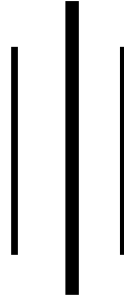


**EFFICIENCY OF VALUE ADDED TAX (VAT) IN REVENUE  
MOBILIZATION IN NEPAL**



**Submitted by:**

**NARAYAN PRASAD SAPKOTA**

**Balkumari College**

**T.U. Registration No: 7-1-241-217-99**

**Roll No: 02 (2062-064)**

**Submitted to:**

**Office of the Dean**

**Faculty of Management**

**Tribhuvan University**



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

**Narayangarh, Chitwan**

**November, 2009**

**RECOMMENDATION**

This is to certify that the thesis

**Submitted by:**

**Narayan Prasad Sapkota**

**Entitled**

**“EFFICIENCY OF VALUE ADDED TAX (VAT) IN REVENUE  
MOBILIZATION IN NEPAL”**

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

.....  
Mr. Shiva Prasad Poudel  
Thesis Advisor

.....  
Mr. Bharat Khanal  
Programme Incharge, MBS

.....  
Mr. Chiranjibi Shrestha  
Principal

Date: ...../...../.....

# **VIVA-VOCE SHEET**

We have conducted the Viva-Voce examination of the  
Thesis presented by

**Narayan Prasad Sapkota**

Entitled  
**“Efficiency of Value Added Tax (VAT) in Revenue Mobilization in  
Nepal”**

and found the thesis to be the original work of the student and written according to  
the prescribed format. We recommended the thesis to be accepted as partial  
fulfillment of requirement for

**Master's Degree in Business Studies (MBS)**

## **VIVA-VOCE COMMITTEE**

Chairman, Research Committee .....

Member (Thesis Advisor) .....

Member (External Expert) .....

Date: ...../...../.....

## DECLARATION

I hereby declare that the work reported in this thesis entitled “**Efficiency of Value Added Tax (VAT) in Revenue Mobilization in Nepal**” submitted to Balkumari College, Narayangarh in my original work. It is done in the form of partial fulfillment of the requirement for the Master of Business Studies (MBS) under the supervision and guidance of Mr. Shiva Prasad Poudel, lecturer of Balkumari College, Narayangarh.

.....  
**Narayan Prasad Sapkota**

Researcher

November, 2009

**Date:** ...../...../.....

## ACKNOWLEDGEMENT

It is matter of great pleasure and satisfaction for me to complete and prepare this dissertation for the partial fulfillment of the requirement for the degree of Master's in Business Studies (MBS). It would have been almost impossible to complete without cooperation and help from different sections of people.

I would like to express my gratitude and deep respect to honorable teacher and thesis supervisor **Mr. Shiva Prasad Poudel** for his valuable suggestion and guidance. My special thanks go to Mr. Babu Ram Panthi, Chairman of research committee Balkumari College.

Similarly, I am thankful to my colleague Mr. Buddhi Nath Sapkota, for his support and help in topic selection and preparation of this whole studsy. Likewise, all personnel of Inland Revenue Office, who provide me necessary data and all respondents who sincerely filled out the questionnaire, are thankful for their help.

I am indebted to my parents without whose endurance and support the work might not be completed. I would like to thank my friend Miss Sadiksha Subedi and my cousin Mr. Bishal Sapkota for their great help in the period of preparation.

Lastly, but no way least, I would like to thank all my colleagues, lovable juniors and entire persons who helped me in the work during internship.

**Mr. Narayan Prasad Sapkota**  
**Bharatpur, Chitwan**

## **ABBREVIATIONS**

CBS	: Central Bureau of Statistics
FY	: Fiscal Year
GDP	: Gross Domestic Product
GNP	: Gross National Product
Govt	: Government
IRD	: Inland Revenue Department
ITR	: Indirect Tax Revenue
Ktm	: Kathmandu
Ltd.	: Limited
M.	: Million
MBS	: Master of Business Studies
MOF	: Ministry of Finance
No.	: Number
PE	: Probable Error
Pvt.	: Private
Rs.	: Rupees
TR	: Total Revenue
TTR	: Total Tax Revenue
TU	: Tribhuvan University
VAT	: Value Added Tax
Vol.	: Volume
WTO	: World Trade Organization

## TABLE OF CONTENTS

	<b>Page No.</b>
<b>Recommendation</b>	<b>i</b>
<b>Viva-voce sheet</b>	<b>ii</b>
<b>Declaration</b>	<b>iii</b>
<b>Acknowledgement</b>	<b>iv</b>
<b>Abbreviations</b>	<b>v</b>
<b>Table of Contents</b>	<b>vi-viii</b>
<b>List of Tables</b>	<b>ix-x</b>
<b>List of figures</b>	<b>xi</b>
<b>CHAPTER - I</b>	
<b>INTRODUCTION</b>	<b>1-11</b>
1.1 General Background	1
1.2 Statement of Problems	5
1.3 Objective of the Study	6
1.4 Significance of the Study	7
1.5 Research Methodology	8
1.6 Limitation of the Study	10
1.7 Organization of the Study	10
<b>CHAPTER - II</b>	
<b>REVIEW OF LITERATURE</b>	<b>12-47</b>
2.1 Conceptual Framework	12
2.1.1 Concept of Value Added Tax (VAT)	12
2.1.2 Origin and Development of VAT	13
2.1.3 Types of VAT	15
2.1.4 Method of Calculating VAT	16
2.1.5 Principle Governing VAT	20
2.1.6 Difference between Sales Tax and VAT	21
2.2 Operation of VAT in Nepal	21
2.2.1 Registration	21
2.2.2 Invoicing	22
2.2.3 Books of Account	24
2.2.4 Input Tax Credit (ITC)	25
2.2.5 Debit Note & Credit Note	26

2.2.6	Collection, Realization and Refund of VAT	26
2.2.7	Offences and Administration Review	27
2.3	Review of Books, Journal and Thesis	27
2.4	Research Gap	47

### **CHAPTER - III**

<b>RESEARCH METHODOLOGY</b>	<b>48-53</b>	
3.1	Research Design	48
3.2	Population and Sample	48
3.3	Method of Data Collection	49
3.4	Data Period Covered	50
3.5	Method of Data Analysis	50

### **CHAPTER - IV**

<b>PRESENTATION AND ANALYSIS OF DATA</b>	<b>54-109</b>	
4.1	Glimpse of Nepalese Tax Structure	54
4.1.1	Composition of Total Revenue	54
4.1.2	Tax Revenue Structure of Nepal	55
4.1.3	Composition of Direct Tax Revenue	58
4.1.4	Composition of Indirect Tax Revenue	60
4.1.5	Contribution of Tax and Non-tax Revenue in GDP	61
4.1.6	Contribution of Direct and Indirect Tax Revenue in GDP	63
4.1.7	Revenue Collection from VAT	65
4.1.8	Registration Status of VAT	67
4.1.9	Contribution of VAT Revenue in GDP	68
4.1.10	Contribution of VAT Revenue in Total Revenue	70
4.1.11	Contribution of VAT Revenue in Total Tax Revenue	71
4.1.12	Contribution of VAT Revenue in Indirect Tax Revenue	73
4.2	Statistical Analysis	74
4.2.1	Coefficient of Correlation Analysis	75
4.2.2	Analysis of Trend value of GDP, Total Revenue, Total Tax Revenue, Indirect Tax Revenue and VAT Revenue	78
4.3	Empirical Analysis	80
4.3.1	Views of Tax Experts	81
4.3.2	Views of Tax officers	91
4.3.3	Views of Businessmen/ Traders	98
4.3.4	Views of Customer	103
4.4	Major Finding of the Study	106

## **CHAPTER - V**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS 110-117**

5.1 Summery 110

5.2 Conclusion 112

5.3 Recommendations 114

### **BIBLIOGRAPHY 118-121**

## LIST OF TABLES

<b>Table No.</b>	<b>Title</b>	<b>Page No.</b>
2.1	Calculation of VAT (Hypothetical Example)	12
2.2	Calculation of VAT Liabilities under Different Method	18
2.3	Calculation of VAT Subtraction and Invoice Method	19
3.1	Profile of Respondents	49
4.1	Contribution of Tax and Non-Tax Revenue in Total Revenue	54
4.2	Structure of Nepalese Tax Revenue	56
4.3	Composition of Direct Tax Revenue	58
4.4	Composition of Indirect Tax Revenue	60
4.5	Contribution of Tax and Non-tax Revenue in GDP	62
4.6	Contribution of Direct and Indirect Tax Revenue in GDP	64
4.7	Trend of Revenue collection from VAT	66
4.8	Registration status of VAT	68
4.9	Contribution of VAT Revenue in GDP	69
4.10	Contribution of VAT Revenue in Total Revenue	70
4.11	Contribution of VAT Revenue in Total Tax Revenue	72
4.12	Contribution of VAT Revenue in Indirect Tax Revenue	73
4.13	Relationship between VAT and GDP	76
4.14	Relationship between VAT and Total Revenue	76
4.15	Relationship between VAT and Total Tax Revenue	77
4.16	Relationship between VAT and Indirect Tax Revenue	78
4.17	Trend value of GDP, Total Revenue, Total Tax Revenue, Indirect Tax Revenue and VAT	79
4.18	Sample Size of the Field Survey	80
4.19	Views on Knowledge of Nepalese People about VAT	81
4.20	Views on Existing Rate of VAT	82
4.21	Views on Structure of VAT	82
4.22	Views towards the Contribution of VAT in GDP of Nepal	83

4.23	Views towards Increasing the Base of the VAT	84
4.24	Views on Billing System	85
4.25	Views on Price Rise Due to VAT System	85
4.26	Views on Whether Present Threshold is enough to secure Small Vendors	86
4.27	Views on Effect of VAT on Investment Sector	87
4.28	Views on Effect of VAT in Nation's Economic Group	88
4.29	Views on Responsible Group of Tax Evasion	89
4.30	Views on Major Weakness of VAT	90
4.31	Views on Making VAT Effectively Successful	91
4.32	Views on Awareness of Nepalese People in Paying Tax	91
4.33	Views on VAT as an Important Instrument of Rising Government Revenue	92
4.34	Views on Existing Rate of VAT	93
4.35	Views on Effect of VAT on Revenue Mobilization	94
4.36	Views on Price Rise Due to VAT System	94
4.37	Views on Tax Burden of VAT to the Tax Payers	95
4.38	Views that Whether Tax Officers believe the Tax Statement of Businessman	96
4.39	Views on Responsible Group of Tax Evasion	97
4.40	Views on Challenging Problems to VAT in Nepal	97
4.41	Views for Efforts to Increase the Revenue from VAT	98
4.42	Views on Keeping the Business Account	99
4.43	Views VAT Registration of the Business	100
4.44	Views on Existing Rate of VAT	100
4.45	Views on original Bill System	101
4.46	Views on Tax Statement believe Tax Administration	102
4.47	Views of Problem Imposed by the VAT System	102
4.48	Views about Knowledge of VAT System	103

4.49	Views about Knowing VAT	104
4.50	Views of Receiving Bill While Purchasing	104
4.51	Views of Existing Rate of VAT	105
4.52	Views of Rising Price Due to VAT System	106

## LIST OF FIGURES

<b>Figure No.</b>	<b>Title</b>	<b>Page No.</b>
4.1	Contribution of Tax and Non-Tax Revenue in Total Revenue	55
4.2	Structure of Nepalese Tax Revenue	57
4.3	Composition of Direct Tax Revenue	59
4.4	Composition of Indirect Tax Revenue	61
4.5	Contribution of Tax and Non-tax Revenue in GDP	62
4.6	Contribution of Direct and Indirect Tax Revenue in GDP	64
4.7	Trend of Revenue collection from VAT	66
4.8	Registration status of VAT	68
4.9	Contribution of VAT Revenue in GDP	69
4.10	Contribution of VAT Revenue in Total Revenue	71
4.11	Contribution of VAT Revenue in Total Tax Revenue	72
4.12	Contribution of VAT Revenue in Indirect Tax Revenue	74
4.13	Trend Value of GDP, Total Revenue, Total Tax Revenue, Indirect Tax Revenue and VAT Revenue	79

# **CHAPTER-I**

## **INTRODUCTION**

### **1.1 General Background**

Tax simply means a liability to pay an amount to the government. It is compulsory contribution to the national revenue from the taxpayers according to law. Tax is collected from haves and spent for the interest of have-nots in the society.

Tax is the main source of government revenue. The government of a country requires sufficient revenues to carry out development plans, to handle day-to-day administration, to maintain peace and security and to launch other public welfare activities. In order to carry out such activities, the government collects revenues from various sources such as tax, revenue from public enterprise, special assessment, fees, fines, grants and assistance etc. Tax is an important source of government revenue (Bhattarai and Koirala, 2004:1).

Tax is permanent instrument of collecting revenue of the country. The tax has the objectives of raising revenue to have resource mobilization, equal distribution of wealth and income in the society, encouragement in production of certain products, encouragement in employment, saving and investment, removal of regional imbalance and enforcement of government policy.

Nepal is one of least developed countries in the world. The main source of revenue of government is tax collection from different sources such as customs, excise, Value Added Tax, Corporate and Personal Income tax, Entertainment tax, Property tax, Vehicle tax, etc. Tax may be different types according to its rates and nature. Basically, tax can be classified into two board categories.

1. Direct Tax
2. Indirect Tax

## **1. Direct Tax**

A direct tax is a tax paid by a person on whom it is legally imposed. Direct tax can't transfer from one to another. It is the tax on income and property. Examples of direct taxes are:

- ) Income tax,
- ) Property tax,
- ) Vehicle tax,
- ) Interest tax,
- ) Expenditure tax,
- ) Death tax,
- ) Gift tax, etc.

Direct tax is equitable as it is imposed on person as per the property or income. It is elastic and enhances the consciousness of the citizens. But, taxpayers feel burned of tax. It is expensive for government to collect.

## **2. Indirect Tax**

An indirect tax is a tax imposed on one person but partly or wholly paid by another. In indirect tax, the person paying and bearing the tax is different. It is the tax on consumption or expenditures.

Examples of indirect taxes are:

Sales tax,

- ) VAT (Value Added Tax),
- ) Entertainment tax,
- ) Hotel tax,
- ) Excise duty,
- ) Import and Export duty etc.

If indirect tax is imposed there is a less chance of tax evasion. There is mass participation. Each and every person getting goods or services has to pay tax. But, it is uncertain. Indirect tax has bad effect on consumption, production and employment.

VAT (value added tax) is an indirect tax. It is an improved and modified form of sales tax. It is levied on value added of goods and services at each stage in the process of production and distribution chain. Import, manufacturing, wholesale and retail can be there stages. Value added can be obtained either by adding payments to factors of production (wages, salaries, rent, interest and profit) or deducting cost of inputs from sales value. VAT is based on self-assessment system and provides the facility of tax credit and tax refund. It avoids cascading effect existed in sales tax and contains catch-up effect.

According to John F. Due (1976): “The Value Added Tax is a tax imposed upon the value that the activity of a business firm add to the goods and the services. It purchases from other firms that is upon the excess of sales during a period over the amounts paid for goods and the services acquired from other business firms during the period.”

According to Rup Bahadur Khadka (2000), “VAT is levied on all goods and services, unless specifically exempted by the law and collected at different stages in the process of production and distribution.

VAT is transparent tax and has minimum burden to consumers because it is collected in small fragments at various stages of production and distribution. It is based on value added not on total price. So, price does not increase as a result of VAT. There is less chance of tax evasion. VAT minimizes tax evasion due to its catch up effect. There is mass participation of taxpayers.

But, VAT is costly to implement as it is based on full billing system. It is difficult to implement the VAT successfully. The calculation of value added in every stage is not an easy task. It is complex to understand.

VAT is the most recent innovation in the field of taxation. The concept of VAT was developed for the first time by Dr. Wilhelm V. Siemens in Germany in 1919. In 1954, France introduced a VAT covering the industrial sector. Vietnam ventured VAT for the first time in Asia in 1973 but it was repealed in short period. In south Asia, Pakistan is the first country introducing VAT. It is introduced in 1990. India had introduced modified VAT (MOD-VAT) in 1986 for manufacturing products. Full VAT has been implemented there with effect from 1<sup>st</sup> April, 2003 (Bhattarai and Korila, 2004, p-317).

The concept of VAT in Nepal was introduced in early 1990. Nepal government indicated its intention to introduce VAT in the eighth plan. The parliament of Nepal enacted "Value Added Tax Act, 1995 (2052)" in 1995. Subsequently, VAT regulation was made in 1996. Although the act was passed in 1995, it has been fully implemented from 16<sup>th</sup> November, 1997 (Mangsir, 2054) with single rate of 10%. (Bhattarai and Korila, 2004, p-317) Now, Nepal government has increased

VAT to 13% with effect from Magh 1, 2061. This tax was levied in place of the sales tax, Hotel Tax, Contract Tax and Entertainment Tax. However, it could not be implemented fully until the FY 1998/99 due to political and strong opposition from the business community ([www.ird.gov.np/VAT.php](http://www.ird.gov.np/VAT.php)).

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

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

The current threshold for VAT registration is Rs.2 million. Those vendors, whose annual turnover is below the threshold can, however register voluntarily ([www.ird.gov.np/VAT.php](http://www.ird.gov.np/VAT.php)).

There is a persistent increase in the number of VAT registrants. It has crossed the 40,000 mark. At the time of conversion from the then existing sales tax to VAT a total of 2045 taxpayers were converted as VAT registrants. As the taxpayers are increasing the amount of revenue collection and the level of tax compliance is improving today ([www.ird.gov.np/VAT.php](http://www.ird.gov.np/VAT.php)).

## **1.2 Statement of Problem**

Since Income Tax Act introduced in Nepal, Several changes have been making in tax law, tax act, tax system, tax policy and procedures. VAT is a scientific tax system. VAT is the tax imposed on added value of goods and services. VAT pays vital role as a sources of national revenue.

Nepal is a developing country. In Nepal, resource mobilization is still poor that does not cover the growing expenditure. Because of deficit financing and external loan, the economy has to face expenditure in respect to total revenue collection. Nepal's lower revenue mobilization is due to the poorly designed and defective tax system where the taxes are less productive, less responsive and distortion. It is expected that VAT would be a major instrument to avoid deficit financing. Thus, VAT may play vital role to mobilize resources (Rup Khadka, 2001).

In the earlier stage of introduction of VAT in Nepal, it had triggered a lot of debate among the business and government regarding its goods and bad effect. There have been arising various issues on design of VAT, its administrative operation and applicability and its imperative analysis. In connection with above points, various problems regarding VAT (Value Added Tax) for resource mobilization are as follows:

- i) What are the affecting factors in VAT collection system?
- ii) What are the problems faced by taxpayers?
- iii) How the VAT does make effective taxation?
- iv) Does the management system of VAT play the effective role in Nepal?
- v) How does the government collect adequate revenue through VAT?
- vi) Is VAT implementing successful in Nepal?
- vii) How much is the contribution of VAT to GDP, Total revenue, Total tax revenue and Total indirect tax revenue?

### **1.3 Objectives of the Study**

The general framework of the study has been conducted to examine value added tax as resource mobilization in Nepal.

The study is also to examine the various issues/problems pertinent to VAT regarding to its performance and suggest the useful alternative solution to the wide range of these problems.

The specific objectives of this study are as follows:

- i) To evaluate the potential revenue yield from VAT.
- ii) To examine problems and significance of VAT in the Nepalese tax system in the context of resource mobilization.
- iii) To analyze trend of VAT utilization towards total tax structure of Nepal.

### **1.4 Significance of the Study**

In today's world, each and every aspect of human life is affected by tax. It has become a matter to be known by everyone. The main aim of the study is to find out the effectiveness of VAT collection in Nepal and its impact on national revenue with its problem and prospects. Though VAT was introduced approximate decade year ago, many people are unknown about various aspects of it. VAT is being itself a complicate and modern tax system. More efforts should be made on actual circumstances. To implement VAT, theoretical and practical knowledge are required. So, this study will fulfill to face any difficulty while working in real life setting. The aim of the study is as follows:

- i) This study provides the theoretical knowledge about VAT and its related aspects.
- ii) This study provides practical awareness to manufacturing / importer, wholesaler, retailer and customer.
- iii) This study is helpful to the Economists, Planners, Tax Officers, Tax Administration, Government, Students and all who want to know about VAT.
- iv) It will also provide a clear idea and knowledge to these persons who are interested and confused about VAT system.
- v) This study will give an appropriate suggestion and recommendation to government to implement VAT properly and effectively.

## **1.5 Research Methodology**

A Systematic research study needs to follow a proper methodology to achieve the pre-maintained objectives. Research methodology is a sequential procedure and methods to be adopted in a systematic study. Research methodology describes about research design, population and sample, nature and sources of the data, and the tools that will be used to analyze the data.

### **1.5.1 Research Design**

“Research design is the plan; structure and strategy of investigation conceive so as obtain answers to research questions and to control variance. The plan is the overall scheme or program of the research.” Kerlinger F.N. (1986).

A well-stated research design is necessary to fulfill the objective of the study. This research is aimed at studying the VAT System impact over the tax structure in Nepal. For this purpose, the research will follow more analytical and less descriptive research design.

### **1.5.2 Population and Sample**

The study will cover only selected area as well as selected people and offices as sample size. The population of the study will be nation as a whole, which is affected by the tax policy of government. Here only 50-sample size will be selected and they will be tax experts, tax officers, businessman/traders, and consumers. In order to fulfill the objectives of the study, the sample size will be selected from Kathmandu, Chitwan, Nawalparasi districts.

### **1.5.3 Method of Data Collection**

In this research, primary as well as secondary data was used.

A number of questionnaires will be developed and distributed to the selected people among tax officers, businessman/traders, and consumers. The secondary sources of data collection will be published and unpublished articles, budget speech, economic survey and other relevant journals and periodicals.

### **1.5.4 Data Period Covered**

This study covers a period of Eight Years from 2000/01-2007/2008. The analysis is done on the basis of the data for these Eight Years.

### **1.5.5 Method of Data Analysis**

Generally the statistical tools are used for attaining accuracy on analysis of numerical figure. To achieve the objective of study, the collected data has been properly arranged, tabulated and presented in diagram and analyzed. Different statistical tools such as simple percentage, mean, co-efficient of correlation analysis and trend analysis have been used to analyses the data.

### **1.6 Limitation of the Study**

There are different causes due to which a researcher has to conduct the research from the some limitation. The major limitations of the study are as follows:

- i) This study is only focused on the VAT in Nepal.
- ii) The field survey is conducted in the certain period only 8 years from 2000/01-2007/2008.
- iii) The survey is conducted in the certain places as sample such as Chitwan, Nawalparasi and Kathmandu.
- iv) The time and other resource constraints.

### **1.7 Organization of the Study**

This study has been organized into five chapters. They are as follows:

- Chapter I : Introduction
- Chapter II : Review of Literature
- Chapter II : Research Methodology
- Chapter IV : Presentation and analysis of data
- Chapter V : Summary, Recommendation and Conclusion

Chapter I is introduction chapter that includes general background, statement of problem, objectives of the study, significance of the study, limitation of the study etc.

Chapter II deals with the review of literature. It contains conceptual review of the study and review of related study.

Chapter III contains research design, method of data collection, data collection procedure, method of data analysis and data period covered.

Chapter IV deals with presenting and analyzing the collected data. According to given methodology, Table, diagram other necessary figure and statistical tools are used to fulfill the research objectives.

Chapter V presents Summary, Recommendations and Conclusion of the study.

## CHAPTER-II

### REVIEW OF LITERATURE

#### 2.1 Conceptual Framework

##### 2.1.1 Concept of Value Added Tax (VAT)

VAT is an indirect tax. It is an improved and modified form of sales tax. It is levied on value added of goods and services of each stage in the process of production and distribution chain. These stages can be import, manufacturing, wholesale and retail .Value added for a firm is sale value minus all expenditure on goods and services purchased from other firm. The value added can be obtained by adding payments to factor of production (wages, salaries, rent, interest and profit).This value added is the base of VAT. Although VAT is eventually born by the final consumer, it is collected at each stage of production and distribution chain.

The following table shows simple process of calculation the VAT:

**Table 2.1**  
**Calculation of VAT (Hypothetical Example)**

Channel	Cost price excl. VAT	Value added	Selling price excl. VAT	VAT @13%	Selling price incl. VAT	VAT payable to Govt.
Imported goods	10,000	–	–	1,300	–	1,300
Importer to wholesaler	10,000	1,000	11,000	1,430	12,430	130
Wholesaler to Retailer	11,000	1,100	12,100	1,573	13,673	143
Retailer to Costumer	12,100	1,210	13,310	1,730.3	15,040.3	157.3

*Source: Arbitrarily figure obtained doing the study.*

From this example, we can say that the value added tax is tax collected in various steps of production as a placement on the basis of the value added in the process of doing business.

### **2.1.2 Origin & Development of VAT**

Wilhelm Von Siemens of Germany, in 1919 AD, introduced VAT to replace multistage sales tax in order to avoid the undesirable effects, particularly cascading and pyramiding. Carl S. Shoup, an American professor suggested this tax in 1949 to use in Japan .However, the credit of using VAT at first goes to France. This country introduced VAT in 1954. The years of the use of VAT in other Countries of the world can be shown as follows:

France	1954
Ivory Coast, Senegal	1961
Brazil, Denmark	1967
European community	1968
Germany	1968
Netherlands, Sweden	1969
Luxembourg	1970
Belgium	1971
Ireland	1972
England, Italy	1973

Within twenty OECD countries only three –Australia, Switzerland and the United states of American have not full –fledged VAT right now.

In Asia, Vietnam introduced VAT in 1973 but avoided in the same year and again used in 1999. The dates of introducing VAT in other countries of Asia are:

Israel	1976
South Korea	1977
China	1984
Indonesia	1985
Taiwan	1986
Philippines	1988
Japan	1989
Pakistan	1990
Bangladesh	1991
Thailand	1992
Singapore	1994
Sri Lanka	1998

*Source: kandel, 2007; p-296*

India also had introduced modified VAT (MOD-VAT) in 1986 for manufacturing products. Full VAT has been implemented there with effect from 1<sup>st</sup> April, 2003.

The concept of VAT in Nepal was introduced in early 1990s. Nepal government indicated its intention to introduce VAT in the eighth plan. Subsequently, the Finance minister declared to introduce a two-tier sales tax system to make the base of implementing VAT from the final year 1992/93. A VAT task force was created in 1993, under the financial assistance of US AID in order to make necessary preparation for the introduction of VAT. The VAT task force prepared the draft of VAT legislation.

The parliament of Nepal enacted "Value Added Tax Act, 1995 (2052)" in 1995. Subsequently, VAT regulation was made in 1996. Although the act was passed in 1995, its implementation was delayed due to political instability and strong

opposition from the business commodity. VAT has been fully implemented with effect from 16 November, 1997 (1 Mangsir, 2054). It has replaced sales tax, hotel tax, contract tax and entertainment tax. It has been designed to collect same revenue as the four taxes it replaced. VAT is the new tax system for Nepal. VAT has been justified in the light of government fiscal imbalances and need for extra revenue mobilization through an efficient tax system.

### **2.1.3 Types of VAT**

Value added tax (VAT) has been classified on several bases. The most important of them is the classification of VAT on the basis of treatment to capital goods. Capital goods are such goods which are used more than a year in order to serve or produce revenue goods. VAT can be classified in three categories according to the way capital goods are treated. They are:

- A) Consumption Type
- B) Income Type
- C) Gross National Product (GNP) Type

#### **a. Consumption Type VAT**

Under consumption type of 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. As export is relieved from the tax while imports are taxed, the base of this becomes identical to the base of sales tax on consumer goods and services.

$$\text{Consumption type VAT} = \text{Gross domestic product} - \text{Cost of intermediate goods} - \text{Cost of capital goods}$$

## **b. Income Type VAT**

The income type 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 falls both on consumption and net investment. The tax base of this type is the net national income.

$$\text{Income type VAT} = \text{Gross receipt} - \text{Cost of intermediate goods} - \text{Depreciation}$$

## **c. GNP type VAT**

Under this type, capital goods purchased by a firm from other firms are not deductible from the tax base in the year of purchase. It also does not allow the deduction of depreciation from the tax base in subsequent years. Tax is levied both on consumption and gross investment. The tax base of this type is gross domestic product.

Consumption type VAT is widely used. So, by the term 'VAT' we basically mean the consumption type VAT.

$$\text{GDP type VAT} = \text{Gross receipts} - \text{Cost of intermediate goods}$$

### **2.1.4 Method of Calculating VAT**

There are three methods of computing VAT:

- 1 Addition method
- 2 Subtraction method

### 3 Tax credit method

#### a) Addition Method

Under this method, tax base is obtained by adding the payments made by the firm to the factor of production employed in production employed in processes such as wages, rent, interest and profit. This method is suitable for income type VAT.

$$T = f(\text{wages} + \text{rent} + \text{interest} + \text{profit}) = f(W + R + I + P)$$

#### b) Subtraction Method:

Under this method, value added is determined as net turnover. The net turnover is obtained by subtracting the cost of materials from sales proceeds. Thus, the VAT is levied on the amount which is drive by subtracting purchase from sales. This method is suitable for consumption type VAT.

$$T = f(\text{outputs} - \text{inputs})$$

#### c) Tax Credit Method

Under this method, tax imposed on total value of sales and taxpayers are allowed to deduct from their gross tax liability the taxes already paid by their suppliers and pass on to them. As compared to subtraction method, which deducts purchases from sales and levies tax on the difference, tax on purchase is subtracted from the tax on sales under this method. This method is also known as invoice method. Out of three method of computing VAT, tax credit method is widely used. In most of the country including Nepal, Tax credit method has been adopted.

$$T = f(\text{output}) - f(\text{input})$$

A sample example of calculation of value added tax liability under three different

methods is given in table below:

**Table 2.2**  
**Calculating of VAT Liabilities under Different Method**

	Stage of production & distribution			
	Manufacture	Wholesaler	Retailer	Total
<b>A) Addition Method</b>				
a) Wages	2500	7000	2000	11500
b) Rent	3000	4000	1000	8000
c) Interest	2000	2000	500	4500
d) Profit	2500	2000	1500	6000
e) Value added ( a + b + c + d)	10000	15000	5000	30000
f) VAT liability@ 13%	1300	1950	650	3900
<b>B) Subtraction Method</b>				
a) Sales	40000	55000	60000	155000
b) Purchase	30000	40000	55000	125000
c) Value added (a-b)	10000	15000	5000	30000
d) VAT liability @ 13%	1300	1950	650	3900
<b>C) Tax credit Method</b>				
a) sales	40000	55000	60000	155000
b) Tax ion sales	5200	7150	7800	2010
c) Purchase	30000	40000	55000	125000
d) Tax on purchase@13%	3900	5200	7150	16250
e) Net VAT liability (b-d)	1300	1950	650	3900

*Source: Arbitrarily estimate by the researcher.*

There is similarity between subtraction and invoice method, apart from the latter method requiring invoices which the former does not. Both methods would provide the same amount of tax revenue (T) if the tax rate were the same throughout the production and distribution process. Since value added (VA) is sales value (SV) minus cost of purchased inputs (CPI), a given tax rate, say (t), would give the same result in either

system as shown below:

Subtraction method:  $T = t (SV - CPI)$  or  $T = t.SV - t.CPI$

Tax credit method:  $T = t.SV - t.CPI$

However, the results would not be similar under the two methods if different tax rates are levied at different stages.

**Example:**

Consider the case of a manufacturer who buys wool from a farmer at Rs. 100. He converts the wool into sweater and sells to a wholesaler at Rs. 200; the wholesaler sells to a retailer at Rs.250 & finally the retailer sells to a consumer at Rs. 300. VAT under the subtraction and the invoice methods would be as follows:

**Table 2.3**  
**Calculation of VAT under Subtraction and Invoice Method**

(in Rs.)

Production /Distribution	Value at each stage	Value added at each stage	VAT	
			Subtraction method	Invoice method
(a) If rate of VAT is 13% each stage:				
Farmer	100	100	13	13-0=13
Manufacturer	200	100	13	26-13=13
Wholesaler	250	50	6.5	32.5-26=6.5
Retailer	300	50	6.5	39-32.5=6.5
Final	300	300	39	39
(b) If rate of VAT is 15% at manufacturing stage & 13% at all other stage				
Farmer	100	100	13	13-0=13
Manufacturer	200	100	15	26-13=13
Wholesaler	250	50	6.5	32.5-30=2.5

Retailer	300	50	6.5	$39-32.5=6.5$
Final	300	300	41	$114.5-75.5=39$

*Source: Bhatarai and Koirala, 2064; p-328*

### **2.1.5 Principles Governing VAT**

The following are the principles which govt. value added tax (VAT):

#### **(a) Principle of Transparency**

VAT is a transparent tax. It is an account based tax system. VAT has made tax system transparent. Tax evasion is not pervasive where accounting system of transparent.

#### **(b) Principle of Removing Cascading Effect**

VAT removes cascading effect. Cascading in tax system means tax on tax. In sales tax, tax is charging on the value including tax. That's why in sales tax, there is cascading effects. This sort of charging tax on a total value including tax is called cascading effect. However within Value Added Tax system, the tax at one stage does not become the part of the cost for another stage. In VAT system, actual addition and tax are separated and VAT is charge only on the actual value added. Hence, VAT removes cascading effect.

#### **(c) Principle of Neutrality**

The guiding principle of current tax system in neutrality concept in relation to taxation says that tax system should not discriminate one economic activity against other. It should not disturb production, distribution and consumption pattern of the economy. VAT is a tax system which is neutral in this respect .As regards to tax rate or goods and services to be taxed, VAT is neutral.

#### **(d) Principle of distribution and zero Rating**

Under this principle, goods and services are taxed at consumption point, not based on production good and services that are exported are taxed at zero rate (i.e. the taxpayer gets refund of VAT earlier paid in purchasing raw materials and interrelated good but he should not pay tax on added value).

#### **2.1.6 Difference between Sales Tax and VAT:**

- Sales tax is relatively old tax whereas VAT is a new tax introduced to replace sales tax.
- There is tax on tax in the case of sales tax. That means, sales tax has cascading effect that is why the goods are more expensive in comparison to the condition of having value added tax. Value added tax is free from cascading effect.
- The tax evaded in one stage in case of value added tax is caught in another stage (at least in theory). That is, there uses to be catch-up and self-policing features in value added tax. The sales tax does not have this characteristic.
- In case of sales tax, the seller collects revenue and deposits in government office. In case of value added tax, the seller deducts the input tax from the collected amount output tax and deposits the remaining amount in the government office.
- VAT is taken as less distortionary to the economy in comparison to sales tax.
- Value added tax is more revenue productive in comparison to sales tax.
- Value added tax is brought to replace sales tax.

*(Source: Kandel, 2007, P-316)*

#### **2.2 Operation of VAT in Nepal**

### 2.2.1 Registration

The first step towards VAT operation is registration of vendors who are legal taxpayer. Registration is required for any business:

- a) With an annual taxable turnover of more than 2 million rupees.
- b) Belonging to a conglomerate which has an aggregate annual taxable turnover exceeding 2 million rupees.

Business with taxable annual sales of fewer than 2 million rupees may apply to register. If a business chooses to register, it must remain registered for a full fiscal year.

But, A VAT registration may be cancelled by anyone whose total taxable sales for four consecutive calendar quarters is not more than 2 million rupees and who has been registered for a full fiscal year or by persons who no longer has a commercial activity because of bankruptcy, receivership, or cessation of the business.

VAT registrants are required to:

- a) Submit VAT return and pay tax within the 25<sup>th</sup> day of the following month.
- b) Provide their customers with a tax invoice.
- c) Maintain Purchase book, Sales book, VAT Account.
- d) Keep their VAT records for a period of 6 years.
- e) Inform the IRO of changes to the business including new address, telephone number or a reorganization of a partnership with 15 days.
- f) Put their certificate of registration in the premises where customer may easily see and read it.
- g) Allow tax officers to enter the business to examine the business records and the stock on hand.

*Source: [www.ird.gov.np](http://www.ird.gov.np)*

### **2.2.2 Invoicing**

Invoices are the initial documents for VAT control and are most essential under VAT system. Every registered producer or vendor is required to issue an invoice for each taxable sale. There are two types of invoice:

- ) Tax Invoice
- ) Abbreviated Invoice

#### **a) Tax Invoice:**

The tax invoice will require the name and address of the seller and the purchaser, the seller's PAN number and invoice number, the date of the transaction and a description of sale including the number of items purchased, the unit cost of each item and a mention of any discounts given.

The tax invoice must be prepared in three copies and the first copy should be clearly identified as a tax invoice. The original copy is to be given the purchaser; the second copy is to be retained for audit purposes while the bottom copy is for use by the seller in preparing a record of the transaction.

#### **b) Abbreviated Invoice**

Tax officers may grant permission for a VAT registrant to issue on abbreviated invoice for retail sales below the value of 5000.00.

The chief difference the two between tax invoices is that an abbreviated invoice does not require the name and address of the purchaser.

The registrants have the right to request a detailed tax invoice as they will not be able to claim input tax credits with abbreviated invoices.

IRD may order taxpayers to issue invoices by using cash machine or computer. The procedure in such case shall be as prescribed by the DG of IRD.

IRD will have anytime access to the database of the taxpayer.

### **2.2.3 Books of Account**

A taxpayer must keep the following books and record:

- a) A purchase book,
- b) A sales Book, and
- c) A VAT Accounts

#### **Purchase and sales books include:**

- a) The invoice number
- b) The invoice date
- c) The supplier's name and PAN number in the purchase book
- d) The customer's name and PAN number in the sales book.
- e) The taxable value, and
- f) The amount of VAT.

Businesses which sell both taxable and exempt goods will need to complete additional columns of information to separate exemption sales and the purchases related to them. IRDs will be pleased to provide taxpayers with a sample purchase Book (Schedule 8) and a same sales Book (Schedule 9) format.

PAN number refers to the Taxpayer Identification Number which will be allocated to each registrant office completion of the registration process.

The **VAT Account** is a monthly summary showing the source of the figures used in the VAT return. This account contains purchases and sales and the VAT spent

and collected. A sample VAT Account (Schedule 7) may be obtained from the concerned IRO.

#### **2.2.4 Input Tax Credit**

Registered businessmen are obliged to collect and remit VAT on their taxable transactions. These registrants are entitled to recover the tax paid on their purchases. This recovery or refund is known as input tax credit.

The input Tax Credit (ITC) is the total of the tax paid or payable on taxable goods and services purchased in Nepal, and the tax paid on taxable goods imported into Nepal.

Where VAT is paid or payable by a registrant on a purchase or on imports, the registrant is allowed to claim input tax credit for those purchases made by the registrant in his commercial activities.

However, even though the purchase of goods or services may relate in part to a commercial activity, in certain circumstances the purchase may not generate input tax credit entitlement when he sells goods or services which are tax-exempt.

Most registrants are entitled to claim input tax credits for the tax paid on acquisitions of capital goods for use primarily in commercial activities.

Unlike the income tax deduction rules, the input tax credit for any VAT paid on capital goods is not amortized over the life of the asset. It can be claimed in full in the period in which it is acquired if the capital goods are later put to a non-commercial use, special change of rules will apply. Taxpayers whose export more than 50% of total sales or those who are continuously on 6 months credit may claim for refund. Refund shall be made within 30 days from the receipt of refund claim.

### **2.2.5 Debit Note and Credit Note**

If a registered person needs to issue credit or debit note because of the change in price of the supplied goods and services, the note must be prepared by writing debit credit clearly.

### **2.2.6 Collection, Realization and refund of VAT**

#### **a) Collection and Realization**

The registered businessmen at each stage of production and distribution collect VAT amount in taxable transactions on behalf the tax office. They collect VAT on sales and deposit the same within 25 days of the end of the preceding month after recovering the tax paid on their purchase. It identifies the defaulters and collects VAT from them by applying any of following measures:

- ) By deducting the tax from refundable tax amount.
- ) By possessing taxpayer's fixed and current assets.
- ) By auctioning the property owned by taxpayer.
- ) By deducting from the banks account.
- ) By deducting the amount payable by third person with pre-consent of the taxpayer.

#### **b) Refund of VAT**

In VAT system, the registered businessmen are entitled to recover the tax paid on their purchase from the VAT collected from sales. If the tax on sales is less than the tax on purchases, the person claims a refund for the difference, with 15% interest per annum. But the interest is calculated after 60 days of the application submitted for refund. The taxpayer whose export is more than 50% of total sales or those who are

continuously on 6 months credit may claim for refund. The refund is made within 30 days from the receipt of the refund claim.

### **2.2.7 Offences and Administration Review**

#### **(a) Offences**

- ) Fines will be imposed if taxpayer fails to file his return within the specified time.
- ) A registrant will make his VAT payment at a bank where he will receive a bank voucher as proof of payment. This number is to be entered on this VAT return to be submitted within 25 days after the end of the month of business transaction.
- ) The VAT Act imposes fines for failing to register. Similarly, if a registrant fails to use his registration number or clearly display his registration certificate in the business premises, he/she is liable to fine.
- ) Other penalties may be imposed if for example, a registrant fails to file a return, issue invoices, keep an up-to-date account of transactions, obstruct visits by a tax officer, prepares false accounts and invoices or attempts to evade tax. Similarly, IRO/ IRD may purchase under invoiced goods.

*([www.ird.gov.np](http://www.ird.gov.np))*

#### **(b) Administrative Review**

A taxpayer who is not satisfied with the Tax Assessment of a tax officer may submit an application to DG of IRD for administrative review with 30 days from the time of receiving such decision.

### **2.3 Review of Books, Journals and Thesis**

Various researches have been conducted in Nepal as well as foreign countries about VAT (Value Added Tax). Here, some relevant books, university

dissertations, journals and other reference materials were reviewed exclusively. Essence of some useful and relevant ones is presented below in brief.

Michele (1973), in her paper adopted from her unpublished dissertation submitted to Columbia University in 1972, describes, analyses and evaluates the Brazilian VAT against the background provided by two broader issues: one as a case study of the VAT in developing country and other as an illustration of the problem posed by inter-state tax co-ordination in a special setting of a federation caused by huge regional disparities. The Brazilian states adopted a broad based single rated (i.e. 15%) VAT in 1976 in the place existing heterogeneous turnover taxes aiming to secure a greater degree of tax co-ordination among the states of the federation. The VAT was based on modified origin principle, and it extended and retail level with minimum exemptions. The administration of the tax did not appear burdensome.

In the first year of its introduction, revenue increased by 54%, the 30% of which was due to price increase and 17% was the real increase. The industrial sector bore a heavier tax impact than the rest of the economy in relation to its own value added because of the non-deductibility of tax on inputs used by the industrial sector from the exempt section. Manufacturing accounted for 60% of estimated VAT although it generated less than one fourth of GDP. The Brazilian experience does suggest that the VAT techniques can be applied to the condition in developing countries with no meat difficulty. The administration of VAT could be expected to pose initially a more difficult problem in developing countries with previous have no experiences in operating a broad based sales tax. (*Michael, 1973*)

Due (1976) examines VAT by the paper entitled “Value Added Tax in developing economics” in the book “Taxation and development” on the contribution of UN in 1976. The study has both theoretical and implementation parts in detail as well as

its nature and history. The useful major recommendations derived by the author are:

**A. Theoretical Aspect:**

- i) VAT is regarded as a sales tax to overcome from the demerits of turnover tax; VAT is entirely acceptable for the sales tax in comparison to their forms of sales taxes.
- ii) The most important requirements for successful operation of VAT are its universality and simplicity.
- iii) VAT is imposed in more than one stage in business process, therefore it has distinctive feature of fractional impact without cascading effects.
- iv) The major criteria recommended for evaluation of the tax in VDC are:
  - ) Acceleration of economic growth,
  - ) Optimal use of available resources,
  - ) An acceptable pattern of income distribution,
  - ) Reasonable price stability,
  - ) Avoiding of foreign domination of the economy and
  - ) Political stability.

**B. Implementation Aspect:**

- i) The tax law should be drafted by the lawyer related to tax jurisdictions.
- ii) A computer system is basic need for VAT operation.
- iii) The same personnel administration of sales tax should be utilized to VAT operation.
- iv) Registration of the business firms should be operated in great care.
- v) Tax returns may be filed at relatively frequent intervals.

- vi) Inspections and audit should be operated, separately by the related careers. Cross checking is the best solution.

*(Due, 1976)*

A study held in 1988 by Se-won Chang and Ma. Lourder B. Recente on “The VAT experience in Republic of Korea” states that the adoption of VAT was a response to the complex problems arising from the indirect tax structure. One of the reasons for adopting the VAT was to simplify the indirect tax structure in Korea”. This was also expected to contribute to reduction of the price of commodities in the domestic and exports markets. Similarly, on the advantages of VAT expecting to eliminate cascading effect of taxation, efficiency in resource allocation, to increase government revenue for the government (although it was not primarily introduced to increase government revenue) being it’s a board based and built in cross checking mechanism, VAT was introduced in Korea in 1977.

The study pictures out the VAT very precisely and detail after its implementation and visualizes the conditions of the Korean economy before and after its adaption using with descriptive and analytical methodology, covering various empirical studies and proposals made by various researcher, economists and practical men for VAT reforms in Korea. The study draws the pre-VAT scenario saying the “prior to adoption of VAT”. The system of indirect taxes in Korea was complicated and distortion with several taxes and rates. The study covers the issues reasons for adopting VAT, guidelines for adopting VAT, the VAT structure, the preparation for VAT reforms, implementation, administration and problems, measures to implementation, administration and problems, measures to improve it and conclusions giving various data and illustrations.

Korea has introduced the consumption type of VAT covering all stages of production and distribution, charged on supply of goods and services including imports with 10% of normal rate, applying tax credit method for calculation, zero rating on exports and basic necessities with some exemptions in very small firms, and supplemented the VAT by excise duty on luxurious and giving special tax payer's facilities to small business. (*Se-won and Ma. Laurdes, 1988*)

Due and Mayer (1988) examine the VAT in Dominican Republic. The VAT in Dominican Republic was in effect from November 1983. However, the general reaction towards the tax hostile from the business sector, labor unions as well as political parties opposed the tax. Much of the complain rose from increased record keeping requirements because the commercial sector of economy was dominated by small and medium sized business. The other main objection was due to the belief that VAT was responsible for increase inflation, but the inflation was due to other reasons. There was a general agreement that the enforcement of the tax had not been adequate mainly because of the lack of personnel. Evasion was wide spread, many firms failed to register. The overall evaluation of the tax in the country, therefore, remains rather negative. While the tax has brought additional revenue, the inadequate enforcement and failure to extend it to the commercial sector as planned, and the use of make shift, distorting system in the latter have resulted in serious failure to attain the advantage of a complete value added tax. The experience of the country with the tax provides a warning to other developing countries not to attempt to use a value added tax extending beyond the import and manufacturing sectors without careful consideration of the ability of the wholesale and retail sector to operate the tax, and general attitude of these sectors towards the tax. (*Due and Mayer, 1988*)

Ahmand and Ludlow (1989) identify the alternative tax reform packages in VAT for Pakistan keeping the distributional consequence in consideration. The authors have their own method for the tax reform analysis. In the first step, they describe the existing taxes and then, examine the consequence of the tax changes (and thus price changes) on households, resulting government revenue and also implications for production. They analyze and compare the consequences of different options such as the signal rate VAT with selective exercise and some exemptions (or zero ratings), and multiple VAT rate. The reform with equal revenue and the reform with additional revenue as well as the production implication and tax reform are also considered. The work shows that instrument can be designed to increase revenue and at the same time, protect the poor. A value added tax supplemented with selective exercises would have made Pakistan's tax system more optimistic and reduced the production distortions inherent in Pakistan's current tax system and not at the expense of the poor. (*Ahmond and Ludlow1989*)

Binguang Hsiumg (1991) has made an effort to assess the VAT in Taiwan, which was in effect since 1986. According to her, VAT in Taiwan was implemented in order to increase the competitiveness of exports and improve the efficiency of business tax structure VAT how replaced business receipt tax, stamp tax and commodity tax, which contributed 28% of total tax revenue. The impact of VAT showed that the business tax revenue increased considerably although the reform was aimed to be revenue neutral. Adoption of VAT did not cause price fluctuations. Another surprising impact of VAT was that revenue from the business income tax increased significantly immediately after the adoption of VAT. This may be attributed to the cross-checking procedure provided by the VAT. As for exports, there did not seem to be a direct link between VAT and export since exports are influenced by a number of factors. The tax fell heavily on the public

sector business and they were more affected by VAT than the private sector business. Generally, it can be said that the VAT system tremendously improves the efficiency of tax collection. However, there are some rooms for improvements especially in administration. The experience of Taiwan has attested to the superiority of VAT in taxing business activities. (*Binguang, 1991*)

*In a Jeminar “Value Added Tax on Asia” organized by IMF/ UNDP, Alan A Tait (1991) presented a paper entitled “VAT policy issues: structure, regressive, inflation and export”, In Jakarta of Indonesia, and later arranged on the occasional paper (88) IMF, Washington D.C., edited by the same author in 1991. The study concentrates on the policy concerns of the basic illustrations of some theoretical as well as empirical proofs.*

- i) VAT is the alternative of retailer sales tax. However both do not fully tax the unofficial business but the under reporting of sales value will show up under the VAT.
- ii) The VAT is for the buoyant base of revenue, maintaining neutrality and efficiency in taxation.
- iii) It is preferable that VAT has the capacity of covering the all stage of production to the retail level and the services.
- iv) Over all, VAT may not contribute to promoting exports but it makes the system easier.
- v) Single positive rate VAT and few exemptions prove regressive but it should be evaluated based on proofs relatively less regressive than other. It should be weighted compared to the deficits.
- vi) VAT simply changes relative price but not the overall price increase. Tax increase should be deflationary.

- vii) VAT administration effects by many components are whether all retail sales and services are taxed, how many rates are to be used, the treatment of capital goods, financial services, food, small traders all will affect the administration of VAT.

Khadka, published an article on “Probability of VAT in Nepal” reached a conclusion that a VAT, theoretically, is the best alternatives and remove limitations of present sales tax system of Nepal. He further adds the merits of VAT do not appear voluntarily. For this, implementation aspect of VAT must be efficient. The implementation aspect of the tax depends on the capacity of the tax administration, co-partnership of taxpayers, accounting system of the business sector and political confidence etc. So, it needs full preparation before including VAT in Nepal. (*Khadka1995*)

Khadka, in his paper “A VAT for Nepal” focused on purposed structure, operation and administration 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 transactions. Exemption should not be granted unless there is a specific reason to do so, such as administration and equity. Zero rating should be limited to exports and tax rate should be single to avoid complications and inefficiencies in collection.

The purposed operation of VAT requires that the taxpayers above a threshold limit should be registered, the vendor should issue and invoice for each sale, keep a clear account of his purposes and sales (separate accounts for zero-rated, exempted and positive rated goods) and VAT liability should be calculated of its taxable sales, tax credit method should be used as a method of computation of the tax, and tax payment and refund period should be of one month. The present sales tax 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 operation 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. A comprehensive VAT education program must be launched to educate the taxpayers. (*Khadka, 1996*)

Subedi (1997), in his dissertation concludes that VAT is applicable in Nepal on the sense of tax performance. In Nepal, VAT is desired to achieve the goal of neutrality, revenue productivity, fairness and transparency. From his view VAT is found to be the best alternative to eliminate the existing inefficiencies of tax system. VAT would generate more revenue with less distortion and will unify member of taxes producing very low amount of revenue because of its broad average. VAT, being member of indirect taxes is regressive in nature. Utilizing income tax, special consumption tax and some exemption for equity goals, the focus of VAT should be on revenue generation in Nepal.

In the view of problem of acute budget deficit and foreign dependency, the preparation of VAT should be accelerated in Nepal. But, VAT should be implemented in Nepal only after full and adequate preparation. In theoretical sense, VAT is the best form of sales tax, especially due to its neutrality regarding the method of production and generating more revenue. Further, VAT having the self enforcing feature would make tax administration easier.

According to the study, VAT should not be taken as easy tax; rather it is very challenging issue for Nepal. The major challenging issue for VAT implementation in Nepal is successful tax administration. The existing sales tax administration is

not capable of handling VAT. Further, VAT needs more active administrative efforts. Other problems with VAT implementation in Nepal are: lack of account keeping system, lack of sufficient knowledge about VAT, illiteracy and low public awareness. The existing tax evading practices also seems a serious problem. More advantages of VAT can be achieved only if its extension to the retail level but extends so of VAT to retail level in impracticable and impossible in Nepalese contest.

He recommends that a moderate single rated VAT is desirable. If VAT is implemented well, it will generate 1.5 to 2.5 folds more revenue than existing sales tax. But, however, a VAT in Nepal may not be “a hen with golden eggs” and it is not a “Panacea” for curing all its requirement active efforts and commitment for all ills, sides. He further suggests that on the one hand, VAT itself is the complex tax system and the other hand, taxation system is a part of economic ocean. Thus we have to know our capacity of swimming and realized depth of the ocean before dividing into it. (*Subedi, 1997*)

Shrama (1998), examines several aspects of VAT administration such as its problem, constructions, possibility, operation and other aspects. In his dissertation, he has found following findings

- i) Most of the traders and businessmen are lacked with the minimum concept of VAT. They are mainly facing, pricing, billing and accounting problems
- ii) Adequate VAT education programmers are not conducted and VAT administration has also facing lack of administrative personnel.
- iii) The relation between government and business community is broken, which has been barrier to important VAT successfully.

His suggestions to the government to implement VAT successfully in Nepal are as follows.

- ) The government should pay attention of design the story administration.
- ) The government should try to produce gazette manpower and to train them well.
- ) Comprehensive educational program should be launched by the government.

At last he concludes that VAT requires the strengthened administration for its effective and efficient implementation. (*Sharma,1998.*)

Bista (1999), in this research, focused the need of VAT for Nepal for several reasons. They are effective revenue mobilization, industrial development, strong administration, transparency and avoiding all the tax loopholes. VAT helps to reduce resource gap by broadening the tax base and mobilizing additional resource 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 operate the VAT administration with effectively and efficiently.

In his research, he has found following findings

- ) The sales tax system is failure to several cases: narrow tax base, inelasticity of tax rate, incapable and weak administration, tax leakage, corruption and political intervention. So, the entire tax reform is needed.
- ) A VAT is account based, invoice based and record based; it checks the tax loopholes such as undervaluation, non-recording and unauthorized trade. It discourages such issues and problems existed in the sales tax system.
- ) VAT mobilizes the additional resources and the rest of internal resources by broadening tax base and by discouraging the existing tax loopholes.

J For implementation of VAT, the public awareness level relating VAT and VAT administration should be good and it is a prerequisite in preparation of VAT.

VAT administration should be strong and efficient in order to implement properly. But in Nepal, VAT administration has been facing the problems like corruption, incapability, inefficiency, delaying, ineffectiveness, inexperience and untrained employee and weak organization set up. (*Bista, 1999*)

Silwal in his book “Value added tax: A Nepalese experience (1999) has expressed his practical experiences about VAT. This book covers all aspects of VAT. In his view, “VAT is an all stages non-cascading tax system. It extends to all level of production and distribution. Similarly, it covers all stages and services. Any discrimination in taxing goods or services or exempting any of them renders VAT ineffective.

The book mostly concentrates on Nepalese tax system. The book clearly analyze why the government of Nepal introduce VAT. HMG announced retail level sales tax at the rate of ten percent covering a whole range of goods and services. There was no procedural law to administer it. When RST introduce in Nepal, Literacy level was just meager and billing and record keeping was fanciful. In this situation, required revenue can not take place, which in turn into the development expenditure. So that a modern, efficient and neutral tax like VAT was therefore preferred to get rid of past anomalies.

The writer expresses a version by borrowing Govt. declaration that “the government of Nepal does not have the option of doing nothing. Major changes must be made in order to make tax administration fair efficient and effective. The hostility, harassment and corruption that currently exist between the tax office and

business community must and if Nepal is to have modern tax system. The business wants the system changed and willing to pay a reasonable tax but they want the system transparent and fair.

Mr. Silwal suggests the factors affecting VAT design take also into consideration. A poorly designed VAT accompanied by weak administration would just drain the treasury. So, almost care is necessary while designing a VAT in Nepal (i) Tax based issues (ii) Rate structures issues (iii) Exemption issues and (iv) Threshold issues.

Finally Mr. Silwal has reached a conclusion that the introduction of VAT provides an opportunity to sweep away cobwebs and revamp a substantial part of the tax administration. In every country where it has been implemented properly the VAT has proven itself as a revenue productive tax. However, benefit from VAT depends upon its coverage. VAT is levied on the basis of value-added to the value of product at each stage of its sale in process of production and distribution. In other words, it is assessed at each stage only on the increase in the value of a commodity since the last transaction (except export and governments services). It is special characteristics being that it falls on the value added at each stage from the stage of the product to retail stage. (*Silwal, 1999*)

Dhakal, in his dissertation analyzed the Nepalese tax structure along with the basic emphasis and historical background and political revenue of VAT in Nepal. The increasing trend of the resource gap of Nepal is forcing the country to deep-tap situation. Domestic resource mobilization through the properly designed tax system is the best way to uplift the situation. In this process, Nepal is adopting the destination based, consumption type VAT operated by the tax –credit method. VAT encourages investment, supports economic growth and keeps price stable

exceptions and zero rating reduced the regressivity of VAT, however it makes the administration complex. The study found that VAT is unable to complete the existing sales tax mainly due to the minimum use of invoice by sellers and as well as having no interest to obtain invoice by sellers and as well as having no interest to obtain invoice by purchasers. Elasticity and buoyancy of Nepalese tax system are very low. Further, they are decreasing in recent years. VAT, more attractive from the theoretical as well as empirical aspects, is being, hot milk in mouths from practical view point mainly due to the inefficient tax administration. Hence, the introduction of the VAT is not fulfillment of the requirement and VAT system itself has great need of reforming in Nepalese context. (*Dhakal, 2000*)

Prasai, in a dissertation submitted to T.U. for degree in economics, he entitled "VAT in Nepal: Theory and Practice". To fulfill his objective he used descriptive type of analysis. He concludes that the Nepalese VAT system has no weak provision; 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. The government needs to take necessary steps to sort out emerging problem in implementation of VAT. The government needs full cooperation from the tax administration, the taxpayers and businessman as well as consumers in its effect to generate more revenue. VAT must be made successful and this largely depends upon honesty, faith and mortality of tax officials and business people. Responsibility and accountability in every section of the economy is its basic requirement as well as honesty and confidence between the business people 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. (*Prasai, 2002*)

Regmi, in his dissertation, found the following findings.

- ) Nepal has been facing resource gap for many years. Tax revenue sources are not able to maintain even regular budget. Regular or general expenditure budget has two times more than development budget.
- ) Most of the development expenditure budget implemented by the domestic and foreign loan and grants.
- ) During the period both tax and non-tax revenue has been increase. Collection of direct and indirect both taxes have been increase. Out of indirect tax, custom duty, VAT and excise duty have been increase but vehicle tax has been decreased. Import is the major part of custom duty; its contribution has increased but in terms of percentage to custom duty has been decreased.
- ) Production, import, sales/distribution and services are the major components of value added tax. Their contribution has increased but in terms of percentage only sales/distribution or services sectors has increased, while, production and import sector has decreased.
- ) Most of general people are unknown about VAT. Traders also think that price of product increase applying the VAT. Businessman may cheat them taking ten percent extra amounts as VAT. Ten percent rate of VAT and Rs.20 lakhs or Rs. 2 million threshold amounts is moderate.
- ) Most of the general people as well as Govt. offices also indifference about bill while purchasing the products. The habit helps for businessman to lift the VAT.

- ) The traders who are registered on VAT they use to keep records on double entry system and using computer i.e. prescribed from of VAT office. Most of the traders who are registered on PAN or not registered use to keep records on single entry system and do not use to keep any records.
- ) Tax personnel do not check documents clearly on most the business organization. Only a few personnel are helpful. Most of the tax personnel do not perform their work on time.
- ) Monthly statement submission to tax office and stock valuation of sales return are the main problems imposed by VAT.
- ) Government may increase the boundary of VAT to generate more revenue.

He concludes that taxes are the lifeblood of every government, which has taken from the heart of people. Every nation has made different laws, rules and regulation for tax collection. Tax law should be well defined, simple and clear. It should be little burden to people as far as possible. Administration should be sound and effective, appropriate tax policies, minimum cost of collection, tax consciousness on general public are the major features of effective tax system. Taxpayers should be made conscious through proper tax education; efforts should be made to bring all potential taxpayers to tax net. Environment must be created for tax officials and taxpayers to fulfill their corresponding responsibilities. There should be better co-ordination mutual co-operation and understanding between taxpayers and administration.

Political support, administration efficiency, transparency, and confidence, co-operation, general people, businessmen needed to make VAT system successful, that could generate more revenue for economic development. It is the responsibility of all Nepalese citizens to participate in the efforts made by nation

through better mobilization of internal revenue specially the taxation. (*Regmi, 2004*)

Sedai, in his dissertation, the major finding are visualized below:

- ) VAT has most essential choice as ingredient of tax reforms of developing countries like Nepal which leads to revenue enhancement and sustainable economic development. There is tremendous scope for increasing the revenue from VAT and sound implementation of VAT will obviously increase its contribution in coming days.
- ) The government expenditure is increasing consciously but revenue resources are very limited which led the country to fiscal crises. The major causes of persisting fiscals deficit in Nepal is due to the poorly designed and defective tax system which cause inadequate mobilization resources.
- ) In recent decades, developing as well as developed countries in the world have increasingly focused their attention towards reforming the tax system by realizing the poor designed tax structure in order to mobilize higher volume of resource for the development purposes and make economy health, efficient, and self dependent to a greater extent. In this sense, VAT became a power point of attraction of many countries and gaining popularity day by day.

His Major Recommendation:

- ) Most of the business persons are still unconscious about VAT. It is necessary to make training, seminar report presentation, paper presentation, publication of journals and VAT programmed through media for the awareness of general people about VAT.

- ) Except the most essential goods and services which are directly related to the people living below the poverty line, goods and services should not be exempted.
- ) The VAT administration should be kept free from any sort of intervention or influences from the outside. Honest and capable persons should be selected for the key position. Training of the tax personnel should be kept at the top most priority. A good working environment should be created inside the administration. Reward and punishment system should be strictly followed as a major guideline of conducting administration. Tax officials should closely be monitored for any kind of misdeeds.
- ) Computer system and networking programmed must be development and liked so as to make the VAT work simple which also helps to make data base system effective.

*(Sedai, 2005)*

Ghimire, in his dissertation, he concludes that public revenue, main source to fulfill the need of public expenditure has not been able to pace with public expenditure. The public revenue is two types i.e. tax revenue and non tax revenue. Tax revenue contributes about 75% of the total revenue while the non-tax revenue represents about 25 % of the total revenue. To increase the revenue through non-tax revenue is very tough job due to its rigidity characteristics. So, it is necessary to make every effort to generate more revenue through taxes, which levied on commodities, incomes and properties. Since, non-tax revenue cannot be used as an effective instrument of revenue mobilization; attempts must be made to mobilize more tax revenue through the reform of the tax system. As a part of tax reform, VAT has been implemented. It replaced the sales tax, hotel tax, contract tax and entertainment tax. Income tax and VAT has been merged in order to avoid

duplication and overlapping of functions. It is now being beneficial for parties, government & taxpayers. (*Ghimire, 2005*)

Naupane, in his thesis, major findings are the following:

- ) The share of indirect tax to total revenue is higher than the share or contribution of direct tax and not tax. VAT is also raised amidst indirect tax. Though the share of VAT to total revenue is less than the share of non tax to total revenue, it is higher than the share of direct tax to total revenue.
- ) Creating the awareness of traders and businessmen towards new system approach, the number of registration increased under VAT.

He concludes that the major feature of VAT system is that taxpayer has to issue the invoice compulsory for his taxable transactions. The first stage of VAT is giving and taking bill or invoice. If the immoral acts gets encouragement is very fast stage, we can easily think what effects it was caused on other process like in auditing, keeping accounts etc. To overpower these kind activities the administration must strengthen its supervision team. Such immoral person must be punished severely so that the honest traders do not have to undertake unhealthy competition with them.

His major recommendations are the follows:

- ) The boundary of VAT should be increased instead of increasing the rate of VAT in order to increase the tax amount under VAT.
- ) The concentration must be given to bring the use of billing in all trading concern.
- ) There should made the discouragement towards the close down program lock, out and disruption in transpiration field.
- ) Government has to make concentration to increase the foreign assistance instead of increasing foreign loan for development expenditure.

J Most of businessmen are still unconscious about VAT. It is necessary to make training, seminar, report presentation, paper presentation, publication of journals VAT programs through media for the awareness for general people about VAT.

*(Neupane,2006)*

Adhikari (2007) concludes that value added tax puts greater significance in revenue mobilization in Nepal. The reason behind this is that VAT system is transparent, broaden tax base and discourage tax evasion. So, it is needless to say that VAT is most important sources of the government revenue. VAT is most scientific, innoVATive and powerful tax with built in quality of universal application of both developed and developing economics. The biggest virtue of VAT is that it is revenue buoyant and highly instrumental for resources. VAT would make it possible to broaden the tax base, eliminate tax cascading, create an investment friendly tax system have a simple and modern tax system that exempted export and basic goods from taxation and finally increase revenue. This is the matter of great pride that Nepal has entered into a major global tax system with the introduction of VAT.

Adopting of VAT for Nepal is both compulsion and necessity. It can not curtail its development projects for which more revenue required. The narrow tax base of the previous sales tax failed to generate the minimum required amount of revenue because it included only the import and manufacturing units. Similarly, most of the goods and services were exempted from tax. Income tax, however, has same potential for revenue generation in Nepal. The rates of income tax are slowly decreasing because government can not put more burdens on people to pay income tax. The globalization and recent trend of tax system has affected the Nepalese

economy also. As we now member of the WTO, we shall need to decrease out customs duties drastically. (*Adhikari, 2007*)

#### **2.4. Research Gap**

Above all researches have conducted in different sense either in worldwide coverage or in particular case of any countries but resource mobilization from VAT in any developing countries has not been evaluated. In this study, the researcher try to evaluate Nepalese VAT by identifying existing problems by conducting field survey, in order to know somehow about the practice experience of VAT. This research has tried to elaborate the actual contribution of VAT for the revenue mobilization with mentioning the latest data in Nepal by conducting comparative analysis with different phenomena.

## **CHAPTER-III**

### **RESEARCH METHODOLOGY**

A systematic research study needs to follow a proper methodology to achieve the pre-maintained objectives. Research methodology is a sequential procedure and methods to be adopted in a systematic study. Research methodology describes about research design, population and sample, nature and sources of the data, and the tools that will be used to analyze the data.

#### **3.1 Research Design**

Research design is the plan, structure and strategy of investigation conceived so as obtain answers to research questions and to control variance. The plan is the overall scheme of program of the research.

A well stated research design is necessary to fulfill the objective of the study. This research is aimed at studying the VAT system impact over the tax structure in Nepal. For this purpose, the research will follow more analytical and less descriptive research design.

#### **3.2 Population and Sample**

The study will cover only selected area as well as selected people and offices as sample size. The population of the study will be nation as a whole, which is affected by the tax policy of government. Here only 50- sample size will be selected and they will be tax experts, tax officers, businessman/ traders and consumers. In order to fulfill the objectives of the study, the sample size will select from Chitwan, Nawalparasi and Kathmandu districts.

The following Table shows the group of the respondents and size of sample:

**Table No. 3.1**  
**Profile of Respondents**

<b>S.N.</b>	<b>Group of Respondents</b>	<b>Sample Size</b>
1	Tax experts	10
2	Tax Officers	10
3	Businessman/ Traders	15
4	Consumers	15
	Total	50

*Source: field Survey, 2009*

### **3.3 Method of Data Collection**

For this research work, the data were collected by two methods:

- a) Primary data
- b) Secondary data

#### **a) Primary data**

In order to collect views of different persons, different set of questionnaires are developed and distributed to the selected people among, tax experts, tax officers, businessman/traders, and consumers.

#### **b) Secondary data**

The secondary sources of data are collected from different published and unpublished articles, budget speech, economic survey and other relevant journals and periodicals.

### 3.4 Data Period Covered

This study covers a period of Nine years from 2000/01-2007/2008. The analysis is done on the basis of the data for these Nine years.

### 3.5 Method of Data Analysis

Generally, the statistical tools are used for attaining accuracy on analysis of numerical figure. To achieve the objective of study, the collected data has been properly arranged, tabulated and presented in diagram and analyzed. Different statistical tools such as simple percentage, mean, co-efficient of correlation analysis and tend analysis have been used to analysis the data.

The research has used of simple statistical tools which is given below.

#### a) Simple Average

Simple average or mean of the available data has been calculated. It helps to analyze the income sources of VAT to the government. According to S.P. Gupta, "Average is a single value that represents a group of values. Such a value is of great significance because it depicts the characteristics of the whole group." (Gupta, 1991). The formula used to calculate simple average is:

$$\bar{X} = \frac{\sum X}{N}$$

Where,

$\bar{X}$  = Simple Average (Mean)

X = Sum of All the value of the variables

N = No. of observation (No. of Years)

## b) Correlation co-efficient (r)

Correlation co-efficient is defined as the association between the dependent variable and independent variable. It is a method of determining the relationship between these two variables. If the two variables are so related the change in the value of dependent variable then it is said to have Correlation co-efficient. (Dr. Sunity Shresth and Dhurba P. Silwal, “Statistical Methods in Management” 2059; p-315). It can be calculated by using the method of Karl Person's Correlation coefficient, which is a widely, used mathematical method of Correlation Co-efficient between two variables.

$$\text{Correlation Co-efficient (r)} = \frac{N \sum d'_x \cdot d'_y}{\sqrt{N \sum d'^2_x} \sqrt{N \sum d'^2_y}}$$

Where,

X = The first variable.

Y = The second variable.

N = No. of years/ observations.

$$d'_x = \frac{X - A_x}{h_x}$$

$$d'_y = \frac{Y - A_y}{h_y}$$

$A_x$  and  $A_y$  are assumed means for X and Y respectively.

$h_x$  and  $h_y$  are the common factors for X and Y respectively

Interpretation of Correlation Co-efficient

- 1) If  $r = 0$ , there is no relationship between the variables.
- 2) If  $r < 0$ , there is negative relationship between the variables.

- 3) If  $r > 0$ , there is positive relationship between the variables.
- 4) If  $r = +1$ , the relationship is perfectly positive.
- 5) If  $r = -1$ , the relationship is perfectly negative.

**c) Probable Error (PE)**

The probable error of the correlation is applicable for the measurement of reliability of the correlation co-efficient (r). It is also denoted by PE.

$$PE = 0.6745 \frac{1Zr^2}{\sqrt{N}}$$

Where,  $r$  = Correlation Co-efficient.

$N$  = No. of pairs observation.

- i) It can be interpreted its calculated value of 'r' is significant or not significant. No matter how high 'r' value is i.e. there is no evidence of correlation between the variables.
- ii) If  $r > 6PE$ , the value of r is significant i.e., Correlation is significant.

**d) Regression Analysis**

Regression Analysis reveals average relationship between two variables and makes possible estimation on prediction. "Regression is the measure of the average relationship between two or more variables in terms of the original units of the data. (*S.P. Gupta, "Statistical Method", 1991: p-112*)

Regression equation is also known as estimating equations. There are two regression equations: The regression equation x on y and regression equation of y on x. The regression equation y on x has been used in this study.

$$Y = a + bX$$

Where, Y = Dependent Variable.

X = Independent Variable.

a & b = Numerical constants.

**e) Various Graphs, charts and diagrams :**

In this study, different graphs, charts and diagrams has been presented to analyze the available data. Pie-chart, Bar-diagram (Multiple percentage), Trend line etc. has been shown in chapter four (Presentation and analysis of data)

## CHAPTER-IV PRESENTATION AND ANALYSIS OF DATA

### 4.1 Glimpse of Nepalese Tax Structure

The Government of a country requires sufficient revenue to carry out development plans, to handle day-to-day administration, to maintain peace and security and to lunch other public welfare activities. For this purpose, government collects revenue from different sources. The sources of government revenue are taxes, borrowings, fees, donation etc.

#### 4.1.1 Composition of Total Revenue

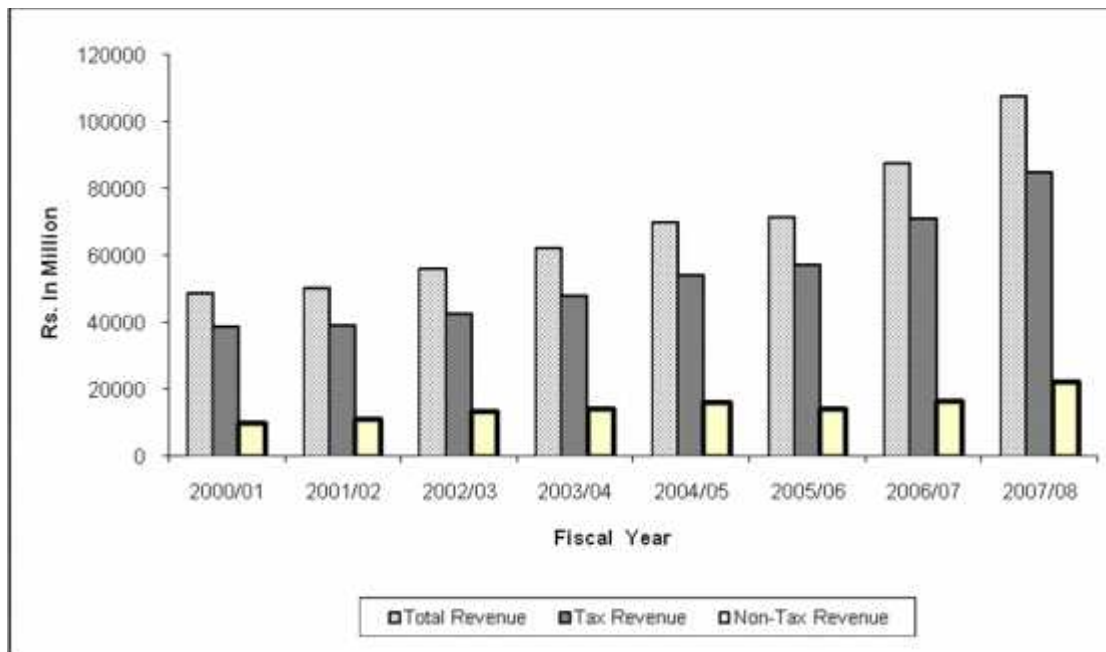
Income sources of government are classified mainly into two categories namely tax revenue and non-tax revenue. Tax plays the vital role as a revenue sources for government. Every country used to impose different kinds of taxes according to their necessities and taxable capacity. Nepal has been implementing different kinds of taxes to generate revenue. The composition of the tax revenue in resent nine years has presented and analyzed to exhibit Nepalese tax structure.

**Table 4.1**  
**Contribution of Tax and Non-tax Revenue in Total Revenue**  
**From fiscal Year 2000/01 to 2007/08 (Rs in Millions)**

Fiscal Year	Total Revenue	Tax Revenue		Non-tax Revenue	
		Amount	%	Amount	%
2000/01	48893.9	38865.1	79.49	10028.8	20.51
2001/02	50445.6	39330.6	77.97	11115.0	22.03
2002/03	56229.7	42587.0	75.74	13642.7	24.26
2003/04	62331.0	48173.0	77.29	14158.0	22.71
2004/05	70122.7	54104.7	77.16	16018.0	22.84
2005/06	71733.1	57430.4	80.06	14302.7	19.94
2006/07	87711.2	71127.0	81.09	16584.2	18.91
2007/08	107622.5	85155.5	79.12	22467.0	20.88
Average	69386.21	54596.66	78.49	14789.55	21.51

*Source: Economic Survey 2008/09, Ministry of Finance (MOF), Nepal Government*

**Figure 4.1**  
**Contribution of Tax and Non-Tax Revenue in Total Revenue**  
**From FY 2000/01 to 2007/08**



Above table and figure shows the composition of total revenue of Nepal which contributes tax revenue and non-tax revenue from the fiscal year 2000/01-2007/2008. In the study period, it has been observed that both tax and non tax revenue has been increased. Tax revenue has been significantly increased from the fiscal year 2000/01-2007/2008. The amount of tax revenue was found increasing every year with the amount of Rs.38865.1 Million to 85155.5 Million and on the other side, the amount of Non-tax Revenue was also found increasing Rs. 10028.8 Million to Rs.22467.0 Million from FY 2000/01-2007/2008. Thus, it shows tax revenue more contributes in total revenue than non tax revenue in each fiscal year.

#### **4.1.2 Tax Revenue Structure of Nepal**

Tax is a compulsory Contribution made by taxpayers to the government without having any direct personal benefits. Taxes are not a voluntary contribution by the taxpayer but it is compulsory in nature. Generally a tax is a compulsory contribution imposed by a public authority. Taxation is the main sources of income of the government excluding foreign aid. In general, tax is collected from haves and spent for the interest of have-nots in the society. Tax is generally levied on person as per the prevailing rules of the country. In Nepalese context tax revenue sources covers most important revenue sources in the economy and the contribution of tax revenue is around 75 percentages.

Nepalese total tax revenue is divided broadly into direct tax revenue and indirect tax revenue. Direct tax revenue includes revenue from land revenue and registration, taxes on property, Profit and income, whereas indirect tax revenue is composed of taxes like customs on export and import, taxes on consumption and production of goods and services. The trend and composition of tax revenue from the fiscal year 2000/01 to 2007/2008 are given in the table below:

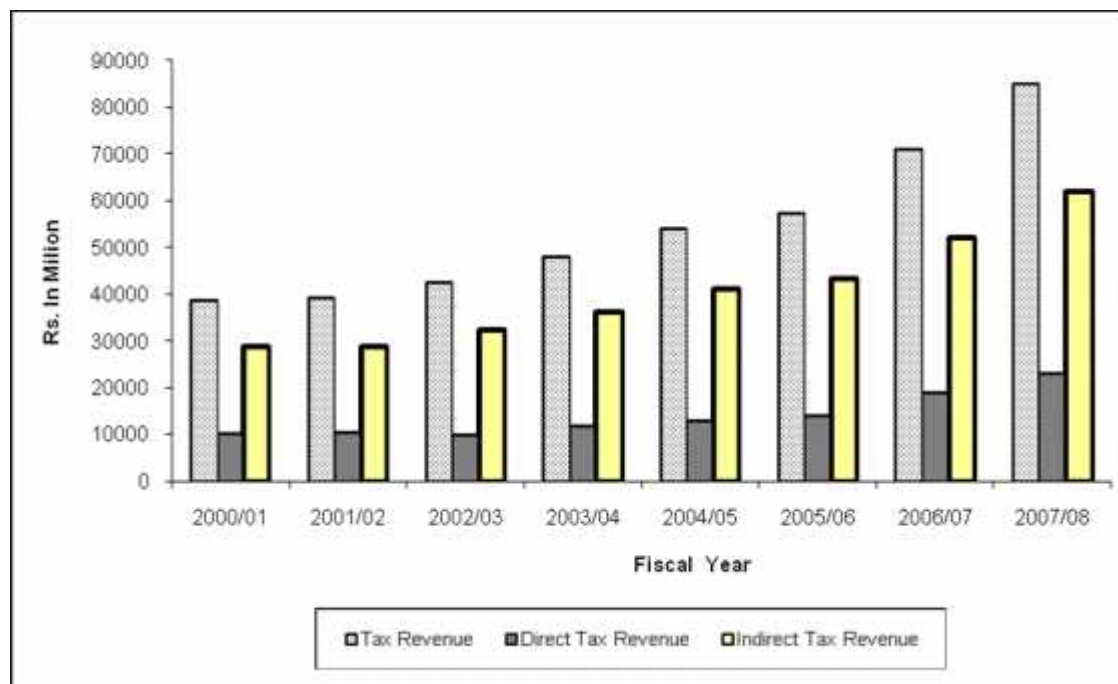
**Table 4.2**  
**Structure of Nepalese Tax Revenue**  
**From the FY 2000/01 to 2007/08 (Rs. in Millions)**

Fiscal Year	Tax Revenue	Direct Tax Revenue		Indirect Tax Revenue	
		Amount	%	Amount	%
2000/01	38865.1	10159.4	26.14	28705.7	73.86
2001/02	39330.6	10597.5	26.94	28733.1	73.06
2002/03	42587.0	10105.8	23.73	32481.2	76.27
2003/04	48173.0	11912.6	24.73	36260.4	75.27
2004/05	54104.7	13071.8	24.16	41032.9	75.84
2005/06	57430.4	13968.1	24.32	43462.3	75.68
2006/07	71127.0	18980.3	26.69	52146.7	73.31
2007/08	85155.5	23087.8	27.11	62067.7	72.89

Average	54596.66	13985.41	25.48	40611.25	74.52
---------	----------	----------	-------	----------	-------

Source: Economic Survey 2008/09, Ministry of Finance (MOF), Nepal Government

**Figure 4.2**  
**Structure of Nepalese Tax Revenue**  
**From the FY 2000/01 to 2007/08**



The above table and figure, shows that indirect tax revenue has been playing dominant role in Nepalese tax structure. The volume of direct tax revenue and indirect tax revenue was Rs 10159.4 Million and Rs. 28705.7 Million that is 26.14% and 73.86% of total tax revenue respectively in the fiscal year 2000/01. The Amount of direct tax revenue is increasing every year as it increased from Rs. 10159.4 Million to Rs.23087.8 Million in fiscal year 2000/01 to 2007/08. The amount of the indirect tax revenue is also in increasing trend. It has increased from Rs. 28705.7 Million in year 2000/01 to Rs.62067.7 million in year 2007/08. The average share of direct-tax revenue in total revenue from the period 2000/01 to 2007/08 was 25.48% and the share of indirect tax revenue was 74.52 percent.

In this way, Nepalese tax structure has heavily dominated by indirect tax. Indirect taxation is the principle source to general revenue. So, to divert the economy in the channel of development, it is necessary to increase the share of direct tax, ultimately decreasing the share of indirect tax. Therefore, the attention should be focused on the sufficient resource Mobilization through direct taxation.

### 4.1.3 Composition of Direct Tax Revenue

A direct tax is a tax paid by a person on whom it is legally imposed. In direct tax the person paying and bearing tax is the same. It can not transfer from one to another. It is the tax on income and property. Direct taxes are income tax, Property tax, Vehicle tax, interest tax, Expenditure tax, Death tax, Gift tax etc. Direct Tax is equitable as it is imposed on person as per the property or income. It is elastic and enhances the consciousness of the citizens. But, taxpayers feel burdened of tax. It is expensive for government to collect the revenue.

The composition of direct tax has shown in the following table and figure:

**Table 4.3**  
**Composition of Direct Tax Revenue**  
**From the FY 2000/01 to 2007/08 (Rs. in Millions)**

Fiscal Year	Direct Tax Revenue	Income tax		Land Revenue & Registration		Miscellaneous	
		Amount	%	Amount	%	Amount	%
2000/01	10159.4	9114	89.71	612.9	6.03	432.5	4.26
2001/02	10597.5	8903.7	84.02	1131.8	10.68	562	5.30
2002/03	10105.8	7966.2	78.83	1414.3	13.99	725.3	7.18
2003/04	11912.6	9245.9	77.61	1697.5	14.25	769.2	6.46
2004/05	13071.8	10159.4	77.72	1799.2	13.76	1113.2	8.52
2005/06	13968.1	10373.7	74.27	2181.1	15.61	1413.3	10.12
2006/07	18980.3	16608.1	87.50	2863.5	15.09	1992.9	10.50
2007/08	23087.8	17327.9	75.05	2940.7	12.74	2819.2	12.21

Average	13985.4	11212.4	80.59	1830.13	12.77	1228.5	8.07
---------	---------	---------	-------	---------	-------	--------	------

*Source: Economic Survey 2008/09, Ministry of Finance (MOF), Nepal Government*

**Figure 4.3**  
**Composition of Direct Tax Revenue**  
**From the FY 1997/98 to 2006/07**

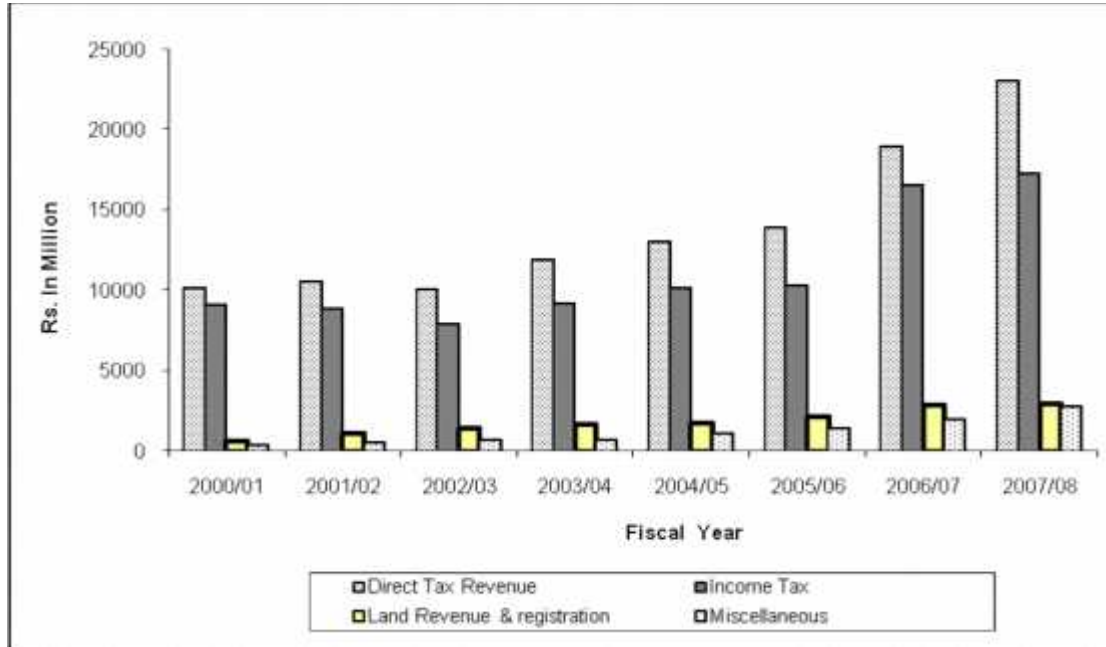


Table 4.3 and Figure 4.3 show the composition of direct tax revenue. Direct tax revenue is composed of income tax, land revenue & Registration and miscellaneous tax. Income taxes include Income tax from Public Enterprises, Income tax from semi-Public Enterprises, Income Tax from Private Corporate Bodies, Income Tax from individuals, Income from Remunerations and tax on interest. Land Revenue and Registration includes land revenue and House and Land Registration fees. Miscellaneous tax includes Urban House and Land Tax, Vehicle Tax, and other taxes. It can find that Income tax plays significant role in direct tax revenue from above table and figure. Income tax contributes 80.59% in average to the direct tax revenue from F/Y 2000/01 to 2007/08. It contributes 12.77% in Land revenue & registration, 8.07% in miscellaneous taxes in average from F/Y 2000/01 to 2007/08.

#### 4.1.4 Composition of Indirect Tax Revenue

An indirect tax is a tax imposed on one person but partly or wholly paid by another. In Indirect tax the person paying and bearing the tax is different. It is the tax on consumption or expenditures. Examples of indirect taxes are sales tax, VAT (Value Added Tax), Entertainment Tax, Hotel tax, Excise Duty, Import and Export Duty etc. If Indirect tax is imposed there is a less chance of tax evasion. There is mass participation each and every person getting goods or services has to pay tax. But it is uncertain. Indirect tax has bad effect on consumption, production and employment.

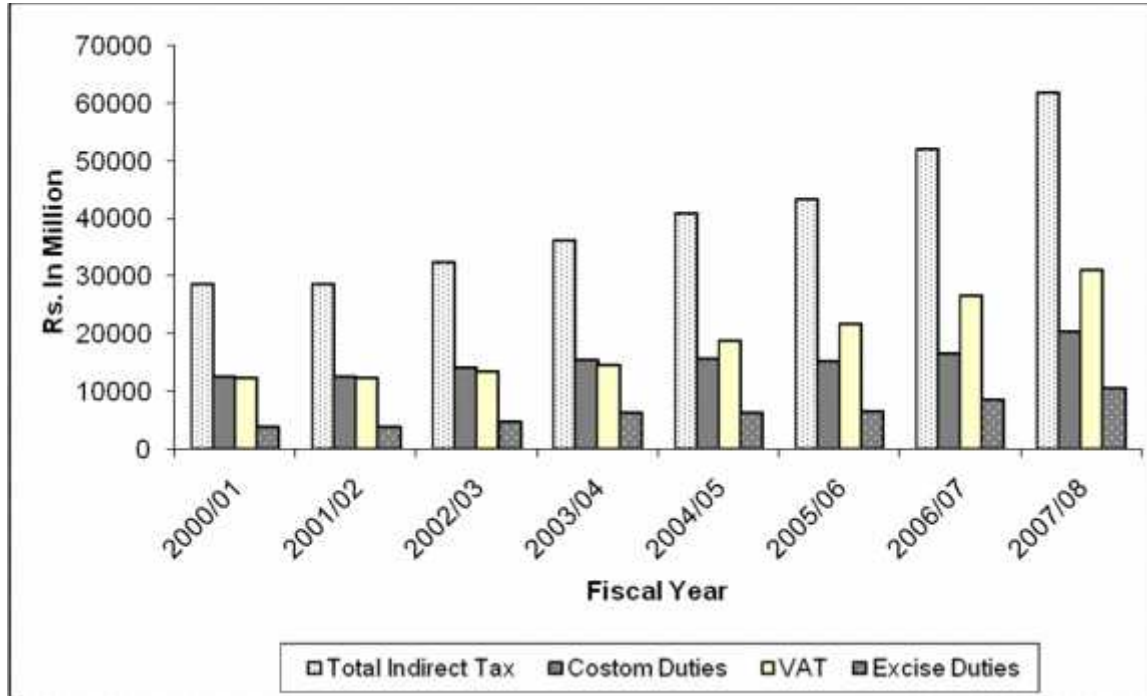
The composition of indirect tax has shown in the following table and Figure:

**Table 4.4**  
**Composition of Indirect Tax Revenue**  
**From the FY 2000/01 to 2007/08 (Rs. in Million)**

Fiscal Year	Total Indirect Tax	Custom Duties		VAT		Excise Duties	
		Amount	%	Amount	%	Amount	%
2000/01	28705.7	12552.1	43.73	12382.4	43.14	3771.2	13.14
2001/02	28733.1	12658.8	44.06	12267.3	42.69	3807.0	13.25
2002/03	32481.2	14236.4	43.83	13459.7	41.44	4785.1	14.73
2003/04	36260.4	15554.8	42.90	14478.9	39.93	6226.7	17.17
2004/05	41032.9	15701.6	38.27	18885.4	46.03	6445.9	15.71
2005/06	43462.3	15344.0	35.30	21610.7	49.72	6507.6	14.97
2006/07	52146.7	16707.1	32.04	26704.2	51.21	8533.9	16.37
2007/08	62067.7	20439.9	32.93	31154.6	50.19	10473.2	16.87
Average	40611.25	15399.34	39.13	18867.90	45.54	3771.20	15.28

*Source: Economic Survey 2008/09, Ministry of Finance (MOF), Nepal Government*

**Figure 4.4**  
**Composition of Indirect Tax Revenue**  
**From FY 2000/01 to 2007/08**



The composition of indirect tax in Nepal has characterized in three parts. They are: Custom duty. Value Added Tax (VAT) and Excise duty. Custom duty includes imports, Exports, Indian Excise Refund and others. VAT includes sales Tax, Entertainment Tax, Hotel Tax, Air Flight Tax and contract tax, Excise duty is excise on industrial products. Here, average or mean of custom duty over the study period is Rs. 15399.34 Million; average of value added tax (VAT) is Rs. 18867.90 Million and average of excise duty is Rs 3771.20 Million from fiscal year 2000/01 to 2007/08.

#### **4.1.5 Contribution of Tax and Non-Tax Revenue in GDP**

In order to understand the growth pattern of taxation properly, it would be desirable to examine the contribution of tax revenue and non tax revenue in GDP. Following table and figure present and account of the tax and not tax revenue percentage of GDP.

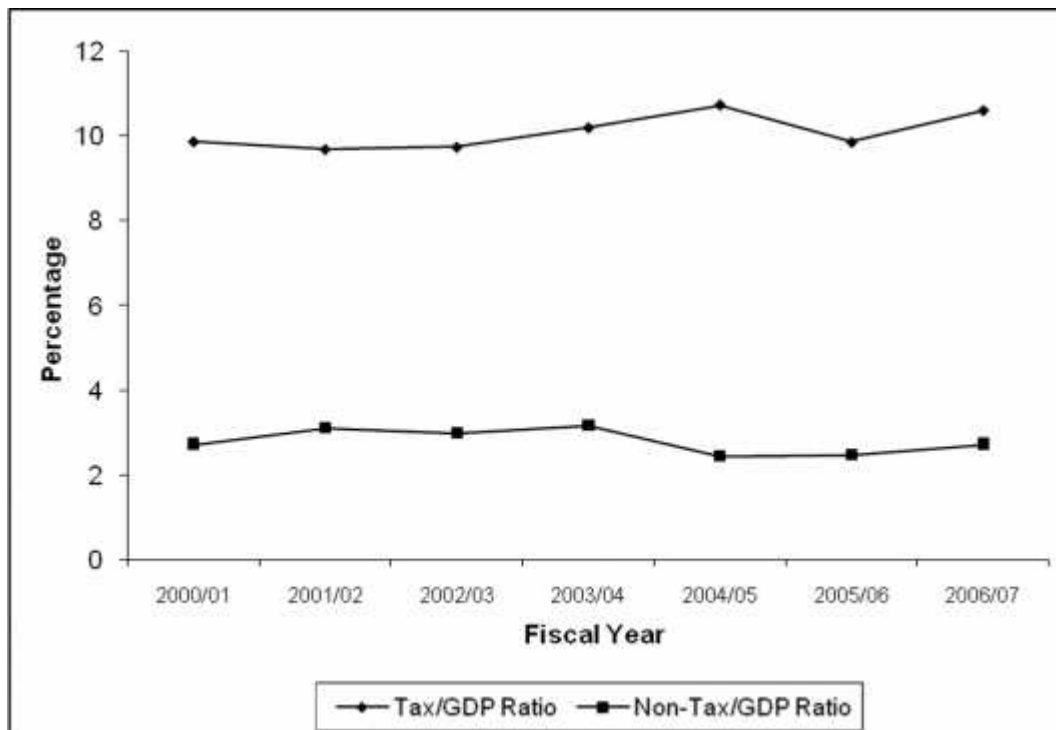


**Table 4.5**  
**Contribution of Tax and Non-Tax Revenue in GDP**  
**From the FY 2000/01 to 2007/08 (Rs. in Million)**

Fiscal Year	GDP	Tax Revenue	Non-tax Revenue	% of GDP	
				Tax/GDP Ratio	Non-Tax/GDP Ratio
2000/01	394052.0	38865.1	10028.8	9.86	2.74
2001/02	406138.0	39330.6	11115.0	9.68	3.12
2002/03	437546.0	42587.0	13642.7	9.73	3.00
2003/04	472424.0	48173.0	14158.0	10.20	3.18
2004/05	504101.0	54104.7	16018.0	10.73	2.45
2005/06	582950.0	57430.4	14302.7	9.85	2.47
2006/07	670588.7	71127.0	16584.2	10.61	2.74
2007/08	820814.0	85155.5	22467.0	10.37	2.74

Source: CBS, 2008 and Economic Survey 2008/09, Ministry of Finance (MOF), Nepal Government

**Figure 4.5**  
**Contribution of Tax and Non-Tax Revenue in GDP**  
**From FY 2000/01 to 2007/08**



The relationship between tax and GDP is known as Tax/GDP Ratio. There is an indicator of the utilization of taxable capacity. The above table and figure shows rather disappointing scenario of Tax/GDP ratios for the different fiscal years of study period. Above table and figure represent and account of tax and non-tax revenue as percentage of GDP. Tax revenue contributes 9.86%, 9.68%, 9.73%, 10.20%, 10.73%, 9.85%, 10.61% and 10.37% in GDP in fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06, 2006/07 and 2007/08 respectively. In this way, Non-tax revenue contributes 2.74%, 3.12%, 3.00%, 3.18%, 2.45%, 2.47%, 2.74% and 2.74% in GDP in Fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06, 2006/07 and 2007/08 respectively. In the above figure shows, Tax revenue contributes more than non-tax revenue in GDP. Tax revenue and Non-tax revenue contributes in GDP are in fluctuation condition from fiscal year 2000/01 to fiscal year 2007/08.

#### **4.1.6 Contribution of Direct and Indirect Tax Revenue to GDP**

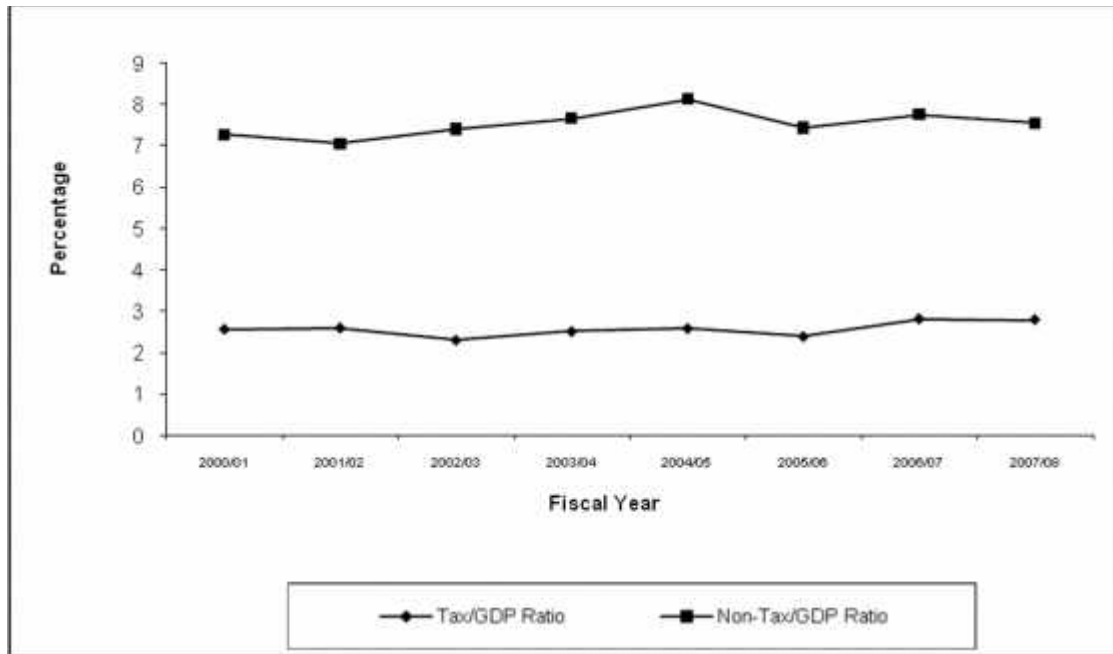
To know the contribution of direct and indirect tax revenue in GDP, It would be desirable to examine the share of direct tax and indirect tax revenue in GDP. The following table and figure present and account of the direct tax and indirect tax revenue as percentage of GDP.

**Table 4.6**  
**Contribution of Direct and Indirect Tax Revenue in GDP**  
**From FY 2000/01 to 2007/08 (Rs. in Million)**

Fiscal Year	GDP	Direct Tax Revenue	Indirect Tax Revenue	% of GDP	
				Direct Tax	Indirect Tax
2000/01	394052.0	10159.4	28705.7	2.58	7.28
2001/02	406138.0	10597.5	28733.1	2.61	7.07
2002/03	437546.0	10105.8	32481.2	2.31	7.42
2003/04	472424.0	11912.6	36260.4	2.52	7.68
2004/05	504101.0	13071.8	41032.9	2.59	8.14
2005/06	582950.0	13968.1	43462.3	2.40	7.46
2006/07	670588.7	18980.3	52146.7	2.83	7.78
2007/08	820814.0	23087.8	62067.7	2.81	7.56

*Source: CBS, 2008 and Economic Survey 2008/09, Ministry of Finance (MOF), Nepal Government*

**Figure 4.6**  
**Contribution of Direct and Indirect Tax Revenue in GDP**  
**From FY 2000/01 to 2007/008**



The above table and figure represent an account of direct tax revenue and indirect tax revenue as a percentage of GDP. The table and figure show that the contribution of direct tax and indirect tax to gross domestic product. Direct tax revenue contributes 2.58%, 2.61%, 2.31%, 2.52%, 2.59%, 2.40%, 2.83% and 2.81% in GDP from fiscal year 2000/01 to 2007/08 respectively. In the same way, Indirect tax revenue contributes 7.28%, 7.07%, 7.42%, 7.68%, 8.14%, 7.46%, 7.78% and 7.56% in GDP from fiscal year 2000/01 to 2007/08 respectively. Indirect Tax Revenue contributes more in GDP than Direct Tax Revenue. The contribution of Direct Tax Revenue and Indirect Tax Revenue in GDP are in fluctuation condition from fiscal year 2000/01 to 2007/08.

#### **4.1.7 Revenue Collection from VAT**

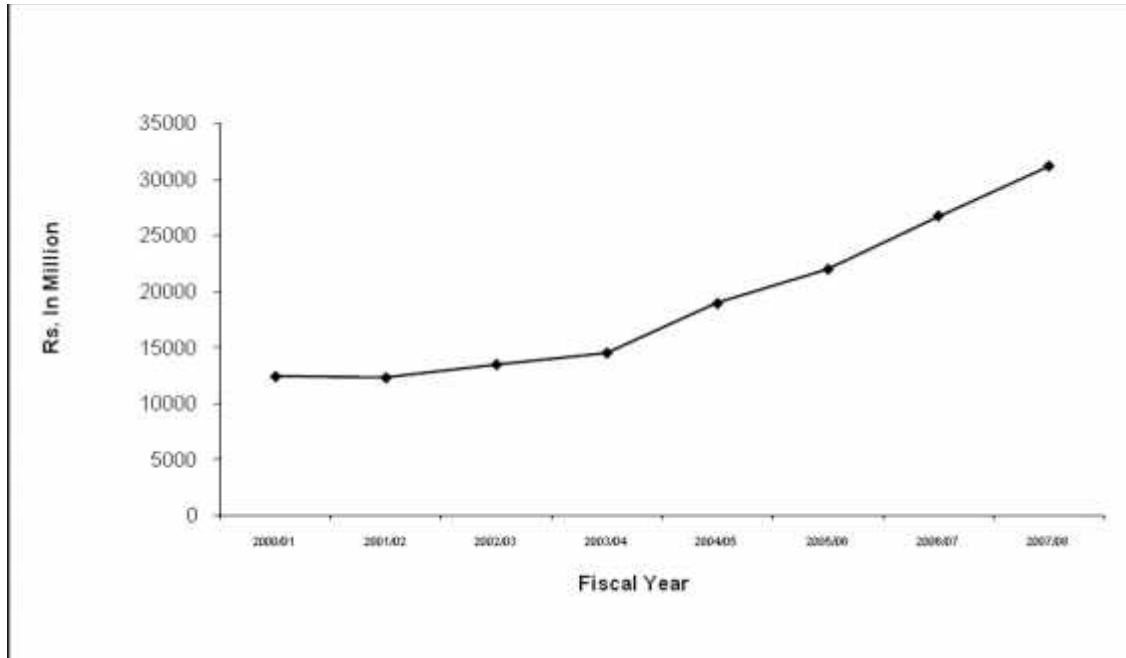
Value Added Tax (VAT) is an indirect tax. It is an improved and modified from sales tax. It is levied on value added of goods and services at each stage in process of production and distribution channel. VAT is a main source of taxable revenue of government. It avoids cascading effect existed in sales tax and contains catch-up effect. VAT generates more revenue with less distortion. The collection of revenue from VAT in different fiscal year is presented in table and figure below.

**Table 4.7**  
**Trend of Revenue Collection from VAT**  
**From FY 2000/01 to 2007/08** (Rs. in Million)

Fiscal Year	Revenue Collection	Percentage Change
2000/01	12382.4	-
2001/02	12267.3	-0.93
2002/03	13449.1	9.63
2003/04	14478.9	7.66
2004/05	18894.6	30.50
2005/06	21946.0	16.15
2006/07	26704.2	21.68
2007/08	31154.6	16.67

*Source: Economic Survey 2008/09, Ministry of Finance (MOF), Nepal Government*

**Figure 4.7**  
**Trend of Revenue Collection from VAT**  
**From FY 2000/01 to 2007/08**



The Above table and figure show the revenue collection from VAT in different fiscal year. The amount of VAT revenue is increasing trend. It has increased from Rs.12382.4 to Rs 31154.6 million in fiscal year 2000/01 to 2007/08. VAT revenue collection are 12382.4 Million, Rs 12267.3 Million, Rs 13449.1 Million, Rs14478.9 Million, 18894.6 Million, 21946.0 Million, 26704.2 Million and 31154.6 Million in FY 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06, 2006/07 and 2007/08.VAT revenue collection amount is increasing trend although it is decreased to -0.93% in 2001/02. VAT revenue has been increasing simultaneously except FY 2001/02.

#### **4.1.8 Registration Status on VAT**

In order to operate under VAT system, registration in Inland Revenue Department, tax office is compulsory collection of VAT is largely determined by the number of registration and their transaction. Under the VAT law and regulation in Nepal the Current threshold for VAT registration is Rs 2 million. Those vendors, whose annual turnover is below the threshold can, however register voluntarily. ([www.ird.gov.np/VAT.php](http://www.ird.gov.np/VAT.php))

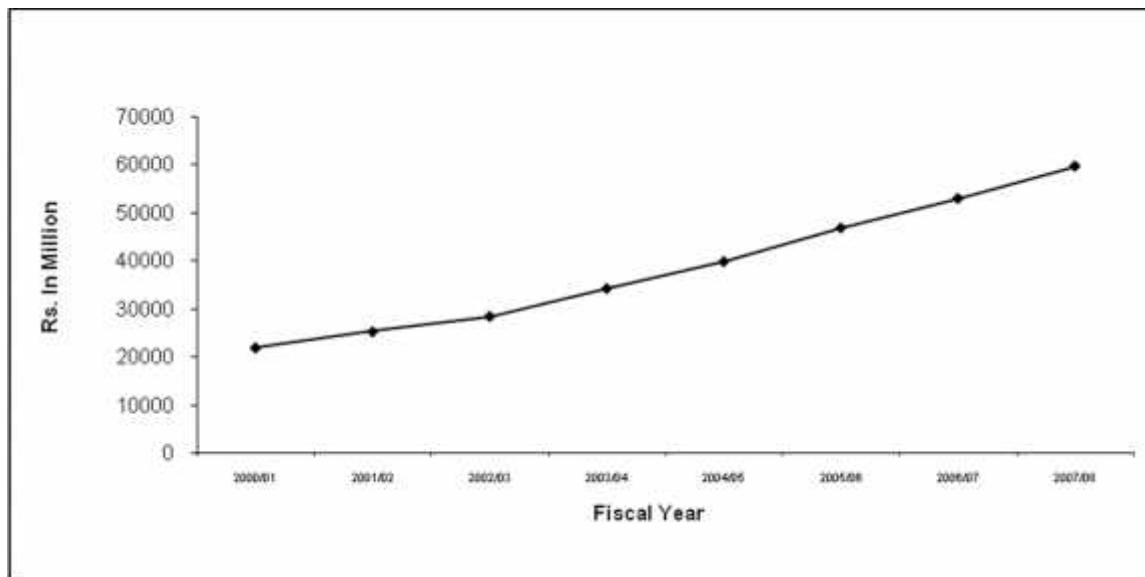
The trend of VAT registrants has been shown in the following table and figure:

**Table 4.8**  
**Registration Status on VAT**  
**From FY 2000/01 to 2007/08**

Fiscal Year	Total Registration	Percentage change
2000/01	21781	-
2001/02	25149	15.46
2002/03	28354	12.74
2003/04	34174	20.53
2004/05	39776	16.39
2005/06	46831	17.74
2006/07	52965	13.1
2007/08	59707	12.72

*Source: Annual Report of Inland Revenue Office, Lagimpart, Ministry of Finance (MOF), Nepal Government*

**Figure 4.8**  
**Registration Status on VAT**  
**From FY 2000/01 to 2007/08**



#### 4.1.9 Contribution of VAT Revenue in GDP

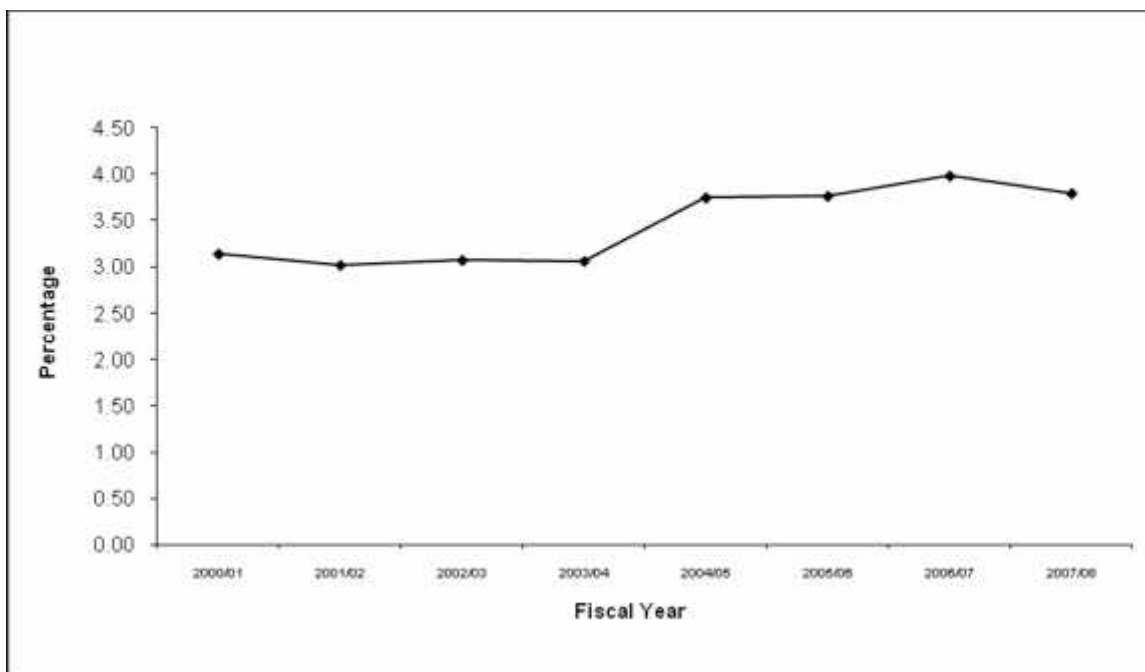
The Percentage contribution of VAT revenue in GDP is presented in the following table and figure in below

**Table 4.9**  
**Contribution of VAT Revenue in GDP**  
**From FY 2000/01 to 2007/08**     *(Rs. in Million)*

Fiscal Year	GDP	VAT Revenue	% of VAT on GDP
2000/01	394052.0	12382.4	3.14
2001/02	406138.0	12267.3	3.02
2002/03	437546.0	13449.1	3.07
2003/04	472424.0	14478.9	3.06
2004/05	504101.0	18894.6	3.75
2005/06	582950.0	21946.0	3.76
2006/07	670588.7	26704.2	3.98
2007/08	820814.0	31154.6	3.80

*Source: CBS, 2008 and Economic Survey 2008/09, Ministry of Finance (MOF), Nepal Government*

**Figure 4.9**  
**Contribution of VAT Revenue in GDP**  
**From FY 2000/01 to 2007/08**



The share of VAT revenue in GDP is 3.45 percentages in an average through the analysis period from fiscal year 2000/01 to 2007/08. The above table shows that the contribution from VAT to GDP is very low. In fiscal year 2000/01, the VAT was collected only Rs.12382.4 Million and which was only 3.14% of GDP. In such a way it is contributed 3.14%, 3.02%, 3.07%, 3.06%, 3.75%, 3.76%, 3.98% and 3.80% in GDP in the fiscal year 200/01 to 2007/08 respectively. In the fiscal year 2006/07 such share has been reached to 3.98% ever highest in Eight years period.

#### **4.1.10 Contribution of VAT Revenue in Total Revenue**

The contribution of VAT revenue to the total revenue has been shown the following table.

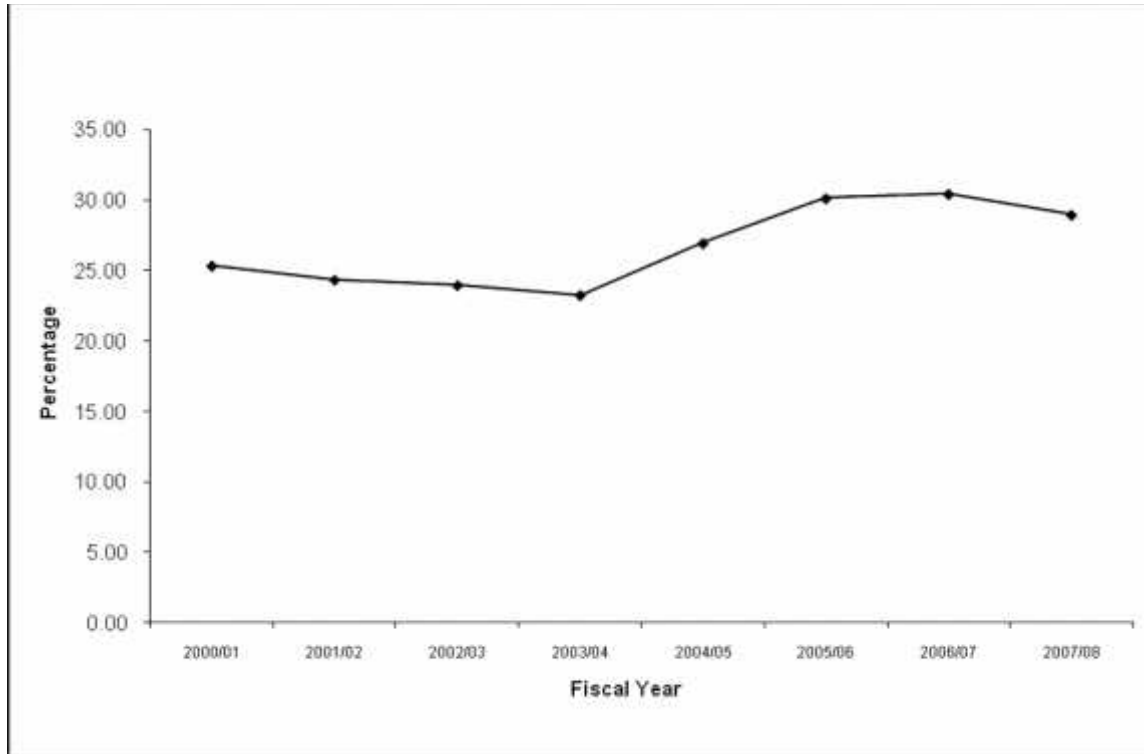
**Table 4.10**  
**Contribution of VAT Revenue in Total Revenue**  
**From FY 2000/01 to 2007/08 (Rs. in Million)**

Fiscal Year	Total Revenue	VAT Revenue	% of VAT on TR
-------------	---------------	-------------	----------------

2000/01	48893.9	12382.4	25.33
2001/02	50445.6	12267.3	24.32
2002/03	56229.7	13459.7	23.94
2003/04	62331.0	14478.9	23.23
2004/05	70122.7	18885.4	26.93
2005/06	71733.1	21610.7	30.13
2006/07	87711.2	26704.2	30.45
2007/08	107622.5	31154.6	28.95
Average	69386.21	18867.9	26.66

*Source: Economic Survey 2008/09, Ministry of Finance (MOF), Nepal Government*

**Figure 4.10**  
**Contribution of VAT Revenue in Total Revenue**  
**From FY 2000/01 to 2007/08**



Contribution of VAT revenue to total revenue plays significant role. VAT revenue contributes 26.66% in average in total revenue from fiscal year 2000/01 to 2007/08. VAT revenue contributes 25.33%, 24.32%, 23.94%, 23.23%, 26.93%, 30.13%, 30.45% and 28.95% in total revenue from fiscal year 2000/01 to 2007/08.

#### **4.1.11 Contribution of VAT Revenue in Total Tax Revenue**

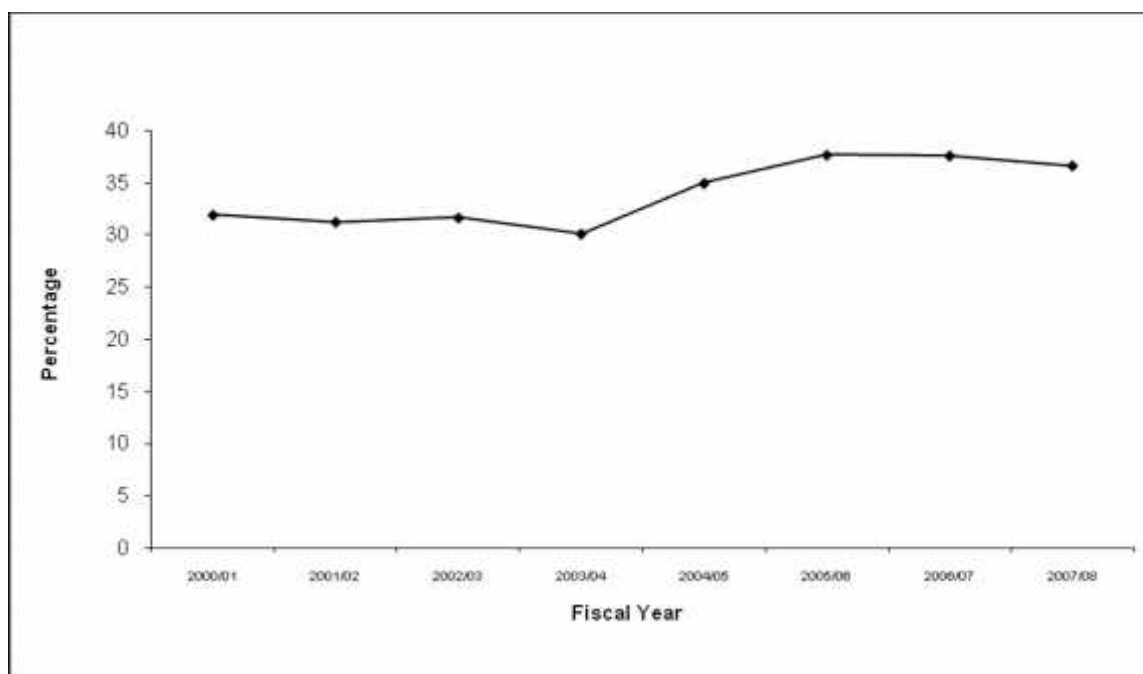
The total tax revenue includes direct tax revenue and indirect tax revenue. The percentage contribution of VAT revenue in total tax revenue is presented in table below.

**Table 4.11**  
**Contribution of VAT Revenue in Total Tax Revenue**  
**From FY 2000/01 to 2007/08**      *(Rs. in Million)*

Fiscal Year	Total Tax Revenue	VAT Revenue	% of VAT on TTR
2000/01	38865.1	12382.4	31.86
2001/02	39330.6	12267.3	31.19
2002/03	42587	13459.7	31.61
2003/04	48173	14478.9	30.06
2004/05	54104.7	18885.4	34.91
2005/06	57430.4	21610.7	37.63
2006/07	71127	26704.2	37.54
2007/08	85155.5	31154.6	36.59
Average	54596.66	18867.90	32.92

*Source: Economic Survey 2008/09, Ministry of Finance (MOF), Nepal Government*

**Figure 4.11**  
**Contribution of VAT Revenue in Total Tax Revenue**  
**From FY 2000/01 to 2007/08**



Contribution of VAT Revenue to Total Tax Revenue plays significant role. The VAT revenue contributes 32.92% on total tax revenue in average from fiscal year 2000/01 to 2007/08. It contributes 31.86% in 2000/01, 31.19% in 2001/02, 31.61% in 2002/03, 30.06% in 2003/04, 34.91% in 2004/05, 37.63% in 2005/06, 37.54 in 2006/07 and 36.59 in 2007/08 on total tax revenue.

#### 4.1.12 Contribution of VAT Revenue in Indirect Tax Revenue

The Percentage of VAT revenue in indirect tax revenue is presented in table below:

**Table 4.12**

#### **Contribution of VAT Revenue in Indirect Tax Revenue**

**From FY 2000/01 to 2007/08**

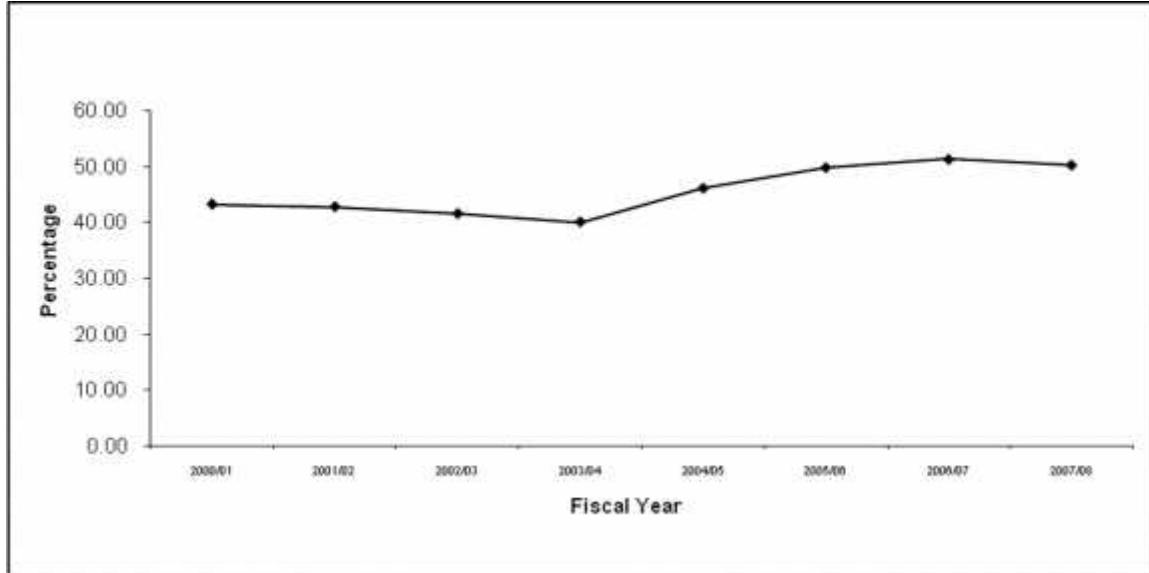
**(Rs. in Million)**

Fiscal Year	Indirect Tax Revenue	VAT Revenue	% of VAT on ITR
2000/01	28705.7	12382.4	43.14
2001/02	28733.1	12267.3	42.69
2002/03	32481.2	13459.7	41.44
2003/04	36260.4	14478.9	39.93

2004/05	41032.9	18885.4	46.03
2005/06	43462.3	21610.7	49.72
2006/07	52146.7	26704.2	51.21
2007/08	62067.7	31154.6	50.19
Average	40611.25	18867.90	45.54

*Source: Economic Survey 2008/09, Ministry of Finance (MOF), Nepal Government*

**Figure 4.12**  
**Contribution of VAT Revenue in Indirect Tax Revenue**  
**From FY 2000/01 to 2007/08**



Contribution VAT revenue to indirect tax revenue plays significant role in resources mobilization. VAT contributes 45.54% in average to indirect tax revenue from fiscal year 2000/01 to 2007/08. VAT contributes 43.14% in 2000/01, 42.69% in 2001/02, 41.44% in 2002/03, 39.93% in 2003/04, 46.03% in 2004/05, 49.72% in 2005/06, 51.21% in 2006/07 and 50.19% in 2007/08 on Indirect Tax revenue.

## **4.2 Statistical Analysis**

The analysis is performed with the help of statistical tools. The following statistical tools are used to analysis the data

- a) Coefficient of correlation Analysis
- b) Trend Analysis

### **4.2.1 Coefficient of correlation Analysis**

Karl Pearson's Correlation Coefficient denoted by 'r' measures the intensity or magnitude or degree of relationship between the two variables.

- Correlation coefficient is a pure number that is independent of the units of measurement.
- Correlation coefficient is independent of change of origin and scale.
- Correlation coefficient lies between -1 and +1, i.e.  $-1 < r < 1$

Correlation coefficient is the geometric mean of two regression coefficients. (Sthapit, 2004, P-377)

Under this chapter, Karl Pearson's Coefficient of Correlation is used to find out relationship between VAT and GDP; relationship between VAT and total revenue; relationship between VAT and total tax revenue and relationship between VAT and Indirect tax revenue.

#### **A) Relationship between VAT and GDP**

The purpose of computing coefficient of correlation between VAT and GDP is to find out whether VAT is significantly used in GDP or not.

To find out Karl Pearson's coefficient of correlation 'r' between VAT and GDP, GDP(X) is assumed to dependent variable and VAT(Y) is assumed to be independent variable. The correlation between VAT and GDP is shown in Appendix no.1. The relationship between VAT and GDP are given below.

**Table 4.13**  
**Relationship between VAT and GDP**

r	=	0.9874
$r^2$	=	0.9750
PE	=	0.0060
$6PE$	=	0.0360

*Source: Appendix : 1*

Since  $r > 6PE$ , we conclude that r is significant. There is significant relationship between the variables of VAT and GDP

**B) Relationship between VAT and Total Revenue**

The purpose of computing coefficient of correlation between VAT and Total Revenue is to find out whether VAT is significantly used in Total Revenue or not.

To find out Karl Pearson's coefficient of correlation 'r' between VAT and Total Revenue, Total Revenue (X) is assumed to dependent variable and VAT(Y) is assumed to be independent variable. The correlation between VAT and Total Revenue is shown in Appendix No.2. The relationship between VAT and Total Revenue are given below.

**Table 4.14**  
**Relationship between VAT and Total Revenue**

r	=	0.9832
$r^2$	=	0.9667
PE	=	0.0079
$6PE$	=	0.0476

*Source: Appendix : 2*

Since  $r > 6PE$ , we conclude that  $r$  is significant. There is significant relationship between the variables of VAT and Total Revenue

**C) Relationship Between VAT and Total Tax Revenue**

The purpose of computing coefficient of correlation between VAT and Total Tax Revenue is to find out whether VAT is significantly used in Total Tax Revenue or not.

To find out Karl Pearson's coefficient of correlation ' $r$ ' between VAT and Total Tax Revenue, Total Tax Revenue (X) is assumed to dependent variable and VAT(Y) is assumed to be independent variable. The correlation between VAT and Total Tax Revenue is shown in Appendix No.2. The relationship between VAT and Total Tax Revenue are given below.

**Table 4.15**  
**Relationship between VAT and Total Tax Revenue**

$r$	= 0.9909
$r^2$	= 0.9819
PE	= 0.0043
$6PE$	= 0.0259

*Source: Appendix : 3*

Since  $r > 6PE$ , we conclude that  $r$  is significant. There is significant relationship between the variables of VAT and Total Tax Revenue

**D) Relationship Between VAT and Indirect Tax Revenue**

The purpose of computing coefficient of correlation between VAT and Indirect Tax Revenue is to find out whether VAT is significantly used in Indirect Tax Revenue or not.

To find out Karl Pearson's coefficient of correlation 'r' between VAT and Total Tax Revenue, Indirect Tax Revenue (X) is assumed to dependent variable and VAT(Y) is assumed to be independent variable. The correlation between VAT and Indirect Tax Revenue is shown in Appendix No.2. The relationship between VAT and Indirect Tax Revenue are given below.

**Table 4.16**  
**Relationship between VAT and Indirect Tax Revenue**

$r$	= 0.9908
$r^2$	= 0.9817
PE	= 0.0044
$6PE$	= 0.0264

*Source: Appendix : 4*

Since  $r > 6PE$ , we conclude that r is significant. There is significant relationship between the variables of VAT and Indirect Tax Revenue.

#### **4.2.2 Analysis of Trend value of GDP, Total Revenue, Total Tax Revenue, Indirect Tax Revenue and VAT Revenue**

Trend analysis is a statistical device, with the help of which, we can estimate or predict the value of one variable when the value of other variable is known. The unknown variable which we have to estimate or predict is called dependent variable and the variable whose value is known is called independent variables.

In this topic, trend analysis has been used to analyze the GDP, Total revenue, Total tax revenue, indirect tax revenue, and VAT, from Eight years data i.e. fiscal year 2000/01 to 2007/08 and forecast for next 5 years

The following table shows the trend value of GDP, Total revenue, Total tax revenue, indirect tax revenue, and VAT for next 5 years

**Table 4.17**

**Trend value of GDP, Total Revenue, Total Tax Revenue, Indirect Tax Revenue and VAT Revenue from FY 2008/09 to 2012/13**

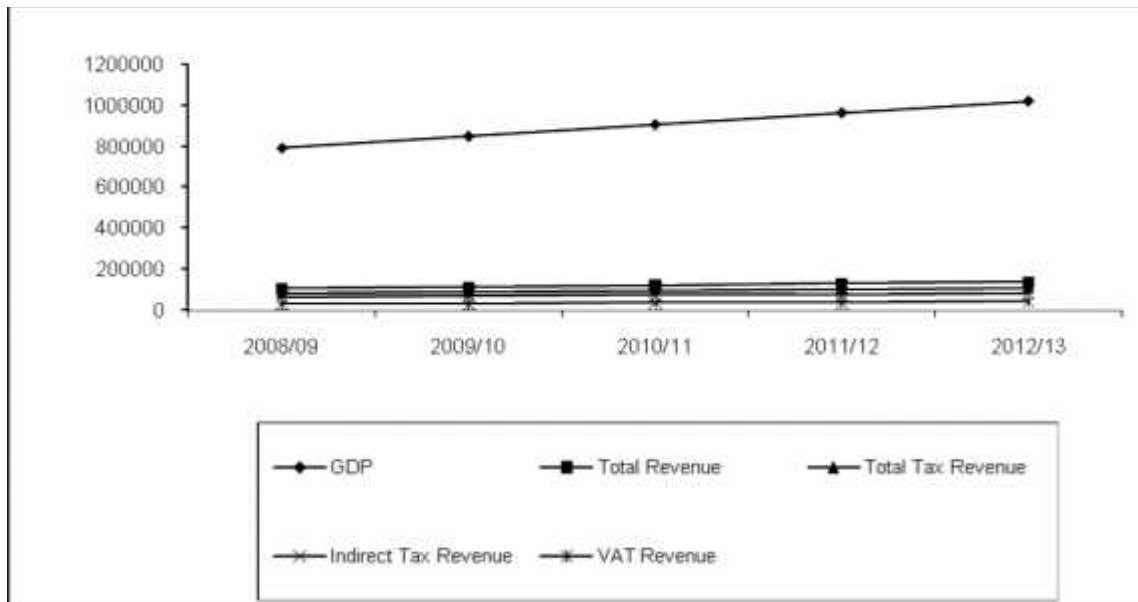
*(Rs. in Million)*

Fiscal Year	GDP	Total Revenue	Total Tax Revenue	Indirect Tax Revenue	VAT Revenue
2008/09	792012.9532	104300.3253	83175.7715	61413.9897	31320.5468
2009/10	848887.6734	112059.0170	89526.6846	66036.8207	34087.8016
2010/11	905762.3936	119817.7087	95877.5977	70659.6517	36855.0564
2011/12	962637.1138	127576.4004	102228.5108	75282.4827	39622.3112
2012/13	1019511.8340	135335.0921	108579.4239	79905.3137	42389.5660

Appendix :5,6,7,8 & 9

**Figure 4.13**

**Trend value of GDP, Total Revenue, Total Tax Revenue, Indirect Tax Revenue and VAT Revenue From FY 2008/09 to 2012/13**



From the above table and figure trend value of GDP, Total Revenue, Total Tax Revenue, and Indirect Tax Revenue are slightly decreased in 2008/09 but VAT is always increasing trend. After 2008/09, the trend value of GDP, Total Revenue, Total Tax Revenue, Indirect Tax Revenue and VAT all increasing trend. Other thing remaining same, the GDP will be Rs 1019511.8340 million, total revenue will be Rs 135335.0921million, total tax revenue will be Rs 108579.4239million, indirect tax revenue will be Rs 79905.3137million and VAT will be RS 42389.5660million in year 2012/13 according to trend analysis.

### 4.3 Empirical Analysis

There have been various empirical studies conducted in order to fulfill the objective of the study. For the purpose of survey, different questionnaire were prepared to know the opinion of various persons of different fields including tax expert, tax officers, businessman/traders, consumers about all sides of VAT such as issues, policies, its effects and other relevance. The questionnaire has covered most of the aspects of the VAT. [See the format of questionnaire in Appendix-10]

The following table shows the group from different field and number of respondents.

**Table 4.18**  
**Sample size of the Field Survey**

SN	Respondents	Sample Size	Percentage
1	Tax Expert	10	20
2	Tax Officers	10	20
3	Businessmen/Traders	15	30
4	Consumers	15	30
	Total	50	100

*Source: Field survey, 2009*

### 4.3.1 Views of Tax Expert

#### 1. Views on knowledge of Nepalese People About VAT

Almost of Nepalese people are unknown about VAT system. They have no knowledge about VAT system. They have no idea about who should pay VAT, how do people pay VAT, who should register in VAT. To know views of respondents about Nepalese people have knowledge or not in VAT, a question was asked, "Do you think that the Nepalese people know about VAT?" The survey result is shown in the following table:

**Table 4.19**  
**Views on Knowledge of Nepalese People about VAT**

Response	No. of Respondents	Percentage
Yes	2	20
No	2	20
Some of they know	6	60
Total	10	100

*Sources: Field Survey, 2009.*

From the above table, tax experts think that only some of Nepalese people know about VAT.

#### 2. Views on Existing Rate of VAT

VAT rate plays a significant role in collection of VAT revenue. VAT rate is very significant and sensitive for revenue mobilization. The success of VAT system stands upon the degree of VAT rate. In the initial stage of implementation of VAT system, It was 10% VAT rate .Now, VAT rate is increased to 13%,"Is it reasonable or should be increased more?" for these a field survey was conducted. The result of the survey is presented in table below:



**Table 4.20**  
**Views on Existing Rate of VAT**

Response	No. of Respondents	Percentage
High Rate	2	20
Low Rate	-	-
Normal Rate/Moderate	8	80
I don't Know	-	-
Total	10	100

*Sources: Field Survey, 2009.*

80% of tax experts said that the existing rate of VAT is normal rate/moderate. Only 20% of tax expert said that it is high rate.

### **3. Views on Structure of VAT**

Tax Structure covers base, rate, coverage examinations etc. It is one of the most important aspects for the successful operation of implementation. The tax structure of VAT in Nepal is designed on the VAT Act 1996 and different laws and regulation are prepared in successive years. To know the views on structure of VAT, a question was asked in field survey "What do you think about the existing tax structure of VAT?". The survey result is shown in the following table.

**Table 4.21**  
**Views on Structure of VAT**

Response	No. of Respondents	Percentage
Ok	8	80
Should Improve	2	20
I don't Know	-	-
Total	10	100

*Sources: Field Survey, 2009.*

80% of tax experts said that the current structure of VAT is ok. Only 20% of them said it should improve

#### **4. Views Towards the Contribution of VAT in GDP of Nepal**

VAT is the strong instrument of rising or enhancing government revenue. Most of the national revenue is collected from indirect tax and VAT plays significant role in indirect tax. To analyze the public attitude towards the contribution of VAT in GDP, a question was asked to the respondents, " Do you think contribution of VAT is effective in GDP of Nepal?" The result of survey is tabulated below:

**Table 4.22**

**Views Towards the Contribution of VAT in GDP of Nepal**

Response	No. of Respondents	Percentage
Yes	6	60
No	2	20
I don't know	2	20
Total	10	100

*Sources: Field Survey, 2009.*

60% of tax experts said in favor of effective contribution of VAT to GDP. But, 20% of them said against & 20% tax experts have no idea about it.

#### **5. Views Towards Increasing the Base of the VAT**

VAT plays significant role in tax revenue collection in any country. Due to board base of VAT, it can collect more revenue. Thus, one of most favorable aspects of VAT is its boarder base. So that high potential revenue can be obtained by the relatively low rate of VAT. In order to know the respondents' opinion about

increasing the base of the VAT, a question asked, "Which way of VAT does increase the base of the VAT?" The survey result is shown the table below:

**Table 4.23**

**Views Towards Increasing the Base of the VAT**

Response	No. of Respondents	Percentage
Reduce Threshold	6	60
Include all Service Sectors	1	10
Incorporate all Sectors	3	30
I don't know	-	-
Total	10	100

*Sources: Field Survey, 2009.*

From the above table, 60% of tax experts said that reduce threshold to increase the base of VAT. 10% tax experts kept their view in include all service sectors and 30% tax experts kept their views in incorporate all sectors.

**6. Views on Billing System**

Billing system is one of the most important aspects of the VAT system. All businessmen have to be given bills to the customers for buying or purchasing the goods and services. While purchasing goods/services, all purchasers have to receive bills. The billing system plays crucial role in the field of VAT system. The businessmen should play the amount of difference between tax collected in sale and tax paid on purchase to the VAT office. But in Nepal, the billing system is one of the major problems. So, question for comments billing system of VAT was asked "What is your view about billing system in Nepal?" The result of the field survey in this aspect is shown in table below:

**Table 4.24**  
**Views on Billing System**

Response	No. of Respondents	Percentage
Yes	6	60
No	4	40
I don't know	-	-
Total	10	100

*Sources: Field Survey, 2009.*

From the above table 60% of tax experts said that it is possible of billing system. But, 40% of them said that it is impossible.

## **7. Views on Rising Price Due to VAT System**

In the beginning period of VAT system implementation there was a strong opposition from the business community. The basic argument behind it was due to rise in the price from VAT. After the implementation from VAT, there was a voice from different people on price rising on commodities. Consumers also complain that businessmen charge more price without following the VAT .Here, an endeavor has been made to get the information from the respondents to find out whether there will be rise in price due to VAT.A question "Will price rise due to VAT system?" was asked. The outcome of the field survey in this aspect is shown in following table below:

**Table 4.25**  
**Views on Price Rise Due to VAT System**

Response	No. of Respondents	Percentage
Yes	-	-

No	10	10
Total	10	100

Sources: Field Survey, 2009.

From the above table, 100% of tax experts said that the price will not rise due to VAT system.

### **8. Views on whether Present Threshold is Enough to Secure Small Vendors:**

There are many small vendors in Nepal. Thus, Government should include small vendors in threshold of taxation. The current threshold for VAT registration is Rs 2 million. Those vendors whose annual turnover is below the threshold can, however, register voluntarily. There are many problems to include small vendors in threshold of taxation. Firstly, they are illiterate and ignorant as to the VAT, cannot meet basic requirement guide by the VAT enactment to the taxpayers. Secondly, the operation of VAT administration will be complicated and costlier regarding VAT enactment. Third one is the growth of tax leakage and corruption is continuous day by day. All these problems, the government cannot include all small vendors. To know respondents view a question is asked, "Is the present threshold is enough to secure small vendors?" The view from respondents is presented in following table below:

**Table 4.26**

#### **Views on Whether Present Threshold is Enough to Secure Small Vendors**

Response	No. of Respondents	Percentage
Yes	10	100
No	-	-

I don't know	-	-
Total	10	100

*Sources: Field Survey, 2009.*

From the above table, 100% tax experts viewed that the present threshold is enough to secure small vendors.

## **9. Views on Effect of VAT Investment Sector**

In real, the present tax system has direct impact on the investment sector of the economy. Mainly, there are two kinds of investment i.e. foreign and domestic investment. Both kinds of investment are effected by tax system i.e. VAT. So, we have to know that what kinds of effects of VAT will fall on investment sector. To know respondents view, a question was asked "What effect will VAT create on investment sector?" The outcomes are presented in the following table below:

**Table 4.27**

### **Views on Effect of VAT on Investment Sector**

Response	No. of Respondents	Percentage
Positive	4	40
Negative	-	-
No effect	6	60
I don't know	-	-
Total	10	100

*Sources: Field Survey, 2009.*

The above table shows that 40% tax experts said that the VAT creates positive effect and 60% of them said it creates no effect in investment sectors.

## **10. Views on Effect of VAT in Nations Economic Growth**

The ultimate aim of the Government is to achieve the economic development and accelerate the rate of economic growth. The main tax policy of a government is to intensify the rate of savings and investment to achieve a higher rate of economic growth. Thus VAT is an ideal tax to achieve a higher incremental saving ratio and thereby attain higher rate of growth in the economy. Economic growth of a country depends on the various aspects. The role of tax system significantly affects the country's economic development. So, from this view, higher the revenue collection from VAT means higher will be the growth of national development. So, the VAT is a major tools for accelerate the economic growth of a country. To know the views of respondent, "What effect will VAT have in nation's economic growth?" question asked. The views are presented in following table below:

**Table 4.28**

**Views on Effect of VAT in Nation's Economic Growth**

Response	No. of Respondents	Percentage
Positive	6	60
Negative	-	-
Normal/no effect	4	40
I don't know	-	-
Total	10	100

*Sources: Field Survey, 2009.*

From the above table, 60% of tax expert said that VAT creates positive effect and 40% of them said that it creates no effect in nation's economic growth.

**11. Views on Responsible Group of Tax Evasion:**

Tax evasion simply means avoiding of tax by adopting dishonest means. All methods by which tax liability is illegally avoided are termed as tax evasion. Tax evasion is an unethical, illegal and uneconomic way of reducing tax liability.

Generally, business enterprises may not take responsibility for tax evasion but it is not true in all the cases and time. There are other groups such as consumers, tax administration who may be supporting, helping or encouraging business enterprises for tax evasion for their direct or indirect benefit and thus may be more responsible group of tax evasion. To know the views on responsible group of tax evasion," In your opinion, who is the most responsible group for the tax evasion?" Question was asked. The survey result is shown the following table below:

**Table 4.29**  
**Views on Responsible Group of Tax Evasion**

Response	No. of Respondents	Percentage
Business Enterprise	6	60
Tax Administration	2	2
Consumer	-	-
All	2	20
Total	10	100

*Sources: Field Survey, 2009.*

60% of tax expert said that business enterprises are the most responsible group for the tax evasion, 20% experts claimed that tax administration and 20% tax expert said that all are responsible group.

## **12. Views on Major Weakness of VAT:**

Although VAT is improved from sales tax, it has a lot of weak administration. For the effective and successful implementation of VAT, we have to identify the current weakness of administration. It is reported that there have been various weakness behind the non-functioning of VAT system in an expected way. It is found that major weakness of VAT administration in Nepal is lack of experience, lack of trained manpower, weak economy etc. "what are the major weaknesses of

VAT administration?" Question was asked to know respondents view. The views of respondents are shown in the table below:

**Table 4.30**  
**Views on Major Weakness of VAT**

Response	No. of Respondents	Percentage
Lack of expert	2	20
Lack of Trained Manpower	2	20
Weak Economy	-	-
Lack of Peoples' consciousness	6	60
Total	10	100

*Sources: Field Survey, 2009.*

Tax experts said that lack of peoples' consciousness is the major weakness aspect to implement VAT in Nepal.

### **13. Views on Making VAT Effective Successful**

VAT has already been in Nepalese environment; however it has not secured the expected results. There are many problems are still existing in the real field. It is necessary to identify the exiting problems and solve them successively to make the VAT more successful in future. There are many options to make VAT more successful. These are strengthening and improve the VAT administrative, improve VAT laws and regulation, trained and educated officers, public awareness program about VAT etc. To know respondents views about making VAT effectively successful, a question was asked, "How can VAT system make effective to collect much more revenue?" The views of respondents are shown in table below:

**Table 4.31**

**Views on Making VAT Effectively Successful**

Response	No. of Respondents	Percentage
Trained Manpower	2	20
Public Awareness Programme	6	60
Improve VAT laws and regulation	2	20
Total	10	100

*Sources: Field Survey, 2009.*

Tax experts said that public awareness programme can VAT system make effective to collect much more revenue.

**4.3.2 Views of Tax Officers**

**1. View on Awareness of Nepalese People in Paying Tax:**

Tax is a compulsory contribution from a person to the government without any special benefit. It is the main source of government revenue. In order to the tax officers' opinion about awareness paying VAT, a question asked "Do you think the Nepalese people are aware in paying tax?" The response in this question from different denominations are tabulated and summarized below:

**Table 4.32**

**Views on Awareness of Nepalese People in Paying Tax**

Response	No. of Respondents	Percentage
Yes	3	30
No	7	70
Total	10	100

*Sources: Field Survey, 2009.*

Tax officers viewed that most of the Nepalese people are not awareness in paying tax.

## **2. Views on VAT as an important instrument of rising Govt. Revenue:**

VAT is main sources of government revenue. Government collects more revenue from VAT. VAT is an indirect tax and is improved and modified form of sales of tax. It is a transparent tax and has minimum burden to consumers. Hence, Government can collect maximum tax from VAT. To know the respondents opinion about VAT as important instrument of rising government revenue, the question asked," Do you consider that VAT is the important instrument of rising government revenue." The opinions of respondents are tabulated and summarized below:

**Table 4.33**

### **Views on VAT as an Important Instrument of Rising Government Revenue**

Response	No. of Respondents	Percentage
Yes	7	70
No	3	30
Total	10	100

*Sources: Field Survey, 2009.*

Most of the tax officers are in favor of VAT as important instrument of raising government revenue. VAT is a main source of government revenue.

## **3. Views on Existing Rate of VAT**

VAT rate plays a significant role in collection of VAT revenue. VAT rate is very significant and sensitive for revenue mobilization. The success of VAT system

stands upon the degree of VAT rate. In the initial stage of implementation of VAT system, it was 10% VAT rate .Now, it is increased to 13%. "Is reasonable or should be increased more?" for these, a field survey was conducted. The result of the survey is presented in table below:

**Table 4.34**  
**Views on Existing Rate of VAT**

Response	No. of Respondents	Percentage
High rate	-	-
Low rate	2	20
Moderate/ Normal rate	8	80
I don't know	-	-
Total	10	100

*Sources: Field Survey, 2009.*

80% of tax officers said that the existing rate of VAT is normal rate/ Moderate and 20% of tax officers said that it is low rate.

#### **4. Views on Effects of VAT on Revenue Mobilization**

Presenting resource gap is one of the major characteristics for the Nepalese economy. Due to lack of sufficient sources, government is not capable to operate the development activities in the country. Beside this, large amount of foreign debt is forcing the economy towards the debt tab situation .In such circumstances, VAT was expected to have the greater revenue yield due to its broader base and other features such as catch-up effect, self-enforcing nature, transparency, etc. But, it has a low revenue yield due to weak implementation until the beginning year of implementation however improving in successive years. To know the respondents

view "What effect will VAT have on Revenue mobilization?" question was asked .The opinion of survey is tabulated below:

**Table 4.35**  
**Views on effect of VAT on Revenue Mobilization**

Response	No. of Respondents	Percentage
Positive	8	80
Negative	-	-
No effect	-	-
I don't know	2	20
Total	10	100

*Sources: Field Survey, 2009.*

## **5. Views on Rising Price Due to VAT System**

In the beginning period of VAT system implementation, there was a strong opposition from the business community. The basic argument behind it was due to rise in the price from VAT. After the implementation of VAT, there was a voice from different people on price rising on commodities. Consumers also complain that businessmen charge more prices without following the act of VAT .Here; an endeavor has been made to get the information from the respondents to find out whether there will be rise in price due to VAT. A question "Will price rise due to VAT system?" was asked. The outcome of the field survey in this aspect is shown in following table below:

**Table 4.36**  
**Views on Price Rise Due to VAT System**

Response	No. of Respondents	Percentage
Yes	-	-
No	10	100

Total	10	100
-------	----	-----

Sources: *Field Survey, 2009.*

All tax officers viewed that the price of the commodities will not rise due to VAT system.

## 6. Views on Tax Burden of VAT to the Taxpayers

Nepalese general people have a lower income level. They have not much more purchasing power VAT is levied on value added of goods and services of each stage in the process of production and distribution chain and it is shifted forward completely to the ultimate user. In short, the tax burden ultimately shifts on the taxpayers. Therefore, Nepalese taxpayers feel tax burden and shifting. To know the respondents about tax burden of VAT, a question was asked "What do you think about the tax burden of VAT to the tax payers?" The outcomes are presented in table below:

**Table 4.37**

### **Views on Tax Burden of VAT to the Tax Payers**

Response	No. of Respondents	Percentage
Higher	2	20
Lower	1	10
Normal	7	70
I don't know	-	-
Total	10	100

Sources: *Field Survey, 2009.*

Most of the tax officer said that it has normal burden to the tax payer due to VAT system.

## 7. Views that whether Tax officers believe the Tax Statement of Businessman:

Businessman/traders should submit their transactions statement monthly to the Inland Tax Office to pay VAT. But, tax officers not believe their statement due to cheating system. To know about this view, a question was asked, "Do all businessman/Traders keep their account fairly under VAT rules and regulation?" The outcomes of the survey are shown below:

**Table 4.38**  
**Views that whether Tax officers believe the Tax Statement of businessman**

Response	No. of Respondents	Percentage
Yes	3	30
No	7	70
Total	10	100

*Sources: Field Survey, 2009.*

Most of the tax officers said that most of the businessmen/traders do not keep their account fairly under VAT rule and regulation.

## **8. Views on Responsible Group of Tax Evasion**

Tax evasion simply means avoiding of tax by adopting dishonest means. All methods by which tax liability is illegally avoided are termed as tax evasion. Tax evasion is an unethical, illegal and uneconomic way of reducing tax liability. Generally, business enterprises may not take responsibility for tax evasion but it is not true in all the cases and time. There are other people such as consumers, tax administration who may be supporting, helping or encouraging business enterprises for tax evasion for their direct or indirect benefit and thus may be more responsible group of tax evasion. To know the views on responsible group of tax evasion, "In your opinion who is the most responsible group for the tax evasion?" Question was asked. The survey result is shown the following table below:



**Table 4.39**

**Views on Responsible Group of Tax Evasion**

Response	No. of Respondents	Percentage
Business Enterprises	6	60
Tax Administration	2	20
Consumer	-	-
All	2	20
Total	10	100

*Sources: Field Survey, 2009.*

From the tax officers' view, business enterprises are the most responsible group for tax evasion.

**9. Views of Challenging Problems of VAT in Nepal**

Although, VAT is scientific and transparent tax system, it is difficult to implement. There are many challenging problems in implementation in Nepal. Smuggling & under valuation, lack of proper accounting, lack of proper billing problems, weak administration may be challenging of VAT in Nepal. To know respondents views "What are the most challenging problems of VAT in Nepal?" question was asked. The views of respondents are shown in table below:

**Table 4.40**

**Views of Challenging Problems of VAT in Nepal**

Response	No. of Respondents	Percentage
Smuggling & Undervaluation	2	20
Lack of proper accounting	3	30
Lack of proper billing	4	40
Weak Manpower	1	10
Total	10	100

*Sources: Field Survey, 2009.*

From the above table, lack of proper billing, lack of proper accounting, Smuggling & undervaluation and weak manpower are the most challenging problems of VAT respectively.

## **10. Views for Efforts to Increase the Revenue from VAT**

VAT is main government source of revenue. VAT plays significant role in collection government tax revenue. There are many efforts done to increase the revenue. VAT is a kind of sources of government revenue. To know views of effort for increment the revenue from VAT, a survey questions was asked. "In your opinion what kinds of effort should apply government to increase the revenue from VAT?" The result of respondents is shown in table below:

**Table 4.41**

**Views for Efforts to Increase the Revenue from VAT**

Response	No. of Respondents	Percentage
Increase the rate of VAT	-	-
Increase the boundary of VAT	8	80
Decrease the threshold amount	2	20
Total	10	100

*Sources: Field Survey, 2009.*

Most of the tax officers suggested that increase the boundary of VAT to increase the revenue from VAT system.

### **4.3.3 Views of Businessmen/Traders**

#### **1. Views on keeping the Business Account**

Every businessman keeps their account for their own purpose, Tax purpose. Objects of accounting to ascertain the profit of loss, to make plans and decision making, to provide accounting information to the tax authority and the government etc. To get views of respondents how they maintain their account, A question was asked, "How keep your account? The survey result is shown below:

**Table 4.42**  
**Views on Keeping the Business Account**

Response	No. of Respondents	Percentage
Single Entry System	1	6.67
Double Entry System	10	66.67
Acc. to the tax adm. format	4	26.66
Not maintain any account	-	-
Total	15	100

*Sources: Field Survey, 2009.*

Most of the businessmen keep their account in double entry system.

## **2. Views VAT Registration of the Business:**

In order to operate under VAT system, registration in Inland Revenue Department, tax office is compulsory collection of VAT is largely determined by the number of registration and their transaction. Under the VAT law and regulation in Nepal the Current threshold for VAT registration is Rs 2 million. Those vendors, whose annual turnover is below the threshold can, however register voluntarily. ([www.ird.gov.np/VAT.php](http://www.ird.gov.np/VAT.php)). To know about VAT registration of the business, a question asked, " Do you register your company/business in VAT register in Inland Revenue office?" The outcome of survey is show below:

**Table 4.43**

**Views VAT Registration of the Business**

Response	No. of Respondents	Percentage
Yes	12	80
No	3	20
Total	15	100

*Sources: Field Survey, 2009.*

Most of the businessmen/traders register their business in VAT register in Inland Revenue office among survey field.

**3. Views on Existing Rate of VAT**

VAT rate plays a significant role in collection of VAT revenue. VAT rate is very significant and sensitive for revenue mobilization. The success of VAT system stands upon the degree of VAT rate. In the initial stage of implementation of VAT system, It was 10% VAT rate .Now, it is increased to 13%. "Is reasonable or should be increased more?" for these a field survey was conducted. The result of the survey is presented in table below:

**Table 4.44**

**Views on Existing Rate of VAT**

Response	No. of Respondents	Percentage
High Rate	6	40
Low Rate	-	-
Normal Rate	7	46.67
I don't know	2	13.33
Total	15	100

*Sources: Field Survey, 2009.*

From the above table 46.67% businessmen/traders viewed that the existing rate of VAT is normal, 40% of them said that is high rate and 13.33% of them said that they have no idea about VAT system.

#### **4. Views on Original Bill System**

VAT revenue is ascertained from the bill of the commodities. So, buyer should take original bill to the customers. Customers should be consciousness about bill for goods and service. To know views of bill, a question was asked for respondents, "Are customers asked you bill while punching goods and services?" The survey result is shown below:

**Table 4.45**  
**Views on Original Bill System**

Response	No. of Respondents	Percentage
Yes	2	13.33
No	5	33.33
Sometime they ask	8	53.34
Total	15	100

*Sources: Field Survey, 2009.*

Most of the consumers are not asked bill while purchasing goods and services.

#### **5. Views on Tax Statement Believe Tax Administration**

Business men / Traders keep their account on purchase book, Sales book and VAT book. They should pay VAT revenue from their tax statement. They should submit their tax statement to pay their VAT. Tax administration should receive VAT according to tax statement. So, tax administration should believe the tax statement. They believe or not to know the views, a question was asked to the Businessmen

“Does tax administration has been believing your tax statement?” The result of survey is shown below:

**Table 4.46**

**Views on Tax Statement Believe Tax Administration**

Response	No. of Respondents	Percentage
Yes	3	20
No	4	26.67
Sometime	8	53.33
Total	15	100

*Sources: Field Survey, 2009.*

Most of the tax administrations have not been believing the businessmen/Traders tax statement.

**6. Views of Problem Imposed by the VAT System**

There are many problems to follow any rules and regulation. In such a way, there are many problems to follow the VAT system. Maintain account as prescribed from, stock valuation, monthly statement submission etc. are the main problem to follow the VAT system. To know the views of problem imposed by the VAT system, a question was asked, "What are the main problems imposed by the VAT system?" The results of views are shown as follows:

**Table 4.47**

**Views of Problem Imposed by the VAT System**

Response	No. of Respondents	Percentage
Maintain Account as prescribed from	5	33.33
Monthly statement submission	8	53.34
Difficult to stock valuation	2	13.33
Total	15	100

*Sources: Field Survey, 2009.*

Most of businessmen/traders said that monthly statement of submission is the main problem and then maintain account as prescribed form and difficult to stock valuation are the main problems imposed by the VAT system.

#### **4.3.4 Views of Customers**

##### **1) Views about knowledge of VAT System**

Customers should be knowledge about VAT system. But most of the customers do not know about VAT. Customers should know rate of VAT, VAT exempted goods and services, Zero rated goods etc. To know views about knowledge of VAT system, "Do you know about VAT system of Nepal?" Question was asked. The result of survey is shown below:

**Table 4.48**  
**Views about knowledge of VAT System**

Response	No. of Respondents	Percentage
Yes	6	40
No	9	60
Total	15	100

*Sources: Field Survey, 2009.*

Most of the Nepalese people are unknown about VAT system imposed by Nepal government.

##### **2) Views about Knowing VAT**

Some people are known about VAT. They know VAT is a modern, scientific and indirect taxation. People know about VAT from news, radio/ TV, seminar/ lectures

etc. To get views of respondents, a question was asked "How do you know about VAT?" The survey result is shown below:

**Table 4.49**  
**Views about Knowing VAT**

Response	No. of Respondents	Percentage
News	1	16.67
Radio/TV	1	16.67
Lectures/Seminar	4	66.66
Total	6	100

*Sources: Field Survey, 2009.*

Most of the people who know about VAT system are know from lectures/Seminar.

### 3) Views of Receiving Bill While Purchasing

It is said that taking bill is the paying the tax to the government. Every customer takes bill while purchasing goods or service from the bill and Invoice, VAT amount are collected. To know views of taking bill, a question, "Do you take/ ask for taking bill while purchasing goods and services?" was asked. The survey result is shown below:

**Table 4.50**  
**Views of Receiving Bill While Purchasing**

Response	No. of Respondents	Percentage
Yes	2	13.33
No	4	26.67
Sometimes	3	20
I don't care about bill	6	40
Total	15	100

*Sources: Field Survey, 2009.*

Most of the consumers do not care about bill while purchasing goods and services.

#### 4. Views on Existing Rate of VAT

VAT rate plays a significant role in collection of VAT revenue. VAT rate is very significant and sensitive for revenue mobilization. The success of VAT system stands upon the degree of VAT rate. In the initial stage of implementation of VAT system, it was 10% VAT rate .Now; it is increased to 13%. "Is it reasonable or should be increased more?" for these a field survey was conducted. The result of the survey is presented in table below:

**Table 4.51**  
**Views on Existing Rate of VAT**

Response	No. of Respondents	Percentage
High Rate	2	13.39
Low Rate	-	-
Normal Rate/Moderate	4	26.67
I don't know	9	60
Total	15	100

*Sources: Field Survey, 2009.*

From the above table, 13.33% consumers said that the existing rate of VAT is high, 26.67% consumers said that is normal rate and 60% consumers have no idea about VAT rate.

#### 5. Views on Rising Price Due to VAT System

In the beginning period of VAT system implementation, there was a strong opposition from the business community. The basic argument behind it was due to rise in the price from VAT. After the implementation of VAT, there was a voice from different people on price rising on commodities. Consumers also complain that businessmen charge more prices without following the act of VAT. Here, an endeavor has been made to get the information from the respondents to find out

whether there will be raised in price due to VAT. A question "Will price rise due to VAT system?" was asked. The outcome of the field survey in this aspect is shown in following table below:

**Table 4.52**  
**Views on Rising Price Due to VAT System**

Response	No. of Respondents	Percentage
Yes	8	53.34
No	2	13.33
I don't know	5	33.33
Total	15	100

*Sources: Field Survey, 2009.*

Most of the consumers think that price will rise due to VAT system.

#### **4.4 Major Findings of the Study**

On the basis of previous chapter and data presentation and analysis, some major findings can be listed. The important major findings of the study are given below:

- VAT is an indirect tax. It is an improved and modified form of sales tax. It is levied on value added of goods and services at each stage in the process of production and distribution chain.
- VAT is scientific, transparent and has minimum burden to consumers because it is collected in small fragments at various stages of production and distribution.
- Nepalese revenue structure consists of tax and non-tax revenue. Tax revenue contributes 78.49% and non-tax revenue contributes 21.51% in total revenue in average during the study period from FY 2000/01 to 2007/08.
- Tax revenue consists of direct or indirect tax revenue. Direct tax revenue includes revenue from land revenue and registration, taxes on property,

profit and income whereas indirect tax revenue is composed of taxes like customs on export and import, taxes on consumption and production of goods and services. Both direct tax revenue and indirect tax revenue are increasing trend. The Eight years (Eight whole study periods) average of direct tax revenue was 25.48% whereas indirect tax revenue contributed 74.52% in average.

- Direct tax revenue is composed of income tax, land revenue and registration and miscellaneous tax during the study period, income tax plays vital role in revenue collection which contributes 80.59% in average in this way land revenue and registration contributed 12.77% and 8.07% contribution from miscellaneous taxes. Such as urban house and land tax, vehicle tax and other taxes.
- Indirect tax revenue is composed of customs duties, VAT and Exercise duties. Customs duty, VAT and exercise duties contribute 39.13%, 45.54% and 15.28% in average respectively during eight study period.
- Tax revenue contributes 9.86%, 9.68%, 9.73%, 10.20%, 10.73%, 9.85%, 10.61% and 10.37% in GDP in fiscal year 2000/01 to 2007/08 respectively. In this way, non-tax revenue contributes 2.74%, 3.12%, 3.00%, 3.18%, 2.45%, 2.47%, 2.74% and 2.74% in GDP in fiscal year 2000/01 to 2007/08 respectively. The figure show that tax revenue contributes more than non-tax revenue in GDP.
- Direct tax revenue contributes 2.58%, 2.61%, 2.31%, 2.52%, 2.59%, 2.40%, 2.83% and 2.81% in GDP from fiscal year 2000/01 to 2007/08 respectively. In the same way, indirect tax revenue contributes 7.28%, 7.07%, 7.42%, 7.68%, 8.14%, 7.46%, 7.78% and 7.56% in GDP from fiscal year 2000/01 to 2007/08 respectively. Indirect tax contributes more in GDP than direct tax revenue.

- The amount of VAT revenue is increasing trend. It has increased from Rs.12382.4 to Rs 31154.6 million from FY 2000/01 to 2007/08.
- The registration status of VAT is increasing trend. The number of VAT registration has been increasing from 21781 to 59707 in fiscal year 2000/01 to 2007/08.
- Contribution of VAT revenue in GDP are 3.14%, 3.02%, 3.07%, 3.06%, 3.75%, 3.76%, 3.98% and 3.80% in GDP in the fiscal year 2000/01 to 2007/08 respectively.
- VAT revenue contributes 25.33%, 24.32%, 23.94%, 23.23%, 26.93%, 30.13%, 30.45% and 28.95% in total revenue from FY 2000/01 to 2007/08 respectively. VAT contributes 26.66% in average in total revenue during the study period.
- VAT revenue contributes 31.86%, 31.19%, 31.61%, 30.06%, 34.91%, 37.63%, 37.54% and 36.59% in total tax revenue from FY 2000/01 to 2007/08 respectively. VAT contributes 32.92% in average in total tax revenue during the study period.
- Contribution of VAT revenue in indirect tax revenue are 43.14%, 42.69%, 41.44%.39.93%, 46.03%, 49.72%, 51.21% and 50.19% from FY 2000/01 to 2007/08 respectively. Average contribution of VAT in indirect tax revenue is 45.54% during the study period.
- Most of general people are unknown about VAT. Traders also think that price of product increase applying the VAT. But tax officers, tax experts give their view price of the goods and services will not increase due to VAT system.
- Most of general people indifference about bill while purchasing the products. The habit helps for businessmen to lift the VAT.

- The traders who are registered on VAT they use to keep records on double entry system and using computer i.e. prescribed from of VAT office. Most of the traders who are registered on PAN or not registered use to keep records on single entry system and do not use to keep any records.
- Tax personnel do not checks documents clearly on most of the organization. Only a few personnel are helpful. Most of the tax personnel do not perform their work on time.
- Tax administrations do not believe most of the tax statement submitted by businessmen. They think businessmen do not submit all real statements.
- Monthly statement submission to tax office and stock valuation of sales return are the main problems imposed by VAT.
- Government may increase the boundary of VAT to generate more revenue.
- Weak administration, smuggling and undervaluation, proper accounting and proper billing are the main challenging problems of VAT. These problems are closely associated with corrupted nature of tax personnel.

## **CHAPTER-V**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Summary**

Tax is a compulsory contribution to the government made without reference to a particular benefits received by the taxpayer. Taxes are levied to raise revenue for government expenditures. Government needs huge amount of resources in order to perform various program and such resources can be obtained either from tax revenue or from non-tax revenue. Tax revenue can be classified broadly into direct tax and indirect-tax on the basis of its nature. VAT is the part of indirect tax.

Value Added Tax (VAT) is a latest innovation in the field of taxation. VAT is new and scientific tax system. It is multistage sales tax and imposed on the value addition on every stage of production and distribution process of goods and services. In VAT system, every taxpayer have provision of deduction what he paid during his purchase a VAT from the VAT amount which has collected from the sales of his goods or services. VAT is levied every stages of production and import to distribution of goods and service except exempt one. In VAT system, there is provision for small businessmen whose transaction is below threshold limit. Such business is not mandatory to register under VAT system but they can register if they want. Under the VAT system there is also a provision of tax refund and tax credit which seems very positive incentive and export oriented business.

VAT was first implemented in 1954 by the French government. Then after countries of the world is being attracted towards this system. Nepal has been fully implement from 16 November 1997 (1 Mangsir, 2054), although the act “Value Added Tax Act, 1995 (2054)” passed in 1995. VAT was imposed with single rate

of 10% in the place of sales tax, Hotel tax, Contract Tax and Entertainment Tax. Now, Nepal government has increased VAT rate to 13% with effect from 1, Magh 2061.

VAT is becoming popular in worldwide and it has developed as a mechanism for the sales tax reform program. The primary reason for growing popularity of VAT is its broad coverage without distorting the economic efficiency. In any good tax system neutrality role on the method of production and distribution as well as consumers choice is the basic needs and VAT has such feature. The stepwise collection of VAT does not encourage to tax evasion. VAT is considered vertically neutral tax system since the changing the method of production and distribution can not reduce the tax liability. In VAT system, there is somehow equitable distribution of the burden of VAT through tax exemption and Zero-rating techniques. The other major basic criteria of good tax is self policing nature can be easily found in VAT system.

VAT is very popular throughout the world. It is becoming famous due to some special feathers such as input tax credit system base on accounting system, less chances of cascading and pyramiding effect. VAT is self policing in nature, so there is less probability of tax evasion. VAT plays a neutral role on the method of production and distribution, which is a basic need for a good tax system. Similarly, the stepwise collection of VAT does not encourage tax evasion.

Nepal introduces VAT system for several reasons. It was necessary to introduce such a tax to develop a stable sources of revenue to broaden the tax base, to promote economic growth, to generate revenue required for improving its deteriorating macro economic performance, to establish an account based modern

transport tax system, to make the tax system more scientific, to gain the confidence of donors, to make the Nepalese tax system effective.

After implementation of tax in 1997, Nepal has been some sort of problems in effective implementation of this tax system. Major problems of VAT system are VAT billing. It has been found that undervaluation of VAT bill is common in Nepal. Most of trading house purchased their goods and make fake VAT bill and most of product are sold without issuing the VAT bill. Narrow tax base, smuggling, undervaluation, unauthorized trade weak tax administration, Lack of public consciousness, open boarder are the major problems of the VAT implementation in Nepal.

## **5.2 Conclusion**

Nepal had made a plan to implement VAT from Mangsir, 2054 but it delayed to Falguin 1, 2054. The implementation of VAT was to fulfill the following objectives:

- 1) Collection the revenue at low rate.
- 2) Export promotion
- 3) Evolving clear and transport accounting system
- 4) Reduce economic inefficiency
- 5) Removing of unfairness of sales tax
- 6) Expanding tax net
- 7) Accelerating the development by abolishing cascading effects of sales tax

In short time collection from VAT in Nepal is satisfactory in comparison with the target collection. In modern competitive and liberalizing economy, VAT is becoming popular by its exiting feature of transparency, boarder tax base, less tax evasion etc. VAT is most scientific innovative and modern tax in sales tax family.

VAT is attractive alternative of sales tax on the ground of revenue productivity, equality norms and wide tax base, eliminate tax cascading, create an investment friendly tax system, supporting economic growth without economic distortion, export promoting etc.

VAT puts greater significance in revenue mobilization in Nepal. The reason behind this is that VAT system is transparent, broaden tax base and discourage tax evasion. So, it is needless to say that VAT is the most important sources of the government revenue. VAT is the most scientific, innovative, modern and powerful tax with built in quality of universal application of both developed and developing economics. The biggest virtue of VAT is that it is revenue buoyant and high instrumental for resources VAT would make it possible to broaden the tax base, eliminate tax cascading, create and an investment friendly tax system have a simple and modern tax system that exempted export and basic goods from taxation and finally increase revenue. This is the matter of great pride that Nepal has entered into a major global tax system with the introduction of VAT.

In Nepal, share of tax revenue is greater than non-tax revenue in the composition of total revenue. Among total tax revenue indirect tax occupied 75% and share of direct tax is 25% of total tax revenue. In the indirect tax revenue, the contribution of VAT is significant and VAT is the second largest contribution to indirect tax after the custom duties. The contribution of VAT to GDP is 3.45% in an average of the study period of eight years.

VAT system is really challenging in such country like Nepal where long open boarder, exiting of barter system, ignorance of general people about VAT lack of support from businessmen etc. Developing culture of doing business without maintaining correct and proper books and account or maintaining multiple set of

book of account has made VAT system ineffective and unproductive in Nepal. Lack of awareness about VAT bill and VAT collection process among consumers or general people has caused low revenue generation from VAT. In order to make VAT system effective, there must correlation between stakeholder and administrator should act in favor of tax system hearty and internals rather than taking it “Sarkari Kam Kahi Le Jala Gham”. Government should focus on effectiveness of VAT though avoiding tax evasion rather than increasing VAT rate. VAT can run effectively only when fair trade practice start and all stakeholder act according to the theme of VAT system, then only Nepal can step up for economic development.

### **5.3 Recommendation**

Although VAT is scientific, modern and a latest innovation in the field of taxation, it is not getting success as expectation in Nepal. Implementation of VAT has passed about decade years and there is increase of revenue mobilization through VAT but increase is not satisfactory. In accordance with the findings of the study, for the better prospect of revenue collection through VAT and the effectiveness of VAT Act, following recommendation are made.

- ) The hostility harassment and corruption that currently exist between the tax officer and business community must end if Nepal is to have modern tax system. In order to make VAT effective for resources mobilization in Nepal there should be good co-operation and correlation between the stakeholders of VAT system.
- ) Lack of proper billing system, is being the most challenging problem in Nepalese context. So, Consumers should be well informed to take the real bills which they have to pay and strict warning should be given to business who use to issue false bills/invoices. So, issuing invoices for every taxable

sells must be made compulsory. The concentration must be given to bring the use of billing in all trading concern.

- ) Basic accounting problem and effective and empirical tax administrator are lacking in development countries. Hence, in Nepal focus should give to taxpayer awareness program regarding the accounting system under VAT and should given priority to make tax administrator strong and efficient.
- ) It has found that Nepal is highly depending on foreign sources for revenue mobilization. Now it is urgent in Nepal to do something for the better collection of resources from the internal sources i.e. VAT rather than foreign grant and loan.
- ) After the implementation of VAT in Nepal, the number of VAT registrants is in increasing trend but such increase is not satisfactory. Thus, the government should focus its attention to the transparent of potential taxpayers and taxpayers for their support and registration. In order to make transaction move transparent registration under VAT system is most.
- ) In order to make VAT system, effective VAT education to tax payers as well as consumers is necessary. Thus Nepal should lunch such programs which help to increase the level of awareness among the taxpayers and consumers. It is necessary to make training, seminar, report presentation, paper presentation and publication of journal. VAT programs should give through media for the awareness of general people about VAT.
- ) One of the important provisions under system is threshold system. Various views regarding threshold system have come in the practical grounds. Lowering threshold limit means making more burdens to tax officers and increasing threshold limit means allowing more potential taxpayers to stay

beyond the tax net, that's why Nepal should think about its threshold limit one again.

- ) Failure of many countries for effective implementation of VAT due to opposition from labor union and political parties increase record keeping requirement for all types of business, misconception about VAT as a cause of infection, tax evasion, lack of strong law etc. so in order to make VAT, effective VAT administrator should co-operate with different stakeholders and should work as a watch dog of government and corrective action should be made if any problem arises for effective operation of VAT in Nepal.
- ) One of the reason for making VAT effective is its cross checking mechanism, so it is recommended to the tax administrator to make cross checking possible and effective for the effectiveness of VAT system.
- ) Among different possible VAT schemes a selective VAT with exemption or zero rating and additional exercise is clearly preferable than to a complete uniform VAT. That's why in Nepal it is preferable to continue the exemption and zero rating system.
- ) Most of the traders and businessmen are lacked with minimum concept of VAT, and they are mainly facing pricing, billing, and accounting problems. Here, government should work with businessmen in order to run VAT system in efficiently and effectively. Tax administrator should try to solve the problems facing by taxpayers and potential taxpayers and problem should solve in bilateral interest.
- ) VAT laws should be effectively implemented. Timely revision should be made on unpractical acts, rule and regulation on the basis of experience gained.

## **BIBLIOGRAPHY**

### **Books:**

Bhattarai, Ishwor and Koirala, Girija Prasad, (2007), **Tax Laws and Tax Planning**, Kathmandu: Asmita Books Publisher and Distributors.

Bhattarai, Ishwor and Koirala, Girija Prasad, (2007), **Taxation in Nepal**, Kathmandu: Asmita Books Publisher and Distributors.

Dhakal, Kamal Deep, (1998), **Income Tax and House and Compound Tax: Laws and Practice**, Kathmandu: Kamal Prakashan

Due, John F. (1976), **Value Added Taxation in Developing Economics, Taxation and Development**, New York: Praeger Publication.

Gupta, S.P., (1991), **Statistical Method**, 26<sup>th</sup> Edition, New Delhi: Sultan Chand and Sons

Kandel, Pushpa Raj, (2064 B.S), **Present Tax System of Nepal**, Kathmandu: Buddha Academic Publishers

Kandel, Pushpa Raj, (2064 B.S), **Tax Laws and Tax Planning in Nepal**, Kathmandu: Buddha Academic Publishers

Khadka, Rup, (2001), **Income Taxation in Nepal: Retrospect and Prospect**, Kathmandu: Ratna Pustak Bhandar

Shrestha, Sunity and Amatya, Sunil, (2004), **Business Statistics**. Buddha Academic Publishers and Distributors Pvt. Ltd.

Sthapit, Azaya Bikram, (2004), **Statistical Methods**, Buddha Academic Publishers and Distributors Pvt. Ltd.

Wolff, H.K. and Pant, P.R., (2005), **Social Science Research and Thesis Writing**, Buddha Academic Enterprises Pvt. Ltd.

**Unpublished Thesis (Dissertations):**

Adhikari, Santosh, (2007), **Value Added Tax as Resource Mobilization in Nepal**, MBS Dissertation, T.U.

Baral, Deepak Raj, (2005), **Study on Internal Resources Mobilization Through Value Added Tax (VAT) in Nepal**, MBS Dissertation, T.U.

Bista, Raghu Bir, (1999), **Applicability and Feasibility of VAT in Nepal**, MA Dissertation, T.U.

Ghimire, Milan, (2005), **A Study on Tax Administration in Nepal**, MBS Dissertation, T.U.

Guearard, Michael, (1973), **VAT in Developing Countries**, Unpublished Dissertation, Columbia University, USA.

Mahato, Pushparam, (2007), **Value Added Tax: As a Tool for Resource Mobilization in Nepal**, MBS Dissertation, T.U.

Neupane, Nabin, (2005), **Value Added Tax as Internal Resource Mobilization in Nepal**, MBS Dissertation, T.U.

Neupane, Pawan Kumar, (2006), **Mobilization Through Value Added Tax in Nepal**, MBS Dissertation, T.U.

Prasai, Kul Prasad, (2002), **VAT in Nepal: Theory and Practice**, MA Dissertation, T.U.

Regmi, Kishor, (2004), **Contribution and Potentiality of Value Added Tax (VAT) in Revenue Mobilization: An Outline of Nepalese Tax Structure**, MBS Dissertation, T.U.

Sedai, Khubi Ram, (2005), **Implementation and Effectiveness of Value Added Tax**, MA Dissertation, T.U.

Sharma, Chinta Mani, (1998), **Value Added Tax in Nepal: An Administrative and Policy Issues**, MBS Dissertation, T.U.

Subedi, Babu Ram, (1997), **Applicability of Value Added Tax in Nepal**, MA Dissertation, T.U.

#### **Reports/Article and Acts:**

Ahmand and Ludlow, (1989), **Tax Reform Packages on VAT for Pakistan**, Institute of Policy Studies, Working Paper Vol. 20

Binguege, Hsiung (1991), **VAT System in Taiwan: Special Refuence to Revenue System**, Tax Journal Vol. 8 No. 2

Due, John F and Meyer Carrier (1988), **Dominican Republic Value Added Tax**, Bulletin for international Burean of Fiscal Documentation Vol. 42, No.1, Ansterdam: IBFD

**Economic Survey (2007/08)**, MOF, Kathmandu

**Inland Revenue Department (2007/08)**, Annual Report, IRD, Chitwan

Khadka, Rup B. (1995), **Probability of VAT in Nepal, Rastra Bank Samacher**, Nepal Rastra Bank, Kathmandu, P (22-28)

Khadka, Rup B. (1996), **A Report on the Government Tax System Study Tour, Kathmandu, Urban Development Through Local Efforts (UDLE)/GTZ**, P(8-9) and P(33-34)

Panday, Mukti Prasad, (2000), **Value Added Tax in Nepal: Problem and Prospects, Rajashwa Nepal Journal of Public Finance and Development**, Year 20, Vol. 1, Kathmandu.

Se-won Chang and ma Lourdes B. Recente, (1988), **The VAT Experience in Republic of Korea**, Asia Pacific Tax and Research Center and Asian Development Bank.

Silwal, Narayan P. (1999), **Effect of VAT on Revenue: A Pre and Post VAT Appraisal: Rajashwa** (Year 19), Vol. 1, MOF, Kathmandu

**Statistical Pocket Book-2008**, CBS, Kathmandu

**Value Added Tax Act -1996**, Kathmandu

**Websites:**

[www.ird.gov.np](http://www.ird.gov.np)

[www.mof.gov.np](http://www.mof.gov.np)

[www.cbs.gov.np](http://www.cbs.gov.np)