EFFECTIVENESS OF REVENUE COLLECTION FROM VAT IN NEPAL

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RECOMMENDATION

This is to certify that the thesis

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

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DECLARATION

I hereby declare that the work reported in this thesis entitled "**Effectiveness of Revenue Collection from vat in Nepal**" submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (MBS) under the supervision of **Prof. Dr. Kamal Deep Dhakal** and **Joginder Goet** of Shanker Dev Campus, T.U.

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I am solely responsible for any errors in this study. I would like to extend warm welcome to suggestions and comments if any.

Keshav Subedi

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ABBREVIATIONS

A/C	:	Account
Amt.	:	Amount
CBS	:	Central Bureau of Statistics
CDE	:	Central Department of Economics
CDM	:	Central Department of Management
CEDA	:	Central for Economic Development and Administration
DANIDA	:	Danish International Development Agency
EC	:	European Community
Edn.	:	Edition
EEC	:	European Economic Community
ESAF	:	Enhanced Structural Adjustment Finance
EU	:	European Union
FNCCI	:	Federation of Nepalese Chamber of Commerce and Industry
GATT	:	General Agreement of Tariff and Trade
GDP	:	Gross Domestic Product
GNP	:	Gross National Product
Govt.	:	Government
HDR	:	Human Development Report
HMG/N	:	His Majesty's Government of Nepal
IBFD	:	International Bureau of Fiscal Documentation
IMF	:	International Monetary Fund
IRD	:	Inland Revenue Department
LDCs	:	Less Development Countries
MBS	:	Master of Business Studies
MoDVAT	:	Modified Value Added Tax
MoF	:	Ministry of Finance
MST	:	Multi-Stage Sales
NCC	:	Nepal Chamber of Commerce

No.	:	Number
NPC	:	Nepal Planning Commission
NRB	:	Nepal Rastra Bank
Pvt.	:	Private
RST	:	Retail Level Sales Tax
SAARC	:	South Asian Association for Regional Co-operation
SAFTA	:	South Asian Free Trade Area
TPIN	:	Taxpayer Identification Number
TR	:	Total Revenue
TU	:	Tribhuvan University
TVR	:	Total Vat Revenue
UDCs	:	Under Developed Countries
UK	:	United Kingdom
UNDP	:	United Nations Development Program
UNO	:	United Nations Organization
USA	:	Unites State of America
USAID	:	United State Agency for International Development
VAT	:	Value Added Tax
Vol.	:	Volume
Vs.	:	Versus
WBR	:	World Bank Report
WST	:	Wholesale Level Sales Tax
WTO	:	World Trade Organization

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Value added tax is a twentieth century innovation in the tax system. This tax is based on goods and services. It is also considered to be a tax that is based on consumption. Since this tax is based on consumption, the burden of this tax has to be born by the consumers. VAT is regarded to be a member of the sales tax family, since it is imposed on the sales of goods and services. This tax is levied on the value addition at each stage of economic activities from the time of production to consumption of all goods and services. Value addition implies the difference between the purchase and the sales price that has been incurred in labor, capital, etc. in relation to the production or distribution of goods and services. This also includes the profit amount that is due to the businessman for taking the risk. Therefore, value addition includes the entire expenses and profits incurred in the process of preparing the goods or services for sale after its purchases. Since VAT is levied only on the value addition made at each stage in the process of production and distribution, this tax system seems more neutral, efficient, elastic and fair and it also said to be an improved version of the sales tax.

VAT is levied on sales of all goods and services excluding those that have been exempted by the law. Although the laws of different countries have a short or long list of tax-exempted goods and services based on the experience of the past tax system, economic condition, the revenue requirement, the standard of the accounting system, political and social will etc. VAT exemption is generally granted to those goods and services, which are administratively difficult to tax or on those goods and services that are day-to-day basic necessities of a large number of people. It is also believed that the exemption should be as short as possible in order to implement VAT more effectively.

VAT is levied on each level of sale from the production and imports to distribution of all goods and services except exempt ones. But for those small businesspersons engaged in the sale of good and services below the specified threshold level, it is not mandatory for them to register under VAT. However they can register voluntarily, to keep small businesspersons outside the tax preview, a threshold has been specified under the VAT system. Neither the wholesalers, retailers, dealers or producers who sell goods or services below the threshold level have to be registered under VAT nor they have to be collected VAT on their sales.

Value added tax is a general consumption tax assessed on the value added to goods and services is an indirect tax and an improved, modified form of sales tax. It levied on value added of goods and services at each stage in the process of production and distribution chain. These stages can be import, manufacturing, wholesale and retails trade value added for a firm is sales value minus all expenditures on goods and services purchased from other firms. The value added can be obtained by adding payment of factors of production. It is borne by final consumer. But collection of VAT is now difficult. Some businessmen try to evade tax and they always stand against the existed tax system.

Developing countries like Nepal are to implement VAT in proper way. In Nepal, Value Added Tax Act, 1995 enacted in 1995. VAT regulation was made in 1996. But VAT with single rate of 10% has been fully implemented with effect from 16 November, 1997 (1 Mansir, 2054). The Government of Nepal has increased VAT to 13% with effect from Magh 1, 2061.

Revenue collection for VAT is serious problem in Nepal due to political instability, attitude of evasion and critical economic condition. It may help to reduce revenue from VAT. So growing this situation also affects the national prosperity of Nepal. Different prospects in law and its implementation and problems are should be transparence. For this the tax reform with an adopting VAT is essential connection with the effort of many under developing countries as one of the major problem element of tax revenue to achieve the goal of acceleration of economic development.

1.2 Statement of the Problem

VAT is improved sales tax. It tries to reduce tax evasion and avoidance. It is the most recent innovation in the field the taxation. The concept of VAT was developed in 1919 in Germany. By the end of 1960s, only these countries, France Brazil, Germany, Netherlands, and Sweden etc had introduced VAT.

The concept of VAT in Nepal was introduced in early 1990s. Ministry of Nepal government proposed to introduce the VAT in the eighth plan. Subsequently, the Finance ministry declared to tie sales tax system to make the base of implementing VAT from the fiscal year 1992/93. A VAT Task force was created in 1993, under the financial assistance of USAID in order to make necessary preparation for the introduction of VAT. The Vat task force prepared the draft to 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 implantation was delayed due to political instability and strong opposition from the business community. VAT with single rate of 10% has been fully implemented with effect from 16 November 1997. (1 Mansir,2054). In 1999 (2056/57) total VAT collection was Rs 9850 million. In which Rs. 3720 million was collection from internal and Rs. 6130 from export. Government of Nepal had increased VAT to 13% with effect from Magh 1 2061. After incensement of VAT rate the VAT collected Rs. 18894.672 million. Our of total VAT collection Rs. 66243.33 million was from internally and rest Rs. 12270.29 million was from export. Total VAT was collection in 2064/65 was Rs. 31154.63 million was from export. The increasing rate of collecting VAT is gradually decreasing. This is the serious problem of our nation becoming poor (Bhattarai and Koirala, 298).

The number of registered tax payer in 1997/98 was 5232 and it increased to 69653 in 2008/09. The average rate of increasing register tax payer is 13% now.

Although increase in register tax payer and increasing revenue collection is not satisfied as compare to its estimation. In Nepal, yearly, about Rs. 1500 million net collectable VAT can't be collected and around 7000 tax payer yearly denied paying tax. Due to poor economic condition political instability helps to increase this problem. Every year the revenue collection situation can't meet the goal.

The main problems are:

- Is Goal of VAT not realized?
- Are there many problems faced by tax payers?
- Is the tax office also facing difficulties to implement this VAT effectively?

1.3 Objective of the Study

This major focus of this study is finding revenue collection from VAT in different years and current prospects and problems in collecting VAT. The specified objectives of these studies are:

- To examine the current situation of VAT implementation.
- To value yearly revenue collection from VAT.
- To examine current problem for implementation of VAT.
- To examine to what extent the goals have been achieved.
- To provide valuable suggestions for better collection of VAT on future.

1.4 Significance of the Study

Developing countries are facing the problems of revenue collection. Without huge fund government cannot implement development projects to fulfill the regular expenses. So, every country imposes tax to people. And this study concerns to know about current revenue collection situation, its problem and prospect. It also analyzes the contribution of VAT to tax revenue. So it shows the importance of VAT. It helps to provide information about collection of VAT. This study also shows the problem and prospect which helps to policy reform for administration. It will also provide a clear idea and knowledge to the people who are interested and confused about VAT system. Similarly, it will be valuable reference to the scholars or researcher to conduct further similar research. If VAT is implemented efficiently developing country, the result will be satisfactory. Thus, there is prospect of VAT in future in Nepal.

1.5 Limitation of the Study

The history of VAT is not so long in Nepal. Therefore, the study has very limited area of investigation. Most of the data were taken from Economic Survey 2009/10 and annual report 2009/10 of IRD. Due to time and resources limitation only few question are designed for survey. The major limitations of the study are given below:

- Data are based on report and filed survey.
- Reliability of data is limited on respondent's answers.
- Sampling method is based on judgmental sampling.
- Research area is Kathmandu Valley and Pokhara valley only.
- The information and data are collected within December 2010.
- This research has been conducted only within a prescribed time.

1.6 Organization of the Study

This study has been comprised into five chapters, each devoted to some aspects about revenue collection from VAT. The titles of each of these chapters are summarized and the contents of each of these chapters of this study are briefly mentioned here.

Chapter I: Introduction

The first chapter, Introduction, deals with background, statement of problem, objectives, importance, limitation and chapter scheme of the study.

Chapter II: Review of Literature

The second chapter, review of literature includes some work, analysis and discussion already made in the field of revenue collection from VAT and finally, a brief review of previous research works specially made in respect of VAT as revenue.

Chapter III: Research Methodology

The third chapter, research methodology deals with research design, period covered, types and sources of data, data collection procedure, method of analysis and analytical tools used.

Chapter IV: Presentation and Analysis of Data

In fourth chapter collected data through various sources have been presented. It mainly consist the analysis of various types of data regarding revenue collection from VAT .Various financial and statistical tools and techniques have been used to analyze and interpret the data. This chapter is the key chapter for the present study.

Chapter V: Summary, Conclusion & Recommendations

The fifth and the final chapter is concerned with the suggestive framework that consists with the overall findings, issues and gaps, conclusions ,findings and recommendations of the study. At the end of the study, bibliography and appendices have also been incorporated

CHAPTER - II

CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE

The main purpose of this chapter is to review the available literature on effectiveness of VAT collection in Nepal. Thus authentic and honest attempts are being made to highlight the list relating with the concerned topic from various books, newspaper, magazines, research articles as well as past thesis. To ensure the precise lucid and concrete views about the stated topic, the entire review work is portrayed in the point wise breakdown as given below:

2.1 Conceptual Framework

2.1.1 Types of VAT

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

2.1.1.1 Consumption Type VAT

Under the consumption type VAT all capital goods purchased from other firms, in the year of purchase are excluded from the tax base depreciation is not deducted from the tax base in the subsequent years. Since investment is relieved from taxation under this variant, the base of tax is consumption. That is why this variant of VAT is known as consumption type VAT. As exports are relieved from tax, whole imports are taxed; the base of this becomes identical to the base of retail sales tax on consumer goods and services.

2.1.1.2 The Income Type VAT

The income type of VAT does not exclude capital purchased from firms from the tax base in the year of purchase. This variant, however, does exclude depreciation from the tax base in the subsequent years. Moreover, under this system, an excess of year-end inventory is included in the ax base while an excess of staring inventory over year-end inventory is excluded. The tax falls both on consumption and net investment, and the conceptual tax base of this variant is the net national income. For this reason a comprehensive VAT of the income variety is equivalent to flat-rate integrated tax on corporate and personal income, with no exemptions or deductions other than those needed to measure income? Therefore, tax base is given as;

Base of VAT = NNP = C + In

Where,
C = Consumption; in = net investment

2.1.1.3 The Gross National Product Type VAT

Under this variant, capital goods purchased from other firms are not deductible from the tax base in the year of purchases. This variant does not allow the deduction of depreciation and gross investment, and the conceptual tax base of this variant is good domestic product. Therefore the base of VAT = GNP = C + Ig.

Where,
C = Consumption; Ig = gross investment

Thus, the variants of VAT differ depending upon the treatment of capital goods. The consumption variant excludes all capital goods purchased from other firms in the year of purchase from the tax base, but makes no allowance for depreciation from the tax base in the subsequent years. Both the income and gross national variants do not exclude the purchase of capital goods from the tax base in the year of purchase in that the income variant excludes depreciation from the tax base in the subsequent year while the gross nation product variant does not do so.

Among these three types of VAT the consumption variant has been widely used in several countries in Europe and elsewhere in recent years. The reasons for the popularity of this type are that this variant does not affect decision regarding investment and growth since it relieves from any tax burden. Since the consumption variant does not discriminate against capital-intensive techniques in favor of labor intensive techniques, there is no need for a firm to switchover from capital to labor intensive techniques. Hence, consumption variant is neutral regarding the production techniques. On the other hand the gross national product variant that it is unlikely to be widely used discourages firms to use capital intensive methods of production and encourages using the labor intensive method, which do not involve frequent year-to year fluctuations in physical volume of inventories. Moreover, the GNP type creates a substantial discriminative for saving and investment because of which it is not likely to family of any country (Khadka, 1989:4).

From an economic growth point both the income and gross product variants have an anti investment bias. The distinction between the purchase of capital goods and intermediate goods is not needed under the consumption types of VAT, which is essential under other two variants. The income type also needs the computation of depreciation in subsequent years, which further complicates administration. Thus, consumption variant is attractive from the point of tax administration. Even from the consideration of foreign trade, consumption variant is more attractive than the income variant since the former is compatible with destination principle and letter with origin principle. Thus, the consumption variant is most desirable than the other two variants in several respects.

2.1.2 Method of Calculation of VAT

Value-added tax can be collected by using the different methods of computation, however the choice of the appropriate method depends basically on the type of VAT employed and the principle under which VAT is adopted.

The VAT can be computed by employing any of the three methods: I) addition method, ii) subtraction method, and iii) tax-credit method, among which the “last method has never been utilized (Due, 1976:71).

2.1.2.1 Addition Method

This method is also known as the direct value-added computation method. Under this method the tax based is obtained by adding the incomes produced by the firm. In other words, the tax base is computed by adding the expenditure made by the firm to the factors of production employed in turning out the product, such as wage, rent, interest, royalties, profit etc. Thus, VAT under addition method is the function of the total factor payment as given by:

VAT = f (W + R + I + P);

Where,

W = wage, R = rent, I = internet, P = profit.

If the firm uses its own capital goods rather than purchasing it, this addition method captures the value added by the firm. The capital method is readily applicable to the income type of VAT includes the rewards to all factors as it base but clumsy for the consumption type of value-added tax (Musgrave and Musgrave, 1976:401). Virtually, no country uses the addition method, although, Argentina and Israel have applied it to selected economic activities, such as banking and finance, where value of inputs and outputs is difficult to measure (Conssen, 1992: 217-218).

2.1.2.2 Subtraction Method

Under this method value added is determined as net turnover, which is obtained by subtracting the cost of materials from sales proceeds. Thus, VAT is levied on the amount; which is derived by subtracting purchase from sales as given in functional form: VAT = f (S_V – P_V)

Where,

S_V = sales value, P_V = purchase value.

This method is appropriate for the consumption type of VAT that includes in its base the rewards to all traders.

2.1.2.3 Tax Credit Method

This method is also known as the invoice method in which, tax is levied on the total value of sales, and taxpayers are permitted to deduct from their gross tax liability the taxes already paid by them. Thus, in contrast to the subtraction method, which deducts purchasers from sales and levies taxes on the difference, tax on purchases is subtracted from the tax on sales under the tax credit method.

Whatever the method of calculation of VAT, the basis for VAT is the value addition that takes place at each level in the production and distribution process of goods and services. Value addition is the difference between the purchase and sale price of goods. For example, if a wholesaler purchases something from a producer at Rs. 100 and sells to a retailer at Rs. 130 then the value addition at the wholesale is Rs. 30 and it is on this amount the VAT is levied. The value addition that takes place at different levels of production and distribution can be further clarified by following example.

Let us suppose that a producer has imported raw materials at Rs. 50 from a foreign country to manufacture some goods. The producer than used the raw materials to prepare a finished product and sold to a wholesaler at Rs. 100, the wholesaler than sold it to a retailer at Rs. 130 and the retailer to the consumer at Rs. 150. Then for the purpose of VAT, the value addition at the import level is Rs. 50 in the production level it is Rs. 50 at the wholesale level Rs. 30 and at the retail level Rs. 20. These amounts are the basis for VAT and when applied at the rate of 10%, the VAT amount will be Rs. 5 at the import level, Rs. 5 at production level, Rs. 3 at wholesale level, and Rs. 2 at retail level, amount to a total VAT of Rs. 15.

But calculating the value addition at each level of sale becomes difficult in the practical implementation of VAT. To avoid this situation, most countries adopting VAT, have introduced the tax-credit system to calculate VAT and than the value addition at each stage does not have to be calculated. According to this system the vendor should apply the specified VAT rate on the sale price and deduct from the amount thus collected the tax paid on purchases and imports and submit the remaining amount to the treasury. The concept of the principles of VAT is brought into practice through the medium of tax credit and tax is levied as per table 2.1.

Table: 2.1

The Method to Calculate VAT @ 10%

Production distribution level	**Sale price**	**Value addition collected**	**Tax collected from sales**	**Tax incurred on purchased**	**Actual tax to be paid**
Importer	50	50	5	0	5
Producer	100	50	10	5	5
Wholesaler	130	30	13	10	3
Retailer	150	20	15	13	2
Total		**150**			**15**

In practice only the remaining amount after deducting the tax paid on purchases and imports from the tax collected from sales have to be submitted to the government. The result of this is the same as calculating the value addition at each stage and then applying VAT at the specified rate. Thus under the tax credit system, which is also referred to as the invoice system, value addition, is not calculated for purpose of VAT but the same result will have been obtained indirectly through tax credit.

Thus, the tax credit method has the following major benefits over the other two types of VAT computation. (i) In the tax credit method, tax liability is attached to transaction that makes it legally and technically superior, (ii) tax collection is easy, (iii) cross-checking is possible, (iv) it provides the benefit of catch-up effect that make under valuation and evasion impossible, (v) there will be no loss of revenue due to the exemptions granted to the small traders (vi) it never demands for the calculation of value-added total tax (vii) liability entirely depends on the rate of the last stage, so rate differentiation is possible for the same revenue yield.

This mechanism is further desirable since it puts an equal burden of taxation on both imports and domestic products, irrespective of channels of distribution and proportion of value added at various stages. Thus, the tax credit method is desirable for several reasons and has been adopted by many countries of the world.

From the table 2.2, it is clear that VAT liability calculated by any of the three methods is same that is Rs. 400. In the table VAT rate is same that is 10% for all method for the sake of simplicity in calculation though 13% VAT is applied in practice. However, if there is rate differentiation in different stage VAT liability will differ for different method.

Table: 2.2

Calculation of VAT Liability by Different Methods (10% VAT)

	Stage of Production and Distribution			
A. Addition method	Manufacturer	Wholesaler	Retailer	Total
a. Wages	1000	550	750	2300
b. Rent	300	150	150	600
c. Interest	150	100	50	300
d. Profit	350	200	250	800
e. Value-added (a+b+c+d)	1800	1000	1200	4000
f. VAT liability (10% of e)	180	100	120	400
B. Subtraction Method				
a. Sales	8600	9600	10800	29000
b. Purchases	6800	8600	9600	25000
c. Value-added (a-b)	1800	1000	1200	4000
d. VAT liability (10% of c)	180	100	120	400
C. Tax credit method				
a. Sales	8600	9600	10800	29000
b. Tax on sales	860	960	1080	2900
c. Purchases	6800	8600	9600	25000
d. Tax on purchases	680	860	960	2500
e. Net VAT liabilities (b-d)	180	100	120	400

Note: All sales and purchases are exclusive of tax and figures are arbitrarily assumed.

Similarly 10 % VAT rate has been applied for the sake of simplicity in calculation though 13% VAT rate is applied in practice. Although, the change in the VAT liability will be same under both the addition and subtraction method, as there is same amount of value added at each stage of production and distribution. Assuming that the transaction (figures) presented in the table are for the economy as a whole in a specified period of time, a VAT of 10% rate gives Rs. 400 as tax under the first methods having the amount of value added Rs. 4000. In tax credit method, value added, as such is never calculated; however VAT liability exactly equals to that by other methods. Thus VAT is levied on the basis of value added but not directly. Calculation of VAT liability under the tax credit method is shown in table 2.3.

Table: 2.3

Calculation of VAT Liability by Tax Credit Method (VAT rate 10%)

(Amount in Rs.)

	Stage of production and distribution			
	Farmer	**Manufacturer**	**Wholesaler/ Dealer**	**Retailer**
Types of product	Sugarcane	Sugar	Sugar	Sugar
Purchase value (a)	0	200	400	450
VAT paid on purchases (b)	0	20	40	45
Sales value (c)	200	400	450	510
Gross VAT liability on sales (d)	20	40	45	51
Net VAT liability (d-b)	20-0=26	40-20=20	45-40=5	51-45=6
Actual sales price (c+d)	**220**	**440**	**495**	**561**

Notes: Figures are estimated arbitrarily and both the sales and purchase value exclude tax liability. Similarly 10 % VAT rate has been applied for the sake of simplicity in calculation though 13% VAT rate is applied in practice.

Here, for the sake of simplicity, the purchase value of the farmer is assumed zero. As shown in the table 2.3, each seller calculates the gross tax by applying the giving tax rate to his sales value and then gets net VAT liability by subtracting the amount of VAT liability paid by seller at different stages equals to the gross VAT liability on sale with the same VAT rate as indicated in the table as far as tax credit chain is not broken.

Unlikely the remaining two methods, in the tax credit method, there will be no change in total VAT liability by the rate differentiation in earlier stages, unless tax rate on last stage is changed. A 10 percent VAT rate through all the stages gives same VAT liability that is Rs. 40 under both the subtraction and tax credit methods. When, the VAT rate is increased to 12 percent at manufacturing stage, remaining the same initial rate at all other stages, the tax liability calculated by subtraction method increased by Rs. 25 (that reached to Rs. 45). However, there is not any deviation on the total tax liability calculated by the tax credit method. This is clearly shown in the table 2.4.

Table: 2.4

Calculation of VAT liability under subtraction and Tax Credit Method

(Amount in Rs.)

Production and distribution stages	Sales value (excluding VAT)	Value added	VAT liability subtraction method	Tax credit method
A 10 percent VAT at each stage				
Farmer	200	200	20	20-0=20
Manufacturer	300	100	10	30-20=10
Wholesaler	350	50	5	35-30=5
Retailer	400	50	5	40-35=5
Retailer	400	50	5	40-35=5
Total	1250	400	45	125-85=40
B. 12 percent VAT at manufacturing stage and 10 percent at all other stages				
Farmer	200	200	20	20-0=20
Manufacturer	300	100	15	36-20=16
Wholesaler	350	50	5	35-36=-1
Retailer	400	50	5	40-35=5
Total	**1250**	**400**	**45**	**131-91=40**

Source: Amount are Arbitrarily Assumed.

2.1.3 Tax Inclusive VS. Tax-Exclusive Prices

There are two alternative ways of applying the tax rate on prices. The tax may be applied to the figure of sales exclusive of tax, or inclusive of tax. If the tax is applied to the figure, after fixing the price of the product at first; the method is called the tax-exclusive prices. However, separate requirement of tax statement and the price of the product are not essential. But the tax-inclusive price requires the application of tax rate to the whole figure and further it demands the amount of tax itself into the tax base again. For example, with a 20 percent tax rate, the tax on an item selling for Rs. 100 net of tax will be Rs. 20 (before deducting tax paid on purchase) with the tax-inclusive method and Rs. 25 with tax-Exclusive method (since the tax element is itself subject to tax) France used the latter method for a long time but has recently moved to the tax-exclusive method in conformity with the EEC directive (Due, 1976:96).

The tax-exclusive method has a great advantage of simplicity and greater ease in forward shifting of the exact amount of tax. The effective tax rate is clearly revealed. The inclusive method is confusing and has no possible merit, except to yield more revenue at a given nominal tax rate. Thus, the tax-inclusive method is only to get greater yield with a lower tax rate, however neglected basically on the ground of administrative difficulty.

2.1.4 Structure of VAT

2.1.4.1 Tax base

Tax base may be defined as the sets of incomes and transactions on which direct and indirect taxes, are levied. Tax base, in other words, is the total pool, in which the tax authorities can tap by levying a tax. Theoretically taxable base of VAT capture all types of expenditure on final consumer goods. High revenue productivity is one of the major features of VAT because of its broad base. The tax base of a VAT depends on its coverage, which means all kinds of good and services or business transactions are included into the tax base. Taxable transactions and taxable persons both come into the coverage of

VAT. Taxable persons are those who independently engage in supplying goods and services where taxable transactions are broadly the supplies made by the persons engaged in the industrial and commercial activities. Tax base explains whether a VAT is levied on all goods and services or on some subset of such comprehensive base. The tax base for VAT can be broadly classified in to following categories: (i) all goods and services, (G +S); (ii) goods and selected services, (G+St); (iii) goods only (G); (iv) consumption ©. If in the transaction of certain goods and services, zero-rated tax is levied then such goods and services or transactions are kept within the preview of VAT. That dealing is such transactions have to be registered under VAT and also fulfill all the other formalities that are applicable to other registrants of goods and service, (G+Cg); or consumer goods, selected services and capital goods (C+St+Cg). Evidently, there is a wide diversity in the size of the VAT base across countries, but the general preference towards a broad-based VAT is clear. It is desirable to include all kinds of goods, services and business activities into the coverage of VAT so that all consumption expenditure comes under the taxable base of VAT. However, in practice, the base of VAT is not found so broad that it covers all the consumption expenditure.

Exemption, zero rating and the tax rate are the major components on which the base of a particular tax depends. In many countries, especially in developing countries, taxing agriculture is not feasible on the administrative ground and economically undesirable on the equity grounds. So, agriculture is generally exempted which limits the tax base. Similarly, due to administration and equity reasons only some selected services such as electricity, telecommunication, hotels and restaurant, entertainment etc. are taxed. Further, the construction industry is also subject to exempt in some cases; however, the construction materials are taxed. Thus, many problems associated with the successful implementation of VAT demands a lesser base and hence ultimately reduce the revenue productivity of VAT.

Legal provisions need to be made to determine the base for VAT in the case of goods and services where the gross selling price is unreasonably lower than the actual market price. In such a case the tax officials are authorized to determine the base of VAT on the basis of the market price. Such a provision is necessary in order to check tax evasion particularly at the last point of taxation. Basically, in the counties of EEC, the purchase is relived from the VAT while no allowance is made for depreciation on capital goods from the tax base in subsequent years. In general, the base for VAT on import is the sum of the import value determined for the purpose of customs duties, together with custom duties and other charges, if anyone paid by the importer prior to the release of goods from customs custody. Different practices for determining the tax base in the case of goods and services delivered or rendered for no consideration. There is also a practice in some countries, such as Korea excluding from the tax base value of goods, which are damaged, broken or lost before deliver. Thus, tax base may considerably differ country wise depending upon the economic situation and policies of the country.

2.1.4.2 Freeing from VAT

Under the VAT regime, there is some provision keeping some special goods and services or transactions beyond the tax base. Such provision is imprinting from the view points administrative simplicity, equity and other economic reasons. In general there are three provision of freeing from VAT viz. exemption, zero-rating and threshold.

2.1.4.3 Tax-Exemption and Zero-Rating

Tax-exemption and zero-rating are the two popular methods of escaping from value added tax. But there is different between tax exemption and zero-rating under the VAT system the transaction of tax-exempted goods or services remains outside the purview of VAT. Those dealing is such transactions do not have to fulfill any formalities, including registering under VAT. However, such taxpayers do not have to collect tax on these sales and neither can they claim for a refund of the tax paid in purchases or imports. This means that the tax amount incurred on the inputs of tax-exempted goods and services goes to the consumer inclusive of the cost price.

If on the transaction of certain goods and services, zero-rated tax is levied then such goods and services or transaction are kept within the preview of VAT. That dealing is such transactions have to be registered under VAT and also fulfill all the formalities that are applicable to other registrants. Such registrants have to collect VAT at the rate of zero percent on their sales and can deduct the tax incurred on their purchases. This means that the zero-rated goods and services do not bear the burden of VAT but should follow the all formalities of VAT.

On the tax exempted goods and services the output tax cannot be collected and not can the input tax be claimed, but the zero-rated goods and services a zero-rated tax is levied, which actually is equivalent to none, and the input tax can be claimed. This means that in the zero-rated goods and services there is no burden of VAT whereas in the tax-exempt goods and services although VAT is not levied on the sales, the VAT burden paid on the input remains. If it is necessary to free certain goods and service completely from VAT then the zero-rated tax should be applied but if on certain goods and services it is administratively difficult to apply tax then these should be given tax exemption. In the input of the letter certain tax amounts are incurred.

2.1.5 Threshold

Threshold in VAT is an upper limited beyond with VAT system is in operation. VAT is levied on each level of sale from the production and import to distribution of all goods and services except exempt ones. But for those small businesspersons engaged in the sales of goods and services below the specified threshold level, it is not mandatory for them to register under VAT. To keep small businesspersons outside the tax preview, a threshold has been specified under the VAT system. The wholesaler, retailers, dealers, or producers who sell taxable goods or services below the threshold level do not have to be registered under VAT and neither do they have to collect VAT on their sales.

Thus, threshold is a kind of exemption, which is based on the amount of the transaction but not on the kind of goods and services. So the threshold must be set on the basis of the nature of the production and distribution system in a country concerned and the status of education and record keeping at various levels of volume among business firms (Khadka, 1996).

2.1.5.1 Tax Rate

VAT may be lived on single rate or multiple rates. The choice may be depends on economic nature and social will such as revenue requirement, equity consideration, administrative capacity, nature of product, direction and composition of foreign trade etc. Even though, as these aspects might conflict to each other and hard to achieve simultaneously. Indeed, the lower the VAT rates the higher the costs of VAT administration as a proportion of the yield and hence less productive will be the tax system. A single rated VAT is desirable in UDCs because it makes VAT less costly, easy to comply and administer.

The government can vary tax rates on social grounds and as the part of fiscal policy to increase or decrease spending. Under a multiple rated VAT, there is a need of classifying commodities into different groups according to their rates so that tax administration becomes more complicated. Further burden to the businessmen and the tax administration is created since businessmen have to keep separate records and have to provide more pieces of information while preparing their returns. It creates not only inconvenience but becomes unequal in effect wince a dealer may charge different rates on the same goods sold to the different buyers. Similarly, there is the possibility of a dealer charging a higher rates for goods subjects to lower rates and vice versa. The tax system with multiple rates is also economically inefficient. It results a considerable loss in revenue by providing the scope for taxation. Since an incentives is created to producers to substitute their resources from higher rated to lower rated industries to save the not tax liabilities even when other economic considerations do not justify such reallocation of resources.

2.1.6 Operation of VAT

2.1.6.1 Registration

Value added tax requires registration of vendors in tax authorities, which helps to develop master roll of taxpayers. Any business enterprises if they desire to register can register voluntarily. However, there is no compulsory to register for the small vendors who have an annual turnover below the threshold.

The registration procedure starts with a notice to the potential tax payers extensive publicity campaign. Then registration forms are distributed so that the vendors will fill up to be a formal member of the taxpayers under the VAT system. Then the registration from is returned back to the VAT department and their coding is made. Thus registrants may be known about VAT in detail .so, an informative visits needs to be made and check whether the details provided by the taxpayers are correct or not. Although, all the vendors having the transaction of taxable capacity may not be registered so it is almost essential to make a door-to door check, especially in developing countries. The newly hired staff of inspector and enforcement officers can be used for this purpose.

However, vendors may desire to come into the VAT net since an unregistered vendor can neither claim back input tax paid on his purchases nor collect output tax on his sales and hold it until it is required to be paid to the tax authorities. Further, as the traders do not want to appear excessively small in the eyes of their customer, they may intend to register. Vendors may hesitate to register due to illiteracy in developing countries. Hence, vendor can be attracted towards VAT registration by providing knowledge, careful checking and penalty system. Still there remains possibility that some vendors may register only in order to tax credit facilities and apply for cancellation of registration after taking advantages of the facilities, leading on the considerable loss of revenue. In order to check such practices some provisions needs to be made in the tax laws.

2.1.6.2 VAT Account

VAT is based on self-assessment system. Under the system, a taxpayer is required to keep a proper account of all his business transactions, which is subject to positive rate, zero rate and exemption.

Accounting here refers to a record of his business transactions. In the absence of such accounting system a businessmen is unable to keep an account of profit and loss incurred during the business period and is also unable to determine factors such as the status of the business the business obligations and the asset value. This hinders organized development of his business. Thus, these factors emphasize a need for a proper accounting of business transactions. Account with all supporting documents should be preserved for at least four years.

In order to collect taxes from the consumers while selling taxable goods or services, a businessman will have to register with VAT office. These registered businessmen, who as the agents of the government are required to keep proper accounts not only for themselves but also for the government. Under the VAT system, the tax personnel are not only concerned with the sales figure and tax amount shown by the tax-payers but also are concerned with the purchases related to the sales. During the tax credit and inspection, the tax personnel examine the purchases as well as the sales made by the businessmen and estimate the taxpayer’s tax liability. To determine the tax to be paid by the taxpayer during a fixed period, the total sales and purchase figure together with the relevant documents that support them are required. This calls for proper record keeping of the related invoices and declaration from in a chronological manner, apart from sales and purchases records. The use of invoices is as important for purpose of VAT as the record of the documents related to sales and purchases is for the purpose of accounting.

2.1.6.3 The Practice of Self-Accounting

VAT is based on the basis of actual transaction. The businessman himself/ herself knows best what transaction has taken place and at what cost. Since a tax payers has to maintain his/her own accounts based on the invoice issues at the time of purchase or sales of goods and services, the VAT accounting is also referred self-accounting system. In this system the purchase book and the sales book are considered main accounts. The accounting process of VAT commences with the sales or purchase invoices. Since the VAT system is based on invoices, the account is maintained by entering the invoices pertaining to purchases into the purchase book and the invoices pertaining to sales into sales book. At a glance the VAT account can be referred to as a chorological entry of invoices. The concept of VAT was developed on this basis. According to the laws of different countries worldwide, while maintaining accounts for the purpose of VAT, a taxpayer has to record complete details in relation to sales and purchases. The accounting system of VAT has been developed in such a way so as to case the taxpayer's liability assessing for filling tax returns and to ease the tax official audit of the taxpayer's transaction accounts.

2.1.6.4 Tax Invoice

While selling any goods or services, a taxpayer has to clearly write, "Tax invoice" on the first copy or on the title page of the invoice she/he issues. Three copies of the invoice should be made and the original copy should be given to the buyer, the second copy should be kept in a separate record to product when asked by the tax officer, and the third copy should be maintained as record for the purpose of his/ her transactions. The invoice number, date of transaction, vender's identification number, name, address and the buyers' name, address and if registered the identification number should be written on the invoice. Similarly the particular of the items or services sold, the quality, and the price per unit sold also should be written. If discount has been given on the customer then the amount and rate of discount should be specified and after deducting the discounted amount form the total price, the tax amount at the specified rate should also be clearly stated. Only on the basis of such an invoice, registered buyers can secure the facility of tax deduction. Hence, while purchasing goods or services one should not forget to make an invoice.

Thus the tax invoice is a crucial document for VAT as it establishes the seller's liability for tax and the purchaser's entitlement or credit. A VAT registrant is required to issue tax invoice whenever a transaction that is above the minimum threshold, takes place.

2.1.6.5 Abbreviation Tax Invoice

A registered vender can sell his/her goods or services only by issuing an invoice as per the law. Not adhering to it will be considered a violation of law and will be punishable. Keeping in mind the welfare of small and retail vendors who deal in a variety of goods in small quantities, the provision to issue an abbreviated invoice, as per schedule 6 of the Regulation, instead of a tax invoice as stated above has been made. In such an abbreviated tax invoice, along with the invoice number and the data, the vendor's name address and the identification number should also be included. It should also state the particulars of the items or service sold its quantity, and the price per unit. If any discount has been given to the customer then the total price after deducting the discounted amount should be stated. In such tax invoice the tax amount cannot be seen as a separate entry but it is included in the price. On the basis of such an invoice a registered buyers cannot avail the facility of a tax refund. A taxpayer who wished to make use of such an abbreviated tax invoice while selling must take prior approval of the tax officer.

2.1.7 Collection of VAT

There are two major steps during the collection of VAT. (a) tax computation and (b) tax credit and refund.

2.1.7.1 Tax Computation

Among the three methods of VAT computation viz.: addition, subtraction and tax credit method any one can be applied. However, the last one has been used widely in most of the countries. Under this method, tax is levied on the total sales of each registered vendor from which the tax paid on the purchases by the vendor is allowed to subtract. The deduction of tax on purchases from the tax on sales consists of tax base to be lived tax. The net liability of a vendor is calculated on the basis of the taxable period, not on the transaction basis.

Sometimes, a vendor's deductible input tax may exceed his output tax so that the net VAT liability of the vendor will be negative. The contradicts to the general logic that the output tax exceeds the input tax because the base of the former at a particular stage is greater by the amount of value added at that stage than the base of the input tax. In reality, not all the inputs purchased from other firms in a particular tax period are exactly converted into output in the same tax period. Conversely, not all the outputs in a taxable period are solely from inputs purchased in the corresponding period. The former case is responsible for arising the exceptional result that net VAT liability is negative. In such situation, tax administration must be more careful that whether the vender is trying to evade the tax.

2.1.8 Tax Credit and Tax Refund

Tax credit or detection and tax refunds are the main features of VAT. Under VAT, a registered tax-payer has to collect tax on his/her sales price at the specified rate and deduct the VAT paid on purchases and imports from the tax collected on sales and submit only the remaining amount to the government. This process of deducting the tax paid on purchases from the tax collected on sales is known as the tax credit. Such tax deduction can be made on the tax incurred on the imports and purchase made in relation to taxable sales and include raw materials, auxiliary materials chemicals, packaging materials, goods imported or purchased for and resale, furniture, equipment, stationary, vehicles, computer, diesel telephone and taxes paid on other relevant imports or purchases.

Sometimes the tax paid on purchases or imports exceeds the total tax collected from sales. Such a situation arises generally in transactions on which a zero-rated tax is levied, for example in export since a zero-rated VAT is imposed on exports. Therefore under such circumstances the tax paid in imports and purchases generally exceeds the tax payers have to be refunded the deference tax amount.

The calculation for tax credit and tax refund does not have to be done on every purchase. It can be done on the basis of tax period. For example, if a taxpayer's tax period is one month and his/ her one month taxable sales is Rs. 2,000,000 and the purchase and import is worth Rs. 1,500,000 then at the rate if 10% the individual should have paid the taxpayers has to deduct the paid tax of Rs. 150,000 from the collected tax of purchase is higher than the tax-collected from sales then the deference amount is refunded to the taxpayer.

2.1.8.1 Enforcement

Enforcement of VAT, is one of the major requirements for the successful operation of VAT, in the sense of ensuring that all firms returns file and pay tax to the government at given period of time. VAT system can be found more equitable along with the restriction for tax evasion when the enforcement of VAT is effective. Among the various techniques developed for the purpose of VAT enforcement, the most important is the requirement of adequate records keeping and preserving it for a long time (generally five years), and administrative power to review the records for the accuracy and fairness any time. Power is granted to tax officials to inquiry, seize a check the records in the cases of suspected fraud. In such cases of suspected fraud, tax officials can enter and search the business premises.

The basic problem arises with the firms who neither file the tax returns nor pay. However, the automatic penalty and interest charges which can be applied simply and quickly are highly effective in encouraging firms to file and pay on time. These penalties and interest charges are not criminal penalties but simply charges for failure to file and pay on time and are applied automatically without court action. Further, these are assessed at the time of the check for delinquents and are applied to the firms that have paid between the end of grace period and the cut off date as well as those that have not yet field.

2.1.8.2 The Legal Provision

In the Value Added Tax Act 2052 and the Value Added Tax Regulation 2053 in Nepal various provisions have been made in relation to the accounts to be maintained by a taxpayer for the purpose of VAT. These provisions include aspects such as preparing invoices to filling tax returns. Since the process of VAT accounts beings from the issuance of invoices, a provision has been made under clause 14 of the Act for a registered person to issue an invoice to the seller while selling any goods or service and for the buyer to receive the invoice.

2.1.9 Legal provision relating to VAT in Nepal

2.1.9.1 Structure of VAT

2.1.9.1.1 Rate Coverage and Threshold

In Nepal VAT is levied on each level of sale from the production and import to distribution of all goods and services except exempt one. But for those small business persons engaged in the sale of goods and services below the specified threshold level, it is not mandatory for them to register under VAT. To keep small businesspersons outside the tax preview a threshold has been specified under the VAT system, which is 2 millions annually in Nepal. The wholesalers, retailers, dealers, produces who sell goods or service below this threshold level do not have to be register under VAT and neither do they have to collect VAT on their sales.

Nepalese VAT is subjected to a flat rate of 13% but VAT is not applicable to all transactions. An annual threshold of Rs. 2 million in transaction has been specified for this purpose. In other words any business with annual transactions of less than Rs. 2 million need not be registered under VAT. However, a few transactions or goods and services are zero rated, provisions of which are made on appendix-2 of VAT Act 2052, which are given below.

- Good and services purchased or imported by His Majesty the King, Her Majesty the Queen, His Majesty the Crown Prince, and other member of Royal family.
- Exports of goods and services.
- Goods or stores taken on board an aircraft, provided that the goods are taken on board, on aircraft or on flight for the export on destination outside the kingdom of Nepal.
- Supply of goods and services to the persons outside the Nepal.
- Imports of goods and services by accredited diplomats.

2.1.9.1.2 Exemption

There are two provisions related to VAT exemption: (a) by allowing to claim for tax refund of the tax incurred in purchased and (b) providing the facility to avail of the zero-rated tax.

The general practice to provide value added tax exemption is through refunds. However, under certain condition tax exemption is granted by providing the facility to levy a zero-rated tax. It is the finance ministry that takes decisions regarding zero-rated tax facility and grand such facilities. When granting such facilities the program invoice in relation to repeated exemptions is approved and sent by the Inland Revenue Department where in relation to big projects the district-based Inland Revenue Office has been granted the authority to approve the Performa invoice.

As per clause 25, tax refund is made to international missions, international organizations, organizations operating on the basis of multilateral agreements and the tax amount collected by mistake.

Zero-rated facility is granted in purchases made by His Majesty the King and Royal family. Establishing a zero-rated tax is in export is the basic feature of VAT. The details regarding individuals and organizations that can avail the facility of zero-rated tax are given in schedule 2. Projects operating through foreign support to avail of VAT exemption provision have to be made in the agreement itself.

The details of goods and services that are exempted are given schedule 1. These are:

- Basic agro-products such as paddy, rice, wheat, maize, barley, green and fresh vegetables, fruits, fresh eggs, herbs etc. but excluding food held out for sale by hotels, restaurants etc.
- Goods of basic needs such as edible oil (produced only from local plant), piped water, fuel wood, coal, kerosene (except air fuel) and salt.
- Live animals and animal products.
- Agriculture inputs such seeds, manure fertilizer, soil conditions, agricultural hand implements and pesticides.
- Medicine, medical and similar health services.
- Education and educational training and services, which are not profit oriented.
- Book, newspapers, press related equipments, press and publication.
- Artistic and cultural goods and services.
- Transportation services.
- Personal and professional services provided by auditor’s engineers, artists,

sport men, writer, translator etc.

- Other goods and services such as postal services, financial and insurance services, bank notes and cheque books, gold and silver, electivity raw wool.
- Land and buildings
- Belting, casinos and Lotteries.

2.1.9.2 Operation of VAT

2.1.9.2.1 Registration

Suppliers of taxable goods and services are required to register under VAT. However, the vendors having the transactions of only exempted goods and services of falling below the registration threshold are not required to register in VAT system. That is to say, VAT is not applicable to all transactions. An annual threshold of Rs. 2 million in transactions has been specified for this purpose. In other words, any business with annual transactions of less than Rs. 2 million need not be registered under VAT. However, vendors having annual turnover below the registration threshold can register voluntarily.

Group registration is not allowed under Nepalese VAT. Similarly, there is not necessary to register the branch or division of any producer or distributor. VAT liabilities collected by such branched or divisions and calculated along with the head. Nepalese VAT follows the following registration procedures:

- Fill in VAT registration application form.
- In case of partnership, fill also next form designed for partnership firms.
- Attach it with the copies of business and income tax registration certificates.
- Submit it to the concerned VAT office so that office will be given a temporary certificate and allocates taxpayer identification number (TPIN) and forwards the details to the VAT department.
- By processing the information, VAT department prepares a VAT

certificate with TPIN and provides it to the concerned taxpayer through the corresponding VAT office.

- Taxpayers have to display the original certificates at main place of his transactions and certificated copies at other places so that interested person can see easily.
- In the process, taxpayer has to furnish information with 15 days, in case of changes in the information mentioned in the VAT application form.
- Every taxpayer is requiring to mentioning the TPIN in the following documents.
  a. Tax invoice/ abbreviated invoice
  b. Purchase and sales books
  c. Documents for the correspondence to the VAT office
  d. Documents related to income tax
  e. Documents relating to custom duties
  f. Documents relating to imports and exports and
  g. Documents relating to obtain a long from a bank or any financial institutions exceeding Rs. 1,00,000.

2.1.9.2.2 De-Registration

A VAT registered firm can apply for deregistration under the following conditions.

- In case of an incorporate firm, if the incorporated firm closed down, sold or transferred, or it incorporated firm ceases to exist by any means.
- In case of an incorporated firm, if the incorporated firm close down or sold.
- In case of partnership firm, if it is dissolved.
- If a registered person ceases to be engaged in the taxable transaction.
- If registration is done in error.

However, if the firms have already been taken the tax credit facility, tax would be determined on the stock and demand to pay to the VAT office.

2.1.9.2.3 VAT Account

VAT is based on a self-assessment system. Under the self-assessment system, a taxpayer is required to keep a proper account of all his business transaction. Accounting here refers to a record of his business transactions. In the absence of such accounting system a businessman is unable to determine factors such as the status of business, business obligations and the asset value.

In order to collect taxes from the consumers which selling taxable commodities, a businessman will have to register in the Inland Revenue Office. These registered businessmen, who as the agents of the government collect the taxes and submit it to the government, are required to keep proper accounts not only for themselves but also for the government. Under the VAT system the tax personal are not only concerned with the sales figure and tax amount shown the taxpayers but also are concerned with the purchases related to the sales. During tax audit and inspection, the tax personnel examine the purchase as well as the sales made by the businessman and estimated the tax liability. To determine tax to be paid by the taxpayer during a fixed period, the total sales and purchases figure together with the relevant documents that support them are required. This call for proper record keeping of the related invoice and declaration forms in a chronological manner, apart from the sales and purchases records.

In the value added tax Act 2052 and the Value Added Tax Regulation 2053, various provisions have been made in relation to the accounts to be maintained by a taxpayer for the purpose of VAT. These provisions include aspects such as preparing invoice to filling tax returns. Since the process of VAT accounts begins from the issuance of invoices, a provision has been made under clause 14 of the Act for a registered person to receive the invoice. Rule 17 of the Regulation prescribes that the invoice should be as exemplified in schedule 5.
The VAT account is the monthly summary record of the purchase and sale books. This account reveals the total monthly tax paid on purchases and

imports and the tax collected from sales. It also shows the status of the tax amount paid to the government by the taxpayers or to be refund to the taxpayers by the government.

2.1.9.2.4 Tax Invoice

While selling any goods and services, a taxpayer has to clearly write tax invoice on the first copy or on the title page of the invoice he/ she issues as per schedule 5. Three copies of invoice should be made and the original copy should be given to the buyers, the second copy should be kept in a separate record to produce when asked by the tax office, and the third copy should be maintained as record for the purpose of his/her transaction.

The invoice number, date of transaction, vendor's identification number, venders name and address and buyers name address and if registered the identification number should be written on the invoice. Similarly, the particulars of the items of service sold, the quantity, and the price per unit should also be written.

If any discount has been given to the customer than the amount and rate of discount should be specified and after deducting the discounted amount from the total price, the tax amount at the rate of 13% should also be clearly stated.
Only on the basis of such an invoice a registered buyer can avail the facility of tax deduction. Hence, while purchasing goods or service one should not forget to take a tax invoice.

2.1.9.2.5 Abbreviated Tax Invoice

A registered vendor can only sell his/ her goods or services by issuing an invoice as per the law. Not adhering to it will be considered a violation of the law and will be punishable. Keeping in mind the welfare of small and retail vendors who deal in a variety of goods and in small quantities, the provision to issue and abbreviated invoice, as per schedule 6 of the regulation, instead of a tax invoice as stated above has been made. In such an abbreviated tax invoice, along with the invoice number, date ,the particulars of the items or service sold its quantity, and the price per unit should be maintained . If any discount has been given to the customer then the total price after deducting the discount amount should be stated. In such on abbreviated tax invoice the tax amount cannot be seen as a separate entry but it is included in the price. In the basis of such an invoice a registered buyer cannot avail the facility of a tax refund. A taxpayer who wishes to make use of such an abbreviated tax invoice while selling must take prior approval of the tax officer. However, while selling through such invoice the price should not exceed Rs. 5,000 in one invoice, but for vendors using a cash machine this rule is not applicable or they can sell goods exceeding the price of Rs. 5,000 using one invoice.

Rule 18 requires that those taxpayers issuing an abbreviated tax invoice should maintain their records as follows.

- Copy of the original invoice.
- If the transaction is carried out by maintaining a copy of the till role then the total for each day should be calculated and maintained.

2.1.9.2.6 Debit/Credit Note

As per the provision laid out in the value added tax law of Nepal when selling any product, even if the amount has not received, the tax received, the returns and tax submission has to be based on whichever takes place first between the time of the transfer of commodities and the time when the invoice is issued. If difference in the price quoted in the first issued invoice is detected latter, then as per rule 20 the seller has to adjust the price by issuing a debit or credit note. If the price quoted on the first invoice is to increase then a debit not with the increased amount and if it is decreased then a credit note with the amount to be decreased should be issued. Rule 20 also requires that the notes issued should clearly state whether it is a debit note or a credit note and a monthly record should be maintained by illustrating the following.

- Serial number and the date of issue
- The seller's name, address and the identification number
- The buyer's name, address and identification number if registered.
- The serial number and data of the invoice associated with the transactions.
- Particular of goods or service and the reason why the debit or credit was made.
- The credit or debit amount.
- The credit or debit tax amount.

2.1.9.2.7 Sales in Foreign Currency

If while making sales, the amount is received in convertible foreign currency from a customer, rule 21 of the VAT Act make provision to state on the invoice the converted amount in Nepalese rupees based on the exchange are rate fixed by the Nepal Rastra bank on the day the transaction has taken place.

2.1.9.2.8 Purchase Book

Among the various popular accounting systems regarding the maintenance of accounts related to VAT purchase book is one. A registered taxpayer has to enter all the records regarding his/her imports or purchases of goods or services into the purchase book. When maintaining such records, the date when the goods or services are purchased, the invoice number and sellers' name and identification number should be entered in specified columns. Under the heading of total purchase value, sum of price of taxable imports and purchase price of tax exempted goods and services should be entered. Similarly under the heading of purchase value of non-taxable, the purchase of imports of goods and services as per schedule of the act and all purchases made from an unregistered person including purchase made through abbreviated tax invoices.

2.1.9.2.9 Sales Book

The account in which a registered taxpayer maintains all his records regarding the sales of all his goods and services is referred to as the sales book. According to the definition given in the Value Added Tax Act, sale or supply refers to the sale, exchange or transfer of any goods or services by taking a return or a price. It also refers to the act of giving permission to or taking up contracts related to the same, in all transactions the actual transaction price should be clearly included in the sale book.

2.1.9.3 The Tax Credit and Tax Refund

Tax credit refers to the legal process through which a taxpayer can deduct the input tax or the tax incurred while purchasing or importing goods or services from the output tax he/she collects through sales.

The most important and attractive feature of VAT is legal provision to deduct and refund taxes. Since there is provision for the business man himself/ herself to deduct the tax incurred in purchases from the tax collected from sales and submits the remaining output to the government there will be no increase in the cost price owing to tax and neither will there be the additional burden of levying tax on tax and this will automatically facilitated the habit of issuing and receiving invoices. This processing is also called the In-built-mechanism of VAT because if purchases are made without taking invoice the tax incurred on goods or services can not be deducted from the collected tax amount and tax payer has to be bearing the burden of additional tax, which, in turn, increases the cost price and decreases the competitive capacity of the businessmen. But if the tax paid on purchase is more than the tax collected from sales then the excess amount can be credited to the following tax period.

2.1.9.3.1 Tax Refund that can be Obtained by a Regular Exporter

A taxpayer whose transactions comprise of more than 50% exports is called a regular exporter and she/he can claim for tax refund during each tax period. After the tax refund form as per schedule 10 has been filled and submitted at that Inland Revenue Office, the export transaction will be verified and a recommendation for refund is sent to the Inland Revenue Department. The department has specified the time period within which the refund should be made as 30 days. If the refund is not received within 60 days, the claimant can make an additional claim of 15% interest on the refund amount. In making refunds primarily, the following three documents are examined.

- The specifications regarding purchase and imports.
- The specification regarding exports; and
- The specification regarding payments received through the banking process

2.1.9.3.2 Refund of the Credit Amount that has been Transferred for 6 Consecutive Months

If the tax paid on sales cannot be adjusted over 6 consecutive months, then in the seventh months the taxpayer can claim for tax refund based on schedule 10. For this, all relevant documents for the entire period over which the refund is claimed should be inspected and then a recommendation sent to the department of refunding. The department has to make the refunds within 30 days and if not refunded within 60 days, there is a legal provision for the amount to be refunded with interest.

2.1.9.3.3 Tax Refunds Made to Diplomatic Missions

There is provision for two types of tax refunds for diplomatic mission and individuals. For imported goods, the facility to levy a zero-rated tax is made available right at the customs points and thus relieved from the liability of paying tax.

In the case of internal purchase made, the tax is refunded on the basis of a reciprocal agreement between two countries. As per clause 25 9(I) of the VAT Act, such claims should be made through the foreign ministry to the tax refunded section of Inland Revenue Department by submitted the original

Invoice as per 17. The office of the concerned section has to attest the copy of the invoice against the original and keep it and return the original.

2.1.9.3.4 Tax Refund to International Organizations and Projects Operated on the Basis of a Bilateral Agreement

If the UN organizations, international non-government organization and other foreign organization are undertaking activities for which an understanding has been reached with Nepal Government to exempt VAT then, on this basis, the tax paid on purchases can be claimed.

There is provision for such claims to be refunded once a claim as per schedule 18 is made by submitted the original invoices along with the receipt directly to the inland Revenue Department.

2.1.9.3.5 Goods on which Tax Refund Cannot or only Partially be Claimed

Rule 41 of the VAT regulation has listed the goods on which partial tax deduction or no tax deduction can be made. As per this rule tax deductions cannot be made on the following goods:

- Beverages
- Alcohol or alcohol mixed beverages including beer
- Light petroleum for vehicles
- Entertainment expenses

But this limitation is applicable only for these registered as per clause 17. This is not applicable in case of diplomatic refunds as per clause 25.

The act and rules of VAT here made the provision for partial tax deduction in the case of certain goods. These goods and specified amounts are as follows"

- Only 40% of the tax incurred on automobiles can be deducted.
- Only 60% of the tax incurred while purchasing computers can be deducted.

- Only 3 or more wheelers have been categorized under automobiles. Therefore, the tax incurred while purchasing motorbikes can be deducted in full whereas only 40% of the tax incurred in purchasing cares can be deducted.

But if the registered person is dealing primarily in those goods on which tax can not be deducted or only partial tax can be deducted then she/ he can deduct the entire tax incurred in purchases and can also claim for the refund.

2.1.9.3.6 The Tax Refund Process

- The taxpayer should claim for refund using schedule 10.
- The refund claim should be entered onto the computer and a refund claim report should be prepared.
- For verification of the taxpayer's transaction a copy of the refund claim report should be sent to the audit section. Since the total refund amount claimed as per schedule 10 goes directly into sundry creditors, if the recommendation amount after audit is less then the total amount claimed, then a letter should be written to the Inland Revenue Department refunded the difference amount.
- If the tax has to undergo a management assessment then it should be done immediately and entered onto the computer along with the TP payments.
- Together with appendix 1 the tax return batch should be sent to the inland Revenue Department.
- If the tax refund has to be rejected owing to lack of sufficient proof, then the taxpayers should be given a credit advice to move the credit to the following month and a reject batch should be prepared and sent to the Inland Revenue Department.
- Once the tax refund report along with appendix 1 is received t the tax refund section, it should be registered and sent to the computer section to examine.
- The computer section should prepare a tax refund report and resent it to

the tax refund section by indicating the registration number.

- Based on the tax refund report, the tax refund section should check the tax audit report and submit it for decision regarding whether to grant full or partial refund or to reject the claim.
- If the refund claim has been only partially approved, then the tax refund section of the Inland revenue Department should issue a debit advice and TP notice and send those to the computer section for processing. The original file should be sent to the account section for payment of the remaining amount.
- After preparing the voucher and the cheque on the basis of the account, the account section sends them to the computer section of entry. The computer section then prepares a refund close post report and sends the accounts back to the account section. The director of financial administration sings the cheque, which in the forwarded to the concerned Inland Revenue office.
- The concerned Inland Revenue Office has to forward the cheque to the taxpayer and send the receipt to the account section.

2.1.9.4 Tax Assessment

Tax assessment is a process of determining the amount of tax any individual or company is liable to pay. This may be done by either of two ways. One is that the taxpayer makes tax report listing their income from various sources any facts affecting their entitlement to tax allowances and then tax authorities make the actual assessments.

The alternative method is self-assessment; besides supplying information's on their income and entitlement to allowance, taxpayers produce their own assessments applying the tax rules to their own figure. Then the tax authorities check these assessments.

Section 18 of the VAT act has required the taxpayer to submit tax return on self- assessment basis. Although the self-assessed tax return submitted by the taxpayer is considered as final, section 20 has provided basic ground under which the tax officers may issue assessment order. The inspection reports of the business transaction submitted by the tax officers constitute one of such basic ground.

2.1.9.4.1 Computer Assessment

A VAT registrant will be termed as non-filer when he does not assess his income himself and does not file return within the specified time. After 45 days of the expiry of the tax period, computer print out the list of such non-filers and then a notice is given to each non-filer. Even after the issuance of the notice of non-filing, they do not file returns within the specified time the computer make a monthly or trimester assessment depending upon the status of particular taxpayers. The following procedure is carried by the computer assessment.

- Find out the highest amount declared by the taxpayers in his return during the previous 12 months from the VAT payment.
- If taxpayer has not filled any return, find the turnover amount state on the registration application. Divide this by number of filing period in the year and then multiply by the VAT rate.
- Note the highest amount in (1) and (2) above.
- Add the amount found in (3) to the 30 percent of itself to get the assessment amount.

2.1.9.4.2 Management Assessment

The tax officers do management assessment when a taxpayer receive updated information after submitted his return and informs it to the tax officers or in the case of those taxpayers where tax officers find errors during the tax audit. Management assessment is done through the following procedures.

- The tax officer assesses the tax and determines interest and penalties.
- The tax officer prepares management assessment on the monthly basis in case of compulsory registrants and on trimester basis in case of others.

- Management assessment requires be batching and submitting to the computer section.
- VAT assessment will only normally extend back four year from the time the taxpayers is given a notice of assessment.

2.1.9.5 Collection of VAT

Through the following methods, VAT is collected by the VAT administration.

- Tax officers are empowered to recover tax dues from the credit in a VAT debtor's accounts.
- Tax officers also can issue to third parties who is indebted to the VAT debtor a demand for the payment of money owned by the third party to the VAT debtor.
- Tax officer are also authorized to suspend the transaction of a VAT debtor.
- Tax officers also can withhold import/export of VAT debtor.
- Seizing or selling the property of the VAT debtor also can realize tax dues.

2.1.9.6 Provisions for Additional Fees, Interest, Punishment and Penalty

Any violation of the provisions of VAT act and rules shall attract additional fees under section 19; interest under section 26 and punishment and penalties under section 29.

2.1.9.6.1 Additional Fees under Section 19

The VAT of particular month has to be paid by the taxpayer within 25th of the following month. In the case of failure to do so, additional fee at the rate of 5% of the tax amount will levied up to the end of the subsequent months following the month of such due. Where the payment is still not being made within this period, an extra fee of 5% of the tax amount is payable up to that data shall be levied.

2.1.9.6.2 Interest under Section 26

Under section 26 (1), interest on dues amounts are imposed where any amount, including tax amount, is not paid within the stipulated time period. Sub-section (2) of the same section has specified the applicable interest rate of 15% on a regular basis.

In respect to interest, it has been clarified that such interest shall not be levied on fines, additional fees and interests itself.

2.1.9.6.3 Punishment and Penalty under Section 29 (1)

Where the tax return is not field in time as required under section 18, penalty of 0.05% per day of the tax amount or Rs. 1000 per tax period, whichever is higher shall be imposed under section 29 (1).

2.1.9.6.4 Penalty for Transaction Carried out without VAT Registration

Where the tax officer has the reason to believe that a business in being carried out without registration, which otherwise requires registration as per section 23 and wishes to investigate, impending such act would attract penalty of Rs. 5000 per time under section 29 (1), clause ‘h’ During such investigation, where it is proved that such business requires investigation but has been carried out without registration, a fine of Rs. 10,000 plus the tax amount for the tax period under section 29 (1)(a) would he attracted for violating section 10 (2).

2.1.9.7 Provision for Appeal

Under section 32 of the act, an appeal may be field with revenue tribunal against the assessment of tax determined by the tax officer or the punishment order as well as against the suspension of transaction order by the director general under section 30. For going in such appeal, as per section 33, deposit of an amount equivalent to 50% of the disputed tax amount and fine has to be placed or bank guarantee has to be furnished. Appealing in itself is a process of seeking justice against the disputable decision of the tax officer. The Prevailing system of having deposit 50% of the amount asked for by the tax officer and the fine for the purpose of seeking justice is unjust at in itself. In addition, the provision of imposing interest even on the cash deposited amount has simply become a discounting factor for any taxpayer to go into appeal.

2.2 Review of Related Studies

2.2.1 Review of Textbook

Value added tax is a tax on the supply of goods and services which is eventually borne by the final customers, but it is collected at each stage of the production and distribution chain. Value added tax which is generally abbreviated to VAT, is charged on the supply both of goods and of services by firms who are registered and taxable for VAT. VAT is an indirect tax charged as a percentage of the selling price on certain services and commodities. The percentage rate is set by the government and is changed from time to time via the budget. Registration of VAT is compulsory for persons and firms whose turn over is in excess of the threshold limit.

'Public Finance' considers value added tax as the latest and probably the final stage in a historical development of general sales tax, which is imposed on the 'value-added' by the business firms. VAT is the differences between sales proceeds and the cost of materials etc, purchased from other firms which are the tax base of a VAT. A firm adds value added by processing or handling these purchased items with its labor force and its own machinery, buildings or other capital goods (Shoup, 1969:66).

Value added tax: A Nepalese experience has expressed his practical experiences about VAT. The book covers all aspects of VAT. In writer's word - "VAT is an all stages non-cascading tax system. It extends to all levels 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 (Silwal, 2002:55).

This book mostly concentrates on Nepalese tax system. The book clearly analyze why the government of Nepal introduced VAT. HNG 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 cannot take place, which in turn into the development expenditure. So that, a modern efficient and neutral tax like VAT was preferred to get rid of past anomalies.

Silwal Suggests that, factors affecting VAT design take also into consideration. A poorly designed VAT accompanied by week administration would just drain the treasury. So, utmost care is necessary while designing a VAT. According to him, the following fact were considered while designing a VAT in Nepali (i) Tax base issues (ii) Rate structure issues (iii) Exemption issues and (iv) Threshold issues.

Finally Silwal has reached a conclusion that the introduction of VAT provides an opportunity to sweep away to 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.

"The Nepalese Tax System” points out the need to introduce VAT in Nepal. In his book, there are several reasons to introduce VAT in Nepal. One of the important reasons was to develop a stable source of revenue by broadening the tax base. Moreover, Nepal will help to become less dependent on international trade taxes for its revenue in the future. Since, it will not be in a position to levy import duties on trade that take place within the South Asian Association for Regional Co-operation (SAARC) region after the implementation of the South Asian Free Trade Arrangement (SAFTA). Nepal has applied for the member of the World Trade; Organization (WTO), which will also have to be considered in this context (Khadka, 2000:89).

2.2.2 Review of Related Article

Thapa (1994), made an effort on *"Value Added Tax into Nepalese Context"* he applied the theoretical methodology and deal with theoretical issues. The conclusion derived was considering the present condition of Nepal facing, government expenditure, law revenue effort, high dependency of foreign loan, need of more economic growth of the economy, and because of law revenue potentiality from direct taxs there is a prompt need to improve the sales tax of Nepal. But there is less chance to mobilize more revenue through existing form of sales tax. In this context, there is no any other alternative except introducing VAT in Nepal.

Khadka (1995), has written a article *"Probability of VAT in Nepal"*. in his article he has reached a conclusion that a VAT, theoretically, is the best alternatives to 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 introducing VAT in Nepal.

Khadka (1996), in his paper *"A VAT for Nepal"* focused on the 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 an 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 programme must be launched to educate the tax-payers.

2.2.3 Review of Previous Research Works

Subedi (1997), in his dissertation "*Applicability of Value Added Tax in Nepal*" concludes that VAT is applicable in Nepal on the sense of tax performance. In Nepal, VAT is desired to achieve the goals 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 coverage. VAT, being member of indirect taxes is regressive in nature. In his dissertation following objectives, findings and recommendations has been found.

His major objectives are:

- To find out the major weaknesses of vat in Nepal
- To find out the problem regarding VAT implementation.
- To find out the applicability of VAT in Nepal.

His major findings are:

- VAT should not be taken as easy task 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 tax amount.

- 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 advantage of VAT can be achieved only if it is extension to the retail level but the extends so of VAT to retail level is impracticable and impossible in Nepalese context.

His major recommendations are:

- 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. However, a VAT in Nepal may not be "a hen with golden eggs" and it is not a "panacea" for curing all it requires active efforts and commitment for all ills, sides.
- VAT itself is the complex tax system and on the other hand, taxation system is a part of economic ocean. Thus, we have to know our capacity of swimming and realize depth of the ocean before diving into it.

Sharma (1998), in his research "*Value Added Tax in Nepal: An Administrative and Policy Issues*" examine several aspects of VAT administration such as its problems, constructions, possibility, operation and other aspects. In his dissertation, he has found the following objectives, findings and recommendations.

His major objectives are:

- To find out the effectiveness of VAT system and implementation process,
- To find out problem of VAT implementation ,
- To evaluate the applicability of VAT in Nepal,

His major findings are:

- Most of the traders and businessman are lacked with the minimum concept of VAT. They are mainly facing pricing, billing and accounting problems.
- An adequate VAT education programmes are not conducted and VAT administration has also facing lack of administrative personnel's.
- The relation between government and business community is broken, which has been barrier to implement VAT successfully.

His major suggestions are:

- The government should pay attention of design the strong administration.
- The government should try to produce gazette manpower and to train them well.
- Comprehensive educational programme should be launched by the government.
- Adoption of general type of VAT, covering the retail sales with certain exemption would increase the tax base more than two folds. It means that VAT has very high revenue potentiality.

Sharma in his research has explained several issues in the applicability of VAT in Nepal. The first and most important issue is the administrative issue. Lack of administrative capability is the greatest problem in implementing VAT in Nepal. The second biggest problem for the applicability of a VAT is posed by country's undeveloped business structure, practice and distribution system. The third problem is the existence of small traders in large proportion. Other problems are existence of open broader and a large amount of unauthorized trade from India to Nepal, existing under valuation of imports, existing tax evading practices and corrupting nature of tax administrators, lack of cooperation between the government and private business sectors.

Bista (1999), in his research," *Applicability and Feasibility of VAT* in *Nepal"* focused the need of VAT for Nepal for several reasons. They are effective revenue mobilization, industrial development, strong administration, transparency and avoiding all tax loopholes. VAT helps to reduce the 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. The following objectives, findings, and recommendations can be gained from his research.

His major objectives are:

- To find out the superiority of VAT over sales tax system,
- To evaluate the coverage of VAT in Nepal,
- To evaluate the existing issues and problems of VAT system.

His major findings are:

- The majors problems of VAT are improper 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, record based. it checks the tax loopholes such as under valuation, 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.

His major recommendations are:

- 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, inadequate physical environment, un experienced and untrained employee and weak organizational set up.

- The government should try to produce gazette manpower and to train them well.
- For implementation of VAT, the public awareness level relating vat administration should be 'good and it is a prerequisite in the preparation of VAT.

Nepal (2008), in his research, *“Revenue Generation from VAT in Nepal”* has concerned to know trend of VAT collection and to project the VAT for the particular future period by knowing the trend and making the projection VAT. In his research following objectives findings and recommendations have been found.

His major objectives are:

- To analyze the status of VAT registrants,
- To analyze the composition of VAT revenue,
- To analyze the applicability VAT,
- To examine the helpfulness of VAT on economic growth.

His major findings are:

- No. of VAT registrants is in increasing trend reached up to 46831 registrants in F/Y 2062/63 from 5241 is F/Y 2054/55
- Currently VAT revenue from import dominant VAT revenue from Domestic. About 1/3 of total VAT revenue comes from domestic products.
- VAT discourages illegal trade. 82% of respondent accept this view.
- There is a small difference in view on leakage of VAT in Nepal. 52.5% respondent has accepted and 47.5% respondent has rejected it.

His major recommendations are:

- Lack of clarities in the tax laws and regulations are the great issues within the businessmen and industrialists. They are arguing that the language used in tax laws and regulations are very complex.

- Human resource is the prime factor for sustainable development of any faculty. But human resource that is needed in the tax system does not seem adequate in Nepalese context.
- There is a crisis of confidence between the government and private sectors. Without close cooperation between these two sectors, VAT cannot be implemented effectively.

Parajuli (2010), in his research, *"A study of Revenue Collection from" VAT* has examined and analyzed the structure of VAT in Nepal. The computed ratio of VAT to Gross Domestic product, total revenue and total tax revenue with the help of historical data will evaluate the effectiveness of VAT in Nepal. The concerned will also keep themselves informed about the current condition of VAT implementation in Nepal. In his research following objectives, findings, and recommendations has been found,

His major objectives are:

- To examine the administrative system and legislative part of the VAT in Nepal,
- To explore the practice scenario of VAT in Nepal,
- To find out the tax revenue structure in Nepal,
- To find out the contribution of VAT in GDP, total revenue and tax revenue.

His major findings are:

- Collecting the revenues from VAT is the responsibility of inland revenue department (IRD)
- In Nepal, the amount of tax revenue is higher than that of non-tax revenue. In the fiscal year 2007/8, percentage of tax revenue to total revenue is 79.12% where as percentage of non tax revenue to total revenue is 20.88%
- The contribution of direct tax revenue on total tax revenue is very low than the contribution of indirect tax on it. In the fiscal year 2007/8. The

contribution of direct tax is 27.11% and the contribution of indirect tax is 72.89%

- The share of VAT revenue from import is far higher than the VAT revenues from domestic product. In the fiscal year 2007/8 the domestic product yield 35.66% of total VAT revenue where as the share of import was 64.34%.

His major recommendations are:

- As VAT has one of the major contributions in the revenue collection of the government, it should be extended to through retail level as a bulk of tax performance to generate more revenue.
- Administrative side of IRD should be made strong. It branches should be extended, well trend and dedicated human resources should be employed.
- For the success of VAT system the role of general media, radio TV, Newspaper, plays an important role. These should be used to create awareness among general public towards VAT system.
- The legal requirements are not sufficient to meet all the provisions. There is need of amendment on the VAT Act and VAT Rules.

2.2.4 Review Gap

"Value Added Tax Act 2052"was enacted in 2052. VAT regulation was made in 2053. But VAT with single rate of 10% has been fully implemented with effect from 16 November, 1997 (1, Mansir 2054). "About thirteen years have already been passed since VAT came into operation but very few studies had undertaken on the topic of VAT in Nepalese context and most of the studies were related with theoretical aspect. In this study, the researcher try to evaluate Nepalese VAT by identifying existing problems in major market area of Kathmandu city by conducting field survey, in order to know somehow about the practice experience of VAT. Further, an attempt has been made to analysis revenue pattern of VAT in government revenue and overview of the future prospects as well."

CHAPTER - III
RESEARCH METHODOLOGY

This chapter is devoted to the research methodology applied in the study for, the achievement of desired objectives. Both primary as well as secondary sources of data are used to conduct this study. Opinion survey technique was adopted while collecting primary data to find out the views of respondents representing different groups related to value added tax. This opinion survey was adopted to find out the practical aspects of VAT. While conducting the opinion survey, questionnaires were distributed to the tax experts, VAT officers, businessmen and consumers in the sizeable manner.

3.1 Research Design

To achieve the stated objectives of the study, the study of VAT act 1996 made for descriptive research where as analytical research has been carried out in terms of role of VAT in generating government revenue in Nepal. For an empirical research, an opinion survey has been conducted. The options of various hundred respondents associated with distinct denominations (groups) i.e. tax administrators, tax experts and tax payers were collected through structured questionnaire with reference to VAT system of Nepal, major problem of VAT system, remedy to minimize corrupt practice existed in Nepalese VAT administration, cause of ineffectiveness of VAT administration, the most important factor for effectiveness of VAT including necessary suggestion for achieving effectiveness of VAT in Nepal. Hence, the research methodology followed in the study can be termed as survey cum analytical and descriptive research design.

3.2 Population and Sample

In order to benefit this study, 100 sample sizes from Kathmandu and Pokhara are selected. Persons included in the sample are carefully selected by consultation with tax experts, professor and judgment of the researcher. The respondents have been divided in to four groups. The following table shows the group of respondents and the size of samples.

Table: 3.1

Groups of Respondents and size of Samples from each group

S. No.	Group of Respondents	Sample size
1	Tax experts	5
2	Tax officers	20
3	Businessmen/traders	20
4	Consumers	55
5	Total	100

3.3 Source of Data

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

a) Primary Data

The major tools used for the collection of primary data are distribution of a questionnaire to a responsive of persons. A set of questionnaire was developed and distributed to the selected respondents in order to get accurate and actual information. The questionnaire was distributed to different tax group i.e. tax experts, tax officers, businessmen and consumers are selected from different manufacturing company, trading company, department stores, shopping center, finance company etc.

b) Secondary Data

The secondary sources of data are the information serviced from books, journals, newspapers, reports and dissertations etc. The major sources of secondary data are from economic survey, and budget speeches, Ministry of Finance, Publication of CEDA, Tribhuvan University, reports and records of department of taxation, Ministry of Finance, dissertation related to VAT available at central library of T.U., publication of VAT projects, publication of VAT department, economic review and indicators from Nepal Rastra Bank, world development report, published documents of Nepal Rastra Bank and national planning commission, books related to VAT, national newspaper, journals, souvenir and news magazines, other relevant records and data related to his studies.

3.4 Data Collection Procedures

A total 100 sets of questionnaire were distributed to the selected respondents in order to get actual and accurate information. Distribution- work is done personality rather than sending by any means to get accurate and actual information in time.

3.5 Data Processing and Analysis Procedure

The information revived from primary and secondary sources is firstly tabulated in to separate formats systematically in order to achieve desire objectives. After that these data are tabulated and analyzed. For the purpose of analysis generally simple statistical tools have been used which are simple percentage methods, rending methods, graphs, charts and diagrams.

3.6 Weight of Choice

The questionnaire asks for either to give responses on different views or to tick the best one or write their opinion.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 Revenue Structure of Nepal

Every government is responsible to perform numerous functions for the betterment of the people in the county. A government needs huge volume of income to fulfill various types of expenditure. For this purpose, government collects revenues from different sources. Thus, the income of the government through all sources like taxes, borrowings, fees, donations etc. is called public revenue. In general, government income sources are classified mainly into two categories namely tax revenue and non-tax revenue. These both sources are subject to non-repayment and their sum constituted the government revenue. Besides these sources, government has other sources which are subject to repayment such as loans, grants however, grants are not compulsorily repaid. These sources are desirable only to meet the fiscal deficits.

The trend and composition of tax revenue and non-tax revenue in different fiscal years are presented below:

Table: 4.1

Magnitude of Revenue Collection in Nepal

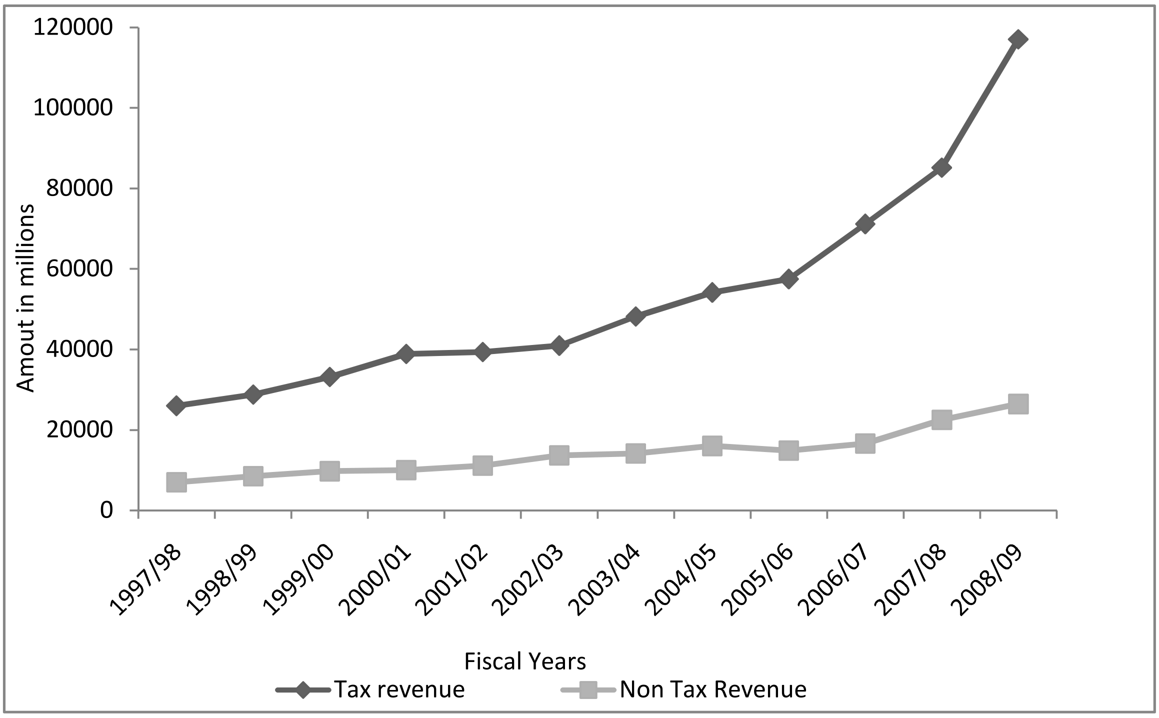
(Rs. In Millions)

Fiscal Year	Total Revenue	Tax Revenue		Non-tax Revenue	
		Amount	% as total Revenue	Amount	% as total Revenue
1997/98	32937.90	25939.80	78.75	6998.10	21.25
1998/99	37251.30	28752.90	77.19	8498.40	22.81
1999/00	42893.70	33152.10	77.29	9741.60	22.71
2000/01	48893.90	38865.10	79.49	10028.80	20.51
2001/02	50446.60	39330.60	77.96	11116.00	22.04
2002/03	54538.90	40896.00	74.99	13642.90	25.01
2003/04	62331.00	48173.00	78.15	14158.00	21.85
2004/05	70122.70	54104.70	77.26	16018.00	22.84
2005/06	72282.00	57430.40	79.45	14851.60	20.55
2006/07	87712.20	71126.70	81.09	16585.50	18.90
2007/08	107622.50	85155.50	79.12	22467.00	20.88
2008/09	143474.50	117051.90	81.58	26422.60	18.42

Source: Economic Survey, 2009/10

Figure: 4.1

Trend of tax and Non-Tax Revenue (1997/98-2008-09)



From the above table, the share of tax revenue has been greater than the share of non-tax revenue in every fiscal year. In the fiscal year 1997/98 the share of total revenue is 78.75 percent and share of non-tax revenue is 21.25 percent. Likewise, the in fiscal year 2007/08, the contribution of tax revenue is 79.12 percent where as non-tax revenue is 20.88 percent only which proofs that tax revenue contributes about three quarters of total revenue. During the study period, the amount of both tax and non-tax revenue in absolute term has increased but contribution of non-tax revenue to total revenue is very low. The dominant role of tax revenue is thus, quite satisfactory as its amount has been increased more significantly than the non-tax revenue over the period of 1997/98 to 2007/08.

From the above figure, the year 1997/98 to 2007/08 the amount of tax revenue is in increasing term with the amount of Rs. 25939.80 million to Rs. 85155.5 million but the figure in percentage of tax revenue in the total government revenue has been fluctuating in different years. From the fiscal year 1997/98 to

2006/07 the percentage contribution of tax revenue to total revenue is increased up to 81.1 percent from 78.75 percent. In the year 2002/03 its contribution has decreased to 75.73 percent. However, the percentage contribution of tax revenue to total revenue increased gradually. The trend line of tax revenue is always in increasing trend during the study period. Likewise the trend of non-tax revenue collection is also increased during the period of 1997/98 to 2007/08 as it increased form Rs. 6998.1 million to Rs. 22467.0 million respectively. But comparison to the total revenue, the percentage contribution is fluctuating in different years.

4.1.1. Tax Revenue Structure of Nepal

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. Tax revenue comprises compulsory and non-payable receipts collected by government for public purposes. It includes interest collected on tax arrears and penalties collected on non-payment or late payment of taxes. The revenue is the principle source of the government revenue; however, its contribution differs significantly in different countries. In the context of Nepalese economy, tax revenue is major source of government to mobilize internal source effectively and properly as it has been dominating the government revenue by contributing around three quarters of total revenue.

Tax revenue, one of the principle sources of the government revenue, is a compulsory contribution imposed by a public authority, irrespective of the exact amount of service rendered to the tax payers in return. (Dalton, 1954) It covers theoretically and practically includes following heads such as persons, organizations, business firms and even foreigners who are doing business of consuming goods or using service in Nepal.

In the fiscal trend of Nepal, tax revenue structure is a combination of two tax elite. They are namely direct tax and indirect tax. The trend and composition of tax revenue for the fiscal years 1991/92 to 2001/02 are given in the table below.

Table: 4.2

Trend and Composition of tax Revenue

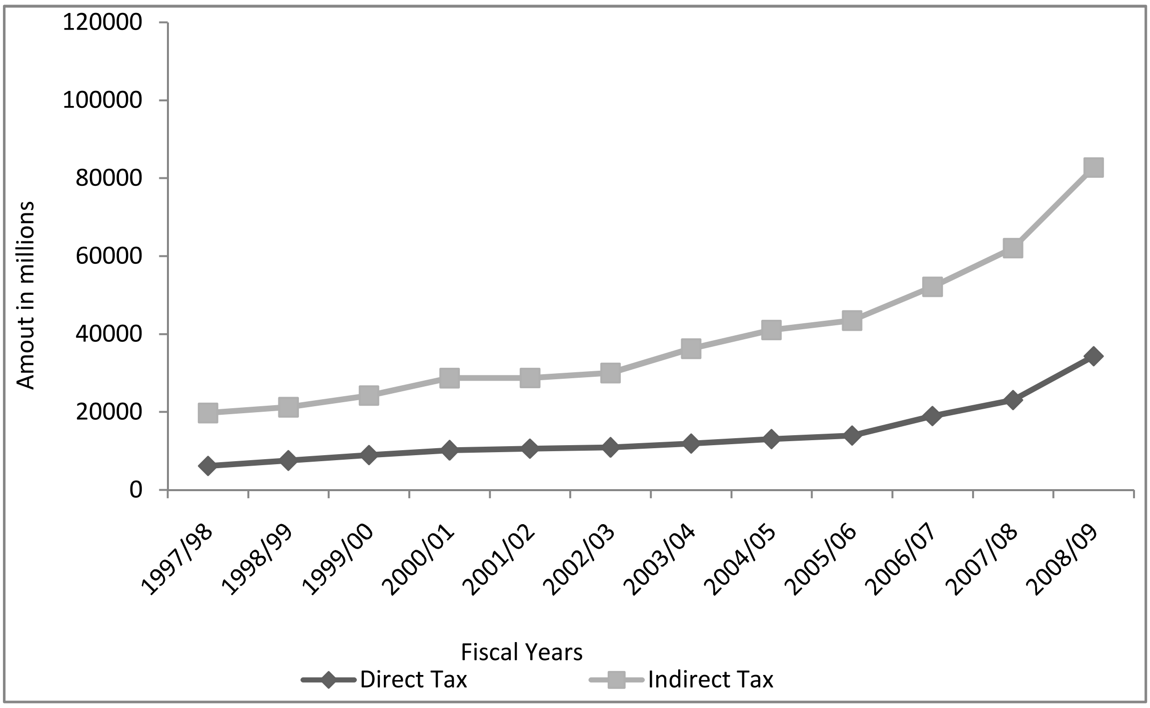
(Rs. in million)

Fiscal Year	Total Revenue	Direct Tax		Indirect Tax	
		Amount	% as total Revenue	Amount	% as total Revenue
1997/98	25939.80	6187.90	23.85	19751.90	76.15
1998/99	28752.90	7515.40	26.14	21236.80	73.86
1999/00	33152.10	8951.50	27.00	24200.60	73.00
2000/01	38865.10	10159.40	26.14	28705.70	73.86
2001/02	39330.60	10597.50	26.94	28733.10	73.06
2002/03	40896.00	10881.90	26.61	30014.10	73.39
2003/04	48173.00	11912.60	24.73	36260.40	75.27
2004/05	54104.70	13071.80	24.16	41032.90	75.84
2005/06	57430.40	13968.10	24.32	43462.30	75.68
2006/07	71126.70	18980.30	26.69	52146.40	73.31
2007/08	85155.50	23087.70	27.11	62067.80	72.89
2008/09	117051.90	34320.70	29.32	82731.20	70.68

Source: Economic Survey, 2009/10

Figure: 4.2

Trend of Direct Tax and Indirect Tax (1997/98-2008-09)



From the above table, it is clear that the whole Nepalese tax structure is dominated by indirect tax revenue. However, share of the indirect tax as percentage of the total revenue is decreasing continuously. In the similar manner, share of the direct tax to total tax revenue is increasing in subsequent years. The average share of direct tax revenue in total revenue for the period 1997/98 to 2008/09 was 26.08 percent and the share of indirect tax revenue was 73.92 percent. The volume of direct and indirect tax was Rs. 6187.90 million and Rs. 19751.90 million that is 23.85 percent and 76.15 percent of total revenue respectively in the fiscal year 1997/98 the amount of direct tax revenue is increasing every year as it increased form Rs. 6187.90 million to Rs. 34320.70 million in 1997/98 to 2008/09. The contribution of direct tax revenue to total revenue was minimum 23.85 percent in 1997/98 and maximum 21.32 percent in fiscal year 2008/09.

The amount of indirect tax revenue is also in increasing trend. It has increased form Rs. 19751.90 million in year 1997/98 to Rs. 82731.20 million in 2008/09. The percentage contribution of indirect tax to total tax revenue was decreasing trend but it is fluctuating some years. The contribution of indirect tax revenue to total tax revenue was minimum 70.68 percent in 2008/09 and maximum 76.15 percent in year 1997/98.

In developed economic like U.S.A. UK etc, direct tax plays a leading role for the internal resource mobilization where as in developing countries like Nepal, indirect tax plays pioneering role by dominating direct tax. In general how much direct tax can mobilize the internal source shows the magnitude of economic development. But in the context of Nepal, 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.

4.1.1.1 Direct Tax Revenue

Direct tax is actually paid by the person on whom it is imposed legally. Direct tax is a levy by the government on the income and wealth received by households and business enterprises in order to raise revenue and as an instrument of fiscal policy. So direct tax is called real tax because it is normally that the real burden of payment falls directly on the person on to anybody else. Direct tax is progressive so far as the amount paid varies significantly according to the income and wealth of the taxpayer.

With very limited tax base and narrow coverage, direct tax in Nepal seems to less effective to mobilize the domestic resources. Although, it is an inevitable instrument of the fiscal policy it must be designed and practiced properly. In general, revenue productivity of the direct tax goes on increasing as the economy of the country grows over time. If the economy growth increases, per capita income per annum of that country will automatically raise. In depth it means that he possesses the ability to pay direct tax. Thus, the magnitude of direct tax goes up and substituted in the place of indirect tax's magnitude. So, higher magnitude of the direct tax indicates a highly developed country. In contrast, lower the share of direct tax indicates to the less developed or developing country and hence country needs to accelerate the growth path to substitute the share of direct tax is less than other developing economies like Pakistan, Bangladesh etc. thus, it lies as a minor source of tax revenue source of Nepal. In the current situation, income tax is one of the major sources of direct tax. Nepal is levying four different types of income tax. Its categories are individual income tax, corporate income tax, house rent tax and interest tax. On the other side, property tax in another major direct tax. It includes land revenue, house and land registration and house and land tax.

In Nepalese tax structure the major components of direct taxes are income tax, land tax and house and land registration tax. Until the fiscal year 1993/94 vehicle tax was considered as a direct tax and since 1994/95 budget speech, it has been classified under the indirect tax. On the other hand, interest tax and urban house and land rent tax were included under the income tax since 1994/95. Thus the contribution of indirect tax has become larger than other direct taxes. The share of the major components of the direct taxes is given below:

Table: 4.3

Composition of Direct Tax Revenue (Rs. in million)

Fiscal Year	Income Tax	Land Tax	House and land Registration	Others	Total Direct Tax
1997/98	5183.70	3.60	1000.60		6187.90
1998/99	6512.90	1.40	1001.80		7516.10
1999/00	7935.60	4.60	1011.30		8951.50
2000/01	9546.30	5.10	607.80		10159.40
2001/02	9465.70	0.80	1131.00	-	10597.50
2002/03	10108.30	-	607.80	165.80	10881.90
2003/04	9946.50	-	1697.50	268.60	11912.60
2004/05	10965.90	-	1799.20	306.70	13071.80
2005/06	11221.30	-	2181.10	565.70	13968.10
2006/07	16029.00	-	2253.50	697.80	18980.30
2007/08	18380.40	-	2940.70	1766.60	23087.70
2008/09	26992.40	-	5223.30	2105.00	34320.70

Source: Economic Survey, 2009/10

From the above table, the largest share in the direct tax is occupies by income tax, followed by house and land registration tax. The contribution of income tax to direct tax is increasing continuously except in the fiscal year 2002/03, the revenue collection from land tax is declining continuously. In the fiscal year 1997/98 the revenue was Rs. 3.6 million but in the fiscal year 2001/02 it reached just to Rs. 0.8 million.

4.1.1.2 Indirect Tax Revenue

Indirect tax, a popular approach concerning taxation implies in the world, is a very powerful of fiscal policy adopted in the especially for the optimum level of resource mobilizing with the principle: more gain from the tax payers, no pain to the tax payers. Theoretically, it is a tax which falls firstly and directly on the taxpayers but the other person must bear it due to the shirting of tax burden. So, the real income is indirectly affected. In short, indirect tax is imposed on one person but is pad either partly or wholly by another person. So the impact and the incidence of tax are on different persons.

Nepal depends heavily on the indirect tax rather than the direct tax because there is not any good alternative especially for the optimum level of revenue mobilization; on hand and on the other hand, wide spread poverty, heavy dependency on agriculture, snail's pace industrialization, low level income and wealth and very weak administration. Since 1951, indirect tax had grown rapidly and speedily. As indirect tax was effective and proper, its tax mobilization was quickly boosting. So most of the developing countries mobilizes it effectively and properly of the domestic resources.

The major components of indirect tax in Nepalese tax structure constitutes custom duty, excise duty; sales tax VAT and contact tax. Custom duties are composed of mainly import duties, export duties. Other components of indirect tax like entertainment tax, hotel tax and other tax contribute very nominal share because they are include in VAT since 1997. Others form of indirect taxes includes remission of Indian excise duties, road bridge tax and other taxes.

In Nepalese tax structure, the indirect tax refers to three categories of taxes namely customs duties, sales tax /VAT and excise duties. Of the total indirect tax revenue realized during the study period, customs duties constituted the highest share followed by sales tax/VAT and exercise duty. The share of the major components of the indirect taxes is given below.

Table: 4.4

Composition of Indirect Tax Revenue

(Rs. in million**)**

Fiscal Year	Customs Duties*	Sales Tax/ VAT	Exercise Duties**	Other Indirect Tax	Total Indirect Tax
1997/98	8502.20	7122.60	2885.80	1241.30	19751.90
1998/99	9517.70	8765.90	2953.20	-	21236.80
1999/00	10813.30	10259.70	3127.60	-	24200.60
2000/01	12552.10	12382.40	3771.20	-	28705.70
2001/02	12658.80	12267.30	3807.00	-	28773.10
2002/03	12783.20	13459.70	3771.20	-	30014.10
2003/04	15554.80	14478.90	6226.70	-	36260.40
2004/05	15701.60	18885.40	6445.90	-	41032.90
2005/06	15344.00	21610.70	6507.60	-	43462.30
2006/07	16707.60	26095.60	9343.20	-	52146.40
2007/08	21062.50	29815.70	11189.60	-	62067.80
2008/09	26792.90	39700.90	16220.90	16.50	82731.20

Source: Economic Survey, 2009/10,

Customs duties include import, export, Indian exercise refund and others

Exercise duties is the sum of taxation of industrial product and higher contact.

Above table shows that, the contribution of customs duties to indirect tax is in increasing trend. Its share in the fiscal year 1997/98 is Rs. 8502.2 million and it reached up to Rs. 21062.5 million in the fiscal year 2007/08. Likewise the share of sales tax/VAT to indirect tax is also in increasing trend which contributed Rs. 7122.60 million in fiscal year 1997/98 and it reached up to Rs. 39700.90 million in the fiscal year 2008/09. Similarly revenue collection from exercise duties is increasing continuously in the subsequent year of study.

4.2 Revenue Collection from VAT

Value Added tax is the best form of sales tax which is neutral regarding method of production and helpful in generation of more revenue collection. Because of its broad coverage, neutrality, transparency and fairness, VAT will generate more revenue with les distortions. The revenue collection from VAT in different fiscal years is presented in table below:

Table: 4.5

Trend of Revenue Collection form VAT

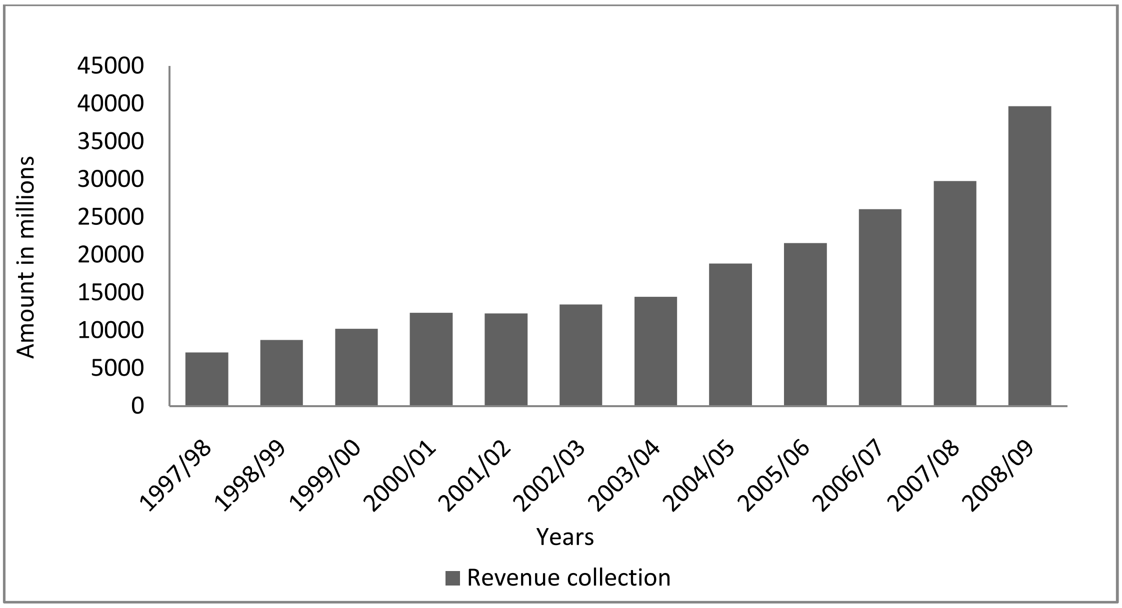
(Rs. in million)

Fiscal Year	Revenue Collection	Percentage Change
1997/98	7122.60	-
1998/99	8765.90	23.07
1999/00	10259.70	17.04
2000/01	12382.40	20.69
2001/02	12267.30	(0.01)
2002/03	13459.70	9.72
2003/04	14478.90	7.57
2004/05	18885.40	30.43
2005/06	21610.70	14.43
2006/07	26095.60	20.75
2007/08	29815.70	14.30
2008/09	39700.90	33.15

Source: Economic Survey, 2009/10

Figure: 4.3

Revenue collection trend of VAT (1997/98-2008/09)



VAT generated about Rs 7122.6 million revenues in FY 1997/98. In Fy 1998/99, it increased up to8765.90 million as it was increased by 23.07 percent to previous year 1997/98. The trend of VAT collection increased up to FY 200o/01 and in fiscal year 2001/02, it is decreased by 0.01% to previous year. The increase percent in 2008/09 is higher than other years. Despite various difficulties in the implementation of VAT, the collection trend of revenue through vat is not so bad. It is expected that VAT will generate more and more revenue in the days to come when it is implemented effectively and efficiently. Since VAT is as broad based tax, it will provide a stable base of revenue to the government.

4.3 Composition of VAT Revenue

The revenue collection from VAT can be divided into two major components as domestic products and imports. The current trends shows that about one third of total VAT revenue comes from domestic products and two third from imports. The following table represents the composition trend of VAT revenue.

Table: 4.6

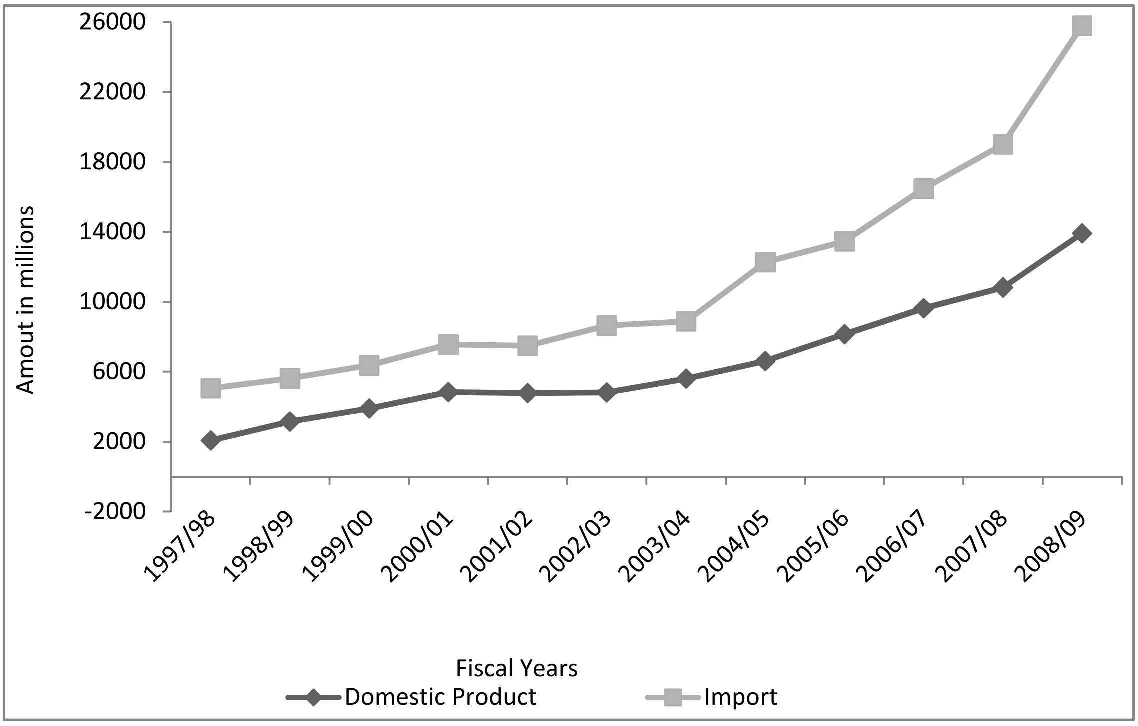
Composition of VAT Revenue (Rs. in million)

Fiscal Year	Total VAT Revenue (TVR)	Domestic Products		Imports	
		Amount	Percent	Amount	Percent
1997/98	7122.60	2065.55	29	5057.05	71
1998/99	8765.90	3155.70	36	5610.20	64
1999/00	10259.70	3898.70	38	6361.00	62
2000/01	12382.40	4829.10	39	7553.30	61
2001/02	12267.30	4784.20	39	7483.10	61
2002/03	13459.70	4819.60	36	8640.10	64
2003/04	14478.90	5604.10	39	8874.80	61
2004/05	18885.40	6615.00	35	12270.40	65
2005/06	21610.70	8150.50	38	13460.20	62
2006/07	26095.60	9631.30	37	16464.30	63
2007/08	29815.70	10808.20	36	19007.50	64
2008/09	39700.90	13918.50	35	25782.40	65

Source: Annual Report, 2009/10, Inland Revenue Department, Kathmandu

Figure: 4.4

Composition of VAT Revenue (1997/98 to 2008/09)



In fiscal year 1997/98 the share of domestic products and import in total VAT revenue was 29 percent and 71 percent, where as in fiscal year 1998/99 their share was 36 percent and 64 percent. Likewise, in fiscal year 1999/00 share of domestic product and import was 38 percent and 62 percent. That trend followed up to fiscal year 2008/09 with some fluctuation. In fiscal year 2008/09 the share of domestic product products is 35% and imports is 65%.

4.3.1 VAT Registration

The operation of VAT in Nepal is started by addressing the sales tax registered in the VAT department. The registration is compulsory for these business enterprises that have taxable transaction and taxable capacity, however, the traders falling below the threshold limit can register voluntarily. Under the existing sales tax system, there were nominal registrants but VAT was in existence, the number of registrants increased significantly. However, when VAT was introduced in 1997/98, there was strict opposition from the business community so VAT could not be implemented in full form. But after adjusting different provision and aspects of VAT, business community and the government reached to an agreement in 1990/00. there after, VAT was implemented in its full form so that the number of VAT registrations highly increased in the fiscal year 1998/99. The trend of the VAT registration is shown in the following table:

Table: 4.7
Trend of VAT Registrants

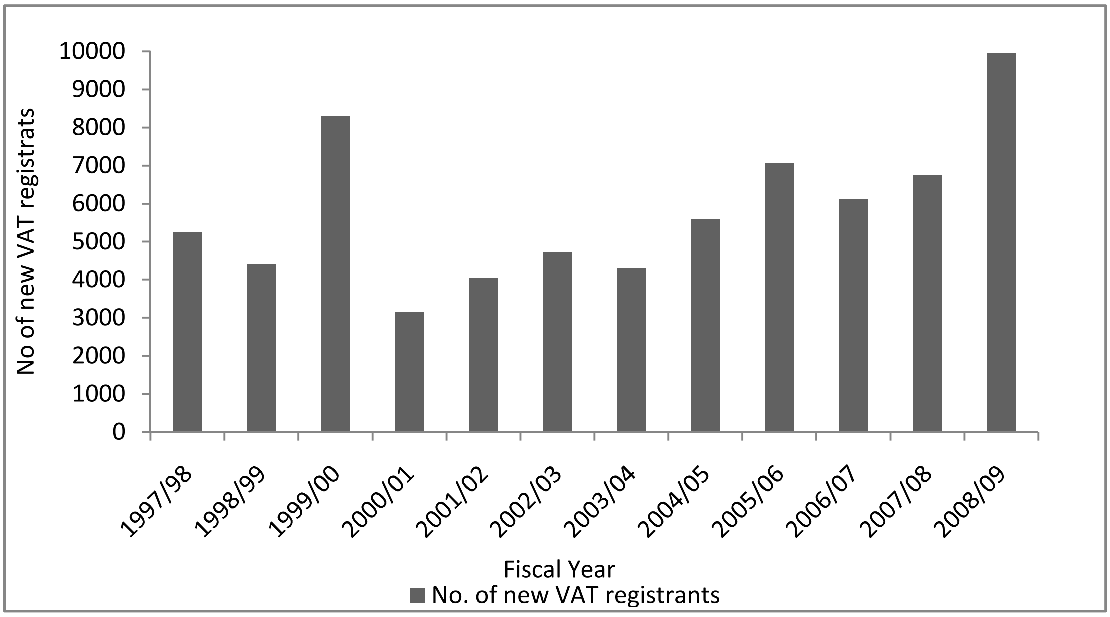
(Rs. in million)

Fiscal Year	No. of new VAT Registrants	Total Number of VAT Registrants	Percentage Change
1997/98	5237	5237	-
1998/99	4405	9642	84.11
1999/00	8305	17947	86.13
2000/01	3146	21093	17.53
2001/02	4056	25149	19.23
2002/03	4723	29872	18.78
2003/04	4302	34174	14.40
2004/05	5602	39776	16.39
2005/06	7055	46831	17.74
2006/07	6134	52965	13.10
2007/08	6742	59707	12.73
2008/09	9946	69653	16.66

Source: Inland Revenue, Department, G/N 2009/10, Kathmandu

Figure: 4.5

Trend of VAT Registrants (1997/98 to 2008/09)



The table shows that the number of VAT registrants in the fiscal year 1997/98 was 5237 and it was reach to 69653 in the fiscal year 2008/09 by almost thirteen fold. This shows that the trend of VAT registration is impressive.

4.3.2 Share of VAT Revenue in GDP

The percentage contribution of value added tax VAT in GDP is presented in table below:

Table: 4.8

VAT Revenue as Percentage of GDP

(Rs. In million)

Fiscal Year	Gross Domestic Product (GDP)	VAT Revenue	Percentage of VAT Revenue
1997/98	289798	7122.60	2.46
1998/99	330018	8765.90	2.66
1999/00	365470	10259.70	2.81
2000/01	409250	12382.40	3.03
2001/02	404482	12267.30	3.03
2002/03	468920	13459.70	2.87
2003/04	472424	14478.90	3.06
2004/05	504101	18885.40	3.75
2005/06	582950	21610.70	3.71
2006/07	670589	26095.60	3.89
2007/08	820814	29815.70	3.63
2008/09	960012	39700.90	4.14

Source: In land Revenue, Department, G/N 2009/10, Katmandu

Figure: 4.6

VAT as Percentage of GDP (1997/98 to 2008/09)

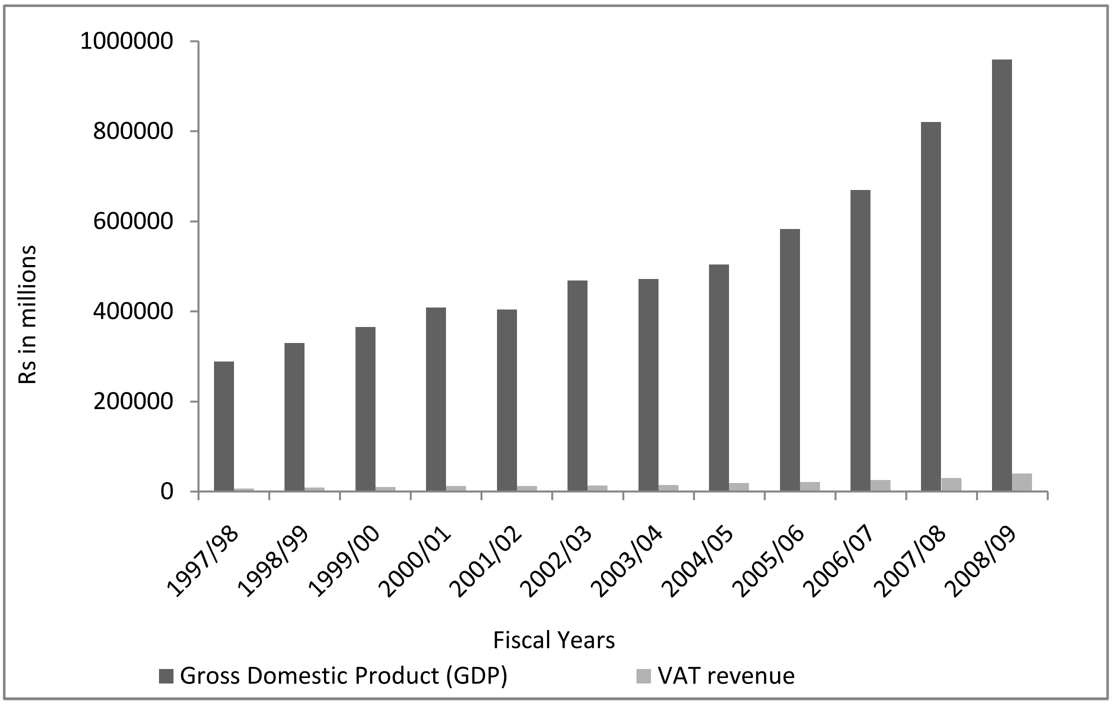
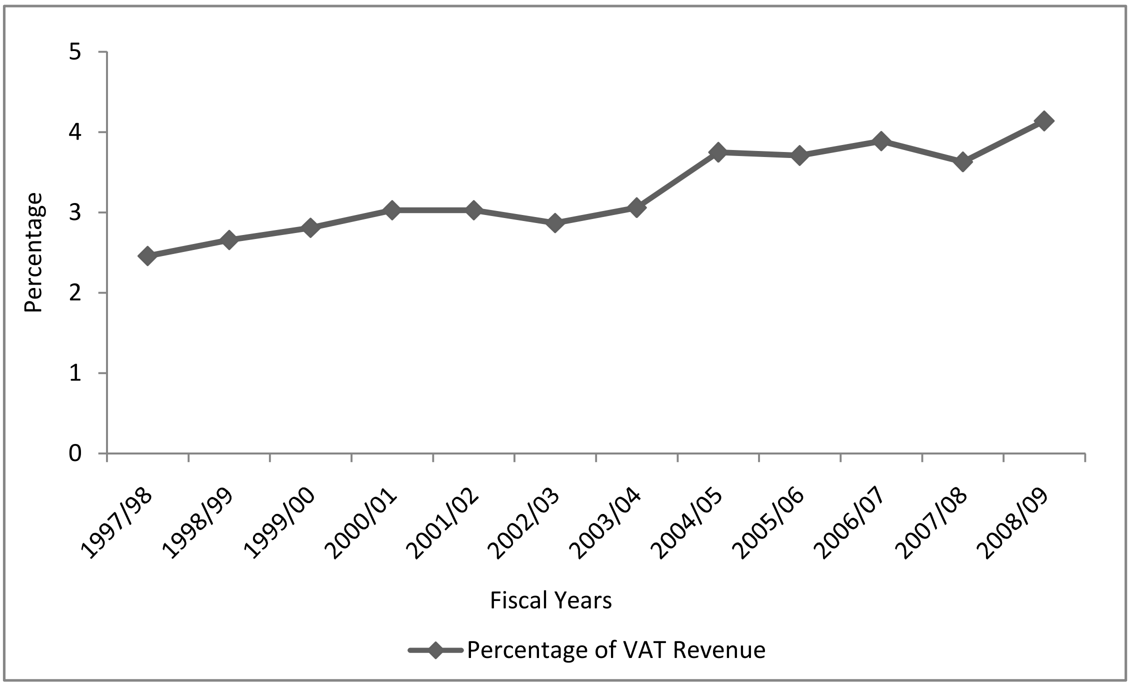


Figure: 4.7

Share of VAT Revenue in GDP (1997/98 to 2008/09)



As shown in the above table it is clear that the share of VAT in the GDP in Nepal is very low and it is below 5 percent throughout the twelve year period from the fiscal year 1997/98 to 2008/09. VAT revenue of Nepal as percent of GDP is between 2.46 to 4.14 percent with no higher fluctuations.

4.3.3 Share of VAT Revenue in total Revenue

The percentage contribution of VAT revenue in total revenue in total revenue is presented in table below:

Table: 4.9

VAT Revenue as Percentage of Total Revenue

(Rs. In million)

Fiscal Year	Total Revenue	VAT Revenue	Percentage of VAT
1997/98	32937.90	7122.60	21.62
1998/99	37251.30	8765.90	23.53
1999/00	42893.70	10259.70	23.92
2000/01	48893.90	12382.40	25.32
2001/02	50446.60	12267.30	24.32
2002/03	54538.90	13459.70	24.68
2003/04	62331.00	14478.90	23.23
2004/05	70122.70	18885.40	26.93
2005/06	72282.00	21610.70	29.99
2006/07	87712.20	26095.60	29.75
2007/08	107622.50	29815.70	27.70
2008/09	143474.50	39700.90	27.67

Source: Economic Survey, 2009/10

Figure: 4.8

Share of VAT as Percentage of Total Revenue (1997/98 to 2008/09)

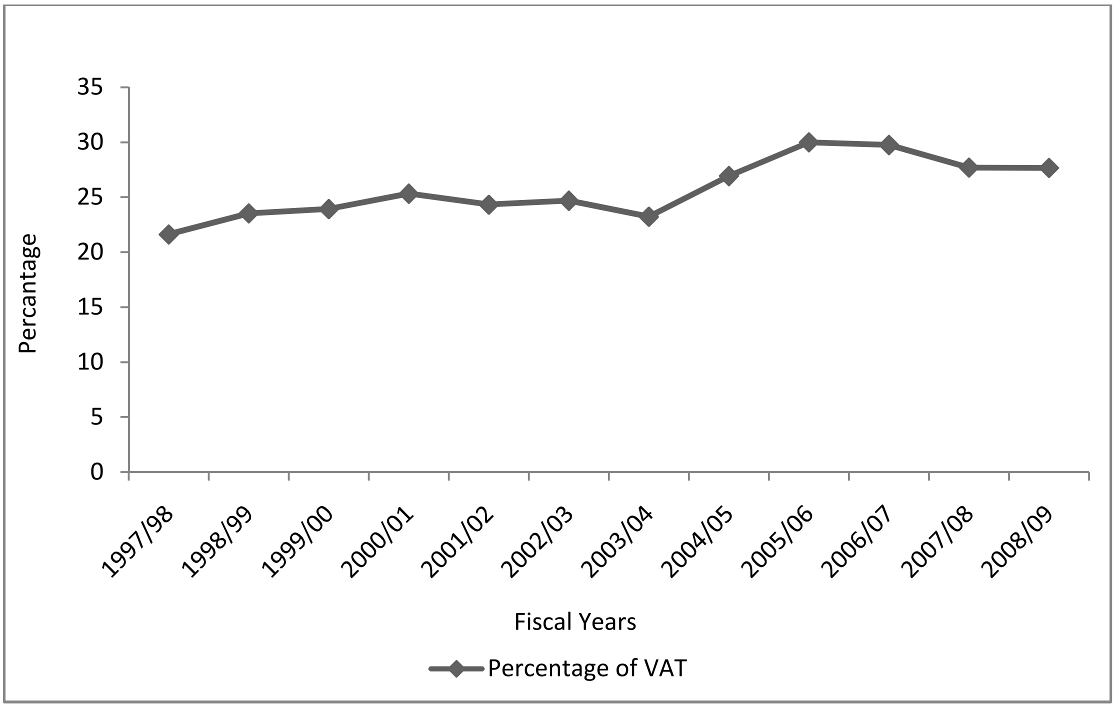
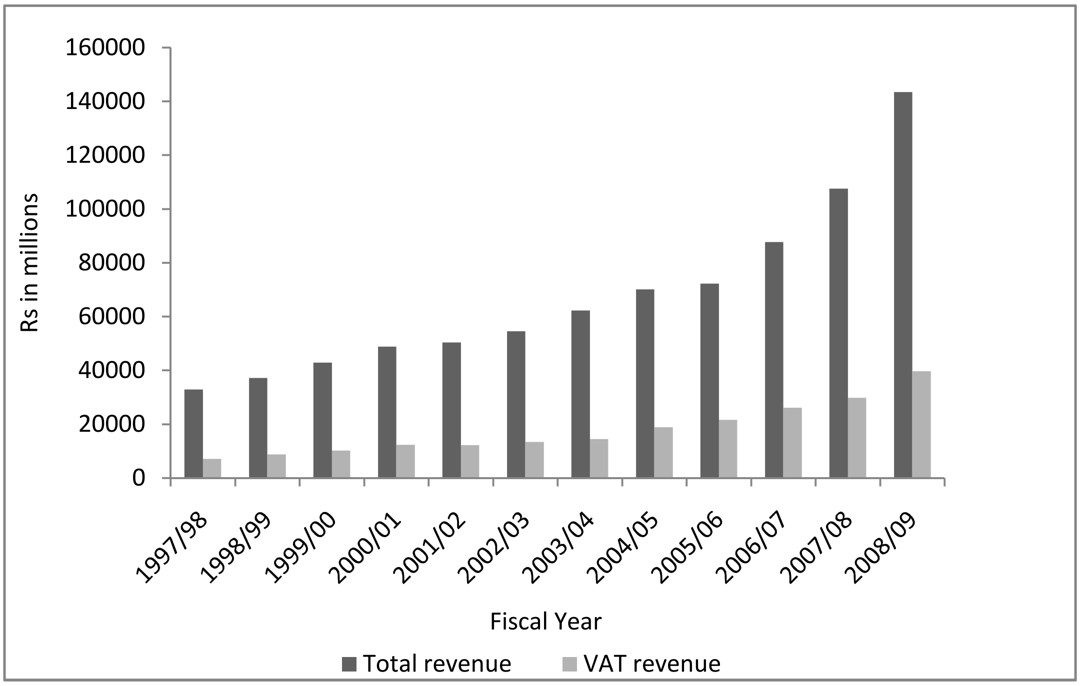


Figure: 4.9

Share of VAT Revenue in total Revenue (1997/98 to 2008/09)



From the above table and figure it is clear that the share of VAT revenue in total revenue increased from 21.62 percent to 27.67 in fiscal year 1997/98 to

2008/09. Throughout twelve years the percentage rate of VAT is in increasing trend but some fiscal year it is fluctuating.

4.3.4 Share of VAT Revenue in Total Tax Revenue

The percentage contribution of VAT revenue in total tax revenue is presented in table below:

Table: 4.10

VAT Revenue as Percentage of Total Tax Revenue

(Rs. In million)

Fiscal Year	Total tax Revenue	VAT Revenue	Percentage of Total tax Revenue
1997/98	25939.80	7122.60	27.46
1998/99	28752.90	8765.90	30.49
1999/00	33152.10	10259.70	30.95
2000/01	38865.10	12382.40	31.86
2001/02	39330.60	12267.30	31.19
2002/03	40896.00	13459.70	32.91
2003/04	48173.00	14478.90	30.06
2004/05	54104.70	18885.40	34.91
2005/06	57430.40	21610.70	37.63
2006/07	71126.70	26095.60	36.69
2007/08	85155.50	29815.70	35.01
2008/09	117051.90	39700.90	33.92

Source: Economic Survey, 2009/10

Figure: 4.10

VAT as percentage of Total Tax Revenue (1997/98 to 2008/09)

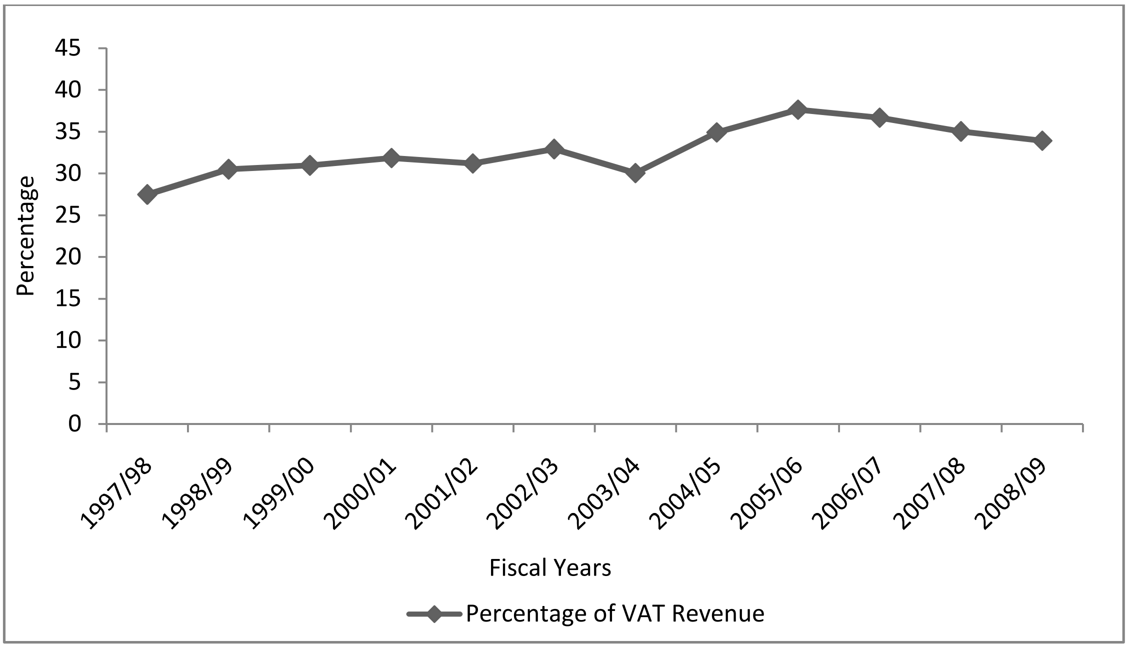
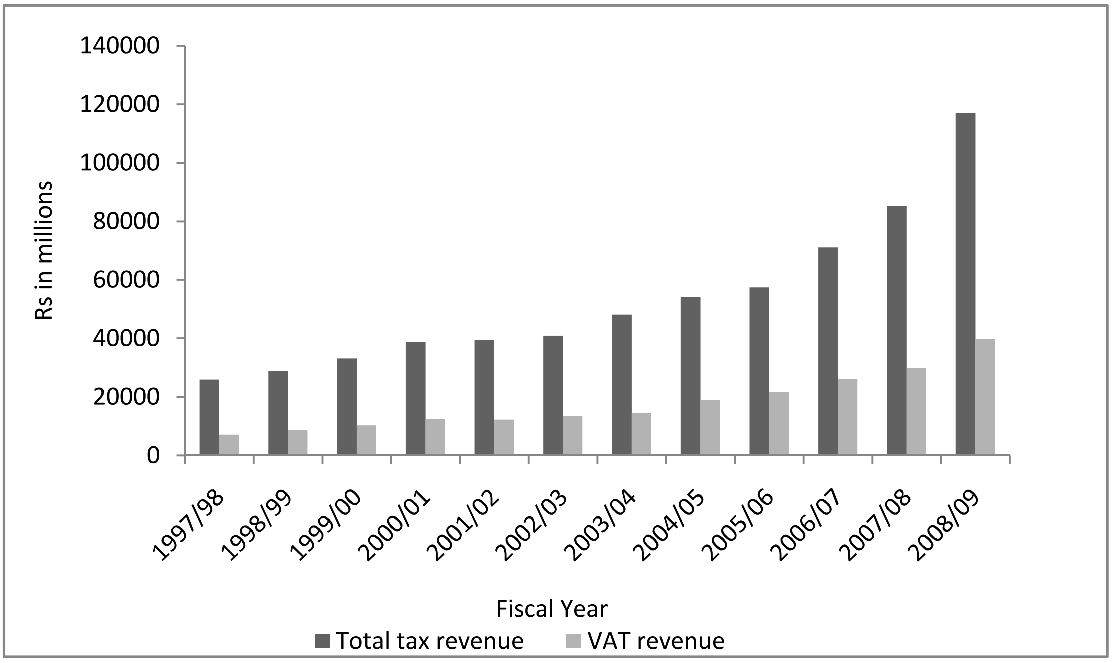


Figure: 4.11

Share of VAT Revenue in Total Tax Revenue (1997/98 to 2008/09)



As indicated in above table, VAT revenue was 27.46 percent of total tax revenue in fiscal year 1997/98. During the study period of twelve years the percentage trend of VAT revenue to the total tax revenue is in increasing trend.

The share of VAT revenue in total tax revenue increased from 27.46% to 33.91% in fiscal year 2002/03. It is decreasing fiscal year 2003/04 But it is increasing continuously after fiscal year 2004/05.

4.3.5 Share of VAT Revenue in Total indirect Tax Revenue

The percentage contribution of VAT revenue in total indirect tax revenue is presented in table below:

Table: 4.11

VAT Revenue as Percentage of Total Indirect Tax Revenue

(Rs. In million)

Fiscal Year	Total Indirect Tax	VAT Revenue	Percentage of VAT Revenue
1997/98	19751.90	7122.60	36.06
1998/99	21236.80	8765.90	41.28
1999/00	24200.60	10259.70	42.39
2000/01	28705.70	12382.40	43.14
2001/02	28733.10	12267.30	42.69
2002/03	30014.10	13459.70	44.84
2003/04	36260.40	14478.90	39.93
2004/05	41032.90	18885.40	46.03
2005/06	43462.30	21610.70	49.72
2006/07	52146.40	26095.60	50.04
2007/08	62067.80	29815.70	48.04
2008/09	82731.20	39700.90	47.99

Source: Economic Survey, 2009/10

Figure: 4.12

VAT as percentage Total Indirect Tax Revenue

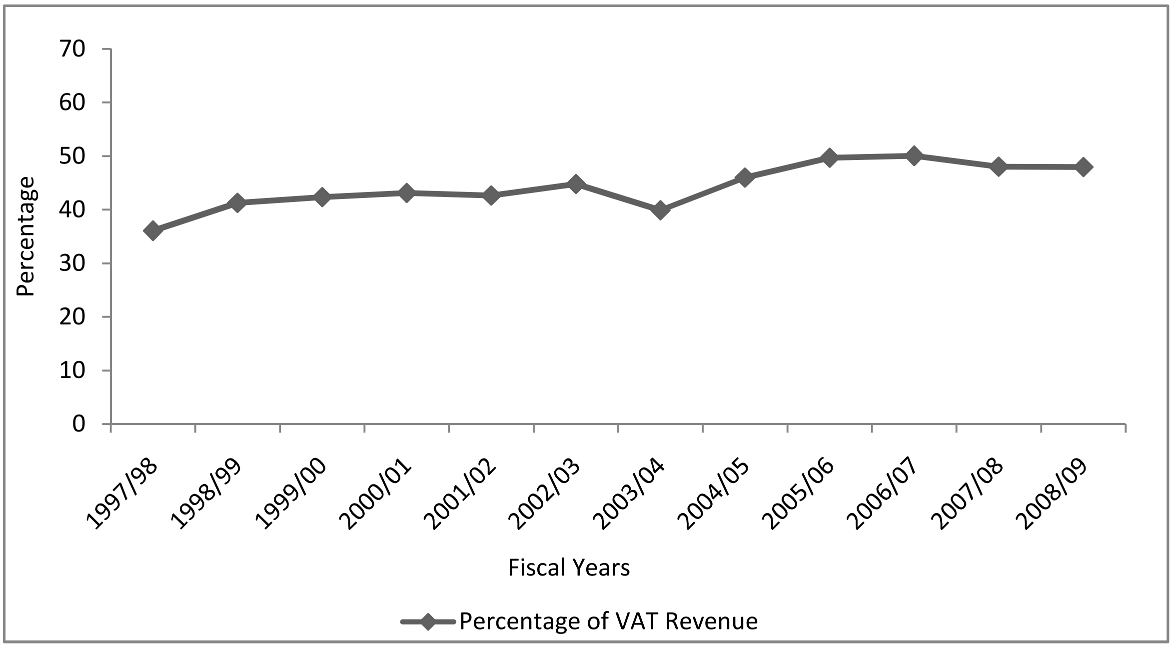
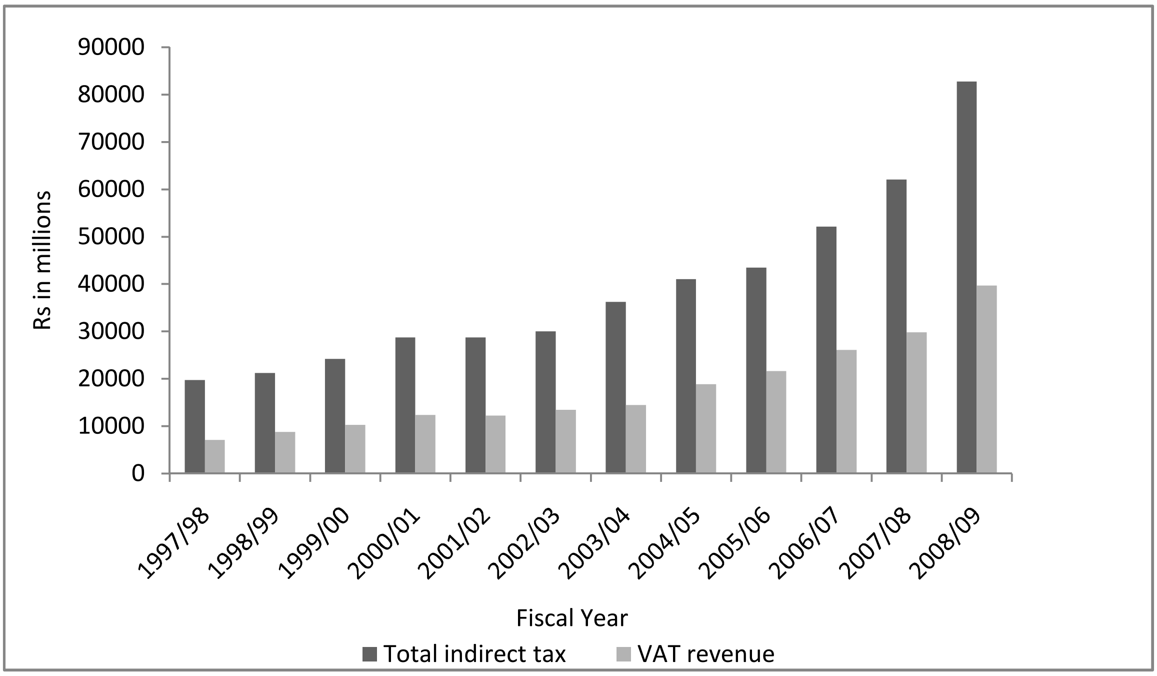


Figure 4.13

Share of VAT Revenue in Total Indirect Tax Revenue

(1997/98 to 2008/09)



As indicated in above table and figure, the contribution of VAT revenue in total indirect tax revenue is in increasing trend. The share of VAT revenue as percentage of total indirect tax revenue increased from 36.06 percent in fiscal year 1997/98 to 47.99 percent in fiscal year 2008/09. During the study period the percentage contribution of VAT revenue is in increased trend except in fiscal year 2001/02, 2003/04, 2007/08 and 2008 with no higher reduction.

4.4 Analysis of Primary data

There have been various empirical studies conducted before and after the implementation of VAT system in Nepal. It is viewed that this system has not been implemented effectively as expected. There was a strong opposition from the business community during the earlier period of VAT implementation. In that time, there was a negotiation between private sector and government on the different aspects and provisions of VAT. After that, VAT was extended through the retail level and thus implemented in its full-fledge form. In the beginning period of VAT implementation, there was lack of skilled and trained manpower and officer, administrative structure was not set up properly. But currently different informative programmes, seminars and meeting has been held to make the businessmen, consumers and people known to the VAT.

Currently business community is also in favor of VAT and further demanding to identify all the traders having taxable capacity and include into the tax net. In such situation an empirical study is done to know the views of person of different field on different aspects of VAT.

For the purpose of survey, different questionnaire were prepared to know the opinion of the various persons of different field including tax experts, tax officers, businessman/ traders, consumers about all sides of VAT such as issues, policies, its effects and other relevance. The sample for this survey is taken from different fields as given in the table below:

Table: 4.12

Sample size of the field survey

Respondents	Sample size	Percentage
Tax experts	5	5
Tax officers	15	15
Businessmen/Traders	30	30
Consumers	50	50
Total	**100**	**100**

The results and the interpretation of the survey results have been presenting below:

4.4.1 Views on Billing System

Billing system is one of the most important aspects of the VAT system. All the businessmen have to receive the bills of actual transaction, price with importing and buying of goods and services. The price of the goods and services with and without VAT has to be mentioned explicitly in the bill. While selling goods, purchaser has to compulsory be give the same type of bill. The businessman has to pay the amount of difference between tax collected in sale and tax paid on purchase to the VAT office. He has to pay the income tax as well on the profit of his transaction. Thus, the billing system plays crucial role in the field of VAT system. But in Nepal, the billing system has been one of the major problems. So, the questions are designed to show the comments on billing system of VAT. The outcome of the filed survey in this aspect is given below.

Table: 4.13

Views on Billing System

Respondents	Possible		Impossible		I don't know		Total
	No.	**%**	**No**	**%**	**No**	**%**	
Tax experts	5	100.00	-	-	-	-	5
Tax officers	15	100.00	-	-	-	-	15
Businessmen/traders	18	60.00	10	33.33	2	6.67	30
Consumers	34	68.00	4	8.00	12	24.00	50
Total	**72**	**72.00**	**14**	**14.00**	**14**	**14.00**	**100**

Source: Field Survey 2010

From the field survey, it is found that all the tax experts and officers advocate for the possibility of billing system in VAT system. 60% businessmen/traders claimed that billing system is possible; at the same time 33.33 argue that it is impossible and 6.67 are unknown about it. Similarly, 68% consumers says that there is possibility of billing system, 8% say impossible and 24% say I don't know.

4.4.2 View on Rate of VAT

VAT rate is very significant and sensitive for revenue mobilization. The success of VAT system stands upon the degree of VAT rate. Earlier the tax rate of sales tax which is replaced by VAT was 15 percent. Likewise other taxes i.e. contract tax, entertainment tax, hotel tax were not below than 13 percent on average. But VAT rate is subject to 15 percent. Due to broader base and coverage, VAT was expected to have a greater revenue yield on present rate structure. However this expectation is not achieved in practice basically due to its weak implementation aspect. In such situation, field survey was conducted to identify the rate structure of VAT. The following table shows the views on this matter.

Table: 4.14

Views on Rate of VAT

Respondents	Low Rate		High Rate		Normal/ok		I don't know		Total
	No	%	No	%	No	%	No	%	
Tax experts	-	-	1	20.00	4	80.00	-	-	5
Tax officers	3	20.00	-	-	12	80.00	-	-	15
Businessmen/Traders	-	-	15	50.00	9	30.00	6	20.00	30
Consumers	4	8.00	18	36.00	18	36.00	10	20.00	50
Total	**7**	**7.00**	**34**	**34.00**	**43**	**43.00**	**16**	**16.00**	**100**

Source: Field Survey 2010

Survey result shows that most of the respondents agree with the existing rate of 13% i.e. normal. However, 50% businessmen claim that rate of VAT is high. Likewise, 36% consumers say that it seems high rate and same percent say it is ok 20% customer has no idea at all. Three VAT officers (20%) reports that there is general increment needed in rate of VAT to generate high revenue. The study shows that the rate structure in the context of present situation is normal. Unless and until tax system is not implemented well, the rate structure is not a instrument to raise the revenue from taxation. Once the implementation is effective, it will be better to change the rate structure to some extent according to the requirement.

4.4.3 Views on Rising Price Due to VAT system

In the beginning period of VAT 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 rise in price due to VAT system. The following table presents the views of respondents on this aspect:

Table: 4.15

Views on Price Rise Due to VAT System

Respondents	Yes		No		I don't know		Total
	No	%	No	%	No	%	
Tax experts	1	20.00	4	80.00	-	-	5
Tax officers	3	20.00	12	80.00	-	-	15
Businessmen Traders	18	60.00	9	30.00	3	10.00	30
Consumers	35	70.00	5	10.00	10	20.00	50
Total	**57**	**57.00**	**30**	**30.00**	**13**	**13.00**	**100**

Source: Field Survey 2010

Regarding the price rise due to VAT system, 57% respondents reached at the conclusion that rise in price is due to VAT system, 30% claims that price rise is not due to VAT and 13% expressed that they have no idea at all. The study shows 20% tax experts and tax officers, 60% businessmen and 70% consumers claims that price rise is due to VAT system where as 80% tax experts and tax officers, 30% businessman and 10% consumers viewed the price doesn’t rise due to VAT. According to the study, 10% businessmen/traders and 20% consumers did not have any idea about this question. When they were asked for the reason of the raise in the price, respondents have different view: due to compliance cost, higher profit, non awareness of consumer. The outcome of the field survey is given below.

Table: 4.16

Reason for Price Rising

Respondents	**Compliance Cost**		**High Profit**		**Non Awareness of Consumers**		**I don't know**		**Total**
	No	**%**	**No**	**%**	**No**	**%**	**No**	**%**	
Tax experts	1	20.00	1	20.00	3	60.00	-	-	5
Tax officers	3	20.00	-	-	12	80.00	-	-	15
Businessmen/traders	18	60.00	3	1.000	6	20.00	3	10.00	30
Consumers	15	30.00	18	36.00	12	24.00	5	10.00	50
Total	**37**	**37.00**	**22**	**22.00**	**33**	**33.00**	**8**	**8.00**	**100**

Source: Field Survey 2010

From above table, 37% of respondents provided their view regarding reasons for price rise due to compliance cost and 22% and 33% of the respondents provided their view respectively on high profit, non-awareness of consumer respectively. Similarly, 8% have no idea on price rising effect.

4.4.4 Views on Superiority of VAT to Sale Tax

VAT, a latest development of sales tax system is new innovation in the field of taxation. VAT is being preferred by many countries of world because of superiority over sales tax system. Without comparison with sales tax we can't say 'VAT is superior to other sales tax system'. With base to effective revenue mobilization, the tackle to all tax evasion, wide tax base, transparent; VAT is considered as superior, than sales tax. The survey result on this aspect is summarized in the table below.

Table: 4.17

Views on Superiority of VAT to Sales Tax

Respondents	Yes it is		No it is not		I don't know		Total
	No	%	No	%	No	%	
Tax experts	5	100.00	-	-	-	-	5
Tax officers	15	100.00	-	-	-	-	15
Businessmen/Traders	20	66.67	8	26.67	2	6.67	30
Consumers	32	64.00	3	6.00	15	30.00	50
Total	**72**	**72.00**	**11**	**11.00**	**17**	**17.00**	**100**

Source: Field Survey 2010

According to the field survey, 72% respondents provided their view regarding superiority of VAT over sales tax, 11% respondents opposite of its system and 17% respondent were unknown about this view. In the outcome, 100% each tax experts and tax officers argue about the superiority of VAT over sales tax. Similarly, 66.67% businessmen/ traders, 64% consumers also provided their view on superiority of VAT. But 26.67% businessmen said that it is not superior to sales tax. 6.67% businessmen and 30% consumers were unknown about these questions. The outcome proof that VAT is superior to other sales tax system on the aspect of revenue mobilization, coverage, broaden tax base, transparent. But its superiority depends upon the strength of VAT administration. So the VAT administration should be strong, then the success of VAT system will prove its superiority.

4.4.5 Views on Structure of VAT

Tax structure which covers basically base, rate coverage, exemptions etc, is one of the most important aspect for the successful operation of VAT in any economy. The tax structure of VAT in Nepal is designed on the VAT Act. 1996 and different laws and regulations are prepared in successive years. The field survey has been conducted to find out whether the existing tax structure is appropriate or not. The findings of this survey can be presented in the following table as:

Table: 4.18

Views on Tax Structure of VAT

Respondents	It is ok		It has to be Improved		I don't know		Total
	No	%	No	%	No	%	
Tax experts	2	40.00	3	60.00	-	-	5
Tax officers	10	66.67	4	26.67	1	6.67	15
Businessmen/traders	21	70.00	-	-	9	30.00	30
Consumers	38	76.00	2	4.00	10	20.00	50
Total	**71**	**71.00**	**9**	**5.00**	**20**	**20**	**100**

Source: Field Survey 2010

Field survey shows that 40% tax experts, 66.67 tax officers, 70% businessmen and 76% consumers agreed about existing tax structure of VAT. Out of the 9 samples of businessmen and 10 samples of customers were unknown about the tax structure of VAT. 60% tax experts and 26.67 tax officers supporting the opinion that is not compatible with the existing rules and regulation, so it has to be improved. Out of the total respondents 71% agreed about existing structure of VAT.

4.4.6 Views an Expanding the Base VAT

One of the most favorable aspects of VAT is its broader base so that high potential revenue can be obtained by relatively low rate of VAT. The opinion survey about the views on expanding base of VAT of different respondents can be presented on following table:

Table: 4.19

Views on Expanding the Base of VAT

Respondents	**Reduce Threshold**		**Include all Service Sector**		**Incorporate Agriculture Sector**		**All**		**I don't know**		**Total**
	No	**%**	**No**	**%**	**No**	**%**	**No**	**%**	**No**	**%**	
Tax experts	1	20	3	60.00	-	-	1	20.00	-	-	5
Tax officers	2	13.33	6	40	3	20	4	26.67	-	-	15
Businessmen/Traders	9	30.00	14	46.67	-	-	6	20.00	1	3.33	30
Consumers	14	28.00	15	30	6	12	5	10.00	10	20.00	50
Total	**26**	**26.00**	**38**	**38**	**9**	**9**	**16**	**16.00**	**11**	**11.00**	**100**

Source: Field Survey 2010

From the above opinion survey, 20% tax experts, 13.33% tax officers, 30% businessmen/traders and 28% consumers favored to reduce the existing threshold of VAT to expand the VAT base while 60% tax experts, 40% officers, 46.67% businessmen/traders, 30% consumers favored for including all the services into the tax net. Among the options for expanding the base of VAT, 26% of total respondents desire to reduce the existing threshold, followed by 38% include all the services sector, 9% agreed to incorporate agriculture, 16% favored to include all the alternatives.

4.4.7 Views on Extent on Threshold

In earlier period of implantation of VAT, there was a great dispute between the government and the business community as to the threshold, although there was a problem generated by the shortage a statistical figure. It is due to lack of information to fix the threshold. Further, how much the present threshold can secure especially to the small vendors by giving a facility of tax exemption has been a confusion and doubt because of shortage of statistical figure concerning the small vendors. The following table shows the views of the respondents from different fields.

Table: 4.20

Views on Extent of Threshold

Respondents	Yes it will		Not, at all		I don't know		Total
Tax experts	-	-	5	100	-	-	5
Tax officers	3	20	12	80	-	-	15
Businessmen/traders	4	13.33	16	53.33	10	33.33	30
Consumers	6	12	32	64	12	24	50
Total	**13**	**13**	**65**	**65**	**22**	**22**	**100**

Source: Field Survey 2010

From the above field survey, out of the 100% of total respondents, 65% respondents claimed that the present threshold was enough to secure the small vendors. According to their opinion the present threshold is not needed to be enlarged. However 13% of the total respondents were not satisfied with present threshold. They suggested that it should be large than present threshold. Beside 22% of the respondents who were businessmen/traders and consumers showed their ignorance on this view. It means, the present threshold limit is enough and needs to be increased current limit because it can secure properly the small venders. So, the VAT administration should effectively implement the VAT system so that the present threshold can secure the small vendors.

4.4.8 Views of Productivity of Single VAT Rate

Because of multiple rates, tax reform become much more complicated to both tax payers and tax officers. Despite this reason, different countries already implemented various tax rates according to their economic condition. But all tax administrators prefer to use a single rate of VAT to effective implementation. Likewise, Nepal has preferred a single VAT rate which is 13%. Here the field survey has been conducted to find out "will a single VAT rate be productive or not?" the outcome is presented in the table below.

Table: 4.21

Views on Productivity of Single VAT Rate

Respondents	Yes it will be		No it won't be		I don't know		Total
	No	%	No	%	No	%	
Tax experts	4	80.00	1	20.00	-	-	5
Tax officers	9	60.00	6	40.00	-	-	15
Businessmen/Traders	16	53.33	8	26.67	6	20.00	30
Consumers	32	64.00	11	22.00	7	14.00	50
Total	**61**	**61.00**	**26**	**26.00**	**13**	**13.00**	**100**

Source: Field Survey 2010

According to the survey, 61% of the total respondents were convinced that the single VAT rate is effective to mobilize revenue. In contrast, 26% of total respondents disagreed with current single VAT rate. Remaining 13% of total respondents seemed to be ignorant to the productivity of VAT rate. 80% tax experts and 60% of tax officers satisfied with the current single VAT rate which seems productive in Nepalese environment.

4.4.9 Views on "Is the Present Threshold Enough to Secure the Small Vendors"

Despite the bitter fact that small vendors are many and its role should be inevitable and dominant to the business structure of developing countries. Small vendors in the developing countries are many so government can able to include these small vendors into the tax net. Due to this, revenue should be increased by broadening and widening the tax base. But its implementation is not free from problems. The first one is the small vendors, who are illiterate and ignorant as to the VAT, cannot meet basic requirement guided by the VAT to the tax payers. 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. Therefore, the concept of threshold is kept at 2 million which is applied to tackle such kinds of problems of small vendors according to the VAT enactment; the threshold purse is 2 millions. If the turnover of small venders is below the fixed threshold, small vendors have legal exemption form VAT. So the questionnaire was asked to find out the view about it "whether present threshold is enough to secure the small vendors". The views from respondents are presented in table below:

Table: 4.22

Is the Present Threshold Enough to Secure Small Vendors?

Respondents	Yes it will be		No it needs for Enlarge		I don't know		Total
	No	%	No	%	No	%	
Tax experts	5	100.00	-	-	-	-	5
Tax officers	14	93.33	1	6.67	-	15.00	
Businessmen/Traders	15	50.00	12	40.00	3	10.00	30
Consumers	31	62.00	10	20.00	9	18.00	50
Total	**65**	**65.00**	**23**	**23.00**	**12**	**12.00**	**100**

Source: Field Survey 2010

The findings show that, 65% of total respondents were satisfied with present threshold kept in the VAT enactment. However 23% of total respondents were not satisfied with current VAT enactment and rule. They viewed it is not enough and needs to be enlarged. Besides, 12% of total respondents had not adequate information and knowledge about the threshold. From the above survey, present threshold limit is enough to secure the small venders in Nepal, although, due to the lack of statistical data concerning small vendors in the market, it is not as effective to generate large revenue sources.

4.4.10 Views on "can VAT Secure Properly to all Small Vendors"

In Nepal, there are so many small vendors and scattered throughout the kingdom. The inclusion of small vendors in the VAT base is very complicated not only with administrative constraints but also with the dominant role of small vendors and its small scale investments. Therefore, tax exemption should be given to the small vendors though the threshold, although the inclusion of small vendors may broaden role of small vendors and its small scale investments. Therefore, tax exemption should be given to the small vendors through the threshold, although the inclusion of small vendors may broaden the tax base. There is no any statistical figure of small vendors so it is very complex questions that how much of the small vendors have tax exemption through the threshold. The opinion survey on this view is presented in the following table.

Table: 4.23

View on "Can VAT Secure Properly to all Small Vendors"

Respondents	**Yes it can**		**No it can't**		**Possible**		**I don't know**		**Total**
	No	**%**	**No**	**%**	**No**	**%**	**No**	**%**	
Tax experts	5	100.00	-	-	-	-	-	-	5
Tax officers	12	80.00	1	6.67	2	13.33	-	-	15
Businessmen/Traders	20	66.67	8	26.67	-	-	2	6.66	30
Consumers	36	725.00	8	16.00	4	8.00	2	4.00	50
Total	**73**	**73.00**	**17**	**17.00**	**6**	**6.00**	**4**	**4.00**	**100**

Source: Field Survey 2010

From the outcome, 100% tax experts, 80% tax officers, 66.67% businessmen/traders, 72% consumers claiming that present threshold secure properly all small venders. However, 26.67% businessmen/traders, 16% consumers viewed that it can't cover all the small vendors. Out of the total respondents 73% voted presented threshold can secure all the small vendors, 17% confused about current threshold, 6% agreed for possibility to secure all small vendors and remaining 4% respondent was ignorance by favoring I don't know. From the overall view, the present threshold can secure properly the small venders in Nepal though there is not record of how much small venders exist in market. Beside this, government also should develop the turnover limit for these vendors. After finding the turnover scale of these mall vendors, VAT administration should fix and operate threshold provision.

4.4.11 Views on Mal-practice of the Threshold

The purpose of threshold provision, according to VAT enactment, is to secure the small vendors by giving tax incentives but due to more to more small vendors and lack of measurement to include them to tax base, we are ignorant about small vendors. So the threshold may be used as a tax loophole through which the businessmen can easily and legally erode the tax base. More than that, the weak VAT administration caused such types of mal-practice. If the VAT administration is strong, the possibility of mal-practice of threshold will be very lower. Therefore, we should develop the measurement to identify the turnover scale of business to control the mal-practice of threshold. The following table shows the survey result on the mal-practice of threshold.

Table: 4.24

Views on Mal-practice of the Threshold

Respondents	Yes it is High Possible		Yes, but Difficult		Lack of proper implementation and weak VAT administration		I don't know		Total
	No	%	No	%	No	%	No	%	
Tax experts	4	80.00	1	20.00	-	-	-	-	5
Tax officers	9	60.00	6	40.00	-	-	-	-	15
Businessmen/ Traders	12	40.00	10	33.33	2	6.67	6	20.00	30
Consumers	21	42.00	9	18.00	8	16.00	12	24.00	50
Total	**46**	**46.00**	**26**	**26.00**	**10**	**10.00**	**18**	**18.00**	**100**

Source: Field Survey 2010

The finding shows that 80% tax experts, 60% tax officers, 40% businessmen and 42% consumers were in the view that there is easy mal-practice of present threshold. However, 20% tax experts, 40% tax officers, 33.33% businessmen and 18% consumers viewed of possibility of mal-practice in hardly/difficult situation. 6.67% businessmen/traders and 16% consumer supported that mal-practice of threshold was possible due to lack of proper implementation and weak VAT administration. Considering total respondents on this view, 46%

agreed the possibility of mal-practice of threshold, 26% claimed it is possible but very difficult, 10% respondents who were businessmen and consumers, voted the possibility of mal practice due to lack of VAT administration and proper implementation. And remaining 18% of total respondents had not adequate information about the mal-practice of threshold. On the basis of above view, the present threshold in VAT enactment is issue on the purpose to secure small renders, but it remain invisible gate to the mal practice. To reduce it, VAT administration should monitor and control the path of implementation.

4.4.12 Views on Tax Burden of VAT to the Tax Payers

Value added tax covers the value added to each commodity by firm during all stages of production and distribution and it is forward completely to the ultimate users. In short, the burden ultimately shifts on the tax payer. The problem on this view generally includes dislike of general people to more tax on commodities. Mainly, in Nepalese environment, general people have a lower income level. So they don't have much more purchasing power. Likewise, the government is still ineffective to give the guarantee of minimum social security to the general people, in return of tax paid by them. Again the growing corruption in the government fades up the tax payers. Finally, the tax collected by the government is expended on the unproductive sectors. Therefore, Nepalese tax payers are worried about the possible tax burden level and shifting. The field survey has been conducted to find out views of different respondents on burden of VAT to the tax payers. The outcomes are presented in table below:

Table: 4.25

Views on Tax Burden of VAT to the Tax Payers

Respondents	Higher		Lower		Normal		Zero		I don't know		Total
	No	%	No	%	No	%	No	%	No	%	
Tax experts	4	80.00	-	-	1	20.00	-	-	-	-	5
Tax officers	8	53.33	1	6.67	6	40.00	-	-	-	-	15
Businessmen/ Traders	16	53.33	-	-	8	26.67	-	-	6	20.00	30
Consumers	38	76	-	-	3	6.00	-	-	9	18.00	50
Total	**66**	**66**	**1**	**1.00**	**18**	**18.00**	**-**	**-**	**15**	**15.00**	**100**

Source: Field Survey 2010

Survey shows that 80% tax experts, 53.33% tax officers, 53.33% businessmen, and 76% consumers viewed that the burden of VAT to the tax payers is higher. However,. 20% tax experts, 40% tax officers, 26.67% businessmen/traders and 6% consumers voted that the burden of VAT is normal. Out of total respondents, 66% opinioned about higher burden of VAT to the tax payers, 18% viewed for normal burden to the tax payers and 15% were ignorance about this view. The outcome shows that the tax burden of VAT falling to the taxpayers is higher.

4.4.13 Views of Existing Exemptions

Value added tax is regressive by nature so exemptions on selected goods and services are must required. Exemption is needed theoretically as well as practically not only to cut down the burden of indirect tax but also due to the objective simplifying administrative complications. The outcomes of field survey on this aspect are presented in the table below.

Table: 4.26

Views on Existing Exemptions

Respondents	It is ok		It Should be Reduced		It Should be Increased		I don't know		Total
	No	%	No	%	No	%	No	%	
Tax experts	5	100.00	-	-	-	-	-	-	5
Tax officers	12	80.00	3	20.00	-	-	-	-	15
Businessmen/Traders	20	66.67	8	26.67	-	-	2	6.66	30
Consumers	40	80.00	6	12.00	2	4.00	2	4.00	50
Total	**77**	**77.00**	**17**	**17.00**	**2**	**2.00**	**4**	**4.00**	**100**

Source: Field Survey 2010

From the field survey, 100% tax experts, 80% tax officers, 66.67% businessmen traders and 80% consumers provided their views regarding present exemption is satisfactory. However, 20% tax officers, 26.67% businessman and 12% consumers agreed to reduce existing exemption criteria. Including all the respondents, 77% voted that existing exemption is satisfactory, 17% supported that it should be reduced. The finding shows that current exemption is wide but due to this an opportunity for tax evasion may be increase.

4.4.14 View on Sufficiency of Legal Provisions and Rules of VAT

Before the implementation of VAT, the government has enacted VAT Act 2052 B.S. and VAT Regulation 2053 B.S. but the legal provision and rules, in general different to understand by all. The documents of these enactment carry all the matters such as VAT administration and its operation, the tax officers and its authorities (duty and responsibility), tax payers and its responsibility, the procedure of VAT collection, identification of new tax payers and its responsibility, the procedure of VAT collection, identification of new tax payers, monitoring cores checking, penalties and punishment. The field survey has been conducted to find out whether the present. Act and regulation are sufficient or not with reference to current system of VAT. The outcome/attitude of the respondents on this aspect is present in the table below.

Table: 4.27

Views on Sufficiency of Legal Provisions and Rules of VAT

Respondents	Yes		No		Moderate		I don't know		Total
	No	%	No	%	No	%	No	%	
Tax experts	4	80.00	-	-	1	20.00	-	-	5
Tax officers	10	66.67	2	13.33	3	20.00	-	-	15
Businessmen/Traders	5	16.67	12	40.00	10	33.33	3	10	10
Consumers	12	24.00	16	32.00	16	32.00	6	12	50
Total	**31**	**31.00**	**30**	**30.00**	**360**	**30.00**	**9**	**9**	**100**

Source: Field Survey 2010

The field survey shows that 80% tax experts, 66.67% tax officers, 16.67% businessmen/traders and 24% consumers were in favor of present legal provisions and rules of VAT while 13.33% tax officers, 40% businessmen and 32% consumers said that present act and respondents, 31% claimed for its sufficiency of rules and legal provision of VAT, 30% were opposite of this view, 30% had moderate view and remains 9% were unknown about this questions. It can be said that the present rules and legal provision are enough to implement VAT system effectively and properly

4.4.15 Views on Problems in the Process of VAT Implementation

The taxpayers and tax collector both have to be well-know and conscious about the record keeping and process of VAT system. Though 13 years have been already passed, but still it has great challenges in this aspect. The field survey has been conducted to know the views of different respondents about to explore the problems on process of VAT records. The study shows registration, collection, tax refunds and miscellaneous are the main problems for the implementation. The attitude of diffident respondents is presented in the table below.

Table: 4.28

Views on Problems in the Process of VAT Implementation

Respondents	Registration		Collection		Tax Refund		Miscellaneous		I don't know		Total
	No	%	No	%	No	%	No	%	No	%	
Tax experts	3	60.00	2	40.00	-	-	-	-	-	-	5
Tax officers	3	20.00	9	60.00	1	6.67	2	13.33	-	-	15
Businessmen/ Traders	12	40.00	10	33.33	6	20.00	-	-	2	6.67	30
Consumers	10	20.00	24	48.00	6	12.00	4	8.00	6	12.00	50
Total	**28**	**28.00**	**45**	**45.00**	**13**	**13.00**	**6**	**6.00**	**8**	**8.00**	**100s**

Source: Field Survey 2010

The above survey shows that 60% of tax experts, 20% tax officers, 40% businessmen/traders and 20% consumers seemed unsatisfied with registration problem, while 40% tax experts, 60% tax officers, 33.33% businessmen/traders, 48% consumers showed the problem on collection. Similarly, 6.67% tax officers, 20% businessmen and 12% consumers said there is problem is tax refund. Beside these, respondents have analyzed miscellaneous problem exists such as billing system, dishonesty between tax paper and tax collectors and so on. Out of total respondents 28% opinioned on problem of registration, 45% viewed problem on collection, 13% said problem on tax refund and 6% agreed on miscellaneous and 8% were unknown on the this view.

4.4.16 Views of Problems of VAT system in Business Sector

Businessmen/traders are the main taxpayer group in VAT system. The tax payer has to prepare sales and purchase account of all transaction. They have compulsorily give and receive bills while selling and purchasing goods. Though this makes the tax system transparent, the businessmen have to employ assistants and fulfill various formalities. The field survey shows that the major problem which businessmen are facing are registration, account keeping system, cost of record keepings of VAT, billings and so on. The outcome of survey on this aspect is presented in the table below:

Table: 4.29

Views on Problem of VAT System in Business Sector

Respondents	**Reduce threshold**		**Account keeping**		**Billing system**		**Miscellaneous**		**I don't know**		**Total**
	No	**%**	**No**	**%**	**No**	**%**	**No**	**%**	**No**	**%**	
Tax experts	1	20.00	4	80	-	-	-	-	-	-	5
Tax officers	8	53.33	5	33.33	2	13.34	-	-	-	-	15
Businessmen/ Traders	12	40.00	10	33.33	7	23.33	-	-	1	3.34	30
Consumers	20	40.00	14	28.00	8	16.00	3	6.00	5	10.00	50
Total	**41**	**41.00**	**33**	**33.00**	**17**	**17.00**	**3**	**3.00**	**6**	**6.00**	**100**

Source: Field Survey 2010

According to the field survey, 20% tax experts, 53.33% tax officers, 40% each businessmen and consumers considered that there is problem in business sector on registration process. The view of the other 80% tax experts, 33.33% tax officers, 33.33% businessman and 28% consumers was that there is problem due to account keeping system. Likewise, 13.34% tax officers, 23.33% businessmen and 16% consumers supported that business sector is suffered form problem of billing system. Among the total respondent's views, 41% argued on problem on registration, 33% viewed problem on account keeping 17% opinioned bulling system 3% said, miscellaneous and 6% were unknown.

4.4.17 Views on Improvement of Revenue Mobilization Through VAT

The tax is main source of revenue of government. For developing countries, the major part of the tax income is contributed by indirect tax. In the context of Nepal, the major part of indirect tax is contributed by VAT/ sales tax. Mainly, the government has moved toward VAT system in order to increase revenue by broadening tax base and make tax system transparent. To find out whether the previous sales tax or VAT system will help to improve the government revenue, the respondent’s views were presented in the table below:

Table: 4.30

Views on Improvement of Revenue Mobilization Through VAT

Respondents	Yes		No		I don't know		Total
	No	%	No	%	No	%	
Tax experts	5	100.00	-	-	-	-	5
Tax officers	15	100.00	-	-	-	-	15
Businessmen/Traders	24	80.00	4	13.33	2	6.67	30
Consumers	38	76.00	3	6.00	9	18.00	50
Total	**82**	**82.00**	**7**	**7.00**	**11**	**11.00**	**100**

Source: Field Survey 2010

From the above table 100% each tax experts and tax officers, 80% businessmen/traders, 76% consumers viewed that there would be improvement of revenue mobilization through VAT. While 13.33% businessmen, 6% consumers said there will no improvement in revenue generation. Similarly, 6.67% businessmen/traders and 18% consumers had no idea about its effect in revenue mobilization. Out of total respondents, 82% viewed that there will be improvement in revenue, 7% said that there will not be any increase in revenue and remaining 11% in total had not idea on this view.

4.4.18 Views on Major Weakness of VAT Administration

VAT system has been implemented instead of ineffectiveness of previsions sales tax system because the revenue creation of it was not so much significant to the economy with respect to VAT. 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 weaknesses behind the non-functioning of VAT system in an expected way. VAT administrative reform is weak, inadequate and incomplete which cause problems and challenges in the path of operation of VAT administration. It is found that major weakness of VAT administration in Nepal are lack of expertise, lack of trained man power, weak financial resources, lack of physical infrastructure and miscellaneous. The field survey was conducted in this aspect to know the major weaknesses in administration. The outcome on this vie is shown in the following table:

Table: 4.31

Views on Major Weaknesses of VAT Administration

Respondents	**Lack of Experts**		**Lack of Trained Manpower**		**Lack of Physical Infrastructure**		**Weak Economy**		**Miscellaneous**		**All**		**Total**
	No	**%**	**No**	**%**	**No**	**%**	**No**	**%**	**No**	**%**	**No**	**%**	
Tax experts	1	20.00	2	40.00	-	-	1	20.00	-	-	1	20.00	5
Tax officers	2	13.33	2	13.33	-	-	4	26.67	3	-	4	26.67	15
Businessmen/ Traders	5	16.67	12	40.00	2	6.67	3	10.00	1	3.33	7	23.33	30
Consumers	4	8.00	20	40.00	3	6.00	4	8.00	6	12.00	13	26.00	50
Total	**12**	**12.00**	**36**	**36.00**	**5**	**5.00**	**12**	**12.00**	**10**	**10.00**	**258**	**25.00**	**100**

Source: Field Survey 2010

From the above field survey, 20% tax experts, 13.33% tax officers, 16.67% businessmen and 8% consumers viewed that major weaknesses of VAT administration is due to lack of experts, while 40% tax experts, 13.33% tax officers, 40% each businessman and consumers reported due to lack of trained man power. Similarly, 20% tax experts, 26.67% tax officers, 10% businessmen and 8% consumers supported major weakness due to weak economy of country. Likewise, 20.00 tax officers, 3.33% businessmen and 12% consumers viewed miscellaneous reasons cause weakness of VAT administration, whereas 20% tax experts, 26.67% tax officers, 23.33% businessmen/traders and 26% consumers viewed weakness of VAT due to all reasons mentioned above.

4.4.19 Views on Making VAT Effectively Successful

VAT has already enacted in Nepalese environment, however it has not year secured the expected results and many problems still exist in the real field. It is necessary to identify the exiting problems and solve them successively to make the VAT more successful in future. So that it sill help to increase revenue pattern properly. Hence, there are so many options to make VAT more successful. These are strengthen and improve the VAT administration, improve VAT laws and regulations, trained and educated offices, public awareness programmes about VAT etc. the opinion survey on this context of different respondents is summarized in the table below:

Table: 4.32

Views on Making VAT Effectively Successful

Respondents	Strengthen and improve VAT administration		Trained and educated officers		Improve VAT laws and regulation		Conduct public awareness programmes		I don't know		Total
	No	%	No	%	No	%	No	%	No	%	
Tax experts	1	20.00	1	20.00	3	60.00	-	-	-	-	5
Tax officers	6	40.00	2	13.33	5	33.33	2	13.33	-	-	15
Businessmen/ Traders	6	20.00	8	26.67	10	33.33	4	13.33	2	6.67	30
Consumers	24	48.00	6	12.00	5	10.00	10	20.00	5	10.00	50
Total	**37**	**37.00**	**17**	**17.00**	**23**	**23.00**	**16**	**16.00**	**7**	**7.00**	**100**

Source: Field Survey 2010

According to the above field survey, out of total respondents, 37% viewed that to make VAT successful, there is a need to enhance strength and improvement in VAT administration. Similarly, 17% supported on trained and educated officers. Likewise 23% expressed their view to improve VAT laws and regulations where as 16% opinioned to regulate public awareness programmes and 7% had no idea on this view. Among total tax experts, 20% each viewed to strengthen and improve VAT administration, 20% viewed to train and educate officers and remaining 60% reported to improve VAT laws and regulations for making VAT effectively successful.

4.4.20 Views on Current Challenging Problems of VAT

It is not a matter how much easy to introduce VAT system but how much effectively and properly to run it because VAT is complicated and advance than other taxes. The tax payers as well as the tax collectors must be more conscious for the successful implementation of VAT. In the context of Nepalese economy, there are many problem associated with the implementation aspect. The field survey has been conducted to identify the most challenging problem among smuggling and under valuation, lack of proper billings, lack proper accounting and weak tax administration. The outcomes of different respondents on this aspect are presented in the table below

Table: 4.33

Views on Current Challenging Problems of VAT

Respondents	Smuggling and under Valuation		Lack of proper Billings		Lack of Proper Accounts		Weak tax Administration		All		I don't know		Total
	No	%	No	%	No	%	No	%	No	%	No	%	
Tax experts	3	60.00	1	20.00	-	-	1	20.00	-	-	-	5	5
Tax officers	6	40.00	3	20.00	1	6.67	5	33.33	-	-	-	-	15
Businessmen/ Traders	8	26.67	12	40.00	3	10.00	5	16.67	-	-	2	6.66	30
Consumers	19	38.00	11	22.00	5	10.00	10	20.00	1	2.00	4	8.00	50
Total	**36**	**36.00**	**27**	**27.00**	**9**	**9.00**	**21**	**21.00**	**1**	**1**	**6**	**6.00**	**100**

Source: Field Survey 2010

From the field survey, it is found that 60% tax experts, 40% tax officers, 26.67% businessmen and 38% consumers argued that smuggling and under valuation is the most challenging problem associated with VAT. Similarly, 20% each tax experts and tax officers, 40% businessmen and 22% consumers argued that lack of proper billing is the cause of VAT implementation. While tax administration is identified as the most challenging problem by 20% tax experts, 33.33% tax officers, 16.67% businessmen and 20% consumers. Thus, out of total respondents, 36% viewed smuggling and under valuation is main challenging problem. 27% identified that lack of proper billing system is current existing problems; where as 9% argued on lack of proper accounts 21% following by weak tax administration and 6% had no idea on this view.

4.4.21 Views on Whether the VAT will be Effective in Future

According to the international experience, VAT is effective to the revenue mobilization and strong tax administration. However, it can't be said properly that it is advantageous and effective in future until effective implementation. In Nepalese context, the smuggling trade level is at peak point, tax leakage is at higher magnitude, the revenue collection is at the lower the effectiveness and administration is weak. So without proper implementation, there is big doubt whether VAT will be effective in future or not. The views of various respondents on this aspect are presented in the table below:

Table: 4.34

Views on Whether the VAT will be Effective in Future

Respondents	Yes, it will be		No, it will not		I don't know		Total
	No	%	No	%	No	%	
Tax experts	5	100.00	-	-	-	-	5
Tax officers	15	100.00	-	-	-	-	15
Businessmen/Traders	22	73.33	2	6.67	6	20.00	60
Consumers	35	70.00	4	8.00	11	22.00	50
Total	**77**	**77.00**	**6**	**6.00**	**17**	**17.00**	**100**

Source: Field Survey 2010

According to the field survey, 77% of total respondents were totally optimistic the VAT will be effective in future but 6% of total respondents were pessimistic that VAT will be effective in future. Remaining 17% respondents including businessmen and consumers had no idea about this aspect. From the survey, it is found that 100% each tax experts and tax officers supported that VAT will be effective in future, followed by 73.33% businessmen and 70% consumers.

4.4.22 Views on Responsible Group of Tax Evasion

Any tax system may not provide the expected revenue yield when there exist tax evading loopholes. Evasion of tax not only looses the revenue but also creates economic distortions, market imperfection etc. However tax evading practice is a general phenomenon in any country and it can not be solved perfectly but it must be minimized as far as possible. Generally business enterprises may not take responsibility for tax evasion but it is not true all the cases and time. There are other groups such as consumers, tax administration who may be more responsible for tax evasion. The opinion survey was conducted to provide the views on most responsible group for tax evasion among business enterprise, consumers, administration or all and the outcomes/findings is presented in table below.

Table: 4.35

Views on Responsible Group of Tax Evasion

Respondents	Business Enterprises		Tax Administration		Consumers		All		I don't know		Total
	No	%	No	%	No	%	No	%	No	%	
Tax experts	5	100.00	-	-	-	-	-	-	-	-	5
Tax officers	8	53.33	1	6.67	1	6.67	5	33.33	-	-	15
Businessmen/ Traders	8	26.67	12	40.00	-	-	7	23.33	3	10.00	30
Consumers	12	24.00	12	24.00	6	12.00	15	30.00	5	10.00	50
Total	**33**	**33.00**	**25**	**25.00**	**7**	**7.00**	**27**	**27.00**	**8**	**8.00**	**100**

Source: Field Survey 2010

From the above outcomes, 100% tax experts, 53.33% tax officers, 26.67% businessmen and 24% consumers supported that the most responsible group for tax evasion is business enterprise. Similarly, 6.67% tax officers, 40% businessmen/traders and 24% consumers viewed due to tax administration. Likewise 33.33% tax offices, 23.33% traders, and 30% consumers agreed due to the entire responsible group. Out of total respondents, 33% opinioned due to business enterprise, followed by 25% tax administration, 7% consumers, 27% by all groups and remaining 8% had no idea on this view.

4.4.23 Views on Reasons for Need of VAT in Nepal

Having great pressure for development, all developing countries like Nepal, Bhutan, and Bangladesh etc. need higher revenue collection from internal sources. For that the effective implementation of VAT has great significance for these developing counties. Almost developing countries depend upon the external resource such as foreign aid, foreign loan and financial assistance. So, these countries should try to seek to stand on the internal revenue through VAT system. On the context of Nepal, the period of sales tax seems to be very unfruitful on the revenue mobilization, tax loopholes i.e. smuggling, under valuation et. So, there is no any alternative except accepting tax reform. So, increasing the popularity and the successes of VAT in the international arena, Nepal preferred VAT to reform tax in order to eliminate all kinds of defects and problems. The following table idealized about the opinion of respondent's about VAT is needed in Nepal.

Table: 4.36

Views on Reasons for Need of VAT in Nepal

Respondents	**Effective Revenue**		**Transparency**		**Avoid tax leakage**		**Boarden tax base**		**All**		**I don't know**		**Total**
	No	%	No	%	No	%	No	%	No	%	No	%	
Tax experts	3	60.00	-	-	-	-	1	20.00	1	20.00	-	-	5
Tax officers	9	60.00	-	-	2	13.33	2	13.33	2	13.34	-	-	15
Businessmen /Traders	12	40.00	3	10.00	5	16.67	2	6.67	6	20.00	2	6.66	30
Consumers	25	50.00	1	2.00	4	8.00	5	10.00	10	20.00	5	10.00	50
Total	**49**	**49**	**4**	**4.00**	**11**	**11.00**	**10**	**10.00**	**19**	**19.00**	**7**	**7.00**	**100**

Source: Field Survey 2010

According to the survey, 60% each tax experts and tax officers, 40% businessmen and 50% consumers agreed that VAT is needed in Nepal due to the reason of effective revenue generation. Similarly, 20% tax experts, 13.33% tax officers, 6.67% businessmen and 10% consumers reported VAT is needed due to broaden tax base. Likewise 20% tax experts, 13.34% tax officers, 20%

each businessmen and consumers views there is need of VAT due to all mentioned reasons where as 6.66% businessmen and 10% consumers had no idea on this opinion. Out of total respondents, 49% supported for effective revenue, followed by 4% transparency, 11% avoiding tax leakages, 10% broaden tax base, 10% due to all reasons, need of VAT in Nepal.

4.4.24 Views on Applicability of VAT in Nepal

Tax reform has become a universal phenomenon since 1980 and still accelerating. VAT has been new innovation and its being more streamlining in 1990's. Generally, tax reforms have been triggered off by the desire to make the tax system simple, transparent, broad based, neutral and stable. However, in Nepalese context, the economy is not yet sufficient to develop proper tax system as effective. These taxes would be very difficult to implement in Nepal. Beside this, Nepal possess a geographical constraints, open border, agriculture based economy, illiterate situation. Further, the Nepalese business is also not well organized. Small vendors are many and scattered all through Nepal. Therefore, the applicability of VAT in Nepal has been very challenging task. The views on applicability of VAT can be shown in the following table:

Table: 4.37

Views on Applicability of VAT in Nepal

Respondents	Yes it is		No it is not		Yes but Difficult		I don't know		Total
	No	%	No	%	No	%	No	%	
Tax experts	5	100	-	-	-	-	-	-	5
Tax officers	12	80.00	-	-	3	20.00	-	-	15
Businessmen/Traders	18	60.00	-	-	8	26.67	4	13.33	30
Consumers	30	60.00	-	-	12	24.00	8	16.00	50
Total	**65**	**65.00**	**-**	**-**	**23**	**23.00**	**12**	**12.00**	**100**

Source: Field Survey 2010

From the above outcome, 100% tax experts, 80% tax officers, 60% each businessmen and consumers viewed that VAT is applicable in Nepalese environment. Similarly, 20% tax officers, 26.67% businessmen and 24% consumer's support4ed that it is necessary but very difficult in reality. Likewise, 13.33% businessmen and 16% consumers had no idea on this opinion. Considering all respondents, 65% viewed, it is applicable in Nepal, 23% reported it is applicable but very difficult and 12% opinioned on unknown view i.e. I don't know response.

4.4.25 Views on Effect of VAT on Revenue Mobilization

Presenting resource gap is one of the major characteristics for the Nepalese economy. Due to lack of sufficient revenue sources, government is not capable to operate the development activities in the country. Beside this the large amount of foreign debt is forcing the economy towards the debt-trap 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. The opinion survey on this aspect is presented in the table below:

Table: 4.38

Views on Effect of VAT on Revenue Mobilization

Respondents	Positive		Negative		No effect		I don't know		Total
	No	%	No	%	No	%	No	%	
Tax experts	5	100.00	-	-	-	-	-	-	5
Tax officers	15	100.00	-	-	-	-	-	-	15
Businessmen/Traders	25	83.33	-	-	2	6.67	3	10.00	30
Consumers	34	68.00	2	4.00	6	12.00	8	16.00	50
Total	**79**	**79.00**	**2**	**2.00**	**8**	**8.00**	**11**	**11.00**	**100**

Source: Field Survey 2010

According to the field survey, 100% each tax experts and tax officers, 83.33% businessmen and 68% consumers said that VAT will have positive effect on revenue mobilization as compared to the other replaced taxes. In aggregate, 79%, 2%, 8% and 11% of the respondents provided their opinion on positive, negative, no effect and I don't know respectively.

4.5.26 Views on Effect of VAT on Investment Sector

In real, the prevalent tax system has direct impact on the investment sector of the economy. Mainly, Nepal has two kinds of investment i.e. foreign and domestic investment. Since a long back have flown on the productive sector, the major goals are to achieve economic growth through developing productive sector and alleviate the poverty. In general, investment factor is affected by the policy of the country or the taxation policy of the government. So we have to know that what kind of effects of VAT will fall on the investment sector. The effect of investment sector is evaluated by comparing it with the replaced taxes. In the case of developing countries low level of investment in different sectors cause to develop the snail pace industry so the current tax policy also need to be direct towards encouraging the investment in the economy. So the field survey was conducted to know the views of different group about the effect of VAT on this sector. The survey results are presented in the table below:

Table: 4.39

Views of Effect of VAT on Investment Sector

Respondents	Positive		Negative		No effect/normal		I don't know		Total
	No	%	No	%	No	%	No	%	
Tax experts	4	80.00	-	-	1	20.00	-	-	5
Tax officers	9	60.00	1	6.67	5	33.33	-	-	15
Businessmen/Traders	12	40.00	6	20.00	7	23.33	5	16.67	30
Consumers	34	68.00	6	12.00	3	6.00	7	14.00	50
Total	**59**	**59.00**	**13**	**13.00**	**16**	**16.00**	**12**	**12.00**	**100**

Source: Field Survey 2010

Above table shows that most of the respondents were concentrated there view on positive effect in investment sector. 80% tax experts, 60% tax officers, 40% businessmen/traders, and 68% consumers expressed their views on the positive effect of VAT. Similarly, 20% tax experts, 33.33% tax officers, 23.33%

businessmen and 6% consumers said that VAT will no effect on investment sector which was followed by 13%, 16% and 12% of respondents provided their opinion on negative, no effects on I don't know option respectively.

4.4.27 Views on Effect of VAT on 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 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. Whether the effect of VAT has on economic growth or not, the views of respondents are positive, negative, no effect and no idea. The outcome of the survey in the aspect is summarized in the table below:

Table: 4.40

Views of Effect of VAT on Economic Growth

Respondents	**Positive**		**Negative**		**No effect/normal**		**I don't know**		**Total**
	No	**%**	**No**	**%**	**No**	**%**	**No**	**%**	
Tax experts	4	80.00	-	-	1	20	-	-	5
Tax officers	10	66.67	-	-	5	33.33	-	-	15
Businessmen/Traders	18	60.00	3	10.00	5	16.67	4	13.33	30
Consumers	20	40.00	4	8.00	15	30.00	11	22.00	50
Total	**52**	**52.00**	**7**	**7.00**	**26**	**26.00**	**15**	**15.00**	**100**

Source: Field Survey 2010

According to the survey, 80% tax experts, 66.67 tax officers, 60% businessman and 40% consumers expected to have positive effect of VAT on economic growth. Similarly, 20% tax experts, 33.33% tax officers, 16.67%

businessmen/traders, and 30% consumers provide their view of no effect of VAT on economic growth. Likewise 13.33% businessmen and 22% consumers viewed that they had no adequate idea on this opinion. Thus, out of total respondents, 52%, 7%, 26% and 15 of the total respondents provided their view respectively on options of positive effect, negative effect, normal effect and unknown matter i.e. I don't know.

4.4.28 Views on Effect of VAT on the Balance of Payment

The balance of payment is merely a way of listing receipts and payments in international transactions for a country. VAT is a fiscal measure; its role is significant and sensitive to the international trade. In the context of Nepal, VAT is based on the destination principle and it is also expected to have positive impact on the balance of payment of the country. Field survey was conducted to know the view of different graphs about the effect of VAT on balance of payment and following result was obtained:

Table: 4.41

Views on Effect of VAT on the Balance of Payment

Respondents	Positive		Negative		Normal/No effect		I don't know		Total
	No	%	No	%	No	%	No	%	
Tax experts	3	60.00	1	20.00	1	20.00	-	-	5
Tax officers	9	60.00	-	-	6	40.00	-	-	15
Businessmen/Traders	16	53.33	4	13.33	7	23.34	3	10.00	30
Consumers	25	50.00	4	8.00	14	28.00	7	14.00	50
Total	**53**	**53.00**	**9**	**9.00**	**28**	**28.00**	**10**	**10.00**	**100**

Source: Field Survey 2010

From the above survey, 60% each tax experts and officers, 53.33% businessmen and 50% consumers supported that there will be positive effect of VAT on balance of payment. Similarly, 20% tax experts, 40% tax officers, 23.34% business men/traders and 28% consumers viewed that there will be no effect of VAT on balance of payment. Likewise 20% tax experts, 13.33% businessmen and 8% consumers agreed that there will be negative effect. Thus, out of total respondents 53%, 9%, 28%, 10% provided their view on positive effect, negative effect, normal and I don't know options respectively.

4.4.29 Views on Effect of VAT on Tax Leakage

Tax leakage is one of the most burning challenges for the tax administration. Due to the weaknesses remains in rules and regulation and non effectiveness in implementation, it is visible and invisible existed in tax system. So it is a problematic issue. Tax revenue has been flowing out through out tax leakage since a long time period. Tax leakage have badly eroded Nepalese tax base. If tax leakage is neutralized, the revenue will definitely multiple. When it is in reality, it will be a plus point to the national economy. Tax leakage directly restricts the growth of revenue collection that causes the reduction in revenue collection. In the context of Nepalese economy, it is great challenges so that the government introduced VAT system. One of the major objectives of VAT is to tackle the existed tax leakage so as to increase the revenue collection. So how much restrict it may not be measured until the VAT will practice effectively. To know the effect on this aspect, the field survey has been conducted. The views/outcomes of different respondent is summarized in the table below:

Table: 4.42

Views on Effects of VAT on Tax Leakage

Respondents	**Eliminative**		**Non Eliminative**		**No effect**		**I don't know**		**Total**
	No	**%**	**No**	**%**	**No**	**%**	**No**	**%**	
Tax experts	5	100.00	-	-	-	-	-	-	5
Tax officers	15	100.00	-	-	-	-	-	-	15
Businessmen/Traders	22	73.33	-	-	2	6.67	6	20.00	30
Consumers	32	64.00	2	4.00	8	16.00	8	16.00	50
Total	**74**	**74.00**	**2**	**2.00**	**10**	**10.00**	**14**	**14.00**	**100**

Source: Field Survey 2010

According to the field survey, 100% each tax experts and tax officers, 73.33% businessmen and 64% consumers satisfied with the eliminative power of VAT. Out of total respondents, 74% provided their view on eliminative power of

VAT which was following by 2% non eliminative, 10% no effect, 14% I don't know effect on leakages.

4.4.30 Views on Effect of VAT on Smuggling Business

Smuggling business, main factors for tax evasion, is called the illegal business. In the context of Nepal, these types of activities are increasing due to weak administration and proper operation. It can not operate effectively and properly under the laws and order. So it is also a burning problem exist in the country. The growth of smuggling activities can also be attributed to the trade policies adopted by the government. It is expected that VAT system helps the government to control over smuggling business. To know the effect of VAT on smuggling business, the field survey has been conducted. The views of different respondents on this aspect are presented in the table below.

Table: 4.43

Views on Effect of VAT on Smuggling Business

Respondents	**Eliminative**		**Non-restrictive**		**No effect**		**I don't know**		**Total**
	No	**%**	**No**	**%**	**No**	**%**	**No**	%	
Tax experts	5	100.00	-	-	-	-	-	-	5
Tax officers	15	100.00	-	-	-	-	-	-	15
Businessmen/Traders	22	76.67	-	-	2	6.67	5	16.66	30
Consumers	40	80.00	-	-	3	6.00	7	14.00	50
Total	**83**	**83.00**	**-**	**-**	**5**	**5.00**	**12**	**12.00**	**100**

Source: Field Survey 2010

According to the survey, 100% each tax experts and tax officers, 76.67% businessmen and 80% consumers opinioned about the restrictive nature of VAT on smuggling business. Out of total respondents, 83% convinced that restrictive nature of VAT on smuggling business where as 5% viewed on no effect of VAT. Likewise 12% respondents had no idea on this opinion.

4.5 Major Findings of the Study

On the basis of previous chapters and data presentation and analysis, some important findings can be drawn. The major findings are visualized below:

- VAT has been 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 in 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 a revenue resource is very limited which led the country to fiscal crises. The major cause of persisting fiscal deficit in Nepal is due to the poorly designed and defective tax system which cause inadequate mobilization of resources.
- In recent decades, developing as well as developed counters 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 resources for the development purposes and make the 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 popularly day by day.
- Overview the current revenue structure of Nepal, the share of tax revenue has been greater then the share of non-tax revenue. About three quarters of total revenue comes through tax revenue and one-third form non-tax revenue which shows the dominant role of tax revenue to total revenue. Due to this reason, government heavily depends upon tax revenue and the foreign grants and aids, which leads country's situation towards fiscal crisis and resources gap.
- In developing countries like Nepal, indirect tax plays pioneering role for internal resource mobilization which is now the principle source of revenue collection. Utmost, 75% of revenue collected through indirect taxation which shows dominant role of indirect tax over direct tax. So, to

direct the country's economy in the channel of development, it is necessary to increase the share of direct tax over indirect taxation.

- The contribution of VAT revenue to total revenue is in increasing trend which is beneficial for sound economic development. Despite the various difficulties in the implementation of VAT, the collection trend of revenue through VAT is not so bad. It expected that VAT will generate more and more revenue in the coming days. VAT has generated about Rs 7122.60 millions revenue in F/Y 1997/98. It has reached up to Rs.39700.90 Million in FY 2008/09.
- The share of value added tax in the GDP in Nepal is very low with comparison to other developed countries. The contribution of VAT revenue as percentage of GDP remained 2.46 to 4.14 from FY 1997/98 to FY 2008/09 respectively, however showing an improving trend. Likewise the registration trend into VAT is also increasing day by day. The number of registrants increased from 5237 in FY 1997/98 to 69653 in FY 2008/09 by almost thirteen fold.
- The billing system plays crucial role in the field of VAT but it is one of the major problem exist in Nepal. Regarding the current sates of possibility of billing system in purchases, 72% of total respondents advocate for possibility of billing system.
- 57% of the total respondents reached to the conclusion that VAT will raise price of the commodities but 30% claimed for not rise in price due to VAT system.
- VAT is being preferred by many countries of the world due to superiority sales tax. With the base of effective revenue mobilization, wide tax base, transparent an easy tackle over tax evasion, VAT is considered as superior as sales tax. 72% of total respondents are in favor of VAT system.
- 71% of the total respondents argued that current rate structure of VAT is sufficient to have greater revenue yield where as 9% claimed that it has to be improved.

- Due to broader base, catch-up effect, self-enforcing nature, transparency etc feature of VAT, VAT is expected to have the greater revenue yield. Out of the total respondents, 79% viewed about the positive effect of VAT on revenue mobilization.
- 77% of total respondents provided their views regarding present exemption as ok 17% supported that it should be reduced while proves that current exemption is wide but due to this tax evasion may be increase.
- Though 6 years have been already passed but record keeping and process of VAT system has still a great challenges and problems for tax payers. Most of the taxpayers are unknown about the record keeping and process of VAT system. 45% on collection process and 13% opinioned on problem of tax refund system.
- The major problems exist in business sector are registration procedure account keeping system, proper billing system and cost of record keepings 41% of respondents provided their view on difficulties on registration, 33% opinioned on account keeping system and 17% argued on billing system.
- VAT administration is still weak, traditional corrupted, inadequate and incomplete with cause problems and challenges in the path of successful implementation of VAT out of the major weaknesses of VAT administration, 12% viewed on lack of experts, 36% in favor of lack of trained manpower, 5% opinioned due to insufficient physical infrastructure and 12% complained about its weak/poor economic situation.
- For making VAT effectively successful in future, it is necessary to overcome the current challenging problems like smuggling and under valuation, lack of proper billings, lack of proper accounts and weak tax administration.
- Billing system is one of the major aspects of the effective implementation of VAT but businessmen hardly issue bill to consumers. Consumers too are not much interested in taking bills due to miss-concept of increase in

the price of goods. Such practice has discouraged the consumers to demand VAT bill and is the root cause of the failure of the billing system.

- The proper issuance of bills has remained a major bottleneck. The potential revenue is severely lacking due to non-operation of bulling system in most of the registered firm. Most of the businessmen holding VAT certificate just or formalities and issue illegal bills of every transaction. Besides that, most of the business firm do not issue bills, if do, issue parallel bills, loose bills. One the other hand, they make parallel accounts one for the tax purpose and other for business purpose.
- Successful operation of VAT is extremely challenging for a burgeoning economy like Nepal where, there is long open border, a large segment of the economy is yet to be monetized, business system is still running in traditional way, geographical structure is rugged, non adherence of standard norms and codes is wide spread, public consciousness level is very low. Existing practice of smuggling and under valuation in the border areas is supporting for the under invoicing in the successive stages of production and distribution. Further, all the rules and regulations are not seen in real practice, bribing and corruption is wide spread in the tax administration and all other sectors of the economy. These are the facts exist in Nepalese environment which encourages businessmen for the tax evading practices and make them less responsible in this system.
- VAT can be entrenched as an integral part of the Nepalese tax structure in the long run if its implementations should be successful. VAT has brought prospects in future but prospects of VAT entirely depend upon its implementation aspect. Mainly, the successful implementation depend upon the strong, fair and capable administration, strong political commitment, cooperation between the customs offices and inland revenue department, cooperation between private sector and the government bodies, systemization of rules and regulation accordingly over time to time.

- Most of the tax payers are not conscious about VAT system. Tax payers are still unknown about it's threshold, exemption, zero-rating and other related issues, which is essential criteria for VAT registration. It proves that government has no proper homework before its primary implementation.
- Smuggling business activities are increasing due to weak tax administration and proper operation/implementation. It is expected that VAT system help the government to control over these illegal activities. 83% of the respondents viewed about its restrictive nature over smuggling business.
- Tax leakages have badly eroded Nepalese tax base. Tax revenue has been following out through tax leakages which directly restrict the growth of revenue collection. VAT is expected to tackle the existed tax leakages. 74% of total respondents were in favors of eliminative effect of VAT on tax leakages.

CHAPTER - V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

Tax is a compulsory contribution to the government made without reference to a particular benefit received by the taxpayer. Taxes are levied primarily to raise revenue for government expenditures. On the basis of its nature, tax can be classified broadly into direct and indirect tax. VAT can be taken as good example of indirect tax. VAT is definitely a new and modern tax system is comparison with other traditional taxes.

Value Added Tax is latest innovation in the field of taxation. Actually, VAT is considered as the most important tax reform in the 21st century, which has already been implemented popularly in more than over 125 countries in the world. VAT is multi-staged; commodity and services based tax which is levied on the value added of business enterprises at different stages of production and distribution. It affects only the added portion of price i.e. the value of goods and services added in various stages of transition. It has nothing to do with the rest of the prices. Purchasers pay VAT to the sellers and sellers transfer it to Government, deducting VAT paid on their business purchases from VAT amount collected from the consumers on their sales. The ultimate burden of VAT is shifted on the consumers. In this system, every person or business firm, which is above threshold limit shall compulsory be registered in VAT office. Registered person/ business firms get credit facility on tax paid, on their purchases of raw materials, semi-produced goods and overheads. Small vendors whose annual taxable turnover is below threshold and business firms that deals with exempt goods only need not registration. The firms, below threshold, could be registered voluntarily.

VAT was first implemented in 1954 by the French government. Then, after almost all the countries (more than 125 countries) of the world are being attracted towards this system. Due to some special features such as input tax credit system; based on accounting system, less chances of cascading and pyramiding effect, this system is very popular throughout the world. VAT is self-policing in nature, so there is less probability of tax evasion. VAT plays a neural role on the methods 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.

A review of Nepalese tax structure reveals a clear picture of revenue trends for the study period. Tax revenue contributes about three quarters of total revenue where as non-tax revenue represents about one quarter of total revenue. The share of indirect tax in total tax has continuously declined and that of direct tax continuously increased. Nevertheless, indirect tax still plays a pre-dominant role in contributing to total revenue. Indirect tax represents about three quarters of total tax revenue and direct tax contributes only about one quarter of total tax revenue. VAT, the largest contributor to the national revenue basket, constitutes more than 40 percent of total indirect tax revenue. Among the major components of indirect tax, the share of custom duty and excise duty are in declining tendency except VAT.

VAT system is a completely new system of taxation for Nepal. His Majesty's Government of Nepal adopted this system since November 16, 1997. The international of introducing VAT was initially expressed in 1992 and VAT task force was created in 1993. After several years of preparation, VAT Act was finally passed through parliament in December 1995. VAT becomes effective through the Finance Bill of 1997. After that, formulation and passage of VAT Act, design of VAT regulations and its final approval preparation of VAT all has been done by Nepali standard. Due to effective VAT Act and regulation make well preparation for VAT in Nepal which has made VAT successful today.

The structure of Nepalese VAT is designed in the VAT Act 1996 A.D. Its coverage is defined with reference to both taxable transactions and taxable persons. The base of VAT is the value added by each firm through its production and distribution activities. According to the VAT Act 1996, the tax rate is 13 percent and exports are subject to a rate of zero percent. There are certain cases, such as, exemptions and zero rating, under which commodities are tax free. A taxpayers is all owed to deduct the tax paid on purchases of his business from the collected on sale. This deduction is known as an input tax credit. Under the, Nepalese VAT system there is a provision for the refund of VAT. Such a situation will arise in the case of zero rated supplies such an export. Small venders having an annual turnover up to certain amount are not required to register under the VAT system. The amount fixed for this purpose is known as threshold. In Nepalese case, its level is Rs. 2 million. The tax payer may not always agree with the assessment made by the tax officer. In that case, taxpayer may file an appeal to the revenue tribunal within 35 days against a tax assessment or penalty.

The first step towards VAT operation is registration of vendors who are legal taxpayers. Each and every registered vendor should receive and given the bill while purchasing and selling the goods respectively. Each VAT registered person should keep records of all tax invoices they issue and receive, including the serial number and the data of the invoice, the amount changed and the VAT changed. If a registrant's output tax liability is greater than his input tax credit, he requires paying the difference of output tax and inputting tax to the government within specified time period. VAT is self-assessed tax. Taxpayers determine their tax liability themselves and pay tax. If taxpayers does not assess his income himself and does not file his return within specified time, he is termed to be a non filer. In such cases, VAT official may have to make a tax assessment. Penalties are designed to punish taxpayers for their VAT offences and to recoup the revenue losses due to the mal-functions of taxpayers. VAT is the one of the forms of sales taxes. Actually, it is the replacement of sales tax, entertainment tax, hotel tax and contract tax. Nepal introduced a consumption type, tax credit method VAT based on the destination principle with single positive rate of 13 percent.

Nepal introduced VAT system for several reasons. It was necessary to introduce such a tax to develop a stable source of revenue to broaden the tax base, to promote economic growth, to generate revenue required for improving its deteriorating macro economic performance, to establish an account based modern transparent tax system to make the tax system more scientific, to gain the confidence of donors, to make the Nepalese tax system effective.

In fact, the implementation of VAT was not easy in the initial days. It was a matter of great debate. Even after the passage of the law, there were a lot of constraints and difficulties in introducing and implementing VAT in Nepal. A large number of traders and business community were against VAT. The first two years of VAT implementation were varying turbulent. The FNCCI, NCC and their affiliated agencies were in the front-line of opposition. Despite all this, VAT was introduced and survived because of the efforts of a small group of extremely dedicated, motivated and hard working people who never gave up their hopes of making VAT successful one day. VAT is currently well receipted by the consumers as well as business and industrial communities of Nepal, for this is account based tax that lead to transparency and accountability both on the part of tax players and tax-collectors. Despite the strong opposition to VAT from the business community, the number of VAT registrants has been increasing gradually, reaching about 69653 in the fiscal year 2008/09 in the span of last 12 years.

VAT, a premier indirect tax to Nepal's tax structure, is composed of two components: Domestic and Imports. Almost two thirds of VAT revenue is generated from imports. However both the domestic and imports VAT are likely to have the equal share in the total VAT in the near future. Domestic VAT revenue further consists of production, distribution and service sectors.
The present VAT administration may be simplified into two functional needs: Department and VAT offices. The VAT department and field offices under this department are responsible for administrating VAT. The organizational structure of the VAT administration is based on functional line. Large tax payer, tax refund, taxpayer services, tax audit and investigations, internal monitoring, collection and registration are important sections of VAT administration. There are 23 VAT offices under the VAT department and divided into four categories, depending upon their work load.

VAT has been in operation for last twelve years, but is still facing number of challenges/problems. The lack of proper billing is beings most of the challenging problem to implement VAT effectively and successfully. However, the problem is equally associated with others such as smuggling and under valuation, weak performance of tax administration, low level of public consciousness, rampant corruption, political instability, geographical barriers, open border and un authorized trade, narrow tax base, lack of co-ordination between custom office and VAT related offices etc. So improvements in such various areas are needed.

In the empirical study, the analysis has been done about VAT on the basis of information collected from tax experts, tax officers, businessmen/ traders, and consumers. The tool that basically used is the questionnaire. The questions are asked to 100 different respondents related to this field. Out of total respondents, 5 are tax experts, 15 are tax officers, 30 are businessmen and 50 are consumers.

5.2 Conclusions

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 the most important sources of the government revenue. VAT is a most important, innovative and powerful tax with built-in quality of universal application for both developed and developing economics. The biggest virtue of VAT is that is revenue buoyant and highly instrumental for resource mobilization especially in an economy with acute shortage of resource. 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 a matter of great pride that the Nepal has entered into a major global tax system with the introduction of VAT.

- Adopting of VAT for Nepal is both a compulsion and necessity. It cannot curtail its development projects for which more revenue is required. The narrow tax base of the previous sales tax failed to generate the minimum required amount of revenue because it included only import and manufacturing units. Similarly, most of the goods and services were exempted from tax. Income tax, however, has some potential for revenue generation in Nepal. The rates of income tax are slowly decreasing because government cannot put more burdens on people to pay income tax. The globalization and recent trend of trade and tax system has affected the Nepalese economy also. As we have just getting the membership of WTO, we shall need to decrease out customs duties drastically. Customs duties are being curtailed in worldwide span in order to accept liberalization policy. Excise duty in Nepal is severely limited due to the contraction of industrial activities throughout the nation in recent years. Under such condition, we cannot collect more revenue from income tax, customs duty and excise duty. Consumption based tax is only an alternative to collect more revenue, which directly helps to increase domestic resources for development works.

- One of the bases of the Nepalese tax system is VAT. It is based on consumption. However, the consumption related indirect taxes do not maintain equity norms but they can be considered as one of the reliable sources of revenue generation. Furthermore, this will help reduce the burden of our foreign debt, and will provide a great relief to our future generation. There is no doubt on the fact that VAT, in long run, will help to make Nepalese economy stronger. In this sense, the successful implementation of VAT system has a greater significance as well as importance in Nepal.
- VAT was introduced as a part of the national tax reform program. But VAT system in Nepal from its inception has been facing innumerable problems, which curtail its merits and effectiveness. Its process has been slow, initially due to opposition from the business community and subsequently to administrative problems. Even after its full-fledged implantation in 1999, the system has not been taken a considerable pace due to administrative inefficiency. Despite preliminary resistance.VAT has been largely accepted by the taxpayers as well as business communities of Nepal and relied upon by the government as an important tool for mobilizing the revenue needed to finance public expenditure.
- The issue, however, today is not whether VAT or no VAT but now to make the implementation of VAT more effectiveness and efficient It is not matter that VAT should be removed but the implementation aspect of VAT must be managed and enhanced. VAT regime is extremely challenging in a burgeoning economy like Nepal where, with long open border, a large segment of the economy is yet to be monetized. Resistance from the business community, ignorance of general people and the lack of full support and commitments from the politicians and government officials forced, the authority responsible for implementing, VAT to make compromises on various aspects of VAT which has weakened the process

of its implantation right from the beginning. The attitude of businessmen and the tax administration also appear hostile to the effective implementation of VAT in Nepal. The culture of doing business without maintaining proper books of accounts or maintaining multiple sets of books of accounts has made implementation of VAT difficult

- Theoretically, the Nepalese VAT system has no weak provisions. It is one of the best models in the world. In practice, however, the system is not effective even 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 problems in implementation of VAT. The government needs full co-operation from the tax administration, the taxpayers and businessmen as well as consumers in its efforts to generate more revenue.

5.3 Recommendations

Nepal has introduced VAT system since 1997 after a long preparation and planning, despite the existing constraints and opposition. VAT Act, rules and regulations have been set up in the line of international standard and its preparation had been made comprehensive and much more extensive as compared to the other taxes. This preparation has assisted towards creating a favorable environment for the implantation of VAT and VAT is non going gradual acceptance of the business community and general public at large level. It is a great challenge to Nepal in order to achieve the success. In order to create effective 'Implantation, the empirical studies should be conducted from time to time. So, to escape from inefficiencies, problems and constraints, VAT administration can be tackled these issues efficiently and effectively. Since the implementation of VAT is a great jump from the traditional tax system to a modern system, several things are still lacking to be done for the successful implementation of VAT in Nepal In such circumstances, on the basis of major findings and conclusions, following recommendations have been made to make

VAT effective and more effective, which could be fruitful to concerned authorities while reforming Nepal's VAT system.

- The VAT can be taken as an important form of domestic resource mobilization in Nepal. So it should be adopted as important measures of reforming sales tax, entertainment tax, contract tax and hotel tax and should be extended through retail level as a bulk of tax performance to generate more revenue.
- Most of the tax payers as well as public are still unknown about VAT and its effects on various aspects. They have developed a kind of mis-concept regarding to VAT. They do not think that sellers already include VAT in price of goods rather they do think VAT is an extra charge. So proper publicity for all related persons is the fundamental tools for success of VAT. Tax related information should be published regularly through journals, magazines, newspaper, pamphlets, radio, television, etc. Interview programmee with professors, researchers, tax experts and economists should be conducted and published through advertising Medias. Similarly, the student, at school level as well as campus level's curriculum should be included tax education and social obligation of paying tax.
- An efficient, strong and fair administration is the most crucial for the proper implantation of VAT. But, VAT administration is still weak, traditional, corrupted in nature. In spite of these, there is lack of expertise, well trained and skilled officers in the VAT administration. So, informative programmes such as seminars, training, discussions, should be organized to make the tax officers skilled and capable in their field of job and service minded attitude needs to be developed in the mind of tax officers.
- The tax administration should be very watchful to prevent any kind of malpractice, fraud and tax evasion. Utmost care should be taken to prevent any kind of bribing and corruption. Tax officials should effectively be monitored.

- Many rules and regulations of VAT are only limited in papers and they are not seen in practice. All the rules and regulations should be in practice. Government should make effort to discourage under valuation, including purchases of some consignments, which are imported at an unrealistically low value. Audit and investigation system need to be improved and make effective, and strictly penalize those who do not follow the rules. Strict rules should be prepared also for tax officers and it is necessary to take action against these officers who are directly or indirectly involved in collusion and corruption, without any hesitation. Also the reward system should be made effective.
- Many businessmen having taxable capacity are still beyond the tax net. So, the enforcement should be made more effective and voluntary compliance should be encouraged. The level of voluntary compliance could be raised through a set of promontory and regulatory measures including positive and service minded attitude of the tax personnel, rationalization of tax structure, simplification of tax producers and forums, strengthening tax administration, conducting audit and investigation in an effective manner, and penalizing those who do break the rules the procedures regarding registration, collection, interest, penalty, audit and appeal should be simplified and improved.
- Lack of proper billing system, is being the most challenging problem in Nepalese context. So consumers should be well informed to the 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 existing long open border is the main cause of smuggling trade under valuation system. So border should be effectively controlled to prevent the illegal trade. There should be a effective checking system to prevent any kind of illegal trade in border side.

- VAT laws should be effectively implemented. Timely revision should be made on unpractical acts, rules and regulation on the basis of experience gained.
- There should be a close co-operation between the private sector and government sector for the successful implementation of VAT. But in practice, there is a crisis of confidence between the private and government sector. There were made many agreements between VAT payer and VAT collector. Persons of each sector blaming to another. Due to lack of understanding between them. There is loss of revenue_ taxable amount is arbitrarily fixed by the tax authorities in many cases which is beyond the current feature of VAT system. Hence, it is necessary to co-operate the private sector with Government. A proper co-operation between both sectors should be established confidently.
- There should be effective awareness programs through advertising, media for taking invoice for every taxable purchase by consumers. Beside this, every business firm should compel to patch a notice for consumers in, from of counter informing about not forget to take bill.
- Monitoring system of the VAT administration is not so effective. Because of this, taxpayers are still encouraged for tax evading practices. Many businessmen don't issue invoice for their selling and even do, follow the other improper invoices. So, an effective and efficient auditing, investigation and monitoring system should be developed.
- Existing threshold and tax refund are two possible gates for tax evasion. It seems that existing exemption has a broad coverage however some exemptions are unavoidable due to administrative complexity. And equity aspect. So exemption should be minimized gradually/ successively.
- Tax payers should have provided better honor for their regular contribution of paying tax to the government, and be provided better services.

- Computer system and networking program must be developed and linked so as to make the VAT work simple which also helps to make data base system effective.
- In the present Nepalese environment, there exists instability of political situation, so government should create an environment of strong political comment for effective and successful implementation of VAT system.

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APPENDIX

Appendix - 1

Questionnaire

Dear Sir,

I would like to introduce myself as a student of Shanker Dev Campus MBS final year, engaged in research work. In order to fulfill the partial requirement of master's degree in business studies (MBS) of Tribhuvan University of Nepal. I'm going to prepare a dissertation on **"Effectiveness of Revenue Collection from VAT in Nepal** ".

I humbly request for your valuable comments, views, suggestions and information on this issue which could prove very useful for my study. So, I request you to fill up the following questionnaire.

Name of respondent:-

Types of respondent:-

Keshav

Subedi

Please tick ( ) the answer of your choice or whenever appropriate on the basis of alternatives.

1. Is there possibility of proper billing system in VAT?

a. Possible
b. Impossible
c. I don't know

2. Is the VAT rate structure in the context of present situation normal?

a. Low rate
b. High rate
c. Normal
d. I don't know

3. Did the price rise on commodities due to VAT system?

a. Yes
b. No
c. I don't know

4. What is the main reason of price rising except VAT?

a. Compliance cost
b. High profit
c. Non awareness of customers
d. I don't know

5. Is the VAT superior than the other sales tax system?

a. Yes it is
b. No it is not
c. I don't know

6. Is the present structure of VAT appropriate for the successful operation of VAT in economy?

a. It is ok
b. It has to be improved
c. I don't know

7. Is it necessary to expand the base of VAT for high potential revenue?
a. Reduce threshold
b. Include all service sectors
c. Incorporate agriculture sectors
d. All of above

8. The present threshold secure especially to the small vendors by giving a facility of tax exemption?
a. It is ok
b. It has to be improved
c. I don't know

9. Is the tax burden of VAT to the tax payers?
a. Higher
b. Lower
c. Normal
d. Zero
e. I don't know

10 Are the present rules and regulations enough to implementing VAT system effectively & properly?
a. Yes
b. No
c. Moderate
d. I don't know

11. What are the main problems in the process of VAT implementation?

a. Registration
b. Collection
c. Tax refund
d. Miscellaneous

12. What is the main problem of VAT system in business sectors?
a. Reduce threshold
b. Account keeping
c. Billing system
d. Miscellaneous

13. Does the VAT system help to improve the government revenue?
a. Yes
b. No
c. It does effect
d. I don't know

14 What is the major weakness of VAT administration?
a. Lack of expert
b. Lack of trained manpower
c. Lack of physical infrastructure
d. Weak economy
e. Miscellaneous

15 What is the major option to make VAT effecting successful?

a. Strengthen and improve VAT administration
b. Train & educate officers
c. Improve VAT laws & regulations
d. Conduct public awareness programs

16. What is the most changing current problems of VAT?

a. Smuggling and under valuation
b. Lack of proper billing
c. Lack of proper account of tax
d. Weak tax administration

17 Who is the main responsible group of tax evasion?

a. Business enterprises
b. Tax administration
c. Consumers
d. All of above

18. What is the main reason to be needed VAT in Nepal?

a. Allocate revenue collection
b. Transparency
c. Avoid tax leakage
d. Broaden tax base

19. Is it the VAT appropriate in Nepal?

a. Yes it is
b. No it is not
c. Yes ,but difficult
d. I don’t know

20How is the effect of VAT on revenue mobilization?

a. Positive

b. Negative
c. No effect
d. I don’t know

21 How is the effect of VAT on investment sectors?

a. Positive
b. Negative
c. No effect /normal
d. I don’t know

22. How is the effect of VAT in economic growth?

a. Positive
b. Negative
c. No effect /normal
d. I don’t know

23. What is the effect of VAT on the balance of payment?

a. Positive
b. Negative
c. No effect /normal
d. I don’t know

24. How is the effect of VAT on tax leakage?

a. Eliminate
b. Non eliminate
c. No effect
d. I don’t know

25. How is the effect of VAT on smuggling business?

a. Eliminate
b. Non eliminate
c. No effect
d. I don’t know