general, there are distinct advantages combining as far as possible the procedure and administration of VAT with that of other taxes.

2.1.13.2 Combining VAT and Customs administration on Imports

The case for combining the collection of VAT on imports with the collection of customs duties is particularly strong. This approach ensures that powerful provisions exist to handle VAT on imports with a minimum of legal difficulty, administrative provisions and taxpayer's confusion.

2.1.13.3 Handling VAT on Internal Supplies

There is also strong argument for combining the administration of the direct taxes. In particular, many taxpayers with business income will also be taxable persons for VAT purposes.

2.1.13.4 Regulations, Instructions and Guidance

The tax is an invasive tax and potentially applies to every aspect of the economy.

2.1.13.5 VAT Invoices

A VAT invoice, chit, bill roll print or other document that is issued by a taxable person who makes a taxable supply and that records the supply and the amount of VAT payable on it.

In an invoice –based VAT system the issue of invoice in the proper form is an essential part of the procedure for imposing and enforcing the VAT. The requirement that a special invoice be issued is a feature unique to VAT.

2.1.13.6 VAT Returns

There should be a standard form return, so that taxable persons know precisely what is required of them and can comply more easily with the formalities of making a return and so that the tax administration can process returns effectively.

2.1.13.7 Payment of VAT

All taxable persons must pay to the tax authorities at specified time the net amount of VAT due for the VAT period on a self-assessment basis.

2.1.13.8 Assessment of VAT

Where a taxable person has not made a return a period for, which a return should have been made the tax authorities should be given reserve powers to impose and obligation on the taxable person to pay VAT to the tax authorities.

2.1.13.9 VAT Periods

The standard period is calendar month: often taxable persons with small levels of taxable turnover are allowed to use longer periods of three months or a year.

2.1.13.10 Payment of Excess VAT Credit

Where the input tax credit for any VAT period exceeds the output tax collected there is excess of VAT credit or of deductible input tax. As a direct result the taxable person will pay no VAT to the tax authorities for that period. In such cases the tax authorities' use that excess to offset future obligations.

2.1.14 International experience of VAT

After three and half decades of proposition of concept of VAT by Dr. Wilhelm Von Siemens in Germany, France took the courage to put VAT into practice in 1954. In the 1960s, then European community adopted VAT as its standard tax system. Adoption of VAT turned to be a precondition to get its membership. Later VAT took global momentum during 1970s. Now, around 125 countries have incorporated VAT into their tax system and several new countries are sincerely contemplating the introduction of VAT.

The New Zealand example has been followed in Singapore. VAT was implemented successfully in Singapore. In the process of implementing VAT in Singapore, there was active involvement of various institutions. The high level of preparation and participation made it a success story. But the situation was just the reverse in Ghana. Low level of commitment at the political level impeded the implementation of VAT in the country. VAT was abolished after three months of its introduction in 1995 and was reintroduced again in 1998. Introduction of various exemptions distorted the basic norms of the system. VAT was introduced in 1995 and was abolished after a change in The Government in 1997 and it was reintroduced in 1999 in Malta. (Dhamala ,2012)

China implanted VAT on experimental basis in selected province s and on selected goods only. In 1982, VAT implemented throughout China but only on selected goods.

The process of including more goods was extended from 1984 and VAT was implemented fully in 1994. Initially, this tax was limited to only the production stage of selected goods, both subtraction and tax credit methods of tax calculation were adopted, only a partial tax credit system was adopted, and several rates were applied. In addition, since this tax was levied on the basis of goods such as production tax, business tax, sales tax etc. it became rather complex and china could not benefit much from this tax system. The experience of china indicates that in order for VAT to be effective it should be implemented fully not partially. India implemented MOD-VAT in 1986 on certain goods and this was gradually expanded. Owing to reasons such as Indians federal system and the constitutional provisions that grant the rights to governments at different levels to implement tax, it is not possible to replace the tax being imposed on goods and services at the central, state and local levels by VAT at the central level. The states of Maharashtra, Andhra Pradesh, Kerala, West Bengal, Rajasthan and Uttar Pradesh made efforts to convert their sales tax system into the VAT system. (Dhamala ,2012)

While the VAT system of New Zealand stands as an example in the world, the implementation of VAT in Ghana for the first time was not a good experience. New Zealand, in 1977, was the first state to adopt a form of VAT with minimal exemptions. The New Zealand exemptions are financial services, certain supplies by non-profit bodies, certain supplies of accommodation and land; supplies of gold and fine metals. The threshold of New Zealand, NZ\$ 2500 was suggested to increase and later on it was raised to NZ \$40000. (Dhungana,2002)

However owing to factors such as Maharashtra establishing a very high threshold, some states trying to only partially implement VAT and the fact that the neighboring states had not satisfactory, the experience illustrated the fact that the Implementation of VAT can not be successful if applied only to limited areas or on limited goods by establishing a very high or low threshold. VAT was introduced in Bangladesh in 1991. It has a uniform tax rate of 15 percent. It has exempted VAT on exports, which has helped to boost its export trade.

2.1.15 Taxable Supply

VAT levied on taxable supply, which is defined as the process of selling, exchanging or delivering goods or services; or the grant of permission therefore or a contract therefore for a consideration. TO be a taxable supply the consideration can be in money or money's worth.

2.1.16 Place and Time of Supply

2.1.16.1 Place of Supply

Under the Nepalese VAT system the place of supply is defined as follows:

Goods/Service	Place of supply
Movable Goods	Point of sale or Transfer
Immovable Goods	Location
Imported Goods	First entrance point of customs
Goods supplied by the vendor	Vendor's Residence
Services	Point of service receipt

Source: www.ird.gov.np

2.1.16.2 Time of supply of VAT

General Rule	Earlier of the time of the supply or the issue or receipt of the payment
Special Provisions	Time of the issue of invoice for continuously provide services and date of first payment for partial payment

Source: www.ird.gov.np

2.1.17 Taxable Value of VAT

Expenditure to be included	All other related expenditures incurred by the supplies and taxes except VAT
Lower transaction Value	Prevailing market value is approved

Source: www.ird.gov.np

2.1.18 Tax Credit

It is necessary to meet the following conditions for the entitlement of an input tax credit.

In case of taxable supply	Inputs should be used only for taxable sales, should have valid invoice and should claim within one year
In case of mixed supply	Tax credit for taxable sales and no tax credit for exempt sales
In case of personal use	Partial tax credit for mixed use and no tax credit for only personal use

Source: www.ird.gov.np

2.1.19 Tax Refund in VAT

Refund to exporters	more than 50% sales as export
Refund to non-exporters	Excess tax credit constantly for half year
Refund to diplomats	Zero rated imports and refund for domestic products
refund to other	Refund of VAT collected by mistake

Source: www.ird.gov.np

2.1.20 VAT Administration

2.1.20.1 Registration

Compulsory registration	Volume of transaction exceeds the level of threshold
Voluntary registration	vendors falling below the threshold level for registration

source: www.ird.gov.np

2.1.20.2 Deregistration

The taxpayer is deregistered in the following conditions:

In case of incorporated body	closed, sold, and transferred
In case of partnership firm	partnership is dissolved
In case sole trading	death of owner
In case of registered person	ceases to be engaged in taxable transaction or registered in error

Source: www.ird.gov.np

2.1.21 Taxpayer Identification Number

TPIN is issued by the VAT administration. TPIN once issued for a particular taxpayer is not issued to others even the tax payer is deregistered. The TPIN should be mentioned in the following documents:

-) Tax invoice or abbreviated invoice;
-) Purchase and sales books;
-) Correspondence to the VAT office;
-) Documents relating to the income tax;
-) Documents relating to the custom duties;
-) Documents relating to the exports/imports; and
-) Documents relating to obtaining loan from the banks or the financial institutions exceeding RS.1,00,000

2.1.22 Invoicing

2.1.22.1 Tax Invoice

A VAT registrant is required to issue a tax invoice in the prescribed form whenever a transaction takes place. A minimum of three copies of each invoice must be prepared. The first copy must be given to the buyer and the vendor must retain the rest copies.

2.1.22.2 Abbreviated Invoice

VAT registrant may prepare abbreviated invoice under the following conditions|:

-) The recipient of goods services for which an abbreviated invoice is issued shall not be entitled to put tax credit in that purchase.
-) The abbreviated invoice shall not be issued for transaction exceeding Rs.5000 inclusive of VAT.
-) The registered person must keep the daily record of sales.
-) Any cash rolls used by the retailer must be totaled daily and retained for inspection at any reasonable time.

2.1.23 VAT Accounting

Purchase Book	Account of the purchases for VAT use
Sales Book	Account of the sales for VAT purpose
VAT Account	Monthly summary of taxable purchases, sales and VAT paid on purchase; and VAT charged on sales.
Others	With prior approval of VAT authority

Source: www.ird.gov.np

2.1.24 Submission of Return

A VAT registrant must submit a VAT return to the concerned VAT office within 25 days of the month following the end of the accounting period. In case of compulsory registrants, it is necessary to submit VAT return every month but the voluntary registrant has to submit the returns on a trimester basis. Otherwise, the registrant will

be subject to a penalty of 0.5% of payable tax per day or RS500, whichever is higher.
(Dhamala ,2012)

2.1.25 Payment of Tax

If a registrant's output tax liability is greater than his input tax credit, the registrant is to remit the difference to the government within 25 days from the close of the month in which the tax liability occurred. If the input tax liability is greater than the output tax liability, the balance of credit is to be carried forward for the next month.

2.1.26 Tax Assessment

2.1.26.1 General

VAT is self assessed tax. Taxpayers determine their tax liability themselves and pay tax. But sometimes the taxpayers fail to remit tax on time due to fraudulent reason as well as others. At those time tax authority may carry out tax assessment under the following situations:

-) Tax return is not filed
-) Tax return is late
-) Tax return contains incomplete information and
-) The tax administration has the reason to believe that the tax is otherwise than is declared.

2.1.26.2 Computer Assessment

Computer prints out the list of non filers after 45 days of the expiry of the tax period. Then the computer assessment is carried out in the following ways:

-) Find out highest amount declared by the tax payer in his tax returns during the previous 12 months from the VAT payable.
-) If the tax payer has not filed any return, find the turnover figure stated on the registration application. Dividend by the number of filing periods in a year and then multiply by the VAT rate.
-) Pick the highest figure in 1 or 2 above.

-) To increase the number found in 3 by 30% to get the assessment amount.
-) Then the different sections exchange information for the accuracy of the calculation carried out by the computer and finally assessment orders are issued and distributed to the concerned parties.

2.1.26.3 Management Assessment

The tax officers do management assessment when a taxpayer receives updated information after submitting his returns and informs it to the tax officer or in the case of those taxpayers where tax officers find errors during the tax audit.

The management assessment process is given below:

-) Tax officer assesses tax and determines interest and penalties;
-) Tax officer creates management assessment on a trimester basis in case of others;
-) Management assessment must be batched and submitted to the computer section.
-) VAT assessment will only normally extend back four years from the time the taxpayer is given the notice of assessment.

2.1.27 Collection

VAT administration collects tax through the following methods:

-) Tax officers are empowered to recover tax dues from the credit in VAT debtors' accounts.
-) Tax officers also can issue to a third party who is indebted to the VAT debtor a demand for the payment of the money owed by the third party to the VAT debtor.
-) Tax officers are also authorized to suspend the transaction of a VAT debtor.
-) Tax officers also can withhold export/import of VAT debtor.
-) Tax dues also can be realized by seizing and selling the property of the VAT debtor.

-) Tax officers can collect tax arrears within six years of such arrears becoming due.

2.1.28 Penal Provisions

Penal Provision in VAT

Type of non-compliance	Penalty Provisions
Failure to register before the commencement of the business	Liable tax plus Rs.10,000 or 10% of the payable tax whichever is higher
Non-issuance of invoice	Rs.500 each time
Failure to maintain required account	Rs.10,000 each time
Fraudulment or tax evading activity	Not exceeding 100 of the tax amount or 6 months jail or both

Source: www.ird.gov.np

2.1.29 Appeals

A taxpayer may file an appeal to the Revenue Tribunal within 35 days against a tax assessment or a penalty order by a tax officer or an order by the Director General relating to the suspension of his place of transaction. Before filing an appeal, the taxpayer must deposit the disputed amount of the tax assessed tax due; the rest amount of the tax due surplus the whole amount of the fine shall have to be deposited or a bank guarantee of the same has to be provided.

2.2 Review of previous study

2.2.1 Tax laws designing and drafting

It is International monetary fund Publication. It deals with the drafting and designing of different tax laws. VAT is also discussed here. VAT has been dealt by David Williams. The article confers standard practices on VAT in the international context. It begins with the general introduction of the VAT. The present statue of VAT, its terminologies, economic implication, territorial scope, charges to VAT and its principles of non-discrimination are covered in the introduction section.

2.2.2 VAT in Nepal

It is the collection of his published papers. The first paper gives information on special political, economic, and administrative complications appeared in the course of VAT implementation in Nepal.

Nepal has adopted destination based consumption type VAT with tax credit mechanism extending through the retail level. The rate of tax was 10% now change to 13% combined with zero rates on exports. The exemption list is quite long and registration threshold is Rs 2million (200000 for imports) (Dhamala ,2012)

Taxpayers required issuing invoices of their supplies and maintaining purchase and sales books. The tax period is trimester for voluntarily registrant, and one month for others. The VAT Act makes provisions for the additional charges as the late payment penalties. The rate of such penalties is 10% of the VAT payable in the first month, an additional 10% in the second month, and no further action. Late payment penalties are based on one calendar month from the due date. There is also a provision for the interest on non-payment. The current rate of interest is 15% VAT is based on he principle of self assessment .Tax officials, however can assess VAT when a tax payer doesn't submit the return; or submits an incorrect or fraudulement return: tax officers are authorized to recover tax dues by various means, including retention of tax credit, deduction from the debtors, closing the business, and seizing and selling the property of the VAT debtor. (Mohamad Nurul Hasan, 2005)

2.2.3 Implementation of VAT in Nepal: An Evaluation

The article written by Thapa, towards the weaknesses prevailing in VAT system in Nepal is critical to the timing of the introduction of VAT in Nepal. He strongly denounces the existence of an unstable Government at the time of introduction, which forced the government to accept many, compromises in this regard. He makes critique on the lack of serious consideration to the impact of smuggling from long open border with India and Tibet .The lack of highly motivated tax administration and the proper accounting system are also impeding the functioning of VAT in Nepal.

2.2.4 VAT and it's relevancy in Nepal

This is a collection of different articles by Dr. Rup Bahadur Khadka. The articles deal with the general introduction of VAT on the eve of the introduction of VAT in Nepal. He has compared the VAT with the sales tax, which was in use before. According to him Nepal has the experience of implementing import/manufacture level sales tax, wholesale level sales tax, and retail level sales tax. The MST had a narrow base and suffered from the cascading effect. It also discriminates against the domestic product with the imported products as the profit margin of the manufacturer is included under the base of this tax but not the profit margin of the importer. He further writes the nation missed the collecting huge revenue from the large amount of Value added on the imported luxury goods. Besides that the wholesalers used to evade sales tax by creating fake channel of distribution. However the retail level sales tax was neutral with respect to methods of production and distribution and does not suffer from cascading effect.(khandaka,2008)

2.2.5 Value Added Tax: The Road Ahead

The article written by Marashini, director at the advocates for increasing publicity campaigns based on radio, television, FM programs that are popular in the cities where most of the taxpayers reside. He also advises for sudden inspection of goods and services on the road to check tax evasion.

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Taxpayers required issuing invoices of their supplies and maintaining purchase and sales books. The tax period is trimester for voluntarily registrant, and one month for others. The VAT Act makes provisions for the additional charges as the late payment penalties. The rate of such penalties is 10% of the VAT payable in the first month, an additional 10% in the second month, and no further action. Late payment penalties are based on based on one calendar month from the due date. There is also a provision for the interest on non-payment. The current rate of interest is 15% VAT is based on the principle of self assessment .Tax officials, however can assess VAT when a tax payer doesn't submit the return; or submits an incorrect or fraudulently return: tax officers are authorized to recover tax dues by various means, including retention of tax credit, deduction from the debtors, closing the business, and seizing and selling the property of the VAT debtor.(Maraseni,2010)

2.3 Review of journals and articles

George E. Lent (2010),, has analyzed the VAT in seven developing countries: Brazil, Ecuador, Ivory Coast, The Malagasy Republic, Morocco, Senegal and Uruguay. As per the analysis the substantial part of the revenue in the developing countries is derived from imports. The VAT with multiple rates and many exemptions face greater difficulties of administration and compliance than a single tax rate with the single rate and few exemption VAT not only imposes greater discipline by reason of it's so called

self checking g features but also it's self correcting in catching up with tax that may have been escaped at a previous stage. In this respect, it has some advantage comparatively in reducing the tax leakages. (George E.Lent,2010, taken from Dhamala,2012)

VAT as an important element of tax reform program in Nepal and as the other elements of the Nepalese economy that are heavily influenced by the political instability, corruption, bad governance, liquid government and Maoist revolution has caused the weak implementation of VAT. (Thapa, 2012)

Shahabuddin M. Hussain (2011), which suggest that among the different VAT scheme with some exemptions and additional excises is likely to be more acceptable to the general public and the policy makers than a uniform VAT, which is in contradiction with the Brazilian experience.

2.4 Review of Dissertations

Dahal, (2001), in his article “A Few Words About VAT” writes VAT is a most scientific, innovative and powerful tax with built-in quality of universal application for both developed and developing economics. The biggest virtue of Vat is that it is revenue buoyant and highly instrumental for resource mobilization especially in an economy with an acute shortage of resources. Nepal has entered into a major global tax system with the introduction of VAT. VAT is an account-based tax that leads to transparency and accountability both on the part of taxpayers and collector.

Open boarder, non-monetized economy, non-issuance of invoices etc are major problems that would marginalize the prospects for resource mobilization in Nepal. This calls for introduction stringent regulations to deal with delinquency of tax, maintaining records properly and improving efficiency of VAT administration. The success of VAT will have significant bearing on the economy of Nepal.

Mallik, (2001), “Value Added Tax and the practice of issuing and receiving invoices in the context of market economy” attempts to highlight activities to guarantee the benefits of all business people and consumers, the negative aspects of vested interest

and belief that positive thoughts and endeavors of the business community, will highly supports the market system. For this purpose various suggestions have been recommended which are concerned to various communities of the society.

He has pointed existing problems as smuggling of goods both from Tibet and India, corruption, issue of invoices, no transparency on other sectors, misuse of threshold, accounts, and the weak tax administration are some problems that are facing during the course of VAT implementation in Nepal.

Basneta (2002) opines this research work in 2002 with the major objectives to be on familiar terms with the problems of VAT in Nepal. According to him, the government should include VAT in the school education as well as in the higher level studies .The tax administration should be vigilant to prevent the malpractices, frauds and tax evasion. The government should encourage the business community to use expensive billing software .The government should follow carrot and stick rule for its effective implementation.

Adhikari (2003), has analyzed that in both theoretical and practical proceeds. In his words, VAT is an indirect tax that is imposed on different goods and services on the basis of value added amount in different stages. In this tax, the government may (by making provisions in laws) taxes for certain goods, services and purchasing of specific consumers. This is a reformed sales tax that avoids cascading effects and provides tax credit facility as well as facility of refund.

Prof. Adhikari has concluded, however, in the VAT system less chance to tax evasion, easy for administration and less burden to consumers too, because of simple and single stage tax. It is very neutrality and effective tax. That's Why VAT encourage to investment and export too.

Subedi (2011) analyzes the Nepal's tax structure briefly; examining the relevancy of VAT with references its application in other countries; comparing VAT with other forms of sales tax and identifying possible areas, if any for the introduction of VAT in the Nepalese tax mechanism for enhancing revenue generation. Besides that he has

also emphasized on efficient simple and transparent VAT. He further reveals that due to the lack of competent, qualified, intelligent, knowledge, self-disciplined and well trained manpower is hindering the smooth operation of the VAT. He urged that the business community have not conceived the theoretical concept of VAT. On the basis of his findings he suggests that the exporters should handle research and investigations on various issues.

Lamichhane (2011) submitted the thesis on "Value Added Tax System in Nepal"

The major objectives of the study were, to review background, trend of VAT collection and its contribution in Government revenue, to analyze the problem faced by the governments to collect VAT to study the efforts made by government to collect VAT. To evaluate the performance of VAT & find out the status & prospects of VAT in Nepal, Bhatta pointed out the core finding which are as follows; administrative capability is grate importance for the effective implementation of VAT in Nepal, There is a problem in billing system, The vat revenue collection is not satisfactory, Various publicity programmes should be initiated, Others.

Gurung (2012) examines the problem is more serious due to the lack of culture of not issuing and demanding the VAT bill and the transaction is made, on adherence to standard norms and codes of doing business, discouraging behavior of the tax officials and lack of sense of accountability in the government and the political parties. So the businessmen not take the government police with their heart. Invoice, the fundamental document on which the efficient of the VAT is based has inherent weakness. Open boarder with China and India is also another hindrance for its effective administration and implementation.

Singh(2012) carried out this research work in g political commitment, an efficient and fair administration, information dissemination, environment of mutual trust, anticorruption policy, monitoring system, anti-corruption policy, behavior on equal footing, simplification of procedures for tax compliance and abolition of single rate VAT with multi-rate VAT. He denounces the unnecessary political interferences in policy making. There needs to be an environment of mutual trust between the private

sector and the government bodies. The government should strongly reinforce the implementation of VAT with the help all available tools

2.5 Research Gap

There has been study various research on value added tax since long time though there has not been included detail review on the study which this research tries to fulfill the gap. More than that, the study explore the current situation of vat and its potential in the changing socio economic situation.

CHAPTER–III

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology refers to the method or procedure of research process and it is a way to solve research problems systematically. The term 'Research Methodology' is a combined term of 'Research' and 'Methodology'. Simple, research refers investigation or, careful study, especially in order to discover new facts or information. On the other hand, a set of methods used in a particular area of activity is known as methodology.

Research Generates new knowledge, which can be used for different purposes; in other word it is a systematic effort to gain new knowledge. Furthermore, the research is used to build a theory, develops policies, support decision-making and solve problems.

Methodology is the research method used to test the hypothesis. It refers to the systematic method causing the problem, formulating the hypothesis, collecting the data and analyzing the facts to reach the certain conclusion.

Research is a systematic and organized effort to investigate a specific problem that needs a solution (Sekaram, 1992). This process of investigation involves a series of well thought out activities of gathering, recording, analyzing and interpreting the data with the purpose of finding answers to the problem. Thus the entire process by which we attempt to solve problems is called research. (Wolf and pant, 2004:203). Therefore research methodology refers to the method or procedure of research process and it is a way to solve research problems systematically. It facilitates the research work and provides reliability and validity to research. Simply methodology reveals analysis and systematic applications of procedures used in scientific investigation or in a particular research project. The main objectives of research methodology are to develop the sophisticated research strategy. So it is impossible to complete a research work without research methodology. It facilitates the research work and provides reliability

and validity to research. Simply methodology reveals analysis and systematic application of procedures used in scientific investigation or in a particular research project. The research methodology employed in this study is presented below.

3.2 Research Design

Research design is the outline of a plan to test the hypothesis and framework of the study. It is also known as the conceptual structure within which research is conducted. Research designs are invented to enable the researcher to answer research question as validity, objectively, accurately, and economically as possible. (Kerliner, 2004:301)

After formulating the research study, the logical step is to construct the research design that refers to the entire process of planning and carrying out research study. The research design asks what approach to the problem should be taken. What method will be used? What strategies will be most effective? Identification, selection and formulation of a research problem may be considered as the planning stage of a research. The remaining activity refers to the designs, operation and completion of the study. (Wolf and Panta, 2004:53)

The research design is the strategy for conducting research. It describes the general framework for collecting, and analyzing and evaluating data after identifying: (i) what is researcher want to know and, (ii) what has to be dealt with in order to obtain required information. (Wolf and Panta, 2004:209)

The research design has basically two purposes that the first one is to answer the research question or test the research hypothesis and next one is to control variance.” Research design is plan, structure, and strategy of investigation conceived so as to obtain answers to research questions and to control variance.”(Kerlinger, 2004:300) There are many types of research design such as historical research, descriptive research, case study research, survey study research, correlational research, departmental research etc.

In this study, the survey research is adopted. The main aim of this study is to review the history of VAT, contribution of VAT in the national economy and to find the trend analysis and projections of VAT.

3.3 The Population and Sample

In order to get benefit from this study, 45 questionnaires were distributed; respondents included in the sample are carefully selected by consultation with tax experts, businessman and consumer. Distribution was done personally through field rather than sending by any means to get accurate and actual information in time .The following table shows the groups of respondents and the size of the samples.

3.4 The Data Gathering Procedure

The required data & information are collected from the secondary as well as primary sources.

Primary Data: The questionnaire papers were prepared to collect the views of tax experts, economist, tax officers, businessmen; consumer's etc. Besides these, subjective opinion and information are collected from the discussion and interaction with related person, policy maker and intellectual persons.

Secondary Data: The secondary sources of data are collected from various books, dissertations, publications, journals, reports, newspapers etc. The major sources are as follows:

1. Annual Reports of Inland Revenue Department, Ministry of Finance.
2. Economic surveys and budget speeches, Ministry of Finance.
3. Rajaswa, Revenue Administration Training Center, Katmandu.
4. Official website of Inland Revenue Department: www.ird.gov.np.
5. Official website of Ministry of Finance: www.mof.gov.np.
6. Various magazines, newspapers, journals and souvenirs.

Other relevant records and data available

3.5 Data Collection Procedures:

The required data are collected consulting libraries, websites and the NG offices/ Nepal government related to the study.

3.6 Data Analysis Procedures (Statistical Tools):

Trend Analysis

Under this topic we analyze and interpret the trend of VAT, that helps to make forecasting for next five years. The following trend value analyses have been used in this study.

Trend analysis of total Tax, Direct Tax, Indirect Tax, VAT etc. The trends of related variables can be calculated as, $Y = a + bx$

The collected data is checked, compiled and presented in appropriate tables to facilitate analysis and interpretation. Tabulation has been done to get answers for the specific objectives. Analysis has been done descriptively as well as statistically. For the statistical tools such as trend analysis, simple percentage, analysis of time series, bar graph and line graph etc. are used.

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

4.1 Total Revenue Structure

Like in any another country, the Government of Nepal needs revenue to conduct the function of an independent state or country. A modern democratic government has to perform various social welfare programmers, besides its regular activities. For this purpose government collects its revenue from various sources. There are two categories of sources of government revenue through which the government collects. These are Tax Revenue and Non-tax Revenue. These both sources are subject to non-repayment and their sum constitutes the government or public revenue.

But the government has other source of revenue, which is subject to re-payment such as loan; grant etc. however, grant are not compulsory repaid. These sources are desirable only to meet the Fiscal deficits.

Table 4.1 : Structure of Govt. Revenue in Nepal (Rs. In millions)

Fiscal Year	Total Revenue	Total Tax Revenue		Total Non-tax Revenue	
		Amount	Tax revenue %	Amount	Non-tax Revenue %
2002/3	32937.90	25939.80	78.75	6998.10	21.25
2003/4	37251.00	28752.90	77.19	8498.10	22.81
2004/5	42893.80	33152.10	77.29	9741.60	22.71
2005/6	48893.60	38865.10	79.49	10028.80	20.51
2006/07	50445.50	39330.60	77.97	11115.00	22.03
2007/8	56229.80	42587.00	75.74	13642.70	24.26
2008/9	62331.00	48173.00	77.29	14158.00	22.71
209/10	70122.70	54104.70	77.16	16018.00	22.84
2010/11	72282.10	57430.40	79.45	18451.70	25.53
2011/12	87712.10	71126.70	81.09	16585.50	18.91

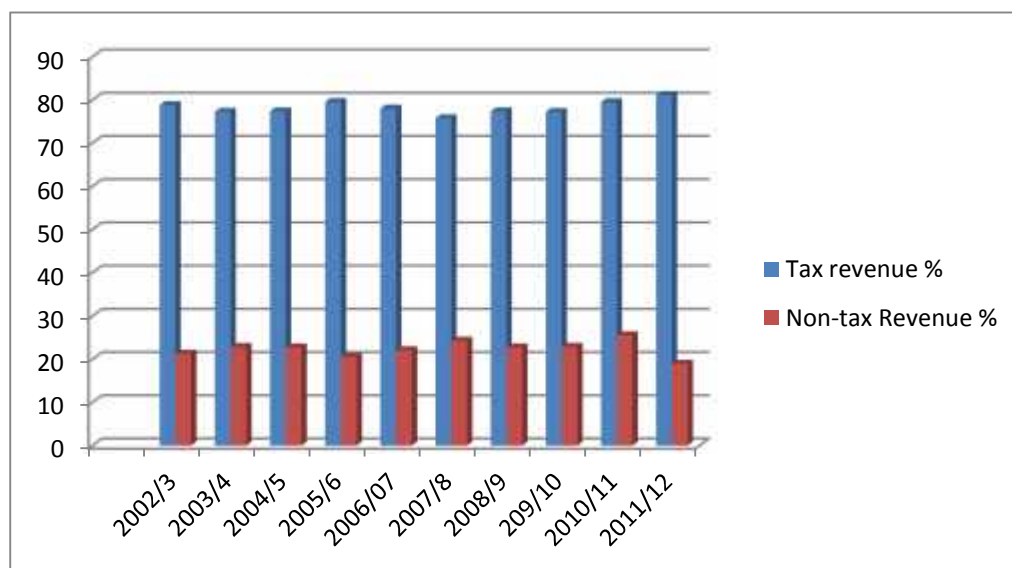
Source: Economic survey 2011/12 (Ministry of Finance, Kathmandu)

A low level equilibrium trap characterizes Nepalese economy. Revenue performance in relation to public expenditure is very much reluctant. Because of this, government

is getting bigger without better. Among the source of revenue, contribution of non-tax revenue is insignificant and stagnant.

The tax revenue has always follows and increasing or decreasing trend since the year 2002/3, when it was Rs 25939.8 million and reached Rs.71126.7 millions in the year 2011/12. But the percentage figure if tax revenue to the total revenue shows a fluctuating trends. It has increased percentage or highest percentage in 2011/12 then after lowest in 2007/08. The above statement shown in figure below:

Figure: 4.1 : Structure of Govt. Revenue in Nepal (Rs. In million)



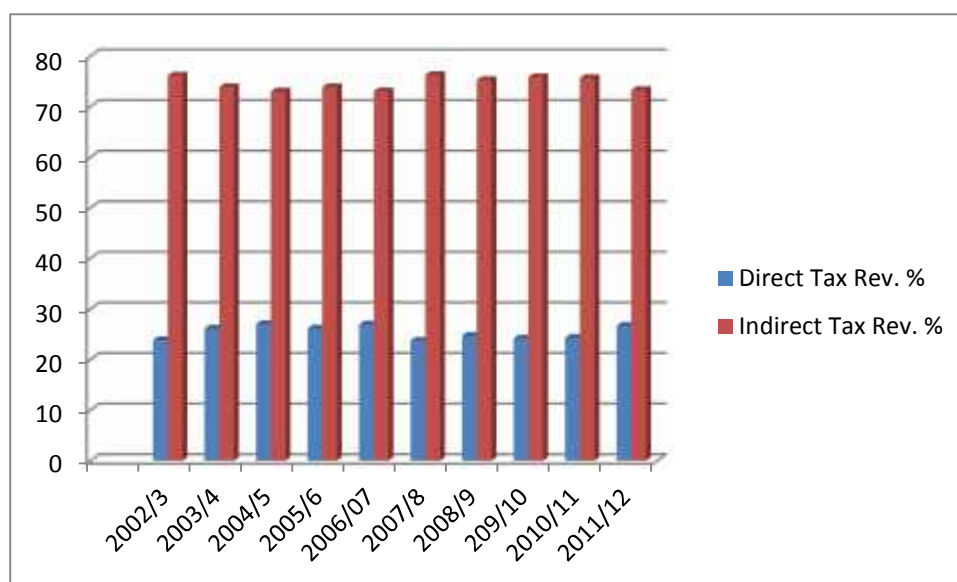
4.2 Structure of Tax Revenue

Table 4.2 : Contribution of Direct Tax and Indirect Tax Revenue in Nepal (in millions)

Fiscal Year	Total tax Revenue Rs.	Direct Tax Revenue		Indirect tax Revenue	
		Rs	Direct Tax Rev. %	Rs	Indirect Tax Rev. %
2002/3	25939.80	6187.9	23.85	19751.90	76.15
2003/4	28752.90	7516.1	26.14	21236.80	73.86
2004/5	33152.10	8951.5	27.00	24200.60	73.00
2005/6	38865.10	10159.4	26.14	28705.70	73.86
2006/07	39330.60	10597.5	26.94	28733.10	73.06
2007/8	42587.00	10105.8	23.73	32481.20	76.27
2008/9	48173.00	11912.6	24.73	36260.40	75.27
209/10	54104.70	13071.8	24.16	41032.90	75.84
2010/11	57430.40	13968.1	24.32	43462.30	75.68
2011/12	71126.70	18980.3	26.69	52146.40	73.31

Source: Economic survey 2011/12 (Ministry of Finance, Kathmandu)

Fig 4.2 : Contribution of Direct Tax and Indirect Tax Revenue in Nepal



The above table and figure reveals that contribution of direct and indirect tax revenue in Nepal from 2002/2003 to 2011/12. The contribution of Direct tax revenue in the FY 2004/2006 is 27.00 was the highest and in FY 2007/08 was 23.73% was the lowest

while in the indirect tax revenue the lowest was 73.00% in the FY 2004/05 and highest was 76.27% in the FY 2007/08

Despite of absolute increment of direct tax during the study period, its share in total tax revenue does not seem satisfactorily increased. As indirect tax is considered regressive in nature, tax structure of Nepal is not justified on equity grounds and productivity. However, this increasing reliance on indirect tax in UDCS like Nepal can be justifiable on administrative ground.

In theoretical sense, direct tax is considered progressive while the indirect tax regressive in nature. Besides, direct tax is superior over the indirect tax on the ground of neutrality excess burden and welfare. But in the UDCs like Nepal, most of the people are low income corner and their marginal prosperity to consume is very high near unity. This implies very limited base for direct taxation and broad base for indirect taxation. On the other hand such an economy requires a large amount of revenue to initiate and sustain their growth path.

It is also argued that indirect tax will reduce consumption more and saving less as compared to direct tax. It will therefore, provide higher saving-investment ratio than direct tax yielding equivalent revenue. Indirect tax is helpful to cut the luxurious and socially undesirable consumption taxes on income, profit and social security contributions are more important in industrial countries than in international trade are important for the later groups of countries. (Prest ,1985:21)

It is argued that the heavy dependence on indirect taxes in UDC was only passing phase in their development. According to Hinrich, countries tend to move in course of development from early period in which the ratio of direct to indirect tax revenue is highest through stage in which indirect taxes become more important and finally a stage in which direct taxes are again dominant. Mus Grave also point out that in early stage of development, revenue tends to be obtained from land taxes, import and export duties and a few excises. Later general income taxes become feasible and attracted support because of egalitarian sentiments democratic policies and government.(Goode, 1984:89)

Tax policies have various objectives among them:

-) To increase the growth rate in relatively short period to the maximum possible extent.
-) To have built in flexibility into the tax structure and to provide maximum revenue productivity continuously and consequently with optimum growth rate.
-) To act as instruments from combating inflationary pressure in the initial stage of economic development.
-) To remove the inequality of income and wealth in society.

Indirect tax has significant role in UDCs to obtain the following objectives.

-) Raising the rate of investment by curtailing the luxurious consumption.
-) Raising resources from private to public investment.
-) Raising the incremental saving ratio.
-) Diversion of resources to desired pattern of goods.
-) Diversion of demand from import to domestically produced goods.

Thus, indirect taxes play a significant role in developing countries. The structure of tax should be such that sufficient revenue should be raised for investment. In underdeveloped countries, it is necessary to raise the saving ratio through indirect taxation. High rates on luxurious and low rates on articles of common consumption are widely accepted.

The tax on commodity has a tendency to restrains consumption. However, it should be used to check the potential consumption rather than for ever tailing actual consumption. It is easy to control luxurious consumption, but taxation on mass consumption may be contrary to the principle of equity and taxing only on surplus but even if there is no surplus, underdeveloped countries must mobilized revenue from these source to raise the current rate of investment.

The role of mass commodity taxation indirect taxation is not to raise the rate of investment but to prevent consumption from rising as much as income raise as a result

of past investment Dahal (1991:18) to raise incremental saving ratio (S/Y) is one of the most difficult job in an underdeveloped country. In addition of riches class the poorest must also contribute. Since their marginal propensity to consume is very high near to unity, taxation could be used to restrain increase in consumption and thus release some resources for purpose of investment.

4.3 Direct Tax Revenue

Direct tax is a levy by the government on the income and wealth received by households and business enterprises in order to raise revenue and as an investment of fiscal policy. Direct tax is so called because it is normally assumed that the real burden of payment falls directly to the person or business enterprises immediately responsible for paying them, and can not be passed on to any body else. Direct tax is progressive in nature so far as the amount paid varies significantly according to the income and wealth of the taxpayer.

Revenue productivity of direct tax increases as economy grows over time, supposing economic growth widens the taxable capacity by increasing income and wealth. Thus, higher the magnitude of direct tax indicates a higher developed country. In contrast, lower the share of direct tax, on total revenue indicates the less developed of developing country and hence country needs to accelerate the growth path in substitute the share of indirect tax by direct tax.

Nepalese economy has low revenue performance of direct tax depicting heavy dependence on indirect taxes. Because of low level of per capita income, direct tax has limited base and narrow coverage, which limits the scope of domestic resource mobilization through direct tax. Although, it is an inevitable instrument of fiscal policy and hence must be designed and practiced properly.

Direct tax in Nepalese economy is composed of different taxes namely; income tax, land tax, property and wealth tax, tax on registration.

In the current situation, Nepal is levying four different types of income tax, namely individual income tax, corporate income tax, house rent and interest tax/ base of the

income tax covers all individuals having income of taxable capacity. Corporate income tax is levied on the profit of the corporation. House rent tax and the interest taxes are levied on the house rent and the interest received respectively.

Land tax is in operation in Nepal since the carrier period of Nepalese taxation. Currently Nepal is levying two different land taxes. Land revenue and Bhumikar are in operation. However, Nepal also practiced local dev. Tax (LDT) and Panchyat Development Tax

(PDLT) on land in the past. Property tax is levied on each real property at a flat rate and is used for allocation proposes. But it is not suitable for achieving distributive objectives, since it does not take account of the personal circumstances of a taxpayer in general. Instead, wealth tax is levied on person and is suitable to achieve distributive objective. It is levied on the net value of all tangible and intangible property and takes account of the personal circumstances of a taxpayer through the deduction of liabilities and personal exemption. Registration tax is levied on the transfer of ownership or the right of use of immovable property under the name of house and land registration fees. Value of the property decrease by the concerned server is the legal base for registration fees or tax.

The following table 3 shows the details structure of direct tax revenue.

Table 4.3 : Structure of Direct Tax Revenue

		Land Revenue and Regd.Tax	Mis. Direct Tax	Total Direct Tax.
		1004.2	497.8	6187.90
2003/4	Fiscal Year	Income Tax	662.2	7516.00
2004/5	2002/3	4685.90	929.4	8951.50
2005/6	8650.10	612.9	896.4	10159.40
2006/07	8436.00	1131.8	1029.7	10597.50
2007/8	7102.20	1414.3	1589.3	10105.80
2008/9	8512.50	1697.5	1702.6	11912.60
209/10	9402.40	1799.2	1870.2	13071.80
2010/11	9598.40	2181.1	2188.2	13968.1
2011/12	13979.10	2253.5	2747.7	18980.30

Source: Economic survey 2011/2012 (Ministry of Finance)

Note:

- 1) Income includes income tax from (Public Enterprises + Semipublic Enterprises + Private Corporate Bodies + Individuals + Remuneration)
- 2) Miscellaneous includes (Interest Tax + Urban House and Land Tax + Vehicles Tax + Other Tax)

According to the table, from the year 2002/2003 to 2011/12 the income tax increased in increasing trend but in the year 2006/07, 2007/08 and 2008/09 it increases in decreasing trend. From the year 2009/10 to 2011/12 income tax increased in increasing trend.

In the Land Revenue & Registrations tax, lowest Rs. 612.9 in FY 2005/06 and highest in FY 2006/07. Land Revenue and Registration Tax was increasing or decreasing trend.

The Miscellaneous Direct Tax Rs.497.8, 662.2, and 929.4 in FY 2002/03, 2003/04 and 2004/05 was increasing and Rs.896.4 in FY 2005/06 as decreasing.

Similarly, Rs.1039.7, 1589.3, 1702.6, 1870.2, 2188.2 and 2747.7 in FY 2006/07 to 2011/12 was increasing trend respectively.

4.4 Indirect Tax Revenue

A tax is compulsory contribution to the Government without reference to a particular benefit received by tax payers. A tax is called Indirect Tax if impact and incidence of a tax are not upon the same person and the burden is shifted and real income of someone else affected. However, the extension of shifting of the tax burden depends on the elasticity of supply of factors to the industry concerned, and indirect tax will be passed completely on if this supply is perfectly elastic.

Indirect tax includes three categories viz; custom duty, excise duties, and sales/vat in Nepal. Thus direct tax also called tax on commodities. These taxes are collected from the producers or the sellers in the expectation that they will be passed on/to consumers. It is also said that indirect tax are primarily born by consumers.

Consumption is a less comprehensive tax base than income tax as direct tax excludes that part of accretion of economic power that on person of economic power that on person chooses to save and add to the wealth. Even, the indirect tax has been getting preferences in most of the developing countries including Nepal. Because developing countries lack or resources and it is hard to mobilized from direct tax as direct tax needs more collectors since it is imposed on person. Separately and developing countries have not complete tax collection, administration efficiency. Developing countries needs more revenue to meet the goals of development: these goals are

- a) Accelerating the growth of stability.
- b) Attains social egalitarian pattern of income distribution.
- c) Allocation of resources and
- d) Price stability.

Tax on foreign trade and spending on goods and services have a major contribution in developing countries. Indirect tax provides a bulk of resources enrolling two third to finance on their development activities.

In Nepalese context custom have a highest contribution to total revenue. Custom duties are composed of import duties, export duties and export services charges,

Indian excise refund. Imported goods in Nepal constitute the base for import duties while exported goods from Nepal constitute the base for export duties.

Like custom duties, excise duties are the traditional sources of tax revenue in Nepalese system. In the past, both agricultural and industrial products were the bases of excise duties. But, now they are levied only on the domestically produced goods. Imports are beyond the excise net. The average of excise duties is boarding over time since new items are gradually being produced they are brought within the excise net presumably for the revenue purposes. A major contribution item on tax revenue of Nepal is sales tax on VAT. It is the major component of indirect tax revenue. Sales tax has wider coverage since it covers most of the goods either imported or domestically produced. Sales tax, which has replaces\ d by VAT, can be levied either on single stage or multiple stages during the process of production and distribution where the vale addition takes place.

The following table shows details about Indirect Tax

Table 4.4 : Structure of Indirect Tax revenue
(Rs in Millions)

Fiscal Year	Custom Duty	Excise Duty	VAT	Total Indirect TAX
2002/3	8502.20	2885.80	8363.9	19751.90
2003/4	9517.70	2953.20	8765.9	21236.80
2004/5	10813.30	3127.60	10259.7	24200.60
2005/6	12552.10	3771.20	12382.4	28705.70
2006/07	12658.80	3807.00	12267.3	28733.10
2007/8	14236.40	4785.10	13459.7	32481.20
2008/9	15554.80	6226.70	14478.9	36260.40
209/10	15706.60	6445.90	18885.4	41032.90
2010/11	15344.00	6507.60	21610.7	43462.30
2011/12	16707.60	9342.20	26096.6	52146.40

Source: Economic Survey 2011/12, Ministry of Finance

(Indirect tax include Custom Duty + Excise Duty+ VAT)

Note:

- 1) Custom Duty (Import Export + Indian Excise Funds)
- 2) Excise Duty (Industrial Product + Liquor contract)
- 3) Total Indirect Tax (Custom + Tax on Consumption and product of goods and services)

According to the table, shows FY from 2002/03 to 2011/12. In this table, custom increases all the year from 2002/03 to 2009/10 and decreases in 2010/11 and increases in 2011/12.

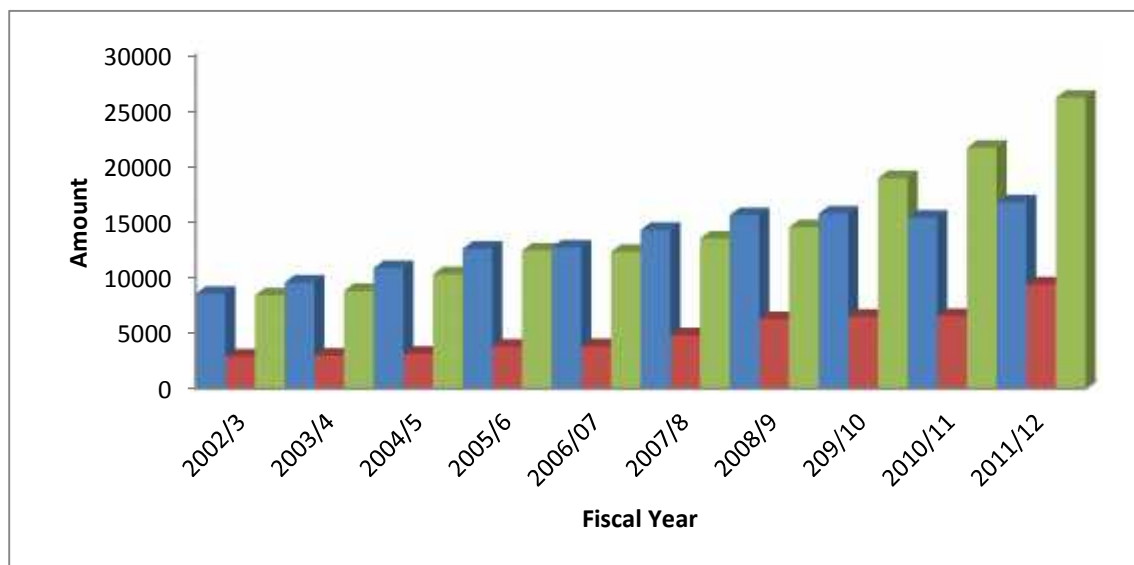
Similarly, in this table, excise duties also increases all the year from 2002/03 to 2011/12. in FY 2002/03 excise also lowest Rs 2885.8 and highest was Rs. 9342.2 in FY 2011/12.

Vat increases up to FY from 2002/03 to 2005/2006, decreases in FY 2006/2007 than increase up to FY from 2007/2008 to 2011/2012.

So, in the table revenue total indirect Tax was increasing from FY 2002/03 to 2011/12 and highest was Rs.52146.4 in FY 2011/12 and lowest was Rs. 19751.9 in FY 2002/03 respectively.

The above table shows the figure as shown here:

Figure 4.4 : Structure of Indirect Tax revenue



4.5 Present status of VAT in Nepal

The implementation of VAT

VAT is expecting to be important and essential tools to provide the right direction to Nepalese economy and the government revenue policies. The need for innovative and fundamental reforms in the revenue policies of Nepal has been felt since long. In this regard VAT was perceived to be the most appropriate and positive steps.

The implementation of VAT in Nepal has complete eleven years and is currently in its twelve year. In a country that has a narrow basis for revenue to assume this tax which is based in consumption and imposed at all levels of production, import, wholesales and retail would widen the tax has a was not wrong. The expectation form VAT were that it would include value addition in the distribution process; include services within its sphere, get the tax payers who are not used to paying tax within tax, net, reduce the

possibility of tax evasion due to its catch-up/self policing features, improve value addition of goods and made the implementation of income tax import duty and excise duty more effective.

The experience of last eleven years regarding implementation of VAT shows various ups and down. In the initial stages, there was strong opposition to implement VAT from the side of business community and even from the political parties. But, later on environment is created where the business community and other taxpayers have been accepting VAT, after knowing various positive aspects of VAT including simplicity and possibilities in other revenue policies.

4.6 Registration

The number of sales tax registrant was 2045 at the time of the introduction of VAT in 1997. Among them, those above the VAT registrations threshold were converted into VAT registrants from 16th Nov. 1997 while among those having transaction below the threshold level some registered voluntarily and other remained outside the VAT net. Other potential tax payers that were outside the sales tax not registered for VAT over the years. After adjusting different provision and aspect of VAT, business community and the government reached to an agreement in 1991/00. Thereafter VAT was implemented in its full form so that the number of VAT registrant highly increased in the year by year.

Table 4.5 : Trend of VAT Registration

Fiscal Year	No. of New Tax Payers	No of Tax Payer	% Changes
2006/07	104617.00	15149.00	--
2007/08	139944.00	29872.00	18.00
2008/09	162172.00	64174.00	14.00
2009/10	191156.00	39776.00	16.00
2010/11	225304.00	46831.00	18.00
2011/12	245550.00	52965.00	13.00

Source: Inland Revenue Department, Kathmandu.

The above table shows growth rate of VAT registration was 18% in the FY 2007/2008 at a high level. Then decreasing was 14 % in FY 2008/2009 and 16% in 2009/2010. Similarly, in the FY 2010/2011 was 18 % and FY 2011/2012 was lowest at 13%.

The above table shows the following trend of line in graph as shown in

Fig. 4.5 : Trend of VAT Registration.

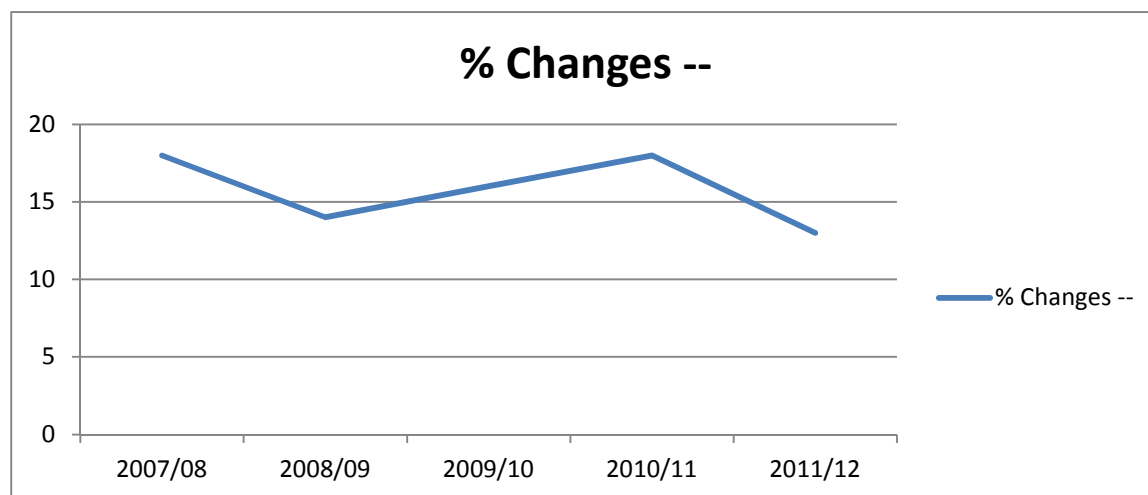


Table 4.6 : Composition of Direct Tax Revenue for the year 2011-2012

Particulars	Rs	% Contribution on the Total Tax Revenue
Direct Tax		
Income Tax	1425912	89.78
Rent Tax	59937	3.84
Interest	996148	6.38
Total	2481997	100

Source :Annual report IRD 2011/2012

The table shows the composition of direct tax revenue for the year. Direct tax contributes 89.78 %, 3.84 % and 6.38 % in Total Direct Tax revenue contribute.

The above table shows the following figures.

Fig. 4.6 : Composition of Direct Tax Revenue for the year 2011-12

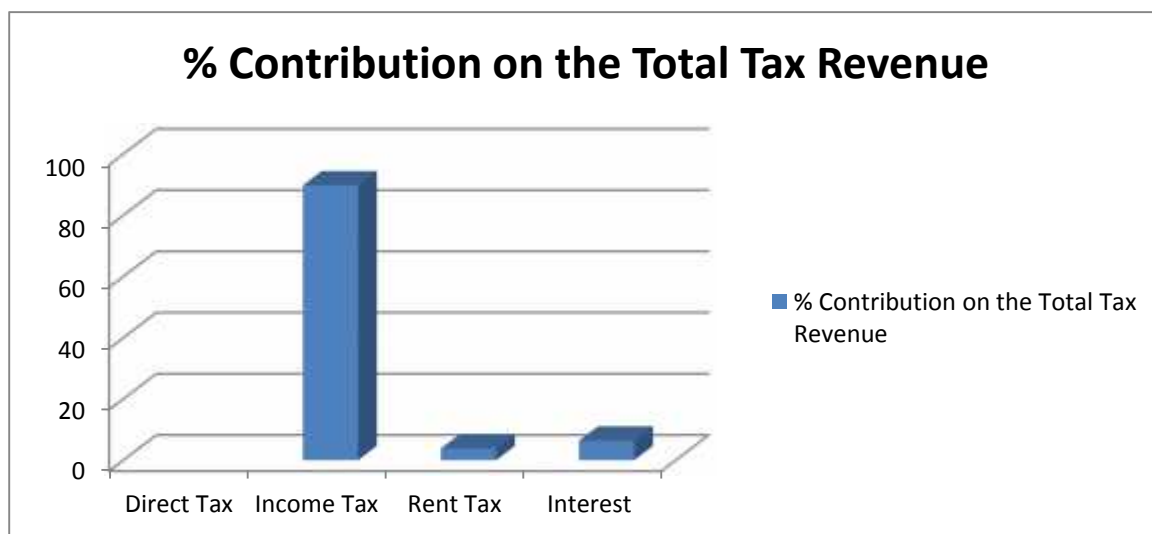


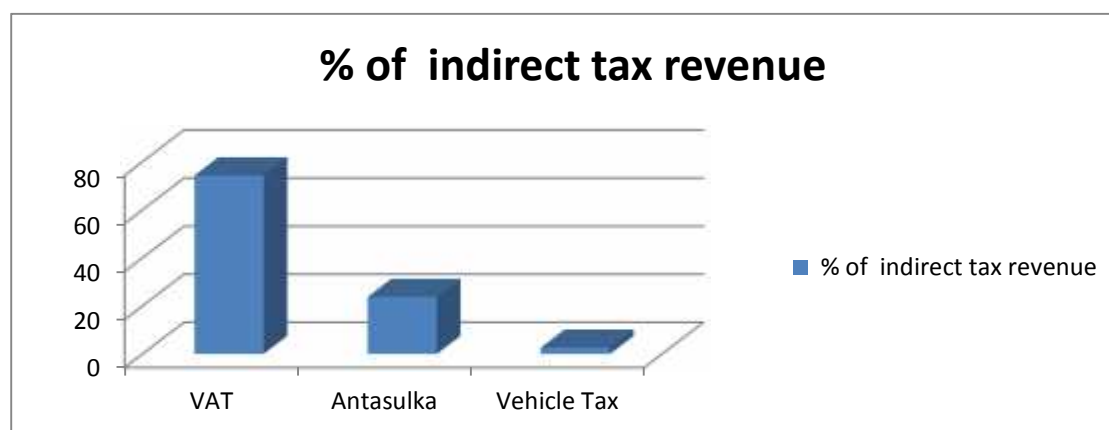
Table 4.7: Composition of indirect tax revenue for the year 2011/12

Indirect Tax	Rs.	% of indirect tax revenue
VAT	26704180	74.34
Antasulka	8533844	23.75
Vehicle Tax	681996	2.63
Total	35920020	100.72

Source: Annual Report of IRD 2011/12

Indirect tax revenue contributes VAT 74.34%, 23.75% and 2.63% in the total indirect tax revenue. The above table shows the following figure

Fig 4.7 : Composition of indirect tax revenue for the year 2011/12



4.7 Contribution of VAT to total revenue

VAT is the best form of sales tax which is neutral regarding method of production and helpful in generation of more revenue collection. Because of its broad coverage, neutrality, transparency and fairness, VAT will generate more revenue with less distortion. The percentage contribution of VAT in total revenue is shown below in the table and present in the diagram.

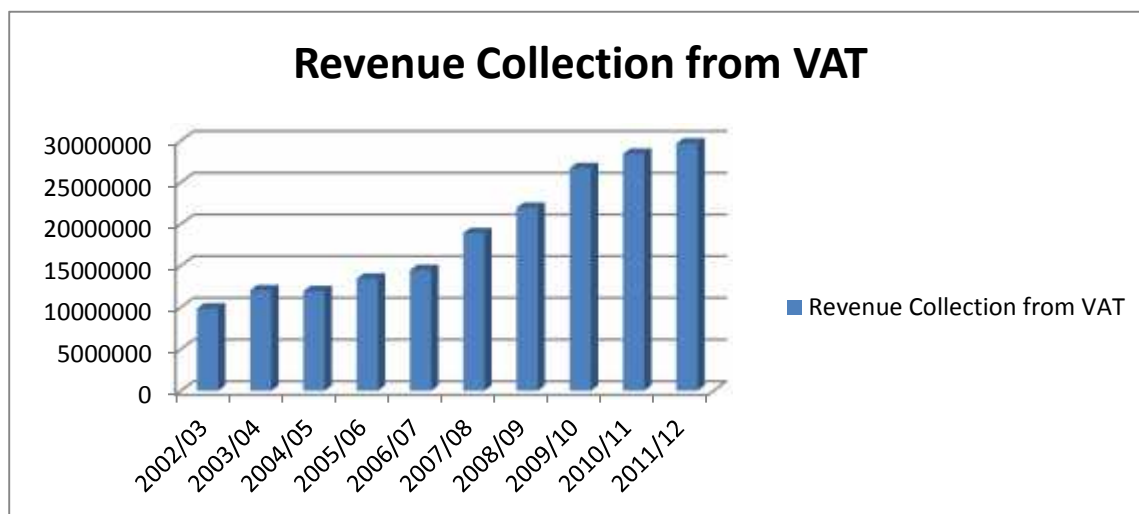
Table 4.8 : Contribution of VAT to Total Revenue

Fiscal Year	Total Revenue (0000)	Revenue Collection from VAT	% of VAT Contribution to total revenue
2002/03	42893.8	9860000	2.298
2003/04	48893.6	12050000	2.464
2004/05	56445.5	11947955	2.116
2005/06	56229.8	13449123	2.391
2006/07	62331	14478896	2.322
2007/08	70122.7	18894627	2.694
2008/09	72282.1	21946014	3.036
2009/10	87712.1	26704180	3.044
2010/11	91232.6	28428220	3.116
2011/12	95877.8	29656459	3.093

Source : Annual report IRD 2011/2012

In the above table, VAT revenue was RS. 98600000 which was 2.98 percentage contribution to total revenue for the year 2002/2003 and it was increased to Rs. 120500000 which was increased by 2.464 percentage in FY 2004/2005, 2005/2006 percentage of VAT contribution to total revenue was increasing or decreasing trend. In FY 2004/05 VAT revenue made 2.694 percentage contributions to total as collected RS. 18894627. More contribution was made in the year 2010/11 and 2011/12. This year VAT was collected Rs. 21946014.

Fig 4.8 : Contribution of VAT to Total Revenue



The above table shows the percentage contribution of VAT to Total Tax. In FY 2004/5 the total tax collection was RS. 21210000 in which VAT contribution was 46.48%. In 2005/6 the total tax collection was Rs.25690000 where as VAT revenue was RS.12050000 which was 46.90 %. So it was increasing trend, but in 2004/05 the percentage was decreased by 46.78. In 2007/08 % of VAT contribution was increased to 50.08 % but in 2008/09 % of VAT contribution was decreased to 46.82% then again it increased to 51.69% and 54.58%. The above table and trend shows the following figure

4.8 Trend of VAT Collection

As VAT become the main source of indirect tax collection, government should meet the target point of VAT collection. And we can see that government is enable 90% success to meet the target. We can analyze it more from the following data and diagram.

Table 4.9 : Trend of VAT Collection**(Rs in Millions)**

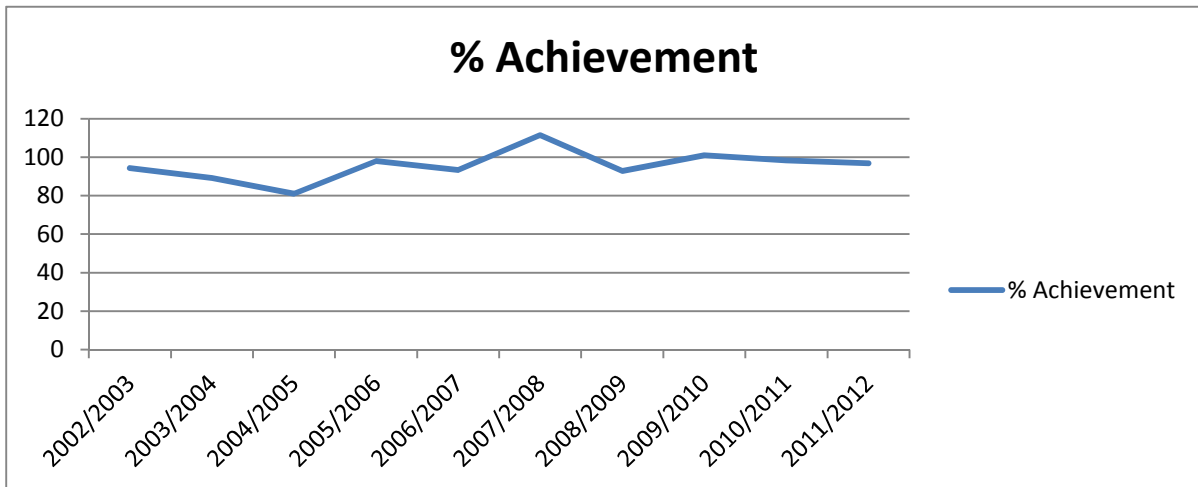
Fiscal Year	Estimated	Achievement	% Achievement
2002/2003	10460000	9860000	94.26
2003/2004	12500000	12050000	89.25
2004/2005	14750000	11947955	81
2005/2006	13750050	13449123	97.95
2006/2007	15503500	14478896	93.39
2007/2008	16950000	18894627	111.47
2008/2009	23650000	21946014	92.79
2009/2010	26263000	26704180	100.91
2010/2011	29057000	28566000	98.31
2011/2012	31228000	30221000	96.78

Source: Annual Report 2011-12 IRD

The above table shows the percentage of achievement in composition with target revenue. In FY 2002/03 estimated revenue was Rs,10460000 where as achievement was RS. 9860000. this year VAT got success to 94.26% in comparison to its target revenue. In 2003/2004, the achievement was 89.25% which was great fall than the previous revenue, in 2005/2006, the percentage was highly decrease. In 2005/2006, the percentage was 97.95, which was nearly 100%. In 2006/2007 VAT collection was slightly decrease . in 2007/2008, VAT collection was success over its estimation. This year estimate revenue was RS.16950000 and VAT was collected Rs,18894627 e 111.47%. This year VAT revenue was very satisfied. But in FY 2008/09, gain % was decreased to 92.79%. In the year 2009/10, Vat collection was about 100%. This year estimated was RS. 26463000 and VAT was collected Rs.26704180 i.e 100.91% revenue was achieved. In year 2010/11 is get 98.31% and year 2011/12 is get 96.78 both are nearly 100%. Anyway overall it can say that more than 90% revenue was collected in comparison to its target.

The above table and statement showed the following figure.

Fig 4.9 : Trend of VAT Collection



Tax Return

Among the VAT registrant, a tax period of four months has been specified for these who have transaction below the threshold levels but are registered voluntary and of the compulsory registrants the tax period fixed is one months.

The tax payers are required to file the tax returns of each tax period at the concerned tax period at the concerned tax office within 25 days of the expiry of the tax period. These returns could be debits, credit or zero return. When the tax collected by taxpayers on sales is more than the tax submitted to the government such return are known as debit return. But the tax paid on purchase is higher than the tax collected on sales then the tax payers should be the excess amount from the government. Such a tax return is called a credit return. Sometimes, even if there are no sales or purchase transaction, the taxpayers still has to file tax return at the concern tax office; such a tax return is known as zero return. If the return files by the taxpayers has not been posted in the taxpayers account because of incorrect figure, such as a tax return is known as suspended return. It is best not to have such suspended return as far as possible.

Table 4.10 : Types of Tax Return along with number

Particulars	Debit		Credit		Zero-rated		Suspended		Total
	N.	%	N	%	N	%	N.	%	
2002/03	6,027	34.90	7,766	44.97	3,475	20.12	3	0.02	17,271
2003/04	6,975	35.39	8,250	41.86	4,471	22.68	14	0.07	19,710
2004/05	6,936	32.30	8,844	41.19	5,207	24.25	486	2.26	21,473
2005/06	7,178	31.66	9,553	41.36	5,972	25.85	396	1.72	23,099
2006/07	8,483	33.87	9,625	38.42	6,783	27.08	158	0.63	25,049
2007/08	9,478	33.20	10,260	36.00	8,271	29	516	1.8	28,525
2008/09	10,449	31.06	12,882	38.17	10,139	30.14	163	0.4	33,633
2009/10	11,457	31.43	13,594	37.29	11,044	30.29	362	0.99	36,457
2010/11	12439	31.85	14151	36.28	12025	30.83	381	0.977	38996
2011/12	13215	32.69	14721	36.41	12080	29.88	405	1	40421

Source: Inland Revenue Dept 2011/12

The status of tax return is not satisfactory. In general, most tax return should be debit return. Since business and profession are undertaken to earn profit as a rule the sales should exceed the purchase. Under such circumstances the tax collected by the taxpayers and the taxpayers should be in a position to pay tax to the government. But it is not necessary that business or profession always run on a profit.

Under general circumstances, the purchase of tax payers could be higher than the sales. For example, if large amount of goods are imported then it is likely for the goods to remain in stock. Such a situation could also arise in the case of transaction in which production and distribution has not commenced. Similarly, owing to transaction of zero-rated goods also could bring about a situation where the tax paid is higher. There under the VAT system it is not unnatural to receive credit tax return and some time even zero tax return.

B. Result of Primary Data Analysis:

As I have already written that in early period VAT was imposed by Nepal Government against of strong opposition of business man. So it was not easy task to implement it successfully. Despite all this VAT was survived. VAT is currently well received by the consumer as well as business and industrial communication. In such situation empirical study is done to know the views of person of different field of different aspect of VAT. The sample of this survey is given below:

Table 4.11 : Sample size of field survey

S.N	Group of respondent	Sample size
1	Tax expert / Officers	10
2	Businessmen / Traders	15
3	Consumers	20
	Total	45

Source: Field Survey 2012.

Q. No. 1. Do you know about Value Added Tax ?

To implement VAT system effectively it is necessary that all the consumers, Tax expert / officers and businessman should know about VAT, all should know at least about its meaning and purpose of implementation. Views an its awareness about VAT can be shown in the following table.

Table 4.12 : Knowledge about VAT

Respondents	Yes		No		I don't know	
Tax Expert / Officers	10	100				
Businessman / traders	15	100				
Consumer	20	100				
Total	45	100				

Source: Field Survey 2012.

From the study we can say that all the respondents know about VAT. They hear the ward VAT. Its shows that Government is success to introduce VAT among people.

Q.No.2. Is VAT appropriate tax system for Nepal?

VAT system is considered as the reform Tax system of the 21st century, which has already been implemented popularly in more than 135 countries in the world. But is it really appropriate tax system for Nepal also views on this questions are presented below.

Table 4.13 : Appropriateness of VAT for Nepal

Respondents	Yes		No		I don't know	
	No	%	No	%	No	%
Tax Expert / Officers	10	100				
Businessman / traders	12	80	3	20		
Consumer	14	70	3	15	3	15
Total	36	80	6	13.3	6	13.3

Source: Field Survey 2012.

From the above table it is clear that almost 80% respondent agreed that VAT is appropriate for tax system. 100% of each of Tax officers is in favor of this question and 80% and 70 % of businessman and consumers accepted Vat as an appropriate tax system for Nepal. It show that 30% of consumers are against of it. It means VAT office need to show more transparency on this tax system.

Q.No 3. Do you think Billing system effectively implemented?

Vat system is based on billing system, so VAT will not get succeed until its effective billing system. Views on billing system are shown below.

Table 4.14 : Effective implements of Billing system

Respondents	Yes		No		I don't know	
	No	%	No	%	No	%
Tax Expert / Officers	4	40	6	60		
Businessman / traders	8	53.33	7	46.6		
Consumer	8	40	8	40	4	20
Total	20	44.4	21	46.67	4	8.88

Source: Field Survey 2012.

As the table shown above only 40% of tax expert think that billing system is effectively implementing. 53.33 % of the businessman and 40% of consumers think that billing system is effectively implementing that means only 44.4 % of respondent are agree with effective billing system and 47% of the respondent said government is failure to implement effective billing system. So from the analysis we can say that VAT administration department needs to monitor strongly in this aspect.

Q. No, 4 Will price rise due to VAT system?

In the beginning time of VAT introduction many tax officers businessman and consumers thought that VAT rise the price. It became the big debate between tax experts and businessman. If consumers say for VAT bill the shopkeeper replied that if bill taken then price will rise. So most of consumers didn't take a bill because of fear price rise. From the field survey, following result is found out.

Table 4.15 : Respondent views on Price rise due to VAT

Respondents	Yes		No		I don't know	
	No	%	No	%	No	%
Tax Expert / Officers	2	20	8	80		
Businessman / traders	5	33.3	10	66.6		
Consumer	12	60	6	30	2	10
Total	19	42.2	24	53.3	2	4.44

Source: Field Survey 2012.

In the above table 80% of the tax experts are known that VAT doesn't rise the price. 10% of the businessman said that VAT doesn't effect the price and only 30% of consumer know that VAT doesn't rise the price i.e 60% of the consumer thought that price rise due to VAT. In summary, 42% of respondents are in favour of price rise due to Vat and 53.33 % of respondents are against of price rise due to VAT. From analysis we can say that most of the consumer, businessman and even the Tax Officers still clearly don't know about the VAT. So, VAT education to all people is needed.

Q.No 5. Do you think VAT office is successful to get expected revenue?

In the context of Nepal, government expenditure is always increasing but the revenue collection is not increasing as required to finance the government expenditure. Now VAT becomes the part of government revenue. Theoretically VAT is the best form of taxation but practically its success depends on its collection. Collection views upon this regards are shown below.

Table 4.16 : Respondent view in VAT Collection successfully

Respondents	Yes		No		I don't know	
	No	%	No	%	No	%
Tax Expert / Officers	3	30	7	70		
Businessman / traders	6	40	5	33.3	3	20
Consumer	6	30	8	40	6	30
Total	15	33.3	20	44.4	9	20

Source: Field Survey 2012.

From the above table, 30% of the tax experts/ officers, 40% of businessman/traders and 30% of consumers said that VAT office is successful to get expected revenue. 70% of tax expert, 33% of the businessman/traders and 40% of the consumer gave view on that VAT office is not success to collect revenue from VAT as they expected. Where as 20% of the businessman and 30 % of the consumer couldn't say anything on this aspect. From this survey we can analyze that most of respondent's i.e 44.4% of respondents are not satisfied with the VAT collection. As per the tax officers Vat as the best form of the tax collection, it should meet the expected line most of respondents are quite unsatisfied on its collection. It may be because of low efficiency on billing system, less control over tax etc. from the table we can say that most of people are expecting more from VAT.

Q.No. 6. What are the major problems of VAT in Nepal?(Please rank)

Vat regime is extremely challenging in a burgeoning economy like Nepal. Resistance from the business community, ignorance of general people lack of skilled and trained manpower, smuggling and under violation are the major problems for implementing

VAT to make compromises on various aspect of VAT which has weakened the process of its implementation right from beginning.

Table 4.17 : Respondent view on major problem of VAT in Nepal

Problem	No. of respondent	%	Remarks
Lack of awareness	45	28.82	1
Lack of Skilled & Trained manpower	45	8.88	4
Improper Billing system	45	24.44	2
Tax Evasion	45	13.33	5
Smuggling & under valuation	45	17.77	3
Feel tax as a burden not responsibility	45	6.76	6

Source: Field Survey 2012.

From the above table we can say that the most important factor of problem in VAT implementation is lack of awareness. Among the total 28.82% of respondents gave rank first to this problem. In second respondents ranks improper billing system 24.44% of respondent said that the second problem is improper billing system. 17.77% of the respondent ranked smuggling and under valuation problem in third. Similarly, they ranked lack of skilled and trained manpower, tax evasion and feel tax as a burden not responsibility to fourth, fifth and sixth. So VAT office must give attention on awareness of VAT to public and proper billing system. Effective monitoring should be done time to time to find out smuggling and tax evasion and should take a strong step to control over it.

Q.No7. Who play an important role in success for implementation of VAT?

For the successful implementation of Vat each and every sectors should play an important and fair role. VAT can't get success until it get fair support by the people involved from production to distribution level. Views over role play by public for VAT success are shown below.

Table 4.18 : Respondent views on role play for successfully implementing VAT

Respondents	Consumer		Tax Officers		Businessmen	
	No	%	No	%	No	%
Tax Expert / Officers	6	60	2	20	2	20

Businessman / traders	8	53.3	3	20	4	26.67
Consumer	9	45	4	20	7	35
Total	23	51.11	9	20	13	28.8

Source: Field Survey 2012.

From the table, 60% of tax officers, 53.3 of businessman and 45% of consumer said that consumers play an important to make Vat successful. 20% of the tax experts, 20% of businessman and 20% of the consumers give credit to the tax officers for making VAT successful. Similarly, 20% of tax experts, 26.67% of businessman and 35% of consumers give the credit to businessman for making VAT success. From the table analysis we can say that Vat office should give first priority to consumer. They are the actual payers. So consumer awareness and their satisfaction should be considered first. Businessman and tax officers also needs to be honest. Businessman deposited tax amount paid by consumer to vat Office and it is collected and audited by VAT officers. So all should bear their responsibility with honesty.

Q.No. 8 How can we make the consumer encourage in the VAT Program.

The real VAT payer is the consumer they should feel that they should pay tax to government. The Vat will fully effective if consumer take bill in his purchase of every taxable transaction. Before the consumer put their step on purchase they should have make up their mind of obtaining VAT bill, but consumer rarely have such interest. And businessman get opportunity for tax evasion. So government need to encourage people to take a bill. A questions was put with the respondents to seek the answer that how can consumer will be encouraged in participating VAT and the result has been shown below.

Table 4.19 : Respondent view on launching the program to encourage the public

Respondents	Education		Lottery System		Reward	
	No	%	No	%	No	%
Tax Expert / Officers	3	30	5	50	2	20
Businessman / traders	4	26.6	8	53.3	3	20
Consumer	5	25	10	50	5	25

Total	12	26.6	23	51.1	10	22.2
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Source: Field Survey 2012.

From the table we observe that most of respondents more than 50% accept that lottery system will be the affective tool to make encourage the consumer in participating VAT programme. 50% of the tax expert ,53.3% of the businessman and 50 % of the consumers are in favour of lottery system. 30% of the tax expert/officers, 26.6 % of the businessman and 25% of the consumer gave the view on education. And 22% of the respondents said that reward should be given to encourage the consumer in VAT. So government should continue to the uphar and lottery programme.

Q.No. 9 What Factors helps to promote smuggling business?

Nepal has long open boarder with India and China. People of India and Nepal can easily enter into each the nation. Often people of both countries go to boarder town of other country to buy their need. They need to pay custom duty for the goods, they have brought for personal use in Limited quantity. However, many businessmen misuse such facility. The view regarding this aspect are collected in the following table.

Table 4.20 : Respondent view on reason for Smuggling Business

Respondents	Open Boarder		High Profit		Filling of Price rise to VAT		All	
	No	%	No	%	No	%	No	%
Tax Expert / Officers	4	40	3	30			3	30
Businessman / traders	4	26.6	7	46.6			4	26.6
Consumer	8	40	6	30	2	10	4	90
Total	16	35.5	16	35.5	2	4.44	11	24.4

Source: Field Survey 2012.

Above table shows that open boarder and high profit is the main reason for smuggling the business 35.5% of total respondent are agreed that due to the open boarder and

chance of earning high profit people smuggled the business.10% of the consumers also agreed that feeling of price rise due to VAT may be another problem to promote smuggling. And 24.4% of respondent said that these all three factors are the reason for smuggling the business the business. So it is a time for VAT office to take the action against it. Otherwise we have to face a great lose.

Q.No.10 How can we make return process easier?

Return process filing in time is one of the indicators of effective VAT implementation. It will make easy to calculate the Vat revenue. Compulsory registrants are required to submit their debit return or credit return within twenty five days of the expiry of the tax. In the case of voluntary registrants, they have to submit their return for the period of four months. The hotel and restaurant can submit their return within 2 months. but the businessmen make delay to submit the return. It is due to the VAT officer inefficiency. So the question put towards the respondent to know about making return process easier.

Table 4.21 : Respondent view on Return Process

Respondents	Computerized		Add manpower		Time Frame		All	
	No	%	No	%	No	%	No	%
Tax Expert / Officers	3	30	3	30	2	20	2	20
Businessman / traders	6	40	4	26.6	5	33.3	--	--
Consumer	8	40	5	25	3	15	4	20
Total	19	42.2	12	26.6	10	22.2	6	13.3

Source: Field Survey 2012.

from the above table it is clear that 42.2 % of the respondent are agreed that computerized system should be improved first. Manpower also need to add 26.6% of respondent are in favour adding manpower.22.2% of the respondent are said that time frame should be checked out.33.3% of the businessmen said that time frame should be extended. The time given to the businessmen to the businessmen for the submission of return is not enough. It should extend so VAT office should considerer on all these aspect.

A.No 11. Please suggest for the effective implementation of VAT.

Many respondent wrote that the billing system should be effectively implemented. Consumer awareness is also a must. There should be introduced effective education programme for the awareness of taking and giving bill through advertisement. So that all people feel paying tax is the responsibility towards nation lottery program should be continued. Government should take steps to reduce tax corruption. Reward should be given to the honest tax payer and tax officers. Registration, return and refund process should be easy and simple . high penalty should be charged at spot if it is found that businessmen are cheating. Encourage the businessmen also for giving the bill to the consumer in every purchase even if consumer didn't ask for a bill. And moreover government should invest tax in public interest area. This will encourage paying tax to the government. Vat administration should be actively involved in VAT implementation.

C. Trend Analysis and Projection

Introduction

The basic tendency of enterprises to increase or decrease with passage of time is known; as trend projection is estimation for future estimation the study of past information is necessary.

Past situation (or information) is known by finding the trends. Both of the trend analysis and projection are done using.

‘Analysis of time series in’. In this chapter trend analysis and projection is done using the least square methods.

A Trend Analysis and Projection of total Government Revenue:

i. Trend Analysis of total Government Revenue

Estimation of Trend Line (in millions)

Table 4.22 : Trend Analysis of total Government Revenue

Fiscal Year	X	Total Govt. Rev(Y)	X=(x-5)	X ²	XY
2002/03	1	32937.90	-4	16	-131751.60
2003/04	2	37251.00	-3	9	-111753.00
2004/05	3	42893.80	-2	4	-85787.60
2005/06	4	48893.60	-1	1	-48893.60
2006/07	5	50445.50	0	0	0.00
2007/08	6	56229.80	1	1	56229.80
2008/09	7	62331.00	2	4	124662.00
2009/2010	8	70122.70	3	9	210368.10
2010/2011	9	72282.10	4	16	289128.40
2011/2012	10	87712.10	5	25	438560.50
	N=10	∑Y= 561099.50	∑X= 5	∑ X ² = 85	∑XY=740763.00

Trend Equation is $Y_c = a + bx$ 1

Where Y_c = estimated value for y and for any given value of independent variable X.

a = y intercept of value of y when x = 0

b = slope of the trend line or amount of change in y per unit change in X.

As the $\sum X \neq 0$, the values of a and b will be found out by solving two normal equation;

$$\sum y = Na + b \sum X \text{ -----2}$$

$$\sum xy = a \sum x + b \sum x^2 \text{ -----3}$$

Now substituting the value of following two equations can be developed.

$$561099.5 = 10 a + 5 b \text{ -----(i)}$$

$$740763 = 5 a + 85 b \text{ -----(ii)}$$

Multiplying Equ. (i) by 1 and (ii) by 2 we have:

$$561099.5 = 10 a + 5 b$$

$$1481526 = 10 a + 170 b$$

Subtracting;

$$b = 5578.34$$

Substituting the value of b in equ.(i)

$$561099.5 = 10 a + 5 * 5578.34$$

$$a = 533207.78$$

thus the trend equation is

$$Y_c = 533207.78 + 5578.34 X \text{ -----(4)}$$

The trend value can be obtained by substituting the respective values of X in the trend line. Calculation of trend value is shown in the table 4.2.

Table 4.23 : Calculation of Trend value

(Rs. In Millions)

Fiscal Year	X	a	b	$Y_c = a + bx$
2002/03	-4	533207.78	5578.34	31007.42
2003/04	-3	533207.78	5578.34	36585.76
2004/05	-2	533207.78	5578.34	42164.1
2005/06	-1	533207.78	5578.34	47742.44
2006/07	0	533207.78	5578.34	53320.78
2007/08	1	533207.78	5578.34	58899.12
2008/09	2	533207.78	5578.34	64477.46
2009/2010	3	533207.78	5578.34	70055.8
2010/2011	4	533207.78	5578.34	75634.14
2011/2012	5	533207.78	5578.34	81212.48

Where

a = Y intercept or value of Y where X = 0,

b = slope of the trend line or amount of change in Y per unit change in X

Trend Analysis and Projection of total Government Revenue.

Table 4.24 : Trend Analysis of Total Government Revenue

(Rs. In million)

Fiscal Year	Actual TGR (Y)	Trend Value (Yc)	Variation (Y- Yc)
2002/03	32937.90	31007.42	1930.48
2003/04	37251.00	36585.76	665.24
2004/05	42893.80	42164.10	729.70
2005/06	48893.60	47742.44	1151.16
2006/07	50445.50	53320.78	-2875.28
2007/08	56229.80	58899.12	-2669.32
2008/09	62331.00	64477.46	-2146.46
2009/2010	70122.70	70055.80	66.90
2010/2011	72282.10	75634.14	-3352.04
2011/2012	87712.10	81212.48	6499.62

TGR = Total Government Revenue

The above table shows the variation of total Government Revenue. From the table it is found that total Government Revenue is not collected satisfactorily. The trend of the government Revenue shows the growth of Rs.5578.34 millions each year. But in the study period of ten years (2002/2003AD to 2011/2012AD) it is not growth with the growth rate Rs.5578.34 million. There is great fluctuation in the revenue collection in the year 2002/03the revenue collected less than the trend value for the year also 2003/2004to 2005/06 revenue collected less than the trend value. In the year 2006/2007 to 2008/09) revenue collected is less than the trend value and 2009/10 trend value highest for the government revenue. Similarly, in the year 2010/11 the revenue collected less than the trend value and in the year 2011/12 trend value lowest for the government revenue.

Finally, revenue collection should be highest for the year 2011/12 for Rs.6499.62 and revenue collection for increasing and decreasing trend respectively.

a. ii Future Projection of Total Government Revenue

Table 4.25 : Projection of Total Government Revenue

(Rs. In Millions)

Fiscal Year	X	a	b	Yc = a + b x
2007/08	-3	53320.78	5578.34	36585.76
2008/09	-2	53320.78	5578.34	42164.1
2009/10	-1	53320.78	5578.34	47742.44
2010/11	0	53320.78	5578.34	53320.78
2011/12	1	53320.78	5578.34	58899.12
2012/13	2	53320.78	5578.34	64477.46
2013/14	3	53320.78	5578.34	70055.8
2014/15	4	53320.78	5578.34	75634.14
2015/16	5	53320.78	5578.34	81212.48
2016/17	6	53321.78	5578.34	86791.82

Where,

a = y intercept of value of y when x = 0

b = slope of the trend line or amount of change in y per unit values in X.

Year 2010 is taken as Mid Year in the Trend Analysis

X = Projection year - 2007

For 2017, X = 2017-2008= 9

The above table gives the details information about future estimation of the total Government Revenue Collection for ten years from 2007/08 to 2016/17. According to the projection, collection of the Government Revenue will grow each year about of 5 to 6 million each year.

Trend Analysis and Projection of Total Tax revenue.

Trend Analysis of Total Tax revenue

Table 4.26 : Estimation of Trend Line

(Rs in million)

Fiscal Year	X	Total Tax Revenue(Y)	X= (x-5)	X ²	XY
2002/2003	1	25939.80	-4	16	-103759.2
2003/04	2	28752.90	-3	9	-86258.7
2004/05	3	33152.10	-2	4	-66304.2
2005/06	4	38865.10	-1	1	-38865.1
2006/07	5	3933.60	0	0	0
2007/08	6	42587.00	1	1	42587
2008/09	7	48173.00	2	4	96346
2009/10	8	54104.70	3	9	162314.1
2010/11	9	57430.40	4	16	229721.6
2011/12	10	71126.70	5	25	355633.5
	N=10	y=404065	x=5	x ² =85	Xy=591415

Trend Equation is $Y_c = a + bx$ 1

Where Y_c = estimated value for y and for any given value of independent variable X.

a = y intercept of value of y when x = 0

b = slope of the trend line or amount of change in y per unit values in X.

As the $\phi X \mid 0$, the values of a and b will be found out by solving two normal equation;

$$\phi y = Na + b\phi x \text{-----}2$$

$$\phi xy = a \phi x + b \phi x^2 \text{-----}3$$

Now substituting the value of following two equations can be developed.

$$439462.3 = 10 a + 5 b \text{-----}(i)$$

$$591415 = 5 a + 85 b \text{ -----(ii)}$$

Multiplying Equ. (i) by 1 and (ii) by 2 we have:

$$439462.3 = 10 a + 5 b$$

$$1182830 = 10 a + 170b$$

$$b = 4505.26$$

Substituting the value of b in equ.(i)

$$561099.5 = 10 a + 5 * 4505.26$$

$$a = 41693.6$$

thus the trend equation is

$$Y_c = 41693.6 + 4505.26 X \text{ ----- 4}$$

The trend values can be obtained by substituting the respective value of X in the trend line computation of trend value is shown in the table below.

Table 4.27 : Computation of Trend value

(Rs in million)

Fiscal Year	X	a	b	Yc = a + bx
2002/2003	-4	41693.60	4505.26	23672.56
2003/04	-3	41693.60	4505.26	28177.82
2004/05	-2	41693.60	4505.26	32683.08
2005/06	-1	41693.60	4505.26	37188.34
2006/07	0	41693.60	4505.26	41693.6
2007/08	1	41693.60	4505.26	46198.86
2008/09	2	41693.60	4505.26	50704.12
2009/10	3	41693.60	4505.26	55209.38
2010/11	4	41693.60	4505.26	59714.64
2011/12	5	41693.60	4505.26	64219.9

Where

a = Y intercept or value of Y where X = 0,

b = slope of the trend line or amount of change in Y per unit change in X Trend Analysis and Projection of total Tax Revenue.

Table 4.28 : Trend Analysis of Total Tax Revenue

(Rs in millions)

Fiscal Year	Actual Tax Revenue (Y)	Trend Value (Yc)	variation (Y- Yc)
2002/2003	25939.80	23672.56	2267.24
2003/04	28752.90	28177.82	575.08
2004/05	33152.10	32683.08	469.02
2005/06	38865.10	37188.34	1676.76
2006/07	39330.60	41693.60	-2363.00
2007/08	42587.00	46198.86	-3611.86
2008/09	48173.00	50704.12	-2531.12
2009/10	54104.70	55209.38	-1104.68
2010/11	57730.40	59714.64	-1984.24
2011/12	71126.70	64219.90	6906.80

The above table shows the variation of Total tax Revenue. The trend of the tax revenue clear that tax collection should grow by Rs. 4505.26 million each year. In the year 2002/03- 2005/06 tax revenue collection is satisfactory. In these four years the tax Revenue collection is more than the trend value by Rs.2267.24, Rs.575.08, Rs. 469.02, and Rs.1676.7 million respectively. According to the above table, tax revenue collection is not satisfactory for the five year 2006/07-2010/11 because it is lower than the trend values by Rs.-2363, Rs. -3611.86, RS.-2531.12, Rs.1104.68 and Rs.-2284.24 respectively. Similarly, the tax revenue collection is more than the trend value by Rs.6906.8 million. In conclusion, we can say that tax revenue collection is not satisfactory in totality.

Future Projection of Total Tax Revenue.

Table 4.29 : Projection of Total Tax Revenue

(In Million)

Fiscal Year	X	a	b	$Y_c = a + bx$
2007/08	7	41693.60	4505.26	73230.42
2008/09	8	41693.60	4505.26	77735.68
2009/10	9	41693.60	4505.26	82240.94
2010/11	10	41693.60	4505.26	86746.2
2011/12	11	41693.60	4505.26	91251.46
2012/13	12	41693.60	4505.26	95756.72
2013/14	13	41693.60	4505.26	100261.98
2014/15	14	41693.60	4505.26	104767.24
2015/16	15	41693.60	4505.26	109272.5
2016/17	16	41693.60	4505.26	113777.76

Where,

$a = y$ intercept of value of y when $x = 0$

$b =$ slope of the trend line or amount of change in y per unit values in X .

Year 2008 is taken as base year in the Trend Analysis

$X =$ Projection year – base year

For 2017, $X = 2017 - 2008 = 9$

The above table gives the details information about future estimation of the total Government Revenue Collection for ten years from 2007/08 to 2016/17. According to the projection, collection of the Government Revenue will grow each year.

Trend Analysis and Projection of Non Tax revenue.

Table 4.30 : Trend Analysis and Projection of Non Tax revenue

Fiscal Year	X	Non-Tax revenue (Y)	X=x-5	X ²	XY
2002/2003	1	6998.10	-4	16	-27992.40
2003/04	2	8498.10	-3	9	-25494.30
2004/05	3	9741.60	-2	4	-19483.20
2005/06	4	10028.80	-1	1	-10028.80
2006/07	5	11115.00	0	0	0.00
2007/08	6	13642.70	1	1	13642.70
2008/09	7	14158.00	2	4	28316.00
2009/10	8	16018.00	3	9	48054.00
2010/11	9	14851.70	4	16	59406.80
2011/12	10	16585.50	5	25	82927.50
	N=10	121638	5	85	149348.30

Trend Equation is $Y_c = a + bx$ 1

Where Y_c = estimated value for y and for any given value of independent variable X.

a = y intercept or value of y when x = 0

b = slope of the trend line or amount of change in y per unit values in X.

As the $\phi X \neq 0$, the values of a and b will be found out by solving two normal equation;

$$\phi y = Na + b \phi x \text{-----}2$$

$$\phi xy = a \phi x + b \phi x^2 \text{-----}3$$

Now substituting the value of following two equations can be developed.

$$121637.5 = 10 a + 5 b \text{-----}(i)$$

$$149348.3 = 5 a + 85 b \text{-----}(ii)$$

Multiplying Equ. (i) by 1 and (ii) by 2 we have:

$$121637.5 = 10 a + 5 b$$

$$129637.5 = 10 a + 170b$$

Subtracting

$$b = 1073$$

Substituting the value of b in equ.(i)

$$121637.5 = 10 a + 5 * 1073$$

$$a = 11627.25$$

thus the trend equation is

$$Y_c = 11627.25 + 1073 x \text{ ----- } 4$$

The trend values can be obtained by substituting the respective value of X in the trend line computation of trend value is shown in the table below.

Table 4.31 : Computation of Trend Value

(Rs in million)

Fiscal Year	X	a	b	Y _c = a +bx
2002/2003	-4	11627.25	1073.00	7335.25
2003/04	-3	11627.25	1073.00	8408.25
2004/05	-2	11627.25	1073.00	9481.25
2005/06	-1	11627.25	1073.00	10554.25
2006/07	0	11627.25	1073.00	11627.25
2007/08	1	11627.25	1073.00	12700.25
2008/09	2	11627.25	1073.00	13773.25
2009/10	3	11627.25	1073.00	14846.25
2010/11	4	11627.25	1073.00	15919.25
2011/12	5	11627.25	1073.00	16992.25

Where

a = Y intercept or value of Y where X = 0,

b = slope of the trend line or amount of change in Y per unit change in X

Trend Analysis and Projection of Non Tax Revenue.

Table 4.32 : Trend Analysis of Non Tax Revenue

(Rs in million)

Fiscal Year	Non-Tax revenue (Y)	Trend Value (Yc)	variation (Y- Yc)
2002/2003	6998.10	7335.25	-337.15
2003/04	8498.10	8408.25	89.85
2004/05	9741.60	9481.25	260.35
2005/06	10028.80	10554.25	-525.45
2006/07	11115.00	11627.25	-512.25
2007/08	13642.70	12700.25	942.45
2008/09	14158.00	13773.25	384.75
2009/10	16018.00	14846.25	1171.75
2010/11	14851.70	15919.25	-1067.55
2011/12	16585.50	16992.25	-406.75

The above table shows that variation of Non Tax Revenue for the ten years. The trend clears that non-tax revenue should be grow at the rate of Rs.1073 million each year. But in the year 2002/03it is lower than the amount of trend value by Rs. 337.15 million for the two years from 2003/04- 2004/2005. Non Tax Revenue collection is grown more than the amount of trend value by RS. 89.85 and 260.35 million respectively. For next two years from 2005/06- 2006/07 Non Tax Revenue collection is lower than the trend value by RS. -525.45 and -512.25 respectively. Similarly, for the next three years from 2007/08- 2009/10 Non Tax Revenue collection is grown more than the amount of trend value Rs.942.45, 384.75 and 1171.75 million respectively. Finally for the last two year from 2010/11-2011/12 Non Tax Revenue is lower than the amount of trend value by Rs.-1067.55 and Rs.-406.75 respectively.

Future Projection of Non Tax Revenue
Table 4.33 : Projection of Non Tax Revenue

(Rs in millions)

Fiscal Year	X	a	b	$Y_c = a + bx$
2007/08	7	11627.25	1073.00	19138.25
2008/09	8	11627.25	1073.00	20211.25
2009/10	9	11627.25	1073.00	21284.25
2010/11	10	11627.25	1073.00	22357.25
2011/12	11	11627.25	1073.00	23430.25
2012/13	12	11627.25	1073.00	24503.25
2013/14	13	11627.25	1073.00	25576.25
2014/15	14	11627.25	1073.00	26649.25
2015/16	15	11627.25	1073.00	27722.25
2016/17	16	11627.25	1073.00	28795.25

Where,

$a = y$ intercept or value of y where $x = 0$

$b =$ slope of the trend line or amount of change in y per unit values in X .

$X =$ Projection year – base year

$= 2017 - 2008 = 9$

The above table gives the details information about future estimation of Non-tax Revenue collection for the period of ten years (From 2007/2008-2016/2017).

Trend Analysis of VAT

i) Trend analysis of VAT

Table 4.34 : Estimation of Trend Line

Fiscal Year	X	VAT (Y)	X=x-5	X ²	XY
2002/2003	1	7122.60	-4	16	-28490.40
2003/04	2	8765.90	-3	9	-26297.70
2004/05	3	10259.70	-2	4	-20519.40
2005/06	4	12382.40	-1	1	-12382.40
2006/07	5	12267.30	0	0	0.00
2007/08	6	13459.70	1	1	13459.70
2008/09	7	14478.90	2	4	28957.80
2009/10	8	18885.40	3	9	56656.20
2010/11	9	21610.70	4	16	86442.80
2011/12	10	26095.60	5	25	130478.00
	N = 10	y = 145328.20	x = 5	X ² = 85	XY=228304.60

Trend Equation is $Y_c = a + bx$ 1

Where Y_c = estimated value for y and for any given value of independent variable X.

a = y intercept or value of y when x = 0

b = slope of the trend line or amount of change in y per unit values in X.

As the $\phi X \neq 0$, the values of a and b will be found out by solving two normal equation;

$$\phi y = Na + b \phi x \text{ -----2}$$

$$\phi xy = a \phi x + b \phi x^2 \text{ -----3}$$

Now substituting the value of following two equations can be developed.

$$145328.2 = 10a + 5b \text{ -----(i)}$$

$$228304.6 = 5a + 85b \text{ -----(ii)}$$

Multiplying Equ. (i) by 1 and (ii) by 2 we have:

$$456609.2 = 10 a + 5 b$$

$$145328.2 = 10 a + 170b$$

Subtracting

$$b = 1886.55$$

Substituting the value of b in equ. (i)

$$145328.2 = 10 a + 5 * 1886.55$$

$$a = 13589.55$$

Thus the trend equation is

$$Y_c = 13589.55 + 1886.55 x \text{ ----- } 4$$

The trend values can be obtained by substituting the respective value of X in the trend line computation of trend value is shown in the table below.

Table 4.35 : Calculation of Trend Value

(Rs. In Million)

Fiscal Year	X	a	b	Y _c = a+ bx
2007/08	-4	13589.55	1886.55	6043.35
2008/09	-3	13589.55	1886.55	7929.9
2009/10	-2	13589.55	1886.55	9816.45
2010/11	-1	13589.55	1886.55	11703
2011/12	0	13589.55	1886.55	13589.55
2012/13	1	13589.55	1886.55	15476.1
2013/14	2	13589.55	1886.55	17362.65
2014/15	3	13589.55	1886.55	19249.2
2015/16	4	13589.55	1886.55	21135.75
2016/17	5	13589.55	1886.55	23022.3

a = y intercept or value of y where x = 0

b = slope of the trend line or amount of change in y per unit values in X.

Trend analysis and Projection of Vat

Table 4.36 : Trend Analysis of VAT**(Rs, in Million)**

Fiscal Year	Actual VAT (Y)	Trend Value (Yc)	variation (Y- Yc)
2002/2003	7122.60	6043.35	1079.25
2003/04	8765.90	7929.9	836.00
2004/05	10259.70	9816.45	443.25
2005/06	12382.40	11703	679.40
2006/07	12267.30	13589.55	-1322.25
2007/08	13459.70	15476.1	-2016.40
2008/09	14478.90	17362.65	-2883.75
2009/10	18885.40	19249.2	-363.80
2010/11	21610.70	21135.75	474.95
2011/12	26095.60	23022.3	3073.30

The table shows the variation of Vat for ten years. The trend of VAT clear that VAT should grow at the rate of Rs.1886.55 million each year. But in the year 2002/03it is lower than the amount of Trend Value by Rs.1079.25 million for three years (from2003/04–2005/06). VAT collection is grown more than the amount of trend value by RS. 836, Rs. 443.25 and Rs.679.4 million respectively. For nest four years *2006/2007 to 2009/10) VAT collection is lower than the amount of trend value. And for the final two years it is collected more than the amount of trend value.

Future Projection of VAT

ii Projection of VAT

Table 4.37 : Projection of VAT**(Rs. in Million)**

Fiscal Year	X	a	b	Yc = a+ bx
2007/08	7	13589.55	1886.55	26795.4
2008/09	8	13589.55	1886.55	28681.95
2009/10	9	13589.55	1886.55	30568.5
2010/11	10	13589.55	1886.55	32455.05
2011/12	11	13589.55	1886.55	34341.6
2012/13	12	13589.55	1886.55	36228.15
2013/14	13	13589.55	1886.55	38114.7
2014/15	14	13589.55	1886.55	40001.25
2015/16	15	13589.55	1886.55	41887.8
2016/17	16	13589.55	1886.55	43774.35

Where,

a = y intercept or value of y where x = 0

b = slope of the trend line or amount of change in y per unit values in X. (Year 2008 is taken as mid year in trend analysis)

X = Projection year – base year

For 2017 = 2017-2008

The above table gives the details information about future estimation of VAT collection for the period of ten years(From 2007/2008-2016/2017).

D. Major findings of the study.

On the basis of previous chapter and data presentation and analysis, some important findings can be drawn. The major findings are as follows.

- 1) Vat has been most essentials choice as ingredient of Tax reforms of developing countries like Nepal, which leads to revenue enhancement and sustainable economic development. There is tremendous scope for in increasing the

revenue from VAT and sound implementation of VAT will obviously increase its contribution in coming days.

- 2) The rate of tax was 10 % in its introduction now increases to 13% chargeable on the value added on each level of production stage of the goods and service. Included sales tax, entertainment tax, hotel tax, air flight tax and contract tax.
- 3) The government expenditure is increasing consciously but revenue resources are very limited which led the country to fiscal Criteria. The major cause of persisting Fiscal deficit in Nepal is due to the poorly assigned and defective tax system, which causes inadequate mobilization of resources.
- 4) In recent decades, developing as well as developed countries in the world have increasingly focused their attention towards reforming the tax system by realizing the poor designed tax structure in order to mobilized higher volume of resources for the development purposes and make the economy health, efficient and self dependent to a greater extent. In this sense, VAT became a power point of attraction of many countries and gaining popularly day by day.
- 5) In developing countries like Nepal, indirect tax plays pioneering role for internal resource mobilization, which is now the principal source of revenue collection. So, to direct the country's economy in the channel of development it is necessary to increase the share of direct tax over indirect taxation.
- 6) Taxable value
 - Except otherwise provides in VAT Act, when only the money is considered, the taxable value shall be the price the supplier charges for the recipient.
 - The following amounts shall be included in a taxable value.
 - a) the amount of all expenditure related to transportation and distribution which was born by the supplier in connection with the transaction and the amount of profit
 - b) Excise taxes and all other taxes but excusing the tax imposed under this act

Taxable value does not include the amount of discount, commission or other similar commercial rebate granted on value in supplying goods or services.

- 7) A taxpayer small have to pay the tax for each month within twenty five days of the close of the month. If a taxpayer does not pay the tax within the time limit specified under sub-section an extra charge of ten percent shall be imposed on the tax due until the end of the close of the first full months from the date the tax first becomes due. If the tax is not paid even within the time specified in sub-section another charge of 10% shall be imposed on the tax due at that time.
- 8) The contribution of total revenue is in increasing from 2002/03 to 2011/12.
- 9) The contribution of total tax revenue and Non-Tax revenue in the year from 2002/03- 2011/12 is increasing or decreasing trend.
- 10)His contribution of direct tax revenue and indirect tax revenue is also collection from different source.
- 11)Lack of awareness, improper billing system, under valuation of bill, smuggling at boarder side is the major problems of VAT.
- 12)Most responded are not satisfied with the preparation work of the government to create favorable atmosphere to implement VAT.
- 13)VAT can be entrenched as an integral part of the Nepalese tax structure in the long run if its implementation should be successful. VAT has bring prospects in future but prospect of VAT entirely depends upon its implementation aspect. Mainly the successful implementation depends upon the strong fair and capable administration, strong political commitment and strong political commitment.
- 14) The future projection shows that total Government Revenue, Total Tax Revenue and Non Tax Revenue will grow by nearly ground the growth rate which is found through trend analysis.

CHAPTER–V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

VAT is a recent and an important innovation in the field of modern taxation system. VAT is that which is based on goods and services. The base of VAT is the value addition that takes place during process of production and distributions. Since this tax is based on consumption, the burden of this tax has to be borne by the consumer.

Vat is based on self-assessment system. Under the self-assessment system, a taxpayer is required to keep a proper account of all his transactions. Therefore, the tax return filed by the taxpayers by assessing his/her tax liability has to be accepted by the tax administration not only in principle but also in practice. VAT has done away with administrative procedures such as taking approval of price for purpose of sales tax, submission of annual statement of account, tax assessment by the tax officers, stamping of invoices, and submission of invoices at the office along with tax return

Vat is a transparent tax-system that is based on the taxpayer's transaction. VAT is not only transparent in itself but also demands transparency in other tax system as well. Unless such an environment is created VAT cannot implemented effectively. In order to implement this tax system effectively the income tax on the basis of negotiations schedule must be replace by the provision to levy custom duty on the actual transaction value and acceptance of VAT account for the purpose of income tax.

In order to make VAT effective, it is essential to create an environment I which invoice are issued properly, account are maintained accurately, tax is based on transactions, there is acceptance of taxpayer's correct account, and fair competition among industrialist and businessmen is established with respect to tax. Until and unless a situation is created, VAT implementation will not be easy and pressure will be created in some or other way.

While comparing VAT with other forms of sales tax, it is so far superior on many grounds such as economic efficiency, revenue productivity, and administrative simplicity. However retail level sales tax is only the nearest competitor of VAT extended through the retail level and both will generate equal revenue with similar coverage and rates. If VAT can be retail level and both will generate with similar coverage and rates. If VAT can be implemented effectively along with its different provisions like exemptions, threshold, zero-rating, it will be more equitable. Avoidance of pyramiding and cascading effects and providing cross auditing, self-policing and catch-up effect are the most favorable features of VAT which makes it superior even than retail sales tax.

Although from the legal point of view, VAT has crossed its eleven years of implementation. In the first years, since many compromises were made in the principle of VAT due to political stability and frequent change in government, VAT could not be fully implemented. On our environment where the tax awareness is minimal, the practice of maintain tax account is negligible or improper, smuggling and under valuation is rampant, tax leakages take place with negotiation between the tax payers and the tax administration, it was not easy to implement VAT and the political instability only aggravated the situation and made it more complex.

Like the other countries of the world, Nepalese VAT is of consumption type and method used for calculation is tax credit method. Further VAT is subjected to flat rate of 13% with zero percent rates on export. Some selected goods are completely out of VAT net base basically due to the administrative complexity and equity consideration.

Tax revenue is major source of public revenue of any country. The contribution of tax revenue on total revenue is about 75% and remained more or less constant during the study period in our country.

While observing the structure of total tax revenue, it has been heavily dominated by indirect tax, which is general phenomenon of the under developed countries. The share of indirect tax to the total revenue is significantly high about 76.15% for the FY 2002/2003, but marginally decreasing every year and it remained 73.31% of the year

2011/12. among the various components of indirect tax custom duties has major share for the FY 2011/12.

The most important business sector of VAT registration is the wholesales trade sector, which constitutes more than 34 percent of total VAT registration. The category of wholesale trade is also more important from revenue prospective. The second category of large number of VAT registration is construction; however it is not so much important from revenue prospective because large number of zero return come from this category, which only needs administrative procedure.

The implementation of VAT in Nepal has completed eleven years and is anciently running in its twelve years. In a country that has narrow basis of revenue, to assume this tax which is based on consumption and imposed at all levels of production, import, wholesales and retail would widen the tax base was not wrong. The expectation from Vat were that it would include value addition in the distribution process; include service within its sphere, get the tax payers who are not used to paying tax within tax net, reduce the possibility of tax evasion due to its catch-up / self-policing feature, improve value addition of goods and made the implementation of income tax, import duty and excise duty more effective.

Naturally, to reduce new system replacing old one would be surrounded many complications and oppositions even if the new one is improved one. The same condition was of the VAT. Because of these and many other reasons before introduce any new system it will be better if it is implemented after adequate preparations. The implementation of VAT does not seem effective in Nepal till now as the gap between the political and actual VAT is large and widening every year at the constant rate of 13%. Lack of proper practice of invoicing following the less efficiency of tax authorities, lack of conscious consumer, effective implementation of threshold, lack of coordination between custom and VAT related officers. Corruption, lack of transparency is other threat for effective implementation of VAT.

As the public conscious level is very low, businessmen are cheating consumers charging high prices in the name of VAT. Businessmen also cheating the

government, as they are not issuing proper bills in their sales and hence do not pay real VAT amount.

It was expected that after the implementation of VAT, problems of tax evasion, undervaluation would be automatically abolished as it is transparent and all transactions would be recorded in computer. But exiting large amount of unauthorized trade to/from India has been posing a great threat due course of VAT implementation. The smuggling of goods and services are cheating loss of revenue. On the one hand it is not coming through custom point and on the other hand it discourages the genuine traders and loss of revenue.

Whatever the present situation of VAT, the future seems very bright. These is eminent prospect of revenue mobilization if it is implemented effectively. The VAT base for the years 2002/03, to now recent days 2012/13. 3v3n if the VAT rate remained fixed at 13%, list of exempting and threshold level are to be uncharged.

If previous of zero-rate is to be removed and all sectors including agriculture is to be bring under VAT net adequate revenue could be mobilized through VAT which would be necessary for all economic as well as social welfare program and the Nepal could be independent for growing expenditure needed for development activities.

5.2 Conclusion

The ultimate objective of any tax policy is developing countries like ours is

- a) To increase the growth rate is a relatively short to the maximum possible extend.
- b) To have built in flexibility into the tax structure and to provide maximum revenue productivity continuously and consistently with optimum growth rate.
- c) To act as instruments for combating inflationary in the initial stage of economic development.
- d) To remove the inequality of income and wealthy in society.

All economic indicators show that our economy is passing in low level of equilibrium trap. To escape from this it needs huge amount of investment in economic and social overhead. Because of low income and low marginal propensity to save there is little scope for voluntary saving and investment. External source of financing would reduce the capital formation at the time of repayment of principle and payment of interest. Thus, in this context taxation have vital role to give the movement to the economy. But analyzing the revenue and expenditure of Nepal, there seems a trend of persisting recourse gap along with the huge amount of saving-investment and export-import gap.

Regarding the current status of domestic revenue mobilization, it has not only support fund for foreign aid and loans but also insufficient for meeting day to day expenditure of government. So, that the government has to depends on external source of financing and other inflationary financing, which are not desirable from welfare and other grounds. This proves that the government is getting bigger without better and which coursing fiscal crisis in the economy.

In the process of tax reform VAT has introduce in the year 1997 in Nepal expecting to give speed of revenue mobilization, by creating good environment for taxpayers and authorities. VAT was expected have high revenue productivity due to its boarder coverage and base. Elimination of economic distortions caused by tax system, elimination of cascading and pyramiding effects, certain of competitive business environment, strengthen the foreign trade etc. Were other spares of VAT that were expected to fulfilling after implementation of VAT. Vat has crossed eleven years of its implementation. But could not bet expected results, which are getting in other countries that are implementing VAT.

The structure of VAT in Nepal is designed not below than the line of the threshold level in the world; however it is not truly applied in real practice. The revenue potential of VAT, with the existing structure and without considering the trade that are going from illegal ways, is more that 1.5 fold of the actual revenue yield.

Considering the present economic conditions growing needs of government expenditure other source of domestic revenue, negative impact of external source of

revenue, present status of VAT, it seems most essential to rethink about VAT threshold, VAT rate, list of exempted goods and sectors etc.

Theoretically VAT is modern and in general, the best form of sales tax, but all its negative and positive aspect mostly depends upon the implementation aspect. The administrative capacity of the tax authorities, the level of awareness of general public and taxpayers, honest and loyal tax collectors, nature and status of development etc. are the prerequisite to make VAT effective. Without all these and other any prerequisites none can analyze and comments either the VAT suits in the economy or not because the economy cannot experiences all the aspects of VAT.

Thus the study concludes that there is immense scope of VAT in Nepalese economy, which can give right direction to the tax revenue and can be a perennial source of domestic revenue. If the VAT is to be implementing effectively it will not so far to meet our objective of taxation as well development, which the study mention above. This can be claimed after looking the figure of polytonality of VAT revenue. But the present situation of VAT is not according to our expectation and the requirement of the economy. Inefficient tax authorities, low level of public and tax payers awareness, insufficient and inefficient manpower, lack of IT system, lack of research on about the weakness of existing VAT system low level of implementation of finding of scholars, lack of political commitment absent of proper mechanisms for monitor and audit, etc are creating hardness and obstacle on the path of VAT implementation. Because of these economy is unable to experience positive impact of VAT.

5.3 Recommendation

In order to give notion for the Nepalese tax, government decides to implement VAT in Nepal, as an improved and scientific tax and implementation of VAT has crossed its eleven years. In due course ups and down appeared. To make VAT as a perennial source of revenue many preparatory programs were launched in different levels and places. VAT Act, Rules and Regulation have been framed in line of international standard and its preparation had been comprehensive and much more extensive.

Since Vat is a modern tax, it demands modernization in all spares to give output as expected. If we implement a scientific tax like VAT but all our behaviors, attitudes and thinking remain pragmatic then it produces less output than a non-scientific tax like turnover tax.

Therefore to achieve result according to our expectation from VAT it is essential to change our attitudes and behaviors towards VAT. Moreover the study indicates following recommendations that should be adopted to get result as expected from VAT.

- 1) Lack of clarities in the tax law and regulation are the great issue within business and industries. They are arguing that the language used in tax law and regulation is very complex. They, lack clarity and often full of discrepancies and many interpretations can be made out of same law. There have been occasions when amendment has been made out of same law. There have been occasions when amendment has been made to different law as soon as they are exacted and on many instances different if Nepal government interprets the law differently, keeping the taxpayers aside. All this leads to loss of business confidences and shift of investment for goods infrastructure projects and value added to business requiring small investment that are short gestation periods and short live. This further leads low productivity, low small production, low base for tax and low tax revenue.

Government is not devoting its efforts towards the promotion of industrial sectors properly. Because of revenue oriented nature and outlook of Nepal government business that do well are targeted for more revenue has been shifting on low productive areas where not tax, which is contracting the base of tax.

To remove such ambiguity government should take some steps immediately. The principle of no taxation without representation should be strictly observed. The change in the tax rates or base of valuation of commodities should be strictly based on the provisions of law and not on circular, ordinance or executive order. The VAT Act should adjust to the legal provisions made

through the annual finance bills. Simplicity of language for clarity thereby reducing ambiguity in the tax law. The computation of taxable products and transactions should be done in accordance with the provisions of the VAT Act.

- 2) Human resource is the prime factors of sustainable development of any faculty. But human resource that is needed in the tax system does not seem adequate in Nepalese context. This is the main problem of tax authorities. The Inland Department should give thrust for manpower development with reference to IT, subjective knowledge of tax, law, auditing and accounts and training and observation/study tours for the staffs. The department urgently requires to support for the manpower development especially through providing training and workshops both for the senior and junior staff within and outside the country. Tax report should be prepared and they to get chances to gain knowledge of tax system, audit, tax laws, investigation technique practicing in other countries too, by providing training, interaction etc program. Manpower development is also necessary to support the enforcement activities. Human resources development is also necessary to support the enforcement activities human resource development is also significant for sustainable quality services that could be possible through improving curricula by the Public Service Commission. A separate entrance examination is highly essential for those aspiring for revenue service before the final examination.
- 3) There is crisis of confidence between the government and private sectors i.e VAT payer and collector. Without close cooperation between these two sectors, VAT cannot implement effectively. There were many agreements between in private sectors and the government but they are not seen in the practice. Person of each are blaming to the person of another. There is a loss of revenue due to the understated value by the taxpayers on the one hand and on the other taxable value is arbitrarily fixed by the tax. Hence, it is necessary to co-operate the private sector with the government through the civil society, FNCC and other different associations.

- 4) There is huge scope from institutional and Infrastructure reforms. The level of skills and knowledge of the staff at the revenue office should be enacted by continuous training programs. Good governance should flow from top to bottom. Existing excess, inefficient and unproductive staff in the various tax offices should be replaced by highly qualified, professional staff that have adequate training in revenue system.
- 5) Improving the capacity of the Department of Revenue Investigation. The Department of Revenue Investigation has been assigned a crucial role to fight unauthorized trade and control revenue leakages. This department is not functioning in a sell manner. There is speculation that this organization might go under the control of Prime Minister Office of merge with the Commission from The Investigation of Abuse Authority. Thus, there is urgent need to clarify the status of Department of Revenue Investigation.
- 6) Improving the status of Revenue Training Center. The Revenue Training Center is not working as the aspiration of its establishment. The main motto of this center is to organize training on the tax system. In recent years, the status of this center has been relegated to a dumping side for the personnel. This kind of organization has great significance for developing excellence of those in revenue services. Thus there is need to activate the institutional in its fullest capacity.
- 7) Even if the VAT system is based on the computerized system the data arrangement is not so good. It is necessary to develop and expand the networking of database and information system at all levels. VAT would be success only if there is perfect computerized system. Therefore it is necessary to promote IT in tax system so that the existing problem such as under-invoicing, non-issuance of bill, education of taxpayers and enforcement of law would be automatically solved. Infrastructure development also required especially for the maintenance of IT. In addition, information campaign should

be intensified through opening website, organized seminars symposia and training programs and advertisement of media.

- 8) Monitoring system in the VAT is not so effective so that taxpayers are encouraged for tax evading practice. Many businessmen don't issue invoice and most of other issue improper invoice. This is not contrasting the tax base and thus losses in the tax revenue but also results inequity since who issue proper invoice are discriminated against. So this system should be checked through an effective monitoring system.
- 9) Tax education program should be given through radio, television, newspaper, hoarding board, posters etc.
- 10) Many businessmen having taxable transactions are still beyond the tax net so the enforcement should be made more effective and voluntary compliance should be encouraged. The level of voluntary compliance could be raised through a set of promoter and regulatory measures including positive and services minted attitude of tax personnel, rationalization of tax structure simplification of tax procedures and forms, strengthening tax administration, conducting audit and investigation inane effective manner, and penalizing those who break the rules. The procedures regarding registration, collection, interest, penalty, audit and appeal should be simplified and improved.
- 11) Tax system can be rationalized by lowering the level and number of tax rates. Thus it is necessary to lower the import duties in some selected items to discourage smuggling and under valuation by making it less profitable and more risky.
- 12) The existing long open border is the main cause of smuggling and undervaluation in the border side. So open border should be systematized to get greater extend.
- 13) Threshold and tax refund are two possible for tax evasion. An effective and efficient tax auditing, investigation and monitoring system should be

developed. Refund system should be made simple and effective and the period of such refund should be minimized.

- 14) The existing exemption has broad coverage and it should be minimized successively. However, some exemption is unavoidable due to administrative complexity and equity perspective. Exemption will have an impact not only on revenue but also on economic efficiency and administration. So exemption should be minimized gradually and the existing threshold should be reviewed when all the traders having taxable transaction are into the VAT net administration is capable to handle.
- 15) To make the Vat as a nation provide needs an urgent efforts toward improving VAT system and administration in Nepal through
 - a. Changing the environment.
 - b. Changing the administration and
 - c. Changing the tax law and regulations.
- 16) Since the implementation of VAT has already crossed eleven years, policy makers should examine sector wise and commodity-wise and probe the source of tax revenue leakage and should make tax policies accordingly. As the VAT collection from manufacturing sectors is satisfactory, more than 5 percent of GDP, there are no huge leakage of revenue in that sector. This proves that the manufacturing sectors is relatively transparent. Policy maker should give proper attention towards other sectors namely distribution and service sectors rather than it. Therefore the study recommended changing the tax strategies for manufacturing sectors. We can make this sector better off without making revenue collection worse off or keeping existing proportion of revenue constant, which automatically improves the performance of VAT. For that manufacturing sector should free from the custom duties. Custom duties for the import of raw materials and final products should reduce considerably, which makes this sectors competent. This is also justifiable in the context of globalization and the relative contribution of VAT as percent of GDP.

- 17) Once the threats of low revenue performance of VAT is the high rate of custom duties. High custom duties is threats not only for Vat but for as a whole revenue mobilization. Because of high custom duties businessmen try to evade tax and imported goods and services are not coming from the custom points. Since goods and services are not coming from the custom points there are not records of transactions of such goods and services. Where custom duties will be reduce considerably imported goods and services will be come from the custom point, which help to keep record of transactions and increases the collection of VAT.

Thus in order to improve the performance of VAT the government can change the environment by providing education; information and knowledge to the tax payers that may help increase voluntary compliance. Computerization of tax administration, motivation fro public servants and possibly 'Tax farming' may be instrumental in changing the tax administration. The best way to cope with administration problems; however is to make a change in tax law. The tax law and regulations should be simple and concise. Too many tax shelters with series of tax exemptions and deduction must be eliminated that have not only distorted the tax structure but also led to massive corruption.

It is not necessary to say that the Nepalese domestic revenue mobilization is very low in comparison to the other not only developed but also developing countries. It is not enough by saying only this. It is time to make actions immediately to improve the performance of domestic resource mobilization.

Focus should give on transparency, fairness and timely and quality production in administration instead of simple collection. Effort should give to established functionally well-organized tasks where the tasks are carried out in a modern, effective, efficient and service-minded manner. Committed, motivated and dedicated business community, civil society, tax authority are the perquisites. These are building gradually, which are the sign of shining of VAT in Nepal implementation. Because of these the economy is unable to experience positive impact.

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APPENDIX-A
QUESTIONNAIRES

Name:

Address:

Place:

Designation:

Response group: (Tax Officers, Businessmen, Customer)

1) Do you know about VAT?

- a. Yes b. No c. I don't know.

2) Is VAT appropriate tax system for Nepal ?

- a. Yes b. No c. I don't know.

3) Is threshold limit keeps VAT effective?

- a. Yes b. No c. I don't know.

4) Do you think billing system is effectively implementing?

- a. Yes b. No c. I don't know.

5) Will price rise due to VAT system

- a. Yes b. No c. I don't know.

6) Do you think VAT office is successful to get expected revenue?

- a. Yes b. No c. I don't know.

7) What are the major problems of VAT in Nepal (please rank)?

- a. Lack of awareness []

- b. Lack of skilled trained manpower. []
- c. Improper billing system []
- d. Tax evasion []
- e. Smuggling under valuation []
- f. Feel tax as a burden not responsibility. []

8) Who play and important role in successful implementation of VAT

- a. Consumer b) Tax Payers c) Businessmen

9) What factors help to promote smuggling business?

- a. Open boarder b. High Profit. c. Free price rise due to VAT
- d. All

10) How can we make return process easier.

- a. Computerized b. Add manpower c. Time Frame d.
- All

11) Please suggest for the effective implementation of VAT.

APPENDIX-B

List of VAT exempt goods and service

1. Basic Agricultural Products
 - a. Paddy, rice, wheat, maize, barley, millet, pulses, flour, and similar unprocessed food materials.
 - b. Green and fresh vegetable, fresh fruits, fresh eggs and similar products (except used in hotels, restaurants, bars, guest house, cafeteria and other similar organization.
 - c. Unprocessed cereals,(such as sugarcane, tea leaf, tobacco, cotton, cardamom, jute, oil, seeds, soyabean)
 - d. Herbs.
2. Goods of Basic Needs:
 - a. Unprocessed edible oil,
 - b. Piped water, including water supplied by tankers.
 - c. Fuel wood and coal.
 - d. Salt.
3. Live Animals and animal products:
 - a. He goat, sheep, yak, he buffalo, bore, pigs, rabbit, and similar other animals, their fresh milk and uncooked/ unprocessed varieties.
 - b. Cows, she buffalo, and she goat.
 - c. Ducks, hens, cocks, turkey and similar other birds and other fresh meat, eggs, and similar uncooked varieties.
 - d. Fresh or dried fish(other than packed)
4. Agriculture input
 - a. Seeds of any plants listed in Group I
 - b. Manure, fertilizer and oil conditioners.
 - c. Agriculture hand implements.
 - d. Pesticides made mainly for use of crops.
 - e. Agriculture equipment, including tractors.
 - f. Birds and animal feed.

5. Medicine, Medical and Similar Health service.
 - a. Medical or surgical services provided by Government Institutions.
 - b. Human blood and products derived from human blood.
 - c. Human or animal organs or tissue for medical research.
 - d. The supply of services by persons on the register of veterinary surgeons and veterinary doctors.
 - e. The supply of goods made for, and suitable only for the use of disabled persons.
 - f. X-rays films and oxygen gas to be used for treatment.
 - g. Raw materials purchased or imported by the drug industries to the extent approved by the department of drugs management.
6. Education
 - a. The provision of research in a school or university.
 - b. The provision, otherwise than for profit, of professional or vocational training or refresher training.
 - c. The provision of education in a school or university and supply of goods made in connection with such service.
7. Books, Newspaper etc
 - a. Books, newspaper, newsletters and periodicals.
 - b. Newsprint.
8. Artistic and Cultural goods and services, carving services
 - a. Paintings, handicraft, carving and related services.
 - b. Cultural program.
 - c. Admission to libraries, archaeology, museum, zoos and botanical gardens.
9. Personal or Professional services
Air transport, non-tourist passenger transportation (except cabal car) and goods carrier (except transportation related to supply)
10. Personal or Professional services
Personal services rendered by artists, sportsmen, authors, writers, designers, translators and interpreters instructionally or individually)

11. Other goods or services.

- 1) Postal Service(provided by Nepal Government only)
 - a.The service conveyance of letter, money and packets by the post office.
 - b. The supply by the post office of any service in connection with the conveyance of letter, money and postal packets.
 - c. Postage stamps.
- 2) Financial and insurance services.
- 3) Bank notes and cheque books.
 - a) The printing and issue of bank notes.
 - b) The supply of bank notes from outside the kingdom of Nepal to the kingdom of Nepal.
 - c) Cheque book.
- 4) Gold and silver.
 - a) Gold, gold coins and gold ornaments.
 - b) Silver and silver cons(other than ornaments and goods made or silver)
- 5) Electricity
- 6) Raw wool
- 7) Battery operated tempo, their chassis and battery,
- 8) Bio-gas, solar power and wind power operated power generation plant and their main parts on the recommendation of the alternative energy centre.
- 9) Aero plane, Helicopter, fire Bridge and Ambulance.
- 10) Jute goods.
- 11) Industrial machinery included in section 84 of custom tariff and subject to 5% TRAIFF.
- 12) Woolen carpet & woolen carpet weaving, dying, washing, knitting.
- 13) Aluminum, copper, scrape, circle, plate and utensils.
- 14) Cotton yarn.

- 15) Woolen yarn to be used in hand knitting sweater (except artificial & acrylic) domestically.
- 16) Donated goods received for calamities or Phil and tropic purpose approved by ministry of finance.
12. Land & Building:
Purchase and rent of land and building (accept the rental service provided by hotel, guest house or similar organization.)
13. Betting, Casinos, Lotteries
 - a. The provision of any facilities for the placing of best of bets or the playing of games of chance.
 - b. Lottery

Zero Rates

Goods or service payable at zero rates

- 1) Export of goods.
 - a. Goods exported outside the kingdom of Nepal ;
 - b. Goods shipped for the use as stores on a aircraft to an eventual destination outside the kingdom of Nepal
 - c. Goods loaded for use stores on aircraft to a destination outside the kingdom of Nepal or as merchandise for the sale by retail or supplied to person in the course of such a flight.
- 2) Export of service
 - a. A supply of services by a person in the kingdom of Nepal to a person outside the kingdom of Nepal and having no business establishment, agent or legal representative acting on his behalf in the Kingdom of Nepal.
 - b. Where goods are supplied in hire or loan basis by a registered person resident in Nepal to a person outside the kingdom of Nepal.
- 3) Import of goods and service by accredited diplomats.