

**CONTRIBUTION OF VALUE-ADDED-TAX (VAT) TO
NATIONAL ECONOMY AND URBAN TAXPAYERS'
AWARENESS OF IT IN NEPAL**

A Thesis

Submitted to the Central
Department of Economics Education,
Tribhuvan University in Partial Fulfillment
of the Requirements for the Master's Degree

**In
Economics Education**

By

ASUTOSH RAI

Exam Roll No.: 281597/2066

T.U. Regd. No.: 7-1-3-2059-2002

UNIVERSITY CAMPUS
FACULTY OF EDUCATION
KIRTIPUR, KATHMANDU
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LETTER OF RECOMMENDATION

The present thesis entitled "**Contribution of Value-Added-Tax (VAT) to National Economy and Urban Taxpayers' Awareness of It in Nepal**" has been carried out by Mr. Asutosh Rai under my direct guidance and supervision. This is his own original and independent research work and has been designed in accordance to the format provided by Tribhuvan University. I hereby recommend this thesis for examination by the evaluation committee as a partial fulfillment of the requirements for the Master's Degree in Economics Education.

.....
Surya Bahadur Thapa

Research Supervisor

(Associate Professor, Central Department
of Economics Education Tribhuvan University)

Date:

APPROVAL SHEET

The present thesis entitled "**Contribution of Value-Added-Tax (VAT) to National Economy and Urban Taxpayers' Awareness of It in Nepal**" submitted to the Central Department of Economics Education, Tribhuvan University in partial fulfillment of the requirements for the Master's Degree in Economics Education by Mr. Asutosh Rai has been found satisfactory in scope and quality. Therefore, we accept this thesis as a part of the said degree.

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The present study entitled "**Contribution of Value-Added-Tax (VAT) to National Economy and Urban Taxpayers' Awareness of It in Nepal**" has been undertaken for the partial fulfillment of the requirements of the Master Degree in Economics Education under Tribhuvan University.

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.....
Asutosh Rai

ABSTRACT

Value added tax (VAT) is relatively a new concept of tax system in Nepal. It plays a crucial role in the revenue generation. The effectiveness and efficiency of VAT system depends upon tax payers' awareness on VAT. This study seeks to analyze and assess the tax payers' awareness regarding VAT in Nepal. Similarly it is also carried out for analyzing the contribution of VAT revenue to the public revenue and intended to provide some useful corrective measures for improving VAT system with special reference to tax payers' awareness regarding VAT in Nepal.

Since the title of this work clears that the present study is related with tax payers' awareness regarding VAT in Nepal. As mentioned above, the objectives of the study were to analyze the contribution of VAT in revenue collection, to assess the awareness level of tax payers regarding VAT in Nepal and suggest and recommend the possible corrective measures for effectiveness of VAT system with special reference to tax payers' awareness regarding VAT in Nepal.

To achieve the objectives a survey cum analytical research design was applied. The study was conducted with the help of both primary and secondary data. Mainly the questionnaire technique was adopted to obtain primary data along with interview technique in some cases (i.e. for the respondents who were unable to understand the questionnaire). The Internal Revenue Department and its 23 frontline Inland Revenue Offices have been engaged in tax collection. In the course of this study, 50 sample sizes from Kathmandu Metropolitan City were taken for the empirical study. For the convenience, respondents groups were categorized in four groups. They are tax experts, tax officials, businessmen/traders and consumers accordance to which the sets of questionnaires were developed and used. The data obtain from both primary and secondary sources were presented on descriptive analysis form. The information received from different sources are firstly, tabulated into separate formats systematically in order to achieve the desired objectives. After that, the data have been further tabulated, categorized, analyzed and presented in logical order. The study is focused on at the reach of real facts and tried to reveal the truth in any case and circumstance.

The research work found that contribution of VAT revenue to the total tax revenue is in increasing trend, though the growth percentage is fluctuating in every FY. An effective and efficient VAT system is beneficial for sound economic development. Despite the various hitches on the implementation of VAT, the collection trend of revenue through VAT is on positive way and is expected to generate more revenue in the near future. Though it has been thirteen years of VAT implementation in the context of Nepal, since it was introduced in Mangsir, 01 (November 16, 1997), the awareness level of public towards this system is not enough as it was and is intended to be. Still, there are many businessmen/traders and consumers having poor and weak awareness level regarding VAT in Nepal which has caused the obstruction in smooth functioning of VAT system in Nepal. All tax experts and officials responded that both tax evasion and tax avoidance have taken place in the context of Nepal. The unaware consumers/public, lack of knowledge about VAT, inefficient tax administration, weak rules and regulations and corrupted tax administration etc. are the causes behind it. For detecting and avoiding these problems regarding with VAT, consumers should be made aware of these facts, improvement and reformation should be made on VAT rules and regulations along with managing efficient tax administration and other necessary measures. If the efforts are made for increasing awareness level among the public, especially for business community and consumers the contribution of VAT revenue to the public revenue surely increases more than as it now.

The recommendations made at the end of the study are focused on the necessity of increasing tax payers' awareness level regarding VAT in Nepal since the main cause behind the ineffective and inefficient VAT system has been found as unaware public or people. For which an invoicing system is the heart of VAT system. That's why the effectiveness of VAT system greatly depends upon the invoicing system. So, compulsory invoicing system during the purchase and sale of goods and services should be made possible. For which regular cross check, investigation and supervision should be made by concerned authorities and GON. Tax payers should be made aware as the tax paid by them is for their betterment and convenience. All the registrants should be required to display their registration certificates properly which is in increasing trend at present but needs to be monitored on regular basis by the tax officials and tax administration. A regular information program should be launched to explain and narrate the tax laws, tax programs, tax benefit, tax rules and regulations

with the view of stimulation, enthusiastic participation of the public to pay taxes through media such as, radio, television and newspaper etc.

Similarly, over the study period, the researcher found that large number of businessmen/traders and consumers are still ignorant and unaware about the VAT, its composition, system and procedure. So, there is need of making arrangement for training, seminars, information campaigns, publication of journals for making them literate and aware regarding the VAT matters and system to make VAT system effective and efficient. The vendors are required to have their accounts by means of proper and actual invoicing system. They should develop their professional competence not only in marketing but also in accounting and reporting system by paying due respect to the law. In this respect, government institutions as well as private institutions should arrange for training in respect of accounting and legal matters of taxation. Proper utilization of modern information technology system should be made and proper audit of the system itself should be carried out.

Thus, the research work has concluded that the government of Nepal should be focused on increasing tax payers' awareness regarding VAT along with other complementary tax matters at any cost which ultimately proceed in increment of public revenue at large.

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ABBREVIATIONS

| | |
|--------|---|
| % | : Percentage |
| BjSMC | : Birgung Sub-Metropolitan City |
| BS | : Bikram Sambat |
| BSMC | : Biratnagar Sub-Metropolitan City |
| CAP | : Consumer Awareness Program |
| CBR | : Crude Birth Rate |
| CBS | : Central Bureau of Statistics |
| CDR | : Crude Death Rate |
| DRI | : Department of Revenue Investigation |
| e.g. | : Examples |
| etc. | : Etcetera |
| EU | : European Union |
| FNCCI | : Federation of Nepalese Chamber of Commerce and Industry |
| ft. | : Feet |
| FY | : Fiscal Year |
| GDP | : Gross Domestic Product |
| GNP | : Gross National Product |
| GON | : Government of Nepal |
| i.e. | : That is |
| IMF | : International Monetary Fund |
| IRD | : Inland Revenue Department |
| KMC | : Kathmandu Metropolitan City |
| K. U. | : Kathmandu University (Nepal) |
| LSMC | : Lalitpur Sub-Metropolitan City |
| MODVAT | : Modified Value Added Tax |
| MOF | : Ministry of Finance |
| No. | : Number |
| NRB | : Nepal Rastra Bank |
| PSMC | : Pokhara Sub-Metropolitan City |
| Pvt. | : Private |
| Rs. | : Rupees |
| SAARC | : South Asian Association for Regional Cooperation |

T. U. : Tribhuvan University (Nepal)
UNESCO : United Nations Educational, Scientific and Cultural Organization
USA : United States of America
VAT : Value Added Tax
VDC : Village Development Committee
Viz. : Namely
Vol. : Volume

CHAPTER I

INTRODUCTION

1.1 Background of the Study

An accelerated economic development is the most desired goal of every developing country along with maximization of social welfare in this modern era. In this regard, a state needs to conduct its daily tasks smoothly and needs to formulate and implement the development plans and policies in effective manner for which huge amount of money is required.

Broadly, sources of government revenue are divided into two types. They are: tax revenue and non tax revenue. Non tax revenue consists of various revenue sources such as: donations, prizes, internal and external loans etc. However, non tax revenue is important component of government revenue but the taxation is regarded as the most effective and reliable source of government revenue (Lekhi, 2007).

Value added tax (VAT) is an indirect tax. It is the youngest and newly evolved concept of taxation. It is a transparent, effective and efficient indirect taxation which has been established on an account based system. VAT belongs to sales tax family. It has replaced most of the sales tax and has got its own identity (Khadka, 2005).

According to the Encyclopedia of Taxation and Tax Policy (2005), “VAT is a broad based tax on business designed to measure net value generated in a country”. Value-added tax is imposed on value added on goods and services by business firms at the successive stage of production and distribution. Value added is the excess of sales value over purchase by manufacturing or trading firm during a period of time. For example, a salesman pays 10 rupees for sliced bread and carries it to the retailer for 15 rupees; he had added 5 rupees of the value to the bread. A certain percentage of tax is levied on the added value at various levels of such production and distribution. In this sense a VAT is a multistage sales tax.

The VAT is a scientific, transparent, broad based and investment friendly tax system; however, many obstacles are there on the way of VAT implementation. One

of the challenges for implementing the VAT is tax payers' behavior. Tax administration found that some tax payers keeping dual accounting, issuing dual bills, taking VAT from customers but not submitting to the government and charging VAT without registration into the VAT office. So, there is a need for discouraging such tax payers. In addition to this, lack of billing habit is another serious problem as there is a little or no practice of issuing the correct bill. Some sellers use to compel the buyers to pay extra 13 percent amount on demand of the bill. All these are anti VAT activities (NRB, 2007). These all are results of unawareness and ignorance or negligence towards the VAT system.

The low level of public awareness as well as tax payers' ignorance has created many problems for the effectiveness of VAT system in Nepal. There is need of the government efforts for the collection of tax and extended attention towards tax payers' education and better tax payers' obligations for the default and tax evading. In the same way, awaking the tax payers has been a challenging issue. Tax payers' education and assistance tells them what they need to know, to comply and when they need to perform what they have learnt. Since, this study mainly concerns with tax payers awareness with special reference to VAT which is one of the essentials for effective implementation of the VAT system in Nepal.

1.1.1 Evolution of VAT and Nepalese VAT System

Evolution of VAT

In the history of taxation, VAT is the latest tax system. VAT approach was discussed as early as 1918, however, this tax was firstly recommended by William Von Simens in 1919 in Germany to replace the *umsatzsteure* or multistage turnover tax in order to avoid the undesirable effects, particularly cascading and vertical integration of the later tax. The VAT proposal was seriously considered by the then German government but as the tax was new and thought to be complicated that it decided to reduce the rate of turnover tax instead of introducing VAT. Despite this, VAT was considered as an improved form of turnover tax in the literature. In 1921, VAT was suggested by Professor Thomas S. Adams for the USA.

A mission led by Professor Carl S. Shoup proposed a value-added tax for Japan in 1949 and developed its broad structure. The mission suggested the *fuka-kachi-ze* (VAT) for Japan in order to avoid the undesirable and unintended effects of the Japanese enterprise and turnover taxes. Although Michigan State of USA introduced a limited feature of VAT but the tax was not introduced by any country till 1953. Because, Japan also did not introduce it promptly showing the cause of further study.

In practice, France launched the value-added tax. The term value-added taxes on its origin to French phrase '*Aur La Valur Ajout'ee*'. The father of the modern VAT is 'MC Maurice Laure' who in his capacity as an official of French Ministry of Finance developed French levy. The speed of introducing VAT was geared up in early sixties, when Ivory Coast followed France by adopting it in 1960 and Senegal in 1961.

The gear of VAT again accelerated from 1986 When Morocco, New Zealand, Niger, Portugal, Spain and Taiwan made a change in their sales taxes by a VAT and by Grenada and Greece in 1987. Bangladesh, Benin, Canada, Jamaica, Mali and South Africa adopted VAT in 1991. Its introduction boosted up its highest place in 1992 when 18 countries had adopted it. Nepal had adopted VAT in 16 November, 1997. The detail about it is presented under the topic, 'Development of VAT in Nepal'.

Principles of VAT

There are two principles for levying VAT. They are principle of origin and principle of destination. Choice between these principles highly depends upon the goals and the policies of a nation, accession of international trade, computing methods and types of VAT etc. (I) *Origin Principle*: Under this principle, all domestically produced goods including exports are taxed whereas all imports are freed. As per this principle all goods and services produced and generated in the country should be taxed whereas those imported from abroad should be relieved from taxation. This principle influences balance of payment of the country negatively, especially for those who have a poor performance in the world economy (Devkota, 2000). (II) *Destination Principle*: Under this principle, all imports are taxed whereas exports are freed. The VAT is collected at the point of import and the firm would receive a

credit for the VAT paid and refund when exported. This principle creates favorable effects on balance of payment for the country.

On the basis of above arguments, the destination principle is more appropriate for a country having consumption type of value-added tax with the credit method of computation. Special benefits of this principle can be attained by those countries who have open border and cross country trade and less competent in the open market. Nepal has also adopted this destination based VAT, Devkota (ibid).

Types of VAT

The major types of value-added taxes (corresponding to the gross national product, net national product and consumption bases) may be classified, although only the consumption type is at the highest for practical consideration (Musgrave and Musgrave, 1998). The consumption types of VAT are given below: *(I) Consumption Type VAT*: Under consumption type VAT, all capital goods purchased from other firms in the year of purchase, are excluded from the tax base while depreciation is not deducted from the tax base in subsequent years. The base of tax is consumption since investment is relieved from taxation under this type. This is the most popular type of VAT. Most of the countries including Nepal have adopted this type of VAT (Khadka, 2001). *(II) Income Type VAT*: The income type of VAT does not exclude capital goods purchased from other firms from the tax base in the year of purchase. This type, however, excludes depreciation from the tax base in subsequent years. The tax base of this type is the net national income. Many countries do not prefer this method because it faces the same problem as we face in calculation of income for a particular period, Khadka (ibid). *(III) Gross National Product Type VAT*: Gross national product type of VAT neither excludes purchased capital goods nor the depreciation from the tax base. It means the tax is levied both in consumption and gross investment. The tax base of this type is gross domestic product, Khadka (ibid).

Methods of Computation of VAT

There are various methods of tax collection in VAT system. Broadly, VAT can be computed by these three methods. *(I) Addition Method*: It is also termed as 'direct

value-added method'. Under this method, value added (a tax base), is directly ascertained by adding profit to the conversion costs incurred by the firm. The conversion costs may consist of the payment to the factors of production such as wages, interests, and rents etc. that are used in converting purchased materials in to saleable goods. Thus, this method is appropriate for the income type of value-added tax that includes all payments for the factors of production in the tax base (Amatya et. al, 2004). *(II) Subtraction Method:* This method may be known as net turnover method. Under this method, the tax is obtained by subtracting the cost of purchases from sales proceeds. It means value-added is sales minus purchases. Thus, this method is appropriate for the consumption type VAT that is levied on value added derived by subtracting cost of materials from sales proceeds, Amatya et.al (ibid). *(III) Tax Credit Method:* Value added is not directly computed under this method. Value added tax is imposed on the total value sales and the vendors (sellers or suppliers) are allowed to deduct the input taxes from their gross tax liability. This means that tax liability of a person is determined by subtracting tax on purchases from the tax on sales. Thus, it is also known as 'invoice method', Amatya et.al (ibid).

Development of VAT in Nepal

VAT was introduced in Nepal for many reasons. Broadening the tax base, reducing the tax rates and making the tax system transparent, fair and less distortion have been the important features of recent tax reforms in the international arena. VAT is the best option to broaden the tax base and reduce the rates of taxes and to make the tax system more transparent in line with liberal economic policies introduced in recent years (Khadka, 2001).

The eighth five-year plan announced to apply VAT in Nepal at the end of the plan. The budget speech of F/Y 1993/94 extended its compliments towards VAT saying that 'To make sales tax as a principal source of revenue mobilization, government attempts will be directed to change sales tax in to VAT gradually'. A task force was set up in the sales tax and excise duty department to make necessary preparation for an early introduction of VAT. The task force prepared a draft of VAT law and made other few studies during a period of one year. After a political change of 1994, the ordinance budget of 1994/95 repeated its compliments to make VAT preparations

complete within 1995 giving continuity in preparation. But budget of 1994/95 presented by the government of CPN (UML) lengthened the move towards VAT, showing the need for more study. The task force came to an automatic stop. Again, the government formed a 'Task Force on Re-observation of Nepalese Tax System', headed by Professor Dr. Madan Kumar Dahal and assisted by Dr. Rup Bahadur Khadka. A study was conducted which reached at a conclusion that there is not any other reliable measure without changing the existing sales tax to VAT.

The budget speech of 1995/96 announced that 'VAT will be introduced from next fiscal year in apparent to make sales tax opportune in Nepal'. Now, the VAT Act 1996 and VAT Rules 1997 have been approved. Ultimately the then HMG decided to adopt VAT from November 16, 1997 somewhat hurriedly in the light of its preparation. It had faced transitional problems as well as sharp oppositions from business community in the beginning. So, again decision was made that it will be implemented from 13 February, 1998 in real practice in Nepal and ultimately it was implemented.

Legal Provision of VAT in Nepal

VAT Bill was passed on March 20, 1995. VAT regulation was approved on January 24, 1996 by the cabinet. Finally VAT was introduced on November 16, 1997. From this date, VAT replaced the Sales Tax Act 1967, Hotel Tax Act 1962, Contract Tax Act 1967 and Entertainment Tax Act 1961 (Khadka, 2005).

Nepal has adopted a consumption type of VAT. Under this system, tax is levied on value added at each stage in the process of production and distribution. It is levied on output and credit is allowed for full amount of tax paid on purchase at the previous stage i.e. based on destination principle (Khadka, 2001). The law in schedule 1 of VAT Act 1996 provides a list of exempted goods and services along with zero-rated goods and services regarding with exports and imports. Though threshold limit has been changed frequently, but by large it is fixed at Rs. 2 million and the rate of VAT has been changed to 13 percent from 10 percent.

Structure of VAT in Nepal

The structure of VAT in Nepal can be summarized in this manner as they are: (I) *Coverage and Rates:* In Nepal, VAT is levied on all types of goods and services, both imported and domestically produced, except those specially exempted by law. It is extended right from distributor level to the retail level. It is levied on the value added by each firm at each stage in production and distribution process. However, the small traders whose annual turnover is below the registration threshold are not required to register for VAT.

Nepal has adopted a broad based consumption type VAT using tax credit method. Nepalese VAT is subject to a standard rate of 13 percent, however, a few transactions of goods and services are zero-rated and some are exempted from VAT.

(II) *Threshold:* Nepal's VAT regime seeks to keep small vendors outside the tax net, who are defined using a turnover threshold as the criteria. Small vendors having an annual turnover up to certain amount are not required to register in VAT. The amount fixed for this purpose is known as threshold which is of Rs. 2 million in the context of Nepal. (III) *Exemption:* Exemptions simply imply the exclusion of a certain goods and services from the tax jurisdiction. Exemptions are granted on administrative or social grounds and also to minimize the problem of excess credit and consequent refund. In this case of dealer, dealing with exempted goods and services VAT is not levied on his/her and he/she is not entitled to a credit for VAT paid on his purchases or imports. (IV) *Tax Period:* For the purpose of submission of return and amount of tax, tax payers have been classified broadly into two tax periods i.e. monthly tax period and quarterly tax period. (V) *Zero Rating:* Nepalese VAT is subject to a standard rate of 13 percent. But, some of transactions or goods and services are zero-rated. Zero-rating simply implies that certain goods and services are taxed at the rate of zero percent. (VI) *Tax Credit:* The credit is the most important feature of the VAT system. Under the Nepalese VAT system, tax payers are entitled to claim input tax credit. It is however, allowed to the extent that the purchased/imported goods and services are used for goods and services sold in taxable transactions including exports. A tax payer must hold and be able to produce a valid tax invoice for the goods or services for which a credit is being claimed. (VII)

Tax Refund: Under the Nepalese VAT system, there is a provision for the refund of VAT. If the input tax is excess of the output tax, the balance should be carried forward to tax payer, it is known as tax refund.

Operation of VAT in Nepal

The operation of VAT in Nepal can be discussed within these topics in brief. They are: (I) *Registration:* The first step towards VAT operation is registration of vendors who are legal tax payers. Threshold limit for the registration is fixed at Rs. 2 million. All the tax payers whose taxable transaction is above the threshold are compulsorily required to register in VAT. However, the vendors having the transaction of only exempted goods and services or falling below the registration threshold are not compelled to register in VAT system but their voluntary registration will be made possible. (II) *De-registration:* In case the registration of any registered person can be cancelled due to the particular conditions is termed as de-registration. (III) *Invoicing:* Each registered trader must issue an invoice bill for each taxable sale. Invoices are the initial documents for VAT control. There are two types of invoice i.e. tax invoice and abbreviated invoice. (IV) *Books of Account:* Every VAT registration should keep clear and adequate record of his transactions (purchase or sales) which are subject to positive rate, zero rate and exemption. A registrant is required to maintain a purchase and sales book and list each transaction in these accounts. Computerized accounts may be maintained with the prior approval of the VAT administration. (V) *Tax Assessment:* VAT is self-assessed tax, whereby the tax payer determines his tax liability, files his tax return and pays the tax within stipulated time. Tax assessment is the process of determining the amount of tax, any individual or companies liable to pay. (VI) *Tax Return:* In the Nepalese tax system, the tax return of each tax period must be filled at the relevant tax office within 25 days following the end of the accounting period. The period is monthly for compulsory registrants and once every four month for voluntary registrants. The head office is required to submit tax returns for the transactions carried out by its branches and sub branches if any. There are no special rules, for example, for seasonal business or others. Even if there is no transaction, it is necessary to submit a zero return. (VII) *Payment of Tax:* In Nepalese VAT system, a VAT registrant having output tax liability greater than the input tax credit is required to submit the difference to the government within 25 days of the

month following the end of the tax period. However, in case of unavoidable circumstance, tax payers can prevent paying tax due within the prescribed time. (VIII) *Penalties*: Every firm (a person) has freedom to operate his business activity but the government always checks that whether tax payers perform according to acts, rules and regulations or not. So the government always moves for checking, inspections and audit of their books of accounts. If tax payers are found having illegal and fraud activities, they are subject to penalty.

1.2 Statement of the Problem

Public revenue is necessary for the development of a nation and providing social welfare. Nepal is one of the developing countries facing many development challenges to promote the life standard of its 31 percent of citizens remaining below the poverty Line. Infrastructure development and maintaining stability in the economy i.e. 'sustainable development' has been major issue to her. An effective VAT system may help in raising the government revenue on regular basis but VAT is not free from difficulties. Public awareness regarding VAT has been the most serious problem in the field of Nepalese VAT system. Awareness of general public about the regulation of VAT is quite poor. A large number of Nepalese buyers are found not taking formal invoices. Even businessmen and their associates too, are found having so many confusions on provision of the VAT system and its regulation. Some shopkeepers are found of demanding extra 13 percent of amount for VAT invoice. These are the result of unawareness and negligence towards VAT system due to which huge potential of revenue collection through VAT has gone in vain.

As this study basically concerns with VAT and mainly with the tax payers' awareness regarding VAT in Nepal seeks to answer the following research questions.

- i) What is the portion of VAT in revenue collection?
- ii) What is the awareness level of tax payers regarding VAT in Nepal?
- iii) What corrective measures can be taken for improving tax payers' awareness regarding VAT for its effectiveness?

1.3 Objectives of the Study

The general objective of the present study is to analyze the tax payers' awareness regarding VAT in Nepal. The specific objectives of this study are as follows:

- i) To analyze the contribution of VAT in revenue collection.
- ii) To assess the awareness level of tax payers regarding VAT.
- iii) To suggest and recommend the possible corrective measures for effectiveness of VAT system with special reference to tax payers' awareness regarding VAT in Nepal.

1.4 Significance of the Study

Value-added tax is a part of taxation and taxation is powerful tool for mobilizing the internal resources for the country. Due to lack of proper mobilization of internal resources, Nepal has been facing a serious resource gap for many years. This trend seems to be continued in future if it is not managed properly. So, internal revenue mobilization should be strengthened. One of the key factors for internal resource mobilization is the implementation of VAT. Nepal has adopted VAT since 16 November, 1997 with the following objectives:

- i) Expanding the tax net.
- ii) Export promotion.
- iv) Reducing economic inefficiency.
- v) Evolving a clean and transparent tax system in place of sales tax.

Despite the 12 years of implementation, many people are still unaware and ignorant towards various aspects of VAT. That's why; obstacles have been created for the smooth functioning of the VAT system in Nepal. Various studies have claimed that low attention is paid towards this aspect. This study is intended to assess the awareness level of the tax payers regarding VAT in Nepal and seeks to find out rectifying measures to unawareness and negligence and ultimately assumed to be helpful in effective implementation of VAT in the near future. So, the study will be useful for the readers, interested persons in the field of taxation, policy makers,

researchers, tax officials, and students for further research in the relevant subject matter.

1.5 Limitations of the Study

This study is based on some assumptions which are its limitations. They are given below:

- i) The study is based on both primary and secondary data. So, reliability of data depends upon their sources and collection procedures.
- ii) Because of time and budget constraints, the primary data survey coverage is limited as it was done within the Kathmandu valley only.
- iii) The study covers the period of 8 years from FY 2001/2002 to FY 2008/2009.

1.6 Organization of the Study

The study has been organized in the following structure:

Chapter I: Introduction

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

Chapter II: Review of Literature

The review includes the review of former studies made on the relevant subject matters of this study.

Chapter III: Methodology

Provisions for research design, population and sample, sources of data, methods of analysis and presentation of data are stated in this chapter.

Chapter IV: Study Area Profile

This chapter consists of geographic situation, climatic condition, demography, socio-cultural setting, educational status, economy and trade and commerce of the study area i.e. Kathmandu Metropolitan City, in brief.

Chapter V: Analysis and Presentation of Data

In this chapter, data and information collected from various resources are analyzed and presented with the help of different statistical and other relevant tools.

Chapter VI: Summary, Conclusions and Recommendations

Summary, conclusions, and recommendations of the present study are drawn in this chapter.

CHAPTER II

REVIEW OF THE LITERATURE

In this section, the review of the former studies made relevant to this study is done under the two topics. They are: theoretical review and empirical review. The theoretical review is based on the review of various books relevant to this study and empirical review is based on the review of former dissertations, articles and theses which are relevant to this study. The study consists of the review of seven literary works under the theoretical review and six literary works under the empirical review. They are further discussed under the following sub-topics as given below.

1.2 Theoretical Review

Shoup (1969) considered value-added tax as the latest and probably the final stage in a historical development of general sales tax which is composed on the value-added by the business firms. VAT is the difference between sales proceeds and the cost of materials etc. purchased from other firms which is the tax base of VAT. A firm adds value added by processing or handling these purchase items with its labor force and its own machinery, building or other capital goods. According to him, awareness among the public regarding VAT is very much important for effective VAT operation. It may be a good and reliable source of government revenue if it is introduced in efficient manner.

He further stated that VAT is a tax on the value that a business firm adds to the things it buys from others firms in producing its own products. A VAT is comprehensive if it covers all the economic activities from the earlier stage of farming or mining right through to the retail. The speed to which the VAT has spread around the world is unmatched by that of any other tax in modern time. VAT reduces vertical integration because of its nature that is taxes of the value added but not turnover.

VAT offers more revenue and coverage more than other forms of sales taxes. It exempts exports well considering the problem of deducting the capital goods. A consumption type of VAT is superior then other form. In calculation, tax credit

methods are the universal one. VAT is more revenue productive, self-enforcing and if foods and basic necessities are to be zero-rated regression may be reduced. The author pointed out some disadvantages of VAT. They are: (i) Difficulty in case of administration or collection (ii) Inflationary in nature (iii) More problematic in developing countries and (iv) Regressive in nature. Though it is superior to other forms of tax but needs caution in implementation. He focused also on that (i) VAT is not ideal for the developing countries (ii) Basic accounting problem and efficient and empirical tax administration are lacking in developing countries which are the main obstacles to implement it (iii) The choice between turnover taxes and the VAT becomes a matter of weighing the pros and cons. So, there is the need of developed prerequisites for fruitful, efficient and effective VAT system in the context of all developing countries.

But except the above conditions the present scenario is absolutely changed as compared to the past. In the past two-decades, the applicability of VAT is dramatically increased. Share of VAT in total revenue is gradually increased. At present, it seems that the VAT is a major source of national revenue for many developing countries. This study is mainly concentrated on policy issues only.

Singh (1969) stated that administration of VAT does not require firms to calculate value-added tax. VAT is administrated by invoice method. He found the merits of VAT as natural and efficient resource allocation, neutral between different goods and services, natural between businesses, neutral between different types of Production and distribution, neutrality in imported and domestically produced goods. So, VAT is a vital contributor to government revenue for those who have adopted it. He paid attention towards the demerits of VAT too. They are : (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 hinder the smooth tax payment.

Regarding with VAT in developing countries, the main requirements to introduce VAT are described as: (a) Ability to administer VAT (b) Determination of its feasibility (c) Small business and compliance are also other problems which should be treated very carefully in developing countries while introducing VAT and (d)

Successful introduction of VAT depends largely on previous experiences of multiple stage sales taxes or general sales tax.

Khadka (1997) has briefly tried to cover almost all the theoretical aspects of VAT especially the introduction to VAT, the type, methods, evaluation and comparison of VAT. He defines “VAT is the most recent innovation in the field of taxation. It is levied on the value-added of goods and services”. Theoretically the VAT is broad based tax as it covers the value-added to each commodity by firm during all stages of production and distribution.

It is true that VAT system demands better tax administration in the light of modern tax. In this context, Khadka suggests, “Tax officials should be mentally prepared to accept the price declared by the tax payers at their price values. Tax payers should not be asked to get their price lists approved by the tax officials instead tax investigation and audit should be made effective in order to make tax payers more careful in fulfilling their duties”. Khadka further expresses that VAT will improve the efficiency and competitiveness of domestic product in the internal market by relieving exports from internal commodity taxes. Khadka further adds as VAT will be levied only on the value added; inputs will be eliminated under VAT. VAT will improve the competitiveness of the domestic products in other ways as well and also becomes a trustworthy means for revenue mobilization for a country.

Khadka (1999) writes that VAT is the most recent innovation in the field of taxation. It is levied on the value-added of the goods and services. VAT is as a broad based tax system as it covers the value-added to each commodity by a firm during all stages of production and distribution.

This book has covered all aspects of VAT including the nature of VAT, reasons for the growing popularity of VAT, development of VAT etc. Apart from this, the report examines the structure and operation of VAT in the Asian Pacific countries which also explores the possibility of introducing VAT in Nepal. Probably he is the only one person who has observed VAT system of different countries and has proposed VAT for Nepal with micro study of Nepalese economy and system. He further adds

that there is huge potentiality of increment in government revenue if VAT will be implemented in effective and efficient way.

In his writing, the focus was made 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 considerably and extensive training should be provided including the causation of computer system. A VAT implementation team including experts and persons 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 and awareness programs must be launched for attaining the fruitful VAT in Nepal.

Khadka (2000) analyzed that the tax compliance of Nepalese tax payers is very poor in Nepal and different taxes are not being fully paid as per the law. There is a lack of transparency and both the tax payers and tax collectors take undue advantage of the situation. There is lack of coordination, approach and long term strategy within the system. Creation of awareness about VAT among the Nepalese people is not made properly as it needs to be for effective and efficient VAT system.

In his book, "The Nepalese tax system" reviewed the overall Nepalese tax system and tax administration. He also examined the different steps that are taken in the

process of developing tax system in Nepal. Further, he recommended the measures to design the tax system are: broad-based, low rated, neutral, simple and transparent, and also some of the essential measures for the reform of tax administration were suggested.

The recent issues of the Nepalese tax system were identified as: (i) Lack of co-ordination in long-term strategies (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 concluded 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) Adaptation of a long term co-coordinating approach (ii) Broaden the tax base (iii) Enhance the tax compliance (vi) Implementation of local taxes. Along with these existing issues and suggestions, the study considered that the introduction of VAT in Nepal had no alternatives for generating revenue required for improvement of its deteriorating macro economic performance. As VAT is based on transition value which need not to fix arbitrary or artificial values for tax purpose that avoids the existing problems of under valuation, corruption, non-transparency etc. Achievement of these good features of VAT depends up on its implementation, which is the major issue for its success in the Nepalese context.

Shrestha (2005) focused on need of awareness regarding VAT among consumers. According to him, though VAT is paid by the consumers the ambiguity of its effects on their purchase and sales of commodities have led to confusion. Moreover, the government has been accused of not taking any positive steps towards educating them. Due to their ignorance, as opposed to the government policy, consumers are forced to pay VAT in all purchases they make; common people are still ignorant of VAT. Since consumers pay VAT, it is necessary for the government to educate them. It is necessary on the part of consumers to know about the goods and services that are VAT exempted not to be cheated by businessmen. Consumers also need to know the businessmen who are entitled to collect VAT and who are not.

He further explained the evolution of sales tax and VAT in Nepal. The writer depicted the issues and challenges of VAT implementation are: (i) Lack of billing system which includes: no billing, low billing, low level of consumer awareness about billing, if bill is issued; the 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 suggested the various strategies. They are: (i) Reduction and removal of the provision of tax-exempt (ii) Regular survey for potential of taxpayer (iii) Effective monitoring and evaluation (iv) Enhanced the tax boundaries (v) Strengthening tax administration (vi) Easy provision to submit tax return (viii) Promoting billing exchange (ix) Increase in tax rates.

Pandey (2008) also focused on VAT awareness for the success of VAT system. According to him, the success of VAT system is not only the success of the VAT department but also the success of the VAT nation as a whole. The role of general media, radio and national daily/weekly newspapers play an important role in this context. Emphasis should be given to mass public media instead of distributing booklets and return forms to tax payers. Therefore, an environment of VAT awareness should be created covering the public, non-government and government organization.

He stated that VAT is a sales tax in advanced form. It is imposed on different stages. It is the tax imposed on added value of goods and services. The value is added in the form of profit, rent, wages, salary etc. In his book he pointed out the characteristics of a full-fledged VAT system. They are: (i) It is an indirect tax (ii) It is based on added value (iii) It is a broad-based tax (iv) It is based on self-assessment system (v) It avoids cascading and pyramiding and (vi) It has the self-policing and catching up benefit.

He had identified the problem of VAT Act System. The taxpayers do not want to show the transparency in their transactions. They do not want to keep the accounts. They all want to register the firm under small-scale business. Taxpayers generally show the low productivity and high wastage ratio. Likewise they show the large amount of discount allowed to customers. Issue of billing is the serious problem of VAT system in Nepal. Shortcomings of VAT implementation indicated in his study were not giving the information of preliminary tax assessment, not examining the accuracy of data faulty explanation of act, none adopting the administration circular, not verifying the stock and not conducting link audit.

He further suggested what is to be done for correcting the mistakes and evils for which billing procedure should be developed scientifically with the help of computer. Taxpayers should be provided education for keeping accounts to make aware about billing procedures. An equal punishment standard should be made in the field of tax administration and judicial administration. Consumers should be provided education for their right and duties.

2.3 Empirical Review

Ghimire (1998) made a study on 'value added tax: key issue in Nepal'. His study focused on problems behind the effectiveness of VAT system and analyzing the issues of VAT system in Nepal. To achieve these objectives, a descriptive and an analytical research design were applied. The study was based on both primary and secondary data. The data were obtained by field survey and various publications; such as economic surveys, annual reports of NRB, DRI and IRD, budget speech of various economic years.

His study concluded that the exiting major problem of VAT implementation in Nepal is the existence of small trades in large proportion, lack of large amount of unauthorized trade from accounting records, illiteracy and high compliance cost, the existence of open border between India and Nepal poses a great threat to the success of VAT in Nepal.

Strong administration, educational program, training program, technical data base system, combination of various revenue offices, high level VAT implementation terms, co-ordination of VAT departments, close co-operation between government and private sectors etc. are essential pre-requisites for the successful implementation of VAT in Nepal. Similarly, well organizational structure, audit and inspection system, reward and punishment, political non-intervention, selection of skilled and experienced manpower are needed to improve for effective implementation of VAT. VAT is considered as a broad based tax and potential advantages of it can be attained fully if the tax is extended through retail level.

The researcher suggested to improve in the following aspects: i) Administrative power and creditability ii) Identification of tax payers iii) Registration iv) Education programs and v) Incentives for small traders.

Prasai (2000) used descriptive type of analysis to fulfill his objective. The study was made on 'VAT in Nepal: theory and practice'. The study had intended to analyze the practicability and feasibility of VAT in the context of Nepal and its contribution to public revenue. The study was mainly based on secondary sources of data. So, the data obtained from secondary sources, such as: various books, journals and articles relevant to the study, documents published from ministry of finance, economic survey, and Inland Revenue Department and budget speech of various economic years were interpreted and analyzed with the help of categorization, tabulation, graphs, charts and diagrams.

He concludes that the Nepalese VAT system has no weak provisions; it is one of the best models in the world. In practice, however, the system is not effective today; most of the problems concerning the operation of VAT in Nepal have been identified as administrative inefficiency, lack of accountability, lack of awareness, lack of honesty, faith and morality among the tax officials and tax administrators. So, VAT system is not running in the right track.

For effectiveness of the VAT system, the government needs to take necessary steps to start out the emerging problems in implementation of VAT. The government needs full cooperation from the tax administration, the tax payers and business men

as well as consumers, in its effect to generate more revenue. VAT must be made successful and this largely depends upon honesty, faith and morality of tax officials and business man. Responsibility and accountability in every section of the economy is its basic requirement as well as honesty and confidence between the businessman and tax administration. The government must be curative towards unnecessary hindrance to economic activities; else revenue generation cannot be increased. Thus, it is time for action and improvements for effective and successful operation of VAT in Nepal for future perspective as well as present needs of economic development.

Bista (2005) focused on the need of VAT for several reasons viz. effective revenue mobilization, industrial development, strong administration, transparency and avoiding all tax loopholes. His study was mainly focused on applicability and feasibility of VAT in Nepal. For this purpose he had adopted an analytical and a descriptive method by utilizing the various secondary data collected through Ministry of Finance, Nepal Rastra Bank, National Planning Commission and various other relevant information related with VAT matters obtained from newspapers, magazines, books, articles, journals, dissertations and theses etc.

According to him, main problem in implementation of VAT are lack of VAT education to tax payers and low public awareness level towards VAT. VAT system has not created positive thinking to tax payers. The customers do not have habit to collect invoice while purchasing goods and services which is also found the communication gap between government and private sector towards VAT matter. He also added that there was no enough preparation for implementation of VAT in Nepal.

VAT helps to reduce the resource gap by broadening the tax base and mobilizing additional resources by controlling tax leakage, smuggling, unofficial trade and corruption through transparency and account based cross checking. Positive and favorable effects of VAT on all sectors can be aliened only if government can effectively and efficiently administers the tax procedures and processes. The findings in his research were; the sales tax system is a failure to several cases: narrow base, inelasticity of tax rate, incapable and weak administration, tax leakage, corruption and intervention.

So, he recommended that the tax reform is needed and adaptation of VAT system is essential since VAT is account based, invoice based and record based system; it checks the tax loopholes. For effective and efficient implementation of VAT, the public awareness level relating VAT and VAT administration should be good and it is a prerequisite in the preparation of VAT.

Sharma (2008) studied on the issues and practice of value added tax in Nepal. His study was focused on analyzing the present provision and status of VAT, to compare VAT with other major taxation, to analyze the problems and prospects of VAT, to analyze contribution of VAT on revenue mobilization, to give suggestion for effective implementation of VAT. The study was based on both the descriptive as well as analytical method. After collection of opinions, views and data, this study has tried to analyze and describe the VAT system by its own procedure. For the purpose of which the study had collected both primary and secondary data. A set of questionnaire was developed for the primary data purpose and secondary data were collected by various published documents (i.e. books, journals, magazines, newspapers, articles etc.) relevant to the VAT matters.

On the basis of his study he found that tax is the most essential source of the government revenue. 3/4 portion of total revenue is occupied by Indirect tax. VAT is a major source of national revenue. It covers almost 1/3 share of total revenue. Thus, the conclusion is that the prospects of VAT entirely depend on its implementation aspect. VAT has bright prospect in Nepal only when it can be implemented in a successful way. Further, the successful featuring depends up on the strong, fair, capable, honesty, taxpayer friendly and efficient administration. Strong political commitment, co-operation between customs offices and revenue offices, co-operation between private sector and the government bodies, systemization of the open border, high public consciousness level, transparency and improvement of rules and regulation accordingly overtime are needed for the effective and fruitful VAT system.

Thus, he pointed out that VAT has a major contribution on revenue collection in Nepal. Similarly, he also emphasized on the consciousness among the people regarding with VAT is an essential prerequisite for efficient and effective VAT

system. Ultimately, he assures that it can be entrenched as an integral part of the Nepalese tax structure in the long run if the issues mentioned above are taken seriously.

Chhettri (2008) explains that the increasing trend of resource gap of Nepal is forcing the country to debt trap situation in his study made on VAT for revenue mobilization. Her study had intended to assess the revenue collection from VAT, to find out the contribution of VAT in revenue mobilization and to suggest the measures to increase revenue mobilization with reference to VAT. For which the study has adopted descriptive and analytical research method.

Her study showed that domestic resource mobilization through the properly designed tax system is the best way to uplift the situation. In this process, Nepal has adopted the destination based consumption type VAT operated by tax credit method. VAT encourages investment, supports economic growth and keeps price stable. Exemption and zero rating reduces the regressive quality of VAT, however, it makes the administration process complex.

The study found that VAT is unable to complete the existing sales tax mainly due to the minimum use of invoices by sellers and as well as having no interest to obtain invoices by purchasers. Elasticity and buoyancy of Nepalese tax system are very low. Further, they are decreasing in recent years. VAT is more attractive from the theoretical as well as empirical aspects, is being hot milk in mouth from practical viewpoint, mainly due to the inefficient tax administration.

Ultimately, she suggested that the introduction of the VAT itself is not fulfillment of the tax reform, VAT system itself has a great need of reformation in the Nepalese context. In this regard, structural reform and development of VAT, an effective and efficient auditing, investigation and monitoring system should be developed for more revenue collection from VAT and to fulfill the resource gap in Nepal.

Ghimire (2009) made a study on VAT as a tool of revenue mobilization in Nepal. The study had intended to study the contribution of VAT in revenue collection in Nepal, to study the trend of revenue collection before and after the implementation

of VAT, to study the relationship of VAT with total revenue, total tax revenue and total indirect tax revenue. For achieving these objectives an analytical research design was used for analyzing and interpreting the data acquired from the secondary sources and descriptive research design was also applied for the conceptualization and description of the problem. The study was fully depended upon the secondary data collected from published document from ministry of finance, economic survey, and Inland Revenue Department.

His study concluded the facts that the trend of overall revenue in Nepal shows the continuous increase over the period as well the resource gap of the government seems to be increasing terribly. The share of tax revenue is significantly higher 81.10 percent of total revenue as against the non tax revenue 18.90 percent of total revenue in fiscal year 2006/07. The share of indirect Tax is always dominant from the very beginning. At present the share of direct tax and indirect tax are 23.50 percent and 76.50 percent of total tax revenue respectively. He also revealed the fact that awareness regarding with VAT among the public is one of the requirements for making VAT system effective and purposeful. Similarly, other problems in the field of VAT are lack of proper practice of invoicing, the inefficiency of tax authorities and lack of effective implementation of threshold, lack of co- ordination between custom and VAT offices, corruption, lack of transparency.

According to his findings, recommendations were focused on cooperation between the private sector and government sectors, encourage domestic production, to increase registration trend, providing VAT training programs especially for small traders, who have no knowledge about accounting system, invoice and reporting system as well as personnel should be kept at the top most priority, detecting fraud and the evasion, to prevent illegal trade, government should publish tax related information regularly through Radio, Television, Magazines, Newspapers, journals etc., lowering the tax rates and extension of tax base, effective reward and punishment system and focus should be given on transparency and accountability.

2.4 Research Gap

Awareness among the tax payers or public and the concerned authorities along with the personnel about VAT is most essential prerequisite for the effective, efficient and fruitful VAT system. VAT in Nepal has crossed its 13 years of implementation; since, it was introduced in Mangsir 01, 2054 (November 16, 1997). Though there has been more than one decade of VAT implementation in Nepal but the VAT system is not going on effective manner as it was intended to be. However, it is said that with the time period, the awareness of VAT is being increased every year which is proven from the information provided by the concerned government authorities but the studies have shown that unawareness of the public has been the main constraint to the effective VAT system in the context of Nepal. There have been fewer studies in this field and the studies which are carried out also are not in public domain and are far behind from the practical aspects. They are not able to reveal the exact position of the VAT system, its impact over the economy, familiarity among the concerned parties and attitude of the public at large towards it. So, it was felt of an emergence study about the VAT which can detect these constraints of VAT system; as the result this study has been conducted. Thus, this study will be valuable to fill the gap of former studies and intended to be useful to those who are interested about VAT in Nepal along with the students, scholars, stake holders, civil society, teachers, businessmen and government for academic as well as policy perspectives.

CHAPTER III

RESEARCH METHODOLOGY

This study is undertaken to assess the tax payers' awareness regarding VAT in Nepal. Therefore, the main concentration of the study is to identify the level of knowledge and information about VAT and its invoicing system of the concerned parties. For achieving these objectives, both primary as well as secondary sources of data are used in the study. For this an opinion survey technique has been adopted while collecting primary data to find out the viewpoints of respondents representing different groups related to VAT along with interview technique in some cases. While conducting the opinion survey, Questionnaires were distributed to the tax experts, tax officials, businessmen and consumers as per necessity. The research methodology of the present study is presented in the topics: research design, population and sample, sources of data and method of presentation and analysis of data respectively.

3.1 Research Design

Most of the data information of this study is concerned with present as well as past phenomena which were the facts made by the former studies. For an empirical research, an opinion survey was conducted through structured questionnaire with reference to VAT system of Nepal along with interview technique in some cases. Hence, the research methodology which is followed in this study can be termed a survey cum analytical research design. Primary as well secondary data were analyzed through various statistical and arithmetic tools i.e. tabulation, categorization, ranking, ordering, arithmetic mean, weighted mean values along with other relevant tools i.e. pictorial presentation: charts, graphs and diagrams.

3.2 Population and Sample

The overall administration of Inland Revenue Department is targeted towards many internal revenues like income tax and excise duties. The Internal Revenue Department and its 23 frontline Inland Revenue Offices have been engaged in tax collection. In the course of this study, 50 sample sizes from Kathmandu

Metropolitan City are chosen. Persons included in the sample are randomly selected with the judgment of researcher. The respondents are classified into four categories. The following table shows the group of respondents and the size of samples:

Table 3.1
Types of Respondent and Size of Sample from Each Group

| <i>S. N.</i> | <i>Types of Respondents</i> | <i>Sample Size</i> |
|--------------|-----------------------------|--------------------|
| 1. | Tax Experts | 5 |
| 2. | Tax Officials | 5 |
| 3. | Businessmen/traders | 15 |
| 4. | Consumers | 25 |
| Total | | 50 |

Further more information about the above tabulated respondent groups is given below:

Tax Experts: Out of total five tax experts, one was Prof. Dr. who has been teaching about two decades, another one was Dr. in his rank who has been teaching for eleven years, and other two were having six years of experience and the rest one was having experience of two years in their teaching career on the relevant subject matter of this research work for different four colleges/campuses under the Nepal's most recognized university i.e. Tribhuvan University.

Tax Officials: All the tax officials within the sample size were from the Inland Revenue Office Babarmahal, Kathmandu. Among the five tax officials, three were section officers by their post having the working experience of 15, 9 and 7 years respectively. Similarly, other two of them were beneath the section officer by their rank having the working experience of 6 and 4 years respectively.

Businessmen/Traders: All the businessmen/traders included within the sample size were from the 'Thamel Area', one of the core places for trade and commerce in the Kathmandu Metropolitan City. Since it is tourist area due to which almost all the businessmen and traders do the large types of transactions. The goods and different

articles which were traded by them were of high costs and price. Mainly they were in the trade of different articles of clothing, trekking bags and other instruments and commodities along with typical Nepali readymade clothes and commodities such as pashmina, galaincha and woolen clothes. Ultimately, eight businessmen/traders were wholesalers and the rest seven were large sized retailers having a large excessive annual income of two millions.

Consumers: Among the 25 consumers within the sample size, 15 were the students of University Campus Kritipur under various faculties. Similarly, 5 were having their own homes (buildings having more than 2 floors and containing at least four rooms in each floor) and at least eight rooms of each were given to renters and head of the family members of the four were high ranking government personnel (at least section officer) and the rest one's father had gone to abroad for employment. Out of rest 5, one was driver, two were carpenters, and another one was mason and the rest one was general worker (laborer).

3.3 Sources of Data

Both primary as well as secondary data were used in order to achieve the real and factual result for research. The major sources of data are as follows:

1) **Primary Data:** To collect primary data, three sets of questionnaire in structured form were developed and distributed to the selected respondents in order to get information.

2) **Secondary Data:** Secondary data are collected from the following sources:

Documents published by MOF: Economic Survey (2010, Volume-I) and Economic Survey; Statistical Table (2010, Volume-II), various other economic surveys, publications of IRD and NRB, various relevant websites: www.eastwestcentre.com, www.google.com, www.google.com.np, www.ird.gov.np and www.ican.org.np, annual reports of DRI and IRD, published books, reports, articles and seminar papers relevant to the study, VAT projection and statistical pocket book published by CBS, daily, weekly and monthly newspapers and magazines, budget speech of

Nepal government of various years and other recent and contemporary information and data relevant to this research work. Thus, both the published and unpublished sources of data were used for this study.

3.4 Methods for Analysis and Presentation of Data

This is a descriptive analysis. The information received from different sources are firstly, tabulated into separate formats systematically in order to achieve the desired objectives. After that, the data have been further tabulated, categorized and analyzed. For the purpose of analysis, generally the following tools were used.

- i) Statistical tools as per need i.e. tabulation, categorization, trend analysis and calculation of mean etc.
- ii) Arithmetic tools i.e. percentage, average etc.
- iii) Pictorial analysis i.e. graphs, charts and diagrams.

CHAPTER IV

INTRODUCTION TO STUDY AREA

4.1 The Kathmandu Metropolitan City

Kathmandu is the capital and largest metropolitan city of Nepal. The city is the urban core of the Kathmandu Valley in the Himalayas, which also contains two sister cities namely Patan or Lalitpur, 5 kilometers to its southeast (an ancient city of fine arts and crafts) and Bhaktapur, 14 kilometers to its east. More facts about the Kathmandu Metropolitan City are described under the following sub-topics (Bhattarai, 2010).

4.1.1 Geography

The city is located in the northern part of Kathmandu Valley. The city covers an area of 50.67 square kilometers. The average elevation is 1,350 meters (4,430 ft) above the sea level. The city is bounded by the Lalitpur Sub-metropolitan City in its south, Kirtipur Municipality in south, Madhyapur Thimi Municipality in east and different Village Development Committees of Kathmandu in north, west and north east.

Eight rivers flow through the city of which the Bagmati, Bishnumati, Dhobikhola, Hanumanta and Tukucha rivers are predominant. The mountains from where these rivers originated are in the elevation of 1,500-3,000 meters (4,900-9,800 ft) and have passes, which provide access to and Kathmandu and its valley. It falls in the central development region and it is headquarter of the region.

The Bagmati River originates at Bagdwar, also known as Bag (Tiger) and Dwar (Gate) in the northern hills of Kathmandu valley about fifteen kilometers northeast of Kathmandu where three streams come together. The mountain streams that cascaded over boulders become a wide, swiftly flowing river, with a high load of suspended solids, giving the river a grey appearance. The bottom here is coated with the grey silt of glacial flour. The Bagmati flows southwesterly for about ten kilometers along the Kathmandu Valley which is predominantly rice-patties in terraces up the slopes. A number of resistant rock strata interrupt the flow down the

valley; among these is the outcrop that the Pashupatinath Temple is built upon. After passing the temple, the river flows south across the plain where it is joined by the larger Manohara River and turns westward. After entering the city the Bagmati is joined by a number of tributaries, notably the Dhobi Khola and the sewage-laden Tukucha Khola.

The natural vegetation is dictated by the climatic conditions accordingly five vegetation zones have been defined for Nepal, out of which Kathmandu and its valley fall under the Deciduous Monsoon Forest Zone, altitude range of 1,200-2,100 meters (3,900-6,900 ft). The dominant trees species under this zone are oak, elm, beech, maple and so forth with coniferous trees at higher elevation (Shrestha, 2007).

4.1.2 Climate

Climatic conditions vary to a large extent in view of several geographical factors (topography and altitude). Five major climatic regions have been deciphered in Nepal, out of which Kathmandu valley falls under the Warm Temperate Zone, elevation ranging from 1,200-2,300 meters (3,900-7,500 ft) where the climate is fairly pleasant, atypical region. This zone is followed by the Cool Temperate Zone with elevation varying between 2,100 meters (6,900 ft) and 3,300 meters (10,800ft). Under Coppen's climate classification, portion of the city with lower elevations features a mild form of a Humid Subtropical Climate while portions of the city with higher elevations generally feature a Subtropical Highland Climate. In the Kathmandu valley, which is representative of its valley's climate the average temperature during the summer season varies from 28-30° C (82-86° F). During the winter season the average temperature is 10.1° C (50.2° F).

The city generally has a salubrious climate with comfortable warm days followed by the cool mornings and nights. Unpredictability of weather is expected as during winter, temperatures during the winter months have dropped to 3° C (37° F). The rainfall which is mostly monsoon based (about 65 percent of the total concentrated during the monsoon months of June to August), which decreases (100 cm to 200 cm) substantially from eastern Nepal to western Nepal, has been recorded as about 1,400 millimeters (55 inches) for the Kathmandu valley and an, average of 1,407

millimeters (55.4 inches) specially for the Kathmandu city. The average humidity is 75 percent.

Table 4.1
Climatic Condition of Kathmandu

| Climate data for Kathmandu | | | | | | | | | | | | | |
|--|-----------------|-----------------|-----------------|-----------------|------------------|-------------------|-------------------|------------------|------------------|-----------------|----------------|-----------------|---------------------|
| Month | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Year |
| Average high °C (°F) | 18.0 (64.4) | 20.2 (68.4) | 24.3 (75.7) | 27.4 (81.3) | 28.2 (82.8) | 28.3 (82.9) | 27.7 (81.9) | 28.0 (82.4) | 27.2 (81) | 25.8 (78.4) | 22.7 (72.9) | 19.4 (66.9) | 24.8 (76.6) |
| Average low °C (°F) | 2.1 (35.8) | 3.8 (38.8) | 7.5 (45.5) | 11.3 (52.3) | 15.5 (59.9) | 19.0 (66.2) | 20.0 (68) | 19.7 (67.5) | 18.2 (64.8) | 13.0 (55.4) | 7.4 (45.3) | 3.0 (37.4) | 11.7 (53.1) |
| Precipitation mm (inches) | 14.2 (0.559) | 16.7 (0.657) | 31.2 (1.228) | 54.4 (2.142) | 114.2 (4.496) | 256.4 (10.094) | 359.6 (14.157) | 314.2 (12.37) | 183.1 (7.209) | 59.4 (2.339) | 7.5 (0.295) | 14.2 (0.559) | 1,425.1 (56.106) |
| Avg. rainy days | 2 | 3 | 4 | 6 | 12 | 17 | 23 | 22 | 15 | 4 | 1 | 1 | 110 |
| Source: World Meteorological Organisation (UN) ^[43] | | | | | | | | | | | | | |

Based on the data sources of Nepal Bureau of Standards and Metrology, 'Weather Metrology' for 2005, climatic data chart is given, which provides minimum and maximum temperatures (the lowest and highest temperatures) recorded during the month respectively. Annual amount of precipitation is 1,124 millimeters (44.3 in) for 2005, as per monthly data in the table above (Thapa, 2010).

4.1.3 Demographics

Kathmandu's urban cosmopolitan character has made it the most populous city in Nepal, recording population of 671,846 residents living in 235,387 households in the metropolitan city according to the 2001 census. It is a trend displayed since historical times created by its unique Newari people who continue to be one of the dominant groups in the city. The city has, over the years, absorbed people of various ethnicities resulting in an agreeable range of different traditions and cultural practices. In a decade, the population has increased from 427,045 in 1991 to 671,846 in 2001 and is projected to touch a figure of 915,071 in 2011 and 1,319,597 by 2021.

To keep up this population growth, KMC controlled area of 5,076.6 hectares (12,545 acres) has expanded to 8,214 hectares in 2001. With this new area, the density of population which was 85 in 1991 is still 85 in 2001 (due to increase in area) and is likely to be 111 in 2011 and 161 in 2021 (KMC, GON, 2010).

4.1.4 Socio-Cultural Setting

The largest ethnic groups are Newars, Brahmins and Kshetris. Tamangs from surrounding hilly districts can be seen quite clearly in Kathmandu. More recently, other hilly ethnic groups and caste groups from Terai have shown their presence as well. The major languages are Nepali and Nepal Bhasa. The religions are Hinduism and Buddhism. The city has also a significant and rapidly growing Muslim population.

The linguistic profile of Kathmandu underwent drastic changes during the Shah Dynasty rule on account of their very strong bias towards the Brahminic culture. Sanskrit language, therefore, got a boost and people were encouraged to learn this language even by attending Sanskrit learning centers in India. Sanskrit learning schools were specially set up in Kathmandu and in the Terai region to inculcate traditional Hindu culture and practices. The socio-cultural setting of the Kathmandu can be made clearer under the following topics (Thapa, 2008).

Architecture and Cityscape: Some of the famous architecture and cityscape are Durbar Square, Kasthamandap, Hanuman Dhoka Palace, Kumari Ghar, Pashupatinath temple, Boudhanath, Swayambhunath, Changu Narayan, Bhimsen Tower (Dharahara) and Narayanhiti Palace (now national museum) etc.

Arts: Significant number of Stone carvings (called Chaityas), Stone arts, Metal arts, Wood arts, Terra cottas, paintings along with various art galleries and shops can be observed here.

Festivals: Most of the fairs and festivals that are observed in Kathmandu have their origin to the Malla period. This was further given an urban culture touch, not limiting in to the Newari festivities, subsequent to the Gorkha conquest in 1768-69.

The culture of parbatiyas and new migrant communities were also harmoniously amalgamated. Some of the traditional festivals observed in Kathmandu now are: Bada Dashain, Tihar, Maghe Sankranti, Naga Panchami, Janai Poornima, Pancha Dan, Teej, Rishi Panchami, Indraajatra, Ghanta Karna, Buddha Jayanti, Sri Panchami, Maha Shivaratri, Phagu Poornima, Ghodejatra, Chaite Dashain, Nava Varsha, Seto Machchhendranath and Matatirtha Aunsi etc.

Religion: The main religions in Kathmandu as in the rest of Nepal are Hinduism and Buddhism, although here are minorities of Kirats, Sikhism, Jainism, Bahai, Islam and Christianity.

Infrastructural Development: Only one international airport of Nepal, Tribhuvan international airport is located here. A notable pressure of vehicles can be seen here. Since, it is the capital city of Nepal, has access of health, electricity, security and communication facilities than rest part of the country.

4.1.5. Educational Status

The oldest school of Nepal, Durbar High School and the oldest college, Trichandra College, are located in Kathmandu. The largest (according to number of students and colleges), oldest and most distinguished university in Nepal is located in the Kathmandu Valley, near KMC, in Kathmandu district, in Kirtipur Municipality called Tribhuvan University. The second largest university, Kathmandu University (KU), is located in outskirts of KMC, in the place called 20 kilos (28 km away from KMC). It is second oldest university in Nepal, established in November 1991. Numbers of private schools and 10+2 colleges are mushrooming and some of the reputed private schools and 10+2 colleges are in competition in the city. The course of an A-level also is offered by some colleges. From all over the country, students come to study here (especially for higher education and very few for school level education). The literacy rate is 98 percent in KMC (Bajracharya, Bhujju and Pokhrel, 2010).

4.1.6 Economy

Kathmandu is the centre for several major industries such as carpets, garments, finance, and tourism, as well as health and educational facilities. So, trade and commerce are flourished here. This is due to the lack of essential infrastructure and services in other part of the country. According to an estimate, the KMC's economic output is worth Rs. 170 billion per year. Trade accounts for 21 percent of its finance. Manufacturing comes next in importance with 19 percent. Kathmandu is a major manufacturer and exporter of garments and woolen carpets. Other sectors are agriculture (9%), education (6%), transport (6%) and hotels and restaurants (5%). Tourism is also a key component and a strong sector to its economic status (KMC, GON, 2010).

4.1.7 Trade and Commerce

Kathmandu is the largest and the capital city of Nepal. It is situated around the Kathmandu Valley along with two other cities; Patan and Bhaktapur. Apart from becoming the middle of government and commerce, Kathmandu is also the center for culture and the arts. The city is accessible via the Tribhuvan International Airport located 4 miles or roughly 10 minutes from near city places by bus or car. People will find shuttles and buses that ply the airport-city route. People will find an amount of attractions worthy of a visit in Kathmandu, four of them world heritage sites. These include the Swayambhunath temple, Pashupatinath, Changu Narayan and Bouddhanath Stupa.

Kathmandu's trade is an ancient profession that flourished along the trade route between India and Tibet. Trading caravans of merchants were famous for trading with Lhasa. Other trades in which people have been involved since ancient times are farming, wood carving, painting, waving and pottery (are popular traditional occupation). Even now Kathmandu is the most important industrial and commercial centre of Nepal and the headquarters of most companies, banks and organizations in the country are located here. The major economic hubs are the New Road of Kathmandu, Durbar Square, Ason , Putalisadak and Thamel Area etc.

The city's economic output is worth more than NRs. 170 billion per year. Kathmandu exports handicrafts, artworks, garments, carpets, pashmina, paper etc. and trade accounts for 21 percent of its finance. Manufacturing comes next in importance and accounts for 19 percent of the revenue that Kathmandu generates with garments and woolen carpets being the most notable manufacturers.

The top five countries importing Nepali handicrafts are U.S.A. (Rs. 223 million), Germany (Rs. 87 million), Japan (Rs. 74 million), the U.K. (Rs. 69 million) and Canada (Rs. 51 million) according to the Kathmandu Metropolitan City Office (Retrieved 2009-12-18).

In November 2009, The Kathmandu Post reported that Nepali handicrafts products to third countries had decreased by 8.1 percent during the first quarter of the current fiscal year compared to the same period of last year. According to the Federation of Handicraft Association of Nepal (FHAN), the fall was mainly due to a decrease in the export of pashmina products, woolen goods, silk products, handmade paper products and wood crafts, of which Kathmandu is renowned for. Pashmina exports, which is one of the major export products, declined by 13.26 percent to Rs. 154 million and woolen commodities decreased by 10.94 percent to 159 million. Silk products had declined by 16.55 percent and by 31.38 percent respectively. According to data published by the FHAN, the export of textile products declined by 14.87 percent to Rs. 487 million against Rs. 572 million during the same quarter of the last year (KMC, GON, 2010).

However, non-textile products has grown by 3.63 percent, largely to the growing production and export of silverware which had increased by 18.09 percent, accounting for Rs. 121 million as compared to Rs. 102 million in 2008.

Other money making sectors in Kathmandu include agriculture (9%), education (6%), transport (6%), and hotels and restaurants (5%). Although some Nepal's wealthiest citizens live in Kathmandu, much of the city is living in poverty with an annual per capital income of just US \$400.

CHAPTER V

ANALYSIS AND PRESENTATION OF DATA

This chapter includes the analysis and presentation of both primary and secondary data. Data obtained from various sources have been tabulated and presented in tables, graphs, and charts and analyzed to reach at findings. This chapter has been divided into two main sub-headings. They are: 'contribution of VAT in government revenue' and 'the awareness level of tax payers regarding VAT in Nepal'. The data analysis and presentation are mentioned as follows.

5.1 Contribution of VAT to Government Revenue

The contribution of VAT in government revenue is presented and analyzed under the following sub-topics.

5.1.1 Revenue Structure of Nepal

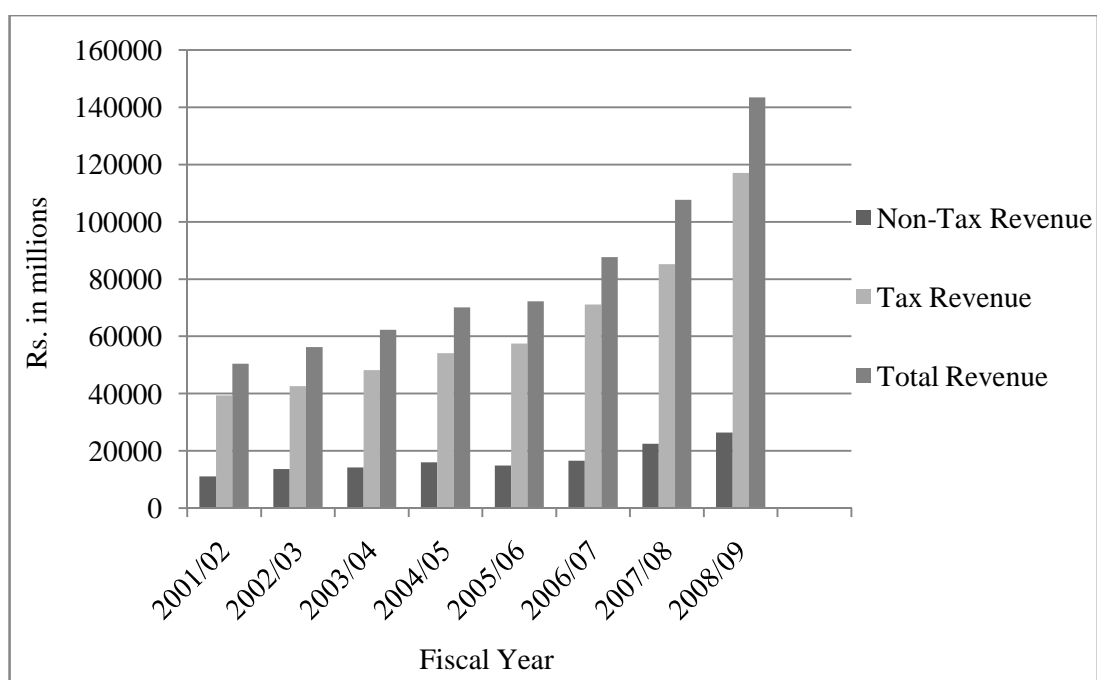
The total revenue consists of tax revenue and non-tax revenue. The tax revenue can also be divided into two types as direct tax and indirect tax. First of all the revenue structure of Nepal on the basis of taken sample years is presented below with the help of Table 5.1 and Figures 5.1 and 5.2 respectively.

Table 5.1
Revenue Structure of Nepal by Year (Rs. in millions)

| Fiscal Year | Total Revenue | Tax Revenue | | Non-Tax Revenue | |
|--------------------|----------------------|--------------------|-------------------|------------------------|-------------------|
| | | Rs. | Percentage | Rs. | Percentage |
| 2001/02 | 50445.54 | 39330.64 | 78 | 11114.90 | 22 |
| 2002/03 | 56229.80 | 42586.92 | 76 | 13642.86 | 24 |
| 2003/04 | 62331.00 | 48173.00 | 77 | 14158.00 | 23 |
| 2004/05 | 70122.70 | 54104.70 | 77 | 16018.00 | 23 |
| 2005/06 | 72282.00 | 57430.40 | 79 | 14851.60 | 21 |
| 2006/07 | 87712.20 | 71126.70 | 81 | 16585.50 | 19 |
| 2007/08 | 107622.58 | 85155.54 | 79 | 22467.04 | 21 |
| 2008/09 | 143474.50 | 117051.90 | 82 | 26422.60 | 18 |
| Average | 81277.54 | 64369.98 | 79 | 16907.56 | 21 |

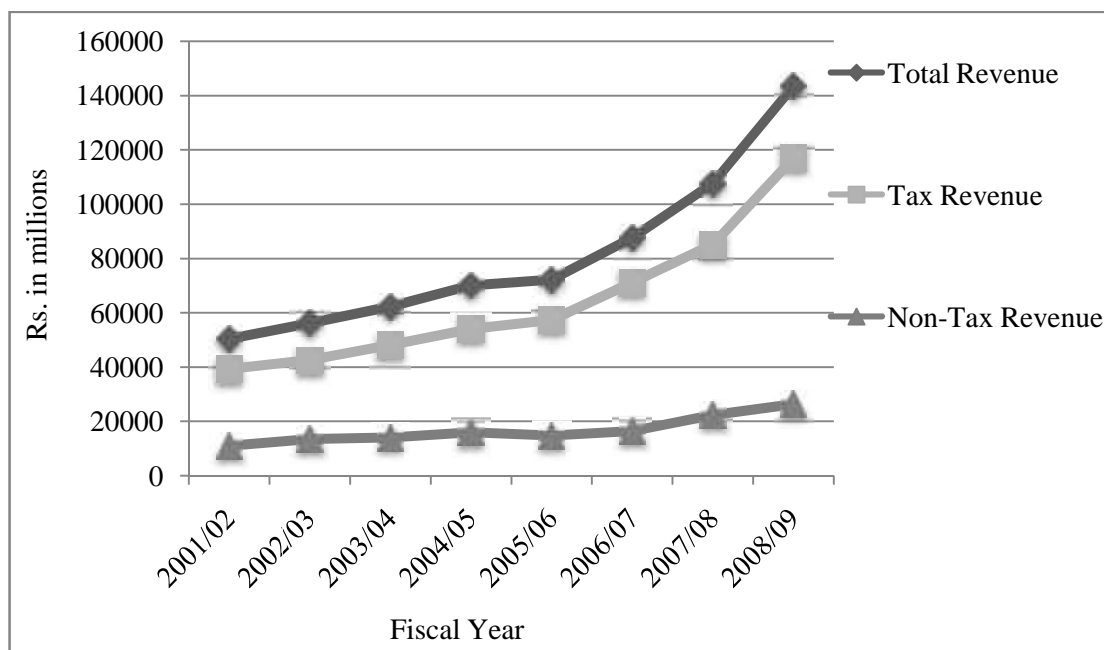
Source: Economic Survey, 2009/10, MOF (2010)

Fig. 5.1
Revenue Structure of Nepal by Year



Source: Table 5.1

Fig. 5.2
Trend of Revenue Structure of Nepal by Year



Source: Table 5.1

The Table 5.1 and Figures 5.1 and 5.2 depict that in every year the tax revenue has covered almost 79 percent of total revenue. The total revenue of the government in fiscal year 2001/02 is Rs. 50445.54 million which reached up to Rs. 143474.50 millions in the fiscal year 2008/09. In the fiscal year 2001/02 the total revenue collected Rs. 50445.54 million consisted of tax revenue Rs. 39330.64 (78 percent) and non-tax revenue Rs. 11114.90 (22 percent). Similarly, at the end of the fiscal year 2008/09 the collected total revenue Rs. 143474.50 millions consisted of tax revenue Rs. 117051.90 millions (82 percent) and non-tax revenue Rs. 26422.60 millions (18 percent) respectively.

From the above analysis and the presentation of the data, it is clear that the revenue collection through both tax and non-tax sources are in the increasing trend. It is also clear that tax revenue has played major role for revenue collection in the context of Nepal. Within the reviewed fiscal years the portion of tax revenue is 79 percent in average and in the same way, portion for the non-tax revenue is 21 percent.

5.1.2 Tax Revenue Structure in Nepal

As it is the fact that the tax revenue is the major source of revenue collection of the government. The composition and the trend of tax revenue for the fiscal years 2001/02 to 2008/09 are presented in the Table 5.2 and figures 5.3 and 5.4 respectively.

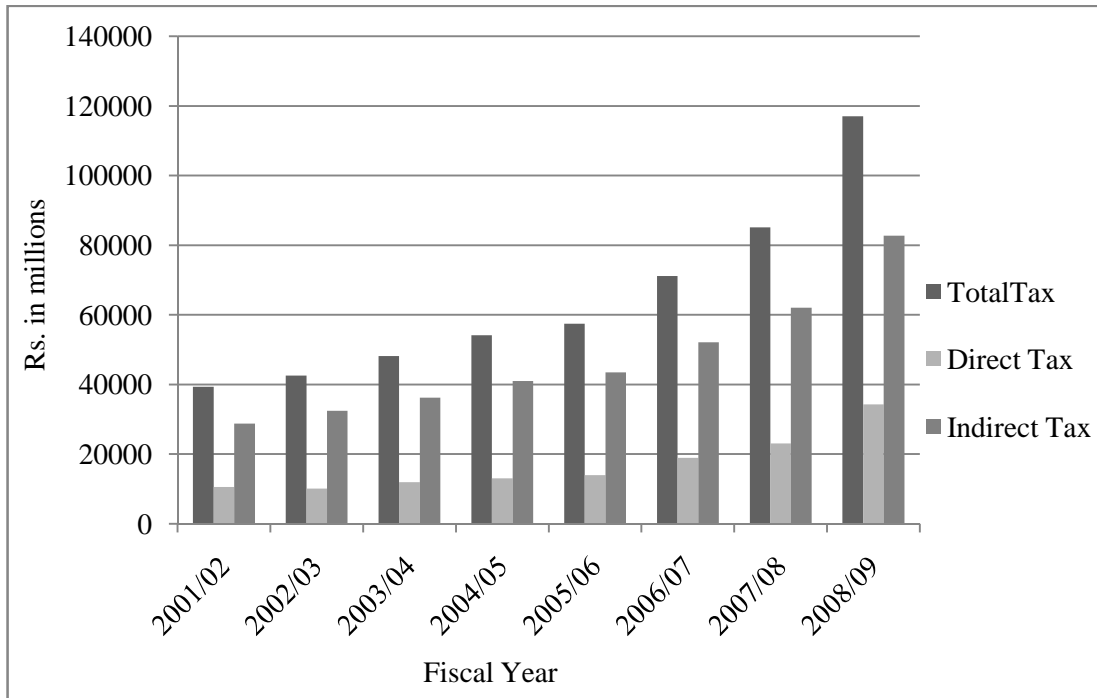
Table 5.2
Tax Revenue Structure of Nepal by Year (Rs. in millions)

| <i>Fiscal Year</i> | <i>Total Tax Revenue</i> | <i>Direct Tax</i> | | <i>Indirect Tax</i> | |
|--------------------|--------------------------|-------------------|-------------------|---------------------|-------------------|
| | | <i>Rs.</i> | <i>Percentage</i> | <i>Rs.</i> | <i>Percentage</i> |
| 2001/02 | 39330.64 | 10597.54 | 27 | 28733.10 | 73 |
| 2002/03 | 42586.92 | 10105.67 | 24 | 32481.25 | 76 |
| 2003/04 | 48173.00 | 11912.60 | 25 | 36260.40 | 75 |
| 2004/05 | 54104.70 | 13071.80 | 24 | 41032.90 | 76 |
| 2005/06 | 57430.40 | 13968.10 | 24 | 43462.30 | 76 |
| 2006/07 | 71126.70 | 18980.30 | 27 | 52146.40 | 73 |
| 2007/08 | 85155.54 | 23082.72 | 27 | 62067.82 | 73 |
| 2008/09 | 117051.90 | 34320.70 | 29 | 82731.20 | 71 |
| Average | 64369.98 | 17004.93 | 26 | 47364.42 | 74 |

Source: Economic Survey, 2009/10, MOF (2010)

Fig.5. 3

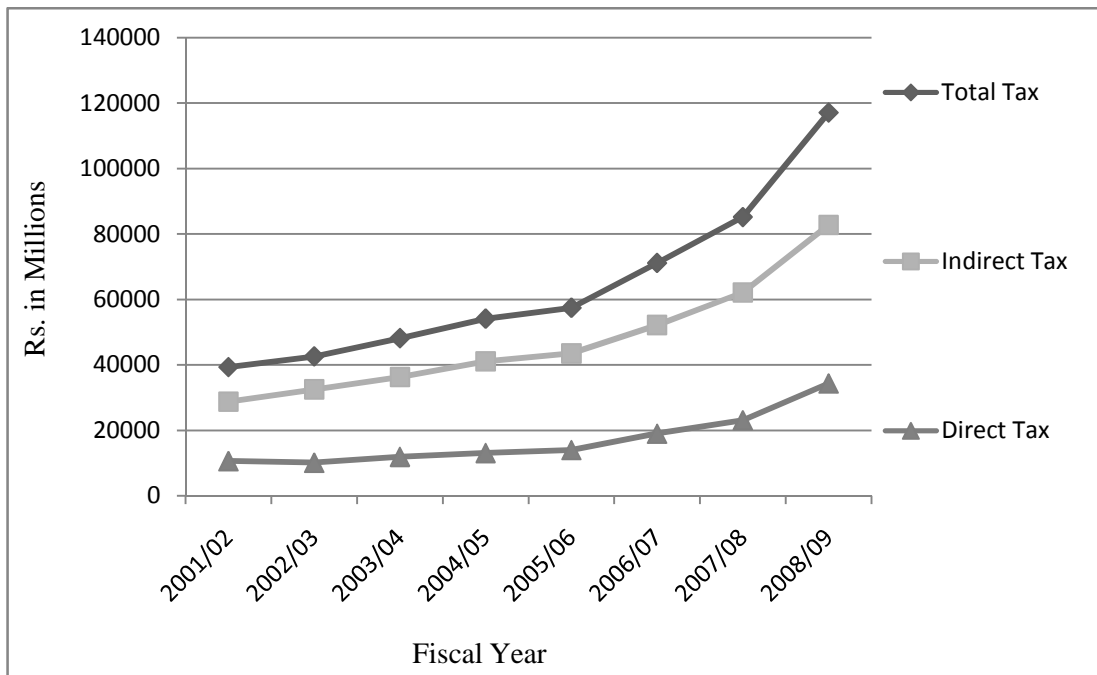
Tax Revenue Structure of Nepal by Year



Source: Table 5.2

Fig. 5.4

Trend of Tax Revenue Structure of Nepal by Year



Source: Table 5.2

From the above given Table 5.2 and the charts 5.3 and 5.4, it is clear that the Nepalese tax structure is dominated by the indirect tax revenue. However, share of indirect tax as percentage of the total tax revenue is fluctuating during the review periods. Both the direct and the indirect tax along with total tax revenue are seemed to be in increasing trend. The percentage of the direct tax revenue is fluctuated between the ranges of 24to29 percent during the review period which is 26 percent in average. Similarly, the percentage of the indirect tax has been fluctuated within the range of 71to76 percent which is 74 percent in average. The volume of direct tax and indirect tax revenue was increased from Rs. 10597.54 millions and Rs. 28733.10 millions to Rs. 34320.70 millions and Rs. 82731.20 million during the fiscal year 2001/02 and 2008/09 respectively where the total tax revenue increased up to Rs. 117051.90 millions (in 2008/09) from the Rs. 39330.64 millions (in 2001/02).

Thus, as we got the fact that total revenue collection is mainly contributed by the tax revenue in the comparison of non-tax revenue and, the same manner and situation has been occurred in case of tax revenue structure in Nepal on the behalf of the contribution of indirect tax to direct tax. Now, the further operations have been operated as below.

5.1.3 Trend of VAT Registration

The concept of VAT in Nepal started with the change in the then system of tax on sales known as sales tax. At the of time implementation of VAT for the first time, the registration started with those who fall under the threshold to be registered under the VAT Act. However, any business firm if wanted to be registered themselves under the VAT they can do it voluntarily on their wish.

Implementation of VAT in 1997/98 did not go as expected, especially when there was strong opposition from the business community. However, during the 13 years of VAT implementation, a number of tax payers awareness program has been successfully conducted. Massive advertisement campaigns have been conducted through printing and audio-visual aids to provide information about VAT to tax payers (Khadka, 2005). Because of these efforts, VAT registration trend is

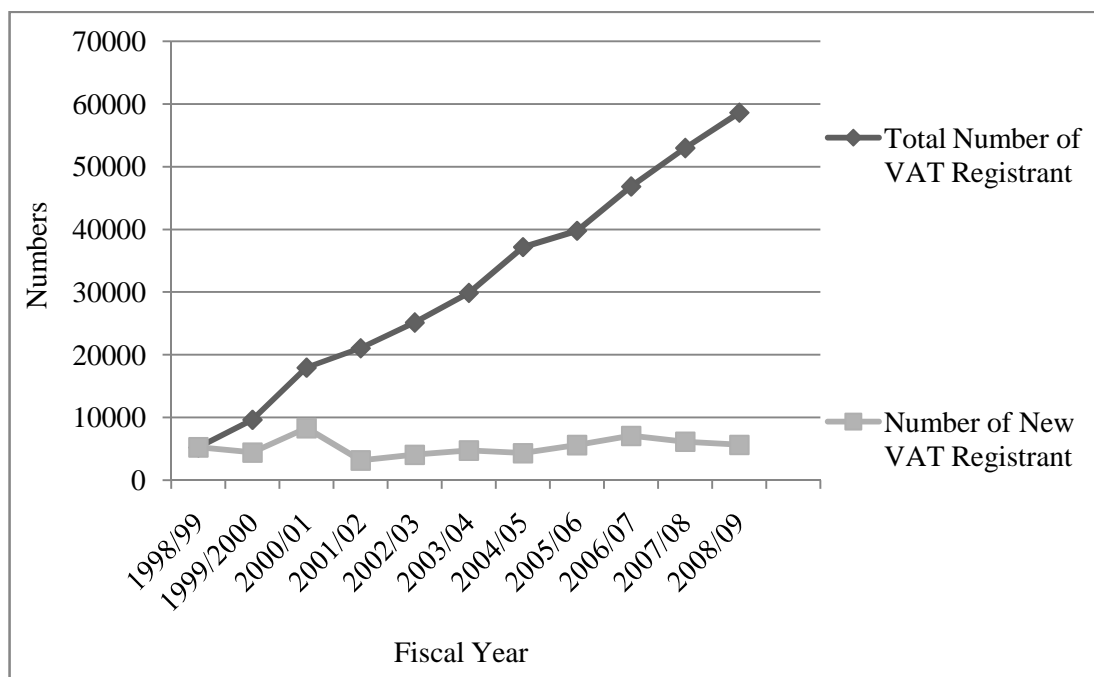
increasing every year. VAT registration trend is depicted in the Table 5.3 and Charts 5.5 and 5.6 respectively.

Table 5.3
Trend of VAT Registration by Year

| <i>Fiscal Year</i> | <i>Number of New VAT Registrant</i> | <i>Total Number of VAT Registrant</i> | <i>Growth Rate in Percentage</i> |
|------------------------------|-------------------------------------|---------------------------------------|----------------------------------|
| 1998/99 | 5237 | 5237 | - |
| 1999/2000 | 4405 | 9642 | 84 |
| 2000/01 | 8305 | 17947 | 86 |
| 2001/02 | 3146 | 21053 | 17 |
| 2002/03 | 4056 | 25149 | 19 |
| 2003/04 | 4723 | 29872 | 18 |
| 2004/05 | 4302 | 37174 | 14 |
| 2005/06 | 5602 | 39776 | 16 |
| 2006/07 | 7055 | 46831 | 18 |
| 2007/08 | 6134 | 52965 | 13 |
| 2008/09 | 5635 | 58600 | 13 |
| Average Annual Growth | 5327 | 31295 | 30 |

Source: Annual Report, 2009/10, IRD (2010)

Figure 5.5
Trend of VAT Registration by Year

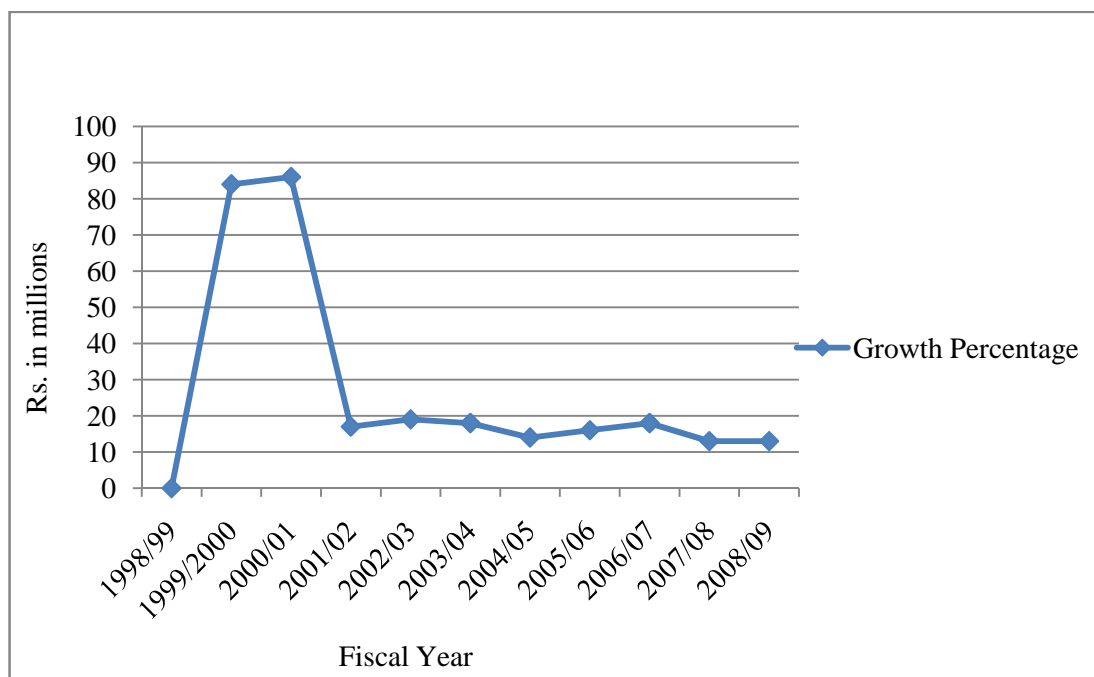


Source: Table 5.3

Table 5.3 and figure 5.5 portray that the total number of VAT registrants in 1998/99 was 5237 and it reached at 9642 in the fiscal year 1999/2000. During the eleven years period, the number of VAT registrants increased from 5237 in the fiscal year 1998/99 to 58600 in the fiscal year 2008/09 by more than 11 folds. This shows that the trend of VAT registration is satisfactory though the average growth rate is only 29.80 percent. Similarly, figure 5.6 has shown the percentage growth rate of VAT registrants in Nepal which was 84 percent in FY 1999/2000 and 13 percent in FY 2008/2009.

Fig. 5.6

Trend of Percentage Growth Rate of VAT Registrants in Nepal by Year



Source: Table 5.3

Since, it was the beginning of VAT implementation when the growth rate of VAT registrants increased in rapid manner. After that, however the VAT registrants are in increasing trend but not by at large as it was in the beginning due to which the growth percentage shown in the 5.6 is boosted in the beginning years and is in slow increasing manner in the later years.

5.1.4 Trend of Revenue Collection through VAT

VAT is an essential tool for revenue collection in Nepalese economy. It is the best form of sales tax which will generate more revenue with less distortion in the economy because of its broad coverage, neutrality, transparency and fairness. The trend of revenue collection through VAT in different FYs is presented in the table below.

Table 5.4

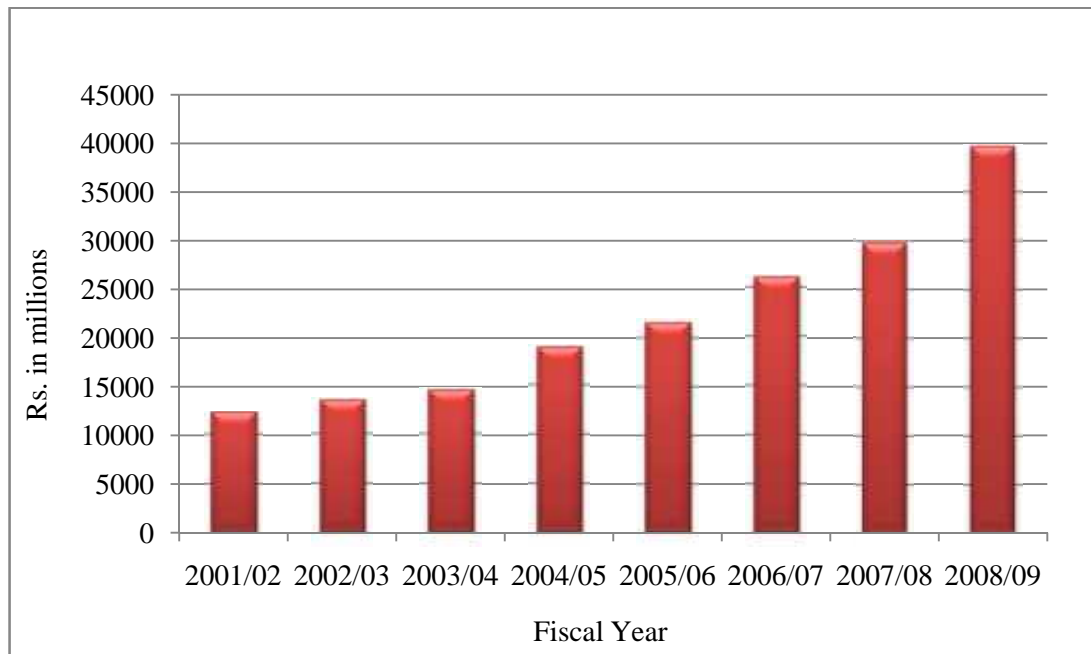
Revenue Collection through VAT and Its Percentage by Year (Rs. in millions)

| Fiscal Year | Revenue Collection Through VAT | Percentage Change |
|--------------------|---------------------------------------|--------------------------|
| 2001/02 | 12267.30 | - |
| 2002/03 | 13459.70 | 10 |
| 2003/04 | 14478.90 | 8 |
| 2004/05 | 18885.40 | 30 |
| 2005/06 | 21610.70 | 14 |
| 2006/07 | 26095.60 | 21 |
| 2007/08 | 29815.70 | 14 |
| 2008/09 | 39700.90 | 33 |

Source: Economic Survey, 2009/10, MOF (2010)

Fig.5.7

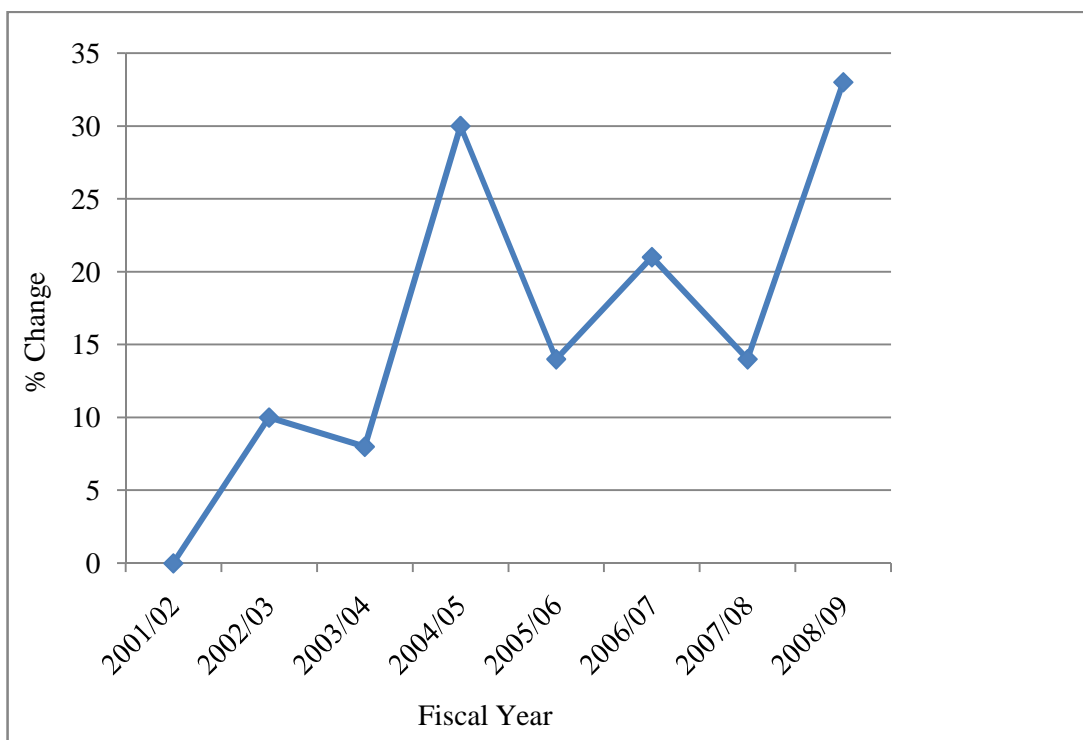
Revenue Collection through VAT by Year



Source: Table 5.4

Fig. 5.8

Revenue Collection through VAT (% Change) by Year



Source: Table 5.4

The Table 5.4 and diagram 5.7 show that the amount of VAT collection in the FY 2001/02 was Rs. 12267.30 millions. It increased by 10 percent and reached at Rs. 13459.70 millions in the FY 2002/03. Likewise, revenue collection from VAT in FYs 2003/04, 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 was Rs. 14478.90 millions, Rs. 18885.40 millions, Rs. 216110.70 millions, Rs. 29815.70 million and Rs. 39700.90 million respectively. Trend of revenue collection through VAT is seemed to be in increasing order. The percentage change i. e. increase in VAT revenue varies from 8 percent to 33 percent during the FYs i.e. 2002/02 to 2008/09 as it was 10 percent in the fiscal year 2002/03, 14 percentage in 2005/06 and 33percentage in 2008/09 respectively. Though in each FY the revenue collection through VAT is in positive side but the growth rate of the VAT revenue has not caught the constant increasing trend which has been fluctuated. Despite of various difficulties in the implementation of VAT, the trend of revenue collection through VAT is not bad as thought. Since, VAT is mass based tax, it will prove to be stable base of revenue to government. However, it can be expected that more and more

revenue can be generated in coming days, if implemented effectively and efficiently. For this, the major focus should be directed towards taxpayers' awareness program.

5.1.5 Contribution of VAT on Total Revenue

Since this research work seeks to assess the contribution of VAT to revenue collection. The portion of the VAT revenue to total revenue is estimated and shown in Table 5.5 and figure 5.9 and 5.10 as given below

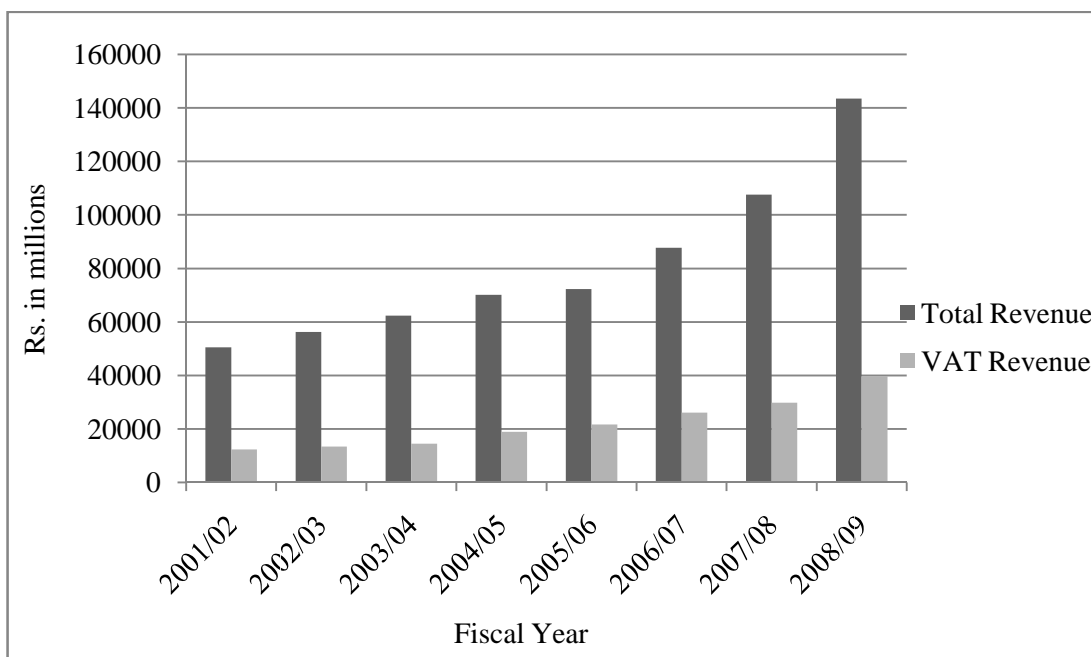
Table 5.5
Contribution of VAT Revenue to Total Revenue by Year (Rs. in millions)

| <i>Fiscal Year</i> | <i>Total Revenue</i> | <i>VAT Revenue</i> | <i>% of VAT on Total Revenue</i> |
|--------------------|----------------------|--------------------|----------------------------------|
| 2001/02 | 50445.54 | 12267.30 | 24 |
| 2002/03 | 56229.80 | 13459.70 | 24 |
| 2003/04 | 62331.00 | 14478.90 | 23 |
| 2004/05 | 70122.70 | 18885.40 | 27 |
| 2005/06 | 72282.00 | 21610.70 | 30 |
| 2006/07 | 87712.20 | 26095.60 | 30 |
| 2007/08 | 107622.58 | 29815.70 | 28 |
| 2008/09 | 143474.50 | 39700.90 | 28 |

Source: Economic Survey, 2009/10, MOF (2010)

Fig.5.9

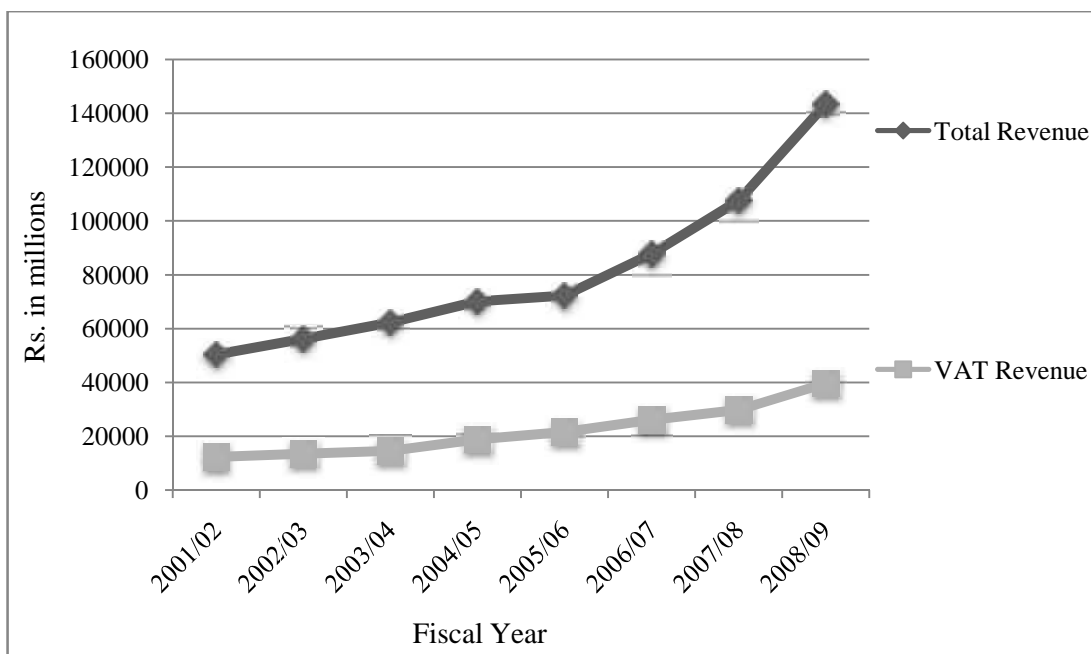
Share of VAT Revenue on Total Revenue by Year



Source: Table 5.5

Fig. 5.10

Trend on Share of VAT Revenue on Total Revenue by Year



Source: Table 5.5

The percentage portion of VAT revenue in the total revenue shown in the Table 5.5 has been ranged between 23to30 percent. It is clear that nearly one third of the revenue is the contribution of the VAT revenue to the total revenue. In FY 2001/02 the VAT revenue was Rs. 12267.30 million which increased up to Rs. 39700.90 million in the FY 2008/09.

Thus, the amount collected from VAT revenue is in increasing trend along with the total revenue collected through the tax and the non-tax sources.

5.1.6 Share of VAT Revenue on Total Tax Revenue

We have just got the portion of the VAT revenue on the total revenue in the earlier operation. Now, let's check out the share of VAT revenue on total tax revenue which is depicted in the following Table 5.6, Figures 5.11 and 5.12 respectively.

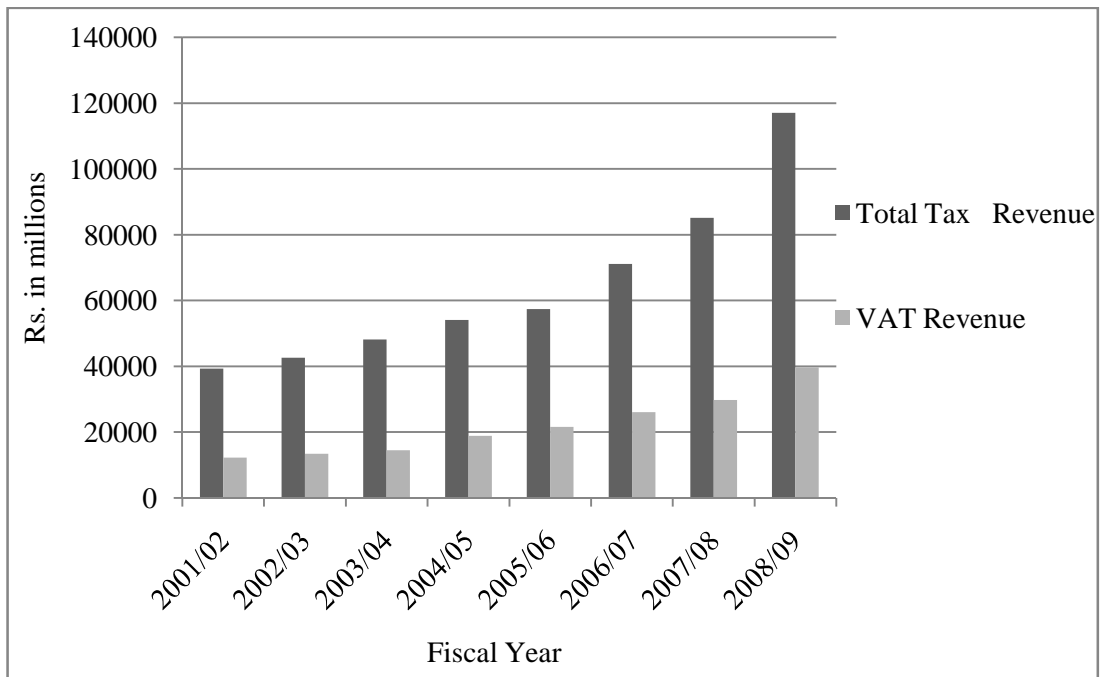
Table 5.6
Share of VAT Revenue on Total Tax Revenue by Year

| <i>Fiscal Year</i> | <i>Total Tax Revenue</i> | <i>VAT Revenue</i> | <i>Percentage of VAT on Total Tax Revenue</i> |
|--------------------|--------------------------|--------------------|---|
| 2001/02 | 39330.64 | 12267.30 | 31 |
| 2002/03 | 42586.92 | 13459.70 | 32 |
| 2003/04 | 48173.00 | 14478.90 | 30 |
| 2004/05 | 54104.70 | 18885.40 | 35 |
| 2005/06 | 57430.40 | 21610.70 | 38 |
| 2006/07 | 71126.70 | 26095.60 | 37 |
| 2007/08 | 85155.54 | 29815.70 | 35 |
| 2008/09 | 117051.90 | 39700.90 | 34 |

Source: Economic Survey, 2009/10, MOF (2010)

Fig.5.11

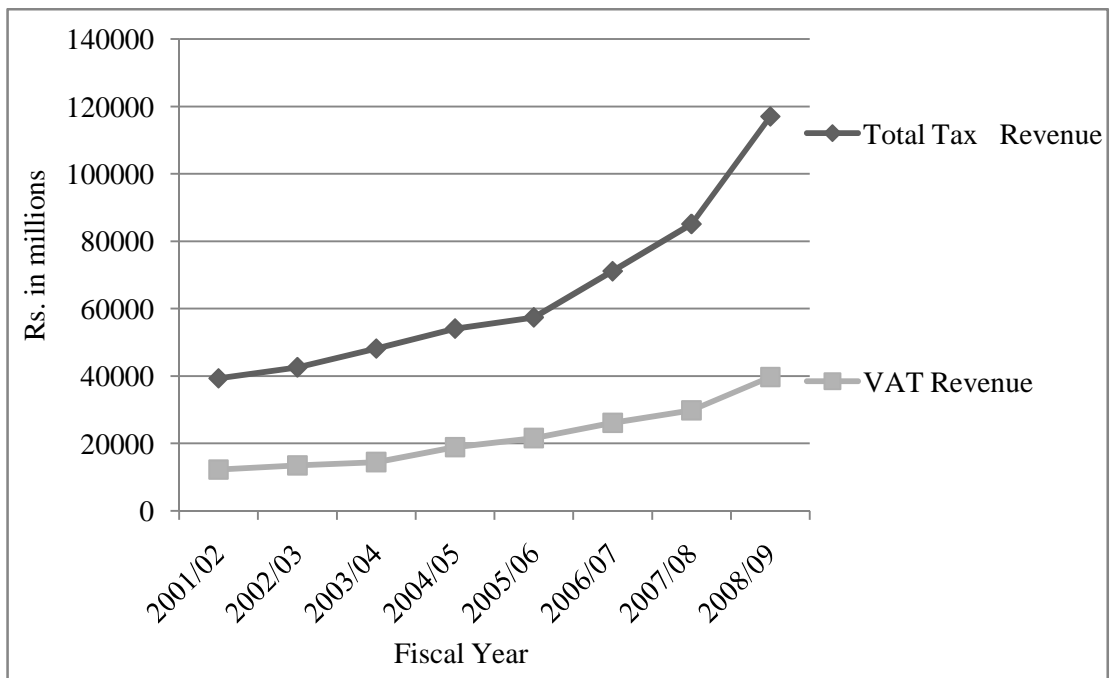
Share of VAT Revenue on Total Tax Revenue by Year



Source: Table 5.6

Fig. 5.12

Trend on Share of VAT Revenue on Total Tax Revenue by Year



Source: Table 5.6

According to the Table 5.6, it is revealed that the percentage portion of VAT revenue to the total tax revenue has ranged between the 30 to 38 percent during the review period. As it is also clear from the table and the diagrams that revenue collected through the VAT and total tax from FY 2001/02 to 2008/09 is in increasing trend and order in the every year. Their respective shares were Rs. 12267.30 millions and Rs. 39330.64 millions in FY 2001/02 and Rs. 39700.90 millions and Rs. 117051.90 millions in FY 2008/09.

Thus, it is clearly come to know about the fact that almost about 1/3 of the total tax revenue is the portion of the VAT revenue. So, it can be said that VAT revenue has well contributed to the total tax revenue, since it consists of various tax items such as customs, tax on income, property, profit, land and registration along with other taxes on consumption and production of the goods and services.

5.1.7 Share of VAT Revenue on Total Indirect Tax Revenue

Tax revenue consists of direct tax revenue and indirect tax revenue. And the VAT falls under the indirect tax family. To know about the share of the VAT revenue on total indirect tax revenue, following estimation and presentation have been carried out.

Table 5.7

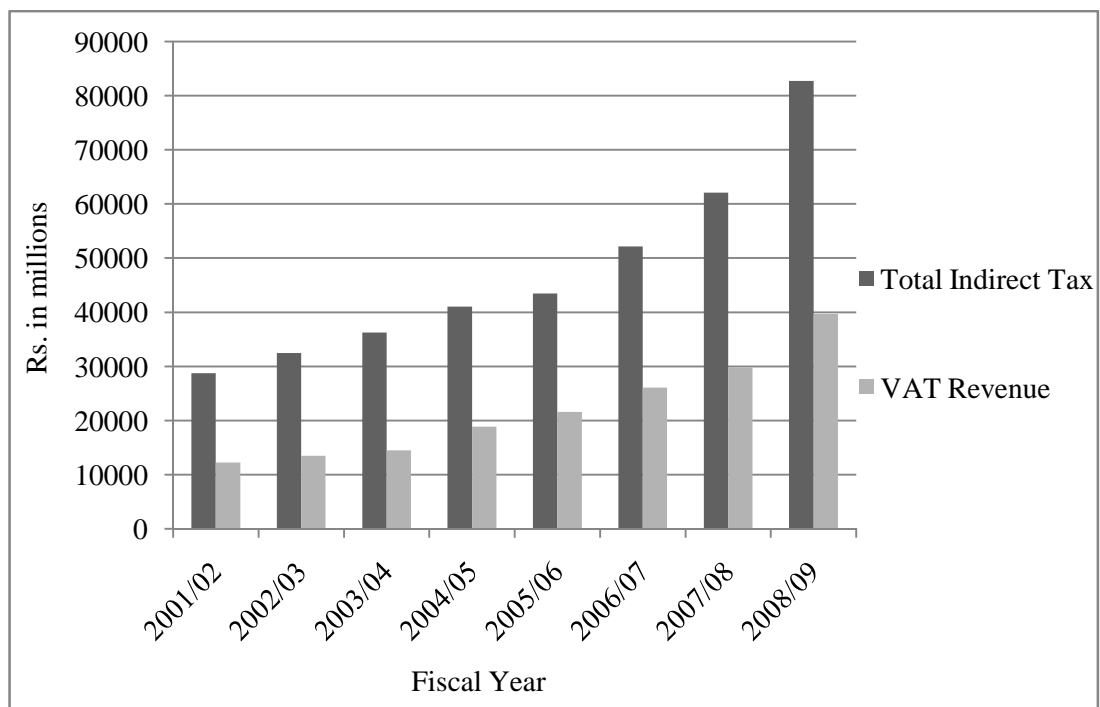
Share of VAT Revenue on Total Indirect Tax Revenue by Year (Rs. in millions)

| <i>Fiscal Year</i> | <i>Total Indirect Tax</i> | <i>VAT Revenue</i> | <i>% of VAT on Total Indirect Tax Revenue</i> |
|--------------------|---------------------------|--------------------|---|
| 2001/02 | 28733.10 | 12267.30 | 43 |
| 2002/03 | 32481.25 | 13459.70 | 41 |
| 2003/04 | 36260.40 | 14478.90 | 40 |
| 2004/05 | 41032.90 | 18885.40 | 46 |
| 2005/06 | 43462.30 | 21610.70 | 50 |
| 2006/07 | 52146.40 | 26095.60 | 50 |
| 2007/08 | 62067.82 | 29815.70 | 48 |
| 2008/09 | 82731.20 | 39700.90 | 48 |

Source: Economic Survey, 2009/10, MOF (2010)

Fig.5.13

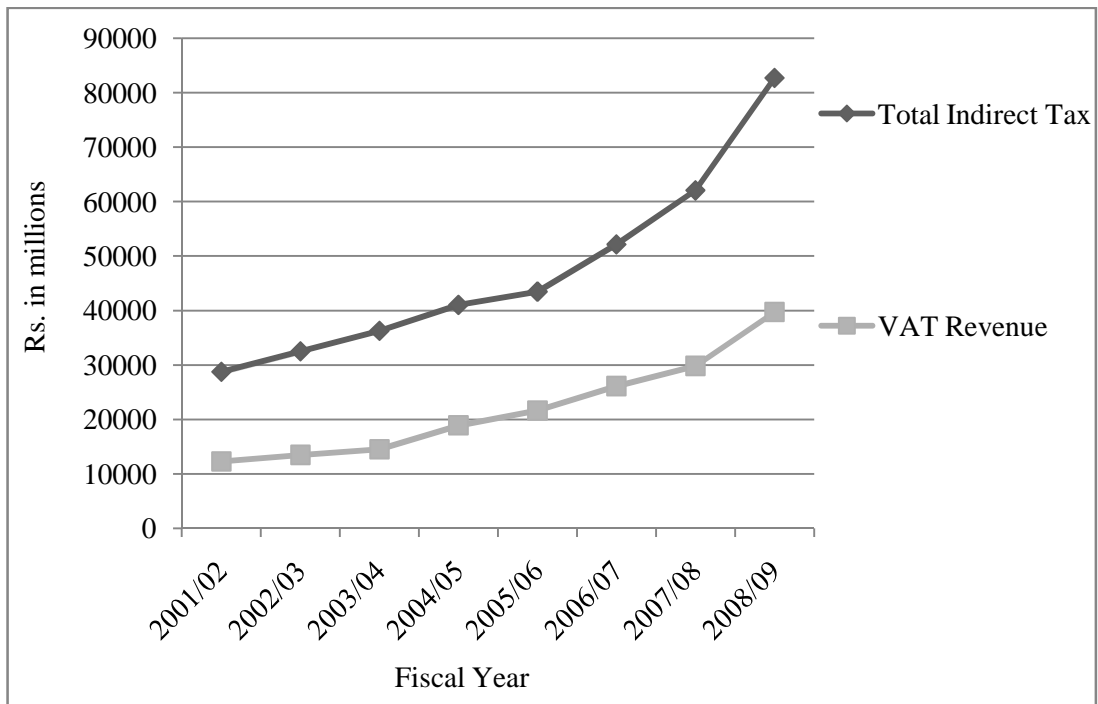
Share of VAT Revenue on Total Indirect Tax Revenue by Year



Source: Table 5.7

Fig. 5.14

Share of VAT Revenue on Total Indirect Tax Revenue by Year



Source: Table 5.7

As depicted in the above table and figures VAT revenue has increased with the increment of total indirect tax revenue. For example: in the FY 2001/02 the amount of total indirect tax was Rs. 28733.10 millions and the portion of the VAT revenue on it was Rs. 12267.30 million during the same FY which is 43 percent of total indirect tax revenue. Similarly, in the FY 2008/09 the amount of the total indirect tax reached up to Rs. 82731.20 millions which consists of Rs. 39700.90 millions of VAT revenue on it and the amount occupies 48 percent of total indirect tax revenue. From the above pictorial presentations it can be noticed that the indirect tax and the portion of VAT revenue on it is in increasing form in each reviewed FY. Table 5.7 also has revealed the fact that the percentage of the VAT revenue on the total indirect tax revenue is ranged between the 40 to 50 percent during the studied FY. It shows that during the fiscal years 2005/06 and 2006/07 the percentage of the VAT revenue was 50 percent. During the other reviewed FYs too, it is near of 50 percent.

Thus, the VAT revenue covers approximately 50% of total indirect tax revenue. Thus, it can be concluded that it is the most important source of revenue collection under the indirect tax revenue.

5.1.8 Contribution of VAT on GDP

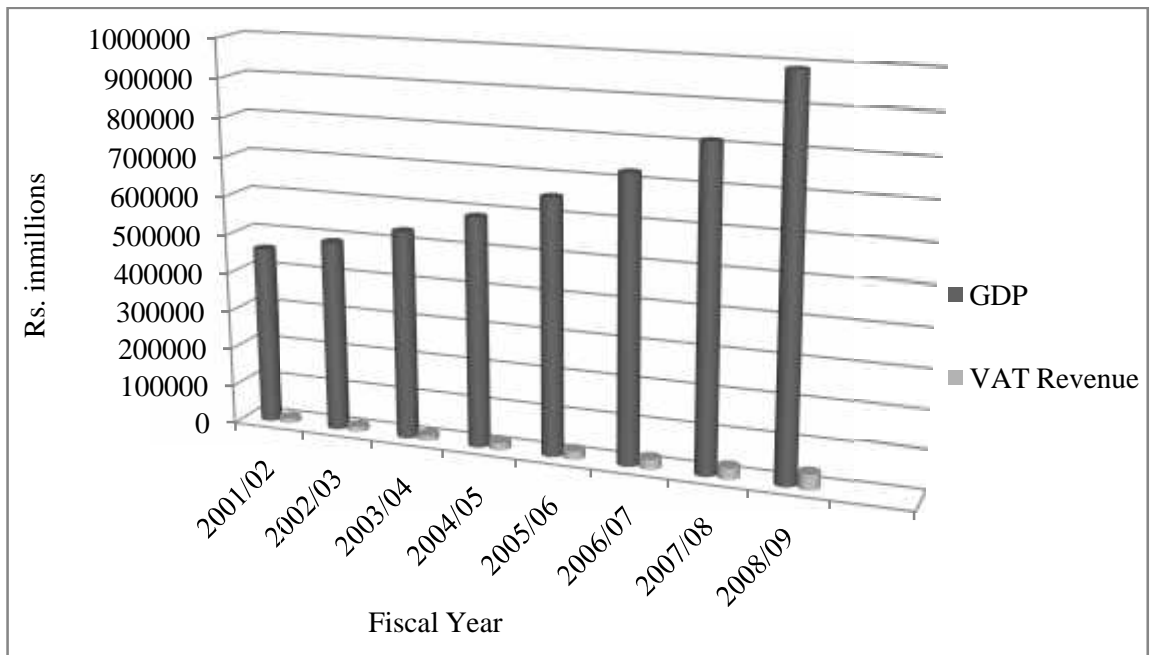
From the earlier presentation it is cleared that the VAT revenue has played important role for increasing indirect tax revenue, tax revenue and total revenue for the country. Similarly, the VAT revenue has contributed to the government revenue as percent of GDP. The contribution of the VAT revenue on government revenue (GDP) is presented below.

Table 5.8
Contribution of VAT to GDP by Year (RS. in millions)

| <i>Fiscal Year</i> | <i>GDP</i> | <i>VAT Revenue</i> | <i>% of VAT on GDP</i> |
|--------------------|------------|--------------------|------------------------|
| 2001/02 | 459443.00 | 12267.30 | 2.67 |
| 2002/03 | 492231.00 | 13459.70 | 2.73 |
| 2003/04 | 536749.00 | 14478.90 | 2.70 |
| 2004/05 | 589412.00 | 18885.40 | 3.20 |
| 2005/06 | 654084.00 | 21610.70 | 3.30 |
| 2006/07 | 727827.00 | 26095.60 | 3.59 |
| 2007/08 | 815663.00 | 29815.70 | 3.64 |
| 2008/09 | 991316.00 | 39700.90 | 4.00 |

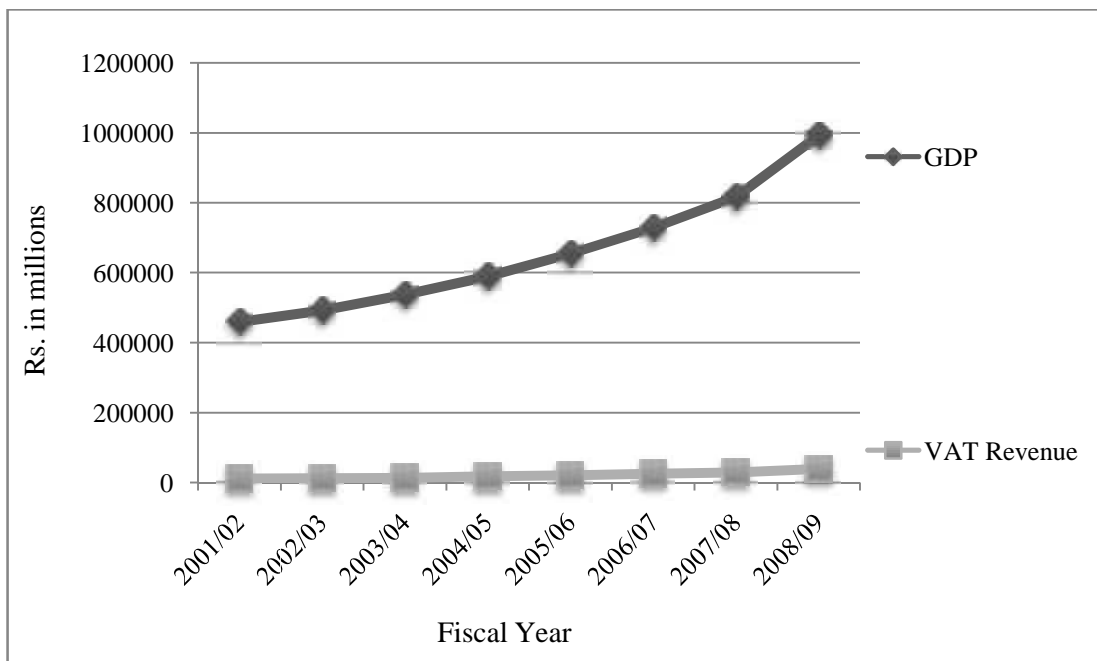
Source: Economic Survey, 2009/10, MOF (2010)

Fig.5.15
Portion of VAT Revenue on GDP by Year



Source: Table 5.8

Fig. 5.16
Trend on Share of VAT Revenue to GDP by Year



Source: Table 5.8

The above pictorial presentation has depicted that in the FY 2001/02 the GDP of Nepal was Rs. 459443.00 millions and the share of VAT revenue on it was Rs. 12267.30 which occupies 2.67 percent of GDP. In the same way, in the FY 2008/09 the GDP reached at Rs. 991316.00 millions where the share of the VAT revenue is Rs. 39700.90 millions and the VAT revenue amount percentage is exactly 4 percent on the GDP. Both the GDP and VAT revenue along with percentage of VAT on GDP are in the increasing trend. When we observe the percentage contribution of VAT revenue on GDP, it has caught the increasing trend as the rate is 2.67, 2.73, 2.70, 3.20, 3.30, 3.59, 3.64 and 4.00 percent during the reviewed FYs.

Thus, the VAT revenue alone has contributed to the GDP up to the 4.00 percent as it has shown an increasing feature; it is likely to increase in coming years.

5.2 The Awareness Level of Tax Payers Regarding VAT in Nepal

The present study is concerned with taxpayers' awareness regarding VAT in Nepal and aims to assess the awareness level of the tax payers regarding VAT in Nepal. For the purpose of empirical study three sets of questionnaire were prepared for the different groups of tax payers' i.e. consumers, tax officials, tax experts, businessmen and traders respectively. The structured questionnaires were filled up by respective respondents and an interview was also included in some cases. The results and interpretation of the empirical study is carried out as given below.

5.2.1 Knowledge about VAT

The knowledge of VAT is a prerequisite and the basis for an effective and fruitful VAT system. To find out whether the respondents group i.e. consumers and businessmen/traders are introduced with VAT or not, a question was asked to them and the result obtained is as given below in the Table 5.9. Here, the respondent groups; tax officials and tax experts are assumed to be known about VAT since they are closely related in this field and the various matters of VAT. And the survey obtained the result as follows:

Table 5.9
Knowledge of VAT

| <i>Responses</i> | <i>Yes</i> | | <i>No</i> | |
|----------------------------|------------|------------|------------|----------|
| | <i>No.</i> | <i>%</i> | <i>No.</i> | <i>%</i> |
| <i>Businessmen/Traders</i> | 15 | 100 | - | - |
| <i>Consumers</i> | 25 | 100 | - | - |
| <i>Total</i> | 40 | 100 | - | - |

Source: Field Survey, 2011

The survey result is depicted in the Table 5.9. It shows that all the numbers of respondents groups answered that they know about VAT since they all answered “Yes” to the question, “Do you know about VAT?” Now let’s check out that what kind of tax is the VAT and what is their classification of knowledge in this regard. It is shown by the Table no. 5.10, below.

Table 5.10
Classifying Knowledge of VAT

| <i>Respondents</i> | <i>Income Tax</i> | | <i>Sales Tax</i> | | <i>Both</i> | | <i>Total</i> |
|----------------------------|-------------------|-----------|------------------|-----------|-------------|-----------|--------------|
| | <i>No.</i> | <i>%</i> | <i>No.</i> | <i>%</i> | <i>No.</i> | <i>%</i> | |
| <i>Tax Experts</i> | - | - | 5 | 100 | - | - | 5 |
| <i>Tax Officials</i> | - | - | 5 | 100 | - | - | 5 |
| <i>Businessmen/Traders</i> | 4 | 27 | 8 | 53 | 3 | 20 | 15 |
| <i>Consumers</i> | 3 | 12 | 4 | 16 | 18 | 72 | 25 |
| <i>Total</i> | 7 | 14 | 22 | 44 | 21 | 42 | 50 |

Source: Field Survey, 2011

The survey result depicted in the above table presents that 44 percent of total respondents seems to be familiar with VAT since, they responded saying that VAT is a sales tax. It includes 100 percent of tax experts and tax officials, 53 percent of Businessmen/traders along with 16 percent of consumers. However, according to the Table 5.9, all the respondents said that they are known about VAT. In this regard, it is proved that most of them have just heard the terminology i.e. VAT but in real and actual sense they are out of VAT knowledge as 27 percent out of total

businessmen/traders and 12 percent of consumers said that VAT is an income tax. In the same way, 20 percent of businessmen/traders and 72 percent of consumers responded saying that VAT is both income and sales tax.

Now, it can be concluded that majority of people have just listened about VAT but in actual sense they do not know that what kind of tax is VAT. So, awareness is required to the majority of consumers and businessmen/traders to a great extent.

5.2.2 Source of VAT Information

A question was asked to the consumers and businessmen/traders regarding how they knew about VAT. The survey result on this aspect is presented in the following Table 5.11.

Table 5.11
Source of VAT information

| <i>Responses</i> | <i>A</i> | | <i>B</i> | | <i>C</i> | | <i>D</i> | | <i>Total</i> |
|----------------------------|------------|-----------|------------|-----------|------------|-----------|------------|----------|--------------|
| | <i>No.</i> | <i>%</i> | <i>No.</i> | <i>%</i> | <i>No.</i> | <i>%</i> | <i>No.</i> | <i>%</i> | |
| <i>Businessmen/traders</i> | 5 | 33 | 3 | 20 | 7 | 47 | - | - | 15 |
| <i>Consumers</i> | 18 | 72 | 3 | 12 | 4 | 16 | - | - | 25 |
| <i>Total</i> | 23 | 58 | 6 | 15 | 11 | 27 | - | - | 40 |

A= by media (radio, television and papers etc.)

B= by friends

C= by tax administrators

D= If others

Source: Field Survey, 2011

The survey result shown in Table 5.11, has revealed that 33 percent of businessmen/traders and 72 percent of consumers are introduced with VAT from media (paper, television, radio and book etc.). 20 percent of businessmen/traders and 12 percent of consumers knew about VAT from their friends. And 47 percent of businessmen/traders and 16 percent consumers are introduced with VAT by means

of tax administration or tax administrators. They mentioned nothing if they had other sources of it. In aggregate, 58 percent are come to know about VAT through the media i.e. radio, television, papers and books etc. Similarly the portion introduced with VAT from friends and tax administrators are 15 percent and 27 percent respectively.

Hence, it can be concluded that media can play as an effective role as a source for increasing the public awareness regarding VAT. Similarly, tax administration and friend linkage also may be helpful to it in some extent.

5.2.3 Provision of Tax Invoice While Purchasing Goods and Services

What is the behavior of the respondents about asking tax invoice after purchasing goods and services? Whether they ask for it or not? To gain information about these aspects a question, “Do you ask for tax invoice after purchasing goods and services?” was asked and the survey findings are presented in Table 5.12.

Table 5.12
Request for Tax Invoice after purchase of Goods and Services

| <i>Responses</i> | <i>Yes</i> | | <i>No</i> | | <i>Total</i> |
|----------------------------|------------|-----------|------------|-----------|--------------|
| | <i>No.</i> | <i>%</i> | <i>No.</i> | <i>%</i> | |
| <i>Tax Experts</i> | 5 | 100 | - | - | 5 |
| <i>Tax Officials</i> | 5 | 100 | - | - | 5 |
| <i>Businessmen/Traders</i> | 14 | 93 | 1 | 7 | 15 |
| <i>Consumers</i> | 20 | 80 | 5 | 20 | 25 |
| <i>Total</i> | 44 | 88 | 6 | 12 | 50 |

Source: Field Survey, 2011

Tax invoice is the heart of every successful VAT system. So, the success of the VAT system also highly depends upon the effective and efficient use of tax invoice. Tax invoice should be demanded by every purchaser after purchasing goods and services from sellers. This should be regulated and practiced during the every transaction. As the survey result shown in the above Table 5.12 reveals that only 88 percent of the

purchasers demanded tax invoice after purchasing goods and services and left out 12 percent never ask for tax invoice after purchasing goods and services. The 88 percent includes 100 percent of tax experts and tax officials and 93 percent of businessmen/traders and 80 percent of consumers respectively.

5.2.3.1 Not Demanding Tax Invoice

According to the survey result depicted in the Table 5.12, 12 percent of the total respondents do not ask for tax invoice after purchasing goods and services. To find out the causes behind it, a question “Why don’t you ask for tax invoice after purchasing goods and services?” was asked to them and result obtained is presented in the following Table 5.13.

Table 5.13
Views on Not Demanding Tax Invoice

| <i>Responses</i> | <i>A</i> | | <i>B</i> | | <i>C</i> | | <i>Total</i> |
|----------------------------|------------|-----------|------------|-----------|------------|----------|--------------|
| | <i>No.</i> | <i>%</i> | <i>No.</i> | <i>%</i> | <i>No.</i> | <i>%</i> | |
| <i>Businessmen/traders</i> | 1 | 100 | - | - | - | - | 1 |
| <i>Consumers</i> | 1 | 20 | 4 | 80 | - | - | 5 |
| <i>Total</i> | 2 | 33 | 4 | 67 | - | - | 6* |

*6= 50-44 (Since, 1 of the businessmen/traders and 5 of the consumers out of total 50 respondents responded that they do not request for tax invoice after purchasing goods and services).

A= Just so (No further uses)

B= It consumes time

C= No future reference

Source: Field Survey, 2011

According to the Table 5.13, 67 percent do not request for tax invoice since, it consumes time for them and 33 percent do not precede it just so. But, these kinds of

misunderstanding and wrong notions should be avoided from them and they needed to be made aware enough.

5.2.3.2 Asking for Tax Invoice (How Often?)

The survey result i.e. Table 5.12 has showed that 88 percent of the total respondents ask for the tax invoice after purchasing goods and services. To find out that how often they ask for tax invoice a question, “How often do you ask for tax invoice after purchasing goods and services?” was asked and the obtained responses have been presented in the Table 5.14, below.

Table 5.14
Asking for Tax Invoice (How Often?)

| Responses | Sometimes | | Often (Usually) | | Always | | Total |
|----------------------------|------------------|-----------|------------------------|-----------|---------------|-----------|--------------|
| | No. | % | No. | % | No. | % | |
| Tax Experts | - | - | - | - | 5 | 100 | 5 |
| Tax Officials | - | - | - | - | 5 | 100 | 5 |
| Businessmen/traders | 1 | 7 | 4 | 29 | 9 | 64 | 14 |
| Consumers | 7 | 35 | 6 | 30 | 7 | 35 | 20 |
| Total | 8 | 18 | 10 | 23 | 26 | 59 | 44* |

*44= 50-6 (Since, 1 businessman/trader and 5 consumers out of total respondents responded that they do not ask for tax invoice after purchasing goods and services).

Source: Field Survey, 2011

Table 5.14 shows that only 59 percent out of 88 percent of the total respondents always ask for the tax invoice and left 23 percent and 18 percent only ask for often and sometimes respectively. The 59 percent includes of 100 percent tax officials and tax experts while in 64 percent of businessmen/traders and 35 percent of consumers respectively. Now, it is clear that most of the consumers and some of the businessmen/traders do not ask for tax invoice after purchasing goods and services in regular and frequent basis. So, they are needed to be encouraged always to take

tax invoice after purchasing goods and services and needed to be made aware about it.

5.2.3.3 Causes behind Asking for Tax Invoice

To get the information about why do tax invoice demanding purchasers request for tax invoice after purchasing goods and services; a question, “Why do you ask for tax invoice after purchasing goods and services?” was asked to the all respondents groups and the obtained responses are tabulated below.

Table 5.15
Views on Causes behind Asking for Tax Invoices

| <i>Responses</i> | <i>A</i> | | <i>B</i> | | <i>C</i> | | <i>D</i> | | <i>Total</i> |
|----------------------------|------------|-----------|------------|-----------|------------|-----------|------------|----------|--------------|
| | <i>No.</i> | <i>%</i> | <i>No.</i> | <i>%</i> | <i>No.</i> | <i>%</i> | <i>No.</i> | <i>%</i> | |
| <i>Tax Experts</i> | 3 | 60 | - | - | 2 | 40 | - | - | 5 |
| <i>Tax Officials</i> | 3 | 60 | 1 | 20 | 1 | 20 | - | - | 5 |
| <i>Businessmen/Traders</i> | 11 | 79 | - | - | 2 | 14 | 1 | 7 | 14 |
| <i>Consumers</i> | 6 | 30 | 8 | 40 | 6 | 30 | - | - | 20 |
| Total | 23 | 52 | 9 | 21 | 11 | 25 | 1 | 2 | 44* |

*44= 50-6 (Since, 1 businessman/trader and 5 consumers out of total respondents responded that they do not ask for tax invoice after purchasing goods and services).

A= to get the authenticity of the sellers

B= to show the price of commodity to my family members

C= to participate in Consumers awareness Program (CAP)

D= to show it to the auditor

Source: Field Survey, 2011

As the Table 5.15 has portrayed that 52 percent of total respondents request for tax invoice to get the authenticity of sellers which consists of 60 percent of tax experts and tax officials each along with 79 percent of businessmen/traders and 30 percent of consumers. 21 percent out of total respondents revealed that they demand tax

invoice to show the price of commodity to their family members which includes of 20 percent of tax officials and 40 percent of consumers. 25 percent replied that they need to participate in consumer awareness program for increasing public revenue which consists of 40 percent of tax experts, 20 percent of tax officials, 14 percent of businessmen/traders and 30 percent of consumers. Similarly, 2 percent of total respondents do so to show it to the auditor which concludes 7 percent of businessmen/traders. In this regard, overall awareness among the people should be created and focused should be made on inculcating the people into the tax invoice demanding group for those who are out of this.

5.2.4 Issuing Tax Invoice

Effectiveness of VAT system highly depends upon the use of tax invoices while purchasing and selling of the goods and services. So, it is cleared that every seller should issue tax invoice after selling their goods and services. To check out the practice of this process a question, “Do you issue tax invoice after selling your goods and services?” was headed to the businessmen/traders and their responses were as follows.

Table 5.16
Sellers' Views on Issuing Tax Invoice

| <i>Responses</i> | <i>Yes</i> | | <i>No</i> | | <i>Total</i> |
|-----------------------------------|-------------------|------------------|-------------------|------------------|---------------------|
| | <i>No.</i> | <i>%</i> | <i>No.</i> | <i>%</i> | |
| <i>Businessmen/Traders</i> | 13 | 87 | 2 | 13 | <i>15</i> |
| <i>Total</i> | <i>13</i> | <i>87</i> | <i>2</i> | <i>13</i> | <i>15</i> |

Source: Field Survey, 2011

As shown in the Table 5.16, 87 percent out of total businessmen/traders issue tax invoice after selling their goods and services and remaining 13 percent do not do so. Now, let’s see how often they issue tax invoice after selling their goods and services.

Table 5.17

Sellers' Views on Issue of Tax Invoice

| <i>Responses</i> <i>Respondents</i> | <i>Sometimes</i> | | <i>Often</i> | | <i>Always</i> | | <i>Total</i> |
|--|-------------------------|------------------|---------------------|------------------|----------------------|------------------|---------------------|
| | <i>No.</i> | <i>%</i> | <i>No.</i> | <i>%</i> | <i>No.</i> | <i>%</i> | |
| <i>Businessmen/Traders</i> | 4 | 31 | 4 | 31 | 5 | 38 | <i>13</i> |
| <i>Total</i> | <i>4</i> | <i>31</i> | <i>4</i> | <i>31</i> | <i>5</i> | <i>38</i> | <i>13*</i> |

*13= 15-2 (Since, 2 of total respondents responded that they do not issue tax invoice after selling their goods and services).

Source: Field Survey, 2011

According to the Table 5.17, 31 percent out of total tax invoice issuing businessmen/traders issue tax invoice for only sometimes. The same percent is for businessmen/traders who issue tax invoice for only often. Only 38 percent out of total tax invoice issuing businessmen/traders always issue tax invoice. Thus, only few number of businessmen/traders issue tax invoice in regular basis. In this regard, to make the all businessmen/traders, ready for issuing the tax invoice is a challenge to make VAT system effective. For this purpose, awareness programs and other supplementary actions should be taken for inculcating them into the tax invoicing system as much as and as soon as possible.

5.2.5 Buyers' Views on Tax Invoice

As we have stated earlier, frequent and regular basis of tax invoicing system is most needed for an efficient and productive VAT system. In this sense, it is clear that every consumer too need ask for tax invoice after purchasing goods and services. To gain the information about consumers asking for tax invoice after purchasing goods and services; a question, “Do the all purchasers demand tax invoice after purchasing goods and services?” was asked to the businessmen/traders and they provided following secret matters about this.

Table 5.18

Buyers' Views on Tax Invoice

| Responses | Yes | | No | | Total |
|----------------------------|------------|----------|------------|------------|--------------|
| | No. | % | No. | % | |
| Businessmen/Traders | - | - | 15 | 100 | 15 |
| Total | - | - | 15 | 100 | 15 |

Source: Field Survey, 2011

From the Table 5.18, it is clear that all purchaser i.e. 100 percent purchasers (totally) never demand for tax invoice. The fact is quite miserable and seems clearly against of effective and efficient VAT system. Now, focused should be made on taking tax invoices for every purchasers compulsorily for which awareness programs, information, acts and rules can be implemented on the basis of requirements.

5.2.1.6 Final Tax Payer of VAT

To know the respondents' view regarding with the final tax payer of VAT a question was put, "Who is the final tax payer of VAT?" and the obtained survey result is tabulated below.

Table 5.19

Views on Final Tax Payer of VAT

| Responses | Consumers | | Producers | | Businessmen | | No idea | | Total |
|----------------------------|------------------|-----------|------------------|----------|--------------------|-----------|----------------|-----------|--------------|
| | No. | % | No. | % | No. | % | No. | % | |
| Tax Experts | 5 | 100 | - | - | - | - | - | - | 5 |
| Tax Officials | 5 | 100 | - | - | - | - | - | - | 5 |
| Businessmen/Traders | 9 | 60 | 1 | 7 | 2 | 13 | 3 | 20 | 15 |
| Consumers | 13 | 52 | 3 | 12 | 4 | 16 | 5 | 20 | 25 |
| Total | 32 | 64 | 4 | 8 | 6 | 12 | 8 | 16 | 50 |

Source: Field Survey, 2011

The survey result presented in the Table 5.19. It clarifies that only 64 percent of total respondents responded correctly saying that consumer is the final tax payer of VAT

which includes 100 percent of both tax experts and officials, 60 percent and 52 percent of businessmen/traders and consumers respectively. Left out 8 percent, and 12 percent responded that producer and businessmen is the real tax payer of VAT respectively. 16 percent said that they have no idea about it. Similarly, 7 percent of businessmen/traders and 12 percent of consumers revealed that producer is the final tax payer of VAT. On the other hand 13 percent of the businessmen/traders claimed that they are the final tax payer of the VAT and 16 percent of the consumers also agreed with this claim of businessmen/traders. Now, it is come to know that most of the consumers and some of the businessmen/traders too are out of knowledge about final tax payer of VAT. So there is need of awareness programs about it.

5.2.7 The current Rate of VAT

To gain the information, whether the respondents groups are known about the current rate of VAT or not, a question, “What is the current rate of VAT in Nepal?” was asked and the obtained result is tabulated in the table 5.20.

Table 5.20
Respondents' Views on the Current Rate of VAT

| <i>Responses</i> | <i>11%</i> | | <i>12%</i> | | <i>13%</i> | | <i>No Idea</i> | | <i>Total</i> |
|-----------------------------|------------|----------|------------|----------|------------|-----------|----------------|-----------|--------------|
| | <i>No.</i> | <i>%</i> | <i>No.</i> | <i>%</i> | <i>No.</i> | <i>%</i> | <i>No.</i> | <i>%</i> | |
| <i>Tax Experts</i> | - | - | - | - | 5 | 100 | - | - | 5 |
| <i>Tax Officials</i> | - | - | - | - | 5 | 100 | - | - | 5 |
| <i>Businessmen/ Traders</i> | - | - | 1 | 7 | 14 | 93 | - | - | 15 |
| <i>Consumers</i> | 2 | 8 | 3 | 12 | 15 | 60 | 5 | 20 | 25 |
| <i>Total</i> | 2 | 4 | 4 | 8 | 39 | 78 | 5 | 10 | 50 |

Source: Field Survey, 2011

The Table 5.20, has exposed that only 78 percent of the respondents responded correctly since, they said that the current rate of VAT in Nepal is 13 percent. Out of the remaining 22 percent, 4 percent said that 11 percent is the current rate of VAT in Nepal, 8 percent said 12 percent and 16 percent revealed that they have no idea about the current rate of VAT. The 78 percent includes of 100 percent of tax officials

and experts, 93 percent of businessmen/traders and 60 percent of consumers. Now, it is clear that 7 percent of businessmen/traders and 40 percent of the consumers are unknown about the current rate of VAT. So, these portions of the people require awareness programs and complements regarding VAT.

5.2.8 Is VAT Necessary for Raising Public Revenue?

In general the VAT has contributed for raising public revenue as we have got the facts and proves earlier when we analyzed the primary data to find out the contribution of VAT in public revenue collection. The GON also had implemented VAT in Nepal for same purpose in 1997. However, public are known about this fact or not, for this issue a question, “Is VAT necessary for raising public revenue?” was asked and the obtained result is summarized in the Table 5.21.

Table 5.21
Views on Necessity of VAT for Raising Public Revenue

| <i>Responses</i> | <i>Yes</i> | | <i>No</i> | | <i>Total</i> |
|----------------------------|------------|-----------|------------|-----------|--------------|
| | <i>No.</i> | <i>%</i> | <i>No.</i> | <i>%</i> | |
| <i>Tax Experts</i> | 5 | 100 | - | - | 5 |
| <i>Tax Officials</i> | 5 | 100 | - | - | 5 |
| <i>Businessmen/Traders</i> | 10 | 67 | 5 | 33 | 15 |
| <i>Consumers</i> | 15 | 60 | 10 | 40 | 25 |
| <i>Total</i> | 35 | 70 | 15 | 30 | 50 |

Source: Field Survey, 2011

The Table 5.21 has mentioned that only 70 percent of total respondents sure that VAT is helpful for raising public revenue which consists of 100 percent tax experts and tax officials. Similarly, 67 percent of businessmen/traders and 60 percent of consumers responded that VAT is necessary for raising public revenue. Out of total respondents, 30 percent responded that VAT is not necessary for raising public revenue which consists of 33 percent of businessmen/traders and 40 percent of consumers. These people need the clear awareness programs regarding this matter.

5.2.9 Is VAT an Extra Burden to the Tax Payers?

To assess the more and more responses of the respondents a question was headed, “Is VAT an extra burden to tax payer in your opinion?” and achieved responses are summarized in the following table.

Table 5.22
Views on Burden of VAT

| <i>Responses</i> | <i>Yes</i> | | <i>No</i> | | <i>No Idea</i> | | <i>Total</i> |
|----------------------------|------------|-----------|------------|-----------|----------------|-----------|--------------|
| | <i>No.</i> | <i>%</i> | <i>No.</i> | <i>%</i> | <i>No.</i> | <i>%</i> | |
| <i>Tax Experts</i> | 4 | 80 | 1 | 20 | - | - | 5 |
| <i>Tax Officials</i> | 3 | 60 | 2 | 40 | - | - | 5 |
| <i>Businessmen/Traders</i> | 8 | 53 | 3 | 20 | 4 | 27 | 15 |
| <i>Consumers</i> | 15 | 60 | 5 | 20 | 5 | 20 | 25 |
| <i>Total</i> | 30 | 60 | 11 | 22 | 9 | 18 | 50 |

Source: Field Survey, 2011

60 percent out of total respondents feel VAT is an extra burden for them. 22 percent do not feel so and 18 percent have no particular idea about it, i. e. whether VAT is an extra burden for them or not. However, most of the tax payers feel that VAT is an extra burden for them. If we observed detailed about it and we too find so. But we should not forget the fact that our contribution as the VAT helps in public revenue collection and more important fact is that the collected amount through the VAT should be spent in creation of social welfare and development of the nation. Otherwise it will be double and tiple burden to the tax payers.

5.2.10 Increment in Price of Goods and Services Due to VAT

What is the response of the respondents whether the VAT increases the price of goods and services or not a question, “Does the VAT increase the price of goods and service?” was forwarded for them and obtained result has been summarized in the Table 5.23 as given below.

Table 5.23
Views on Price Rising Due to VAT

| <i>Responses</i> | <i>Yes</i> | | <i>No</i> | | <i>No Idea</i> | | <i>Total</i> |
|----------------------------|------------|-----------|------------|-----------|----------------|-----------|--------------|
| | <i>No.</i> | <i>%</i> | <i>No.</i> | <i>%</i> | <i>No.</i> | <i>%</i> | |
| <i>Tax Experts</i> | 5 | - | - | - | - | - | 5 |
| <i>Tax Officials</i> | 5 | - | - | - | - | - | 5 |
| <i>Businessmen/Traders</i> | 8 | 53 | 4 | 27 | 3 | 20 | 15 |
| <i>Consumers</i> | 12 | 48 | 6 | 24 | 7 | 28 | 25 |
| <i>Total</i> | 30 | 60 | 10 | 20 | 10 | 20 | 50 |

Source: Field Survey; 2011

In the Table 5.23, 60 percent of total respondents said that VAT is a cause for increasing the price of the goods and services. 20 percent responded that it is not so and remaining 20 percent have no idea about it. The 60 percent covers 100 percent of tax experts and officials each along with 53 percent of businessmen/traders and 48 percent of consumers.

We may be agreed with this fact in some extent but it is not the only one cause of increment in the price of goods and services. We can visualize the positive aspects of VAT, such as; it can be used as an effective tool for detecting luxurious life of the people, promoting the exports and restricting the imports on the basis of necessity. In this regard, multiple VAT rate system can be practiced in the context of Nepal.

5.2.11 Effect of VAT in Nation's Economy

A question, "What is the effect of VAT in the nation's economy?" was put among the respondents and the survey result formed as below.

Table 5.24
Views on Effect of VAT in Nation's Economy

| <i>Responses</i> | <i>A</i> | | <i>B</i> | | <i>C</i> | | <i>Total</i> |
|----------------------------|------------|-----------|------------|-----------|------------|-----------|--------------|
| | <i>No.</i> | <i>%</i> | <i>No.</i> | <i>%</i> | <i>No.</i> | <i>%</i> | |
| <i>Tax Experts</i> | 5 | 100 | - | - | - | - | 5 |
| <i>Tax Officials</i> | 5 | 100 | 3 | - | - | - | 5 |
| <i>Businessmen/Traders</i> | 8 | 53 | 3 | 20 | 4 | 27 | 15 |
| <i>Consumers</i> | 12 | 48 | 6 | 24 | 7 | 28 | 25 |
| <i>Total</i> | 30 | 60 | 9 | 18 | 11 | 22 | 50 |

A= Increase public revenue

B= Decrease public Revenue

C= Does not effect

Source: Field Survey, 2011

60 percent of the total respondents responded that VAT increases the government revenue. Similarly, 18 percent said that VAT decreases the government revenue and 22 percent found having no idea regarding with this matter. 53 percent of businessmen/ traders, 48 percent of consumers and all the tax experts and tax officials are included within this 60 percent. In this sense 20 percent and 24 percent businessmen/traders and consumers respectively responded that VAT decreases the government revenue. Having no idea about these matters is bond of 27 percent of businessmen/traders and 28 percent of consumers. This portion of the people need clear cut information that VAT absolutely, increases the government revenue and further more they should be made aware.

5.2.12 Tax Evasion in Nepal

“Has the tax evasion taken place in Nepal?” was asked to the tax experts and tax officials and the obtained result is shown in the Table 5.25, below.

Table 5.25
Views on Tax Evasion in Nepal

| <i>Responses</i> | <i>Yes</i> | | <i>No</i> | | <i>Total</i> |
|----------------------|------------|------------|------------|----------|--------------|
| | <i>No.</i> | <i>%</i> | <i>No.</i> | <i>%</i> | |
| <i>Tax Officials</i> | 5 | 100 | - | - | 5 |
| <i>Tax Experts</i> | 5 | 100 | - | - | 5 |
| <i>Total</i> | 10 | 100 | - | - | 10 |

Source: Field Survey, 2011

The above table clearly shows that 100 percent tax experts and tax officials claimed that definitely the tax evasion has taken place in Nepal. And to find out the probable measures to detect the tax evasion in Nepal; a question, “What corrective measures can be adopted to avoid tax evasion in Nepal?” was asked to the tax experts and tax officials too. Received survey result is depicted in the following Table, 5.26.

Table 5.26
Views on Corrective Measures to Avoid Tax Evasion in Nepal

| <i>Responses</i> | <i>A</i> | | <i>B</i> | | <i>C</i> | | <i>Total</i> |
|----------------------|------------|-----------|------------|-----------|------------|-----------|--------------|
| | <i>No.</i> | <i>%</i> | <i>No.</i> | <i>%</i> | <i>No.</i> | <i>%</i> | |
| <i>Tax Experts</i> | 3 | 60 | 1 | 20 | 1 | 20 | 5 |
| <i>Tax Officials</i> | 2 | 40 | 1 | 20 | 2 | 40 | 5 |
| <i>Total</i> | 5 | 50 | 2 | 20 | 3 | 30 | 10 |

A= Aware the consumers about VAT

B= Improving and reforming the rules and regulation of VAT

C= Set up of efficient tax administration

Source: Field Survey, 2011

As shown in the Table 5.26, 50 percent of respondents said that awaking the consumers about VAT is needed for detecting tax avoidance in Nepal. Similarly, 20 percent focused on improvement and reformation of VAT rules and regulations. 30 percent pointed out the need of an efficient management of tax administration. Thus, it can be concluded that creation of awareness among the consumers is highly

required along with other measures; such as improving and reforming the rules and regulations as well as management of an efficient tax administration for avoiding tax evasion in Nepal.

5.2.12.1 Tax Evasion and Responsible Groups for Tax Evasion in Nepal

Tax evasion has been a serious problem in Nepal and constraint for an effective VAT system. Whether, people are known about this fact or not, to gain the information in this issue a question, “Do you know about tax evasion ?” was forwarded to the businessmen/traders and consumers. Here, the respondent groups i.e. tax experts and tax officials are assumed to be known about the tax evasion in Nepalese context since, they are closely related with this field. And the survey got result as follows.

Table 5.27
Knowledge about Tax Evasion

| Responses | Yes | | No | | Total |
|----------------------------|------------|-----------|------------|-----------|--------------|
| | No. | % | No. | % | |
| Businessmen/Traders | 12 | 80 | 3 | 20 | 15 |
| Consumers | 20 | 80 | 5 | 20 | 25 |
| Total | 32 | 80 | 8 | 20 | 40 |

Source: Field Survey, 2011

As the survey result depicted in the Table 5.27, 80 percent of the businessmen/traders and consumers are known about the tax evasion as they said ‘yes’ to the asked question i. e. “Do you know about tax evasion?”. Similarly 20 percent of businessmen/traders and consumers found having no knowledge about this matter as they said ‘No’ to the asked question. The researcher felt that almost all businessmen/traders were known about the tax evasion because they said ‘No’ laughingly and were full of hesitation while saying ‘No’. Again the known persons about the tax evasion along with tax experts and tax officials were asked next question, “Who is the most responsible for tax evasion in Nepal?” and provided the following result.

Table 5.28
Views on Responsible Group for Tax Evasion

| <i>Responses</i> | <i>A</i> | | <i>B</i> | | <i>C</i> | | <i>D</i> | | <i>Total</i> |
|----------------------------|------------|-----------|------------|-----------|------------|----------|------------|-----------|--------------|
| | <i>No.</i> | <i>%</i> | <i>No.</i> | <i>%</i> | <i>No.</i> | <i>%</i> | <i>No.</i> | <i>%</i> | |
| <i>Tax Experts</i> | - | - | - | - | - | - | 5 | 100 | 5 |
| <i>Tax Officials</i> | - | - | - | - | - | - | 5 | 100 | 5 |
| <i>Businessmen/Traders</i> | 1 | 8 | 5 | 42 | 1 | 8 | 5 | 42 | 12 |
| <i>Consumers</i> | 7 | 35 | 6 | 30 | 1 | 5 | 6 | 30 | 20 |
| <i>Total</i> | 8 | 19 | 11 | 26 | 2 | 5 | 21 | 50 | 42* |

*42= 50-8 (Since, 3 businessmen/traders and 5 consumers of total respondents responded that they are unknown about tax evasion).

A= Business enterprises

B= Tax administration

C= Consumers

D= All of the above

Source: Field Survey, 2011

Table 5.28, has revealed that 50 percent of respondents claimed that all i.e. business enterprises, tax administration and consumers are responsible for tax evasion in Nepal which includes of 100 percent of the tax experts and tax officials each along with 42 percent businessmen/traders and 30 percent of consumers. Similarly, 19 percent opined that business enterprises are responsible for tax evasion which consists of 8 percent of businessmen/traders and 35 percent of consumers. 26 percent blamed that tax administration is responsible for tax evasion which consists of 42 percent of businessmen/traders and 30 percent of consumers. 5 percent claimed that the consumers are responsible for this which consists of 8 percent of businessmen/traders and 5 percent of consumers. Now, it is come to know that in real sense all the mentioned groups i.e. business enterprises, tax administration and consumers are responsible for tax evasion in the Nepalese context. Thus, proper co-ordination and awareness among these concerned groups is needed with their strong accountable promises from their sides for the detection of tax evasion in Nepal.

5.2.13 Tax Avoidance in Nepal

“Has the tax avoidance taken place in Nepal?” to gain the factual information about this, the question was asked to the tax experts and tax officials and their responses have been summarized in the following Table, 5.29.

Table 5.29
Views on Tax Avoidance in Nepal

| <i>Responses</i> | <i>Yes</i> | | <i>No</i> | | <i>Total</i> |
|----------------------|------------|------------|------------|----------|--------------|
| | <i>No.</i> | <i>%</i> | <i>No.</i> | <i>%</i> | |
| <i>Tax Officials</i> | 5 | 100 | - | - | 5 |
| <i>Tax Experts</i> | 5 | 100 | - | - | 5 |
| <i>Total</i> | 10 | 100 | - | - | 10 |

Source: Field Survey, 2011

The Table 5.29 has exposed that all of the tax experts and tax officials agreed with the fact that tax avoidance has taken place in the context of Nepal. The causes behind it are tried to be discussed below in the Table, 5.30.

Table 5.30
Views on Causes of Tax Avoidance in Nepal

| <i>Responses</i> | <i>A</i> | | <i>B</i> | | <i>C</i> | | <i>D</i> | | <i>Total</i> |
|----------------------|------------|-----------|------------|-----------|------------|-----------|------------|-----------|--------------|
| | <i>No.</i> | <i>%</i> | <i>No.</i> | <i>%</i> | <i>No.</i> | <i>%</i> | <i>No.</i> | <i>%</i> | |
| <i>Tax Experts</i> | 1 | 20 | 1 | 20 | 2 | 40 | 1 | 20 | 5 |
| <i>Tax Officials</i> | 1 | 20 | 2 | 40 | 1 | 20 | 1 | 20 | 5 |
| <i>Total</i> | 2 | 20 | 3 | 30 | 3 | 30 | 2 | 20 | 10 |

A= Because of unaware consumers

B= Because of weak legal provision

C= Because of corrupted tax administration

D= Because of inefficient tax administration

Source: Field Survey, 2011

According to the Table 5.30, 20 percent of respondent said that inefficient tax administration is the cause of tax avoidance in Nepal. The same percent also pointed out that unaware public is the cause behind it. 30 percent of the respondents opined that weak legal provision and corrupted tax administration respectively are the cause of tax avoidance in Nepal. And the views on probable rectifying measures to it are tried to be identified in the following presentation i.e. Table 5.31.

Table 5.31
Views on Corrective Measures to Detect Tax Avoidance in Nepal

| <i>Responses</i> | <i>A</i> | | <i>B</i> | | <i>C</i> | | <i>Total</i> |
|----------------------|------------|-----------|------------|-----------|------------|-----------|--------------|
| | <i>No.</i> | <i>%</i> | <i>No.</i> | <i>%</i> | <i>No.</i> | <i>%</i> | |
| <i>Tax Experts</i> | 1 | 20 | 3 | 60 | 1 | 20 | 5 |
| <i>Tax Officials</i> | 1 | 20 | 3 | 60 | 1 | 20 | 5 |
| <i>Total</i> | 2 | 20 | 6 | 60 | 2 | 20 | 10 |

A= Awakening the consumers about VAT

B= Improving and reforming the rules and regulations of VAT

C= Management of efficient tax administration

Source: Field Survey, 2011

Views on most probable corrective measures for detecting the problem of tax evasion in Nepal has been depicted in the above Table 5.31. It has clearly portrayed that 60 percent of respondents claimed that improvement and reformation in the VAT rules and regulations is needed to detect it. Similarly, 20 percent of respondents focused on awakening the public about it and managing the efficient tax administration respectively are the measure for rid of this problem. It can be concluded that the VAT rules and regulations should be made on the basis of practicability, creativity and productivity along with management of an efficient tax administration or system and awakening the public enough about it are the major focusable points to detect and rectify the problem of tax evasion in Nepal.

5.2.14 Vendors Out of VAT Registration

The vendors who are liable to be registered legally under the VAT system must be register in to the VAT and come to the tax net. Otherwise revenue leakage takes place and the question will be raised about the effectiveness of the VAT system. Here, the researcher has tried to find out the facts; do the all venders are under the VAT registration who are liable to be registered into the VAT? If not, about what percentage are out of VAT registration. For this purpose, the questions, “Do the all vendors are under VAT registration who are liable to be registered legally?” and “If no, about what percent are out of VAT registration who are liable to be registered legally?” were asked to the tax experts and tax officials. Afterward, the obtained results have been presented in the following tables: Table 5.32 and 5.33 respectively.

Table 5.32
Views on Vendors Out of VAT Registration

| Responses | Yes | | No | | Total |
|----------------------|------------|----------|------------|------------|--------------|
| | No. | % | No. | % | |
| Tax Officials | - | - | 5 | 100 | 5 |
| Tax Experts | - | - | 5 | 100 | 5 |
| Total | - | - | 10 | 100 | 10 |

Source: Field Survey, 2011

The Table 5.32 has showed that 100 percent of tax experts and tax officials agreed that the all vendors who are liable to be registered under the VAT system are not registered within the tax net. About the percent of vendors who are possibly out of VAT registration are presented in the following Table, 5.33.

Table 5.33

Views on Vendors Out of VAT Registration

| Responses | 1-10% | | 10-20% | | 20-30% | | 30-40% | | Total |
|----------------------|--------------|-----------|---------------|-----------|---------------|-----------|---------------|----------|--------------|
| | No. | % | No. | % | No. | % | No. | % | |
| Tax Experts | 1 | 20 | 3 | 60 | 1 | 20 | - | - | 5 |
| Tax Officials | 3 | 60 | 2 | 40 | - | - | - | - | 5 |
| Total | 4 | 40 | 5 | 50 | 1 | 10 | - | - | 10 |

Source: Field Survey, 2011

As the Table 5.33 provides the information that 50 percent of the respondents claimed that still 10 to 20 percent vendors are out of VAT registration that are liable to be registered legally. Similarly, 40 percent claimed that this is about 1 to 10 percent and just 10 percent out of the total respondents claimed that the rate is higher than of earlier i.e. 20 to 30 percent.

5.2.15 Causes of Being Vendors Out of Tax Net

As the earlier facts revealed that some of the vendors are surely out of VAT registration though they are liable to be registered into VAT legally. To get the causes behind it the tax experts and the tax officials were asked the question i.e. “Why do they are out of tax net?” and the obtained result is summarized as below.

Table 5.34

Views on Causes of Being Vendors Out of Tax Net

| Responses | A | | B | | C | | Total |
|----------------------|------------|-----------|------------|-----------|------------|-----------|--------------|
| | No. | % | No. | % | No. | % | |
| Tax Experts | 1 | 20 | 2 | 40 | 2 | 40 | 5 |
| Tax Officials | 2 | 40 | 1 | 20 | 2 | 40 | 5 |
| Total | 3 | 30 | 3 | 30 | 4 | 40 | 10 |

A= Due to lack of knowledge about VAT

B= Due to inefficient tax administration

C= Due to weak VAT rules and regulation

Source: Field Survey, 2011

The above Table 5.34 has presented the views that 40 percent of the respondents responded that vendors are out of VAT registration because VAT rules and regulation are weak. They are not much and enough encouraged for the system. 30 percent pointed out that the cause is inefficient tax administration which is not effective and smooth enough for running the VAT system well. And remaining 10 percent opined that lack of knowledge about VAT is the cause of vendors being out of VAT registration. Now, efforts should be made for avoiding these conditions. For which, creation of public awareness regarding VAT along with making VAT system efficient, reforming and updating the VAT rules and regulations appropriately with the passage of time should be made possible.

5.2.16 Knowledge of VAT Rules and Regulation among the Experts and Officials

To check out the general knowledge of VAT rules and regulation among the concerned parties i.e. tax experts and tax officials were asked the following questions, related with VAT rules and regulations and the obtained result is depicted in the Table 5.35, below.

1. What is the time duration for?
 - (i) Providing certificate to VAT registrants after their application?
 - (ii) Providing copies of the documents related with the tax payer or submitted to the Inland Revenue Office or documents or decisions affecting the tax payer after their request?
 - (iii) Being certified the tax payers' accounts as their request is made?
 - (iv) Getting initials of the tax officer on stock transfer or sales to the non-registrants as request of the tax payers is made?
 - (v) Refunding the tax payers' excess tax input;
 - (a) In case of reinvestigation as the tax payers' claim is made?
 - (b) Along with interest rate of 15 percent on the amount that is due as their claim is made?

2. What is the least number of people or institutions for getting mobile service on any issue regarding VAT in Nepal as request is made by them?
3. What is the time duration for providing mobile service to the tax payers as their request has been made?
4. What is the provision for penalties or prosecutions?
 - (i) If a person establishing business does not apply while starting business?
 - (ii) If a registered person does not keep the certificate where it can be seen by all?
 - (iii) If a tax invoice is not issued as per specification or it is not issued with number in chronological order?
 - (iv) If an unregistered person issue invoice or collects tax?
 - (v) If fails to keep an up-to-date account of transactions?
 - (vi) If obstruction is caused or objection made in the process of inspection and investigation by the tax officer of the business place?
 - (vii) If under invoicing is found in the bill?
 - (viii) If there is a violation of the Act and regulation apart from the conditions mentioned above?

Table 5.35

Knowledge of VAT Rules and Regulations

| <i>Responses</i> | <i>Good</i> | | <i>Tolerable</i> | | <i>Poor</i> | | <i>Total</i> |
|-------------------------------------|--------------------|------------------|-------------------------|------------------|--------------------|------------------|---------------------|
| | <i>No.</i> | <i>%</i> | <i>No.</i> | <i>%</i> | <i>No.</i> | <i>%</i> | |
| <i>Tax Experts/Officials</i> | 6 | 60 | 3 | 30 | 1 | 10 | <i>10</i> |
| <i>Total</i> | <i>6</i> | <i>60</i> | <i>3</i> | <i>30</i> | <i>1</i> | <i>10</i> | <i>10</i> |

Source: Field Survey, 2011

The Table 5.35 has revealed that 60 percent of the total respondents found having good knowledge over the above asked questions regarding with VAT rules and regulation. In the same way, 30 percent found to be tolerable and 10 percent poor. These facts show that still the highly concerned persons too are not cent percent capable of having knowledge about the VAT rules and regulation. In this sense, they too need supportive programs and measures for their cent percent effectiveness regarding with the VAT system and its smooth operation.

5.2.17 Reasons Behind Being against VAT and Non-maintaining Accounts Properly

Since, in the beginning of the VAT implementation in Nepal strong opposition was made and still some of the stakeholders are against of this system. Similarly, not maintained accounts properly too has been serious concern regarding this system. To know the influencing reasons behind these facts the respondents were given the various six reasons and ask to ranked them according to preference as why do people are against VAT and do not maintain accounts properly? And the achieved survey result has been tabulated below.

Table 5.36

Views on Being against VAT and Non-maintaining Accounts Properly

| <i>Reasons</i> | <i>Ranks</i> | | | | | | <i>Total</i> |
|---|---------------------|-----------------|-----------------|-----------------|-----------------|-----------------|---------------------|
| | <i>1</i> | <i>2</i> | <i>3</i> | <i>4</i> | <i>5</i> | <i>6</i> | |
| <i>Lack of public awareness</i> | 17 | 19 | 5 | 2 | 4 | 3 | <i>50</i> |
| <i>Negative attitudes towards VAT</i> | 1 | 8 | 25 | 5 | 8 | 3 | <i>50</i> |
| <i>Problems of billing and invoicing system</i> | 7 | 5 | 5 | 13 | 8 | 12 | <i>50</i> |
| <i>Difficult accounting procedures</i> | 5 | 5 | 5 | 10 | 11 | 14 | <i>50</i> |
| <i>Problems on audit and administrative works</i> | 4 | 4 | 4 | 15 | 12 | 11 | <i>50</i> |
| <i>It is the extra burden of tax</i> | 11 | 15 | 6 | 6 | 5 | 7 | <i>50</i> |
| <i>Total</i> | | | | | | | <i>50</i> |

Source: Field Survey

According to this ranking table the weighted value, mean value and overall ranks of the ranked causes behind being against VAT and non-maintain proper accounts have

been computed in the Table 5.37, below.

The weighted value is calculated by the sum of cross multiplication of the given ranks and ranked numbers (e.g. $1 \times 3 + 2 \times 4 + 3 \times 2 + 4 \times 5 + 5 \times 19 + 6 \times 17 = 234$ for 'Lack of public awareness' in the table 5.37). Every weighted value is divided by sample size (50) to get the mean value and the overall ranks are categorized according to the number of mean value i.e. the largest mean value is rank 'I' and vice-versa.

Table 5.37
Weighted and Mean Value of Ranks for the reasons of Being against VAT and Non-maintaining Accounts Properly

| <i>Reasons</i> | <i>Weighted Value</i> | <i>Mean Value</i> | <i>Overall Ranks</i> |
|---|-----------------------|-------------------|----------------------|
| <i>Lack of public awareness</i> | 234 | 4.68 | <i>I</i> |
| <i>Negative attitudes towards VAT</i> | 180 | 3.60 | <i>III</i> |
| <i>Problems on billing and invoicing system</i> | 154 | 3.08 | <i>IV</i> |
| <i>Difficult accounting procedures</i> | 141 | 2.82 | <i>V</i> |
| <i>Problems on audit and administrative works</i> | 140 | 2.80 | <i>VI</i> |
| <i>It is the extra burden of VAT</i> | 200 | 4.00 | <i>II</i> |

Source: Field Survey, 2011

From the above Table 5.37, the major reasons of being against VAT and non-maintaining accounts properly are ranked in order of preference as follows:

- a) Lack of public awareness
- b) It is the extra burden of tax
- c) Negative attitudes towards VAT
- d) Problems of billing and invoicing system
- e) Difficult accounting procedures
- f) Problems on audit and administrative works

5.2.18 Current Problems of VAT in Nepal

To find out the most challenging problems of VAT in Nepal, the respondents were provided challenging seven problems regarding with it and asked to rank in order of preference as what are the problems of VAT in Nepal? And the received responses are tabulated as follows.

Table 5.38
Views on Current problems of VAT in Nepal

| Reasons | Ranks | | | | | | | Total |
|---|--------------|----------|----------|----------|----------|----------|----------|--------------|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| <i>Lack of public awareness</i> | 18 | 17 | 3 | 3 | 7 | 1 | 1 | 50 |
| <i>Open boarder with India</i> | 6 | 11 | 13 | 8 | 2 | 6 | 4 | 50 |
| <i>Problem on billing system</i> | 5 | 4 | 6 | 9 | 4 | 13 | 9 | 50 |
| <i>Weak economic policy of government</i> | 12 | 7 | 12 | 6 | 6 | 1 | 6 | 50 |
| <i>Lack of proper co-ordination between tax payers and tax administration</i> | 2 | 5 | 11 | 9 | 7 | 5 | 11 | 50 |
| <i>Difficult accounting system</i> | 3 | 2 | 4 | 7 | 13 | 13 | 8 | 50 |
| <i>Problems of tax refund</i> | 4 | 2 | 3 | 9 | 11 | 12 | 9 | 50 |
| Total | | | | | | | | 50 |

Source: Field Survey, 2011

Weighted value, mean value and overall rank from this ranking Table 5.38 have been computed as below in the Table 5.39.

The process of estimating the weighted value, mean value and overall rank in Table 5.39 is same as mentioned for the Table 5.37 above.

Table 5.39

Weighted and Mean Value of Ranks for the Views on Current Problems of VAT in Nepal

| <i>Reasons</i> | <i>Weighted Value</i> | <i>Mean Value</i> | <i>Overall Ranks</i> |
|---|------------------------------|--------------------------|-----------------------------|
| <i>Lack of public awareness</i> | 279 | 5.58 | <i>I</i> |
| <i>Open boarder with India</i> | 227 | 4.54 | <i>III</i> |
| <i>Problems on billing system</i> | 172 | 3.44 | <i>V</i> |
| <i>Weak economic policy of government</i> | 236 | 4.72 | <i>II</i> |
| <i>Lack of proper co-ordination between tax payers and tax administration</i> | 177 | 3.54 | <i>IV</i> |
| <i>Difficult accounting system</i> | 154 | 3.08 | <i>VII</i> |
| <i>Problems of tax refund</i> | 157 | 3.34 | <i>VI</i> |

Source: Field Survey, 2011

From the above Table 5.39, the current problems of VAT in Nepal are ranked in order of preference as follows:

- a) Lack of public awareness
- b) Weak economic policy of government
- c) Open boarder with India
- d) Lack of proper co-ordination between tax payers and tax administration
- e) Problems on billing system
- f) Problem of tax refund
- g) Difficult accounting system

5.2.19 Measures for Effective VAT System

An effective VAT system is needed for raising public revenue and creating social welfare in this modern era. Nepal also cannot be exception of this fact. So, an effective VAT system is needed for us too. For this purpose, “How can government

operate VAT system effectively?” was asked to the respondents and the responses are summarized in the following table.

Table 5.40
Views on Measures Regarding Effective VAT System in Nepal

| <i>Respondent</i> | <i>A</i> | | <i>B</i> | | <i>C</i> | | <i>D</i> | | <i>Total</i> |
|----------------------------|------------|-----------|------------|-----------|------------|-----------|------------|-----------|--------------|
| | <i>No.</i> | <i>%</i> | <i>No.</i> | <i>%</i> | <i>No.</i> | <i>%</i> | <i>No.</i> | <i>%</i> | |
| <i>Tax Experts</i> | 1 | 20 | 1 | 20 | 2 | 40 | 1 | 20 | 5 |
| <i>Tax Officials</i> | 1 | 20 | 1 | 20 | 2 | 40 | 1 | 20 | 5 |
| <i>Businessmen/Traders</i> | 5 | 33 | 3 | 20 | 6 | 40 | 1 | 7 | 15 |
| <i>Consumers</i> | 7 | 28 | 7 | 28 | 9 | 36 | 2 | 8 | 25 |
| <i>Total</i> | 14 | 28 | 12 | 24 | 19 | 38 | 5 | 10 | 50 |

A= by improving government policy

B= by reforming in law

C= by motivating for registration in VAT

D= by developing co-ordination with private sectors

Source: Field Survey, 2011

The Table 5.40 reveals that 28 percent of the total respondents responded that the government should improve in its policies for betterment of the VAT system and its effectiveness. 34 percent focused on that government should pay attention towards reforming in law. Similarly, 38 percent mentioned that motivating for registration into the VAT plays key role for effectiveness of VAT system and remaining 10 percent revealed that co-ordination should be developed with private sectors for effectiveness of the VAT system. Hence, it can be concluded that the most effective means for making VAT effective is motivating the businessmen and business enterprises for registration into the VAT along with other subsidiary measures i.e. improvement in government policy, reforming in law and developing co-ordination with private sectors according to the need basis.

5.2.20 Programs Needed for Increasing Awareness Regarding VAT in Nepal

When the public is aware and well known about the VAT matters, rules and regulations, it will be easy to operate VAT system effectively and smoothly. For creating and increasing awareness regarding VAT in Nepal, the GON should launch various programs. In this regard a question, “What programs should be launched by GON for increasing awareness regarding VAT in Nepal?” was asked and the responses responded by respondents are tabulated and summarized as follows.

Table 5.41
Views on Programs Needed to be Launched by Government for Increasing Awareness Regarding VAT

| <i>Responses</i> | <i>A</i> | | <i>B</i> | | <i>C</i> | | <i>Total</i> |
|----------------------------|------------|-----------|------------|-----------|------------|-----------|--------------|
| | <i>No.</i> | <i>%</i> | <i>No.</i> | <i>%</i> | <i>No.</i> | <i>%</i> | |
| <i>Tax Experts</i> | 1 | 20 | 1 | 20 | 3 | 60 | 5 |
| <i>Tax Officials</i> | 1 | 20 | 1 | 20 | 3 | 60 | 5 |
| <i>Businessmen/Traders</i> | 2 | 13 | 4 | 27 | 9 | 60 | 15 |
| <i>Consumers</i> | 6 | 24 | 8 | 32 | 11 | 44 | 25 |
| <i>Total</i> | 10 | 20 | 14 | 28 | 26 | 52 | 50 |

A= Inclusion of tax education from school level

B= Organize seminars and workshops on VAT matters of tax

C= Organize different types of information campaign regarding VAT

Source: Field Survey, 2011

From the Table 5.41, it is clear that 52 percent of the total respondents responded that different types of information campaigns regarding VAT should be organized for increasing awareness about VAT among the people. Similarly, 28 percent focused on organizing seminars and workshops on VAT matters while 20 percent opined that inclusion of tax education from school level for increasing awareness regarding VAT in Nepal. Now it can be concluded that emphasis should be made on organizing various types of information campaigns for increasing awareness regarding VAT in Nepal. For this purpose media can play vital role which needed to

be understood here. Formal programs such as; organization of seminars, workshops and inclusion of tax education from school level curriculum can be conducted as the supportive programs for increasing awareness among the people regarding VAT in Nepal.

CHAPTER VI

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Taxation and economic development are two closely interrelated concepts. Taxation has an important role in country's economic development. In recent decades, many developing countries around the world have begun to focus their poorly designed tax structures as an integral part of their development efforts. Such reform has established some new trends. One of such trends is the increasing acceptance of VAT as an important part of their tax reform program.

Nepal has been undergoing through several fiscal crises due to limited sources of revenue and increasing government expenditure. The trend of gap between revenue expenditure shows that, it is even conducive to increase in future leading the country to a debt trap situation. In the wake of such a crisis Nepal has adopted a VAT.

For the effective and efficient VAT system, the awareness among the public regarding with VAT is very much important and said to be prerequisite for successful VAT system. Many studies found to be made for various aspects of VAT but awareness issue was not adjusted among those studies. To fulfill this gap, present study has tried to assess the awareness level of people regarding with VAT system in the context of Nepal. On the basis of review of related studies, analysis and interpretation of primary and secondary data, this study has made following objective wise summary, conclusions and recommendations.

6.1 Summary

To achieve the objectives of this study, both primary and secondary data were used. For secondary data purpose various published and unpublished sources were used. Primary data survey was limited within the Kathmandu Metropolitan City for which a structured form of questionnaire was developed and used along with interview technique in some cases.

Tax revenue is the major contributor to the government revenue. It does not mean that government revenue is not contributed by the non tax revenue. But it is true that

the portion of tax revenue is higher than the portion of non-tax revenue in the government revenue. The tax revenue has been a reliable and effective source for government revenue for every nation and economy. Taxes are levied primarily to raise government revenue for maintaining public expenditure. On the basis of its nature, tax can be classified broadly into the direct tax and indirect tax. And the VAT also is main contributor to the amount of indirect tax.

VAT can be regarded as an important innovation in the field of taxation of twentieth century. It is broad based modern tax system and is a type of indirect tax. VAT is intended to improve government revenue, to increase efficiency in administration and lessen the tax evasion. The VAT is totally a new form of taxation and an improved version of sales tax, since it is levied on value-added of goods and services in every stage of production and distribution of goods and services which has replaced many other taxes i.e. sales tax, hotel tax, contract tax and entertainment tax.

VAT was practiced by France at first in 1954 and which was followed by Ivory Coast in 1960 and by Brazil and Denmark in 1961. After this trend VAT earned its popularity and most of the nations started to adopt it, as the result more 130 nations have already adjusted VAT in their tax system. However, general awareness about VAT in Nepal was created before five years plan but it faced many pitfalls and facets. The eighth plan announced to apply VAT in Nepal at the end of the plan. The budget speech of FY 2993/94 extended its compliments towards VAT saying that 'To make sales tax as a principal source of revenue mobilization, government attempts will be directed to change sales into VAT gradually'. Ultimately, Nepal introduced VAT in Mangsir 01, 2054 (November 16, 1997).

Nepal introduced VAT for several reasons; such as, to broaden the tax base, to establish a reliable and continuous source of public revenue, to generate revenue required for improving its poor and deteriorating macro economic performance, to establish an account based modern and transparent tax system, to tax system more scientific and specific, to gain the confidence of donors, to make Nepalese tax system more and more effective and efficient along with many other opportunities. Nepal has introduced the consumption type of VAT along with tax credit method based on destination principle with single rate of 10 percent at first which has been

increased at 13 percent now. To keep small and petty business and vendors in order to promote entrepreneurship by providing them a cushion of not being registered into the VAT system, a minimum threshold has been specified for being registered vendors under VAT system. The wholesalers, retailers, dealers or services below the threshold level do not have to be registered under VAT and neither needs them to collect VAT on their sales. The current threshold for VAT registration in Nepal is Rs. 2 millions. The other facts which were found during the study are as follows:

- (i) VAT has been the most important tool for the revenue collection in the hand of government to the developing countries and developing economies like Nepal. There is tremendous scope for increasing revenue by this VAT system and it is sure that it will increase the public revenue hugely in the near future, if it is implemented efficiently and effectively.
- (ii) The trend of VAT registration is overwhelming over the study period, as it has increased from 5237 registrants in the FY 1998/99 to 58600 registrants in the FY 2008/09 by almost 11 folds. Though the average growth rate is only 30%, the trend can be expected for more growth in the near future. The trend of revenue collection through VAT over the study period of 2001/02 to 2008/09 is also in increasing trend in every FY. It has been increased from Rs. 12267.30 millions in FY 2001/02 to Rs. 39700.90 millions in FY 2008/09 which indicates a satisfactory situation along with ample probabilities of improvements in it which may lead to higher revenue collection from the VAT and making it as the major contributor to national revenue.
- (iii) When we study about the revenue structure of Nepal, it can be concluded that more than 76 percent of public revenue is the contribution of tax revenue and the remaining percentage is the contribution of non-tax revenue in each fiscal year. Similarly, among the tax revenue too, around 3/4 of it in every FY is as the contribution of indirect tax revenue and left out portion is contribution of direct tax revenue. The total indirect tax is mainly contributed by the VAT revenue. The portion of the VAT revenue on the total indirect tax revenue is nearly 50 percent in each FY year and exactly 50 percent for some fiscal years. An average contribution is 46 percent i.e. Rs. 22039.28 millions. Rs. 28733.10 millions was collected as indirect tax in FY 2001/02 which

increased and reached at Rs. 82731.20 millions in FY 2008/09. The VAT amount for those FYs was Rs. 12267.30 millions and Rs. 39700.90 respectively.

- (iv) The position of revenue collection through VAT during the study period is quite satisfactory however, that can be made better as it is now. The revenue collected through the VAT in the fiscal year 2001/02 was Rs. 12267.30 millions which increased by 3.24 folds and reached at Rs. 39700.90 in FY 2008/09.
- (v) The share of VAT revenue on total government revenue in FY 2001/02 was 24 percent when the total revenue was Rs. 50445.54 millions along with the VAT revenue Rs. 12267.30 millions. In FY 2008/09 the total revenue became Rs. 143474.50 millions along with VAT revenue Rs. 39700.90 millions, here the percentage of VAT revenue on the total government is 28. Nearly 30 percent contribution by VAT is made on total government revenue in every FY and exactly 30 percent in some FYs.
- (vi) The contribution of VAT revenue to the total tax revenue is in increasing trend, though the growth percentage is fluctuating in every FY. It is beneficial for sound economic development. Despite the various hitches on the implementation of VAT, the collection trend of revenue through VAT is on positive side and is expected to generate much more revenue in the near future. In average 34 percent of contribution is made by VAT revenue to the total tax revenue during each FY. The percentage contribution of VAT revenue on total tax revenue is ranged between 30 to 38 percent during the review period. The total tax revenue in FY 2001/02 was Rs. 39330.64 millions which reached at Rs. 117051.90 millions in FY 2008/09.
- (vii) The contribution of VAT revenue to the government revenue (GDP) in the context of Nepal is very low with the comparison of developed countries. The percentage contribution of VAT revenue to the government revenue (GDP) during study period seems 2.67, 2.73, 2.70, 3.20, and 3.30, 3.59, 3.64 and 4.00 in the FYs 2001/02 to 2008/09 respectively. The GDP of Nepal in FY 2001/02 was Rs. 459443.00 millions and reached up to Rs. 991316.00 in FY 2008/09. The contribution of VAT revenue to the government revenue (GDP) has followed increasing trend though it is very few to the GDP.

VAT can be known and termed as self assessed tax. A sound, effective and practicable tax system is that which can collect tax amount without making the feeling of burden among the tax payers. Its effectiveness depends upon the sound and effective plans, policies, rules and regulations along with general laws, acts and efficient tax administration. Similarly, the role of public awareness also plays vital and crucial role for its effectiveness. If the public are aware about the VAT system it is not difficult to achieve the all objectives of the VAT system and furthermore it develops the nation.

Lack of public awareness or unaware tax payers is noticed as the major constraint to effective implementation of the VAT system in the context of Nepal. Similarly, weak and ineffective VAT rules and regulations, negative attitudes towards VAT system, problems on billing and invoicing system, difficult accounting procedures, difficulties on audit and administrative works, open boarder with India, lack of co-ordination between tax payers and administration and problem of tax refund are some of the challenging problems and constraints towards the Nepalese VAT system.

Though with 13 years of its implementation VAT has been unable to provide its clear identity towards the all people who are directly concerned to it. Still many people are out of general knowledge regarding VAT; such as, they do not know about the current VAT rate, final tax payer of VAT, effect of VAT to government revenue and have no habit of practicing tax invoices in every transaction etc. Some of which can be said as careless because, though they are known about the fact but pretend as they are unknown. Notable matter is that no success can be gained if the tax payers are unaware regarding with VAT system. So, awareness among the tax payers about the VAT is the prerequisite for efficient and effective VAT system.

Tax payers of VAT really feel burden of it in some extent. The final tax payers of VAT is consumers, since its incidence ultimately shifts to them. VAT amount collected by the government should be utilized properly in creation of social welfare and social justice which may prevent the negative attitude of the people towards this system and it will be real devotion to the tax payers' sacrifice. The government of Nepal should conduct different information campaigns regarding VAT, organizing seminars and workshops on VAT matters, awaking the tax payers or people through

tax education, formulation and implementation of favorable pans, policies along with VAT rules and regulations and providing orientation and training to officials for effective, efficient and betterment of the Nepalese VAT system. The further facts which were achieved during the present study are as follows:

- (i) Though it has been thirteen years of VAT implementation in the context of Nepal, since it was introduced in Mangsir, 01 (November 16, 1997). The awareness level of public towards this system is not enough as it was and is intended. Regarding with this matter; however, 100 percent of the respondents responded that they are known about the VAT but only 44 percent of respondents responded correctly saying that VAT is a kind of sales tax and among the left remaining portion, 14 percent revealed that VAT is a kind of income tax and 42 percent said that VAT is both income and sales tax.
- (ii) The source of VAT information for 58 percent respondents out of total respondents is media (radio, television paper and books etc.), for 15 percent are friends and for remaining 27 percent are tax administrators or tax administration.
- (iii) Only 88 percent of respondents demand for tax invoices after their purchase and 22 percent never do it. Respondents within this 88 percent too, do not ask for invoice in their every purchase. Only 59 percent out of total tax invoice demanding people i. e. 88 percent always demand for tax invoice after their purchase of goods and services, 18 percent request for sometimes and 23 percent request for often. 67 percent of the respondents who do not demand for tax invoice do so because it is time consumable and 23 percent do so for just so. 52 percent out of total tax invoice demanding people do so to get the authenticity of the sellers, 21 percent needs it for showing the price of the commodities to their family members, for 25 percent it is the way to participate in CAP and for 2 percent is necessary to show the auditor.
- (iv) According to the businessmen and traders all the purchaser never asks for the tax invoice while in purchase. Only 87 percent businessmen and traders issue tax invoice after selling their goods and services and 13 percent are out of this action. Out of total tax invoice issuing businessmen and traders too, only

38 percent do it for every selling, 31 percent do it for sometimes and same percent do this for often.

- (v) 64 percent respondents responded that consumers are the final tax payer of VAT, 8 percent said that producers are the final tax payer of VAT, 12 percent claimed that it is the businessmen/traders who pay the VAT finally and 16 percent of respondents found to be having no idea about this matter. 78 percent respondents out of total respondents are known about the current rate of VAT since, they said it is 13 percent, 4 percent said that it is 11 percent, 8 percent told that it must be 13 percent and remaining portion, 10 percent responded that they have no idea about it.
- (vi) However, 70 percent of total respondents claimed that VAT increases the public revenue and 30 percent opposed this but 60 percent respondents feel that VAT is surely an extra burden to the tax payers, 22 percent do not feel so and 18 percent revealed that they are unknown about this fact.
- (vii) Among the total respondents, 60 percent agreed with the fact that VAT increases the price of the goods and services in some extent, 20 percent disagreed with this fact and same percent respondents found to be unknown about the fact. Similarly, same 60 percent of respondents responded that VAT increases the government revenue, 18 percent opined that VAT decreases government revenue and remaining 22 percent said that VAT does not effect to the nation's economy.
- (viii) According to the tax experts and tax officials, still some of the vendors who are liable to be registered legally into the VAT are out of VAT registration and tax net. 40 percent of tax experts and officials claimed that still 1 to 10 percent of vendors are out of VAT registration and tax net though they are liable to be registered, 50 percent claimed that the percentage of this is 10 to 20 percent and 10 percent out of total tax experts and official claimed that the percentage of it may be higher than 19 percent i.e. 20 to 30 percent.
- (ix) All tax experts and officials responded that both tax evasion and tax avoidance have taken place in the context of Nepal. The unaware consumers/public, lack of knowledge about VAT, inefficient tax administration, weak rules and regulations and corrupted tax administration etc. are the causes behind it. So, for detecting and avoiding these problems regarding with VAT, consumers should be made aware of these facts,

improvement and reformation should be made on VAT rules and regulations along with managing efficient tax administration and other necessary measures.

- (x) 80 percent of businessmen/traders and consumer are known about the tax evasion and 20 percent are out of this. 19 percent out of total respondents who are known about tax evasion responded that business enterprises are the responsible for the tax evasion in Nepal, 26 percent blamed to the tax administration for it, 5 percent pointed to the consumer for it and 50 percent blamed to all i.e. business enterprises, tax administration and consumers.
- (xi) The knowledge of VAT rules and regulation among the tax experts and tax official is seems to be satisfactory but not enough sound as 60 percent of them found having good command over it, 30 percent tolerable and 10 percent relatively poor on the basis of some asked questions regarding with VAT rules and regulations.
- (xii) The reasons behind being against VAT and non-maintain accounts properly are arranged in order of preference as; **i)** Lack of public awareness **ii)** It is the extra burden of VAT **iii)** Negative attitudes towards VAT **iv)** Problems on billing and invoicing system **v)** Difficult accounting procedures **vi)** Problems on audit and administrative works.
- (xiii) The current problems of VAT system in Nepal are presented in order of preference as; **i)** Lack of public awareness **ii)** Weak economic policy of government **iii)** Open boarder with India **iv)** Lack of proper co-ordination between tax payers and tax administration **v)** Problem on billing system **vi)** Problems of tax refund **vii)** Difficult accounting system.
- (xiv) 28 percent of respondents out of total respondents responded that government should improve its policies for effectiveness of VAT system in Nepal. Similarly, 24 percent focused on reformation of law for this purpose, 38 percent revealed that motivation towards VAT is needed most for this and 10 percent opined the need of co-ordination with private sector for it.
- (xv) GON should launch various programs for increasing awareness regarding VAT in Nepal. 20 percent out of total respondent emphasis on inclusion of tax education from school for it, 28 percent opined that government should organize various seminars and workshops on VAT matters and remaining 52

percent of total respondents pointed out the need of various types of information campaign regarding VAT.

6.2 Conclusions

Based on the summary as presented in 6.1, the conclusions of this study are presented below.

- (i) Nepal is facing many problems regarding VAT. Being least developed countries, Nepal is facing many problems and difficulties regarding with sustainable economic development. Being a poor nation it has common characteristics of least developed and developing countries; such as, dominance of massive poverty, hunger, diseases, unemployment, heavy dependence on agriculture weak and poor infrastructure development, low level of income, lack of adequate entrepreneurship and readiness, high population growth rate, political instability, non-planned urbanization and habitation, dependency upon foreign aids and loans, low level of life expectancy and underdeveloped natural resources etc. In this sense, Nepal is far behind from modern development and economic growth as the developed countries have achieved. The foremost cause behind this is inadequate public fund or poor public revenue due to which GON is being unable to conduct its daily functions along with further developmental tasks which are urgent need for the country. In this situation VAT may be an important tools and way for earning enough revenue for the GON.
- (ii) VAT is the most prominent innovation of twentieth century in the field of taxation. Most of the developing countries along with developed countries have adopted this innovation and are fond of this system with its benefits. France was the country which adopted VAT system at first, afterward its popularity increased by day and night in the pace manner. It was the great step as Nepal introduced VAT system in Mangshir 01, 2054 (November 16, 1997) with ample possibilities and potentials. It was necessary to introduce VAT for GON to broaden its tax base, eliminate tax cascading, create an investment friendly tax system, have a simple and modern tax system that exempts export and basic goods from taxation and finally increase the overall

revenue of government. This is the matter of pride that Nepal has entered into the global tax system with the introduction of VAT.

- (iii) The VAT has been implemented as the major part of the tax reform program in Nepal. In this course, many reforms oriented activities have taken place; however, the implementation of VAT system went through various hitches and is facing innumerable problems which curtail its merits and effectiveness. Initially, its process slowed down due to administrative problems. Despite preliminary resistance and number of barriers it had faced, VAT has been largely accepted by the tax payers as well as business communities and relied upon by the government as an important tool for mobilizing the revenue needed to finance public expenditure.
- (iv) The contribution of tax revenue to the total public revenue is higher than the contribution of non-tax revenue. The public revenue can broadly be divided into two types. They are tax revenue and non-tax revenue. In case of Nepalese revenue collection the contribution of tax revenue is more than 75 percent and the remaining portion i.e. 25 percent is the contribution of non-tax revenue. Among the items of tax revenue too, almost 1/3 of the revenue is collected through the VAT revenue. In this regard, the contribution of the VAT revenue to the total revenue is 27 percent in average, 34 percent to the total tax revenue, 46 percent to the total indirect tax revenue and 3.23 percent to the government revenue (GDP) during the study period. Thus, VAT revenue has played important role for increasing public revenue.
- (v) VAT system has been unable to achieve its goals and objectives as desired and intended to be. The theoretical provision for VAT in Nepal is not so weak and unsound but due to the lack of effectiveness in its implementation has been a serious problem for this system. It can be termed as one of the best models that have been implemented in the world. Due to lack of political instability, strong commitment from the government side and failure on maintenance of good governance Nepalese VAT system has been unable to achieve its goals and objectives. So, reformation and maintenance are most required in order to modernize Nepalese VAT system in this modern era.
- (vi) VAT in Nepal contains many problems. They are, lack of public awareness, open boarder with India, problems on billing system, weak economic policy of government, lack of proper co-ordination between tax payers and tax

administration, problems of tax refund and difficult accounting procedures. The effectiveness and efficiency of the VAT system depends upon the tax payers' awareness or education in the great extent. It is to be noted that there is positive relation between tax payers' education or tax payers' awareness and revenue collection through VAT for the country. It means the increasing number of aware or literate tax payers would contribute for increasing revenue potential of the nation. So, creation of public awareness about VAT is prerequisite for effective, efficient and fruitful VAT system. This also puts forward the need of encouraging tax payers for voluntary compliance and many reforms of tax administration should be aimed on motivating the tax payers which creates a positive attitude towards it. The government needs to take necessary steps to sort out emerging problems in success of VAT implementation which can be done through taxpayers' awareness program and education.

- (vii) VAT must be effective and successful which largely depends upon the public awareness, honesty, faith and morality of tax officials and business community. There is a need for positive willpower and appropriate provision of actions and procedures for the effective and efficient implementation of VAT. Further it should be supported by smooth and economy friendly environment where economic activities can be taken through without any hindrance. The government needs full co-operation from the tax administration, the tax payers and businessmen as well as consumers in its effort to generate more revenue. Apart from this government is required to learn from what it had not learned earlier from the past mistakes and demerits of the system and need to streamline the working procedures of the system. It is equally important that the government should justify the rationality of its policy and make consumers more assured about the policy that it has introduced is for the benefit of the people at large who further needs to be proved with effective implementation and action of government.

6.3 Recommendations

On the basis of major findings i.e. summary and conclusions presented in 6.1 and 6.2, the recommendations have been made as follows.

- i) During the study period i.e. FY 2001/02 to 2008/09, as it is found that the contribution of VAT revenue to the total revenue, to the total tax revenue, to the total indirect tax seems to be satisfactory. Besides this, there is ample potentiality of increasing this contribution at large as it is now for which government should proceed ahead with effective actions. For which the government should conduct the programs for motivating the people into the VAT registration. They should be made aware as the tax paid by them is for their betterment and convenience. There must be proper arrangement of reward provision for honest and moral tax payers. In the same way, strong penal provision should be made possible for offences caused by tax payers.
- ii) The contribution of VAT revenue to the government revenue (GDP) seems to be less. However, the trend on contribution of VAT revenue to the government revenue (GDP) is in increasing order as it was 2.67 percent in FY 2001/02 which reached at 4.00 percent in FY 2008/09, the GON needs to increase this trend in rapid manner as for as possible. In this regard, the VAT acts, rules and regulations should be clear, transparent and favorable for the good governance of the VAT system. They should not be remained only on theoretical aspects but also needed to be practiced in real behavior.
- iii) As many businessmen and traders who are out of tax net that are liable to be involved into the VAT registration, they should be identified and enforced to be registered into the VAT system. In the same way, the voluntary registration should be encouraged and made attractive by making provision for scientific tax refund and various reward system etc.
- iv) As the invoicing system is the heart of VAT system, the effectiveness of VAT system greatly depends upon the invoicing system. So, compulsory invoicing system during the purchase and sale of goods and services should be made possible. For which regular cross check, investigation and supervision should be made by concerned authorities and GON.
- v) The tax payers should be saved from any obstacles and harassment in paying tax. There must be an easy and encouraging environment for paying tax due to which tax payer may feel of convenience. For which certain time, rate, place and processes should be fixed in the favor of tax payers.
- vi) Over the study period, we got that large number of businessmen/traders and consumers are still ignorant and unaware about the VAT, its composition,

system and procedure. So, there is need of making arrangement for training, seminars, information campaigns, publication of journals for making them literate and aware regarding the VAT matters and system to make VAT system effective and efficient.

- vii) A regular information program should be launched to explain and narrate the tax laws, tax programs, tax benefit, tax rules and regulations with the view of stimulation, enthusiastic participation of the public to pay taxes through media such as, radio, television and newspaper etc.
- viii) Tax payers should be made aware as the tax paid by them is for their betterment and convenience. All the registrants should be required to display their registration certificates properly which is in increasing trend at present but needs to be monitored on regular basis by the tax officials and tax administration.
- ix) As vendors were found having ignorant and non-maintained accounts regarding VAT properly, the vendors are required to have their accounts by means of proper and actual invoicing system. They should develop their professional competence not only in marketing but also in accounting and reporting system by paying due respect to the law. In this respect, government institutions as well as private institutions should arrange for training in respect of accounting and legal matters of taxation. Proper utilization of modern information technology system should be made and proper audit of the system itself should be carried out.
- x) In case of Nepal, the VAT administration, monitoring and evaluation system is not effective which has encouraged tax evasion practices. So, effective and efficient auditing, investigation, monitoring and evaluation system is needed according to which corrupted and fraud officials and tax payers respectively must be strictly penalized and to those who are obedient and faithful to the VAT acts, rules and regulation should be rewarded and encouraged with different monetary and non-monetary incentives.

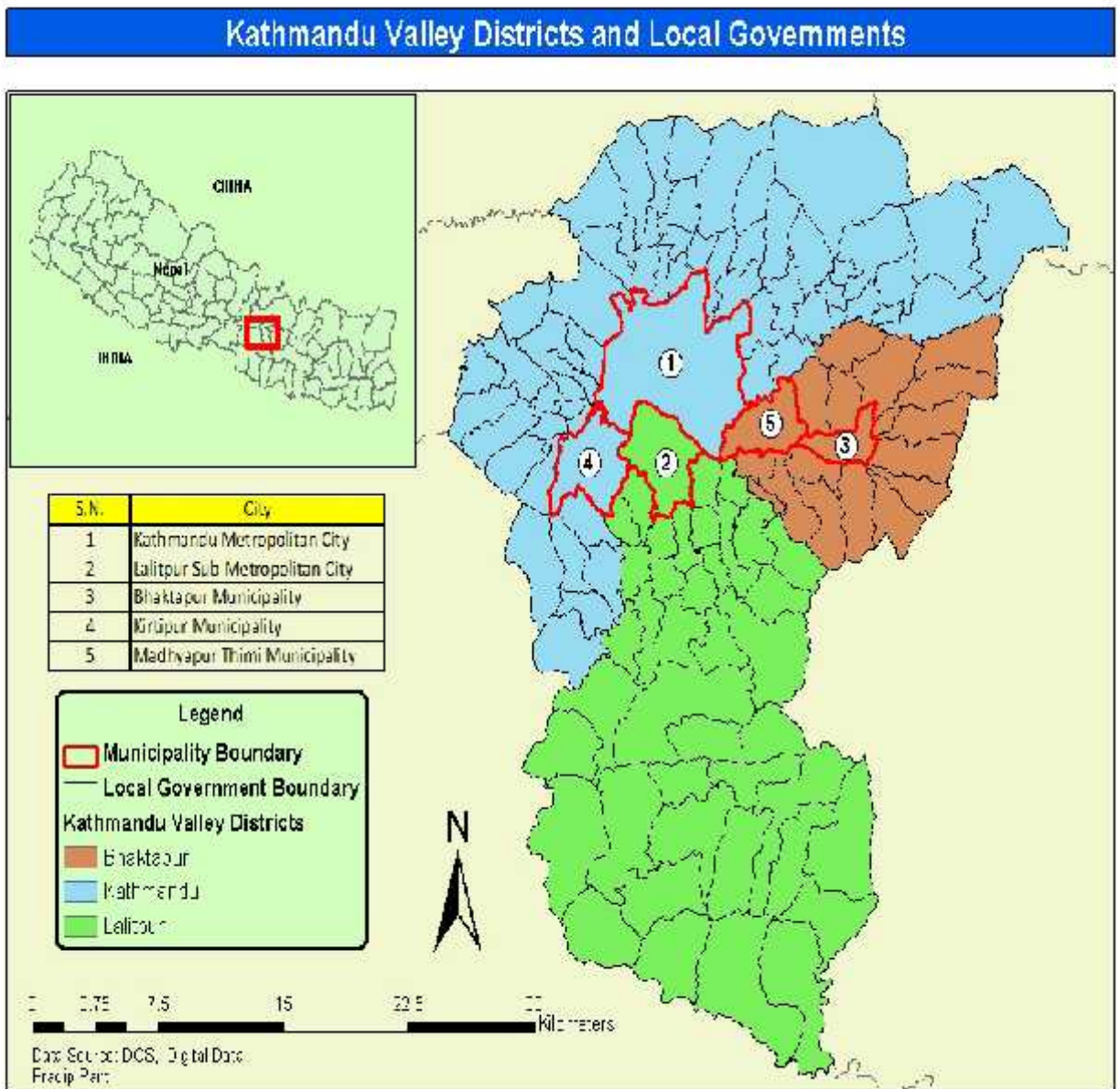
Appendix I

VAT and Its Implementation Year in Different Countries

| <i>Years</i> | <i>Countries</i> |
|--------------|---|
| 1954 | France |
| 1960 | Ivory Coast |
| 1961 | Senegal |
| 1962 | Brazil, Denmark |
| 1968 | Germany, Uruguay |
| 1969 | Netherlands, Sweden |
| 1970 | Ecuador, Luxembourg, Norway |
| 1971 | Belgium |
| 1972 | Ireland |
| 1973 | Austria, Bolivia, Italy, U.K., Vietnam |
| 1975 | Argentina, Chile, Costa Rica, Nicaragua, Colombia |
| 1976 | Honduras, Israel, Peru |
| 1977 | South Korea, Panama |
| 1980 | Mexico |
| 1982 | Haiti |
| 1983 | Dominican Republic, Guatemala |
| 1984 | People's Republic of China |
| 1985 | Indonesia, Turkey |
| 1986 | Morocco, New Zealand, Niger, Portugal, Spain, Taiwan |
| 1987 | Grenada, Greece |
| 1988 | Hungary, The Philippines, Tunisia |
| 1989 | Japan, Malawi |
| 1990 | Iceland, Kenya, Pakistan, Trinidad, Tobago |
| 1991 | Bangladesh, Benin, Canada, Jamaica, Mali, South Africa |
| 1992 | Algeria, America, Azerbaijan, Belarus, Cyprus, El Salvador, Estonia, Fiji, Kazakhstan, Kyrgyzstan, Latvia, Moldova, Tajikistan, Thailand, Ukraine, Uzbekistan, Russia |
| 1993 | Burkina Faso, Czech Republic, Magnolia, Paraguay, Poland |
| 1994 | Bulgaria, Congo, Finland, Georgia, Lithuania, Madagascar |
| 1995 | Gabon, Malta, Mauritania, Liechtenstein, Switzerland, Togo |
| 1996 | Albania, Belize, Guyana, Macedonia, Uganda |
| 1997 | Barbados, Nepal, Surinam |
| 1998 | Croatia, Slovenia, Sri Lanka, Tanzania, Vanuatu |
| 1999 | Antilles, Cambodia, Cameroon, Mozambique, Papua New Guinea |
| 2000 | Australia, Chad, Namibia, Sudan |
| 2001 | Rwanda |
| 2003 | Lebanon |

Source: Khadka, (2001) and IRD Website.

Appendix II
Map of Kathmandu Valley



Appendix III
Questionnaire

Set One: For Tax Experts and Officials

1. What is VAT?
 - (a) A kind of income tax (b) A kind of sales tax (c) Both a and b
2. How did you know about VAT?
 - (a) By media (radio, television and papers etc.)
 - (b) By friends
 - (c) By tax administrators
 - (d) If by others, please mention below:
 - (i).....
 - (ii).....
 - (iii).....
3. Do you ask for tax invoice after purchasing goods and services?
 - (i) Yes (ii) No
4. If yes, how often?
 - (a) Sometimes (b) Often (c) Always
5. And why do you ask for tax invoice after purchasing goods and services?
 - (a) Just so
 - (b) To get the authenticity of the sellers
 - (c) To show the price of commodity to my family members
 - (d) To participate in consumer awareness program (CAP)
 - (e) To show it to the auditor
 - (f) If for others, please mention:
 - (i).....
 - (ii).....
 - (iii).....
6. If no, why?
 - (a) Just so (b) It consumes time (c) No future reference
7. Do the all vendors are under VAT registration who are liable to be registered legally?
 - (a) Yes (b) No

8. If no, about what percent are out of VAT registration who are liable to be registered legally?

- (a) 1-10% (b) 10-20% (c) 20-30% (d) 30-40%

9. And why do they are out of tax net?

- (a) Due to lack of knowledge about vat
- (b) Due to inefficient tax administration
- (c) Due to weak VAT rules and regulations

10. Has the tax evasion taken place in Nepal?

- (a) Yes (b) No

11. If yes, who is the most responsible for the tax evasion?

- (a) Business enterprises (b) Tax administration (c) Consumers (d) All of the above

12. And what corrective measures can be adopted to avoid tax evasion in Nepal?

- (a) Making the consumers aware about VAT
- (b) Improving and reforming the rules and regulations of VAT
- (c) Management of efficient tax administration
- (d) If you have any other ideas, please mention below

- (i).....
- (ii).....
- (iii).....

13. Has the tax avoidance taken place in Nepal?

- (a) Yes (b) No

14. If yes, why tax avoidance has taken place in Nepal?

- (a) Because of unaware consumers
- (b) Because of weak legal provision
- (c) Because of corrupted tax administration
- (d) Because of inefficient tax administration

15. And what corrective measures can be adopted to avoid tax avoidance in Nepal?

- (a) Making the consumers aware about VAT
- (b) Improving and reforming the rules and regulations of VAT
- (c) Management of efficient tax administration
- (d) If you have any other ideas, please mention below

- (i).....
- (ii).....
- (iii).....

16. Who is the final tax payer of VAT?
 (a) Consumer (b) Producer (c) Businessman (d) No idea
17. What is the current rate of VAT?
 (a) 11% (b) 12% (c) 13% (d) No idea
18. Is VAT necessary for raising public revenue?
 (i) Yes (ii) No
19. Is VAT an extra burden to tax payer in your opinion?
 (a) Yes (b) No (c) No idea
20. Does the VAT increase the price of goods and services?
 (a) Yes (b) No (c) No idea
21. What is the effect of VAT in nation's economy?
 (a) Negative (b) Positive (c) Both a and b (d) Does not effect
22. What is the time duration for?
 (i) Providing certificate to VAT registrants after their application?

 (ii) Providing copies of the documents related with the tax payer or submitted to the Inland Revenue office or documents or decisions affecting the tax payer after their request?

 (iii) Being certified the tax payers' accounts as their request is made?

 (iv) Getting initials of the tax officer on stock transfer or sales to the non-registrants as request of the tax payers is made?

 (v) Refunding the tax payers' excess tax input;
 (a) In case of reinvestigation as the tax payers' claim is made?

 (b) Along with interest rate of 15% on the amount that is due as their claim is made?

23. What is the least number of people or institutions for getting mobile service on any issue regarding VAT in Nepal as request is made by them?

24. What is the time duration for providing mobile service to the tax payers as their request has been made?

.....
25. What is the provision for penalties or prosecutions?

(i) If a person establishing business does not apply while starting business?
.....

(ii) If a registered person does not keep the certificate where it can be seen by all?
.....

(iii) If a tax invoice is not issued as per specification or it is not issued with a number in chronological order?
.....

(iv) If an unregistered person issue invoice or collects tax?
.....

(v) If fails to keep an up-to-date account of transactions?
.....

(vi) If obstruction is caused or objection made in the process of inspection and investigation by the tax officer of the business place?
.....

(vii) If under invoicing is found in the bill?
.....

(viii) If there is a violation of the Act and regulation apart from the conditions mentioned above?
.....

26. Please rank the following reasons of being against VAT and non-maintaining proper accounting?

(a) Lack of knowledge of VAT ()

(b) Negative attitude towards VAT ()

(c) Problems of billing and invoicing system ()

(d) Difficult accounting procedures ()

(e) Problems on audit and administrative works ()

(f) It is the extra burden of tax ()

27. Please rank following problems of VAT in Nepal?

(a) Lack of public awareness ()

(b) Open border with India ()

(c) Problem on billing system ()

(d) Weak economic policy of government ()

- (e) Lack of proper coordination between the taxpayers and tax administration ()
- (f) Difficult accounting system ()
- (g) Problem of tax refund ()

28. How can government operate VAT system effectively?

- (a) By improving government policies
- (b) By reforming in law
- (c) By motivating for registration in VAT
- (d) By developing the coordination with private sectors
- (e) No idea

29. What program should be launched by government for increasing awareness regarding VAT in Nepal?

- (a) Inclusion of tax education from school level
- (b) Organize seminars and workshop on VAT matters of tax
- (c) Organize different types of information campaign regarding VAT
- (d) If you have other ideas, please mention below:
 - (i).....
 - (ii).....
 - (iii).....

Set Two: For Businessmen and Traders

1. Do you know about VAT?

- (i) Yes (ii) No

2. If yes, what is VAT?

- (a) A kind of income tax (b) A kind of sales tax (c) Both a and b

3. Are you known about VAT?

- (i) Yes (ii) No

4. If yes, how did you know about VAT?

- (a) By media (radio, television and papers etc.)
- (b) By friends
- (c) By tax administrators
- (d) If by others, please mention below:
 - (i).....
 - (ii).....
 - (iii).....

5. Who is the final tax payer of VAT?
 - (a) Consumer (b) Producer (c) Businessman (d) No idea
6. What is the current rate of VAT?
 - (a) 11% (b) 12% (c) 13% (d) No idea
7. Is VAT necessary for raising public revenue?
 - (i) Yes (ii) No
8. Do you ask for tax invoice after purchasing goods and service?
 - (i) Yes (ii) No
9. If yes, how often?
 - (a) Sometimes (b) Often (c) Always
10. If no, why?
 - (a) Just so (b) It consumes time (c) No future reference
11. And why do you ask for tax invoice after purchasing goods and services?
 - (a) Just so
 - (b) To get the authenticity of the sellers
 - (c) To show the price of commodity to my family members
 - (d) To participate in consumer awareness program (CAP)
 - (e) To show it to the auditor
 - (f) If for others, please mention:
 - (i).....
 - (ii).....
 - (iii).....
12. Do you know about tax evasion?
 - (i) Yes (ii) No
13. If yes, who is the most responsible for the tax evasion?
 - (a) Business enterprises (b) Tax administration (c) Consumers (d) All of the above
14. Is VAT an extra burden to tax payer in your opinion?
 - (a) Yes (b) No (c) No idea
15. Does the VAT increase the price of goods and services?
 - (a) Yes (b) No (c) No idea
16. What is the effect of VAT in nation's economy?
 - (a) Increases government revenue (b) Decreases government revenue (c) Does not effect to nation's economy
17. Do you issue tax invoice after selling your goods and services?

(i) Yes (ii) No

18. If yes, how often?

(a) Sometimes (b) Often (c) Always

19. Do the all purchasers demand tax invoice after purchasing goods and services?

(a) Yes (b) No

20. Please rank the following reasons of being against VAT and non-maintaining proper accounting?

(a) Lack of knowledge of VAT ()

(b) Negative attitude towards VAT ()

(c) Problems of billing and invoicing system ()

(d) Difficult accounting procedures ()

(e) Problems on audit and administrative works ()

(f) It is the extra burden of tax ()

21. Please rank following problems of VAT in Nepal?

(a) Lack of public awareness ()

(b) Open border with India ()

(c) Problem on billing system ()

(d) Weak economic policy of government ()

(e) Lack of proper coordination between the taxpayers and tax administration ()

(f) Difficult accounting system ()

(g) Problem of tax refund ()

22. How can government operate VAT system effectively?

(a) By improving government policies

(b) By reforming in law

(c) By motivating for registration in VAT

(d) By developing the coordination with private sectors

(e) No idea

23. What program should be launched by government for increasing awareness regarding VAT in Nepal?

(a) Inclusion of tax education from school level

(b) Organize seminars and workshop on VAT matters of tax

(c) Organize different types of information campaign regarding VAT

(d) If you have other ideas, please mention below:

(i).....

(ii).....

(iii).....

Set Three: For Consumers

1. Do you know about VAT?

(i) Yes (ii) No

2. If yes, what is VAT?

(a) A kind of income tax (b) A kind of sales tax (c) Both a and b

3. Are you known about VAT?

(i) Yes (ii) No

4. If yes, how did you know about VAT?

(a) By media (radio, television and papers etc.)

(b) By friends

(c) By tax administrators

(d) If by others, please mention below:

(i).....

(ii).....

(iii).....

5. Who is the final tax payer of VAT?

(a) Consumer (b) Producer (c) Businessman (d) No idea

6. What is the current rate of VAT?

(a) 11% (b) 12% (c) 13% (d) No idea

7. Is VAT necessary for raising public revenue?

(i) Yes (ii) No

8. Do you ask for tax invoice after purchasing goods and services?

(i) Yes (ii) No

9. If yes, how often?

(a) Sometimes (b) Often (c) Always

10. If no, why?

(a) Just so (b) It consumes time (c) No future reference

11. And why do you ask for tax invoice after purchasing goods and services?

(a) Just so

(b) To get the authenticity of the sellers

(c) To show the price of commodity to my family members

- (d) To participate in consumer awareness program (CAP)
- (e) To show it to the auditor
- (f) If for others, please mention:
 - (i).....
 - (ii).....
 - (iii).....
- 12. Do you know about tax evasion?
 - (i) Yes (ii) No
- 13. If yes, who is the most responsible for the tax evasion?
 - (a) Business enterprises (b) Tax administration (c) Consumers (d) All of the above
- 14. Is VAT an extra burden to tax payer in your opinion?
 - (a) Yes (b) No (c) No idea
- 15. Does the VAT increase the price of goods and services?
 - (a) Yes (b) No (c) No idea
- 16. What is the effect of VAT in nation's economy?
 - (a) Negative (b) Positive (c) Both a and b (d) Does not effect
- 17. Please rank the following reasons of being against VAT and non-maintaining proper accounting?
 - (a) Lack of knowledge of VAT ()
 - (b) Negative attitude towards VAT ()
 - (c) Problems of billing and invoicing system ()
 - (d) Difficult accounting procedures ()
 - (e) Problems on audit and administrative works ()
 - (f) It is the extra burden of tax ()
- 18. Please rank following problems of VAT in Nepal?
 - (a) Lack of public awareness ()
 - (b) Open border with India ()
 - (c) Problem on billing system ()
 - (d) Weak economic policy of government ()
 - (e) Lack of proper coordination between the taxpayers and tax administration ()
 - (f) Difficult accounting system ()
 - (g) Problem of tax refund ()
- 19. How can government operate VAT system effectively?
 - (a) By improving government policies

- (b) By reforming in law
- (c) By motivating for registration in VAT
- (d) By developing the coordination with private sectors
- (e) No idea

20. What program should be launched by government for increasing awareness regarding VAT in Nepal?

- (a) Inclusion of tax education from school level
- (b) Organize seminars and workshop on VAT matters of tax
- (c) Organize different types of information campaign regarding VAT
- (d) If you have other ideas, please mention below:

- (i).....
- (ii).....
- (iii).....

Appendix IV

VAT Registration Form

Rs. 5

APPLICATION FOR VAT REGISTRATION

The Chief Officer
I, with the following details, want to be registered for Value Added Tax.
The details declared in this form are correct and latest to the best of my knowledge.

Fill fields marked with * only if applicable

1. APPLICANT'S IDENTIFICATION

A) NAME OF THE TAXPAYER

| | |
|---------|--|
| Nepali | |
| English | |

B) PAN OF THE TAXPAYER

| | | | | | | | | | |
|--|--|--|--|--|--|--|--|--|--|
| | | | | | | | | | |
|--|--|--|--|--|--|--|--|--|--|

C) DO YOU WISH TO BE VOLUNTARILY REGISTERED?
FROM DATE

| | | |
|--|--|--|
| | | |
|--|--|--|

Yes

No

2. MAIN PLACE OF BUSINESS

| Location | Mailing Address* |
|--|------------------|
| House No./Block No. | |
| Ward No. | |
| Street | |
| <input type="checkbox"/> Metropolitan/ <input type="checkbox"/> Municipality/ <input type="checkbox"/> Sub-metropolitan <input type="checkbox"/> VDC | |
| District | |
| Telephone | |
| Fax* | Email* |

3. CONTACT PERSON

| First Name | Middle Name | Last Name |
|----------------|-------------|-----------|
| Name (Nepali) | | |
| Name (English) | | |
| Designation | | |
| Telephone | | |
| Fax* | Email* | |

4. SIGNATURE OF APPLICANT

5. APPLICATION DATE

| | | |
|--|--|--|
| | | |
|--|--|--|

POSITION

Proprietor
 Company Secretary
 Other

Director
 partner

Trustee
 Authorized Personnel

6. OFFICIAL USE ONLY

(Not to be filled by Applicant)

| | |
|------------------------------------|------|
| Tax Office Code | |
| Effective Date of VAT Registration | |
| Approving Officer | Date |
| Filing Period | |

Appendix V
Tax Exempted Goods and Services

- 1) Basic agricultural products
- 2) Goods of basic needs
- 3) Live animals and their products
- 4) Agricultural inputs
- 5) Medical treatment and similar health services
- 6) Education
- 7) Book, newspaper and printed material
- 8) Cultural, artistic and sculpturing services
- 9) Passenger transportation and goods carrying services
- 10) Professional and vocational services
- 11) Land and building
- 12) Betting, casino and lottery
- 13) Other goods and services
 - 0.1 Postal services (operated by GON only)
 - 0.2 Excise duty stamps
 - 0.3 Financial and life insurance services
 - 0.4 Bank notes and cheque book
 - 0.5 Gold and silver
 - 0.6 Electricity
 - 0.7 Raw wool
 - 0.8 Battery operated tempo, their chassis and battery
 - 0.9 All plants and equipment that generate energy from bio gas, solar power and wind power on recommendation of Alternative Energy Center
14. Airplane, helicopter, fire brigade, ambulance, human dead body carrying van
15. Jute products etc.

Appendix VI
Zero Rate Applicable Goods and Services

- 0.1 Goods export to out of the kingdom of Nepal: if authenticated that supply of goods has been as mentioned below:
 - ka. Export to out of the kingdom of Nepal.
 - kha. Being kept as stored in an international flight having its destination out of the kingdom of Nepal, or
 - ga. Being kept for retail sales or supply or consumption in an international flight having its destination of the kingdom of Nepal.

- 02. Services rendered to a person of out of the kingdom of Nepal.
 - ka. Services rendered by a resident person of the kingdom of Nepal to a person out of the kingdom of Nepal having no professional transaction, professional representative or recognized legal representative.
 - kha. Supply of goods or services by a registered resident person of the kingdom of Nepal to a person who is resident of out of the kingdom of Nepal.

- 03. Goods and services imported by person or entity entitled for diplomatic facility on recommendation of Ministry of Foreign Affairs, GON and persons working in the diplomatic mission entitled for duty facility.

- 04. If medicine industries request zero rate facility can be availed.

- 05. In case, if sales tax exemption facility is provided on imports under an existing treaty or an agreement, zero rated facility shall be provided on those supplies still the treaty or the agreement remains effective if they are purchased locally from registered tax payer on recommendation of the concerned projects.

- 06. Goods supplied to export house of export, as prescribed by GON who earns convertible foreign by doing 100% export.

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