

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Beginning of the 21st century and new millennium economic development has been one of the formidable challenges for the developing countries like Nepal. The developing countries are in direct need of funds to initiate development projects for national development. The nation will be able to achieve maximum social welfare, if it has sufficient financial resources. In this context, a government needs to mobilize a lot of internal resources to fulfill its responsibility towards its nation and people.

Being a developing country, the role of government in Nepal is still vital to buildup infrastructure, to provide social service and to alleviate vigorous poverty. There are challenging tasks, which demand increasing necessity of regular expenditure in general and development expenditure in particular. However, resource mobilization is very low compelling the government to depend on foreign assistance heavily. Development expenditure depends almost entirely on foreign aid. Most portion of Nepal's Development budget is financed by external assistance.

Nepal is facing the problems of deficit budget of government. The major cause of persisting fiscal deficit in Nepal is inadequate mobilization of resources. One of the causes of fiscal deficit is the poor structure of defective structure of taxation. The design of taxes in Nepal so poor and defective that as revenue rising instruments. They always have very disappointing performance. The weak performance of tax in rising revenue is clearly reflective in Nepal low tax GDP ratio.

Taxation has become one of important sources of resource mobilization to meet the financial requirement of the government. The tax system should be helpful

in income redistribution and economic stability. The taxation is the function of economic development to combat inflation, alleviate poverty, reduce the gap between rich and poor, narrow the size of revenue expenditure, promote the national economy, mobilize the domestic resources for economic development and save the domestic economy.

The direction and tax reform in developing countries established that, among other things, the Value Added Tax (VAT) is the most important choice and ingredient of tax reform. The tax reform and adoption of a VAT is, therefore essentially connected with the efforts of many underdeveloped countries to achieve the goals of economic development. Since, the VAT is one of the component of indirect taxes developed in the past, is probably the best tax system that had never been at the top of the tax system. VAT may be adopted by developing countries with no extra difficulties. VAT is an important instrument for mobilization of internal resources, and mobilization of internal resources decrease the pressure of VAT in economic activities. Since VAT is an indirect tax, no one can deny because of its illusiveness and tax payers don't feel direct burden of in developing country in Nepal. Indirect tax is a major source of the tax revenue in Nepal. It covers about 80% of tax revenue. Major heading of indirect tax is custom duty and excise duty. In fact custom duty and excise duty are a kind of narrow based sales tax. Custom duty is followed by sales tax (now it is called VAT) in case of contributing in indirect tax revenue. The tax reform and adoption of VAT is, therefore, essentially connected with the efforts of many underdeveloped countries to achieve the goal of country's economic development.

VAT is recent and an important innovation in the field of modern taxation system. It is the popular tool of collection of revenue of the government. VAT is the modified structure of the previous sales tax. Because of cascading and vertical integration problem of sales tax, economist has thought about new concept of tax. Dr. Wilhem Von Siemens in France first developed the concept of VAT 1919 A.D.

VAT is the most important innovation of the second half of the 20th century. It is a scientific tax system, which was first introduced in 1954 A.D. in France. It has been spreading all over the 1960's and now this tax has become one of the mainstays of the tax system in over 130 countries. In Nepal VAT has come into consideration to replace of old indirect taxes. For this purpose a mission was established in Bhadra 2050 for study, suggestion and implementation process about VAT. But the process of VAT could start since 2052, onwards only when the parliament passes VAT Act and declared its enactment from Mangsir, 2054.

VAT is the popular tool of collection of revenue of the government. VAT is the supplementary of sales tax, entertainment tax, contract tax and hotel tax. Each step of goods and the services are levied to tax on its added value. It is the tax imposed on value added by business firms on goods and services at the successive stage of production and distribution.

VAT is the transparence tax system that is based on the tax payer's transition. VAT is not only transparent in it but also demands transparency in other tax system as well. Unless such environment is created, VAT cannot be implemented effectively. VAT is the youngest member of the sales tax member of the sales tax family, which is broad based. Since the base of the VAT is extensive, under this tax resume more revenue can be collected through lower rates. The effective implementation of this tax can help in reducing the rates of custom duties and income tax along with reducing smuggling of imported goods and hence improves that balance of payments, reduces the unintended distortions, services horizontal equity in a greater degree and makes the tax system simple and natural. In similar manner, VAT has many provisions to correct its regressive nature.

To conclude, VAT has been the most essential choice for the most developing countries as an ingredient of their tax reforms because it is the most improved form of sales tax, which leads to revenue enhancement and economic

efficiency. It is an important instrument for the mobilization of internal resources. There is tremendous scope for increasing the revenue from VAT. The implementations of VAT will obviously increase its contribution in coming days. The tax reform with adoption of VAT is, therefore essentially connected with the efforts of many underdeveloped countries as one of the major elements of tax revenue to achieve the goal of country's economic development.

1.2. Statement of the Problem

Economic development is considered as basic need for welfare state to fulfill the aspiration of its people. But Nepal is a developing country facing development challenges to promote the life standards of its 39% of citizens living below the poverty line. Under such condition, Nepal is facing a serious problem of resource gap and dependency of foreign aid and loan. The widening resource gaps: revenue expenditure, saving investments and import, export gaps of the country has further affected the level of macro economic stability of the country.

In an attempt to reform the existing tax system, the government has planned to adopt the VAT in Nepalese tax system. The planned VAT in Nepal has replaced the existing sales and other small services base taxes. The actual implementation of VAT in Nepal was scheduled to begin from November 1997. According to economic survey of Nepal, of the total revenue collection, tax revenue share amount 80% while non-tax revenue 20%, the Percentage of VAT on total tax revenue is nearly 30% to 34%.

However, there is one certain limitation in reforming the VAT in Nepal. The scope of direct tax is rather limited because of the low income of the people. There is also low revenue due to the existence and dominance of the income from illegal business and lack of basic accounting in various economic activities. Further, the direct tax is very difficult to collect effectively because

of very low administration expertise resulting in the large-scale tax evasion. On the other hand, the rates of direct tax are also gradually lowered. Government is lowering import tariff because of its trade liberalization policy. In such situation, the only revenue raising device may be the taxes on internal transaction of good and services. It is therefore, there is a strong need of reforming existing taxes on internal commodity transaction. So that an additional volume of resources could be mobilized effectively.

After the liberalization and adopting open economic system in the country, a large number of traders and consumers have appeared at the market. After introducing the VAT system in Nepal, the government suggested the seller to issue bills on each sale of goods or services to consumers. However some traders are misusing this billing system and embossing of tax along times. They are not issuing the bills at sales or if the bills are issued, they issued fake bills.

Economy is the backbone of nation on development field. Without having strong economy, we can't imagine the development of nation. A clear and suitable policy must develop and introduce by the government. After partial implementation of VAT to full implementation, the government is playing a dual policy. For the successful implementation of VAT, the environment of favorable understanding between the government and the taxpayers is must. But till now they are opposite pole, which is the main barrier to implement, VAT successfully.

The main important positive point of VAT is to provide reliable to tax payer about tax refund. The beauty of VAT is tax credit and refund. While the tax credit is an adjustment, refund is a tax outflow. In order to ease the refund process, two strategies were adopted, for regular exporters; a refund verification mechanism was introduced where by VAT would be refunded in 30 days working days prevailed. But the implementation on tax refund is not so easy.

The gap between revenue estimated and collection are widening each year since introduce of VAT. Government seems fail to achieve the target prefixed in all years. Economist believes that the estimated amount could be collected after introduce of VAT but gap between estimated and actual collections are in increasing trend.

The implementation of VAT in Nepal completed eight years only. VAT is systematic and modern tax system and need qualified and enough number of trained administrations. Effective administration is the basic requirement for the successful implementation of VAT but it has been lacked with trained administrative personnel. VAT has not been successful implemented due to the weak administration and untrained manpower. Gazzeted and trained manpower is not enough as need for effective tax administration. Danida VAT project in its progress report has underlined that implementation of VAT in Nepal depends on very few persons.

Nepal and India has open boarder system. Open boarder creates many problems such as corruption, unauthorized trade, political instability etc. Nepal is also suffering from this kind of problem. It is also claimed that only little amounts of goods from India import through customs. There are difference forms of illegal imports i.e. hiding, under invoicing, manual supply etc. goods imported illegally are sold through taxable channel. The goods that are taken through illegal through may be marketed through small exempted shops or through registered traders without misusing invoice, which can develop black economy and corruption. So, out of many problems open boarder is also main problem.

The government at first applied VAT without any formal public agreement hoping positive result. But various problems have been appeared on the process of implementation of VAT. Almost all people, customer, industry owners and traders have not got required important information, as a result the outcome of implementation and experimentation of VAT is not prosperous as it was at first

expected. Its problematic issue on the other hand, is the public of concerned field are not aware if and informed of its positive and negative aspect. As a result whatever the government had targeted is not fulfilled. The majority of people knowingly or unknowingly opposing it though, few numbers of people who has knowledge about VAT, have accepted it. This is major issue in the implementation of VAT to approach on its targeted aim.

It is necessary to reform all above prevailing problem in the implementation of VAT and government should make almost all the people aware and well informed about it. However government is trying doing best with support from private sector to make this system more transparent. It is pervasive problem to research its historical background and evaluation of implementation VAT. Similarly, it is big problem to take and as alternative way of sales tax. Above raised issues are the center of this study.

1.3 Objectives of the Study

The general objective of the study is to examine issues pertinent to VAT in Nepal and suggest the useful alternative solution to the wide range of problems.

The major objectives of the study are:

- a. To examine the historical background of VAT in general.
- b. To examine the implementation of the VAT in Nepal.
- c. To analyze the problems faced by the governments to collect VAT.
- d. To conduct an empirical investigation regarding to effectiveness and problems of VAT in Nepal.
- e. To provide suggestions on the basis of this study to the concern authorities.

1.4 Research Methodology

Research Methodology refers to the various sequential steps to be adopted by a researcher for the study of the related problem with specified objectives in a

view. It is the systematic and well-organized way for solving the research problem.

The data and information in this study are collected from both primary and secondary sources. Primary sources of information has been collected through personal contact with concerned people by asking some questions related to VAT. Secondary sources of information has been collected from published reports, booklets and other articles and fact and figures derived from department of VAT. Reports to government and ministry of finance and report related to VAT also collected for investigation.

1.5 Significance of the Study

About eight years have been passed since VAT comes into operation, but many Nepalese people are unknown about various aspects of it. VAT being itself a complicated and modern tax system, more efforts should be made on actual circumstances. Theoretical and practical knowledge are required to implement VAT properly. So this study analyzes implementation, problems of VAT and its effectiveness in Nepalese economy. Because of this reason, the study will be useful to the businessmen, policy makers, consumers and other related groups. It will also provide a clear idea and knowledge to those persons who are interested about VAT system. Likewise, it will be a valuable reference to the further researchers, who want to carry on future research in this field.

1.6. Limitation of the Study

In this study investigation are limited as under:

- a. This study has been performed in limited time and resources.
- b. Due to lack of time and other many difficulties, the study has been kept in a certain place under the Kathmandu valley.
- c. Both the primary and secondary type of data are used on the basis of availability.

- d. VAT implementation is based both on theory and country's reality also. So that the study are based on both theory and practice.
- e. It covers the VAT aspect only.
- f. Administrators, experts, businessmen, taxpayers, consumers etc. have been taken for the primary sources of data.

1.7. Scheme of the Study

The whole research will be carried on the following ways:

Chapter – I: Introduction

This Chapter includes general background, statement of the problem, objective of the study, limitation of the study.

Chapter – II: Review of Literature

This chapter concerns about the conceptual aspects of VAT and review of literature to highlight the related terms and to present the available information about previous related studies.

Chapter – III: Research Methodology

This chapter includes introduction, research design, nature and sources of data, data collection, procedures, statistical tools that are used for the study.

Chapter – IV: Data Presentation and Analysis

In this chapter, the data collected are presented, tabulated as required by the research objectives. Data are here interpreted and analyzed with the help of various analytical tools and techniques.

Chapter – V: Summary, Conclusion and Recommendations

This is the last chapter of this research. In this chapter, summary and conclusions are drawn from the study. It also includes valuable suggestions and recommendations on the basis of the study.

CHAPTER II

REVIEW OF LITERATURE

2.1 Meaning

Value Added Tax (VAT) is the most recent innovation in the field of taxation. It is one of the most powerful tool of the revenue collection of government. It is considered as one of the forms of sales taxation. Sales tax levied on sales of goods services is commonly divided into three groups viz. turnover tax, single-stage tax and VAT. Turnover tax is levied at all stages of the production and distribution process. The single stage tax may be imposed at the manufacturing level or at wholesale or at the retail level and tax is known as manufacturers' tax, wholesale tax and retail tax. On the other hand, VAT is imposed on the value added at each stage of production and distribution (Khadka, 2001: 1).

VAT is modern and scientific form of sales tax. It is an improved version of sales tax. It has gained huge popularity within a short span of time. VAT is levied on value added of goods and services at each stage in the process of production and distribution chain. These stages can be import, manufacturing, wholesale and retail. Value added for a firm is sales values minus all expenses on goods and services purchased other firms. The value added can be obtained by adding payments to factors of production (wages, salaries, rent, interest and profit). This value added is the base of VAT. Although VAT is eventually born by the final consumers, it is collected at each stage of production and distribution chain (Bhattarai and Koirala, 2062: 295).

VAT is a broad base tax. It is eventually borne by the final consumers who consume goods and enjoy services. Although VAT is similar to the retail sales tax. It is a multistage tax, which is levied at different stage of production and distribution, where as retail sales tax is levied at only at the final stage. A sales tax will give automatically tax exemption to most exports, where as VAT involves collecting tax at earlier and refunding it at the final stage.

VAT is tax based on goods and services. It is levied on the sale, exchange, transfer, import etc. of all goods and services apart from those specified by the law as tax exempt. It means tax encompasses all types of goods and services produced in or imported in to the country apart from those listed as tax exempt by the law.

VAT is considered as imposed on different levels of value addition in the production and distribution process of goods and services. In short, the difference between purchase price and sales price of any firm is the value added. For example a television manufacturer, in the process of making television has to purchase different parts of television from market. Televisions are made from those purchased parts by using the assistance of technicians, labors and machines. It is natural that the sales price of the television to be higher than the total purchase price from different firms of the goods required to make the television. The difference in the price between the manufacturers' input in buying the parts required to make the television from other firms and sales price of the finished television is value addition and VAT is levied on it. In practice the taxpayers doesn't have to calculate his value addition for the tax purpose of VAT. But the taxpayers have to collect VAT on the sales price at specified rate by the VAT Act and to pay after deducting the tax incurred on purchases made. Under VAT, each registered manufacturer and distributor must collect tax on sales of their goods and services.

VAT is nothing but a multistage sales tax, which is levied on the value added of business enterprises at different stages of production and distribution process. The value added for a firm is the gross receipt from sales minus all expenditure on goods and services purchased from other firms. These materials may include raw materials, auxiliary raw materials, chemicals, electricity and capital goods such as machinery, tools, building, furniture, vehicles etc. The firm adds value to these purchased materials by processing them with the help of its own factors of production such as labor, land, capital etc. This increase in

the value of output over inputs is the value added by a firm. In other words looked at from one angle, value added by a firm is the sum total of the incomes paid out by the firm to factors employed (Shoup, 1969: 251). This means that the value added by a firm is equivalent to its payments of wages, salaries, rent and interest plus its profit and this value added in the basis of VAT.

During the successive stage of production and distribution process, business enterprises add value to their purchases by processing them by their own machinery, building or other capital goods. They then sell the resulting product to consumer or other firms. We let consider an example of sugarcane. Sugarcane is grown and sold to sugarcane into sugar it to wholesaler and the wholesaler sells it to retailer. Finally the retailer sells the sugar to a consumer. What consumer pays for the sugar is the sum of value added by the farmer, sugar mill, wholesale and the retailer. The VAT strikes each of this added the sum of which is equal to a tax on the final sales of the sugar.

In the above example, the farmer's value added is the labor cost he exerted in growing sugarcane. Since sugarcane is grown on firm, it is assumed that no other production inputs are used. The entire price received from the sale of sugar is farmer's value added. The sugar mill buys sugarcane and sells sugar, the price of which includes, in addition to the price paid for sugarcane, other expenses in producing the product e.g. Wages and salaries paid to the workers, interest paid on capital employed and his own profit. Likewise, the wholesaler and the retailer also add wages, profits, expenses etc. to their purchaser while selling them. Therefore, the value added is what business enterprises add to their purchases.

2.2 Origin of VAT in the World

The concept of VAT introduced in Germany in 1919 A.D. by Dr. Wilhelm Von Siemans. VAT is the developed form of sales tax family. In the First World War, Germany was an active participant and a huge amount of resources had been

needed for war in order to mobilize more resources. German government introduces Umsatzsteuer (Multistage Sales Tax) as a temporary measure to mobilize the much needed resources in wartime only. But revenue generated through this system was encouraging the government. The government did not abolish this system even after the war is over. Under this tax system, tax was levied on the tax inclusive total sales price at each stage of production and distribution of goods and services, which increases the cost of production and decreases the competitive advantage of German firms. In order to solve this problem, Dr Wilhelm Von Siemens recommended VAT in Germany in 1919 A.D. to replace the German Umsatzsteuer (Multistage Sales Tax) to avoid the problem, including cascading the vertical integration. Huge debate and discussion took place in Germany regarding this newly born tax system. At last German government decided to reduce the negative impact of multilevel sales tax system by reducing the rates rather than implement the newly born tax system.

In the chairmanship of famous economist Carl S. Shoup, a mission had prepared a report of VAT for Japan. This mission recommended the VAT for Japan in order to avoid the undesirable and unintended effects of Japanese enterprises and turnover taxes in place at that time. To implement this serious discussion were held and even the law was passed in the parliament. But the implementation of VAT introduced first time in France in 1954 A.D. The VAT was limited in France from 1954 to 1959.

Concept of new tax system came from Germany and after making heavy debate and discussion in Japan; this new tax system was really becoming the possible tax reform program all over the world. Until 1953 A.D., any country hadn't applied this tax system. France took risk of adopting the newly born tax system (VAT) in 1954 A.D. In the 60s decade VAT had been adopted by 9 countries. Ivory coast and Senegal are the second and third countries that adopted VAT in 1960 A.D. and 1961 A.D. respectively. Brazil and Denmark in 1967 A.D. and

Germany and Uruguay had been adopted VAT in 1968 A.D. Since 1968 A.D. VAT been introduced by at least one country each year except 1974,1978,1979 and 1981 A.D. At the late 2006 A.D. almost 130 countries had been adopted VAT. The countries adopting VAT in the world can be seen in the given table.

Table 2.1
Countries Adopting VAT

Year	Countries
1954	France
1960	Ivory coast
1961	Senegal
1967	Brazil, Denmark
1968	Germany, Uruguay
1969	The Netherlands, Sweden
1970	Ecuador, Luxembourg, Norway
1971	Belgium
1972	Ireland
1973	Austria, Bolivia, Italy, U.K., Vietnam
1975	Argentina, Chile, Colombia, Costa Rica, Nicaraguan
1976	Honduras
1977	Korea, Panama
1980	Mexico,
1982	Haiti
1983	Dominican Republic, Guatemala
1984	China
1985	Indonesia, Turkey
1986	Morocco, New Zealand, Niger, Portugal, Spain, Taiwan
1987	Grenada, Greece
1988	Hungary, Philippines, Tunisia
1989	Japan, Malawi
1990	Iceland, Kenya, Pakistan, Trinidad and Tobago
1991	Bangladesh, Benin, Canada, Jamaica, Mali, South African, Egypt
1992	Algeria, Armenia, Azerbaijan, Belarus, Cyprus, El Salvador, Estonia, Fiji, Kazakhstan, Kyrgyz Republic, Moldova, Russia, Tajikistan, Thailand, Turkmenistan, Ukraine, Uzbekistan

1993	Burkina Faso, Czech Republic, Mongolia, Paraguay, Poland, Romania, Slovakia, Venezuela
1994	Bulgaria, Finland Georgia, Lithuania, Madagascar, Nigeria, Singapore, Tanzania, Western Samoa
1995	Gabon, Ghana, Latvia Mauritania, Togo, Malta, Switzerland, Zambia
1996	Albania, Gahanna, Uganda
1997	Nepal, Congo republic, Warwados
1998	Crosio, Magnolia, Sri Lanka, Tanzania, Bhanuatu
1999	Cambodia, Cameroon, Mozambique, Netherlands antils, Papua new genia, Slovenia
2000	Australia, Chad, Macedonian, Namibia, Sudan, Ruwanda
2001	Lebanon, India

Source: Inland Revenue Department

2.3 Historical Development of Tax in Nepal

Before the introduced of VAT, Nepal has had experience in indirect tax from late 50s. Land revenue, customs and excise duties were the main sources of government since past several decades. Income, business and remuneration tax sere first introduced in 1959- 60 A.D. The first time government announced its finance bills of 1965(2022 B.S.) the retail level sales tax at the rate of 2% covering whole range of goods and services. There was no procedural law to administer it. The announcement through the government budget was the only document. The sales tax act, 1966 came into existence only after the announcement of tax.

Sales tax was the main stays of the tax system in Nepalese economy before the introducing of VAT. Through sales tax in some form was collected from 1965 A.D., its contribution had never exceeded 3% of GDP. But later sales tax as government revenue has very important place as it contributes over 20% of the total revenue collected by government. If its share in tax revenue alone is compared, it has contributed over one fourth of the collected tax revenue. But its share in indirect tax is composed its contribution has been up by over one third of the tax.

Sales tax was neglected in the past but later this source of revenue is of utmost importance, when governments' total tax effort hasn't been over 11% of GDP. The share of sales tax couldn't be expected to grow at faster pace. This indicates that there are structural problems in the revenue collection, such as problem of tax cascading and vertical integration. So, to improve such problems the concept of VAT was introduced.

2.4 Development of VAT in Nepal

As the adoption of VAT programme was at the heart of worldwide policies, Nepal was also no exception. Because of several problems on previous tax system such as cascading and vertical integration, Nepal has also introduced VAT in 1997 A.D. by replacing sales tax, hotel tax, contract tax and entertainment tax. The Nepalese government adopted VAT to promote the oriented economy in the eight five-year plan (1992-1997). As a part of its liberal economic policy, government asked donors to study the VAT system. A study supported through United States Agency for International Development (USAID), Consultancy Assistance for economic reform (CAER) commended in September 1993. The Harvard Institute of International Development (HIID) took up the study because of political instability. The HIID study got a set back and the USAID suspended its support. In the implementation phase were to be needed and government made a request to donors. The Danish International Development Agency (DANIDA) accepted the government request and pledge to support the VAT project.

The parliament of Nepal enacted Value Added Tax 2052 from 1995 and regulation in 1996 from the budget speech 1992/93 and then government tried to implement the VAT system in Nepal. Besides the VAT act and regulation, the ministry of finance approved eight volumes of manuals in 1997.

Government had initially set the date of introducing VAT as July 1997. As the VAT law was designed to handle a single standard rate, the multiple rate of sales tax was unified in 1996 at 15% from the rate of 10 and 20%. As to fulfill

the legal requirement of the VAT Act, a gazette notification to enact the law was put out on August 17, 1997. The final date of the introducing of the VAT was thus set for November 16, 1997. VAT was levied in the replacement of existing Sales Tax Act 2023, Hotel Tax Act 2018, Contract Tax Act 2023 and Entertainment Tax Act 2017 were repealed along with implementation of VAT. After implementation of VAT, it has created many problems and could not be implemented fully until the fiscal year 2062/63 due to political instability and full incorporation of business community. The main problem whereas trading groups was against the VAT. But industrialist was favor in several new provisions relating to VAT were introduced through the finance bill 1998. The VAT registration couldn't progress as anticipated again its run up to the budget for the fiscal year 1998/99 several exemptions were demanded and provided in the budget. The sentiment of the whole business communities was divided between 'No VAT and Yes VAT'. After then the situation becomes so bad that the several of VAT were put on stake. Finally, government entered into a 39 points agreement with Federation of Nepal Chamber of Commerce and Industry (FNCCI). It included several reforms, noted among them was rising of threshold level from 3 millions to 4.5 millions rupees; a concession for 1.2 millions of import from India and Tibet without VAT certificate; no compulsory invoices for unregistered traders; a reduction in tax deducted at source; and so on. The process of implementing a full fledged of VAT was thus slowed down. Taking into account the government's election mood, a plethora of demand for exemptions in the VAT were put up some of them was fulfilling without any logic. Again the real spirit of the VAT was compromised.

This way the government implemented VAT since 16th Nov 1997. The budget speech of fiscal year 2005/06 government has emphasized the implementation the VAT in Nepal. For good implementation, it would have increased the area and decreased the rate. But government increased the rate by VAT 3%. By this cause, the government isn't applying good road map to implementation of VAT in Nepal till now.

2.5 Characteristics of VAT

The main characteristics of VAT are stated as follows.

- It is a form of indirect taxation.
- It is a broad-based tax as it covers the value added to each commodity by a firm during all stages of production and distribution.
- It is based on value added principle. Value added can be obtained either by adding payments to factors or deducting cost of inputs from sales value.
- It is substitute for sales tax, hotel tax, contract tax and entertainment tax.
- It is based on self-assessment system and provides the facility of tax credit and tax refund.
- It avoids cascading effect existed in sales tax and catch up effect (Bhattarai and Koirala, 2060:295).

2.6 Merits and Demerits of VAT

2.6.1 Merits

Now days, VAT has become so much popular in the world that one dares not to discuss about its demerits. It is the proof of popularity of VAT that almost one hundred and thirty countries are levying VAT. A system of VAT offers several advantages to nation. Following are the merits of VAT.

- As compared to other taxes, there is a less chance of tax evasion. VAT minimizes tax evasion due to its catch-up effect.
- It is simple to administer as compared to other indirect taxes.
- It is transparent and has minimum burden to customers as it is collected in small fragment at various stages of production and distribution.
- It is based on value added not on total price. So, price doesn't increase as a result of VAT.
- There is mass particular of taxpayers.

2.6.2 Demerits

It is rather native to tell a VAT has only merits and no demerits. This is not true.

Following are the demerits of VAT.

- It is costly to implement as it is based on full billing system.
- It is relatively complex to understand. The calculation of value added in every stage isn't easy task.
- To implement the VAT successfully, customers need to be conscious; otherwise tax evasion will be widespread (Bhattarai and Koirala, 2062:296).

2.7 Rate of Structure of VAT in the World

Value Added Tax is adopting more than 130 countries around the world. Now developing, developed all kinds of countries are involved in it. But the rate of adopting VAT is difference from country to country. There are mainly three types of rate are used to adopting VAT.

1. Single rate
2. Dual rate
3. Multiple rate

Many countries include America, Brazil, Canada, Denmark, Finland, New Zeland, Pakistan, South Africa, Thailand, United Kingdom etc. have adopted single rate of VAT. Some of them countries attempted to introduce progressively in the VAT structure by having low rate of tax on necessities and high rate on luxurious goods. Single rate of VAT is simpler. Many countries exempted few basic items such as food, medicines, cloth etc.

The single rate of VAT is simplest than dual and multiple rate system because dual and multiple rates make tax administration more complicated. Under this dual and multiple system commodities need classify into different groups according to their rates. Most parliaments would probably be inclined to disregard the theoretical arguments and to the actual situation in the European countries member states. Moreover, they would argue, a dual rate structure, comprising a lower rate of food products, medicines, household fuel, books,

newspaper and public transportation and stand rate on all other goods and services. This has been explicitly advocated by the EC commission as the basis for VAT rate harmonization in the community. There are three ways to the tax essential consumer items lower than other items if a dual rate structure is desired (Sijbren Enosen, 1992:240).

- a. A lower than stand but positive
- b. An exemption and
- c. A zero rate

Under the dual system, design of a rate structure is mainly influenced by revenue requirement. However, all the requirements cannot be achieved simultaneously as may be contrasting to another.

Similarly multiple rates give an incentive to produce to divert their resource from higher to lower rated industries to save on tax payment even when other economic points of view as well as they stimulate a consumer to divert some of his purchase from higher rated commodities. Thus multiple rates create scope for tax evasion that may result in consideration revenue loss (Khadka: 60) .

Three types of VAT presented now the question arises here that which tax rate is essential? The rate of tax would be essential according to country and their experience. At the initial stage of its introduction, particularly in developing countries, a single rated is essential because they have low experience and expertise is gradually achieved, dual and multiple rates is desirable since the single rated. More countries have adopted single rated of VAT but large number of countries have adopted dual and multiple rated VAT. The difference rate of VAT in the world can be seen in the table given below.

Table 2.2
Percentage of VAT rate throughout the World

Single Rate (%)		Dual Rate (%)		Multiple Rate (%)	
Country	Rates	Country	Rates	Country	Rates
America	28	Belarus	14, 28	Argentina	18,26,27
Azerbaijan	11.1	Czech Republic	5, 23	Austria	10,20,32
Bolivia	13	Germany	5, 27.5	Belgium	4,6,12,19.5
Brazil	15	Grenada	5, 27.5	Colombia	8,14,20,35,45
Canada	7	Honduras	7, 10	Cote ivory	5,11.11,25,35
Chile	18	Hungary	6, 25	France	2,5.5,18.6
Costa Rica	8	Iceland	14, 24.5	Greece	4,8,18
Cyprus	5	Ireland	12.5, 21	Italy	4,9,12,19
Denmark	25	Israel	6.5, 16	Korea	2,3.5,10
Dominant	6	Japan	3,6	Luxemburg	3,6
Ecuador	10	Kazakhstan	10,20	Morocco	7,14,19
EI Salvador	10	Latvia	6,12	Nicaragua	5,6,10
Estonia	18	Mali	10,17	Niger	10,17,24
Fiji	10	Netherlands	6, 17.5	Portugal	5,16,30
Finland	17	Norway	11.11, 20	Senegal	10,20,30,34
Georgia	14	Panama	5,10	Spain	3,6,15,33
Guatemala	17	Russia	10,20	Tunisia	6,17,29
Haiti	10	Slovakia	5,23	Turkey	1,6,8,12,20
Indonesia	10	Sweden	18,22		
Jamaica	10	Uruguay	12,22		
Kyrgyzstan	20				
Lithuania	18				
Madagascar	15				
Malawi	20				
Mexico	10				
Moldavia	20				
Newzeland	12.5				
Pakistan	12.5				
Peru	18				
Philippines	10				
South Korea	14				
Taiwan	5				
Tajikistan	28				
Thailand	7				

Trinidad and Tobago	15				
Turkmenistan	28				
Ukraine	28				
United Kingdom	17.5				
Uzbekistan	25				

Source: Alain A. Tait, 1991

2.8 Types of VAT in Close and Open Economy

2.8.1 Close Economy

Under the close economy, VAT can be classified into 3 types (Sharma, 1998).

1. Consumption Type of VAT

Under consumption type of VAT, all capital goods purchased from other firms in the year of purchases are excluded from the tax base while depreciation is not deducted from the tax base in subsequent year. This type is considered as neutral because in this type no discrimination is done with respect to capital and consumable goods. The producers are free from liability of paying tax to concern the tax office in the purchasing years. Since investment is not received from the taxation under this variant, the base of tax is consumption. It is really superior of VAT system. It would help the trader in investment of capital goods for production.

Thus, Consumption Type = Gross National Product – Gross Investment
= Total Consumption Expenditure

2. Income Type of VAT

Under income type of VAT, capital goods purchased from other firms are not deducted from the base. However, the depreciation in the subsequent years is allowed to deduct from the tax base. It is not the output of the consumption goods only which is taxed but also capital goods from which depreciation is deductible. Thus, it becomes a tax system on net national product and tax base is the same as that the personal income tax without exemption. So, the tax income under this type is regarded as national income.

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

Under this tax base equals to private personal income. Most of the countries don't prefer practice this type cause that it faces the same problem as we face in calculating income for a certain period.

3. Gross National Product Type of VAT

Under gross national product type of VAT, the purchase of capital goods are neither deductible from the tax base in the year of purchase nor the depreciation is allowed to deduct from the tax base in the subsequent years. Tax is levied both on consumption and gross investment when the firms are not permitted to deduct even the amount of depreciation on capital goods tax is imposed on. The base of tax is total consumption goods plus all final product capital goods.

$$\begin{aligned}
\text{Thus, Gross National Product Type} &= \text{Gross Investment} + \text{Consumption} \\
&= \text{Gross National Product}
\end{aligned}$$

This type of VAT is the uncommon type of tax and rarely practiced in any country. It has only academic value.

Both the income and the gross national product variants do not exclude the purchase of capital goods from the tax base in the year of purchase. These two variants differ in that the income variant excludes the depreciation from the tax base in the subsequent years, while the gross national product variant does not do so. Among these three types of VAT, the consumption variant has been widely used in several countries in Europe and elsewhere in recent years. The reasons for the popularity of this type are that this variant does not affect decisions investment from any tax burden. Since the tax doesn't discriminate

against capital-intensive switch over from capital to labor intensive production. On the other hand, since the gross national product variant creates ‘a substantial disincentive or saving investment and capital investment production’ it is not likely to be a member of tax family of any country. Furthermore; the consumption variant is more attractive than the income variant from the consideration of foreign trade because the consumption variant incompatible with the destination principle of the tax action which has used by many countries. On the other hand, the income variant is consistent with the original principle of taxation. That is why many countries selected the consumption variant and in this study also by VAT we basically mean the consumption variant.

2.8.2 Open Economy

Under the open economy, VAT can be classified into 2 types.

1. Original Principle

The principle advocates the theme that taxes all goods and services where they are originate or produced and relive those goods from taxes, which are all imported from abroad. A country applying this principle ‘taxes all exports and free import.’ The origin principle value added tax does not allow the importing country to tax the value added in exporting country. The aim of origin principle is to tax only the value added in the importing country, at standard rate. (Shoup, 1969).

The three methods of consumption; addition, subtraction and tax credit are all equally well adopted to use of a origin principle value added tax with respect to exports. But there are formidable difficulties in the case of imported goods as the tax credit method is applied and there remains a problem of treating both on imported goods and domestic products alike because of non-compositeness of domestic goods with imported goods. Upmost, more awakens may be created under a origin principle of VAT, if there are both multiple tax and using tax

credit method. Because it need to compute an import tax at the tax rate of importing country, it is assures credit against the actual tentative tax on the first domestic sale of the imported goods. So, under a tax credit method of consumption origin principle of VAT will not be suitable.

Besides this, under a origin principle of VAT, there is no need for adjustments while using subtraction and addition method. But, this principle discourages the exports directly or indirectly and is inferior in nature.

2. Destination Principle

The approaches which tax imports and free exports is known as the destination principle. Under destination principle of VAT, all exports are allowed to free tax and all imports subject to the tax. Because goods are taxed in the jurisdiction where they are to be used. Under a basic destination rule, tax would be collected at import and the firm would receive credit for this tax and a refund when the products are exported.

The destination principle under a VAT system is very easy and simple. Because, the VAT is fully imposed upon the value for custom purpose in imports. Similarly, exports is fully freed from VAT. On the basis of exports the tax paid on before hand is credited and net VAT on exported goods is zero. This destination principle is favorable for exports. On the other hand, destination based VAT seems to be easier to control, because the mechanism is clear and well defined.

2.9 Methods of VAT Calculation

Value Added Tax van be collected by using different methods of computation. Followings are the methods of VAT calculation (Subedi, 1998).

2.9.1 Additional Method

This method is also known as the direct value added on the income produced by firm. In other words, the base is computed by adding the payments made by

the firm to the factors of production employed in turning out the product, such as wage, interest, rent, royalties and profits. This method is very close to income type of VAT that includes the rewards to all the factor of production in its base. We can express the addition method in equation form is

$$\text{VAT (t)} = f (\text{Wage} + \text{Rent} + \text{Interest} + \text{Profit})$$

Where t indicates tax and f indicates function.

This method is rarely found in practice because of complexity in computation. In this method VAT seeks to avoid capital goods from its base. This method is practically applied in Argentina and Israel, in third selected economic activities such as banking and finance, where value of inputs and outputs are difficult to measure.

The example of calculating value added tax under this method has been presented in the following table.

Table 2.3
Calculation of VAT Liability under Addition Method

Stage of Production and Distribution	Primary Producer	Producer	Wholesaler	Retailer	Total
Wage	1000	150	200	250	1660
Rent	300	100	200	300	900
Interest	300	50	100	250	700
Profit	400	200	100	200	900
Value added	2000	500	600	1000	4100
VAT Liability	260	65	78	130	533

Source: Estimated arbitrary figured during the study

2.9.2 Subtraction Method

In this method, the taxable base of VAT, or value added is calculated by subtraction of gross purchase from gross sales of business enterprise during a taxable period. In other word, the deviation between purchase and sales is value added and this value added is the base for the VAT. Tax base is determined as

net turnover in this method, which is obtained by subtracting the cost of materials from sales proceeds. This method is also known as a direct subtraction technique or account method. It is most appropriate for consumption type of VAT. Apparently, this method looks simple and easy. But it is not so. Problems like ascertaining the value in accounting period may arise. Similarly, if there are exist multiple rates of VAT, tax burden at the consumer and becomes more difficult to calculate. We can express the subtraction method in equation form is

$$\text{VAT (t)} = f (\text{Sales Value} - \text{Purchase Value})$$

Where t indicates tax and f indicates function.

The example of calculating value added tax under this method has been presented in the following table.

Table 2.4
Calculating of VAT Liability under Subtracting Method

Stages of Production and Distribution	Net Purchase	Sales Price	Value Added	VAT @13%
Primary producer	-	2000	2000	260
Producer	2000	2500	500	65
Wholesaler	2500	3100	600	78
Retailer	3100	4000	900	117
Total	7600	11600	4000	520

Source: Estimated arbitrary figured during the study

2.9.3 Tax credit Method

This method is also known as invoice method and uses an indirect subtraction technique to compute the liability. Under the tax credit method, tax on purchase is subtracted from the tax on sales. VAT liability of a firm paid on total purchase is deducted from VAT levied on that sale, which is the net tax liability. In other words, the net VAT levied is calculated by deducting tax on inputs from the tax of outputs during a taxable period. It is considered as a tool

for self-enforcing (cross checking) measure due to the tax carried under a VAT system. Among the three methods, the tax credit method is almost widely used universally. It is successfully used in all OECD countries, EU member countries, Japan, Korea, and elsewhere. Under tax credit method, tax evasion and under valuation of tax is not possible due to its catch up effect, which could not achieved under addition and subtraction method. The tax credit method for calculating VAT liability is technically and legally superior in controlling tax evasion as well as reducing affects with efficient administration system and creates a well audit. Nepal has also adopted this tax credit method to calculate VAT payable. We can express tax credit method in equation form is

$$\text{VAT (t)} = f (\text{tax paid on sales} - \text{tax paid on purchases})$$

$$\text{Or, } = f (\text{input tax} - \text{output tax})$$

Where t indicates tax and f indicates function.

The example of calculating value added tax under this method has been presented in the following table.

Table 2.5

Calculation of VAT Liability under Tax Credit Method

Stages of Production and Distribution	Primary Producer	Producer	Wholesaler	Retailer	Total
Purchase	-	2000	2500	3300	7800
Tax on purchase	-	260	325	429	1014
Sales	2000	2500	3300	4400	12200
Tax on sales	260	325	429	572	1586
Net VAT Liability	260	65	104	143	572

Source: Estimated arbitrary figured during the study

2.10. Principle Governing VAT

The following are the principle, which governs Value Added Tax (Bhattarai and Koirala: 2062: 296).

1. Principle of Transparency

VAT is a transparent tax system. It is an account based tax system. VAT has made tax system transparent. Tax evasion isn't pervasive where accounting system is transparent.

2. Principle of Removing cascading effect

VAT removes cascading effect. Cascading effect means tax i.e. tax is charged on the value including tax. But VAT has removed this effect by not including the VAT in the cost price to the second stage of distribution channel. But under sales tax system, sales tax paid at one stage is included in the cost price for another stage.

3. Principle of Neutrality

Neutrality means not to discriminate one to another. VAT doesn't discriminate one economy activity against other. Tax rate of goods and services to be taxed aren't discriminated by VAT. So, in this regard, VAT is neutral.

4. Principle of Destination and Zero Rating

Under this principle, goods and services are taxed at consumption point, not based on production. Goods and services that are exported taxed at zero rates i.e. the taxpayers gets refund of VAT earlier period in purchasing raw materials and interrelated goods but he shouldn't pay tax on added value.

5. Increasing tax base

Nepal is suffering from low tax rate base and tax evasion practice is common in Nepal. It has estimated that 50% of Nepalese tax is evaded. Tax GDP ration is negligible in Nepal in comparison to developed countries. That's why, one of the objectives of Value Added Tax in Nepal is to increase tax base.

6. Encouraging the Export

Under VAT system the tax export becomes zero. In zero rating, an exporter shouldn't pay tax for his value added. In spite of paying VAT on export they

can claim for return, which they had paid for the purchase of their goods. In this way, VAT promotes export.

2.11 Importance of VAT in Nepal

Most of the countries introduce VAT because they are dissatisfied with their existing tax structure. This dissatisfaction falls broadly into one, or possibly all, of three categories.

1. The existing sales taxes are unsatisfactory.
2. A customs union requires discriminatory boarder taxes to be abolished.
3. The evolution of the tax system hasn't kept pace with the development of the country.

Nepal is conditioned at own special geographical area along with land locked position. About 80% people are directly or indirectly depend on agriculture sector. More than 50% people are illiterate. VAT is a modified tax system, which has been held in the country about ten years ago, supplement of the sales tax, hotel tax, entertainment tax, contract tax. From the experience, it proved that the government is able to collect more tax than the previous system. Because of lack of the tax paying culture, lack of consciousness, lack of filling in responsibility the government may not have doing so well as its wish. However effective implementation of VAT is necessary to collect more tax, and increase the government fund, which can be used for the development activities of the country (Basnet, 1998).

At a glance, we can illustrate the importance in this way.

1. In order to Collect More Revenue

This modern taxation policy charges tax in each and every stage of business transaction like supplier, producer, distributor, wholesaler and retailer. This new tax policy is flexible in accordance to transaction and value added ratio, which is able to collect more government revenue with fairness and visible business transactions. If more government revenue is collected, it helps to develop country.

2. To reduce the level of Corruption

World Bank (2001) reported corruption is a regressive tax. This statement shows the gravity of effect of corruption. Therefore, first of all it is most necessary to eliminate the corruption by implementing customer focused awareness programme and policies to collect more revenue for the country. Lack of the education, effective management hasn't been able to collect more tax. It comes to hear regulatory that businessperson record their business transaction in two different books of account i.e. one for own information and another for tax purpose. The later account is prepared for tax evasion, which shows the lower amount of transaction and helps to reduce tax payment. The new tax system, VAT detects the aforementioned distortion of revenue by trapping the fraud transaction. Moreover, this system doesn't give the tax officials to assess tax in hazardously without any proof that is the main blamed subject to tax officials by businesspersons.

3. To increase the responsibility of the Government

Most of people don't know either they pay tax or not although they are paying the since ever. People have the right to know where is spending the revenue. According to VAT, vendors have to issue the tax invoice by separating the price and so that people know how much and how many times they have paying the tax. As a result, they demand the right in the cost of tax paid and the government cannot avoid the responsibility.

2.12 Structure of VAT

2.12.1 Freeing from VAT

Under VAT regime, there is some provision keeping some special goods and services or transactions beyond the tax base. Such provision makes the tax administration simple and promotes equity among taxpayers. There are three provisions of freeing from VAT. They are: exemption, zero rating and threshold.

1. Exemption

Exemption and zero rating are two popular methods of escaping from VAT. Exemption and zero rating aren't the same method; they are different to each other. The transaction of tax exempted goods and services remain outside the preview of VAT. The exempted taxpayer doesn't have to collect tax on sales and they can't claim for a refund of the paid in purchase and imports. Thus, the exempted taxpayers are treated as final consumer. The dealing in such transaction has to be registered under VAT and fulfill all other formalities that are applicable to other registrants. Such registrants have to collect VAT at the rate of zero percent on their sales and can deduct the tax incurred on their purchases. This means that the zero-rated goods and services don't bear the burden of VAT but should follow all formalities of VAT. On the tax exempted goods and services the output tax cannot be collected and non cash the input tax be claimed but on the zero rated goods and services, zero rated tax is levied which actually is equivalent to none and the input tax can be claimed. It is administratively difficult to apply VAT on certain goods and services, exemption is given where as zero rating is applied on certain goods, if they are necessary to free from tax burden.

2. Zero Rating

Zero rating simply means that some selected items are subject to tax but at a zero percent rate. Under the VAT, some goods and services are taxed with a zero rate. The first country to levy the zero rates was the Netherlands. The objective behind the introduction of zero rates is to relieve some goods and services completely from taxation. As zero rated items technically remain within the tax net a purchaser is allowed to credit his input tax. So, the objective is to relieve the goods and services completely from taxation, zero rating is a better method than exemption. It is generally levied in the case of exports, which need to be completely free from internal commodity taxation. Zero rating, however, increases the burden considerably on the part of both taxpayers and tax administration due to the requirement of maintaining books

of accounts, submitting returns and refunding the tax levied on the inputs of zero rated items. In Nepal, zero rating should be limited to the exports and some international services only.

3. Threshold

Small businessperson having annual turnover up to certain amount are not required to register under VAT. The amount fixed for this purpose is known as threshold. To keep small businessperson outside the tax preview a threshold has been specified under the VAT system. The wholesaler, retailers, dealers or producers who sell goods and services below the threshold level do not have to be registered under VAT and neither do they have to collect VAT on their sales. Thus, threshold is a kind of exemption, which is based on the transaction but not on the kind of goods and services. So, the threshold must be set on the basis of the nature of the production and distribution system in a country concerned and the status of education and record keeping at various levels of volume among business firms.

2.12.2 Taxable Value

VAT should be levied on the gross price (excluding VAT) for the supply of goods and the rendering services. The gross sales price should be considered as the amount of money that the buyer has to pay to the seller under normal conditions. In the case of imported goods, the taxable value should include prices of goods plus all costs up to the point of importation such as commission, packing, transport, insurance and other cost and taxes, duties and charges levied except VAT.

VAT is expected to minimize the problem of the understatement of the sales price due to several reasons. Firstly, as the tax would be levied right through the retail stage, taxpayers would think that they would be caught as a later stage if they evade tax at an earlier stage. Thus, there is an assurance of the collection of VAT at the earlier stages even if it is evaded at the retail level; only the

retailer's margin would escape tax, not the whole value of a given commodity. Secondly, VAT would provide a self policing mechanism since" evasion by suppliers through understating tax collected is counteracted by the purchaser's interest in ensuring that all tax paid is recorded. Similarly, evasion by purchasers in overstating tax paid runs counter to the interests of suppliers." Thirdly, VAT provides less incentive to the vendor to understate the sales price due to the catch up effect. This is because under VAT any understatement of sales prices at an earlier point would be corrected on subsequent sales since the credit for taxes paid on purchases would be correspondingly lower.

However, the possibility of the sales price cannot be eliminated under VAT cross checking the retail level is impracticable, since the final purchaser will have no incentive to insist on tax paid invoices. Further, since the 'catch up' effect doesn't occur at the final stage, vendors are likely to show a lower price than the actual one on invoices in order to reduce their tax liabilities. So the tax officers should be given power to determine the arm's length price in a doubtful case. In such cases the tax base should be the open market price. Similarly in those cases where a supply is made for no consideration or less than full consideration or less than full consideration, the tax should be levied on the market value. This principle should also apply in the case of barter exchange and inventories when a business is closing down. In the case of credit sales, the cash price disclosed in the credit contract should be considered as the tax base.

2.12.3 Coverage

The base of VAT should be made as broad as possible. It should be levied on the value added at each stage in the process of production and distribution. Each person carrying on taxable business or transaction should be made liable to VAT. The term person should be defined broadly to include, beside a natural person, all forms of business, including partnerships, corporation, government

local bodies and other organizations regardless of whether there is a profit motive.

Taxable transactions should be defined as the supply of goods and services. It is desirable to make the commodity coverage of VAT as wide as possible. So, all the goods and services should bring into the VAT net unless there is strong justification for their exclusion (Khadka, 2004:25).

2.12.4 Rate of Tax

In order to make a VAT system simpler, it is better to levy VAT with the single positive rate because multiple rates make tax administration more complicated under multiple rated VAT. There is need to classify commodities into different groups according to their rate. Multiple rates make tax system inefficient and businessman has to keep separate record. So, it is complex and credit scope for the tax evasion. On the other hand, a single rate makes VAT less costly and easy to administer.

Now in Nepal, according to Value Added Tax Act 2052, VAT rate is levied with single positive rate 10%, but now increased to 13% from 1st Magh 2061.

2.12.5. Taxable Supply

VAT is levied on taxable supply, which is defined as the process of selling, exchanging or delivering goods or services or the grant of permission there two or a constant three of for a consideration. To be a taxable supply the consideration can be in money or money's worth.

2.12.6. Place of Supply

Under the Nepalese VAT system, the following places are considered as the place of supply.

- For movable goods, the place where the goods were sold or transferred.
- For nonmovable goods, the place where the goods are located.

- For the imported goods, the customs point of Nepal where the goods first enter into Nepal.
- For the goods supplied by producer or vendors of the goods resides.
- For services, the place where the benefit from services is received.

2.12.7 Time of Supply

The time of supply is also important under in order to establish the VAT liability. For most of the practical purpose, the time of supply will be the date of invoices. However, under Nepalese VAT, the time of supply will be that one, which happens earlier among the following.

- The time of issue of an invoice by the supplier.
- The time when the supplier receives the point for goods and services.
- In case of the goods the time which the receiver receive or taken away the good from the transaction place of the supplier.
- In case of the services the time when the services are performed.

However for the certain goods and services, the following period provisions are made.

- The time of supply regularly provided services such as telephone and similarly other public services are that time when an invoice is issued for the services provided.
- If the point for goods and services is partially made the earliest day on which the point is made.

In case of the goods and services having no tax credit facility the time when goods or services are used.

Among the above two conditions, if two or more occur at same time of supply is objectively determined by the director.

2.13. Operation of VAT

2.13.1 Registration

All the firms or vendors carrying on taxable transaction in Nepal must be required to register for VAT. However, register must not be made mandatory for small vendors having an annual turnover below the threshold. In Nepal, vendors below 20 lakhs NC annual turnover are no made mandatory for registration on VAT office. Annual turnover can be determine on both the retrospective and prospective calculated on the basis of the last 12 months figure, while under the perspective basis the taxpayers has to prove that in the next 12 months his turnover will be below the threshold.

Small vendors having annual turnover below the threshold may apply for voluntary registration and the VAT officer satisfied, may register them for VAT purposes. 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 and to hold the collected tax until the dates of its payment of the concerned tax offices the voluntarily registered vendor must remain registered for a minimum period of one year.

VAT registered vendor should get a VAT registration certificates, which must be prominently displayed in the public area of his business. In the case of all other places of business, copies of this certificate must be displayed.

2.13.2 Tax Invoice

The tax invoice is a crucial document for VAT as it establishes the seller's liability for tax and the purchaser's entitlement to credit. It should be able to provide necessary information required by the VAT Act and regulation. It is, however, not necessary to specify the format and content of the tax invoice; taxpayers may be allowed to prepare format of tax invoices according to their requirement.

A minimum of three copies of each invoice is essential. The original copy must be given to the buyers and remaining two copies must retain by the vendor. These copies must be available at any reasonable time for inspection. Vendors may be allowed to issue simplified invoices in the case of their sales to the unregistered buyers in order to enhance the level of compliance (Khadka, 2004:28).

2.13.3 Account

It should be made mandatory for a VAT registered vendor to keep clear accounts of his purchases and sales, which are subject to positive rate, zero rate and exemption. Accounts with all supporting documents should be preserved for four years. In general, accounts must be maintained on the accrual basis. VAT liability should be calculated accordingly. This is because if it is levied only on the cash basis, taxpayers might delay payment. Small vendors, public or local bodies and non-profit organizations, however may be allowed cash basis accounting i.e. they may be allowed to account for their output tax and input tax only receipt or payment. This is intended to ease the cash flow problems of small vendors (Khadka, 2004:28).

2.13.4 Tax Credit

Tax credit is one of the important features of VAT. Taxpayers are allowed to deduct their input tax from their output tax. The calculation is made for a taxable period, not on transaction basis or time-by-time basis. In other words, it is not necessary to match supplies for the reporting period to deduct from the output tax of the same period.

2.13.5 Tax Returns and Payment

The standard tax period should be one month. This seems to be ideal since a period shorter than this would increase the workload of both the taxpayers and the tax collectors while a longer period would allow taxpayers to hold unnecessary the large revenue collected from their buyers and could create a

cash flow problems for the government. However, an alternative tax period of three months may be provide for small vendors whose annual turnover is below the threshold, i.e. VAT officer may allow small vendors to submit returns on a quarterly basis.

Taxpayers must fill VAT returns and pay the tax with one month of the end of each tax period. In the case of import, VAT must be paid at the customers point together with the import duties by all sorts of importer, whether registered or not. It is the liability of the seller or the importers to pay VAT; but purchaser will have to be made liable to pay VAT in such circumstance where it will be difficult or impossible to levy VAT on sellers (Khadka, 2004:30-31).

2.13.6 Tax Refund

In the case of exports, refund should be made within one month from the date of submission of the return. In other cases, if the input tax is more than the output tax, the balance should be carried forward up to the six months period. The excess credits for a continuous period of six months should be refunded to the vendor concerned within a month from the date of submission of the return. It must be remembered that an efficient system of refund is an integral part of VAT. Many tax administrations however, aren't well known for providing quick refunds. In Nepal, refunds aren't provided promptly and the system is subject to many abuses. This should not be repeated under the VAT system. Refund should be made promptly. Interest should be paid on refunds that are not made within a month of the receipt of a return provided that the return is completed satisfactorily. Such a provision would help to settle accounts for each taxable period. However it is necessary to examine returns in detail in the case of large and abnormal claims.

2.14. Review of Related Studies

Various researchers have been conducted in Nepal as well as foreign countries about value added tax. But only few researches and studies are available

focusing internal issues of VAT in Nepal. Here, some relevant books, University dissertations, journals and other reference materials were reviewed exclusively. Essences of some useful and relevant ones are presented below in brief.

2.14.1. Review of Books

Dr. Rup Bahadur Khadka (1989) an expert of Nepalese tax system in his book, entitled, “*VAT in Asia Pacific Region*” states VAT is the most recent innovation in the field of taxation, which is levied on the value added on goods and services, and VAT is shifted forward completely to the consumer. Reasons of growing popularity of VAT and its neutrality or efficiency, more equitable than other forms of sales tax evasion on its favor. Similarly VAT is disfavored from the administrative point of view. It is complex and difficult to operate. Among these advantages and disadvantage, VAT should be introduced in Nepal.

Dr. Rup Bahadur Khadka (1997) in his another book “*VAT and its Relevancy to Nepal*” explains about the general introduction of VAT on the eve of the introduction of VAT in Nepal. He has compared the VAT with the sales tax in the use before the introduction of VAT. Nepal has the experience of implementing import/ manufacturing level sales tax; wholesale level sales tax and retail level sales tax. The Manufacturer’s Sales Tax (MST) had narrow base and suffered from the cascading effects. It also discriminates against the domestic indirect tax system and presents views of various committees and individual on VAT in India.

Babu Ram Subedi (1997) found that VAT is neutral regarding the methods of production and generation of more revenue and hence best form of sales tax. The self-enforcing feature of VAT would make the administrative works easier. The existing sales tax seems to be inefficient and less productive that

has created cascading. So, VAT is found to be best alternative for reducing such inefficiencies, because of, its broad coverage.

According to the study, the most important problem for implementing of VAT is administrative inefficiency. The present sales tax administration is not capable of handling VAT. Other problems associated with the application of VAT are: lack of account keeping system, lack of knowledge about VAT, lack of co-operation between the government and private sector, illiteracy and low public awareness. The full advantage of VAT cannot be achieved without extending it to the retail level but the extension of VAT to the retail level is impossible and impractical in Nepalese context.

Mr. Narayan Prasad Silwal (2000) published a book entitled “*Value Added Tax: A Nepalese Experience*” on this book he has shown that practical experiences about the VAT system in Nepal. This book has been designed to know about the effectiveness of VAT system in Nepal. This book covers positive and negative aspects of VAT and facing problems in implementation of VAT at initial and current period. This book is concentrated Nepalese tax system and analyzes that, why the government of Nepal introduced in Nepal? Silwal added in this book that the government of Nepal doesn’t have any option this taxing system. To effective implementation of VAT in Nepal, tax administration should be fair and strong. For good implementation of VAT as a modern tax, business community, political parties, consumers must be correlated and coordinate in Nepal. He pointed that the factors should consider for proper implementation of VAT in Nepal are as following.

-) Tax rate
-) Tax base
-) Exemption
-) Threshold

Silwal concluded that government could collect more revenue from VAT than other existing tax if the government implemented it sincerely.

Rup Bahadur Khadka (2000) published a book entitled, “*The Nepalese Tax System*”. He pointed out the need to introduce of VAT in Nepal after analysis of review the Nepalese tax system. The main reason to introduce VAT in Nepal is to develop a stable source of revenue by broad base tax. After enactment of SAFTA and WTO agreement, the broad base internal tax system of VAT is required.

Further the author stresses on the proper implementation of VAT in Nepal. But it isn't so easy to implement due to most of business vendors don't want to register under it. So, the writer goes in conclusion that will generate more revenue in future when it becomes fully implement.

VAT Four year of Implementation (IRD/ DANIDA Report, 2001):

This is compilation of contributed by various experts on VAT in Nepal on the occasion of four years of completion of implementation of VAT in Nepal. This is a publication of Inland Revenue Department and VAT project edited by Dr. Rup Bahadur Khadka. It comprises of twelve main articles along with some comments provided by the various personals.

Shakti Prasad Pandit, Under Secretary of the MOF, writes the article “*VAT Accounts and Audit*”. He emphasizes for a visit to a tax payers premises, if any irregularity resulting in tax evasion is found while conducting a tax audit, then the tax officers assesses the tax amount that has evaded. (IRD/ DANIDA Report, 2001)

Lal Mani Joshi, Deputy Director General of IRD, writes the article, “*Tax credit and Tax refund under the VAT system.*” The tax refund process appears to rather lengthy in his opinion. He disclosed that there has been an increase in the amount refunded each year (IRD/ DANIDA Report, 2001).

Ratna Raj Bajracharya, a Senior Practicing Charter Accountant, writes the article, “*VAT assessment, Penalties and the Appeal producer*”. He opines that the requirement of VAT registration for marginal entrepreneurs isn’t very much conducive for the growth of cottage and small industries as well as marginal entrepreneurs (IRD/ DANIDA Report, 2001).

Nabaraj Bhandari, Director of IRD, writes the article, “*Value Added Tax, A Retrospection.*” He describes the mounting enthusiasm and zeal of the staff in the support of the MOF, the VAT Department and the DANIDA VAT Project (IRD/ DANIDA Report, 2001).

The article, “*Implementation of VAT in Nepal, In Evaluation*” is written by Dr. Govinda Bahadur Thapa, the Director of foreign currency department of NRB. The article points towards the weakness inherent in the Value Added Tax system in Nepal. He is critical to the timing of the introduction of VAT in Nepal. He strongly denounces the existence of an unstable government at the time of introduction, which forced the government to accept many compromises in this regard. He makes critique on the lack of serious consideration to the impact of smuggling from the long open borders with India and Tibet. The lack of highly motivated tax administration and proper accounting systems are also impeding the functioning of VAT in Nepal (IRD/ DANIDA Report, 2001).

The article, “*Value Added Tax in the University Curriculum*” is written by Dr. Pushpa Kandel, Lecturer of the Saraswati Multiple Campus, T.U. He opines that an uncoordinated working atmosphere with the government and the Universities, blowing their own trumpets, isn’t going to benefit the nation in any way (IRD/ DANIDA Report, 2001).

The article, “*Value Added Tax: The Road Ahead*” is written by Mr. Madhu Kumar Marasini, Director of the IRD, advocates for increasing publicity

campaigns based on radio, TV, FM programmes that are popular in the cities where most of the taxpayers reside. He also advises for sudden inspection of goods on the road to check tax evasion (IRD/ DANIDA Report, 2001).

The article, *“Value Added Tax and the practice of Issuing and Receiving Invoices in the context of Market Economy”* is written by Vidhyadhar Mallik, Director of the IRD. He believes that if market runs in a fair manner, the market principle will bring welfare to much happiness to many. He clearly points out the general public. The tax system deserves concerted effort of all stakeholders. The business community may use cash machines and in expensive billing software. They can develop the habit of quoting the price inclusive of VAT and remind customers to take invoice by displaying notices. He urges for black listing and transparency on the part of the business community. Customers can inform the tax authorities about the fraudulent transactions. The tax administration should increase surveillance and consumer education level (IRD/ DANIDA Report, 2001).

The article entitled, *“Value Added Tax in Nepal: Analysis and Suggestions”* is written by Dr. Rup Jyoti, a leading industrialist of Nepal. He suggests that the practice of under invoicing should be discouraged and the same time the custom duties must be gradually decreased. (IRD/ DANIDA Report, 2001)

The article entitled, *“Value Added Tax, The Concept International Experience and its application in Nepal”* is written by the editor himself. In this article, Dr. Khadka’s attempts are again to give the knowledge about VAT to the general public. He has also included the current developments and the status if VAT in the Nepalese as well as international context. He believes that; despite different hurdles, VAT implementation is becoming more effective (IRD/ DANIDA Report, 2001).

The article entitled “*Value Added Tax: Its Past, Present and Future*” is written by Mr. Narayan Prasad Silwal, Former Director General of the VAT Department and the current Joint Secretary in the MOF. He points to the lack of ownership after the formation of the IRD (IRD/ DANIDA Report, 2001).

Dr. Pushpa Kandel (2003) published a book namely “*Tax Laws and Tax planning in Nepal.*” He concluded about VAT, it is a advanced form of sales tax, it is the tax imposed on added value of goods or services. Value Added Tax is one of the form of indirect tax. It is broad based tax and related to goods and services. It is the tax system that aims to minimize tax evasion and increase resource mobilization. It is imposed on added value amount in different stages. It is equivalent to multistage sales tax, in context to sales tax. VAT is imposed on added value of production and distribution. The value added in the form of profit, rent, wage, salaries etc.

Ishwor Bhattarai (2004) published a book namely “*Income Taxation in Nepal with Tax Planning and VAT.*” VAT is an indirect tax and modified form of sales tax. It is levied on value added of goods and services at each stage in the process of production and distribution chain. This stage can be importer, manufacturers, wholesalers and retailers. Value added for a firm is sales minus expenditure on goods and services purchased from other firms. The value added can be obtained by adding payment to factors of production (wages, Salaries, Rent, Interest and Profit).

Durga Prasad Panthi (2005) published a co-writing book namely “*Shakha Adhikrit Sahayogi Darpan*” (hand book for section officers). He concluded that VAT is most scientific, innovative and powerful tax than other old existing taxing system. So, it is a best taxing system for revenue collection due to its transparency and broad base of indirect tax in Nepal with build in quality of universal application.

2.14.2 Review of Related Dissertation

Karki, Dig B. (2003) “*A Study on Value Added Tax: Problems in Nepal*”, An Unpublished Master’s Thesis, Central Department of Management, T. U. Karki explained in his dissertation, the ultimate objective of the underdeveloped countries is to achieve the economic development and follow a rapid rate of economic growth. It demands huge amount of investment in economic overheads and other development activities for which taxation is the primary sources of revenue to the government. While analyzing the resources gap in Nepal, there is trend of the huge amount of receipts and expenditure. Theoretically, VAT is expected to have revenue performance at least as much as growth rate of GDP. In the context of Nepalese economy, there was a significant increase in the revenue from the taxes replaced by VAT with respect to the GDP and even in actual amount. VAT is the superior than the other types of sales tax. VAT is contributing to its GDP about 3% whereas contribution of sales tax was about 2%, similarly VAT’s contribution in tax revenue increased to 31% whereas contribution of sales tax was about 29%, that’s why, VAT is providing satisfactory contribution to some extent. Coefficient of correlation between VAT and GDP has rapidly positive relationship. Revenue collection from VAT is lower in Nepal than expected due to the various problems related to VAT.

Khatiwada, Tara N. (2003) “*VAT implementation in Nepal: Problems and prospects*”, An Unpublished Master’s Thesis, Central Department of Management, T.U. Khatiwada had evaluated the effective of VAT on competition of business. VAT has weakened the competitive power of registrants in trading sectors provision of threshold has encouraged for unauthorized trade. Registered firms are having problems to compete with non-registered unauthorized business. But due to open boarder with India, closeness with China, ineffective customs administration, tedious custom clearance procedure, prevalence of small traders, street howkers, traveler vendor, the unauthorized business have flourished even after the enforcement of VAT. So,

these problems weren't created because of VAT but because of ineffective government practices. VAT officials are facing the problems in inspection of records and accounts of the business transaction because of business community's hesitation to give transparent information and because of unupdated and improper records, ignorance on mechanism of VAT and not keeping supportive documents.

Khatiwada had suggested some effective points for the better implementation of VAT in Nepal are:

-) Revenue administration training center should be made well equipped with modern training equipments; experts from outside should be hired to import effective learning that bridges the gap.
-) Separate provision should be made in VAT law to avoid the situation of taxation on tax-exempted goods and doubled taxation. Electronic tax registration, submission of returns and tax clearance provision should be introduced to reduce tax officers discretionary power and for taxpayers convenience penal provisions should be reviewed and an efficient appeal system established.

Pathak, Devendra P. (2004) "*Importance and effective implementation of VAT in Nepal*", An Unpublished Master's Thesis, Central Department of Management, T.U. In this dissertation, Pathak tried to assess implementation status of the VAT in Nepal. The existing Nepalese sales tax system isn't efficient, it generated loss of the potential amount of the revenue and it is far from equity norms. Focusing on the ever increasing resources gap, in efficiency in the existing MST (Manufacturer Sales Tax) and growing need of the revenue for handling development works, VAT is applicable in Nepal. Low public awareness as well as the tax payer's ignorance may create problems for the implementation of the VAT in Nepal. The most serious problem of implementing the VAT in Nepal is the administrative inefficiency. So, the government should pay its attention to design strong administration. Research

and investigation should be conducted on various issue, such as the effects of VAT on price, economic growth, investment and measures for solving VAT problems should be recommended by the expert group for the implementation of VAT. For effective application of VAT there should be close cooperation between the private and the government sector in the VAT implementation process. The various issues pertinent to VAT should be resolved through broad discussion and the consulting with the private sector.

Kuikel, Rabin (2004) “*Effectiveness of VAT in Revenue Collection in Nepal*”, An Unpublished Master’s Thesis, Shanker Dev Campus, Faculty of Management, T.U. Kuikel had concluded that the main reasons behind the introduction of VAT in Nepal are to increase revenue mobilization by broadening the tax base to make system neutral and efficient, to establish a fair and transparent and to promote economic growth. The tax revenue structure shows that the share of indirect tax in total tax has continuously declined but the share of VAT to indirect tax has been increasing with some fluctuation. To enhance its revenue collection there is a need to establish proper accounting and invoicing system. Tax administrators, taxpayers and consumers need to be educated about VAT system. He tried to analyze the trend of revenue collection before and after the introduction of VAT in Nepal. He had conducted an empirical investigation regarding to effectiveness and problems of VAT in Nepal. He further explained that VAT eliminates various defects of sales tax by replacing it such as pyramiding and cascading effects, other source of taxation are not able to get required level of revenue generation. So, implementation of VAT for Nepal is both a compulsion and necessity. It is only the preliminary stage of VAT implementation in Nepal. So, the revenue contribution from VAT is not as high as expected due to various reasons. Availability of clear VAT laws, and rules, effective and efficient administration, honest tax payer, establishment of proper invoicing mechanism and extension of tax coverage are the most important factors which obviously increase the revenue mobilization through VAT and effectiveness of VAT can be achieved.

Neupane, Ram H. (2005) “*Value Added Tax In Nepal*”, An Unpublished Master’s Thesis, Central Department of Public Administration, T.U. Neupane explained that, the primary reason for growing popularity of VAT in its broad coverage, without distorting the economic efficiency. Most of trading house purchase their goods and make fake bill and most of product are sold without issuing the VAT bill. Narrow tax base, smuggling, under valuation, unauthorized trade, weak tax administration, and lack of public consciousness, open boarder are the major problems of VAT implementation in Nepal. The narrow tax base of the previous sales tax failed to generate the minimum required amount of revenue because it included only import and manufacturing unit. The liberalization and globalization concept has also affected Nepalese tax system. In Nepal share of tax revenue is greater than non-tax revenue. Among total tax revenue indirect tax occupied about two third and share of direct tax is about one third of total tax revenue. The basic reason for low revenue collection from VAT is mainly due to the minimum use of invoice by purchases.

Chauhan, Tara (2005) “*Value Added Tax and it’s Revenue Potential in Nepal*”, An Unpublished Master’s thesis, Shanker Dev Campus, Faculty of Management, T.U. Chauhan explained in dissertation, after the implementation of VAT system in 1997, contract tax, hotel tax, sales tax and entertainment tax have been replaced by it. Looking at the contribution of these replaced taxes in tax revenue and gross domestic product, the implementation of VAT whereas at present their contribution is gradually decreasing. However, during 1999/2000 the contribution of these replaced tax (mainly VAT) is again being increased. The conducted field survey shows that there will be improvement in revenue mobilization due to VAT system. The reason behind this claim is that theoretically VAT system is transparent, it broadens the tax base and discourage tax evasion. VAT itself not more revenue generator. It needs more administrative efforts. The implementations of VAT in Nepal have very poor results than expected due to poor planning. Bureaucracy and corruption are

widely spreading in political as well as administration. People are less conscious and cannot play decisive role whether to implement VAT or not.

2.14.3. Review of Journals and Articles

The international monetary fund staff papers, July 1973 contains an articles entitled “*the Value Added Tax in Developing Countries,*” George E. Lent, Milka Casanegra and Michele Guerard. It analysis the position of VAT in seven developing countries; Brazil, Ecuador, Ivory coast, the Malagasy Republic, Morocco, Senegal, and Uruguay. As per study, a substantial part of the revenue in developing countries is derived from imports. A VAT with multiple rates and many exemptions presents greater difficulties of administration and compliance then does a single discipline by reason of its so-called self checking features but also is self correcting in “Catching Up” with tax that may have been escaped at a previous stage. In this respect, it has some advantages in reducing the risk of revenue leakage. (Lent, Casanegra and Guerard, 1973)

Babu Ram Subedi (1998) in an article, “*VAT and its Applicability in Nepal*” has opined VAT is applicable in Nepal in the sense of tax performance. Neutrality, revenue productivity, fairness and transparency are the desired goals to be achieved from VAT in Nepal (Subedi, 1998)

Prabhu R. Chaudhary (2001) in a book, “*Four years of Implementation of VAT,*” under his article, “*opinion on VAT*” has expressed the point that needs to be stressed in the VAT is modern system of taxation, that pre-supposes the existence of a certain economic order, comprising of business standard and ethic, documentation (technology) and simplified regulations that are simple, respected and complied with. Therefore, successful application of VAT will require assessment of these fundamental pillars; overcome inherent deficiencies in each of these sectors with a positive approach (Chaudhary, 2001).

Ashok Kumar Agrawal (2001) in a book, "*Four years of Implementation of VAT,*" under his article "*VAT; The steps to be taken for success*", as opined the system of VAT not being able to achieve success, has many reasons and lack of practice of issuing and receiving invoices in the process of purchase and sales in one of them (Agrawal, 2001).

An article entitled, "*Tax system and its Reform in Nepal,*" written by Dr. Govinda Bdr., Thapa, was published in the Business Age in Dec. 2003 views VAT as an important element of tax return programme. Yadav Pd. Dhungana has scrutinized the legal aspects VAT in "Value Added Tax and its legal scrutiny" published in the same magazine in Dec. 2003. He concludes that as other areas of economy that are heavily influenced by political instability, corruption, bad governance, frequent change government and Maoist revolution; VAT also witnessed weak implementation owing to there hurdles (Thapa, 2003).

2.15 Research Gap

The VAT is strong source of indirect tax revenue. It plays important role in revenue collection. For the enhancement of the registration trend of VAT, different public awareness program must be held. If the VAT system is sufficient, the government will meet the target goal. VAT system depends on its legal provisions and its popularity also depends on its transparency. About eleven years have already been passed since VAT came into operation but very few studied were related with theoretical aspect. In this study, the researcher tries to examine process of implementation, problems of VAT and its effectiveness in the Nepalese economy. To make this research different from others, the researcher used different technique i.e. statistical tools, future prospective or forecasting, legal provisions, different views of respondents etc.

CHAPTER - III

RESEARCH METHODOLOGY

This study is undertaken to examine the implementation scenario and relating to VAT and find out the best suggestions to be applied in the execution of value added tax system in Nepal. VAT is being applied instead of import, manufacturing level of sales tax, entertainment tax, hotel tax and contract tax. VAT system results the increasing role of indirect tax on tax structure as well as national revenue at satisfactory and reasonable level. Therefore the main concentration of this study is on role of value added tax. The problem of delaying tax assessment, tax evasion etc. may be solved through efficient administration. After performing analytical study on these matters, it tries to recommend for tax administrate to solve the problem of VAT effectively. To achieve these objectives, the research methodology has been designed in this chapter.

3.1 Research Design

Value added tax is the new concept of tax in Nepalese economy. It has completed only eleven years time duration, so that there is lack of availability of historical data as needed. It is based on theoretical as well as practical experience of ten years in Nepal. This study has tried to analyze the system by its own procedure. There are three types of research: descriptive, analytical and empirical. The study of VAT act, VAT rules and regulations, government's plans etc. are done as a part of descriptive research. It includes the evolution and development of VAT. The study of literatures concerning the VAT system and the classification of concepts allocate with VAT are also conducted during the mean time of research. Analytical research is conducted to analyze the trend and contribution of VAT in government revenue. It is done mainly through the secondary source of data from various publications. Therefore to achieve the specific objectives of the study, descriptive and analytical research has been carried out.

3.2 Population and Sample Size

In order to benefit this study 45 sample sizes from Kathmandu valley is selected. Persons included in the samples are carefully selected by consultation with the tax experts, professors, lecturers and judgment of the researcher. The respondents have been divided into three groups. The following table shows the groups of respondents and size of samples.

Table 3.1

Groups of respondents and size of samples from each group

S.N.	Group of Respondents	Sample size
1	Administrators/ Experts	20
2	Businessman	15
3	Customers	10
	Total	45

3.3. Procedure of Data Collection

Both primary as well as secondary data have been collected in order to achieve the real and factual result from this research. All the possible and useful data as for available have been collected. The major sources of data are as follows.

a. Primary Source of Data

The major tools used for collection of primary data are the questionnaire to a respondent. A set questionnaire was developed and distributed to the selected respondent in order to get accurate and actual information. Personal as well as telephone interviews were also conducted to performed research work.

b. Secondary Sources of Data

The secondary source of data have been mostly been collected through books, articles, magazines, newspaper and reports. The major sources of secondary data are:

- i. Publications of Inland Revenue Department
- ii. Published Reports, Articles and Research Studies

- iii. Published documents of National Planning Commission and Nepal Rastra Bank
- iv. Budget speeches and Economic surveys
- v. World Bank Report
- vi. Newspaper such as Gorkhapatra, The Rising Nepal, The Himalayan Times, Kantipur Daily etc.
- vii. Dissertation related to VAT

3.4 Methods of Processing and Analysis of Data

The information and data collected from different sources are firstly tabulated into separate format systematically in order to achieve the desired objectives. For the purpose of analysis generally simple statistical tools have been used which are as follows:

-) Simple percentage
-) Ranking method
-) Graphs, charts and diagrams
-) Simple average

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 Role of VAT in Revenue Collection

4.1.1 Revenue Structure in Nepal

Revenue plays an important role in nation building. The images of government proofs by the government activities, which enhance the economic and social status of people. Revenue increases the government desire and ambitions and increases the mobility power also. In order to perform such social oriented activities, government needs huge amount of resources. Such type of revenue are collected either from internal or external sources. The tax revenue and non-tax revenue are two main factors of total revenue. Tax revenue consists of direct tax and indirect tax and non tax revenue consists of charges, fees, fines and forfeiture, received from sale of commodities and services, dividend from different government firms, royalties and sales of fixed assets, principle and interest payments and other miscellaneous income.

Contribution of tax revenue and non-tax revenue, and the percentage description is presented below in the form of table and diagram.

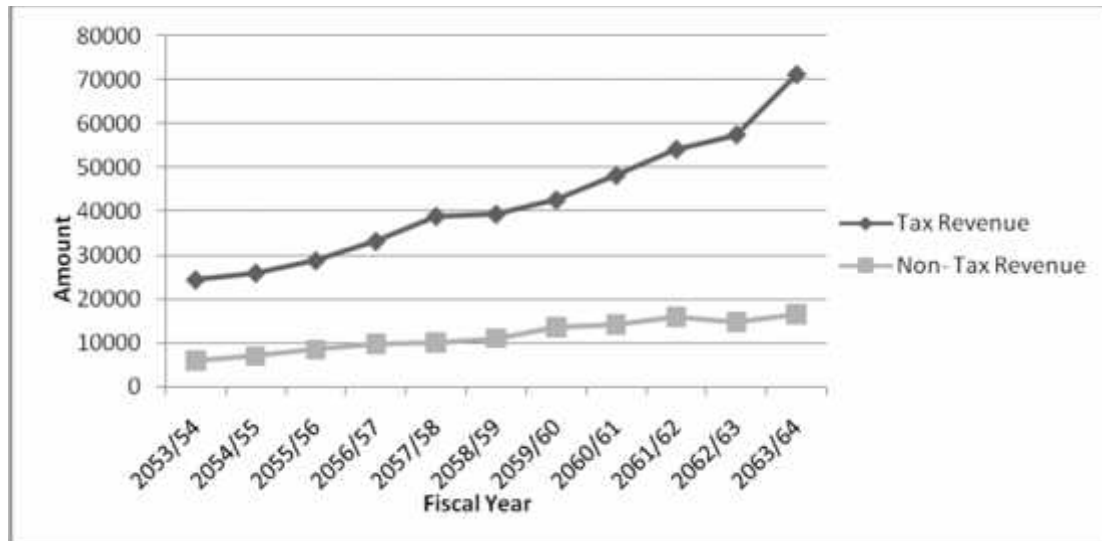
Table 4.1
Revenue Structure in Nepal

(Rs In Million)

Fiscal Year	Total Revenue	Tax Revenue		Non- Tax Revenue	
		Amount	% as to Total	Amount	% as to Total
2053/54	30373.5	24424.3	80.41	5949.2	19.59
2054/55	32937.9	25939.8	78.75	6998.1	21.25
2055/56	37251.0	28752.9	77.19	8498.1	22.81
2056/57	42893.7	33152.2	77.29	9741.6	22.71
2057/58	48893.6	38865.0	79.49	10028.8	20.51
2058/59	50445.5	39330.6	77.97	11114.9	22.03
2059/60	56230.0	42587.0	75.74	13642.9	24.26
2060/61	62331.0	48173.0	77.29	14158.0	22.71
2061/62	70122.7	54104.7	77.16	16018.0	22.84
2062/63	72282.1	57430.4	79.45	14851.7	20.55
2063/64	87717.0	71127.0	81.09	16590.0	18.91

Source: Economic survey of various years, MOF

Figure 4.1
Revenue Structure in Nepal



The composition of tax revenue and non-tax revenue in total revenue structure has been shown in above table. It can be seen that revenue collection in Nepal is increasing trend from the beginning and the share of tax revenue has always been greater than the share of non-tax revenue. The total revenue collection was Rs. 30373.5 million in the fiscal year 2053/54 and that increases to Rs. 32937.9 million in one period. The percentage increased was only 8.44%. In that period, the contribution of tax and non-tax revenue was 80.41% and 19.69% respectively and that was 78.75% and 21.25% in fiscal year 2054/55. The total revenue has increased in each and every year and the contribution of such increase from tax revenue is always in between 75.44% to 81.09% and non-tax revenue is always in between 18.91% to 24.26%. The contribution of total revenue was Rs. 37251 million in fiscal year 2055/56 with the composition of tax revenue is 77.19% and non-tax revenue is 2281%. Total revenue collection has increased to Rs. 50445.5 million in fiscal year 2058/59. Likewise in fiscal year 2063/64 total revenue has reached to Rs. 87717.0 million. In this fiscal year too, there is not any significant change in the composition of tax and non-tax revenue. Contribution of tax revenue was 81.09% whereas as contribution of non-tax revenue was 18.91%. According to above table, we can say that from the beginning of fiscal year 2053/54 the

contribution of tax and non-tax revenue on total revenue is almost equal. From this we can conclude that Nepal did not apply such reform program, which can increase collecting power of tax. After implementation of VAT in 2054/55, the contribution of tax revenue has not increased. The contribution percentage of VAT is almost same and the collection from non-tax revenue is not in increasing trend also. So in conclusion, tax revenue and non-tax revenue of Nepal is not increased rapidly.

4.1.2 Tax Revenue Structure in Nepal

Nepalese total tax revenue is divided broadly into direct tax revenue and indirect tax revenue. Direct tax revenue includes income tax, property tax, interest tax, gift tax, vehicle tax, expenditure tax, contract tax etc, whereas indirect tax revenue is composed of taxes like sales tax (VAT), entertainment tax, passenger tax, hotel tax, import tax, export tax, excise duty etc. The absolute and relative share of direct and indirect tax revenue is presented in table.

Table 4.2
Tax Revenue Structure in Nepal

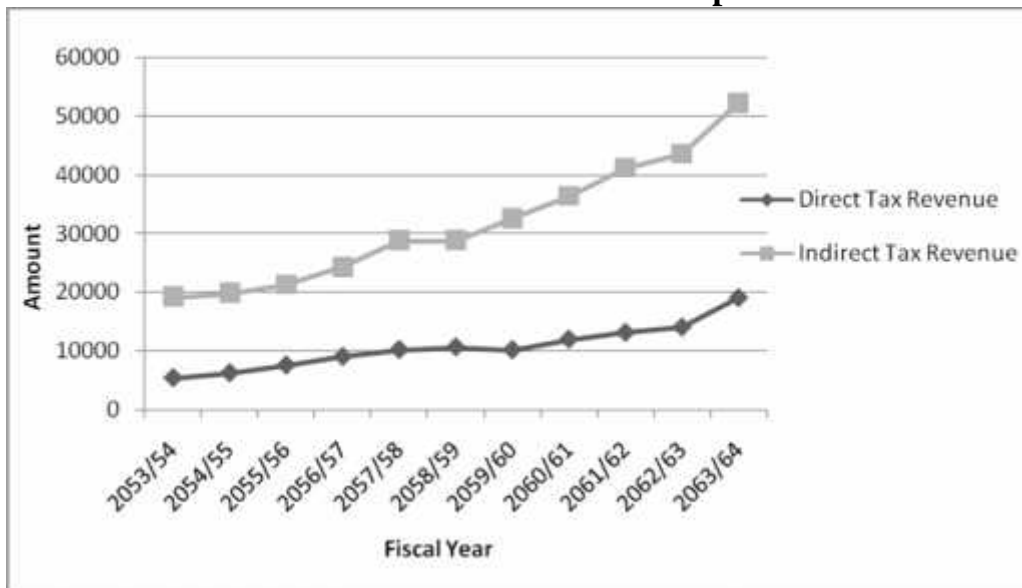
(Rs In Million)

Fiscal Year	Direct Tax Revenue		Indirect Tax Revenue		Total Tax Revenue
	Amount	%	Amount	%	
2053/54	5340.0	21.86	19084.3	78.14	24424.3
2054/55	6187.9	23.85	19751.9	76.15	25939.8
2055/56	7516.1	26.14	21236.8	73.86	28752.9
2056/57	8951.5	27.00	24200.7	73.00	33152.2
2057/58	10159.4	26.14	28705.7	73.86	38865.1
2058/59	10597.5	26.94	28733.1	73.06	39330.6
2059/60	10105.7	23.73	32481.2	76.27	42586.9
2060/61	11912.6	24.73	36260.4	75.27	48173.0
2061/62	13071.8	24.16	41032.9	75.84	54104.7
2062/63	13968.1	24.32	43462.3	75.68	57430.4
2063/64	18980.5	26.69	52146.5	75.68	71127.0

Source: Economic Survey of various years, MOF

Figure 4.2

Tax Revenue Structure in Nepal



From studying above table, it can be said that indirect tax has been playing important role in Nepalese tax structure. In the fiscal year 2053/54 direct tax and indirect tax contributed Rs.5340m and 19084.3 m in total tax revenue of Rs. 24424.3 m. In fiscal year 2056/57 the share of direct tax in total tax revenue was 8951.5 m which was the highest relative contribution of 27% in total tax revenue during last 11 years of observation. Similarly in fiscal year 2053/54 the share of indirect tax in total tax revenue was Rs. 19084.3 m, which was the highest relative contribution of 78.14 % in total revenue. The total tax revenue rose to Rs. 71127.0 m in fiscal year 2063/64, out of which Rs. 18980.5 m from direct tax and Rs. 52146.5 m from indirect tax. The increasing trend of direct tax revenue is constraint than indirect tax revenue. Indirect tax revenue's increasing trend is very fluctuated than direct tax revenue.

In this way, Nepalese tax structure has heavily dominated by indirect tax. Direct tax has plays an important role in revenue collection and it is the best tax for revenue collection. Indirect tax does not generate in developed and underdeveloped countries. It is considered as regressive in nature, so attention should be given in mobilizing additional financial resources through direct tax.

4.1.3 Indirect Tax Revenue Structure in Nepal

An indirect tax is imposed on one person partly or wholly paid by another. The tax, which pays to the government through different mediator, is known as indirect tax. Convenience to pay, mass participation, and limited evasion are main features of indirect tax. VAT, sales tax, entertainment tax, hotel tax, excise duty, import duty, export duty are the examples of indirect tax. Large portion of tax revenue is collected by indirect tax in Nepal. Among the indirect tax, custom duty on imports and export take share of huge amount of indirect tax revenue. Share of VAT (sales tax) and excise duty is second and third position in total tax revenue. The different indirect taxes are shown in the following table.

Table 4.3
Indirect Tax Revenue Structure in Nepal

(Rs In Million)

Fiscal Year	Custom Duties	Sales Tax/VAT	Excise Duty	Other Taxes	Total
2053/54	8309.1	7126.5	2298.1	1350.6	19084.3
2054/55	8502.1	7122.6	2885.8	1241.3	19751.9
2055/56	9517.7	7882.2	2953.2	883.7	21236.8
2056/57	10813.3	9854.9	3127.6	404.9	24200.7
2057/58	12552.1	12047.8	3771.2	334.6	28705.7
2058/59	12658.8	11964.0	3807.7	303.3	28733.1
2059/60	14236.4	13459.7	4785.7	0	32481.2
2060/61	15554.8	14478.9	6226.7	0	36260.4
2061/62	15701.6	18885.4	6445.9	0	41032.9
2062/63	15344.0	21610.7	6507.6	0	43462.3
2063/64	16708.0	26095.6	9342.9	0	52146.5

Source : Economic Survey of Various Years, MOF

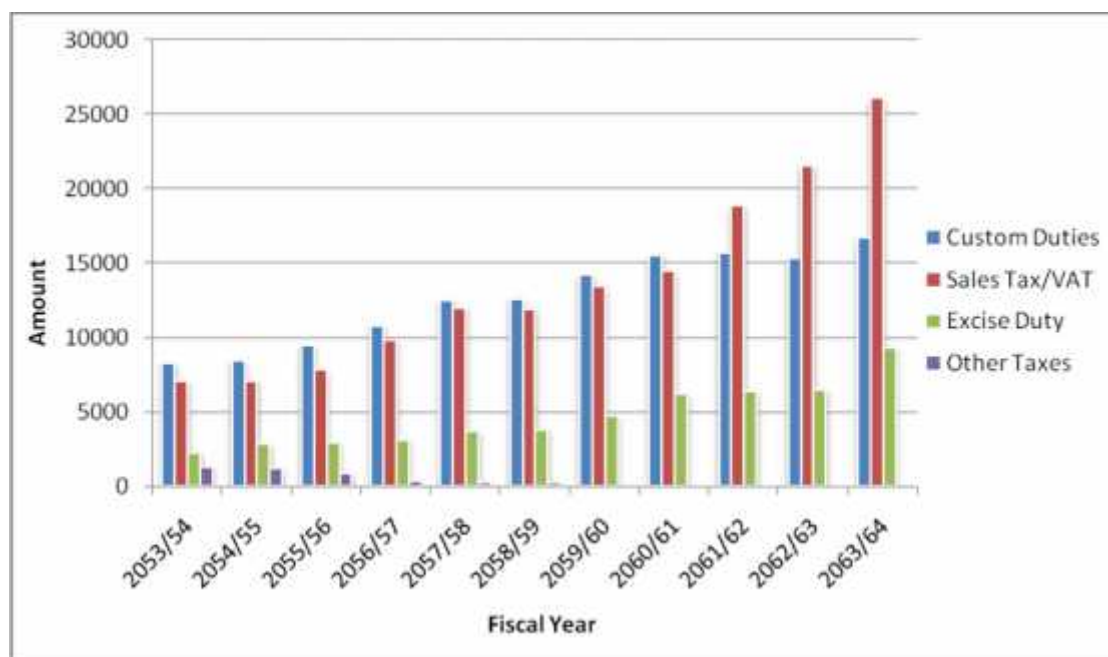
Custom duties: Import, Export, Indian excise refund and other.

Excise duty: Sum of taxation of industrial product and liquor contract

Other tax : Entertainment tax, hotel tax, air flight tax, contract tax, road and maintenance tax and others.

Figure 4.3

Indirect Tax Revenue Structure in Nepal



The indirect tax revenue structure of different years is presented in above table. Custom duty is the major source of indirect tax of Nepal from the very beginning. In fiscal year 2053/54, Rs 8309.1 m was collected from custom duty. The portion of custom duty in indirect tax is in increasing trend. It is increased by certain percentage in every year. Revenue from custom duty reached Rs. 12658.8 m in fiscal year 2058/59 and Rs. 16708.0 m in fiscal year 2063/64. The second largest contributor to indirect tax revenue is sales tax/VAT. Sales tax was replaced by introducing VAT in fiscal year 2054/55. When VAT was introduced in fiscal year 2054/55, the revenue collected from VAT was Rs. 71226 m, which was decreased by Rs. 3.9 m than revenue collection from sales tax in fiscal year 2053/54. But after this, contribution to indirect tax from VAT is in increasing trend and reached to 26095.6 m in fiscal year 2063/64. The third contributor to indirect tax, excise duty, was collected Rs. 2298.1 m in fiscal year 2053/54. And it reached Rs. 38077.7 m in fiscal year 2058/59 and Rs. 9342.9 m in fiscal year 2063/64. In other taxes, entertainment tax, hotel tax, contract tax, air flight tax, road and bridge maintenance tax etc.

are included. This tax was in increasing trend before the VAT implementation. Most of these taxes were converted to VAT after implementation of VAT and collection from other tax was started to decrease and has reached to zero from fiscal year 2059/60.

4.1.4 Revenue Collection from VAT

As VAT is the indirect tax, it contributes some portion in the total revenue. The revenue from VAT is collected under the heading of tax on consumption and product of goods and services. VAT includes sales tax, entertainment tax, hotel tax, air flight tax and contact tax etc. The revenue collection from VAT in different fiscal year is presented in the table below.

Table 4.4
Revenue Collection from VAT

(Rs In Million)

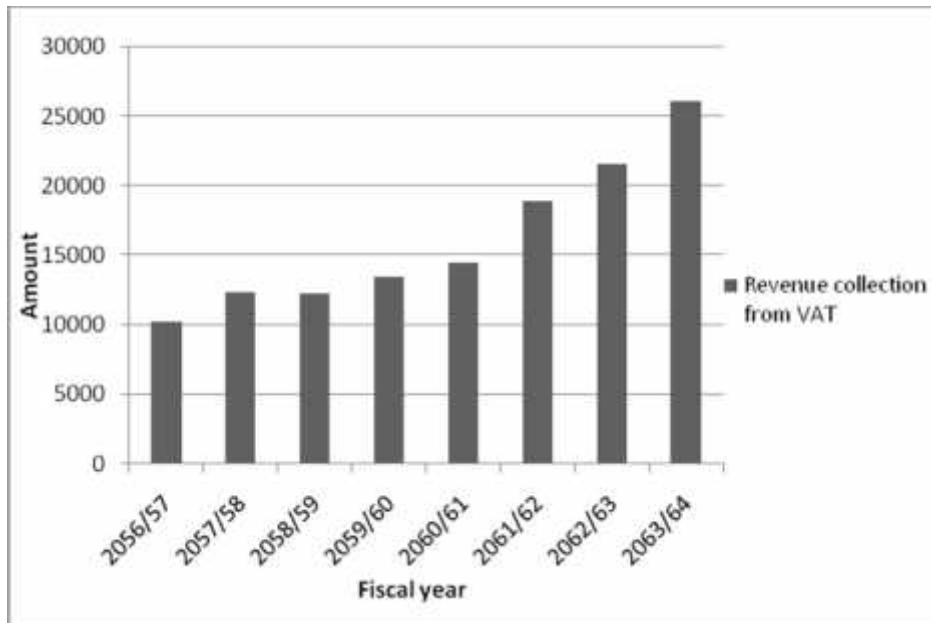
Fiscal Year	Revenue collection from VAT	Percentage change
2056/57	10259.7	-
2057/58	12382.4	20.69
2058/59	12267.3	(0.93)
2059/60	13459.7	9.72
2060/61	14478.9	7.57
2061/62	18885.4	30.44
2062/63	21610.7	14.43
2063/64	26095.6	20.75

Source : Economic Survey of various years, MOF

After the implementation of VAT, Rs 10259.7 m was collected in fiscal year 2056/57 and that reached to Rs. 12382.4 m in fiscal year 2057/58 by increasing 20.69%, which is optimum in the beginning phase of implementation. But in fiscal year 2058/59 collection decreased to Rs. 12267.3 m making negative percentage increased by -0.93%. In fiscal year 2060/61, there was increase in total VAT but ratio of increase was low. In that period actual collection from

VAT was Rs. 14478.9 m but percentage increased was only 7.57%. Likewise, in fiscal year 2062/63, collection from VAT increased to Rs. 18885.4 m and ratio percentage increased was 30.43%, which was a good increase in collection. In comparison of fiscal year 2061/62 actual collection rose by 14.43% and has reached to Rs. 21610.7 m in fiscal year 2062/63.

Figure 4.4
Revenue Collection from VAT



4.1.5 Contribution of VAT to Total Revenue

Government revenue is collected mainly as tax revenue and non-tax revenue, the direct tax and indirect come as the major composition and VAT falls under the category of indirect tax revenues. The following table shows the contribution of VAT in total revenue.

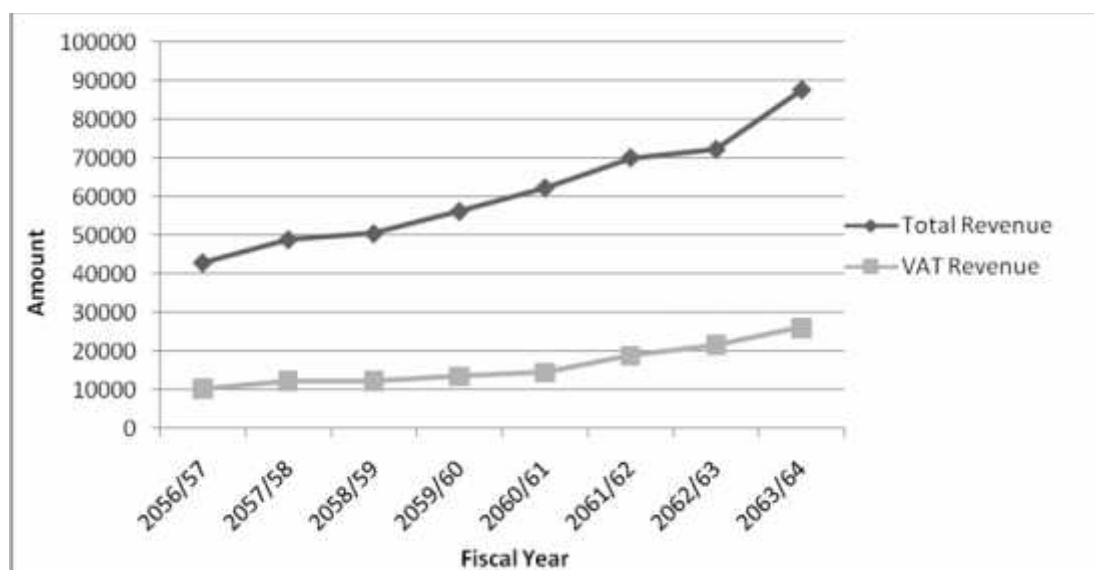
Table 4.5
Contribution of VAT to Total Revenue

(Rs In Million)

Fiscal Year	Total Revenue	Revenue Collection from VAT	% of VAT revenue to total revenue
2056/57	42893.7	10259.7	23.92
2057/58	48893.6	12382.4	25.32
2058/59	50445.5	12267.3	24.32
2059/60	56230.0	13459.7	23.94
2060/61	62331.0	14478.9	23.23
2061/62	70122.7	18885.4	26.93
2062/63	72282.1	21610.7	29.90
2063/64	87717.0	26095.6	29.75

Source: Economic Survey of various years, MOF

Figure 4.5
Contribution of VAT to Total Revenue



From the above table it can be seen that the contribution of VAT revenue to total revenue in Nepal is very less. In fiscal year 2056/57, contribution from VAT to total revenue was 23.92% which was one fourth of total revenue collection and that reached to 25.32% in next year by increasing 1.4%. After that there was decreasing trend in fiscal year 2058/59, 2059/60, 2060/61 to

24.32%, 23.94%, 23.23% respectively. But in fiscal year 2062/63 it was reached to 29.89% by increasing 2.96% than fiscal year 2061/62 and again it was reached to 29.75% by decreasing 0.14%. So, we can say that VAT contribution in total revenue collection is very low than other countries.

4.1.6 Contribution of VAT to Total Tax revenue

The share of VAT in total tax revenue is shown in the following table.

Table 4.6
Contribution of VAT to Total Tax Revenue

(Rs in million)

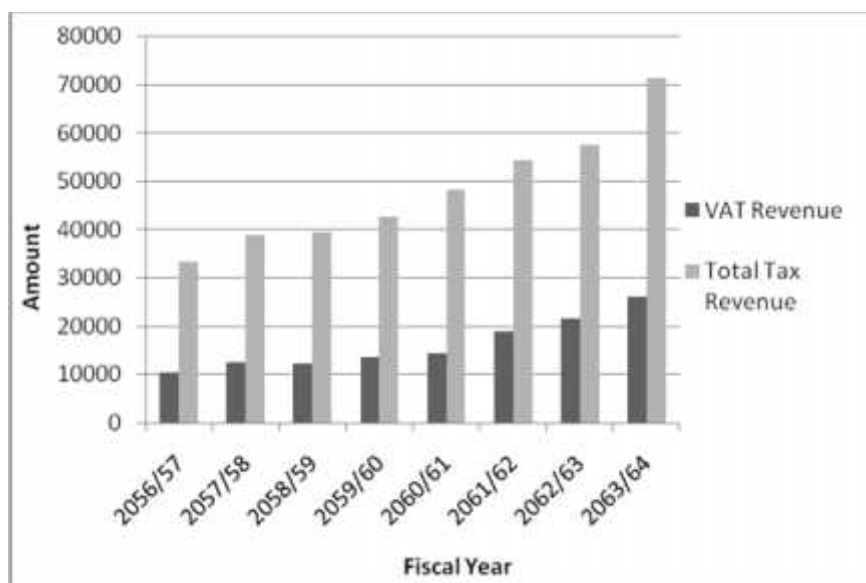
Fiscal year	VAT Revenue	Total Tax Revenue	Percentage of VAT
2056/57	10259.7	33152.2	30.95
2057/58	12382.4	38865.1	31.86
2058/59	12267.3	39330.6	31.19
2059/60	13459.7	42586.9	31.61
2060/61	14478.9	48173.0	30.06
2061/62	18885.4	54104.7	34.90
2062/63	21610.7	57430.4	37.63
2063/64	26095.6	71127.0	36.69

Source: Economic Survey of various years, MOF

The contribution of VAT to total revenue is not smooth; it is fluctuating from the fiscal year 2056/57 to 2063/64. Firstly it was increased, then decreased and it increased again in fiscal year 2062/63. At last it again decreased by 0.95% in fiscal year 2063/64. There is highest contribution in the fiscal year 2062/63 of 37.63% and lowest in the fiscal year 2060/61 of 30.06%.

Figure 4.6

Contribution of VAT to Total Tax Revenue



4.1.7 Contribution of VAT to Indirect Tax Revenue

One of the major sources of government revenue is indirect tax. The VAT is also comes under the category of indirect tax. The contribution of VAT revenue in indirect tax revenue is shown in the following table.

Table 4.7

Contribution of VAT to Indirect Tax Revenue

(Rs in million)

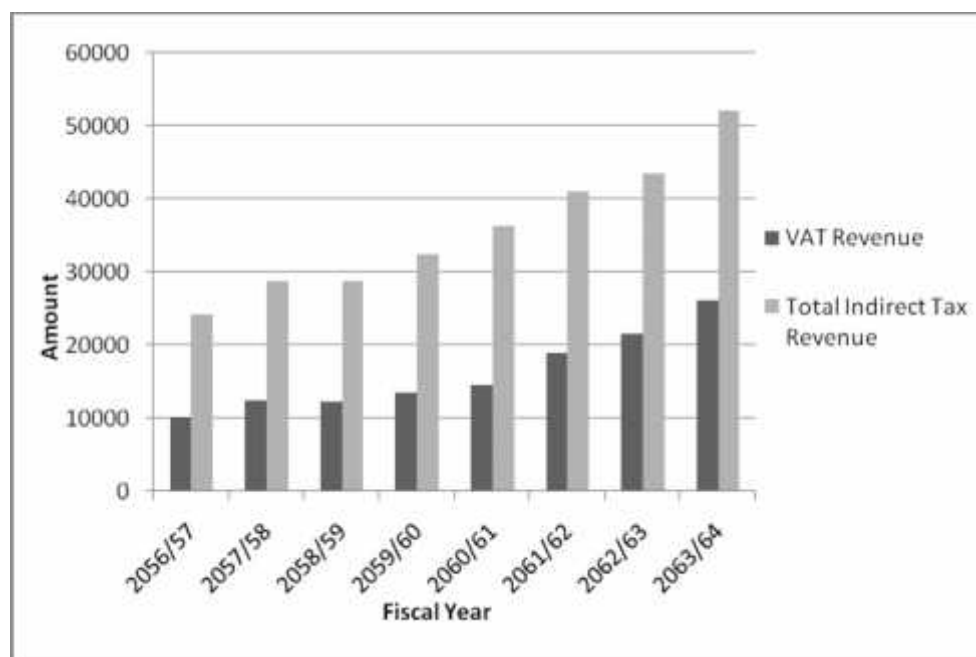
Fiscal year	VAT Revenue	Total Indirect Tax Revenue	% of VAT
2056/57	10259.7	24200.7	42.39
2057/58	12382.4	28705.7	43.14
2058/59	12267.3	28733.1	42.69
2059/60	13459.7	32481.2	41.44
2060/61	14478.9	36260.4	39.93
2061/62	18885.4	41032.9	46.02
2062/63	21610.7	43462.3	49.72
2063/64	26095.6	52146.5	50.04

Source: Economic Survey of various years, MOF

From the above table and trend presented below it can be seen that total indirect tax amount is being increasing during the period taken in this study. Similarly, the revenue from VAT is also increasing during the period. But in the fiscal year 2058/59, the revenue from VAT is slightly decreased as compared to the previous year. There was contribution of 42.39% to total indirect tax revenue in the fiscal year 2056/57. It has increased to 43.14% in fiscal year 2057/58. After that it was continuously decreased upto the fiscal year 2060/61. Again in the fiscal year 2061/62, 2062/63 and 2063/64 it has increased to 46.02%, 49.72% and 50.04% respectively.

Figure 4.7

Contribution of VAT to Total Indirect Tax Revenue



4.1.8 Contribution of VAT to GDP

The contribution of VAT in gross domestic production is presented in the following table.

Table 4.8
Contribution of VAT to GDP

(Rs in million)

Fiscal Year	GDP	VAT Revenue	% Of VAT revenue to GDP*
2057/58	413428.7	12382.4	2.99
2058/59	430396.6	12267.3	2.85
2059/60	460325.3	13459.7	2.92
2060/61	500699.1	14478.9	2.89
2061/62	548484.7	18885.4	3.44
2062/63	611088.5	21610.7	3.54
2063/64	675484.0	26095.6	3.86

* Current price

Source: Economic Survey of various years, MOF

From the above table it is cleared that the percentage of VAT revenue in GDP is nominal in Nepal. The VAT/GDP ratio was 2.99 in fiscal year 2057/58 and such contribution never cross 3.86% during 7 years. In fiscal year 2058/59, VAT contribution to GDP was only 2.85% and it was increased and reached 2.92% in fiscal year 2059/60. After this year such contribution started to increased and reached 3.86% in fiscal year 2063/64.

4.2 Major Findings from Secondary Data

VAT is the most advanced from of tax system. It is based upon some factors like registration of firm, proper account keeping and billing system and so on. So, it is very transparent in nature. The VAT tax evasion is almost impossible; of the proper mechanism of VAT system is followed. After the presentation and analysis of secondary data collected as per the objective of this study, the following major findings are extracted.

- The revenue is collected as tax and non-tax revenue. From the fiscal year 2053/54 to fiscal year 2063/64, the total revenue is absolutely increasing.

So, from the analysis of the trend of revenue of past 11 years, it can be conclude that the revenue is in increasing trend.

- The amount of tax revenue is also increasing is also increasing through out the study period but the revenue from non-tax source had decreased to Rs.14851.7m in fiscal year 2062/63. Besides this fiscal year, the trend of non-tax revenue is also increasing through out the study period.
- After the study of the data collected, it can be say that the tax revenue has the major contribution in total revenue. The percentage of tax revenue in the total revenue stands 75.74% to 81.09%.
- The tax revenue includes direct tax revenue and indirect tax revenue. The portion of tax revenue is smaller than the portion of indirect tax revenue.
- During the study of 8 years period i.e. from fiscal year 2056/57 to 2063/64, except in the fiscal year 2058/59, the amount of tax as VAT has been increasing.
- The share of VAT revenue in total revenue is from 23.23% to 29.89%.
- The tax revenue is one of the major sources of revenue of the government; the percentage of contribution in total tax revenue during the study period is from 30.06% to 37.63%.
- The share of VAT revenue in indirect tax revenue is from 39.93% to 50.04%
- The relationship between tax and GDP is known as VAT/ GDP ratio. This is an indication of the utilization of taxable capacity. The VAT/GDP ratio is 2.99, 2.85, 2.92, 2.89, 3.44, 3.54, and 3.86 in the fiscal year 2057/58, 2058/59, 2059/60, 2060/61, 2061/62, 2062/63 and 2063/64 respectively.

4.3 Empirical Evaluation

There have been various empirical studies conducted before and after implementation of VAT in Nepal. Many experts' views that this system has been implemented effectively as expected. In the earlier period of VAT implementation, there was lack of skilled and trained manpower; administrative structure wasn't set up properly. But currently different informative programs,

seminars and meetings were held in order to give knowledge about VAT. Business community is also in favor of VAT and further demanding to identify all the traders having taxable capacity and include into the tax net. In such situation an empirical study is done to know the views of persons of different fields on different aspects of VAT.

For the purpose of survey questionnaire was prepared to know the opinion of the various person. The questionnaire was distributed to 50 respondents but only 45 respondents gave their views about it. The data collection from questionnaire and analysis of them are presented below in following way.

4.3.1 Present Implementation Scenario of VAT

The question about present implementation scenario of VAT in Nepal was asked to the 50 respondents. Out of 50, 45 respondents with three alternatives answers i.e. unsound, sound and medium. Out of them 30 respondents were responded medium, 9 respondents were responded sound and 6 respondents were responded unsound, which is shown in following table.

Table 4.9

Present Implementation Scenario of VAT

S. N.	Response	Total	Percentage	Rank
1	Unsound	6	13.3	III
2	Sound	9	20	II
3	Medium	30	66.7	I
	Total	45	100	

Source: Field Survey, 2008

According to the opinion expressed in survey, 13.3% respondents expressed unsound, 20% expressed medium as out of 45 respondents. Above table indicates that the implementation scenario of VAT is effective but not satisfactory because it is shown medium instead of sound. There might have been some error in government side or business side or both sides. Lack of coordination between government and private sector, due to lack of proper

knowledge to the final consumers may be the cause of ineffective scenario of VAT implementation.

4.3.2 Present threshold limit for effective implementation of VAT

The question about present threshold limit for effective implementation of VAT was asked to 50 respondents but only 45 respondents were responded as below in the following table.

Table 4.10

Present Threshold Limit for Effective Implementation of VAT

S.N.	Response	Total	Percentage	Rank
1	Low	4	8.9	III
2	Moderate	29	64.4	I
3	High	12	26.7	III
4	Very high	0	0	IV
	Total	45	100	

Source: Field Survey, 2008

Above table shows that there were four alternatives answers i.e. low, moderate, high and very high in above question. 8.9% respondents expressed low, 64.4% respondents moderate, 26.7% respondents expressed high and none of them express their view very high i.e. 0% about present threshold limit for effective implementation of VAT.

From this it can be concluded that taxpayers are not satisfied about present threshold limit. So, it is better to divide present threshold limit into domestic goods and services, import business and export business and others if any special for its effective implementation.

4.3.3 Existing problems which are facing by the Government and Business Sector after Implementation of VAT in Nepal

There were many problems, when VAT becomes implemented since 1997 in Nepal. Among those problems, some are reduced and some are existing up to

now. So, the implementation side of VAT is yet weak. It should be made stronger and progressive than its present status. The implementation of VAT also affects to other taxes like income tax, custom duty, excise duty etc. So, it is essential to analyze the problems of VAT with its implementation side.

An opinion survey was collected from different sectors to find out the problems after implementation of VAT. Out of 50, 45 respondents were expressed their view for this question. The existing problems which are facing by the government and business sector after implementation of VAT are shown in the following table.

Table 4.11
Existing problems which are facing by the Government and Business
Sector after Implementation of VAT

S. N.	Response	Total	Percentage	Rank
1	Tax refund process	5	11.1	IV
2	Billing system	2	4.4	VII
3	Registration process	10	22.2	I
4	Open boarder of Nepal	8	17.8	II
5	Weakness of tax administration	7	15.6	III
6	Lack of public awareness	4	8.9	V
7	Complex accounting	3	6.7	VI
8	Lack of trained and skilled manpower	3	6.7	VI
9	Lack of VAT education	1	2.2	VIII
10	Unclear VAT rules & regulation	2	4.4	VII
	Total	45	100	

Source: Field Survey, 2008

The above table shows that most of respondents focused on problem of complex registration process. There should be needed further improvement with making suitable policy and strategy for registration process. The long and complex registration process should be revised. This table also shows that open

boarder of Nepal is main problem for VAT implementation. The government should apply effective boarder control system and policy.

Likewise, weakness of tax administration is one of the main problem for VAT implementation. The tax administration is very weak to perform the work well and still traditional nature and corruption motivated. There is weakness in well-defined duties and responsibility of all staffs. So, VAT administration hasn't sufficiently been able to bring efficiency, transparency and accountability in its operation. It has also been affected by political intervention and powerful relations. Therefore, VAT administration should accomplish the several reforms in its overall implementation parts in time with transparent, responsible, efficient, effective, non- corrupt, political intervention free administration with modern and global pole. And also there are problems in tax refund process, lack of public awareness, complex accounting system, lack of VAT education, unclear VAT rules and regulations etc.

4.3.4 Role of Billing System in Implementation of VAT

Billing system plays the vital role in implementation of VAT. It helps to determine that how much tax the taxpayer paid on his purchase, collected from sales and refunded. But, in fact the trend of billing system is very low in the market up to yet. Some businessmen haven't been issuing the invoices, some issuing improper and fake bill. Businessmen don't motivated to the consumers to get bills on their purchases. Consumers are also not interested to receive bills on their purchase due to lack of public awareness.

The question about the role of billing system in implementation of VAT to 50 respondents. Out of 50, only 45 respondents expressed their view about it, which can be seen in following table.

Table 4.12

Role of Billing System in Implementation of VAT

S.N.	Response	No.	Percentage	Rank
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1	Yes	36	80	I
2	No	9	20	II
	Total	45	100	

Source: Field Survey, 2008

Above table shows that 80% respondents expressed positive response and 20% respondents expresses negative response about role of billing system in implementation of VAT. From this it can be concluded that effective billing system plays vital role in implementation of VAT.

4.3.5 Essential Factors for Improvement and More Effective Implementation of VAT

An opinion survey was collected from different sector for improvement in its effective implementation. Out of 50, only 45 respondents expressed their view, which is shown in the following table.

Table 4.13
Essential Factors for Improvement and More Effective Implementation of VAT

S. N.	Response	No.	Percentage	Rank
1	Develop information technology	5	11.1	IV
2	Develop skill manpower	8	17.8	II
3	Improve in administration	10	22.2	I
4	Improve in organization structure	2	4.4	VII
5	Political commitment	3	6.7	VI
6	Improve in threshold limit	3	6.7	VI
7	Co ordination with private sector	6	13.3	III
8	Improve in auditing	3	6.7	VI
9	Reward and punishment	4	8.9	V
10	Need of training programme	1	2.2	VIII
	Total	45	100	

Source: Field Survey, 2008

The above table shows that most of the respondents focused on need improvement in administration and there after develop skill manpower, make

coordination with private sector, develop information technology and effective management of reward and punishment system. It shows that there should be needed further improvement with making suitable policy and strategy for improvement and more effective implementation. And also the government should consider the organizational structure of tax administration, conduct training programmer for staffs and businessmen, and improve in auditing for more effective implementation of VAT in Nepal.

4.3.6 Most Important factor for effectiveness of VAT in Nepal

In order to know the most important factor for effectiveness of VAT in Nepal, respondents were requested to express their view about the most important factor for effectiveness of VAT in Nepal. The view of the respondents is shown in the following table.

Table 4.14

Most Important Factor for Effectiveness of VAT in Nepal

S.N.	Response	No.	Percentage	Rank
1	Honest tax officers	12	26.7	II
2	Honest tax payers	9	20	IV
3	Clear act rules, regulation	14	31.3	I
4	Effective VAT administration	10	22.2	III
	Total	45	100	

Source: Field Survey, 2008

The above table shows that 31.1% respondents focused on need of clear act, rules and regulation for effectiveness of VAT. Thereafter 26.7% respondents focused on honest tax officer, 22.2% respondents focused on effective VAT administration and 20% respondents focused on honest payers. So, it can be concluded that clear act, rules and regulation are the most important factors for the effectiveness of VAT.

4.3.7 Problems in the Process of VAT Implementation

The taxpayers and tax collectors both have to be conscious because VAT is new and advance tax system. Though ten years have been already experienced but it is still a matter of challenge especially in the case of implementation. The respondents were asked for their views to explore the problems that the implementation aspect is facing. The view of the respondents about the problems in the process of VAT implementation is shown in following table.

Table 4.15
Problems in the Process of VAT Implementation

S. N.	Response	No.	Percentage	Rank
1	Registration	13	28.9	II
2	Collection	10	22.2	III
3	Tax refund	15	33.3	I
4	Miscellaneous	7	15.6	IV
	Total	45	100	

Source: Field Survey, 2008

The above table shows that 33.3% respondents focused on the problems of tax refund process, 28.9% respondents focused on the problems of registration process. Likewise 22.2% respondents focused on the problems of collection process and 15.6% respondents focused on miscellaneous problems like dishonest in both sides (tax payers and tax collectors), weak regulation, problem on issue of original bill, inefficiency of VAT administration in tax auditing.

4.3.8 Measures to Establish VAT as a Major Source of Public Revenue

VAT is the most popular taxation system. VAT can be as a major source of public revenue, when the tax administration will be efficient and effective. The respondents were asked for their views toward the measures to establish VAT as a major source of public revenue, which is shown in following table.

Table 4.16

Measures to Establish VAT as a Major Source of Public Revenue

S.N.	Response	No.	Percentage	Rank
1	More trained & qualified officers	11	24.5	II
2	Minimize personal contract with the taxpayers	6	13.3	IV
3	Computerized system for the payment of VAT	16	35.5	I
4	Collection of VAT should be given to private sector	8	17.8	III
5	Quick & hassle free service	4	8.9	V
	Total	45	100	

Source: Field Survey, 2008

The above table shows that 35.5% respondents focused on need of computerized system for the payment of VAT to establish VAT as a major source of public revenue. Likewise 24.5% respondents focused on need of more trained and qualified manpower, 17.8% respondents focused on need of private sector's participation in collection of VAT, 13.3% respondents focused on to minimize personal contract with the taxpayers and 8.9% respondents focused on need of quick and hassle free service.

4.3.9 Suggestion to Broaden the VAT Base

Broadening the VAT base means including as much as sector in to the VAT net. Even in the low rate high revenue can be collect through expanding VAT base. The opinion survey about the views on expanding base of VAT of different respondents shown in following table.

Table 4.17
Suggestion to Broaden the VAT Base

S. N.	Response	No.	Percentage	Rank
1	Reduce custom rate	8	17.8	III
2	Regular promotional campaign	11	24.4	I
3	Increase coordination between public and private sector	9	20.0	II
4	Reducing exemption goods	4	8.9	VI
5	Include all sectors	6	13.3	V
6	Reduce threshold	7	15.6	IV
	Total	45	100	

Source: Field Survey, 2008

The above table shows that 24.4% respondents focused on need of regular promotional campaign to broadening the VAT base. Likewise 20% respondents focused to increase coordination between public and private sector, 17.8% respondents focused on reduce custom rate, 15.6% respondents focused on reduce threshold limit, 13.3% respondents focused to include all sector and 8.9% respondents focused on need of reducing exemption goods.

4.3.10. Problems Faced after Introduction of VAT System

VAT system was introduced in 1997 A.D., however the concept of this tax in Nepal was introduced in early years of 1990s. Before the introduction of VAT, sales tax was in operation. The respondents were asked for their views toward the problems faced after introduction of VAT system, which is shown in following table.

Table 4.18
Problems Faced After Introduction of VAT System

S.N.	Response	No.	Percentage	Rank
1	Problems in accounting system	3	6.4	VI
2	Increase in compliance cost	9	20	II
3	Problems in tax refund	2	4.4	VII
4	Problems in administration	12	26.7	I
5	Decrease in competitive cost	8	17.8	III
6	Problems in trade and tariff	7	15.5	IV
7	Problems in credit transaction	4	8.9	V
	Total	45	100	

Source: Field Survey, 2008

The above table shows that 26.7% respondents focused on problems in administration after introduction of VAT system. Likewise 20% respondents focused on problems of increase in compliance cost, 17.8% respondents focused on decrease in competitive capacity, 15.5% respondents focused on problems of trade and tariff, 8.9% respondents focused on problems in credit transaction, 6.7% respondents focused on problems in accounting system and 4.4% respondents focused on problems in tax refund process.

4.4 Major Finding from Primary Data

This research has been addressed to study on the implementation scenario of VAT system in Nepal and to find out the existing problems facing by government and business sector as well after the implementation of VAT system and to find out the effectiveness of VAT in the Nepalese economy. During the research studies, the researcher has found both positive and negative impacts of VAT. The major outcomes and findings of this research are listed as follows.

- In comparison to other countries, Nepal has to utilize all the means and resources. However the mobilization of revenue is very low at present where VAT also included is. The large number of potential taxpayers,

who must be included within the boundaries of VAT net, remains outside. As a result, the honest taxpayers have to do unfair competition.

- Value added tax of Nepal is not stand in ground reality. There is not actual price and valuation of imported goods in custom. The controlling mechanism for the commodities, charged by excise duty, which is not good and difficult to know the actual production. Actual bills and invoices are not issued and presented in VAT. So, the present implementation scenario of VAT is not satisfactory.
- Trend of tax revenue is not satisfactory because most of tax return should be debit note in general. But in Nepal has credit note.
- Trend of revenue collection ratio through VAT is depending on import business.
- Current act is suitable for implementation of VAT properly but businessmen are against its increasing trend of VAT rate because it is needed to increasing its area, which is not favorable for collecting more revenue.
- The future of VAT is progressive.
- There is high possibility of deceiving taxes. Nobody pays according to law. Actually, the duty of good citizen is to pay tax. But on the contrary, the person who pays tax is foolish and who deceives tax is known as intellectual one. There must be the habit of paying tax rather than to deceive the tax. So, the education to the value added payee is very low. Most of the consumers and business sector do not know what tax is. Thus, businessmen are against the VAT.
- The demand of modern value added tax is registration of tax payee, investigation, tax returns report, tax audit and systematic database but in Nepal, this situation has not come yet.

- The business sector is not satisfied with the fine and penalty because it is very strong rather than a facilitative one.
- Consumers are unaware with the billing importance and do not demand valid bill from businessman while purchasing goods and services.
- Open boarder is a main problem for successful implementation of VAT.
- For improvement and more effective implementation of VAT, there should be develop skill manpower, make coordination with private sector, manage of reward and punishment system, improve in administration and so on.
- The existing tax administration is not become so efficient, service oriented and result oriented, so as to suit the modern VAT system. But current act is suitable for implementation of VAT properly.
- Tax officers are bargaining with the businessmen for their financial benefits. They demand the irrelevant information from business sector.

CHAPTER -V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

As with the introduction of any new tax, VAT has survived the initial resistance phase. Whether liked or dislike, it is now well entrenched as an integral part of the Nepali tax structure. On the basis of its nature, tax can be classified broadly into direct and indirect tax. VAT can be taken as good example of indirect tax. VAT is definitely new and modern tax system in comparison with other traditional taxes. It is a broad base indirect tax, most recent innovation in the field of taxation and most important tax reform in the 21st century. VAT is multistage, commodity and service based tax, which is imposed on goods, and service based tax, which is imposed on goods and services at each stage of production and distribution. It is imposed only on value added amount. It A.D. in Germany, but France Succeeded in actually implementing this tax system on a practical platform in its self assessed tax. The tax payer determines their tax liability themselves and pays tax to government.

Due to some special features such as input tax credit system, based on scientific accounting system, less chances of cascading and pyramiding effect, this system is very popular through the world as well as Nepal also. The main reasons of introduction of vat in Nepal are to increase revenue mobilization by broadening the tax base to make the tax system neutral and efficient to establish a fair and transparent tax system and to promote economic growth.

Looking at the historical background, the implementation of vat becomes a major subject to controversy, although this tax has been implemented through the country now, the controversy regarding it has not subsided yet. This is no new tax and it is taken as a reformed version of the sales tax.

VAT is new, important and an effective tax system among the prevailing tax systems of the world. The concept of this tax system may have originated first in 1919 A.D. in Germany, but France succeeded in actually implementing this tax system on a practical platform in 1954 A D. only. Currently, around 125 and above countries of the world are successfully implementing this tax system. Like other countries in the world, Nepal also adopted the VAT system by replacing the sales tax, hotel tax, contract tax and entertainment tax. VAT was implemented with the objective of increasing revenue collection, bringing transparency in revenue collection, bringing a maximum number of tax payers under the tax net and minimizing the discretionary powers of the tax administration.

The VAT can be collected by using different methods such as addition method, subtraction method and tax credit method. There are three types of VAT are used in general practice. These are consumption type, income type and gross national product. From different investigation it is proved that VAT is superiority over sales tax. VAT is very important in developed as well as developing countries like Nepal because of stable economic growth, collection of more revenue to reduce level of corruption, to increase the responsibility of the government and increase gross domestic product.

In the context of Nepal, VAT system is completely new system of taxation. Nepalese government introduced VAT since Nov 16, 1997. Before the implementation of VAT, a task force technical assistance from USAID. But due to mid term election 1994, VAT was not implemented as it was suggested by the task force. Then after another task force was formed and it recommended that the VAT should be introduced. In the earlier stage of VAT implementation there was strong oppositions from the business community as well as consumers. Nepal has adopted a destination based consumption type VAT with tax credit method. The tax rate is 13% combined with zero on exports with exemption on specified transaction of goods and services. The

registration threshold is 2 million and the transaction, which is below the threshold limit voluntarily registered under the VAT net. But businessman engaged in the sale of goods and services below specific threshold level, it is not mandatory for them to register under VAT. The transaction of tax exemption goods and services remains outside the preview of VAT. In case of zero-rated supplies such as export, there is a provision of tax refund of VAT. Such registrants have to collect VAT at the rate of zero percent on their sales and can deduct the tax incurred on their purchases or imports. In this system, every person or business firm, which is above threshold limit, should be compulsory registered in VAT office.

The first step towards VAT operation is registration of vendor who is legal taxpayers. Each and every registered vendor should received and given the bill while purchasing and selling the goods respectively. The VAT registrant should keep records of all invoices which are issued and received. To keep VAT records update, different accounts should be maintained in daily transaction. According to provision of VAT, these records have to maintain and updated and made available for audit by the tax officer. Generally these records are purchase and sales book, VAT accounts the invoice and abbreviated invoices etc.

Despite having too many challenges regarding in the implementation of VAT, it has been generating public revenue. The revenue structure shows that the contribution of indirect tax to the total tax revenue has increased with some fluctuation. Although the amount of VAT revenue has been increasing but it is unable to achieve its potential. The main problems lies on the proper invoicing system. Likewise administrative inefficiency, lack of knowledge, lack of skilled manpower is also main problem in VAT system. On the other hand problems like lack of proper implementation of rules and regulation, unclear VAT laws and regulations, lack of tax education, broad coverage and lack of effectiveness of tax administration are arisen in the process of VAT collection

system. Other problems relating to the effectiveness of VAT are lack of awareness about VAT, existence of corruption, smuggling and under valuation, open boarder and unauthorized trade, lack of coordination between tax payer and tax administration, inability to maintain accurate and proper accounts, non issuance of invoice in the sales of goods etc.

The success of the law lies in its effective implementation. An efficient administration, appropriate accounting system, accurate invoicing and evaluation system and compulsory invoicing have play important role in effective implementation of VAT. The government should gradually improve the different weakness and find out the solution of problems. Some improvements are already being made and these effects have been feeling now.

5.2 Conclusion

Being better economic developed country is the objective of every country of this world. To get a developed economy it is essential to have sufficient revenue generation. Generally tax revenue plays the important role for development of nation's economy. Tax revenue consists of direct and indirect tax revenue. For the achieving higher growth of revenue, every country needs to reform the existing tax system. In the context of developing countries, direct tax doesn't plays important role in revenue collection. These countries generate revenue from indirect tax only. According to liberalized competitive economy, there should be important role of indirect tax revenue. In the context of present world VAT is one of the best alternatives of tax reform process. In that process Nepalese government adopted VAT by replacing four tax systems. After the implementation of VAT, it broadens the tax base which increase revenue mobilization.

Nepal introduces VAT system for several reasons. These reasons are to introduce a tax system to develop a stable source of revenue, to broaden the tax base, to promote economic growth, to generate revenue required for improving

its deteriorating macro economic performance, to establish modern, scientific and transparent tax system and to make Nepalese tax system more effective. In fact, VAT is currently well received by the consumers as well as business and industrial communities of Nepal. VAT is an account base tax that leads to transparency and accountability both on taxpayers and tax collectors. Tax is the important source of the government revenue in which the indirect tax has occupied two-third place of total tax revenue and one-third place of direct tax revenue.

The conducted field survey shows that there will be improvements in revenue collection due to VAT system. According to survey, the main problems in VAT collection are smuggling and under valuation, tax unconsciousness of people, tax evasion and improper billing system. Similarly, the major problem in VAT collection is registration, collection, tax refund. The view of most respondents is that the VAT system has positive effect in nation's economic growth. Most of Nepalese people are unknown about VAT system and they don't know the proper records of VAT account. So, the VAT administration takes corrective action and efforts for successful VAT. The most important factors for the effectiveness of VAT in revenue collection are proper implementation, clear VAT law, rules and regulation, broad coverage, tax education and effective and efficient administration etc.

Finally, it VAT itself not more revenue generator, it is only transparent and scientific system of collecting revenue. It needs more administrative support and efforts. According to the survey the implementation of VAT in Nepal have poor results than expectation. The reasons are poor planning, unaccountable staffs, weak and corrupt bureaucracy etc. Corruption is widely spreading in political as well as administration from top level to bottom level of authority. People are less literate about theoretical concept of VAT, so they cannot play creative support for the implement of VAT. It is necessary for the taxpayers to know about the VAT with its benefits. Different education programs, seminars

etc. should be organized for taxpayers as well as general public in all over the country with the objectives of aware them about VAT which helps to bring more and more tax payers in the tax circumference. Likewise the VAT system can be developing by adopting automatic billing system. Tomorrow, there may be possibilities for further improvements learned through our mistakes that will also be required. In order to make VAT effective, it is essential to create an environment in which invoices are issued properly, accounts are maintained accurately, tax is based on transactions, and fair competition among industrialists and businessmen is established with respect to tax. Until and unless such a situation is created, VAT implementation will not be easy and pressure will be created in some or another way.

5.3 Recommendations

On the basis of major findings and conclusion, following recommendation have been made to make VAT system more effective and to generate more revenue through VAT in the future. If the concerned parties would convert that recommendation into action, the VAT system will meet the objectives.

- VAT registration, collection and refund system should be improved as transparent and more scientific. Smuggling and undervaluation of goods should be discouraged and should create a positive attitude towards VAT administration.
- Billing system should be maintained more clear and transparent. The government should develop a good billing software and should make it freely available to the vendors.
- The manpower of the IRD and VAT office should be trained.
- Existing administration system is not satisfactory, so it should be improved by creating efficient management. The government should make efforts to make the administration of VAT practical and upto date.

- To make the market monitoring system effective, immediate legal steps should be taken against those who do not give invoices and under valued invoices.
- Publicity and taxpayer related education should be organized and a publicity campaign should be initiated to make the buyers and sellers aware about the long-term benefits of billing system through hoarding board, pumplets and interaction programs.
- The VAT does not cover all service sectors. So, it should be implemented in all service sectors and the threshold should be reduced.
- The government should not implement those policies, which go against the basic principles of VAT and harass the taxpayers.
- Effective steps should be taken for implementing VAT refund process and system should be made more easy and effective in order to refund the tax amount.
- People should make positive thought about VAT. Students of campus and school level should be given knowledge about VAT and curriculum should include tax education and create obligation of paying tax.
- There should be create cooperation between government and private sector in the VAT implementation process.
- Government should create an environment of strong and full political commitment for successful implementation of VAT.
- Government should lunch a consumer education campaign regarding the importance of issuing and receiving invoices.
- Open boarder is also a main hindrance for a successful implementation of VAT. So, it should effectively control to prevent the illegal trade and checking should be practiced.

- Training program must be provided tax officers for develop skill manpower and improve administration with current information technology.
- Conduct monitoring and follow up of the market to check whether or not billing and invoice are being issued properly.

Finally, for the effective, efficient and more successful implementation of VAT in Nepal is to make the effective billing with commitment and understanding between government, tax administration, private sector and taxpayer would be the prime condition. The government should apply suitable VAT policies and strategies considering globalization, liberalization, WTO and modern net of VAT for it's progress with the close coordination to the concerned stakeholders.

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Appendix - I
Government Expenditure & Source of Financing

Description	056/57	057/58	058/59	059/60	060/61	061/62	062/63	063/64
Expenditure	66272	79835.1	80072.2	84006.1	89442.6	102560.4	110889.2	133604.6
Recurrent expenditure	35579.1	45837.3	48863.9	52090.5	55552.1	61686.4	67017.8	77122.4
Capital expenditure	25480.7	28307.2	24773.4	22356.1	23095.6	27340.7	29606.6	39729.9
Principal repayment	5212.7	5690.6	6434.9	9559.5	10794.9	13533.3	14264.8	16752.3
Receipts	48605.5	55647	57131.6	67568.9	73614.4	84513.9	86109.6	103512.9
Revenue	42893.8	48893.6	50445.5	56229.8	62331	70122.7	72282.1	87712.1
Foreign grant	5711.7	6753.4	6686.1	11339.1	11283.4	14391.2	13827.5	15800.8
Surplus +, Deficit -	-17667	-4188.1	-2940.6	-6437.2	-5828.2	-18046.5	-24779.6	-3009.17
Source of Deficit financing								
Foreign loan	11812.2	12044	7698.7	4546.4	7629	9266.1	8214.3	10053.5
Domestic loan	5500	7000	8000	8880	5607.8	8938.1	11834.2	17892.3
Cash balance	354.8	5144.1	7241.9	3010.8	2591.4	-157.7	4731.1	2145.9

Source: Ministry of Finance, Economic Survey

Appendix - II
Tax Revenue

Particulars	056/57	057/58	058/59	059/60	060/61	061/62	062/63	063/64
Custom Duty	10813.3	12552.1	12658.7	14236.4	15554.8	15701.6	15344	16708
Production & consumption tax	13387.3	16153.6	16074.3	18244.8	20705.6	25331.3	28118.3	35439
Land revenue & registration tax	1015.9	612.9	1131.8	1414.3	1697.5	1799.2	2181.1	2253.5
Tax on property, profit & income	7935.6	9546.5	9465.7	8691.5	10215.1	11272.6	11787	16727
Total	33152.1	38865.1	39330.6	42587	48173	54104.7	57430.4	71127

Source: Ministry of Finance, Economic Survey

Appendix - III
Non- Tax Revenue

Heading	056/57	057/58	058/59	059/60	060/61	061/62	062/63	063/64
Charges, fees, fines & forfeitures	386.3	386.6	518.8	579.6	1202.5	1359.9	1927.7	1945
Receipts from sales of commodities & services	2428.9	2728	2611.1	3063	3497	3849.9	3932.3	4777
Dividend	2507.5	2336.5	2512.9	2497.6	2661.1	4589.9	3394.8	4938
Royalty & sales of fixed assets	563.3	949.6	723.9	1945.4	1465	1931.4	1196.8	1092
Principal & interest payment	3751	3497.2	3109.5	2464.3	3507.1	2714.3	3251.3	2086
Miscellaneous items	104.6	130.8	1638.8	3092.8	1825.3	1572.6	1148.7	1748
Total	9741.6	10028.8	11115	13642.7	14158	16018	14851.7	16590

Source: Ministry of Finance, Economic Surve

Appendix - IV
QUESTIONNAIRE

I would like to introduce myself as a student of MBS final year, Shanker Dev Campus, engaged in a research work. I am going to prepare a dissertation on **“A Study on VAT: Implementation, Problems & its Effectiveness in the Nepalese Economy”** in order to fulfill the partial requirement of Masters Degree in Business Studies (MBS) of Tribhuvan University.

I heartily request for your valuable comments, views, suggestions and informations on this issue that could be prove very useful for my study. So, I request you to fill up the following questionnaire. Please tick (√) the answer of your choice or wherever appropriate put in order of preference from 1 to last number on the basis of alternatives.

Thanking You!

Sajana Maiya Shrestha
Tribhuvan University
Shanker Dev Campus

Name of the respondent:

Designation:

Office/ Organization:

Occupation:

1. How do you know about VAT?

- a. Radio/ Newspapers []
- b. Personal Communication []
- c. Lecturers / Seminars []
- d. Others (Please specify)

2. What is the present implementation scenario of Nepal in your own opinion?
- a. Unsound []
 - b. Sound []
 - c. Medium []
 - d. Don't know []
3. What do you think about present threshold limit for effective implementation of VAT in Nepal?
- a. Low []
 - b. Moderate []
 - c. High []
 - d. Very High []
 - e. Don't know []
4. What is the major weakness of VAT implementation? (Please rank)
- a. Unskilled manpower []
 - b. Weak administration []
 - c. Unconscious tax payer []
 - d. Others if any (Please specify).....
5. What are the major existing problems of VAT for its implementation in Nepal? (Please rank)
- a. Tax refund process []
 - b. Billing System []
 - c. Registration Process []
 - d. Open boarder of Nepal []
 - e. Weakness of tax administration []
 - f. Lack of public awareness []
 - g. Complex accounting []

- h. Lack of trained and skilled manpower []
- i. Lack of VAT education []
- j. Unclear VAT rules & regulations []
- k. Others (please specify).....

6. What should be done for the improvement and more effective implementation of VAT in coming days in Nepal? (Please rank)

- a. Develop information technology []
- b. Develop skill manpower []
- c. Improve in administration []
- d. Improve in organization structure []
- e. Political Commitment []
- f. Improve in threshold limit []
- g. Co- ordination with private sector []
- h. Improve in auditing []
- i. Effective reward and punishment system []
- j. Need of training programme []
- k. Launch consumer awareness programme []
- l. Others (Please specify).....

7. Does the increased rate (10% to 13%) assist to collect more revenue?

- Yes []
- No []

8. Does the billing system play vital role to implementation of VAT in Nepal?

- Yes []
- No []

9. What are the most important factors for effectiveness of VAT in Nepal?

(Please specify)

- a. Honest tax officers []
- b. Honest tax payers []
- c. Clear act, rules & regulations []
- d. Effective VAT administration []
- e. Others (Please specify).....

10. What kind of problems have arisen in the process of VAT implementation in Nepal? (Please rank)

- a. Registration []
- b. Collection []
- c. Tax refund []
- d. Others (Please specify).....

11. To establish VAT as a major source of public revenue, what measures are needed? (Please rank)

- a. More trained and qualified officers []
- b. Minimize personal contract with the taxpayers. []
- c. Computerized system for the payment of VAT. []
- d. Collection of VAT should be given to private sector []
- e. Quick and hassle free service []
- f. Others (Please specify).....

12. What is your suggestion to broaden the VAT base?

- a. Reduce custom rate []
- b. Regular promotional campaign []
- c. Increase coordination between public and private sector []
- d. Reducing exemption goods []

- e. Include all sector []
- f. Reduce threshold []
- g. Others (Please specify).....

13. What types of problem have you faced after introduction of VAT system?

(Please rank)

- a. Problems in accounting system []
- b. Increase in compliance cost []
- c. Problems in tax refund []
- d. Problems in administration []
- e. Decrease in competitive capacity []
- f. Problems in trade and transit and tariff []
- g. Problems in credit transaction []
- h. Others (Please specify).....

14. Do you have any other suggestions for the effective implementation of VAT? If yes please provide your view.....

Thank You!