

A Study On
TAXPAYERS SATISFACTION ON VALUE
ADDED TAX IN NEPAL

(A case study Ramgram Municipality of Nawalparsi)

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Submitted to
Office of the Dean
Faculty of Management
Tribhuvan University

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In partial fulfillment of the requirement for the Degree
of
Master of Business Studies (M.B.S)

Butwal, Rupandehi

March, 2014

RECOMMENDATION

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TAXPAYERS SATISFACTION ON VALUE ADDED

TAX IN NEPAL

(A case study Ramgram Municipality of Nawalparasi)

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and found the thesis to be the original work of the student and written according to prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements of Master's Degree in Business Studies (M.B.S.)

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DECLARATION

I, hereby, declare that my research work reported in this thesis entitled "*Taxpayers Satisfaction on Value Added Tax in Nepal (A case study Ramgram Municipality of Nawalparasi)*" has been submitted to New Horizon College, Faculty of Management, Tribhuvan University is my original work done in the form of partial fulfillment of the requirement for the Master's Degree in Business Study (M.B.S.) under the supervision of Mr. Lalit Man Shrestha of New Horizon College.

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ACKNOWLEDGEMENTS

This research entitled “*Taxpayers Satisfaction on Value Added Tax in Nepal (A case study Ramgram Municipality of Nawalparasi)*” is prepared for the partial fulfillment of Master's Degree in Business Studies (MBS). While conducting this research, I have received various inspiration, moral support and encouragement from my respected teachers, friends and relatives. I am grateful to express my sincere gratitude and thanks to all who have directly or indirectly encouraged, support and inspire me to complete my study.

I would like to express my profound gratitude and thanks to my teacher and supervisor, Mr. Lalit Man Shrestha, Lecturer of New Horizon College and Mr. Bharat Bhusal, Co-ordinator of New Horizon College for their regular contribution with most valuable guidance, suggestions and instructions during my different phases of the study.

Last but not least, I would like to express my heartfelt thanks to Mr. Baburam Acharya, who help me to Computer typing, Setting and Printing for the completion of this thesis.

Prakash Bhattarai

Researcher

TABLE OF CONTENTS

Recommendation	i
Viva-Voce Sheet	ii
Declarations	iii
Acknowledgements	iv
Table of Contents	v-vi
List of Tables	vii
Abbreviations	viii
CHAPTER I : INTRODUCTION	1-6
1.1 Background of the Study	1
1.2 Statement of Problem	3
1.3 Objective of the Study	4
1.4 Significance of the Study	4
1.5 Limitation of the Study	5
1.6 Organization of Study	5
CHAPTER II : REVIEW OF LITERATURE	7-39
2.1 Conceptual Review	7
2.2 Types of VAT	10
2.3 Methods of Calculating VAT	12
2.4 Principles of VAT	14
2.5 Value Added Tax and Other Sales Taxes	14
2.6 Operation of VAT	19
2.7 Structure of VAT	26
2.8 Review of Related Studies	29
2.9 Research Gap	38
CHAPTER III : RESEARCH METHODOLOGY	40-44
3.1 Introduction	40

3.2 Research Design	40
3.3 Population and Sample	40
3.4 Sample Description	41
3.5 Source of Data and Data Collection Methods	43
3.6 Tools for Data Presentation and Analysis	44
CHAPTER IV : DATA PRESENTATION AND ANALYSIS	45-52
4.1 Level of Tax Payers Satisfaction with Quality of Services of Revenue/Tax Offices	45
4.2 Level of Tax Payers Satisfaction with Administrative Mechanism and Tax Procedures	47
4.3 Level of Tax Payers Satisfaction with Availability of Information on Tax and Quality of Documents	48
4.4 Level of Tax Payers Satisfaction with VAT Policy	50
4.5 Overall Level of Satisfaction	50
4.6 Major Findings	51
CHAPTER V : SUMMARY, CONCLUSION AND RECOMMENDATIONS	53-55
5.1 Summary	53
5.2 Conclusion	54
5.3 Recommendations	54

Bibliography

LIST OF TABLES

Table No.	Title	Page No.
2.1	Trend of VAT Registration	20
2.2	Operation of VAT	27
3.1	Sample Size	40
3.2	Types of Business Unit	41
3.3	Classification of Sample Respondents by Annual Turnover	41
3.4	Distribution of Sample by Marital Status	42
3.5	Sample Distribution by level of Education	42
3.6	Media Used by Taxpayers for a Acquiring Information about Vat	43
4.1	Level of Tax Payers Satisfaction with Quality of Services of Revenue Tax Offices	45
4.2	Level of Tax Payers Satisfaction with Administrative Mechanism and Tax Procedure of VAT	47
4.3	Level of Tax Payers Satisfaction with Availability of information on tax and quality of documents	49
4.4	Level of Tax Payers Satisfaction with VAT Policy	50
4.5	Overall Satisfaction as Taxpayers	51

ABBREVIATION

FNCCI	Federation of Commerce and Industries
FY	Fiscal Year
GTZ	Gesellschaft Fu'r Technische Zusammenarbeit (German Technical Co-operation)
HMG	His Majesty of Government
IRD	Inland Revenue Department
IROs	Inland Revenue Offices
LTO	Large Taxpayer Office
MOF	Ministry of Finance
MST	Manufacture Sales Tax
PAN	Permanent Account Number
RST	Retailer Sales Tax
SAARC	South Asian Association for Regional Co-operation
VAT	Value Added Tax
WST	Wholesale Level Sales Tax

CHAPTER I

INTRODUCTION

1.1 Background of the Study

In Nepal, Tax Department and Value Added Tax (VAT) Department are merged into one Inland Revenue Department (IRD) in the year 2002. Prior to the merger, income tax was under the jurisdiction of Tax Department, whereas the excise duty and value added tax are under the jurisdiction of Value Added Tax Department. Since the merger, IRD is responsible for formulation and implementation of tax policy and the administration of various taxes such as income tax, value added tax, house rent tax and interest tax and excise duty. There are 22 Inland Revenue Offices (IROs) and one Large Taxpayer Office (LTO) under the Department. These offices are responsible for day-to-day collection of tax. The registration data of taxpayers maintained in the Department shows that the total number of taxpayers in Nepal as at the end of Ahwin 2070 was over 400 thousands. Inland Revenue Department has introduced an e-System and has been motivating taxpayers to use it in the past few years. Various donor agencies, the major two being Danida and GTZ, have provided technical and financial support not only for initiating the e-System but also for its strengthening and upgrading for almost one and a half decade. Revenue generation at optimum level is always desired and various measures have been taken to encourage taxpayers for voluntary compliance. It is expected that the tax compliance rate increases based on various factors including the satisfaction of taxpayers with the tax policies, their implementation and the end uses of the tax collected.

Tax payers satisfaction Value added tax is a tax imposed on the value added in each economic activity from production to consumption. It means VAT is charged to value addition done to prepare the final product. Ultimate resting-place of this tax is final consumption so that consumers are the sole taxpayers

of the VAT. Business people only collect the VAT as a mediator so that don't bear its burden. In conclusion, VAT should be the most essential choice for the developing countries as an ingredient of their tax reforms because it is the most improved from of sales tax and revenue enhancement and economic efficiency. It is an important instrument for the mobilization of internal resources. There is tremendous scope for increase its taxpayers satisfaction in coming days. VAT is an improved form of sales tax. It is not a genuinely new form of taxation but merely a sales tax administered in different form. Under VAT system, consumer knows the amount they are paying in form of VAT. VAT is more transparent and account based tax system. Thus, tax reform and adoption of a VAT is integral part of whole Tax system in present situation. The current threshold for VAT registration is RS.2 million. Those Vendors whose annual turnover is below the threshold can, however, register voluntarily.

Tax is the largest source of public revenue of the modern governments. It is the internal source of national income. Tax is the legal duty of every citizen of a country to pay honestly. In the present day, a government has to spend a lot of money to fulfill its responsibility towards its people. The responsibility may be either for security, for health, education or other developmental activities. To meet the growing public expenditure, the government has to manage its funds from internal as well as external sources. External sources of funds are foreign grant and loans. Such external sources are uncertain, inconvenient, and not good for healthy development if there is heavy dependent on them. It would be better to mobilize internal resources rather than expecting with beggar eyes to the donors. The experiences of developing countries show that there are negative results of increasing international aid and loan to finance the public development activities. As a result, their economic condition has gone down day by day. The government imposes tax on the people to repay the external debt, as a consequence of which the capacity or people to work to save decline.

The term "tax" defined as a liability to pay an amount to the government. It is a compulsory contribution to the national revenue from the taxpayers according

to law. It is used for common interest of the people. The taxpayer could not get direct personal benefits. The tax can be classified in two types. They are; 1) Direct tax 2) Indirect tax. A Direct is a tax paid by a person on whom it is legally imposed. In Direct tax, the person paying & bearing tax is same. It is not shift able to others. For examples; Income tax, property tax & Gift or prize tax are direct tax. Similarly, Indirect tax means that tax which is imposed on one person but partly or wholly paid by another. In Indirect tax, the person paying & bearing tax is different. It is shift able to others person. In other words, those types of taxes are ultimately paid by consumers' not a businessman or entity they are only mediators. For examples; Excise duty, custom duty, & Value added tax (VAT) are Indirect tax. Among the Indirect tax, VAT is the most recent innovation in the field of taxation.

1.2 Statement of the Problem

VAT is a new experiment in Nepalese tax system. So that, so many problem and difficulties has to face in primary phase of implementation. They're no conducive environment for execution the concept of VAT. The tendency of unnecessarily troubling taxpayers must be stopped to ensure a friendly atmosphere at various tax collecting offices. The Major problem associated with VAT is lack of knowledge. In Nepal most of the Taxpayers are unknown about the VAT. The billing systems also confuse for the Taxpayer. The billing system is lacking. Most of the Businessman is not showing VAT in Bill to their customers. If they did, they are charged extra amount in the Name of VAT. The general concept is that, VAT increases the prices of commodities and serves. The specific problems are as follows:

- Is taxpayers' satisfied with the quality of services provided by the revenue/tax offices ?
- Are the taxpayers' satisfaction on the tax collection procedures and administrative mechanism ?

- What is taxpayers' satisfaction level on the availability of information and the quality of tax documents ?
- What is the taxpayers satisfaction with the existing tax policy (i.e. laws and byelaws related to value added tax ?

1.3 Objectives of the Study

The main objective of the survey was to determine the satisfaction level of taxpayers with regard to the existing tax policy, quality of services and tax documents, tax procedures and administrative mechanism. The specific objectives of the study are to:

- To determine the level of taxpayers' satisfaction with the quality of services provided by the revenue/tax offices.
- To determine the level of taxpayers' satisfaction on the tax collection procedures and administrative mechanism.
- To determine taxpayers' satisfaction level on the availability of information and the quality of tax documents.
- To explore taxpayers satisfaction with the existing tax policy (i.e. laws and byelaws related to value added tax)

1.4 Significance of the Study

Nepalese government has already been implemented VAT for achieving ultimate objective of economic development and acceleration growth rate of economy through expanding the tax net without any distortions, promoting exports and making the tax system more buoyant. During the last 12 (Twelve) years of VAT implementation, government has made a great effort to make VAT more effective and productive. However, VAT was subject of a strict opposition from the business community in initial stage of implementation. Letter there are some correction in VAT rules and regulation and then slowly business community accepted the system and further demanded it to extend the retail level so that all the businessman firms will be treated equally. In such

situation, internal resource mobilization should be strengthened to overcome resource gap problem. The experience shows that successfully implemented of VAT will have positive impact on the economy. For strengthening internal resource mobilization of Nepal, the government has already adopted VAT administration and policy, according to the reform policy and programmed noted in the eight five-year plans. In this regard, this study carries a great significance to mobilize additional resources through improved and successful implementation of VAT and hence make the country self -dependent to some extent instead of the rapidly persisting resource gap.

1.5 Limitations of the Study

All research study has been lunched to solve a particular research problem. It requires various kinds' data, materials and other relevant information, which may not sufficient to the researcher. This study also cannot escape from the frame of Limitations. The limitations that occurred in the study are as below:

- The sample size is taken only 156, which can not represent a whole Nepalese people.
- Statistical tools like percentage, simple table are used.
- The data are collected only from Ramgram Municapility.
- The level of satisfaction of tax payers are analyzed only on the basis of mean score percentage.

1.6 Organization of the Study

This study is divided in to five Chapters they are:

The first chapter deals with background, statement of problem, objective of study, significance of the study and limitation of study.

The second chapter deals the review of related literatures and available studies, written and prepared by experts and researcher.

The third chapter Research Methodology present the methodology used in this study. It deals with research design, nature and sources of data, collection of data, data processing and method of data analysis.

The fourth chapter fulfills the objectives of the study by presenting the data and analyzing them with the help of various statistical tools and techniques followed by methodology.

The fifth chapter summarizes the whole study Moreover it draws the summary conclusion and forwards the recommendation for the improvement of effective Tax taxpayers satisfaction and to avoid the difficulties in tax collection system.

CHAPTER II

LITERATURE REVIEW

Tax reform is one of the most important concerns of any country's fiscal system. Although there are several experiments on value added tax as a major instrument on tax reform for last three-four decades. There are very few efforts have been undertaken on the topic concerning Nepal such available studies are found to be descriptive rather than analytical. The present chapter would review the tax reform containing VAT by analyzing recently developed sophisticated tools and techniques, as well as briefly reviewed the recently developed literature on VAT in Nepal.

At first, Siemens (1918) recommended value added tax in 1919 for Germany to replace the *umsatzsteuer* (multistage sales tax) in order to avoid the undesirable effects particularly cascading and vertical integration, for the latter tax. In spite of serious consideration by German government, it was decided to reduce the rate of *umsatzsteuer* instead of applying VAT. A tax mission to Japan led by Prof. Phoup (1969) developed the concept of VAT further in 1949. This mission recommended the *Fuka Kachi-zei* (1971) (VAT) for Japan in order to avoid the undesirable and unintended effects of Japanese enterprises and turnover taxes in plan at that time.

2.1 Conceptual Review

Value added tax is a tax levied on value-added on goods and services by the business enterprises at the successive stage of production and distribution. Value added for a firm is the gross receipt from sales after subtracting all expenditure in goods and services purchased from other firms. Looking from one angle value added by a firm is the sum total of incomes paid out by firm to factors employed and value is added by processing or handling these purchased

items which its own labor force and its own machinery, building or other capital goods.

Clear concept can be attained through an example. Let's consider the case of sugar production. A farmer produces sugarcane and sells it to the miller. Miller adds value in the process of changing sugarcane into sugar. All the expenditure including profit made by the miller constitutes the value added of that miller. Miller sells his products that are sugar to the wholesaler who, in turn, sells to the retailer with an increasing value. Ultimately sugar is sold to the consumer with the some additional value. Thus, at each stage of production and distribution value is added and sum total of all sum value added exactly equals to the final sales value of the sugar.

VAT, like other sales taxes in classified as an indirect tax because it is paid by business firm to the government and shifted to the purchasers of the product rather than being collected directly by the government fro the purchases. Goods and services constitutes base of VAT and it is shifted forward to consumer. A basic characteristic of VAT is that deduction is permitted of tax paid on purchases of goods purchased for direct resale and material and parts physically incorporated in to good to be sold.

2.1.1 Origin and Development

Value added tax a recent innovation in the field of taxation, is being a major step in the process of tax reform in many countries in the world. Such widespread popularity of the VAT in the last some years has become one of the most astonishing phenomena 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 (Shoup, 1988).

While going to the origin point of the VAT, it was proposed for the first time Siemens, for Germany in 1919 as an improved turnover tax. The improvement

consisted in the subtraction of previous outlay from taxable value with the results that the tax base of each firm would be reduced to the value. This is added to the product. (Sullivan, 1965). Thereafter in 1921, profit Thomas S. Adams suggested the tax for the United States of America to replace the existing corporate income tax. Further, some tax was recommended in 1949 by the Shoup Mission for the purpose of reconstructing the Japanese economy by avoiding the existing defects of the turnover taxes. Although, these proposals and recommendations are not yet into practice.

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 became 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, was limited to import and manufacturing stage only. Since the 1960s VAT became a popular subject matter of taxation in many countries in the year of 1968. France redesigned the existing VAT system and extended it to the retail level. Vietnam as the first country in Asia to introduce VAT, which adopted it in 1973, Pakistan introduced VAT in 1990 as a first among the SAARC countries. Nepal has adopted VAT since 1997.

As the experiences show, VAT still has not become a perfect substitute for other taxes like excise duties, special consumption tax etc.

2.1.2 Preparation of VAT in Nepal

In Nepal VAT preparation began in September 1993 when a VAT task force was created in order to make necessary preparation for the introduction of VAT. A VAT steering committee was also set up to evaluate and monitor VAT preparatory activities. The United States agency for international development (USAID) provided financial assistance in order to support the VAT preparation and implementation process in Nepal. Under this project, the technical assistance of the Hardware Institute for International Development (HIID) began in the fall of 1993. Members of the VAT task force and the HIID

consultants worked together. USAID/HIID assistance was supposed to last August 1996.

2.1.3 Design of VAT Law and VAT System

The VAT law was drafted in 1994. It was discussed in depth at several stages with in the VAT task force with the efforts of the low reform commission and the various business groups. It was review by the VAT steering committee. The draft was sent various business groups including the Federation of commerce and industry (FNCCI) and Nepal chamber of commerce for their comments. While this was a good beginning to seek the opinion of the private sector on the proposed VAT law before its approval by the parliament in written comments are received from the private sector on the draft VAT act. (Shoup,1969)

The VAT regulations are drafted in July 1996. Like the VAT Act, the regulations are discussed at different stages. They are sent to the FNCCI for comments. As in the case of VAT act, no comments are received from the private sector on the VAT regulations. Cabinet approved the regulations on 27 January 1997.

The operational manual was initially drafted in 1996 and was finalized in the fall of 1997. HMG approved the operational manual on 21 September 1997. The manual has been prepared in volumes, covering all aspects of VAT from the law through investigation of offenses. They are: (i) organization and management (ii) charging and accounting for value added tax (iii) VAT registration (iv) collection and enforcement (v) payment of claims for refunds (vi) verification and audit (vii) fraud investigation (viii) the VAT computer system and (ix) VAT act and rules.

2.2 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.

2.2.1 Consumption Types

Under this type of VAT discrimination is done with respect to capital or consumable goods. Whatever is purchase for the use of business is treated at per. This implies that full credit of inputs is provided. It is indeed the most superior from the VAT and is universally practice. Since no discrimination between capital and other consumption is made this system is natural and does not lead to alternation or substitution between methods of production.

2.2.2 Income Type

When capital goods used for methods of production are not deductible but only a portion relevant to particular period is allowed to deduct and the remaining portion is carried over for the next period, then it is termed as income types of VAT. Under this method the capital equipment are divided over a period on the basis of their useful life. Such methods are called depreciation. Since the tax base equals to Private personal income under this method, it is called as income type of VAT. This type of VAT is fraught with some difficulties as well face in calculating income for a particular period. AS a result many countries do not practice these types of VAT.

2.2.3 Gross Product Type

Under this variant, Capital goods purchased by a firm from other firms are not deductible from the tax base in the purchases year. This variant does not allow the deduction of deprecation from the tax base in subsequent years either. Hence the tax is levied both on consumption and gross investment and the conceptual tax base of this variant is gross domestic products. Here the principle of neutrality of tax is defected that is why; of all the types this is the uncommon and rarely practiced in any country.

Among these three types of VAT, the consumption variant has been widely used in several countries in Europe and else where in recent years. The reasons

for the popularity of this type are that this variant does not affect decisions regarding investments and growth since it relieves investment from any tax burden.

2.3 Methods of Calculating VAT

There are three basic methods by which VAT can be -calculated:

2.3.1 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. Thus, VAT under additional method is the function of the total factor payment as given by:

$$\text{VAT} = f(\text{W}+\text{T}+\text{I}+\text{P})$$

Where,

W = wage,

T = tax

I = interest,

p = profit

2.3.2 Subtraction Method

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

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

Where,

S_v = Sales value or value of output

P_v = purchase value or cost of input and services

This method of calculating VAT is suitable for the consumption variant of VAT. It is not well suited for discrimination among types of consumer goods but it needs not any adjustment to operate correctly for imports under the origin principle. Some thing also happens to the addition methods. However, under the destination principle, these principles, these both methods of direct calculation can not supply the information needed 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.

2.3.3 Tax Credit Methods

Tax credit method is also known as the invoice method and uses an indirect subtraction technique to compute the tax liability. Value added as such 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 taxpayers are allowed to subtract the taxes already paid by the supplier 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 difference, tax on purchases is subtracted form the tax on sales under the tax credit method.

Hence net tax liability is given by:

$$\text{VAT} = f (\text{Outputs} - \text{Inputs})$$

Where,

Outputs= tax collection from sales

Inputs = tax paid on purchases

Among the above three method of computing VAT, the tax credit method is widely favored in the countries. The invoice method is used generally in European countries. The tax credit method is so superior to the other method in

terms of application and enforcement as well as adaptability to various rates modification that is now universally employed.

2.4 Principles of VAT

There are two principles in the case of international trade under the VAT system. One is taxing all domestically produced goods and services including exported and exempting imported and second is taxing all imported good and exempting all exported goods and other principles are as follows :

2.4.1 Origin Principle

Under this principle, goods and services produced in a country are taxed at the place where they are produced or rendered, irrespective of whether they are consumed there or not. It implies that all exports are taxable and all imports are non-taxable. Where there is border and Cross-country trade this principle gives preference to imported goods services over domestic production. Countries with international boundaries prefer not to have this principle while taxing.

2.4.2 Destination Principle

Under this principle, goods and services are not taxed at the place where they are produced or rendered. The tax is imposed at the place where they are actually consumed. Alternatively all imports are taxed while all kinds of exports are tax-exempt. The main benefit of this principle is that, it non-discriminate between import and internal production. This is the most popular form of principle adopted by a large of countries. This lends support for exportation, many countries are eager to boast export therefore they follow this principle. The equal treatment provided for imports and domestic production fulfills the criterion of tax criterion of tax being neutral.

2.5 Value Added Tax and Other Sales Taxes

VAT is modern and scientific tax then other form of sales tax. VAT is compared with other form tax as follows:

2.5.1 Value Added Tax and Turnover Tax:

Turnover tax is a form of sales tax, which applies to the selling price of each point of sales. In this sense a turnover tax is the multiple stage cascade tax. This means the effective tax rate applies to all stage of production and distribution. This tax offers mainly to advantage: (a) A low tax necessity for given sum of revenue (ii) there is no complication of concession for various types of firms. Under this system tax evasion may arises because there is possibility of vertical integration. Such integration distorts the economy. This effect of tax is reducing economic efficiency which is the worst level of the tax.

A turnover tax further discriminates against the domestic product and imported goods. Imported goods need to pass less stages of transaction if the good are finished product. On the contrary domestic products need to pass mark stage and transaction. 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 producing and distribution under a single roof. There will not be any incentives for integration in a VAT system, since the total amount of tax on the produce 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 only on gross so that there is no need of tax credit. The double-checking and several provisions associate with the 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.

2.5.2 VAT and Manufacture's Sales Tax (MST)

Manufactures sales tax (MST) basically covers domestic manufacturing as well as imports. This is a single stage levy. In practice manufactures and importers are required to register for sales tax purpose. Generally this type of tax is applied on sales in case of domestic product and on the import value in the case of imported goods. These types of tax is favored in many developing countries in the sense that it more or less avoids the cascade evil and covers more organized entrepreneurs so as to make administration easy.

In contrast, VAT avoids cascading and pyramiding effects. It does not have a negative impose on negative impact on economic growth. The tax burden also falls stepwise under a VAT system, rather than at once in an import level of sales tax. The stepwise burden would not disport economic sectors. So, they will not encourage evading tax. But if, burden is laid down at once, a very high load will depress the entrepreneurs so as in creating the tax evasion. From the above discussion we can conclude that MST is non-neutral, limited in base and encouraging various difficulties with the culmination of tax evasion. VAT proves advantageous over MST, that it has broad coverage equipped with catch up effects, eliminating cascading and pyramiding and desirable in developing countries because it is distrusted roughly according to consumer expenditure (Hyman, 1972). The main disadvantage, coherent to VAT, in comparison to MST, is the large number of taxpayer with poor record keeping. But it can be covered by means of improvement in administration.

2.5.3 VAT and Wholesale Level Sales Tax (WST)

Simply speaking, the wholesale level sales tax (WST) means the taxation on sales to retailers by wholesaler. In underdeveloped country, wholesalers are more organized than the producers and retailers. Thus it is easy to implementing in practice and more meritorious than MST in the sense that it covers value added by wholesalers. Wholesaling goods are carried directly

from producers or importers. But in many countries, there is no provision of separately registers. Making the provision of separate registered as domestic enterprises and imports can enlarge the volume of taxable base. Which makes WST more suitable too? As a theme WST can be levied in two ways i.e. WST impose on wholesale enterprise and accompanies with manufacturing or retail system. On the ground of revenue potentiality, Value added tax provides more revenue than WST but as compared with MST, wholesaling enterprises lie some how greater than MST compared to VAT. For the administrative formalities like calculating tax base cross checking and auditing, refund procedures etc are less under the WST system. Further more, WST is easy to handle since it needs only to watch on sales point of wholesalers. On the basis of this reasoning WST is argued to be superior. The inclusion of new items i.e basic necessities would make VAT more vertically inequitable than MST and WST as it will be levied at uniform rate however, the imposition of VAT on services. Which the higher income group largely consumes would have opposite effect. Despite these few merits of WST, we cannot ignore the contradictory and bad effect of WST in practice, which puts the demerits of VAT, is shadow. If manufactures or importers encourage direct sell to retailers or consumers then the revenue will be nil. The problems should be more serious when for the two kinds of goods having same qualities and price whereas distribution process is different. Suppose one commodity (say A) supplied from producer to wholesaler and wholesaler to retailer successively but the other commodity (say B) is supplied directly from producer to retailer or to consumer, then definitely the price of 'B' becomes for below than 'A' due to the WST. In this case, the commodity 'B' cannot complete with 'A' in the market. Such a vast alternation compels the producer of commodity 'A' to close down his production. Thus WST is on neutral among the production and distribution process as well as consumer choices. But in contrast, it is notable that VAT does not create such discrimination because VAT is levied in every stage of business process (Kandel, 2004)

Thus, WST encourages manufactures or importer to sell directly to the retailers so that product remains beyond the tax net. This results a loss in the revenue on the other hand, it discriminates against those products by means of competitive advantage, which bear the tax burden favoring those firms, and product, which do not bear the tax burden. In contrast, VAT does not create such discriminations 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.

2.5.4 VAT and Retailer's Sales Tax (RST)

VAT and RST are acceptable on theoretical grounds because both are identical in the sense of tax base. Both differ in tax collecting techniques in which VAT is collected at each stage of business process while RST is imposed only at the final stage. Each system provides the same and amount of revenue because total value added of final goods and services are same and both are principally the destination based consumption type.

From the administrative pint or views RST seems to be simple as compared with VAT because their records and audit are sufficient on keeping the single stage. And the number of taxpayer remains more under VAT than RST. RST based on the suspension principal in which tax retailers are required to register for the sales tax purchase. Thus it is meant that the RST is levied only on the sales, which is registered to sale the consumer.

VAT and RST are vertically neutral with respect to production and distribution as total tax on a given commodity depends on the final price under both systems. On the other hand VAT and RST both are able to avoid the problem of cascading effects since there is no possibility to impose on tax. Both taxes avoid the problem of pyramiding since there seems no need to apply the mark-up on the tax amount levied at earlier stages. So, consumer price increase only by the amount of tax.

RST is more vulnerable to tax evasion than VAT. RST places a heavy burden only at the retail stage. Under this tax system, the whole tax is imposed at single stage (i.e. retail level). If a retailer does not file his return under the VAT, tax collection is dispersed over the whole production and distribution process. Thus the tax burden is distributed among a large number of taxpayer who feels it less burden some as compared to RST. VAT provides a self-policy mechanism, which is not available under RST VAT also provides a more complete audit trail than RST. As a conclusion, we can say that VAT is more preferred in developing countries but it required efficient tax administration.

2.6 Operation of VAT

For effective implementation of VAT, the following provisions are needed:

2.6.1 Registration

This is the first step for the smoothly operation of VAT. The registration of firms subject to the tax is a master roll of taxpayers. In this process, all the vendors having a taxable business turnover are compulsory registered on VAT. Any business enterprises that have not compulsion for registration, if they desire to register can register voluntarily. However, there is no compulsion to register for the small vendors who have an annual turnover below the threshold.

The registration procedure starts with a notice to the potential taxpayers through extensive publicity campaign. Then the registration forms and distributed so that the vender will fill up to be a formal member of the taxpayer under the VAT system. Then the registration form is returned back to the Inland Revenue Department and their coding is made. Thus registered taxpayers may be unknown about VAT in detail. So, an informative visits needs to be made and check detail whether the provided information by the taxpayers are correct or not.

Although all the vendors having the transaction of taxable capacity may not be registered so it is almost essential to make a door-to-door check, especially in developing countries. The newly hired staff of inspectors and enforcement officers can be used for this purpose and strongly monitoring and supervision is also required. In the Nepalese VAT system small vendors having annual turnover below the threshold apply for voluntary registration and the Inland Revenue office.

If tax officer is satisfied about applicants may register them for VAT purpose. Like other registered vendors, who are registered voluntarily will be able to claim back input tax paid on their purchases, to collect VAT on their sales, to hold the collected tax until the date of its payment to the concerned tax offices. The tax-registered vendors should get a VAT registration certificate, which must be prominently displayed in the public area of his business.

It is being very difficult to know which of trader is legal taxpayers and liable to register under the VAT. There is no strong evidence to show that one should register and tax administration can't compel that one should register without any record. Trend of VAT registration in Nepal, is shown in table below:

(a) Table No. 2.1

(b) Trend of VAT Registration

Year	No. of Taxpayers	Increasing rate in (%)
2060 Ashad	4959	-
2061 Ashad	9082	82.64
2062 Ashad	17947	86.13
2063 Ashad	21093	17.53
2064 Ashad	25147	19.23
2065 Ashad	29872	18.78
2066 Ashad	34174	14.40
2067 Ashad	39776	16.39
2068 Ashad	46831	17.13
2069 Ashad	52965	13.10

Average growth rate in 10 years	42.81
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Source: Inland Revenue Department (annual Report 2068/069)

Above table depicts that in initial stage of VAT introducing, the growth rate of VAT registration is high but for the time being the rate is reduced.

In the past nine years average growth rate is 42.81percent. In late years the growth rate can't move up 20 percent above. Until Potential taxpayers could not tie up with tax net.

Effective monitoring and supervision is still required to expand the tax base.

2.6.2 Tax invoice

The tax invoice is a crucial document for VAT as it established the seller liability for tax and purchaser's entitlement to credit. A VAT registrant is required to issue a tax invoice whenever a transaction takes place. Invoices are the important documents for VAT control. There are two types of invoices; (i) tax invoices and (ii) abbreviated invoice.

Tax invoices established both the liability of the supplier and the amount of the deduction allowed to the registered purchaser. A VAT registrant is required to issue a tax invoice in the prescribed form whenever a transaction takes place. Only VAT registrants' taxpayers should issue a tax invoice. A minimum of three copies of each invoice must be prepared. The first copy must be given to the buyer and the vender must retain the remaining two copies. A tax officer must make these available at all reasonable times for inspection. The invoice must be used in sequential numerical order. However, they can prepare invoices with different serial numbers for branches or different sections with prior approval of the VAT office.

The abbreviated invoice is simple type of invoice for registered sales to unregistered persons, who should be considered final consumer under the VAT. VAT registrants may make an application to use abbreviated invoice and the tax officers may allow it use. In the case of sales under abbreviated invoice,

VAT is calculated by multiplying the sales by the VAT quotient. The VAT quotient is found by dividing the rate of VAT. The abbreviated invoice can issue up to 5 thousand transactions. There is restriction to cross the limit.

2.6.3 Accounting

Every VAT registered vendor should be kept clear account of his activities (purchases and sales), which come into VAT base. The record of all invoices including other information such as the serial number and date of issue, of invoices the amount charges, and the VAT charged. The account should be kept in such a way that the VAT authorities are able to check the accuracy of VAT returns. Such records are kept for 4 to 6 years. So that it can be provided the tax administration if asked to check its accuracy and fairness. The period relating to the preservation of the account depends on internal audit. VAT liability should be calculated accordingly VAT account. This is, because if it is levied only on the cash basis, Taxpayers might delay payment. Small vendors, public or local bodies and not profit making organization, however, may be allowed to account for their output tax input tax only upon receipt or payment. Account system can be made simple and clear by using a separate purchase book to record all the details of purchases and a separate sales book, which records all the details of sales. However in case of the details of sales. However in case of the small vendors the cash flow problems can be made simple by allowing accounting for their output tax and input tax only upon receipt or payment. Government can also provide a form for the accounting purpose to the vendors. It is undesirable to prescribe exact form because record systems differ significantly among the various types of businesses.

2.6.4 Submission of Return

Nepalese VAT system, taxpayers must complete a VAT return and submit their returns to the concerned Inland revenue office within 25 days of the month following the end of the accounting period, this is for the use of compulsory

registrants, and four month for voluntary registrant. The head office is required to submit tax returns for the transaction carried out by it and its branches and sub- branches if any. There are no special rules, for example for seasonal business. Even if there is no transaction, it is necessary to submit a zero return. On receipt a VAT return, the tax officer is required to examine the return and check for arithmetical accuracy of this confirms that the amount. Shown, as payable and other particulars on the return are correct, the return is to be accepted. There is no need to attach purchase and sales invoices or any other document relating to the tax with the return Returns can be classified in 3 categories. They are;

(i) Debit Return:

Debits return are those return where taxpayer have to pay tax to the government.

(ii) Credit Return:

In credit return, collected VAT on sales is greater than payment of VAT on purchase. In this case, VAT is refunded to taxpayer.

(iii) Zero Return:

Similarly, collected VAT on sales is equal with payment of VAT on purchase or there is no any transaction.

If a taxpayer doesn't submit a return with in the stipulated time, he will be subject to penalty of 0.05% of payable tax per day or Rs.500 whichever is higher.

2.6.5 Payment of Tax

In the Nepalese VAT system, if a registrant output tax liability is greater than his input tax credit, he is required to remit the difference to the government with in 25 days form the close of the month in which the tax liability occurs. Compulsory registrants have to pay tax monthly while the voluntary registrant will have to pay trimester basic. On the other hand, if input credit is greater than the output tax liability, the balance of credit is to be forward up to a six-

month period. The excess credit for a continuous period of six month should be refunded to the vender concerned with in refunded to the vender concerned with a month for date of submission of the return. If the VAT registrant has more than 60% of his sales as exports, he can apply for a refund instead of carrying forward of excess credit. In the above both cases the VAT office should pay 15% interests, if the Tax officer doesn't refund with in two month form the date of submission of appeal of the return.

The VAT act makes provision for the additional charge as the late payment penalties. The rate of penalties is 10% of the VAT payable first month, and additional 10% in the second month and then no further action is taken. There is also a provision for interest on non-payment. The current rate of interest is 15% interest on overdue VAT is charge on calendar month basic.

2.6.6 Tax Assessment

VAT is self-assessment tax. The taxpayers determined their liability and pay tax. This system a taxpayer determines his tax liability and files his return to the Inland Revenue office. However, not all taxpayers may file their return and pay tax with in the specified time. Similarly not all taxpayers may file the correct return and pay the correct return and pay the correct amount of tax. In such cases, Tax officials may have to make a tax assessment. Such assessment could be computer or management assessment.

2.6.7 VAT Enforcement

Enforcement of VAT is one of the major requirements for successful operation of VAT. VAT system can be found more equitable along with the restriction for tax evasion when the enforcement of VAT is effective. For the purpose of VAT enforcement various techniques have been developed and used. The most important is the requirement of adequate account keeping and preserving it for a long time and administrative power to review to inquiry, size and check the records in the cases of suspected fraud. Tax officials can enter and search the business premises. In addition those, the tax liability of a VAT payer when they tax liability or when return are not presented at all. Further, a system is

developing for ascertaining failure to file and pay. The system is easier through master file management and use of computer programmers. The delinquents are persuaded to pay through notices and visit, If they sill delay with them. Such measures include automatic penalties, different changes and action including legal action.

2.6.8 Penalties

Penalties play the important role for effective operation of VAT. Actually penalties are designed to punish the taxpayers who are not following the legal rule. Penalties are considered essential as they create an incentive to tax payers to deter evasion and non-compliance for smooth functioning and producing a full revenue potential of a VAT system. However penalty taxes became inequitable if they are imposed heavily on some defaulters but not on others, so all defaulters should treat equally.

The penalties have divided into four forms: automatic financial, automatic non-financial, criminal financial and non-financial. Some other typical devices for penalties are attachment of bank account, revocation of business certificate, seizure of property shut down of premises, temporary suspension of trading license, threat of imprisonment, criminal prosecution etc." (Tait, 1998)

2.6.9 Auditing

The purpose of the audit is to find out, according to the law and regulation, the actual VAT liability of the taxpayers. Auditing in VAT system is a selective review of the taxpayer's books of accounts and other records including balance sheet profit and loss accounts. Main cause of auditing is to be ensured that the major areas of purchases, sales, stock and profit or loss accounts are substantially correct or not. The purpose of VAT audit is to find out actual VAT liability of the taxpayer's. A VAT audit, which is based on the principle of self-assessment by taxpayers, may be integrated with that of income tax. However the intergraded audit is more desirable and popular. The types of a VAT audit can divide into field audit and office audit, where the former include advisory visit, verification of records and fraud investigation and the latter

includes desk audit checking the return for arithmetical accuracy and completeness. The office audit is desirable to check each return for probable accuracy, as a basis for selecting account for audit.

Several activities and steps; which appear in performing the audit, are included in the audit management. Generally the audit management activities includes (Sharma, 1997).

- a) Searching of the taxpayers who fail to register and file the return.
- b) Reviewing the tax returns, checking the conformity of calculation and verifying the data inputs, outputs, zero-rated goods and exemptions.
- c) Selecting the business unit for audit through the establishment of appropriate selection criteria and accounting to the audit capacity of the administration.
- d) Preparation for audit and audit result for further decision-making and auditors, allocation of tasks among inspectors and auditors, audit manuals etc.

2.7 Structure of VAT

The structure of Nepalese VAT is designed in VAT Act 1996. The main characteristic of Nepalese VAT is as follows:

2.7.1 Coverage

It is not possible to cover all the goods and services under tax but it is desirable to make the commodity coverage of VAT as broad as possible. The coverage of VAT is defined with respect to both taxable transaction and persons. Each person transaction should be liable to VAT. The term "person "is defined broadly to include besides a natural person, all form of business including partnership, corporation, co-operatives, government and local bodies, and other organization regardless of whether there is a profit motive or not. Nepal has adopted a broad based consumption type of VAT, using tax credit methods. Under this system, the tax is levied all types of goods and services, both imported and domestically produced; except those specifically exempted by law.

Tax exempt goods and services are broadly be classified as; basic needs, basic agriculture products, agriculture inputs, social welfare services, goods and services of educational and culture goods and services, personal services purchase and rent of land and building, financial and insurance services, postage and revenue stamps.

VAT is extended right through the retail level. It is levied on the value added by each by each firm at each stage in the production and distribution process. However the small traders whose annual turnover is below the registration threshold are not required to register for VAT.

2.7.2 Operation

The base of VAT is the value added by each firm through its production and distribution activities. The value added is not calculated directly but the exact result obtained by levying tax on total sales and deducting tax on purchases from tax on sales. For example, let us suppose that a wheat producer sells to miller a quintal at Rs 700. The miller sells wheat floor to the dealer at Rs.2400. Finally, the dealer sells it to consumer at Rs.3000. On the basis of these figure, VAT will be levied in the following manner.

Table No. 2.2
Operation of VAT

Production and Distribution stages	Purchase price	Selling prices	Value added	Output tax collected on sales	Input tax (tax paid on purchased imported)	VAT payable to gov.
Farmer to Miller	-	2000	2000	260	0	260-0=260
Miller to Dealer	2000	2400	400	312	260	312-260=52
Dealer to consumer	2400	3000	600	390	312	390-312=78
Total VAT paid to Government						390

From the above table, applicable VAT rate is 13%, the farmer collects Rs 260 as VAT on his sales and pays it to the treasury. The miller collects VAT of Rs 312 on his sales but has on input tax credit of Rs 260 and thus remits Rs 52 to the government. Finally, the dealer collects VAT of Rs. 390 but deducts his input tax of Rs 312 and remits the balance of Rs.78 to the government account. Thus the government gets Total revenue of (260+52+78) Rs. 390.

2.7.3 Input Tax Credit

Tax credit is one of the important features of VAT. Taxpayers are allowed to deduct their input tax from their output tax. In other words a taxpayer is allowed to deduct tax paid on purchases from the tax collected on sales for his business. This deduction is known as input tax credit. Input tax credit includes the tax paid on the purchases or import of raw materials, semi -processed goods and overhead that they are used to make taxable good or services.

2.7.4 Tax Rate

The Nepalese VAT will be levied at single positive rate, in order to make the VAT system easier and simple. This is because, the multiple rates makes tax administration more complicated and there is need to classify records of commodities and have to supply more information which preparing their tax returns resulting in higher burden on the businessman and tax administration. Moreover in a developing country like Nepal, many small traders who are not sufficiently literate sell a number of commodities. They are not able to apply properly the different rate to various goods they sell. So in Nepal, VAT has levied at a single positive rate. The rate will be fixed by the finance etc. In past the rate was 10%. This rate is remained unchanged until 10 years (from 1996 to 2006). Since January 2006, the rate of VAT is charged by 13 % at a single positive rate. Exports are subjects to a rate of zero percent.

2.7.5 Tax Refund

Under the Nepalese VAT system, there is a provision for the refund of VAT. Such s situation will generally arise in the case of zero rated goods. I.e. exports where there will be an excess of inputs tax over out put tax such a provision is

made to encourage exports and generate foreign exchange. The possibility of tax refund will also arise in the case of domestic sales if the excess of input tax over output tax is reported in each of six consecutive methods.

In case of Nepal, small traders whose annual turnover is below a certain level are not required to register on VAT. The level of the threshold varies from country to country depending up in the revenue requirement, administrative capability, level of record and accounting proficiency in the industry and business etc. Section I of the VAT Act 1995 has made a provision for setting a threshold limit and initially the level was fixed by VAT regulation. Later, this threshold level was raised to Rs. 2 million by Economic Act 2054.

2.8 Review of Related Studies

Nepal chamber of commerce (1997) organized a nation wide discussion program on VAT. According to a report of the discussion program (Nepal chamber of commerce, 1997) the various views expressed about VAT and its satisfaction in Nepal may be summarized as follows:

Government machinery is not capable for implementing a VAT.

The business community has no confidence in the administration because it has failed to implement many other taxes effectively and fulfill its own commitment seven previously.

VAT will hamper genuine trade and as a consequence, illegal trade will prosper. Rise in the prices of domestic products will make them less competitive. Import and re-export of imported goods will get a negative impact leading to decline in government revenue.

VAT will inhabit the growth of newly developing trade and industrial activities in the country.

The modern account keeping system required by the VAT is difficult to keep. This will raise the costs of doing business.

There will a sharp price rise if a VAT is introduced; consumers will be badly affected due to price raise. Nepalese markets in boarder area will dry up due to VAT.

It is concluded that it is not possible to implement a VAT in Nepal and if implemented, it will have adverse effect on the economy.

Subedi (1997) in his dissertation entitle existing tax system is not efficient in raising adequate revenue, and it is also distortion, inequitable and gives incentives for tax evasion, the finding of the study emphasize the need for the reform of entire tax system. To reform the tax system, it is desirable and necessary to move towards VAT and improves the administration. A VAT in Nepal expands the coverage of tax, removes distortion effects of the existing taxes and will have a minor effect on prices. Empirically VAT is also found to be the best alternative for reducing the inefficiencies and introducing neutrality, fairness, productivity and transparency in the tax system. A VAT however, would rise the regressively of tax system.

According to this study, the most important problem of implementing a VAT is administrative inefficiency. The present sales tax administration is not capable of handling a VAT. Others problem associated with the application of VAT are on account keeping system, lack of knowledge about VAT, lack of co-operation between the government and private sector, illiteracy and low public awareness. The existing tax evading practices also pose a serious problem. The full advantage of VAT cannot be achieved with out extending it to the retail level but the extension of VAT to the retail level is impossible and impracticable in Nepalese context.

The study suggests that moderate single rated VAT is desirable. If the VAT is implemented well, it will generate 1.5 to 2.5 more revenue then existing sales tax. But, however a VAT in Nepal may not be "A hen with golden eggs" and it is not a "Panacea" for curing all ills, it requires actives efforts and commitment of all sides-the study concludes.

Sharma (1998) conducted "applicability of VAT as the biggest problems on the support of the following issues (i) lack of administrative capacity (ii) underdeveloped business structure practice and distribution system,(iii) business community constitutes a large number of small trades most of who are illiterate and lacks proper accounting records (iv) existence of open border and a large amount of unauthorized trade (v) under valuation, (vi) exiting tax evading practice and corrupting nature of the tax administration and (vii) lack of the co-operation between the government and the business community.

Clearly VAT will raise price, but in general, it would be lower than that of the taxed commodities if it are properly managed. Although VAT is regressive on the ground of income distribution, it would not be more then existing sales tax. Further, VAT will have favorable effect on the country's balance of payment's collection of income tax and import duties, on the one hand and on the other it will broaden the base for corruption, illegal trade

And tax evasion. VAT will also make incentive to the trades to split their business to go below the threshold limit, which makes business sector fragmented, and less efficient. Thus study concludes that VAT in not 'fully' applicable to Nepal.

Sharma (1998) examined several aspects of VAT administrative mechanism such as its problem constructions, possibility, operation and other aspects. In his dissertation he has found the following findings. (i) Most of the traders and businessmen are lacked with the minimum concept of VAT. They are facing pricing billing and accounting problem etc. (ii) An adequate VAT education programs are not conducted (iii) VAT administrate on has been facing the lack of administration has been facing the lack of administrative personnel (iv) the relation between government and business community is broken, which has been barrier to implement VAT successfully. His suggestion to the government for successfully implementation of VAT in Nepal are as follows: (i) the government should try to produce gazette manpower and to train them well (iii)

comprehensive education programs should be launched by government (iv) other matters relating to operational issues and taxpayer education should also be discussed with them and with other such as employee's association. At last, he concluded that VAT requires the strengthened administration for its effective and efficient implantation.

Due (1976) analyzed the different aspects of VAT, especially, in the context of developing countries through a paper entitled "Value Added Taxation in Developing Economics. "The first part of the study deals theoretical aspect including nature and history of VAT and the next part analyses the implementation aspect in developing countries and makes useful recommendations for its successful implementation.

Sing (1991) stated, "administration of VAT doesn't require firms to calculate value added. It is administrated by invoice method". He found following merits; if VAT as neutral and efficient resources allocation neutral between different good and service, neutral between businesses, neutral between different types of Production and distribution, neutrality in imported and home produced good is possible in a VAT systems because it does not distort any one of the above: (i) registration of demand by means of price mechanism.(ii) Income distribution: VAT at single rate with exemptions of food staffs farmers housing, finance, health, education, Charities newspapers books and periodical may be levied in such a way as to make the entire system of taxes and benefit the goods more progressively (iv) effective enforcement. The cross audit feature of VAT provides this facility to reduce tax evasion. And demerits: (i) VAT may rise price at the time of replacement (ii) VAT being a complex tax individual and small firms do not maintain proper record. (iii) Accumulation of inventory is likely to hider smooth tax payment.

Regarding the VAT in developing countries the main requirements to introduce VAT are described as: (a) ability to administer VAT, determines its feasibility (b) small business and compliance are also others problem which should be

treated very carefully in developing countries while introducing VAT (c) successful introduction of VAT depends largely on previously experience of multiple stages sales taxes or general sales tax.

Due & Greany ((1991) wrote a successful story of VAT in Trinidad and Tobago. A value added tax of general type went in to effect in Trinidad and Tobago in 1990. Development of VAT was carefully planed and it went through the several Phased from 1986 to 1986. A tax performance committee was established to review the current tax system and develop a preliminary recommendation for directions of reform. The studies showed that the existing tax system was in urgent need of revision for several respects. The value added tax was put forward as an alternative. Further, the issues such as choice of rate structure, exemption, tax administration etc. are resolved for the final adoption of VAT. The structure VAT was drafted in the final report after a careful examination of several issues including revenue and equity with the development of analytical models. Finally it was drafted and passed by the legislation in 1989 after several detailed works. A reasonably satisfactory operation of VAT was seen even in the first year of the VAT implementation. As the VAT was well received and also welcomed by the business community, it yielded the previously expected and force acted results. Although proper choice of tax structure, efficient administration, closes co-relation between the government and the business sector, extensive program for public awareness is stilled required. The coordinated reforms in other taxes such as purchase tax income tax and selection of competent person, and experts in key positions are the several reasons for getting expected revenue yields with successful implementation. Many suggestions and lessons can be taken for the introduction and successful operations of VAT to other developed countries from the experience of Trinidad and Tobago.

Thapa (1994) made efforts in "Value-Added tax in Nepalese context". He applied the theoretical methodology and deal with theoretical issues. The conclusion of the study was "considering the present condition of Nepal facing

government expenditure, low revenue efforts high dependency on foreign loan, need of more economic growth of the economy, and because of low revenue potentiality from the direct taxes there is a prompt need to improve the sales tax of Nepal. But there is less chance to mobilize more revenue through existing form of sales tax. In this context there is no any other alternate except introducing VAT in Nepal." However, the study is directed to Nepal but is fully dependent on theoretical issues.

Khadka (1996) in his paper "A VAT for Nepal" focuses on the purposed structure, operation and administrative set up of a VAT for Nepal and necessary steps to be taken for its early introduction. In its purposed Structure the coverage of VAT should be made as broad as possible covering all business transaction. Exemption should not be granted unless there is a Specific reason to do so, such as administration and equity. Zero rating should be single in order to avoid complication and inefficiencies in collection.

The purposed operation as VAT requires that the taxpayers above a Threshold limit should be registered. The vendor should issue an invoice for Each sale, keep a clean account as his purchases and sales (separate accounts for Zero rated, exempted and positive rate goods) and VAT liability should be Calculated of its taxable sales, tax credit methods should be used as a methods of computation of the tax, and tax payment and refund Period should be of one Month. The present sales tax department and excise department should be restructured drastically to administer a VAT. Officer level posts should be increased Considerable and extensive training should be provided including the causation of computer system. A VAT implementation team including experts and Person from every field should be set up. A detailed preparation should be considered as a pre-requisite for the introduction of VAT. Comprehensive VAT Education program must be launched to be educating the taxpayers.

A study made by Nepal chamber of commerce (1997) to analysis the Possible effect of VAT on Nepalese economy make some observation. The observations are:

Adverse effect on price level,

Increase in the prices of imported goods would hit the import tax,

The account keeping requirements of VAT would increase the tax compliance cost and cost of doing business, it would adversely affect the small traders,

Adverse effects on domestic production due to the abolition of protection policy under VAT,

VAT would be unjustifiable on social ground; it would aggravate the income distribution,

Negative effects on revenue collection and

Chances of failure of a VAT in Nepal are great because the present Administration is incapable for handing a VAT. The study concludes that a VAT in Nepal should not be implemented in haste. A partial VAT on some commodities should be implemented on experimental basic to know its pros and after that a full VAT might be considered.

Bista (1999) in his research entitle, "Applicability and feasibility of VAT in Nepal'. He has found the followings;

- The sales tax system is failure to several cases: narrow tax base, in-elasticity of tax rate, incapable and week administration, tax leakage, corruption and political intervention. So, the entire tax reform is needed.
- A VAT is account based, invoice based and record based; it checks the tax loopholes such as under evaluation, non-recording and unauthorized trade. It discourages such issues and problems existed in the sales tax system.
- VAT mobilized the additional resources and the rest of internal resources by broadening tax base and by discouraging the existing tax loopholes.
- In VAT system, tax refund and threshold, two provisions are necessary for the effective implementation of VAT. But, they are two gates of possible mal-practice and tax evasion for the effective implementation of VAT in Nepal; these gates should be closed by conducting strict monitoring system and by operating the punishment section of VAT enactment.

- For implementation VAT, the public awareness level relating VAT and VAT administration should be good and it's a prerequisite in the preparation of VAT.
- VAT administration should be strong and efficient in order to implement properly. But, in Nepal, VAT administration has been facing the problem like corruption, incapability, inefficiency, delaying ineffectiveness inadequate physical environment, inexperienced and untrained employee and weak organizational setup - The purpose of each fiscal policy is to reduce the economic inequality between the rich and poor by giving the tax incentives to the poor for the social welfare and by redistributing the national income. VAT has the Therefore; its effects are found positive on social welfare and negative on the economic inequality.

Khadka & Shukla (1999) made a study present status and the future prospects in domestic indirect taxes in India. India will have to depend more on indirect taxes in the foreseeable future. Because of the continuing trend to lower the rates of customs duties in view of the liberal economic policies, there is no likelihood of increase in revenue from customs duties. This means more revenue will have to be generated mainly through the domestic indirect taxes. i.e. the excise duties at the central level and at the state level. For this reason and also for the overall reforms of the indirect taxation, the conversion of these taxes in to some form of VAT has become an attractive alternative. Various tax reform committees of India have recommended moving towards VAT instead of other tax system. According to the Chelliah committee, the ideal solution would be to have a single VAT at the central level reaching down to the retail stage in replacement of most indirect taxes other than protective duties and sumptuary excise duties the central excise, the state excise, the municipal octroi, the goods and passengers tax and the electricity duty while sharing the proceeds of VAT among the three levels of government.

This study suggest that in pure economic terms, it would be desirable to levy a full fledged VAT extending right through the retail level in place of the central excise, state sales taxes and local level.

Khadka (2000) in his book "The Nepalese tax system" reviews the overall Nepalese tax system and tax administration. He also examines the different steps that are taken in the process of developing tax system in Nepal. Further, he recommends so measures to design the tax system that is broad-based, low rated, neutral, simple and transparent, and also some essential measures for the reforms of tax administration are suggested.

The current issues of the Nepalese tax system identified are: (i) lack of co-ordinate long-term strategy (ii) narrow coverage (iii) artificial tax base (iv) defective organizational structure (v) weak and traditional tax administration (vi) traditional and complex procedures (vii) un-enforced local taxes. The study concludes that tax officials are mostly responsible for the existing problem of tax system and the hesitation of the policy makers to take hard decision is also being boundary to clean tax system. The following steps are suggested to take in order to rationalize tax system;

(i) Adopt a long term co-ordinate approach (ii) Broaden the tax base (iii) Enhance the tax compliance (vi) implement local taxes. Along with these existing issue and suggestions, the study considering the introduction of VAT in Nepal in states that there was no choice other then to introduce VAT in Nepal to generate revenue required for improving it's deteriorating macro economic performance. As VAT is based on transition value, need not to fix arbitrary or artificial values for tax purpose, which avoids the existing problems of under valuation, corruption, non-transparent etc. Achievement of this good feature of VAT depends up on its implementation, which is the major issue for its success in Nepalese context.

Khadka (2003) explain the evolution of sales tax /VAT in Nepal. The writer depicted the issues and challenges of VAT implementation are:

(i) Lack of billing system. It includes: No billing, Low billing, Low level of consumer awareness about billing,- If bill is issued, vender says that consumer should pay extra VAT and low billing in custom evaluation, (ii) Huge amount of tax refund, (iii) Large scale of total tax credit,(iv) Increase in tax due and tendency of no-submission of tax return,(v) Failure of taxation for all taxable turnovers,(vi) Some potential Taxpayers are outside the tax net,(vii) Lack of accurate book and account and,(viii) Low level of tax compliance,

To face the above challenges the writer suggests the various strategies. They are: (i) reduce and finally remove the provision of tax-exempt (ii) Regular survey of potential taxpayer, (iii) Effective monitoring and evaluation, (iv) Enhanced the tax boundaries, (v) Strengthening tax administration, (vii) Easy provision to submit tax return, (viii) Promoting billing exchange, (ix) Increase in tax rates.

Puskar (2012) explain the tax is a compulsory contribution to the government from a person without expectation of any benefit. There are mainly two types of tax direct tax and indirect tax VAT is a form of indirect tax. VAT is an improved and modified of sales tax. It is added on each stage in production and distribution chain. This stage may be import manufactures, wholesale and retail. VAT put greater signification revenue mobilization in Nepal. The main reasons of becoming VAT popular are transparent, broaden tax base and discourage tax evasion. So, VAT is the most important source of government revenue so the government emphasis to collect the revenue from internal source. In Nepalese context the revenue collection from VAT is in inserting trends the government most curative.

2.9 Research Gap

VAT is the strong sources of indirect tax in revenue collection. It play the important role in the economic, the trend of revenue collection from VAT is increasing year by year. VAT system depends on its legal provision and popularity depends on tax payer satisfaction. To find out the Nepalese different researcher have research on the topic of VAT. Their objectives and analysis are different and every researcher has done differently. The different between this research and other is that, this research is done actually field survey based on Ramgram Municipality which is not found in other research. Most of the research based on Kathmandu Valley which is not include outside of Valley but this survey is based o Nawalparasi which gives the different message to the concern person. All the study focused on the contribution of VAT to overall national GDP. But this study focuses on the tax payer satisfaction relating to VAT.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction

This chapter serves the readers with a details idea about how the research has been carried out. It includes the research design, population and sample, sources of data, data analysis tools, data collection methods and sample descriptions. This chapter helps the readers to clearly understand how the research had been conducted.

3.2 Research Design

This study is based on both the description as well as survey research design. After collection of opinion and views and some data, this study has tried to analyze and describe the system by its own procedure.

3.3 Population and Sample

Tax experts, tax officers, businessmen and consumer Nawalparasi district at Ramgram municipality are the population of the study. Sample are collect judgmentally from different sector such as businessmen and consumers are selected from the different manufacturing company, trading company, departmental store, shopping center.

For the choosing sample respondents categorized by their sector and at least ten respondents are taken from each ward by convenience.

Table No. 3.1

S. No.	Group of Respondents	Sample Size
1	Tax Payers	156

3.4 Sample Description

• Type of business units

All the sampled respondents are classified in five sectors viz. proprietorship, partnership, private limited, public limited and others. A post survey classification of these sectors was made for the purpose of analysis. Of the total selected business units, the largest number are proprietorships (50 percent) followed by Pvt. Ltd (26.3 percent), public Ltd (5 percent), partnership (4.5 percent) and others (14.2 percent). The distribution of the sampled business units are shown below:

Table No. 3.2
Types of Business Units

	Types of Business Units						Total
	Proprietorship	Partnership	Pvt. Ltd.	Public Ltd.	Others	No Respondents	
No. of respondents	78	7	41	8	16	6	156
%	50.0	4.5	26.3	5.0	14.2	3.84	100.0

• Annual turnover of the business units

The annual turnover of the business unit sample respondents are classified in four categories viz. up-to two million rupees, two to five million rupees, five to 250 million rupees and above 250 million rupees.

Table No. 3.3
Classification of Sample Respondents by Annual Turnover

	Annual Turn Over					Total
	Up to Rs. 20 lakhs	Up to Rs. 20-50 lakhs	Up to Rs. 50 lakhs - 25 cores	Above Rs. 25 cores	No Response	
No of Respondents	52	52	25	20	7	156
Percentage	33.33	33.33	16.02	12.82	4.48	100

In case of annual turnover of the business unit the annual in upto 20 lakhs (33.33 percent), followed by 20-50 lakhs (33.33 percent), 50 lakhs to 25 cores (16.02 percent), above 25 cores (12.82 percent), about 4.48 respondents didn't disclose their annual turnover.

• **Marital status, distribution**

The Marital status, the samples are classified in three categories i.e. unmarried, married and separated.

Table No. 3.4
Distribution of sample by marital status

	Marital Status			
	Unmarried	Married	Separated	No response
No. of respondents	21	132	1	2
%	13.46	84.61	0.64	1.28

Marital status of the respondents shows that 84.61 percent of them are married, 13.46 percent are single and 0.64 percent separated.

• **Education**

On the basic of education are classified in six categories i.e. Under SLC, SLC, Intermediate, Bachelor, Master and Ph.D.

Table No. 3.5
Sample distribution by level of education

	Under SLC	SLC	Intermediate	Bachelor	Master	Ph.D.	No response	Total
No. of respondents	20	29	57	12	20	2	16	156
%	12.82	18.59	36.54	7.69	12.82	1.28	10.26	100.0

In the above table shows that respondent under SLC is 12.82%, SLC is 18.59%, intermediate is 36.54, Bachelor is 7.69, Master 12.82 and only 10.26% respondents. So, its clear that the level of education is moldered level.

- **Media Used**

Regarding the media used the sample are classified in four categories i.e. newspaper, radio, television, internet etc. The role of media is very important for taxpayers to receive information. As table 4.5 shows,

Table No. 3.6

Media used by taxpayers for acquiring information about VAT

Unit	Newspaper	Radio	Television	Internet	Sample
No. of respondents	117	20	10	19	156
%	75.00	12.82	6.41	5.76	100.0

Newspapers are the most used media by the respondents (75.00 percent) followed by radio (12.82 percent), Television (6.41 percent) and Internet (5.76 percent).

3.5 Source of Data and Data Collection Methods

In order to achieve the accurate results of this research, primary data are used in this study to identify the level of tax payer satisfactions.

- **Primary Sources**

The primary data are collected from the person representing from various sector conducting VAT. For the research study, the interview, field visit and also questionnaire methods with taxpayers and visit on Inland Revenue office etc.

- **Primary Data**

Primary data's are collected by administering self questionnaires to sample Population in Ramgram municipality. For this purpose, Economists, tax officers, Businessmen and consumers are respondents. Purposive sampling Method has been used for data collection. Sample size is 156.

3.6 Tools for Data Presentation and Analysis

This study was based in descriptive and analytical methods for the presentation and analysis of data. At the time of presentation and analysis of primary and secondary sources data, are edited and processed. Table, simple percentages are used for the purpose of presentation and analysis of data.

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

This chapter focuses on the presentation and analysis of data obtained from research questionnaire. Data are presentation and analysis based on primary sources of information's. Table, simple percentages are used for the purpose of presentation and analysis of data.

4.1 Level of Tax Payers Satisfaction with Quality of Services of Revenue/Tax Offices

The important factor that affects taxpayers' decision to pay taxes is the quality of services provided by the tax offices. It is reasonable for taxpayers to expect the tax office to be accessible and provide friendly service. They expect fair and respectful treatment from the officials and completion of their job in time. Accordingly, efforts are made to collect information in these areas.

Table No. 4.1

Level of Tax Payers Satisfaction with Quality of services of revenue \tax offices

S. N.	Particulars	Satisfied			poor	No Response	Total
		Up-to a moderate level	Just okay	Total			
1	Location and accessibility of tax offices	59.9	32.7	92.6	7.0	0.3	100
2	Ease in locating and contacting appropriate persons in offices	37.8	36.2	74.0	25.3	0.6	100
3	Response of tax officials to problems of taxpayers	32.1	32.6	64.7	34.6	0.6	100
4	Friendliness and behavior of officials	35.6	30.8	66.4	32.3	1.3	100
5	Time taken to get taxpayer's job done	22..1	34.6	56.7	42.3	1.0	100
6	Fairness in dealings of officials	29.5	33.7	63.2	35.3	1.6	100
7	General attitude of officials towards solving taxpayers' problems	28.6	35.5	65.1	34.3	0.6	100
8	Overall satisfaction of taxpayers with the services	24.3	47.8	72.1	26.6	1.3	100

- **Location and accessibility of tax offices**

Regarding the location and accessibility of tax offices, about 92.6 percent of the respondents are satisfied and remaining are unsatisfied.

- **Ease in locating and contacting appropriate persons in offices**

Regarding the ease in locating and contacting appropriate persons in offices, about 74 percent of the respondents are satisfied and remaining are unsatisfied.

- **Response of tax officials to problems of taxpayers**

Regarding the response of tax officials to problems of taxpayers, about 64.7 percent of the respondents are satisfied and remaining are unsatisfied.

- **Friendliness and behavior of officials**

Regarding the friendliness and behavior of officials, about 66.4 percent of the respondents are satisfied and remaining are unsatisfied.

- **Time taken to get taxpayer's job done**

Regarding the time taken to get taxpayer's job done, about 56.7 percent of the respondents are satisfied and remaining are unsatisfied.

- **Fairness in dealings of officials**

Fairness in dealings of officials, about 63.2 percent of the respondents are satisfied and remaining are unsatisfied.

- **General attitude of officials towards solving taxpayers' problems**

Regarding the general attitude of officials towards solving taxpayers' problems, about 65.1 percent of the respondents are satisfied and remaining are unsatisfied.

- **Overall satisfaction of taxpayers with the services**

Regarding the overall satisfaction of taxpayers with the services, about 72.1 percent of the respondents are satisfied and remaining are unsatisfied.

4.2 Level of Tax Payers Satisfaction with Administrative Mechanism of Value added Tax and Tax Procedures

This section analyzes the perception of taxpayers on the administrative mechanism and tax procedures: ease in filing-up the tax forms, simplicity and clarity in procedures in submitting tax returns, ease in complying with the tax process and getting tax refund, fairness in decisions of tax official.

Table No. 4.2
Level of Tax Payers Satisfaction with Administrative mechanism and tax procedures of VAT

S.N.	Particulars	Satisfied (Percentage)			Poor
		Up to moderate level	Just okay	Total	
1	Ease in filing up the tax forms	62.7	32.8	95.5	4.5
2	Simplicity in procedures in submitting tax returns	54.0	31.0	85.0	15.0
3	Clarity in procedures in submitting tax returns	51.0	31	82.0	18.0
4	Ease in complying with tax process	36.0	32.4	79.3	20.7
5	Fairness in decisions of tax officials	31.0	26.0	67.0	33.0
6	Ease in getting tax refund	25.0	25.8	51.6	38.4
7	General perception on tax administration	38.1	39.1	77.2	22.8
8	Overall tax procedures and administrative mechanism	35.3	34.8	80.1	19.9

- **Ease in filing up the tax forms**

Regarding the ease in filing up the tax forms about 95.5 percent of the respondents are satisfied and remaining is unsatisfied.

- **Simplicity in procedures in submitting tax returns**

Regarding the simplicity in procedures in submitting tax returns about 85 percent of the respondents are satisfied and remaining are unsatisfied.

- **Clarity in procedures in submitting tax returns**

Regarding the clarity in procedures in submitting tax returns about 82 percent of the respondents are satisfied and remaining are unsatisfied.

- **Ease in complying with tax process**

Regarding the ease in complying with tax process about 79.3 percent of the respondents are satisfied and remaining are unsatisfied.

- **Fairness in decisions of tax officials**

Regarding the fairness in decisions of tax officials about 67 percent of the respondents are satisfied and remaining are unsatisfied.

- **Ease in getting tax refund**

Regarding the ease in getting tax refund about 51 percent of the respondents are satisfied and remaining are unsatisfied.

- **General perception on tax administration**

Regarding the general perception on tax administration about 77.2 percent of the respondents are satisfied and remaining are unsatisfied.

- **Overall tax procedures and administrative mechanism**

Regarding the overall tax procedures and administrative mechanism about 80.1 percent of the respondents are satisfied and remaining are unsatisfied.

4.3 Level of Tax Payers Satisfaction with Availability of Information on Tax and Quality of TAX Documents

For any taxpayer, information related to taxes is very important. When the documents related to taxes: laws, by-laws, manuals, brochures, guidelines, circulars are clear and concise, many of the taxpayers do not require support from others, e.g. tax consultants, accountants, auditors and lawyers. The case of big business houses may be different. Considering the importance of the availability of information and quality of documents, the respondents are asked about their sources of information on taxes. They are also asked about their perception on availability of information on tax, ease in understanding the printed tax documents prepared and circulated by the government, contents and

coverage of those documents and overall satisfaction level on the documents in the case of VAT.

Table No. 4.3

Availability of information on tax and quality of documents

S.N.	Particulars	Value Added Tax			
		Satisfied			Poor
		Up to moderate level	Just Okay	total	
1	Availability of information on tax	56	32	88 (56.41)	68 (43.58)
2	Ease in Understanding the printed documents	44	46	90 (57.69)	66 (42.30)
3	Contents and coverage of the printed documents	44	42	86 (55.12)	70 (44.87)
4	Overall level of satisfaction with documents	37	52	89 (57.05)	67 (42.94)

• **Availability of information on tax**

Regarding the availability of information on VAT about 56.41 percent of the respondents are satisfied and remaining respondents are unsatisfied.

• **Ease in understanding printed documents**

Regarding the ease in understanding the printed documents about 57.69 of the respondents are satisfied and remaining are unsatisfied.

• **Contents and coverage of the printed documents**

Regarding the contents and coverage of the printed documents about 55.12 percent of the respondents are satisfied and remaining are unsatisfied.

• **Overall satisfaction with the documents**

Regarding the overall level of satisfaction with documents about 57.05 percent of the respondents are satisfied and remaining are unsatisfied.

4.4 Level of Tax Payers Satisfaction with VAT Policy

One of the major factor that influence people to pay tax is VAT policy of government. These sections analyze the satisfaction levels of tax payers on the basic of existing VAT policy.

Table No. 4.4
Satisfaction Level on VAT Policy

Unit	Satisfied				Unsatisfied				Total
	very Satisfied	Quite Satisfied	Moderately Satisfied	Some what Satisfied	Some what Un satisfied	Quite Satisfied	Very unsatisfied	No Response	
Number	5	20	32	46	17	10	18	8	156
Percentage	3.21	12.82	20.51	29.49	10.90	6.41	11.54	5.13	100.0
Cumulative Percentage	3.21	16.03	36.54	66.03	76.92	83.33	94.87	100.0	

Regarding the overall level of satisfaction with existing VAT policy 66.03 percent of the respondent are satisfied and remaining are unsatisfied. These findings show that the government has to improve to existing tax policy for increasing satisfaction level.

4.5 Level of Tax Payers Satisfaction with Overall

Although various cross questions are included in the questionnaire to assess their satisfaction level, the respondents are further requested to comment on how satisfied they are as taxpayers in general. The summary of the findings on the responses have been presented in the table.

Table No. 4.5**Overall Level of Tax Payers Satisfaction**

Unit	Satisfied				Unsatisfied				Total
	very Satisfied	Quite Satisfied	Moderately Satisfied	Somewhat Satisfied	Somewhat Unsatisfied	Quite Satisfied	Very unsatisfied	No Response	
Number	5	22	33	45	17	11	20	3	156
Percentage	3.0	14.0	21.0	29.0	11.0	7.0	13.0	2.0	100.0
Cumulative Percentage	3.0	17.0	38.0	67.0	78.0	85.0	98.0	100.0	

It can be seen from the figure that only about three percent of the respondents are very satisfied about 14 percent are quite satisfied. All together about 21 percent are moderately satisfied, 29 percent are somewhat satisfied, all together about 67 percent are minimally satisfied. Remaining 33 percent of the respondents are unsatisfied.

4.6 Major Findings

The major findings of the research in title, Tax Payer Satisfaction on VAT in Nepal (A Case Study of Ramgram Municipality, in Nawalparasi) as follows:

- The satisfaction level of Taxpayers with a Tax procedure and administrative mechanism is 80.1 percent and 19.9 percent of the respondents are unsatisfied.
- The satisfaction level of Taxpayers with availability of information on Tax and quality of tax a document is 57.05 percent and 42.94 percent are unsatisfied.

- About 66.03 percent of the respondents are satisfied and 33.97 percent respondents are unsatisfied with Vat policy of government.
- The overall satisfactions of Taxpayers with the services of IRO's about 72.1 percent respondents are satisfied and remaining are unsatisfied.
- On the whole about 67 percent respondents are satisfied and only about 33 percent are unsatisfied.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

This study is divided in to five Chapters. The first chapter deals with background, statement of problem, objective of study, significance of the study and limitation of study. The second chapter deals the review of related literatures and available studies, written and prepared by experts and researcher. The third chapter Research Methodology present the methodology used in this study. It deals with research design, nature and sources of data, collection of data, data processing and method of data analysis. The fourth chapter fulfills the objectives of the study by presenting the data and analyzing them with the helps of various statistical tools and techniques followed by methodology. The fifth chapter summarizes the whole study Moreover to draws the summary conclusion and forwards the recommendation for the improvement of effective Tax taxpayers satisfaction and to avoid the difficulties in tax collection system.

The main objectives of this research determine the satisfaction level of tax payers based on four contain such as Quality of Service of IRO's, Administrative Mechanism and Tax Procedures, Availability of Information and Vat Policy and system.

Regarding the quality of service of IRO's, in overall majority of the respondents are satisfied (72.1%) and 26.6% of the respondents are unsatisfied. In overall level majority of the respondents are satisfied (except in the case of tax refund) and 20% of the respondents are unsatisfied. With administrative mechanisms and VAT procedures. Most of the respondents used news paper to acquiring information's about Vat. With regard to the contains of ability of information of tax documents in overall about 57.05% of the respondents are satisfied remaining are unsatisfied. And about 66.03% of the respondents are satisfied and remaining are unsatisfied

with existing VAT policy. Overall level of satisfaction on the whole about two third of the respondents are satisfied and one third are unsatisfied. This clearly indicates that the government needs to put more effort in order to improve the tax administration in Nepal.

5.2 Conclusions

Based on the findings discussed above, the following conclusions can be drawn: The taxpayers' satisfaction level increases automatically when the IRO's is capable of delivering the basic services. In spite of many positive findings, it is disappointing to note that many of the taxpayers still feel that the behavior of tax officials is not friendly and fair. It is pity to note that over 42.3% of the respondents have indicated that they have to bear extra time to get their job done. Only 56.7% percent of the respondents reported that they never loss extra time. The weakness factors of IRO's is not easily provide information's related with VAT and VAT documents. And the strength factor of IRO's is administrative mechanism and tax procedure.

5.3 Recommendations

The recommendations in this report are based on the findings of the survey. When people pay taxes on their income as per the prevailing rules and regulation, there should be an environment for them to feel proud as taxpayers. When taxpayers are not satisfied, the tax authorities have to identify the reasons for their dissatisfaction and take corrective measures. The task given to the study was to suggest major policy and strategic measures for improvement of tax administration. Considering the findings of the study, recommendations are made mainly in the following:

- The primary responsibility of tax officials is to ensure compliance with tax laws/system. At the same time, they should ensure that the tax system is simple, transparent and minimize uncertainty. Thus, the officials should aim to develop and update the existing tax policy to motivate people to

pay taxes. While designing the policy, consultations should be held with relevant stakeholders including the business community.

- The tax system should fairly balance the need to protect the taxation revenue base with the principles of a good tax system.
- It is useful to identify the status of our country with regards to taxpayers' satisfaction level in relation to those of the developed as well the developing countries and the neighbors. Such a comparison was intended by the team. However, in absence of reliable data, it was not feasible for the study team to do so. Thus, the team recommends to the Inland Revenue Department to identify where the country stands in this respect so that the scope for further improvement can be assessed.
- The tax officials working in the field level should emphasize compliance by taxpayers. Voluntary compliance should always be the primary focus of tax officials. To ensure tax compliance, tax procedures should be fair, efficient and transparent. The process should be simple, clear and certain. There should be low compliance costs.
- Many of the tax officials still have to learn and practice how to deal with taxpayers in a fair and professional manner irrespective of the amount of taxes the taxpayers pay and their social status.
- The tax officials should be provided with effective orientation on the basic principles of good tax administration. Such orientation should be provided to both old and new staff members on a regular basis.
- There is a need to introduce an effective reward and punishment system. Particularly those officials, who do not behave appropriately with the taxpayers and those who seek undue advantages, should be punished.
- For tax officials, it is very important to develop and sustain a good public image. In absence of these, neither can they succeed in their professional career nor can they live in the community with prestige. This needs to be communicated to the officials.

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Web Site

www.ird.gov.np

www.mld.gov.np

www.mof.gov.np

APPENDIX I
QUESTIONNAIRES

Please tick (√) in the appropriate box/space provided unless otherwise instructed

Full name of the respondent: Age:

Address: Phone no.:

1. What is your gender?

- a. Male b. Female

2. How old were you at your last birthday ?(Completed years)

3. What is your marital status?

- a. Unmarried b. Married c. Separated

4. What highest level of education have you completed?

- a. Under SLC b. SLC c. 10+2 d. Bachelor e. Master f. PHD

5. Type of the business unit:

- a. Proprietorship b. Partnership c. Pvt. Ltd. d. Public Limited e. Others

6. Annual turnover of the business.

- a. 0-20 lakhs b. 20-50 lakhs c. 50 lakhs to 25 corore d. Above 25 corore

7. Kindly rate your response on the quality of various services of IRO

		Excellence	Up-to a moderate level	Just okay	Poor
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Office.

a	Location and accessibility of tax office				
b	Ease in locating and contacting appropriate persons in offices				
c	Response of tax officials to problems of taxpayers				
d	Friendliness and behavior of officials				
e	Time taken to get taxpayer's job done				
f	Fairness in dealings of officials				
g	General attitude of officials towards solving taxpayers' problems				
h	Overall satisfaction of taxpayers with the services				

8. Kindly rate your response on the procedure and administrative Mechanisms of services of IRO Office in the case of VAT.

		Excellence	Up to moderate level	Just okay	Poor
1	Ease in filing up the tax forms				
2	Simplicity in procedures in submitting tax returns				
3	Clarity in procedures in submitting tax returns				
4	Ease in complying with tax process				
5	Fairness in decisions of tax officials				
6	Ease in getting tax refund				
7	General perception on tax administration				
8	Overall tax procedures and administrative mechanism				

9. Kindly rate your response on the following with regards to Availability of information's on VAT and quality of documents.

		Excellence	Up to moderate level	Just Okay	Poor

a	Availability of information on tax				
b	Ease in Understanding the printed documents				
c	Contents and coverage of the printed documents				
d	Overall level of satisfaction with documents				

10. How satisfied are you as taxpayers on existing tax policy.

- a. Very satisfied b. Quite satisfied c. Moderate satisfied d. Somewhat satisfied
e. Somewhat unsatisfied f. Quite unsatisfied g. Very unsatisfied

11. How satisfied are you as taxpayers on overall.

- a. Very satisfied b. Quite satisfied c. Moderate satisfied d. Somewhat satisfied
e. Somewhat unsatisfied f. Quite unsatisfied g. Very unsatisfied

Thank you indeed for your cooperation