

**A STUDY ON TAXPAYERS LEVEL OF SATISFACTION ON VALUE
ADDED TAX IN NEPAL**

(A Case study on Butwal Municipality)

**Submitted to
Office of the Dean
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Tribhuvan University**

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March, 2014**

RECOMMENDATION

This is to certify that the thesis

**Submitted by
Baburam Acharya**

Entitled
**A STUDY ON TAXPAYERS LEVEL OF SATISFACTION ON VALUE
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(A Case study on Butwal Municipality)

**has been prepared as approved by this Department in the prescribed format of
the faculty of Management. This Thesis is forwarded for examination.**

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(A Case study on Butwal Municipality)

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

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DECLARATION

I hereby declare that this thesis entitled “*A study on Taxpayers Level of Satisfaction on Valued Added Tax in Nepal (A Case study on Butwal Municipality.)*” submitted to office of the dean, faculty management, Tribhuvan University is my original work as partial fulfillment of the requirement of Master's of Business Studies (MBS) prepared under the guidance and supervision of Mr. Lalit Man Shereshta, Lumbini Banijya Campus, Butwal, Rupandehi, Nepal.

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I am very pleased to present myself as an author of the thesis entitled “*A study on Taxpayers Level of Satisfaction on Valued Added Tax in Nepal (A Case study on Butwal Municipality.)*” has been prepared for the partied fulfillment of the Degree of Master of Business Studies (M.B.S.).

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ABBREVIATIONS

CTA	Chief Tax Administrator
CTO	Chief Tax Officer
DG	Director-General
DDG	Deputy Director-General
FAQ	Frequently Asked Questions
FY	Fiscal Year
IRD	Inland Revenue Department
IROs	Inland Revenue Offices
ITACP	Income Tax Administration Consolidation Project
ITx	Income Tax
LTO	Large Taxpayer Office
MOF	Ministry of Finance
PAN	Permanent Account Number
RASP	Revenue Administration Support Project
TPES	Taxpayer Education Section
VAT	Value Added Tax

CHAPTER I

INTRODUCTION

1.1 Background of the Study

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

In Nepal, Value Added Tax (VAT) was introduced on 16 Nov. 1997. This tax was levied in place of the Sales Tax, Hotel Tax, Contract Tax and Entertainment Tax. However, it could not be implemented fully until the FY 1998/99 due to political instability and strong opposition from the business community (www.ird.gov.np).

VAT replaces the old Sales Tax, Contract Tax, Hotel Tax and Entertainment Tax. It has been designed to collect the same revenue as the four taxes it replaced. Since the collection of both customs duties and income tax depends, to a great extent, upon the effectiveness of VAT, it is expected to help enhance revenue collection (www.ird.gov.np).

(VAT) is a broad-based tax as it also covers the value added to each commodity by a firm during all stages of production and distribution. It is a modern tax system to improve the collection of taxes, to increase efficiency and to lessen tax evasion. It is also regarded as the backbone of income tax system in Nepal.

The current threshold for VAT registration is Rs. 2 million. Those vendors whose annual turnover is below the threshold can, however, register voluntarily.

There is a persistent increase in the number of VAT registrants. It has crossed the 40,000 mark. At the time of conversion from the then existing sales tax to VAT, a total of 2045 taxpayers were converted as VAT registrants. As the taxpayers are increasing, the amount of revenue collection and the level of tax compliance is improving today.

In Nepal, Tax Department and Value Added Tax (VAT) Department were merged into one Inland Revenue Department (IRD) in the year 2002. Prior to the merger, income tax was under the jurisdiction of Tax Department, whereas the excise duty and value added tax were under the jurisdiction of Value Added Tax Department. Since the merger, IRD is responsible for formulation and implementation of tax policy and the administration of various taxes such as income tax, value added tax, house rent tax, and interest tax and excise duty. There are 22 Inland Revenue Offices (IROs) and one Large Taxpayer Office (LTO) under the Department. These offices are responsible for day-to-day collection of tax. The registration data of taxpayers maintained in the Department shows that the total number of taxpayers in Nepal as at the end of Falgun 2066 (mid-March 2010) was over 400 thousands. However, it is estimated that only about 60 percent of them, about 240,000, are regular filers. Inland Revenue Department has introduced an e-System and has been motivating taxpayers to use it in the past few years. Various donor agencies, the major two being Butwal and Nepal , have provided technical and financial support not only for initiating the e-System but also for its strengthening and upgrading for almost one and a half decade. Revenue generation at optimum level is always desired and various measures have been taken to encourage taxpayers for voluntary compliance. It is expected that the tax compliance rate increases based on various factors including the satisfaction of taxpayers with the tax policies, their implementation and the end uses of the tax collected. In the year 2010, Butwal municipality had been conducted a survey on taxpayers' level of satisfaction. The final report was submitted in October 2003. It has been over seven years since the survey was carried out and IRD has taken various

reform measures since then. As a result, tax compliance has also increased. Have these reform measures led to positive changes? Is the increase in tax compliance due to these measures? What is the current satisfaction level of the taxpayers now? IRD of butwal for conducting a new study in order to assess the current satisfaction level of taxpayers and to take further reform measures based on the findings. It was in this context that the study was carried out (www.ird.gov.np).

1.2 Statement of the Problem

A government has to spend a lot of money to fulfill its responsibility towards its people. The responsibility may be either for security or special service economic development or other development activities. So government expenditure is increasing year to year. Taxes are the important sources of public revenue and major fiscal Policy instrument have an important role in increasing rate of capital formation and they're by achieving and high rate of economic growth (Ebrill and Keen,2001). Nepal is facing the serious problem of resource append high dependency on foreign loan. Reducing expenditures on development work infrastructure and social services will not be just for a country crawling towards development. So, higher resource mobilization through taxes remains to be the best option.

VAT is a new experiment in Nepalese tax system. So that, so many problem and difficulties has to face in primary phase of implementation. They're no conducive environment for execution the concept of VAT. The tendency of unnecessarily troubling taxpayers must be stopped to ensure a friendly atmosphere at various tax collecting offices. The Major problem associated with VAT is lack of knowledge. In Nepal most of the Taxpayers are unknown about the VAT. The billing systems also confuse for the Taxpayer. The billing system is lacking. If they did, they are charged extra amount in the Name of VAT. The general concept is that, VAT increases the prices of commodities and serves.

The specific problems are as follows:

1. What is the present condition of taxpayer's satisfaction about VAT?

2. What is taxpayers' satisfaction level on the availability of information and the quality of tax documents?
3. Are the taxpayers satisfied regarding quality services provided by tax office?
4. Are the taxpayers satisfied on the tax collection procedures and administrative mechanism?
5. What is the taxpayers satisfaction with the existing tax policy (i.e. laws and byelaws related to value added tax?)

1.3 Objectives of the Study

The main objective of the survey was to determine the satisfaction level of taxpayers with regard to the existing tax policy, quality of services and tax documents, tax procedures and administrative mechanism with reference to the taxpayers' survey conducted in the year 2010. The specific objectives of the study were to:

-) To explore taxpayers satisfaction with the existing tax policy regarding VAT.
-) To determine the level of taxpayers' satisfaction with the quality of services provided by the revenue/tax offices.
-) To determine the level of taxpayers' satisfaction on the tax collection procedures and administrative mechanism.
-) To determine taxpayers' satisfaction level on the availability of information and the quality of tax documents.

1.4 Significance of the Study

Nepalese government has already been implemented VAT for achieving ultimate objective of economic development and acceleration growth rate of economy through expanding the tax net without any distortions, promoting exports and making the tax system more buoyant. During the last 11(Eleven) years of VAT implementation, government has made a great effort to make VAT more effective and productive. However, VAT was subject of a strict opposition from the business community in initial stage of implementation. Later there were some correction in VAT rules and regulation and then slowly business community accepted the system and further demanded it to extend the retail level so that all the businessman firms will be treated

equally. In such situation, internal resource mobilization should be strengthened to overcome resource gap problem. The experience shows that successfully implemented of VAT will have positive impact on the economy. For strengthening internal resource mobilization of Nepal, the government has already adopted VAT administration and policy, according to the reform policy and programmed noted in the eight five-year plans.

1.5 Limitations of the Study

To determine the taxpayers' level of satisfaction on VAT, respondents were asked about various areas of tax policy and administration. To assess their level of satisfaction with the quality of services provided by tax offices, respondents were asked about the location and accessibility of tax offices; attitude and behavior of tax officers, time taken to get their job done, etc. Similarly, respondents were asked about the simplicity and clarity of forms and procedures, ease in complying with tax policies, ease in getting tax refund to determine the overall satisfaction with tax administration.

Some limitations of the study have been observed as follows:

- The sample size is taken only 105, which can not represent a whole Nepalese people.
 - Statistical tools like percentage, Graph, Diagram and simple table are used.
 - The level of satisfaction of tax payers are analyzed only on the basis of mean score percentage.
-) Data's are taken from 2002/03 to 2009/10.
-) The reliability of secondary data is not examined. The primary data's are collected from Butwal Municipality.

1.6 Organization of the Study

This study is divided in to five Chapters they are:

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

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

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

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

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

CHAPTER II

REVIEW OF LITERATURE

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

At first, Siemets (1918) recommended value added tax in 1919 for Germany to replace the umsatzsteuer (multistage sales tax) in order to avoid the undesirable effects particularly cascading and vertical integration, for the latter tax. In spite of serious consideration by German government, it was decided to reduce the rate of umsatzsteuer instead of applying VAT. A tax mission to Japan led developed the concept of VAT further in 1949.

2.1 Conceptual Review

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

Clear concept can be attained through an example. Let's consider the case of sugar production. A farmer produces sugarcane and sells it to the miller. Miller adds value in the process of changing sugarcane into sugar. All the expenditure including profit

made by the miller constitutes the value added of that miller. Miller sells his products that are sugar to the wholesaler who, in turn, sells to the retailer with an increasing value. Ultimately sugar is sold to the consumer with the some additional value. Thus, at each stage of production and distribution value is added and sum total of all sum value added exactly equals to the final sales value of the sugar.

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

2.1.1 Origin and Development

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

While going to the origin point of the VAT, it was proposed for the first time Siemens, for Germany in 1919 as an improved turnover tax. The improvement consisted in the subtraction of previous outlay from taxable save with the results that the tax base of each firm would be reduced to the value. This is added to the product (Sullivan, 1965). Thereafter in 1921, Thomas S. Adams suggested the tax for the United States of America to replace the existing corporate income tax. Further, some tax was recommended in 1949 by the Shoup Mission for the purpose of reconstructing the Japanese economy by avoiding the existing defects of the turnover taxes. Although, these proposal and recommendation were not came into practice.

Real practice of VAT started since 1954 in France; however it covered only the industrial sector and was designed only up to the wholesale level. After a gap of six years, Ivory Coast became first follower of France when it adopted VAT in 1960. Next African country, Senegal also implemented VAT since 1961. VAT in these both African countries, was limited to import and manufacturing stage only. Since the 1960s VAT become a popular subject matter of taxation in many countries in the year of 1968. France redesigned the existing VAT system and extended it to the retail level. Vietnam as the first country in Asia to introduce VAT, which adopted it in 1973, Pakistan introduction VAT in 1990 as a first among the SAARC countries. Nepal has adopted VAT since 1997.

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

2.1.2 Preparation of VAT in Nepal

In Nepal VAT preparation began in September 1993 when a VAT task force was created in order to make necessary preparation for the introduction of VAT. A VAT steering committee was also set up to evaluate and monitor VAT preparatory activities. The United States agency for international development (USAID) provided financial assistance in order to support the VAT preparation and implementation process in Nepal. Under this project, the technical assistance of the Hardware institute for International Development (HIID) began in the fall of 1993. Members of the VAT task force and the HIID consultants worked together. USAID/HIID assistance was supposed to last August 1996.

2.1.3 Design of VAT Law and VAT System

The VAT law was drafted in 1994. It was discussed in depth at several stages with in the VAT task force with the efforts of the low reform commission and the various business groups. It was review by the VAT steering committee. The draft was sent various business groups including the Federation of commerce and industry (FNCCI) and Nepal chamber of commerce for their comments. While this was a good

beginning to seek the opinion of the private sector on the proposed VAT law before its approval by the parliament in written comments were received from the private sector on the draft VAT Act (Shoup, 1969).

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

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

2.2 Types of VAT

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

2.2.1 Consumption Types

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

2.2.2 Income Type

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

2.2.3 Gross Product Type

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

Among these three types of VAT, the consumption variant has been widely used in several countries in Europe and else where in recent years. The reasons for the popularity of this type are that this variant does not affect decisions regarding investments and growth since it relieves investment from any tax burden.

2.3 Methods of Calculating VAT

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

2.3.1 Addition Method

Under this method value added is the total sum of the factor payments made by the business firms, which is equivalent to the gross income received by the factors of production. The tax base is computed by adding the payments made by the firms to factors of productions employed in turning out the product, such as wages, interest, rent, royalties and profits. Thus, VAT under additional method is the function of the total factor payment as given by:

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

Where,

W = wage,

T = tax

I = interest,

p = profit

2.3.2 Subtraction Method

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

$$\text{VAT} = f(S_v - P_v)$$

Where,

S_v = Sales value or value of output

P_v = purchase value or cost of input and services

This method of calculating VAT is suitable for the consumption variant of VAT. It is not well suited for discrimination among types of consumer goods but it needs not any adjustment to operate correctly for imports under the origin principle. Some thing also happens to the addition methods. However, under the destination principle, these principles, these both methods of direct calculation can not supply the information needed to compute precisely the export rebate or the import compensating tax when there is not uniform rate to all stages of value added of all goods and services.

2.3.3 Tax Credit Methods

Tax credit method is also known as the invoice method and uses an indirect subtraction technique to compute the tax liability. Value added as such never calculated at all. In this method, but the effect is exactly the same as if the figure was calculated and the tax rate applied. Since, the firm deducts the amount of the tax paid on its purchases during the period from the figure calculated by applying the tax rate to its figure of taxable sales for the period. Under this method taxpayers are allowed to subtract the taxes already paid by the supplier and passed on to them from the gross

tax liability, which is levied on the total value of their sales. Thus, in contrast to the subtraction method, which deducts purchases from sales and levies taxes on the difference, tax on purchases is subtracted from the tax on sales under the tax credit method.

Hence net tax liability is given by:

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

Where,

Outputs = tax collection from sales

Inputs = tax paid on purchases

Among the above three methods of computing VAT, the tax credit method is widely favored in the countries. The invoice method is used generally in European countries. The tax credit method is so superior to the other methods in terms of application and enforcement as well as adaptability to various rates modification that it is now universally employed.

2.4 Principles of VAT

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

2.4.1 Origin Principle

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

2.4.2 Destination Principle

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

2.5 Value Added Tax and Other Sales Taxes

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

2.5.1 Value Added Tax and Turnover Tax:

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

A turnover tax further discriminates against the domestic product and imported goods. Imported goods need to pass less stages of transaction if the good are finished product. On the contrary domestic products need to pass mark stage and transaction. Turnover tax applies to the total volume of transaction of the product at each stage of production and distribution; it creates a strong incentive for reducing the economic activities at earlier stages like performing many activities of producing and distribution under a single roof. There will not be any incentives for integration in a VAT system, since the total amount of tax on the produce will be the production and distribution system

and the taxable price is always equal to the final price of the product. Thus from the view point of neutrality VAT is so far superior to the turnover tax.

The turnover tax is comparatively easy to administer as it applies only on gross so that there is no need of tax credit. The double-checking and several provisions associate with the VAT create complicity however makes the tax system transparent, efficient and equitable.

Comparative easiness and simplicity also can be found in turnover tax in the viewpoint of tax compliance. But due to the self-enforcing feature of VAT, it is more attractive to check the tax evasion. An uneven burden is also created on various commodities by turnover tax and further the burden varies with the typical number of transaction through which a commodity passes on its way to the final consumer.

2.5.2 VAT and Manufacture's Sales Tax (MST)

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

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

consumer expenditure (Hyman,1972). The main disadvantage, coherent to VAT, in comparison to MST, is the large number of taxpayer with poor record keeping. But it can be covered by means of improvement in administration.

2.5.3 VAT and Wholesale Level Sales Tax (WST)

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

commodity 'B' cannot compete with 'A' in the market. Such a vast alternation compels the producer of commodity 'A' to close down his production. Thus WST is on neutral among the production and distribution process as well as consumer choices. But in contrast, it is notable that VAT does not create such discrimination because VAT is levied in every stage of business process (Kandel, 2004).

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

2.5.4 VAT and Retailer's Sales Tax (RST)

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

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

VAT and RST are vertically neutral with respect to production and distribution as total tax on a given commodity depends on the final price under both systems. On the other hand VAT and RST both are able to avoid the problem of cascading effects since there is no possibility to impose on tax. Both taxes avoid the problem of

pyramiding since there seems no need to apply the mark-up on the tax amount levied at earlier stages. So, consumer price increase only by the amount of tax.

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

2.6 Operation of VAT

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

2.6.1 Registration

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

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

Although all the venders having the transaction of taxable capacity may not be registered so it is almost essential to make a door-to-door check, especially in

developing countries. The newly hired staff of inspectors and enforcement officers can be used for this purpose and strongly monitoring and supervision is also required. In the Nepalese VAT system small vendors having annual turnover below the threshold apply for voluntary registration and the Inland Revenue office.

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

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

Table No. 2.1
Trend of VAT Registration

Year	No. of Taxpayers	Increasing rate in (%)
2062 Ashad	4959	-
2061 Ashad	9082	82.64
2062 Ashad	17947	86.13
2063 Ashad	21093	17.53
2064 Ashad	25147	19.23
2065 Ashad	29872	18.78
2066 Ashad	34174	14.40
2067 Ashad	39776	16.39
2068 Ashad	46831	17.13
2069 Ashad	52965	13.10
Average growth rate in 10 years		42.81

Source: Inland Revenue Department (annual Report 2069/070)

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

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

2.6.2 Tax invoice

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

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

The abbreviated invoice is simple type of invoice for registered sales to unregistered persons, who should be considered final consumer under the VAT. VAT registrants may make an application to use abbreviated invoice and the tax officers may allow it use. In the case of sales under abbreviated invoice, VAT is calculated by multiplying the sales by the VAT quotient. The VAT quotient is found by dividing the rate of VAT. The abbreviated invoice can issue up to 5 thousand transactions. There is restriction to cross the limit.

2.6.3 Accounting

Every VAT registered vender should be kept clear account of his activities (purchases and sales), which come into VAT base. The record of all invoices including other information such as the serial number and date of issue, of invoices the amount charges, and the VAT charged. The account should be kept in such a way that the VAT authorities are able to check the accuracy of VAT returns. Such records are kept for 4 to 6 years. So that it can be provided the tax administration if asked to check its accuracy and fairness. The period relating to the preservation of the account depends on internal audit. VAT liability should be calculated accordingly VAT account. This is, because if it is levied only on the cash basic, Taxpayers might delay payment. Small venders, public or local bodies and not profit making organization, however, may be allowed to account for their output tax input tax only upon receipt or payment.

Account system can be made simple and clear by using a separate purchase book to record all the details of purchases and a separate sales book, which records all the details of sales. However in case of the details of sales. However in case of the small venders the cash flow problems can be made simple by allowing accounting for their output tax and input tax only upon receipt or payment. Government can also provide a form for the accounting purpose to the venders. It is undesirable to prescribe exact form because record systems differ significantly among the various types of businesses.

2.6.4 Payment of tax

In the Nepalese VAT system, if a registrant output tax liability is greater than his input tax credit, he is required to remit the difference to the government within 25 days from the close of the month in which the tax liability occurs. Compulsory registrants have to pay tax monthly while the voluntary registrant will have to pay trimester basic. On the other hand, if input credit is greater than the output tax liability, the balance of credit is to be forward up to a six-month period. The excess credit for a continuous period of six month should be refunded to the vender concerned within a month for date of submission of the return. If

the VAT registrant has more than 60% of his sales as exports, he can apply for a refund instead of carrying forward of excess credit. In the above both cases the VAT office should pay 15% interests, if the Tax officer doesn't refund within two months from the date of submission of appeal of the return.

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

2.6.5 Tax Assessment

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

2.6.6 VAT Enforcement

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

sill delay with them. Such measures include automatic penalties, different changes and action including legal action.

2.6.7 Penalties

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

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

2.6.8 Auditing

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

are included in the audit management. Generally the audit management activities includes (Sharma, 1997).

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

2.7 Structure of VAT

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

2.7.1 Coverage

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

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

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

2.7.2 Input Tax Credit

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

2.7.3 Tax Rate

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

2.7.4 Tax Refund

Under the Nepalese VAT system, there is a provision for the refund of VAT. Such a situation will generally arise in the case of zero rated goods. I.e. exports where there will be an excess of inputs tax over out put tax such a provision is made to encourage exports and generate foreign exchange. The possibility of tax refund will also arise in

the case of domestic sales if the excess of input tax over output tax is reported in each of six consecutive methods.

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

2.8 Review of Related Studies

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

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

Regarding the VAT in developing countries the main requirements to introduce VAT are described as: (a) ability to administer VAT, determines its feasibility (b) small business and compliance are also others problem which should be treated very carefully in developing countries while introducing VAT (c) successful introduction of VAT depends largely on previously experience of multiple stages sales taxes or general sales tax.

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

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

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

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

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

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

Adverse effect on price level,

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

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

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

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

Negative effects on revenue collection and

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

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

Government machinery is not capable for implementing a VAT.

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

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

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

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

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

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

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

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

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

Sharma (1998) in his dissertation entitled "value added tax in Nepal: issue and options." Submitted to the central department of economics Analyses of the different aspects of VAT; issues concerning applicability effects, revenue potential, the narrow tax base, inefficiency, distortion character, week administration are the major defects of the existing sales tax. Adoption of full fledged VAT would make tax system more productive and elastic by widening the tax base and it would not be more regressive

then the present tax system. Tax base in VAT would increase about three fold of the present sales tax base in case of imported goods.

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

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

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

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

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

Bista (1999) in his research entitle, "Applicability and feasibility of VAT in Nepal'.

He has found the followings;

-) The sales tax system is failure to several cases: narrow tax base, in- elasticity of tax rate, incapable and week administration, tax leakage, corruption and political intervention. So, the entire tax reform is needed.
-) A VAT is account based, invoice based and record based; it checks the tax loopholes such as under evaluation, non-recording and unauthorized trade. It discourages such issues and problems existed in the sales tax system.
-) VAT mobilized the additional resources and the rest of internal resources by broadening tax base and by discouraging the existing tax loopholes.
-) In VAT system, tax refund and threshold, two provisions are necessary for the effective implementation of VAT. But, they are two gates of possible mal-practice and tax evasion for the effective implementation of VAT in Nepal; these gates should be closed by conducting strict monitoring system and by operating the punishment section of VAT enactment.
-) For implementation VAT, the public awareness level relating VAT and VAT administration should be good and it's a prerequisite in the preparation of VAT.
-) VAT administration should be strong and efficient in order to implement properly. But, in Nepal, VAT administration has been facing the problem like corruption, incapability, inefficiency, delaying ineffectiveness inadequate physical environment, inexperienced and untrained employee and week organizational setup - The purpose of each fiscal policy is to reduce the economic in equality between the rich and poor by giving the tax incentives to the poor for the social welfare and by redistributing the national income. VAT

has the Therefore; its effects are found positive on social welfare and negative on the economic in the economic inequality.

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

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

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

The current issues of the Nepalese tax system identified are: (i) lack of co-ordinate long-term strategy (ii) narrow coverage (iii) artificial tax base (iv) defective organizational structure (v) weak and traditional tax administration (vi) traditional and

complex procedures (vii) un-enforced local taxes. The study concludes that tax officials are mostly responsible for the existing problem of tax system and the hesitation of the policy makers to take hard decision is also being boundary to clean tax system. The following steps are suggested to take in order to rationalize tax system;

- (i) Adopt a long term co-ordinate approach (ii) Broaden the tax base (iii) Enhance the tax compliance (vi) implement local taxes. Along with these existing issue and suggestions, the study considering the introduction of VAT in Nepal in states that there was no choice other then to introduce

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

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

To face the above challenges the writer suggests the various strategies. They are:

- (i) reduce and finally remove the provision of tax-exempt (ii) Regular survey of potential taxpayer, (iii) Effective monitoring and evaluation, (iv) Enhanced the tax boundaries, (v) Strengthening tax administration, (vii) Easy provision to submit tax return, (viii) Promoting billing exchange, (ix) Increase in tax rates.

2.9 Research Gap

VAT is the strong sources of indirect tax in revenue collection. It play the important role in the economic, the trend of revenue collection from VAT is increasing year by year. VAT system depends on its legal provision and popularity depends on tax payer satisfaction. To find out the Nepalese different researcher have research on the topic of VAT. Their objectives and analysis are different and every researcher has done

differently. The different between this research and other is that, this research is done actually field survey based on Butwal Municipality which is not found in other research. Most of the research based on Kathmandu Valley which is not include outside of Valley but this survey is based on Rupandehi which gives the different message to the concern person. All the study focused on the contribution of VAT to overall national GDP. But this study focuses on the tax payer satisfaction relating to VAT.

CHAPTER III

RESEARCH METHODOLOGY

The main objective of this research is to analyze and interpret the taxpayers satisfaction present status of VAT in Nepal. VAT is being applied instead of import/manufacturing level of sales tax, entertainment tax, hotel tax and contract tax. So, it should be sound and effective value added tax system results the increasing rate 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 the role of value added tax, VAT structure, VAT coverage and planning, organizing and administrative requirement. However, the major focus on different tax payer's satisfaction, present practice and future prospects of VAT to implement effectively in Nepal.

3.1 Research Design

This study is descriptive survey research design to deal with the Tax payers satisfaction of VAT in Nepal and Tax payers satisfaction in VAT from different sectors such as Production, import, sales and distribution, contract and consultancy, tourism industries and others services. This design has also been employed to assess the opinions of the respondents such as tax officers, tax experts, businessmen and consumers.

The questionnaire design closed-ended questions. The first part of the questionnaire contained the socio-economic background of the taxpayers and the second part included the information on the satisfaction levels of the taxpayers on various aspects like the tax policy, tax procedures and administration mechanism, quality of services of IROs, availability of information and quality of tax documents.

The format of a typical seven-level Likert items are: Highly satisfied, Quite satisfied, Moderately satisfied, Somewhat satisfied, Somewhat unsatisfied, Quite unsatisfied, Highly unsatisfied

3.2 Population and Sample

Tax experts, tax officers, businessmen and consumer of Rupandehi district at Butwal municipality are the population of the study. Sample are collected judgmentally from different sector such as Tax payers, businessmen and consumers are select from the different manufacturing company, trading company, departmental store, shopping center, financial institution.

For the sample one hundred five respondents where taken from each group by convenience. The following table 3.1 shows of the group of respondents and sample size:

Table No. 3.1
Total no. of Tax Payers and Sample Size

S. No.	Group of Respondents	Sample Size
1	Businessmen	40
2	Consumers	25
3	Academician	30
4	Govt. Office	10
Total		105

3.3 Sources of Data Collection

) Primary Data

Primary data's are collected by administering questionnaires during the survey to sample Population in Butwal municipality. For this purpose, Economists, tax officers, Businessmen and consumers are respondents. Besides this, subjective opinion and information are collected from discussions and interactions with related journalists, Exports other persons. Purposive sampling Method has been used for data collection. Sample size is 105

) Secondary data

Basic data needed in the study are collected from the secondary sources. These data's are obtained from various sources. These sources are: Inland Revenue Department, central bureau of statistics, Ministry of finance, customs Department, Economic

survey & Budget speech of different years, Rastra Bank' publication, World Bank Development Reports, research booklet, manuals, research papers, newspaper, Websites and relevant books. For the analysis of all collected data of various aspects of value added tax are arranged in order and processed.

3.4 Data collection procedure

Total 105 set of questionnaires were distributed to the selected respondents in order to get actual and accurate information. Distribution work has been done through personal visit rather than sending by any means to get accurate and actual information in time.

3.5 Tools for Data Presentation and Analysis

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

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

This chapter presents and analyses the findings of the study. The first part of the information collected during the survey was the socio-economic background of the respondents, which was presented, The second part of the information relates to the taxpayers' perception of the tax policy; tax procedures and administration mechanism; quality of services of IROs; availability of information and quality of tax documents; and the overall satisfaction level of the taxpayers. The findings on these components are discussed in the following sections. As mentioned elsewhere in this report, Likert's scale of seven and other dichotomy nominal scale were used in the questionnaire for rating the satisfaction level of taxpayers as in the case of a similar study conducted in the year 2012. Analyses have been done more or less in the same line with that of the study report, wherein the overall analysis irrespective of selected IROs was carried out. In addition to this, sample IRO-wise detail information has been included in this report.

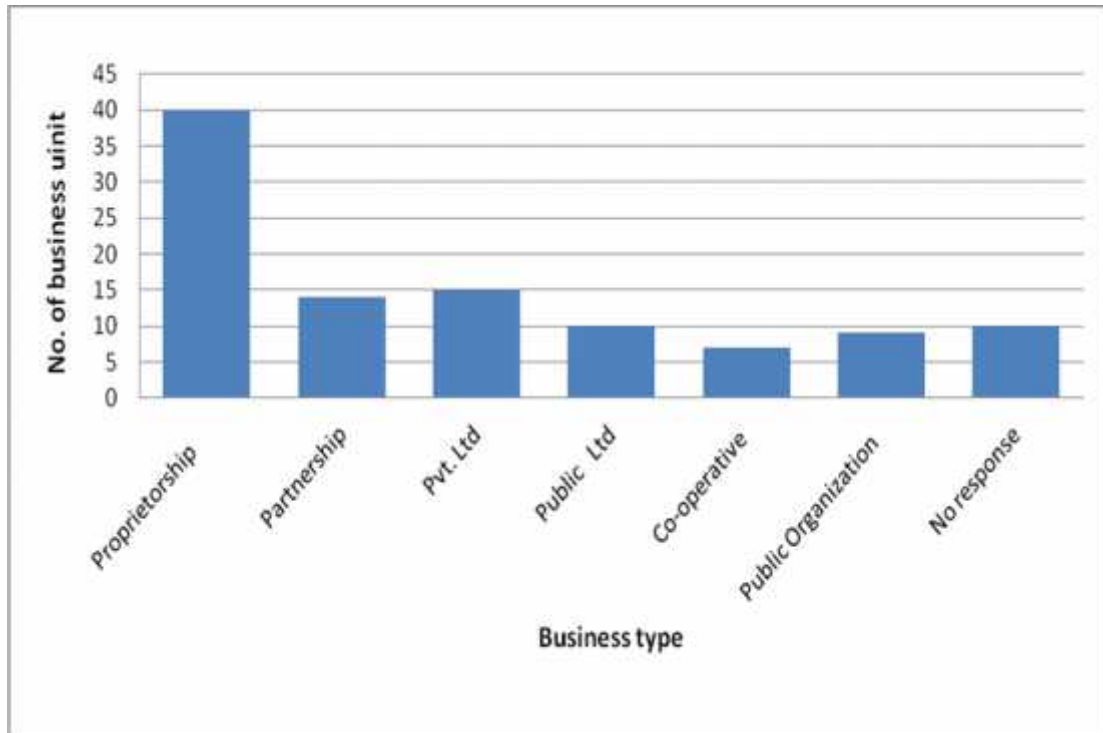
4.1 Sample Description

4.1.1 Type of business units

All the sampled respondents are classified in seven sectors viz. proprietorship, partnership, private limited, public limited, co-operatives, public organizations and individuals. A post survey classification of these sectors was made for the purpose of analysis. Of the total selected business units, the largest number are proprietorships (40 percent) followed by Pvt. Ltd (15 percent), individuals (15 percent), public Ltd (10 percent), partnership (7 percent), co-operative (6 percent) and public organizations (7 percent). The distribution of the sampled business units are shown below in Fig.

4.1.

Figure 4.1: Types of Business Units

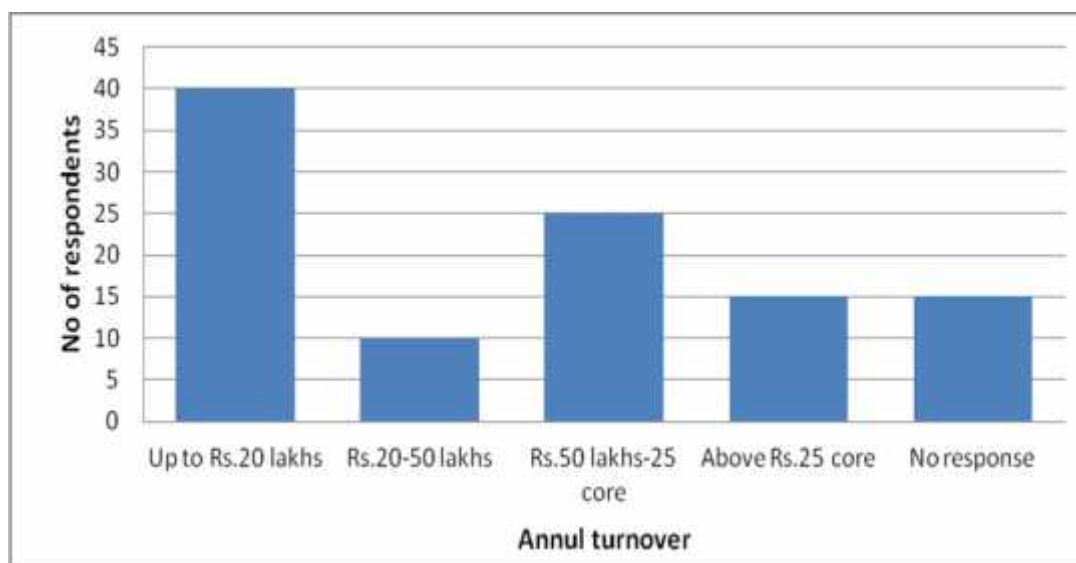


4.1.2 Annual turnover of the business units

The annual turnover of the sample respondents is classified in four categories viz. up-to two million rupees, two to five million rupees, five to 250 million rupees and above 250 million rupees. In case of most of the respondents (40 percent), the annual turnover is up-to two million followed by five to 250 million (22 percent), two to five million (10 percent) and above 250 million (8 percent). About 20 percent respondents did not disclose their annual turnover (Fig. 4.2). This could be either because they had no idea on the figures or did not want to disclose the amount.

Figure No. 4.2

Classification of Sample Respondents by Annual Turnover



4.1.3 Marital status, Age and Sex distribution

Marital status of the respondents shows that 58 percent of them are married, 33 percent are single and 2 percent separated.

With regards to age, the highest numbers of respondents are in 31 to 50 years age group (38 percent) followed by up-to 30 years age group (29 percent) and over 50 years age group (9 percent).

Table 4.1: Distribution of sample by marital status and age groups

	Marital Status				Age Group				Total
	Unmarried	Married	Separated	No response	<30 years	31-50 years	>51 years	No response	
No. of Respondents	35	60	2	8	30	40	10	25	105
%	33	58	2	7	29	38	9	24	100

In terms of sex, 75 percent of the respondents are male and 25 percent are female. Nationality wise, most of them are Nepali citizens (98 percent) with the remaining being Indian citizens.

4.1.4 Education

The educational level of respondents is quite high as 50 percent of them have completed at least bachelor level.

Table 4.2: Sample distribution by level of education

	Under SLC	SLC	Intermediate	Bachelor	Master	Ph. D.	No response	Total
No of respondents	5	15	15	55	5	2	8	105
%	5	14	14	52	5	2	8	100

4.1.5 Media used

The role of media is very important for taxpayers to receive information. As table 4.3 shows, newspapers are the most used media by the respondents (48 percent) followed by television (14 percent), internet (28 percent) and radio (10 percent).

Table 4.3: Media used by taxpayers for acquiring information

Unit	Newspaper	Radio	Television	Internet	Total
No. of respondents	50	10	15	30	105
%	48	10	14	28	100

4.2 Quality of Services of Revenue/Tax Offices

Another important factor that affects taxpayers' decision to pay taxes is the quality of services provided by the tax offices. It is reasonable for taxpayers to expect the tax office to be accessible and provide friendly service. They expect fair and respectful treatment from the officials and completion of their job in time. Accordingly, efforts were made to collect information in these areas. The summary of the findings has been presented in Table 4.4

Nine in every 10 respondents were satisfied with the location of tax offices. However, only three in every four respondents felt ease in locating the office and contacting

appropriate persons in the offices. This is an improvement compared to the previous study. This could be due to citizen charter maintained in most revenue/tax offices have in the past several years which seems to have helped the taxpayers to locate the appropriate persons in the respective offices.

Table 4.4
Quality of services of revenue/tax offices

S. N	Particulars	Acceptable Level(Percentage)			Poor	No Response	Total
		Up-to a moderate level	Just Okay	Combined			
1	Location and accessibility of tax offices	60	30	90	7	3	100
2	Ease in locating and contacting appropriate persons in offices	40	38	78	19	3	100
3	Response of tax officials to problems of taxpayers	32	32	64	35	1	100
4	Friendliness and behavior of officials	35	30	65	31	4	100
5	Time taken to get taxpayer's job done	22	34	56	42	2	100
6	Fairness in dealings of officials	28	35	63	33	4	100
7	General attitude of officials towards solving taxpayers' problems	28	35	63	33	4	100
8	Overall satisfaction of taxpayers with the services	25	47	72	25	3	100

About 32 percent of the respondents felt that the responses of tax officials to their queries/ problems were at moderately satisfactory level, whereas another 32 percent respondents mentioned that their responses were okay. The remaining 35 percent were not satisfied with the responses.

Similarly, about 65 percent of the respondents were satisfied with the friendliness and behavior of the tax officials. About 57 percent of the respondents were satisfied with

the time taken to get their job done in the tax offices. About 35 percent of the respondents rated the fairness in dealings of officials as poor clearly suggesting that tax officials do not treat all taxpayers fairly.

About one in every three taxpayers were satisfied at the moderate level and one in every three felt just okay with regards to the general attitude of officials towards solving their problems.

Overall, over 72 percent of the respondents were satisfied with the services provided to them. These figures show that there has been improvement in all aspects of the services provided by the IROs/tax offices over the past seven years. However, it clearly indicates that there is plenty of scope for the offices to improve their performance.

4.3 Administrative Mechanism and Tax Procedures

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

4.3.1 Administrative mechanism of Value Added Tax

As shown in Table 4.5, over 95 percent of the respondents are satisfied with the ease in filling up tax forms. With regards to simplicity and clarity of tax return procedures, about 80 percent of the respondents are satisfied. Similarly, just under 80 percent of the respondents reported that complying with tax process was fairly easy.

About 67 percent in the case of VAT reported that there was fairness in decisions of tax officials to an okay level. It follows that over one-third of the respondents do not view the decisions of tax officials as fair.

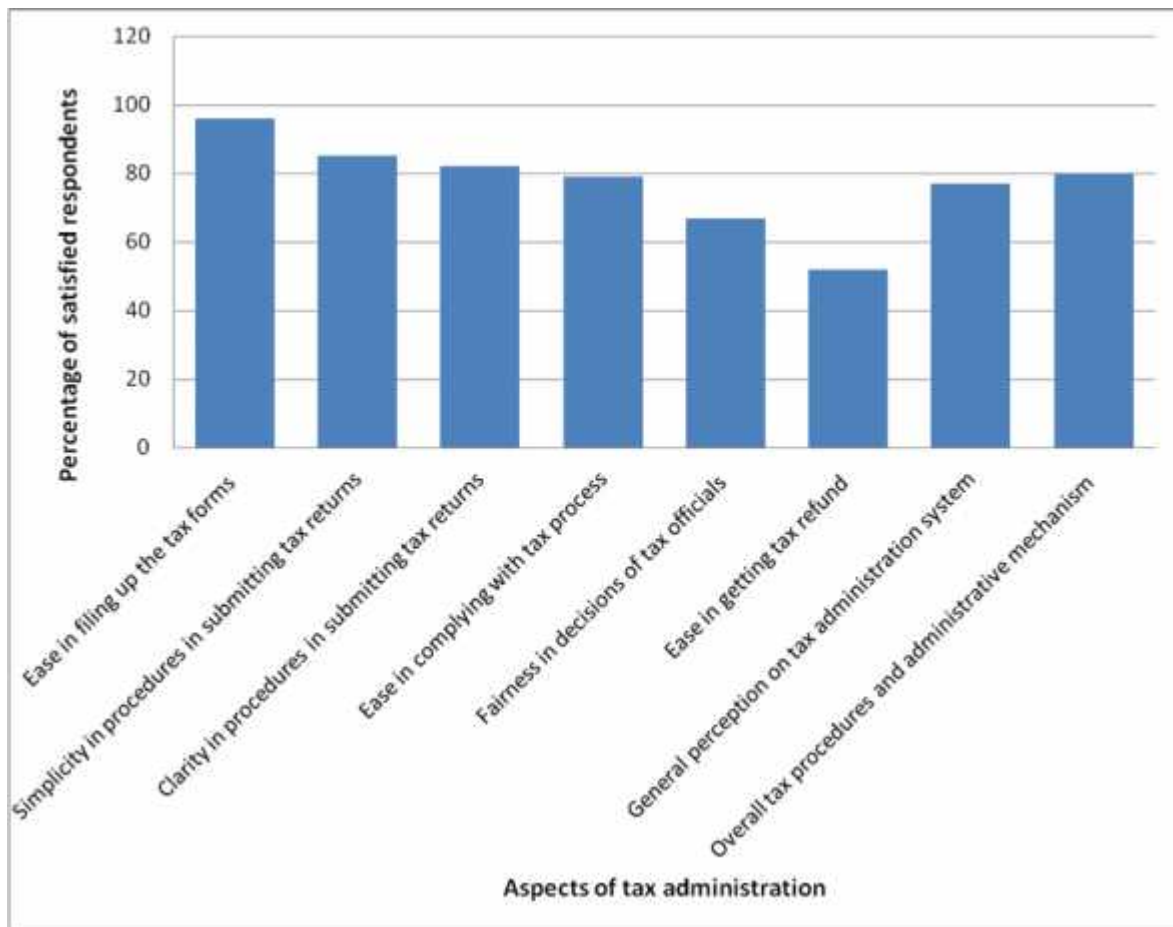
With regards to tax refund, only about half of the respondents were satisfied. Similar to income tax refund, respondents noted that getting tax refund in cash was difficult.

Table 4.5**Administrative mechanism and tax procedures of VAT**

S.N.	Particulars	Satisfied (Percentage)			Poor
		Up-to a moderate level	Just Okay	Sub-total	
1	Ease in filing up the tax forms	50	41	91	9
2	Simplicity in procedures in submitting tax returns	80	40	80	20
3	Clarity in procedures in submitting tax returns	50	29	79	21
4	Ease in complying with tax process	35	40	75	25
5	Fairness in decisions of tax officials	40	27	67	33
6	Ease in getting tax refund	40	40	80	20
7	General perception on tax administration system	35	45	80	20
8	Overall tax procedures and administrative mechanism	40	40	80	20

About 38 percent of respondents reported that they were moderately satisfied with the tax administration system followed by 39 percent who rated it as being just okay. Accordingly, 23 percent were not satisfied with the system. On the overall administrative mechanism and tax procedures, about 35 percent rated their satisfaction as being up to a moderate level followed by 45 percent who rated it to be just okay. Overall, 80 percent are satisfied with the overall administrative mechanism. The following figures compares these findings with that of the previous study. The percentage of satisfied includes respondents who were satisfied at both moderate and just okay level. Similar to income tax, the comparison shows that there have been positive changes in all aspects during the past seven years but that the percentage of respondents rating their satisfaction level as excellent or very high is still low.

Fig. 4.3: Tax Procedures and Administrative Mechanism of Value Added Tax



4.4 Availability of Information on Tax and Quality of Documents

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

4.4.1 Sources of information

In order to find out the major sources of information for the taxpayers, they were asked to rank the various sources of information/media in terms of their importance as source of information. Most important was to be rated 1 and the least important rated 8. Their ranking has been provided in Table 4.6

Table 4.6 Ranking in the sources of information on VAT

S.N.	Media	No of respondents	Percentage	Rank
1	Newspapers	40	38	1
2	Letters/Circulars	15	14	4
3	Colleagues/Friends/Relatives	6	6	6
4	Tax Documents	5	5	7
5	Revenue/Tax Officials	2	2	8
6	Radios	5	5	5
7	Televisions	14	13	2
8	Internet/Websites	13	12	3
9	No Responses	5	5	-
	Total	105	100	

They have ranked the “newspapers” as the most important and “colleagues/relatives/friends” as least important. It is interesting to note that “colleagues/friends/relatives” ranked 1 in the previous study is now ranked 8 in this study. This shows that taxpayers are less dependent on friends and relatives for information on tax.

The respondents rated television as second in rank. Since the survey was concentrated mainly in urban areas, it is natural that people get more information through advertisements or other materials telecast through various television channels than through the information broadcast from radio stations. Internet and websites stand as

the third important source of information for the taxpayers, which were considered least important in the year 2012.

It is interesting to note that the respondents ranked tax documents and tax officials as 6-7 in the list. This indicates that either the documents are not easily available or that taxpayers do not trust them, as there have been so many amendments to these documents.

4.4.2 Availability of information

The respondents have ranked “newspapers” as the most important and “colleagues/ relatives/ friends” as the least important sources of information on tax. Three in every four in the case of income and other taxes and four in every five in the case of VAT were satisfied with the availability of information and ease in understanding the printed documents.

Table 4.7: Availability of information on tax and quality of documents

S.N.	Particulars	Value Added Tax			
		Satisfied (Percentage)			Poor
		Up to moderate level	Just okay	Sub-total	
1	Availability of information on tax	52	30	82	18
2	Ease in understanding the printed documents	45	48	93	7
3	Contents and coverage of the printed documents	48	46	94	6
4	Overall level of satisfaction with documents	42	52	94	6

Regarding the availability of information (Table 4.7) In case of VAT, about 52 percent of the respondents were satisfied to a moderate level and 30 percent were just okay. Compared to the findings of the previous study, there is no change in case of income tax and slight improvement in case of VAT.

- **Ease in understanding printed documents**

About 42 percent in the case of VAT reported to be satisfied at a moderate level. About 44 percent of taxpayers in both the cases expressed/rated their ease in understanding as just okay. Compared to the previous study, there is some improvement in this respect as well.

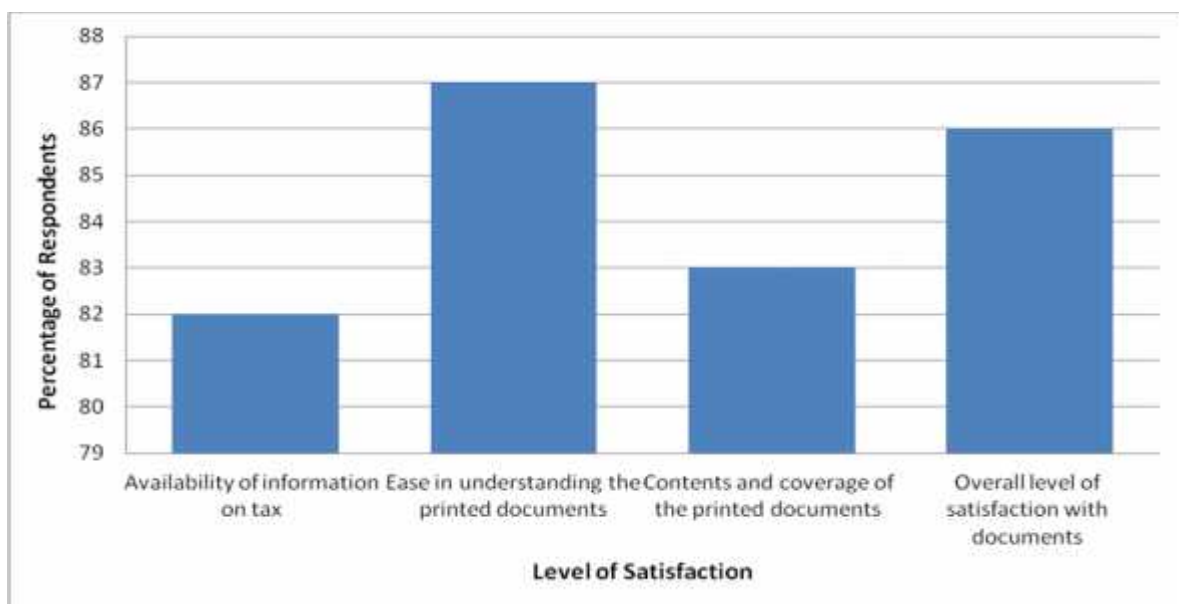
- **Contents and coverage of the printed documents**

About 83 percent of the respondents reported that they were satisfied just at an okay level on the contents and coverage of the printed documents. Based on these responses, one can conclude that there is plenty of room for improvement in the content and coverage. While comparing the figures with those of the previous study, slight improvement can be observed.

- **Overall satisfaction with the documents**

It is clear from the Table that about 85 percent of the respondents were satisfied with the overall documents. The following figures compare the findings of the current study on availability of tax information to that of the current study.

Fig. 4.4: Availability of Information and Quality of Tax Documents for Value Added Tax



It is the generally accepted that the government should provide all relevant and correct information to the taxpayers. Also the documents need to be easy to understand. With due consideration to this, the study team feels that the government requires to do a lot in order to bring out quality documents.

As mentioned elsewhere in this report, the various tax manuals (VAT) and guidelines (for example tax on capital gains with special reference to income from sale of land and buildings) have been either produced and circulated or are in the process of finalization with the support from Butwal Municipality. One can hope that these documents will enhance the availability and quality of information regarding tax.

In brief, the respondents have ranked the “newspapers” as the most important and “colleagues/ relatives/ friends” as the least important sources of information on tax. In case of income tax, three in every four respondents were satisfied with the availability of information and ease in understanding printed documents. In case of VAT, four in every five respondents were satisfied. With regards to the contents and coverage of the documents, over 83 percent were satisfied in both the cases

4.5 VAT System and Tax Policy

In order to assess the level of satisfaction of the respondents on VAT system and tax policy, five questions were included in the questionnaire on importance of knowledge and information on tax system, changes in situation of knowledge and information in the past three years, perception on utilization of tax collected, importance of tax policy and system and changes in tax policy in the past three years.

4.5.1 Importance of knowledge on VAT system

Almost 89 percent of the respondents said that knowledge and information on the system were important for them. The table below presents the details.

Table 4.8**Importance of knowledge and information on VAT system**

Unit	Very much important	Very important	Moderately important	Important	Not so important	Not important	No response	Total
Number	54	16	20	4	3	0	8	105
%	51	15	19	4	3	0	8	100
Cumulative %	51	66	85	89	92	92	100	

4.5.2 Importance of tax policy and VAT system

About 72 percent of the respondents mentioned that tax policy was very important for them. The degree of importance probably varied based upon the size and type of business and respondents' professions.

Table 4.9**Importance of tax policy and VAT system**

Unit	Very much important	Very important	Important	Just OK	Not so important	Not important	Not important at all	No response	Total
Number	50	25	15	10	3	0	0	2	105
Percentage	48	24	14	9	3	0	0	2	100
Cumulative percentage	48	72	86	95	98	98	98	100	

4.6 Overall Level of Satisfaction

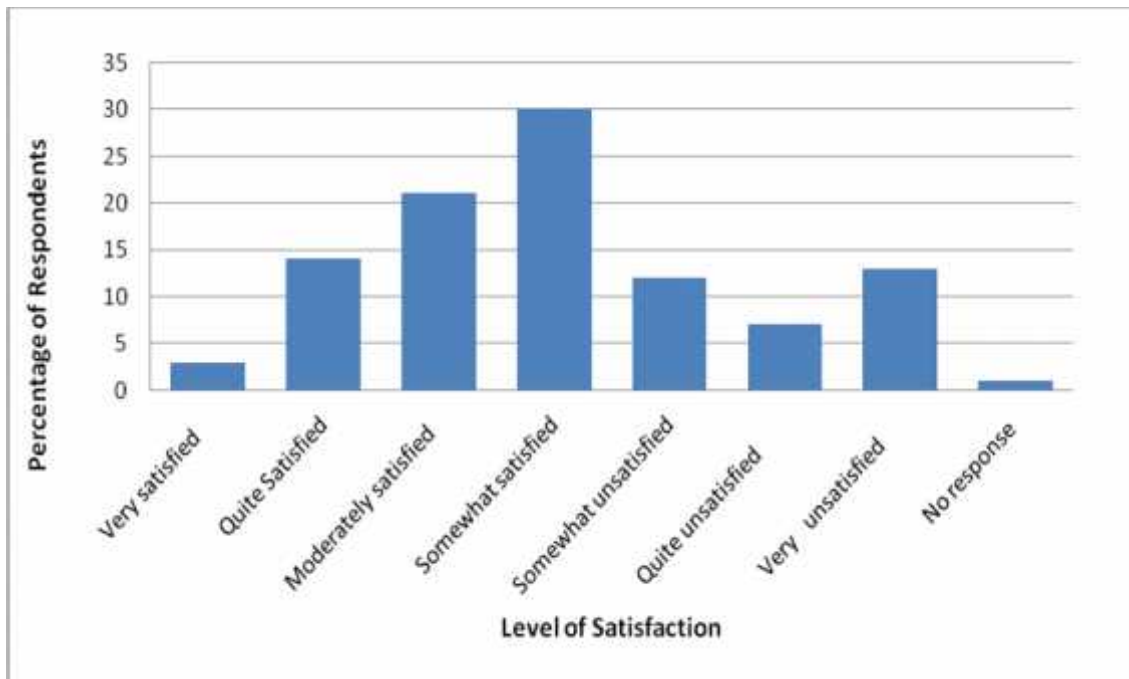
When the taxpayers feel that the money they pay to the government in the form of taxes is utilized properly, they are more inclined to pay. Consequently, when people pay taxes to the government, it is but natural that they expect basic services from the government including security, drinking water supply, health and sanitation facilities, education and electricity supply. In other words, if the people feel that the government

has planned and spent money logically and rationally for the benefit of the people, they are satisfied even if all of their expectations cannot be met.

4.6.1 Satisfaction as taxpayer

Although various cross questions were included in the questionnaire to assess their satisfaction level, the respondents were further requested to comment on how satisfied they were as taxpayers in general. The summary of the findings on the responses have been presented in Fig. 4.5

Fig. 4.5 Satisfaction as Taxpayer



It can be seen from the Figure that only about three percent of the respondents were very satisfied and about 14 percent were quite satisfied. All together about 67 percent are minimally satisfied. Altogether, one-third of the respondents were unsatisfied. These findings show that the government has to improve a lot in order to satisfy the taxpayers to an optimum level. The figure also compares the findings to that of the current study.

4.7 Major Findings

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

- The satisfaction level of Taxpayers with a Tax procedure and administrative mechanism is 80 percent satisfied and 20 percent of the respondents are unsatisfied.
- The satisfaction level of Taxpayers with availability of information on Tax and quality of tax a document is 85 percent satisfied and 15 percent are unsatisfied.
- About 71 percent of the respondents are satisfied and 29 percent respondents are unsatisfied with Vat policy of government.
- The overall satisfactions of Taxpayers with the services of IRO's about 72 percent respondents are satisfied and remaining are unsatisfied.
- On the whole about 67 percent respondents are satisfied and only about 33 percent are unsatisfied.

CHAPTER V

SUMMARY CONCLUSION AND RECOMMENDATION

5.1 Summary

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

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

Regarding the quality of service of IRO's, in overall majority of the respondents are satisfied (72%) and 28% of the respondents are unsatisfied. In overall level majority of the respondents are satisfied (except in the case of tax refund) and 20% of the respondents are unsatisfied. With administrative mechanisms and VAT procedures. Most of the respondents used news paper to acquiring information's about Vat. With regard to the contains of ability of information of tax documents in overall about 85% of the respondents are satisfied remaining are unsatisfied. And about 71% of the respondents are satisfied and remaining are unsatisfied with existing VAT policy.

Overall level of satisfaction on the whole about two third of the respondents are satisfied and one third are unsatisfied.

5.2 Conclusions

Based on the findings discussed above, the following conclusions can be drawn: The taxpayers' satisfaction level increases automatically when the IRO's is capable of delivering the basic services. In spite of many positive findings, it is disappointing to note that many of the taxpayers still feel that the behavior of tax officials is not friendly and fair. It is pity to note that over 44% of the respondents have indicated that they have to bear extra time to get their job done. Only 56% percent of the respondents reported that they never loss extra time. The weakness factors of IRO's is not easily provide information's related with VAT and VAT documents. And the strength factor of IRO's is administrative mechanism and tax procedure.

5.3 Recommendations

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

- The primary responsibility of tax officials is to ensure compliance with tax laws/system. At the same time, they should ensure that the tax system is simple, transparent and minimize uncertainty. Thus, the officials should aim to develop and update the existing tax policy to motivate people to pay taxes. While designing the policy, consultations should be held with relevant stakeholders including the business community.
- The tax system should fairly balance the need to protect the taxation revenue base with the principles of a good tax system.
- It is useful to identify the status of our country with regards to taxpayers' satisfaction level in relation to those of the developed as well the developing countries and the neighbors. Such a comparison was intended by the team. However, in absence of reliable data, it was not feasible for the study team to do

so. Thus, the team recommends to the Inland Revenue Department to identify where the country stands in this respect so that the scope for further improvement can be assessed.

- The tax officials working in the field level should emphasize compliance by taxpayers. Voluntary compliance should always be the primary focus of tax officials. To ensure tax compliance, tax procedures should be fair, efficient and transparent. The process should be simple, clear and certain. There should be low compliance costs.
- Many of the tax officials still have to learn and practice how to deal with taxpayers in a fair and professional manner irrespective of the amount of taxes the taxpayers pay and their social status.
- The tax officials should be provided with effective orientation on the basic principles of good tax administration. Such orientation should be provided to both old and new staff members on a regular basis.
- There is a need to introduce an effective reward and punishment system. Particularly those officials, who do not behave appropriately with the taxpayers and those who seek undue advantages, should be punished.
- For tax officials, it is very important to develop and sustain a good public image. In absence of these, neither can they succeed in their professional career nor can they live in the community with prestige. This needs to be communicated to the officials.

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Appendix-1

QUESTIONNAIRES

(A case study on Taxpayers Level of Satisfaction on VAT in Nepal)

Dear Madam/Sir,

I am student of Lumbini Banijya Campus MBS 2nd year and conducting research on Taxpayers' level of Satisfaction in Butwal Municipality on VAT. We would very much appreciate your participation in this survey. Whatever information you provide will be kept strictly confidential and will be used only for the said purpose.

Participation in this survey is voluntary and you can choose not to answer any individual question or all of the questions. However, we hope that you will participate in this survey since your views are important for reform measures.

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

Full name of the respondent:

.....

Age:

Address:

Phone no.:

1. Full name of the Organization

2. Do you know about VAT?

a. Yes

b. Partially

c. No

3. Annual turnover of the business unit (Fiscal Year 2068/69).....

4. Taxpayer Type

a. Proprietorship b. Partnership c. Pvt. Ltd. d. Public Ltd. e. Co-operative

f. Public Organization

5. Is Return filing time and procedure appropriate?

a. Very Good

b. Good

c. Poor

d. Very Poor

e. No

6. Are taxpayer satisfied with the tax collection procedure?

a. Extremely high

b. Very high

c. High

d. Okay

e. Low

f. Very low

g. extremely low

7. How important is the knowledge on VAT system to you as a taxpayer?

a. Very much important

b. Very important

c. Important

d. Not so important

e. Not important

f. Not important at all

8. How satisfied are you as a taxpayer (VAT)?

a. Very satisfied

b. High Satisfied

c. Quite Satisfied

d. Unsatisfied

f.

Quite unsatisfied

g. Very unsatisfied

h. Moderately satisfied

9. How do you rate the overall Tax regime in Nepal?

- a. Excellent b. Very good c. Good e. Poor f. Very poor g. Extremely poor

10. How are taxpayers’ satisfaction level on the tax refund practices?

- a. Very Good b. Good c. Poor d. Very Poor e. No

11. What do you know about VAT credit?

- a. Deduction of VAT paid by customer. b. Deduction of VAT paid by taxpayer.
c. off self of VAT paid from VAT collected.

12. To whom the final burden of VAT is imposed?

- a. Tax payer (Businessman) b. Dealer c. Retailer. d. Manufacture e. Consumer

13. Kindly rate your response on the following with regards to VAT?

S. No.	Particular	Excellent	Very Good	Good	Poor	Very Poor	Extremely Poor
1.	Availability of information of tax						
2.	Ease in understanding the printed VAT document						
3.	Overall level of satisfaction with VAT document						

14. What do you know about e-VAT?

- a. Yes b. Partially c. No

15 Are you satisfied with quality and service provided by tax office?

- a. Very satisfied b. High Satisfied c. Quite Satisfied d. Unsatisfied

16. Any further comment regarding VAT paid to you?

.....
.....

Submitted by:
Baburam Acharya
Lumbini Banijya Campus
MBS 2nd year