

“CONTRIBUTION OF VAT FROM IRO OF LALITPUR TO NATIONAL REVENUE “

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RECOMMENDATION LETTER

This is to certify that the thesis

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“CONTRIBUTION OF VAT FROM IRO OF LALAITPUR TO NATIONAL REVENUE”

Has been prepared as approved by this Department in the prescribed
Format of Faculty of Management. This thesis is forwarded for
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TO NATIONAL REVENUE

And found the thesis to be original work of the student written according to the prescribed format.

We recommend the thesis to be accepted as partial fulfillment of the Requirement for

Master's Degree in Business studies (M.B.S.)

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DECLARATION

I hereby declare that the work reported in this thesis entitled **“CONTRIBUTION OF VAT FROM IRO OF LALITPUR TO NATIONAL REVENUE”** submitted to Shanker Dev Campus, faculty of management, Tribhuvan University, is my original work. It is done in the form of partial fulfillment of the requirement for the Master’s Degree in Business Studies under the supervision of Prof Dr. Kamal Deep Dhakal (Reader) of Shanker Dev Campus.

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ABBREVIATION

A/C	Account
CBS	Central Bureau of Statistics
CDE	Central Department of Economics
CDM	Central Department of Management
CEDA	Central for Economic Department and Administration
DANIDA	Danish International Development Agency
EC	European Country
EEC	European Economic Community
FNCCI	Federation of Nepal Chamber of Commerce and Industry
FY	Fiscal Year
GDP	Gross Domestic Product
IMF	International Monetary Fund
IRD	Inland Revenue Department
MBS	Master in Business Studies
MODVAT	Modified Value Added Tax
MOF	Ministry of Finance
NCC	Nepal Chamber of Commerce
NRB	Nepal Rastra Bank
PV	Purchase Value
RS	Rupees
SLV	Sales Value
TPIN	Tax Payer Identification Number

TR	Total Revenue
TU	Tribhuvan University
UDCS	Under Developed Countries

CHAPTER ONE

INTRODUCTION

1.1. Background:

Economic development always faces the challenges like- poverty, large disparities in distribution of income, lack of physical infrastructures of development, crawling GDP and hyper inflation, in any country. Economic development is possible only when internal resources are mobilized at their optimum level. Nepalese Government has been taking necessary actions to ensure the friendly economic environment. But, it is sorry to say that all the previous efforts has not brought any significant changes in the economic status of the country. First of all, to utilize the internal resources the adequate amount of fund is required. Developing countries have many areas to look after that is why they can't invest in all development activities as they need. This difficulty can be avoided through effective formulation and implementation of laws, policies and programs with transparent, fair and systematic administration.

In Nepalese context, therefore, effective administration does play a key role in revenue realization. Realizing this fact, Nepalese government collaborated with USAID towards improving TAX-Revenue Accounting and Administration, Nepal conducted 'Government Budget and Accounting System Development project' in government and industrial development. The project gave considerable attention to aspects of tax administration the "how to do it" aspect.

Latter, various acts, rules and regulation are made and enjoyed; the possible reforms were also taken into action- sales tax, hotel tax, entertainment tax etc proved to be failed. Those were called as unsuccessful in raising government revenues. It pressurized the government. Then the government preferred a modern, efficient and neutral Tax 'VAT' to get rid of the past drawbacks. VAT as an indirect tax is charged on increasing value of commodities and services at each stage of distribution. VAT is modified form of sales tax. It was first introduced in France in 1954. German Dr. D.V. Siemens developed and promoted the very concept in 1919. In 1921 Prof. T.S. Adams suggested it for USA; however, USA did not follow it. After then, Brazil adopted VAT in 1967 and consequently majority of the European nations followed this tax system. Even Asian countries like Japan, China, and Vietnam followed VAT system. India followed Mod-VAT (modified value added tax) in 1986 for manufacturing products. Pakistan adopted in 1990. His Majesty Government, first of all expressed the view of introducing VAT by eighth plan. Finance Act 1992 introduced the two-tier sales tax for nine items as the base for introducing VAT. Finance Act 1994 extended it for some additional items.

The government formulated a VAT Task Force in 1993 in financial and technical assistance of USAID, which drafted the VAT documents to formulating the legislation. The parliament passed VAT in 1995(2002). HMG had initially set the date for introducing VAT in July 1997. The government made a decision in April 1997 that VAT will be finally introduced in November 16, 1997. DANIA provided technical assistance to implement the VAT in full phase. VAT replaced the existing sales tax, the contract tax, entertainment tax. At that time it was assumed that the introduction of vat would make local business more competitive and remove the tax from exports. At first, the implementation of VAT resulted in slightly increase in the price of some commodities and services, soon after its introduction, business community went into agitation. Several rounds of negotiations were held in the ministry of finance to reach an amicable settlement. The government, however, finally able to convince the business communities by realizing its transparency and simplicity. But, it was not an easy task. The business communities were not opposed to VAT but they doubt its successful administration and contribution to national revenue. VAT being an effective tool of taxation believed to be the major source of revenue generation through which economic activities of the nation would be possible.

1.2. Statement of the problem

Nepal is facing the problem of meeting its own expenditure on its own. Foreign dependency and internal leakage has forced the government to think for another option, which will increase the revenue substantially.

For this, government is trying to introduce lucrative policies for the participation of private investment. Leaving the non-financial and non-tax measures, there are several tax attempts the government has made for increasing private sector participation in business activities. In this regard, HMG Nepal introduced various tax measures. The recent government exempted tax for several years to new industries, full exemption of tax to export oriented companies, agricultural industries and reduction in co-operative tax rate. As the extra effort in, 1986 dividend tax, 1992 depreciation system and income tax rate; were brought into action. However, the government failed to achieve the objectives what so ever the efforts were made.

Considering the fact the Nepalese Government decided to introduce VAT from 1997 replacing the existing taxes like- sales tax, hotel tax, entertainment tax, contract tax. VAT was introduced in a hope to strengthen tax administration, increasing the government revenue and

internal resource mobilization. The success of VAT depends on its administration and implementation. Following are some of the problems that Nepal is currently facing:

-) No proper identification of hidden factors responsible for revenue realization from taxable source
-) Doubtful administration in satisfying the need of the nation.
-) Making the VAT much effective in revenue realization.
-) Changes in revenue realization before and after implementation of VAT.

1.3. Objectives of the study

-) To examine the contribution of VAT to National revenue from Inland Revenue Office of Lalitpur district.
-) To explore the administration and implementation of VAT with reference to Lalitpur district.
-) To measure the contribution of VAT in comparison to other taxes.
-) To find out the weakness elsewhere while implementing and administrating VAT.

1.4. Research Methodology

This research is focused primarily on the problem arisen in the process of VAT administration and its best implementation for collecting the government revenue. Both, primary and secondary data are used for the study. But mainly data and information are taken from secondary sources. Various views, experiences of Tax experts, officials, business representatives and general are included to make the result much realistic. The secondary data includes the information and data of Inland Revenue Department (IRD), National Planning Commission (NPC), Nepal Chamber Of Commerce (NCC), Federation Of Nepal Chamber Of Commerce And Industry (FNCCI), Ministry Of Finance, Nepal Rastra Bank (NRB) and other publication of VAT related books, journals, articles, magazines etc. Secondary data are collected through personal contact, visiting to their relevant sources and consulting books, journals, thesis, magazines etc.

1.5. Limitation of the study

This study has its own limitations since primary data are collected only using the opinion and most of the information are taken from the secondary sources and the research is conducted particularly in the Lalitpur district. The history of VAT is not too long in Nepal. The reliability of data has not been examined. The term VAT itself is not sufficient to fulfill the queries arising while at research. It is prepared to fulfill the partial requirement of master degree and hence may lack proper application of research methodology.

1.6. Organization of the study

The study has been prepared assuming the following pattern.

I: Introduction:

In this chapter, the background of the study, statement of the problem, objectives research methodology and limitations are included.

II: Review of literature:

In this chapter, reviews of former studies are presented.

III: Research Methodology:

This chapter describes research design, sources of data, population and samples, method of data analysis etc.

IV: Data Presentation and Analysis:

In this chapter data and information are analyzed with the help of different financial and statistical tool.

V: Summary, Conclusions and Recommendation:

Summary has been drawn from the findings of the research made and concluded the thesis with recommendations.

CHAPTER TWO

CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE

2.1 Conceptual Framework

Meaning of VAT

VAT is the recent innovation in the field of taxation. It is considered as one of the most powerful tool of the revenue generation. From the long experience of VAT in several countries many economists as well as policy madders have reached to the conclusion that VAT is probably the best form of sales tax, it has gained huge popularity within the short span of time. Value added tax is a tax imposed on value added of goods and services by business firms at each successive stage of production and distribution. A certain percentage of tax is levied on the added value at various levels of such production and distribution. As goods and services are shifted in the process of production and distribution, one after another stage the tax is also charged simultaneously.

VAT is considered as one of the form of sales tax. Sales tax is commonly decided into three types i.e. turnover tax, single stage tax and multiple stage tax. Turnover tax is levied at all stages of the production and distribution process. On the contrary, the single stage tax is levied at only one stage of the production and distribution process. It may be imposed either at manufacturing level or at the wholesale level or at the retail level. According to the stage of its imposition it is called as manufacturer's tax, wholesale tax or retail tax. Multiple stage tax is levied at different stage of production and distribution process. VAT is a multiple stage tax which is grown as hybrid of turnover tax in the sense that both these taxes are imposed at each stage in the production and distribution process. VAT, however, differs form the turnover tax as the latter is imposed on total value at each stage while the former is imposed only on the value added at that stage. VAT is similar to the retail stage tax because the tax base of VAT and that of retail tax on consumer goods and services are identical. VAT, however, varies from retail level sales in the sense that the former is imposed at each stage, which is the final stage. Theoretically, VAT is board-based tax system as it covers the value added to each commodity by a firm during all stages of production and distribution Let us suppose that a producer imports raw materials at the rate of Rs.100 from a foreign land to manufacture goods. The producer then uses the raw material to prepare finished goods and sold it to a wholesaler at Rs.200, the wholesaler then, sold it to retailer at Rs.300 and the retailer to the consumer at Rs.400. Then for the purpose of VAT, the value addition at the import level is Rs.100; in the production level Rs.100; at the wholesale level is Rs.100 and retail level is Rs.100. The VAT at the each level is Rs. 13 respectively, so the total amount of VAT payable to the government is Rs.52 only.

Table 1

Calculation of VAT Payable

Production/Distribution Level	Sales Price	Value Addition collected	Tax Collected from sales @13%	Tax incurred on purchased	Actual VAT to be paid to the Government
Importer	100	100	13	0	13
Producer	200	100	26	13	13
Wholesaler	300	100	39	13	13
Retailer	400	100	52	13	13
Total					52

2.2 Evolution

Historically, the VAT has emerged as an alternative to defective multi-stages turnover tax or cascade type of taxes. VAT was introduced in an attempt to improve the existing shortcoming of the sales tax. As an improved turnover tax, Dr. Wilhelm Von Siemens firstly introduced VAT in Germany. It proved to be the best over the existing sales tax. Similarly, Professor Thomas A. Adams introduced the sales tax with a credit or refund system. The Shoup Mission also proposed it for the reconstruction of the Japanese economy in 1949.

Suggestion, proposal and recommendation were gradually rising so far for the implementation of VAT but even not a single country till 1953 dare to introduce VAT. France became the pioneer country in the history of taxation by adopting VAT for the first time at industrial level. Up to 1959, this tax was confined to the boundary of France. In 1960 VAT was adopted by Ivory Coast. Since the sixties VAT has been spreading all over the world very quickly and widely. Other French colonial countries such as Senegal also followed the VAT system. The financial committee of European Union recommends all European communities to adopt VAT in place of turnover tax in 1962. In 1962 France extended VAT from wholesale level to retail level. In the same front Federal Republic of Germany introduced VAT in its tax system in 1969. Netherlands and Sweden in 1970, Belgium in 1971 and so on many European nations adopted VAT system. Vietnam became the first

Asian region to have VAT in 1973. Soon after the implementation, it was abolished and again reintroduced in 1999. India implemented MOD-VAT in place of VAT.

<i>Year</i>	<i>Country that have adopted VAT</i>
1954	France
1960	Ivory Coast
1961	Senegal
1967	Brazil, Denmark
1968	Germany & Uruguay
1969	Netherlands, Sweden
1970	Ecuador, Luxembourg, Norway
1971	Belgium
1972	Ireland
1973	Austria, Bolivia, Italy, UK, Vietnam²
1974	Argentina, Chile, Columbia, Costa Rica, Nicaraguan
1976	Honduras, Israel, Peru
1977	Korea, Panama
1980	Mexico
1982	Haiti
1983	Dominican Republic, Guatemala
1984	China ³
1985	Indonesia, Turkey
1986	Morocco, New-Zealand, Niger, Portugal, Spain, Taiwan
1987	Grenada, Greece

1988	Hungary, The Philippines, Tunisia
1989	Japan, Malawi
1990	Iceland, Kenya, Pakistan, Trinidad & Tobago
1991	Bangladesh, Benin, Canada, Jamaica, Algeria, Armenia, Azerbaijan
1992	Tajikistan, Thailand, Turkmenistan, Ukraine, Uzbekistan, Moldova
1993	Burkina Faso, Czech Republic, Paraguay, Poland, Rumania, Georgia
1994	Bulgaria, Finland, Lithuania, Singapore, Western Samoa, Madagascar
1995	Gabon, Ghana, Switzerland, Zambia, Malta
1996	Albania, Guinea, Uganda
1997	Barbados, Congo, Nepal
1998	Croatia, Mongolia, Sri Lanka, Tanzania, Vanuatu
1999	Cambodia, Cameroon, Mozambique, Netherlands, Papua New Guinea
2000	Australia Chad, Macedonia, Namibia, Sweden
2001	Rwanda
2002	Lebanon

1. VAT was implemented fully in 1968.
2. VAT was abolished soon after its implementation and re-introduced in 1999.
3. VAT was first introduced only in selected provinces on selected goods but since the achievement was not satisfactory it was implemented fully in 1994.
4. VAT was abolished after three months of its introduction in 1995 and was re-introduced again in 1998.
5. VAT was introduced in 1995 and was abolished after a change in the Government in 1997 and it was re-introduced in 1999.

(Source: IRD/DANIDA,2001:3-4)

2.3 Principle of VAT

There is no doubt that VAT is levied on consumption and consequently final burden of the tax is shifted to the customers. In the age of globalization and liberalization the world has been narrowed as a small village. Goods and services can be provided broadly either by domestically or by importing from other countries. When two countries are involved in trade there might be a question of borders. Whenever international trade between two countries is considered, cross border adjustment is necessary. For the purpose of imposing VAT, principle of VAT can be divided into following two categories.

2.3.1 Origin Principle

Under this principle tax is levied at the place where it is produced or rendered irrespective of whether they are consumed or not. In this principle, preference is given to imported goods or services over domestic production because all exports are treated as taxable whereas all imports are treated as non-taxable. These sorts of principle may be beneficial where common trade is existed like European Union, otherwise rest of the countries do not prefer this principle. (Maharjan 2005: 30)

2.3.2 Destination Principle

Contrary to the earlier, destination principle is imposed at the place where it is consumed irrespective of where it is produced or rendered. Neither it prefers imported goods or services nor the domestic goods or services. Equal preference is given to both imported as well as domestic product. In this ground it is assumed as neutral principle. For the purpose of boosting exports, many countries prefer to apply this principle of taxation. (Maharjan 2005: 30)

2.4 Types of VAT

The types of VAT can be classified on several bases. The most important things to be considered for the classification of base is how capital goods are treated by VAT. From these angles of VAT is classified as follows.

2.4.1 The Consumption Type

This classification is considered as neutral type because under this type no discrimination is done with respect to capital or consumable goods. It is really a superior form of VAT because full credit if inputs, irrespective of what type of purchase is done, is provided. All capital purchased from other firms, in year of purchase, are excluded from the base while depreciation is not deducted from the tax base in the subsequent years. Investment is freed from taxation and consumption is considered as the base of tax. The consumption type if VAT is more popular and accepted widely in the world. It is easier from the viewpoint of administration too. Nepal has also adopted the consumption type of VAT system. A registered person can credit the tax paid in the purchase of goods and services from the tax collected in the sales under the prevailing laws of Nepal (VAT Act – 1995:17,1).

2.4.2 The Income Type

The income type VAT does not exclude capital goods purchased from other firms from the tax base in the year of purchase whereas depreciation is excluded from the tax base in the subsequent years. In this variant, capital equipment are divided over a period on the basis of their useful life. As in consumption type, in this variant all the purchase of capital goods are not allowed to deduct in the same year when it is purchased. Only a relevant portion to a particular period is allowed to deduct and the remaining portion is carried over for the next period. The tax falls both on consumption and net investment and the conceptual tax base of this category is the net natural income. Under this method, tax base equals to private personal income. Many countries do not prefer this VAT system as it faces the same problem as we face in calculating income for a particular period. It is consistent with the origin principle of taxation where exports are taxed and imports are free from the tax. (VAT Act,1995)

2.4.3 Gross National Product Type

Under this variant, capital goods purchased by a firm from other firms are not deductible from the tax base in the year of purchase not the depreciation is allowed to deduct from the tax base in the subsequent years. Hence, tax is levied both on consumption and gross investment and the conceptual tax base of this variant is gross domestic product.

Thus, the variants of VAT differ depending upon the treatment of capital goods. The consumption variant excludes all capital goods purchase from other firms in the year of

purchase from the tax base, but makes no allowance from depreciation from the tax base in the subsequent years. Both the income and the gross national product variants do not exclude the purchase of capital goods from the tax base in the year of purchase.

The income type excludes the depreciation from the tax base in the subsequent years while Gross National Product type does not treat so, The GNP type of VAT is less practicable because it is biased to labor incentive technique. The income type is also rare in practice because it excludes the depreciation from the tax base in the subsequent years. Both types of VAT are theoretically defective and practically difficult to implement. It has just academic value. The consumptions type is most popular and widely recognized by almost all the countries. It does not affect decision regarding investment and growth since it excludes investment from any tax burden. Furthermore the consumption variant is more lucrative from the point of view of tax administration as well as from the consideration of foreign trade. A several advantage have incorporated in consumption theory, in comparison to others, it has widely accepted and successfully implemented in VAT system. (Khadka,2001:30)

2.5 Method Of Computation Of VAT

The registrant is responsible to collect (levy) the VAT and deposit to the government. Registration is said to be the unpaid tax agent of government. Tax liability calculation is a crucial part of the VAT system. Taxpayers have to calculate his tax liability and deposit to the concerned authority under the VAT system, which is known as self- assessment system. Therefore, the method of computation of tax is necessary so as to make the VAT system more transparent. The specific modalities on how the tax base is established and the liability computed will influence the administration of the VAT. VAT is levied on the sum total of value by affirm in due course of production and distribution. There are three methods of computation of VAT.

2.5.1 Addition Method

This method is also known as the direct value added computation method. Under this method, the tax base is calculated by adding the payments made by the firm to the factors of production employed in turning out the production such as wages, interest, rent, royalties and profit. This method is very close to income type of VAT that includes the rewards to all the factor of production in its base. Because all the payments made for the

factors of production has to be added, it creates complexities in calculating them in practical. Virtually no country has used the additive method although Argentina and Israel have used it in selected economic activities, such as banking and finance where value of inputs and outputs is difficult to measure. (Ghimire 2008)

2.5.2 Subtraction Method

Under this method, cost of production is deducted from the sales. In other words, value added is determined as net turnover that is obtained by subtracting the cost of materials from sales proceeds. It is very close to consumption type of VAT. Theoretically, it looks simple and easy but it is very difficult to compute especially where multiple rates of VAT exist. Problems like ascertaining tax value in an accounting period may also arise. (Ghimire 2008)

2.5.3 Tax Credit Method.

Tax credit method is known as indirect subtraction method or invoice method. Under this method input tax is credited from output tax and passes into next stage up to consumption level. Tax credit method is similar to some extent to subtraction method but the major difference among them are:

- In the earlier method the tax base is levied in the difference amount of tax on sales and tax on purchase whereas in the later method, the tax is levied on the difference amount of sales value and purchase value.
- Earlier method requires invoice while former does not require.

If the tax rate were same throughout the production and distribution method, both methods would give same results otherwise it wouldn't be. Allan A. Tait has identified four main advantages of this method over the other two methods. They are:

- Tax liability to transaction
- Good audit trail
- Easy to apply in differential rates
- Account based system

(Ghimire: 2008)

2.6 Coverage of VAT

VAT is a tax on goods and services consumed in Nepal. The tax is based on the principle that each producer or distributor adds value, in some way, to the materials they have purchased and it is this added value that is taxed at each stage of the production and distribution. The coverage of VAT in Nepal is based on transfer, sales, supply, imports and exports of goods and services except some special provisions. It is levied on the value added at each stage of the production or distribution. Every persons or firms or companies who are involved in such transaction liable to pay and collect tax. The actual coverage is structured by standard and zero rates as well as tax exempted provisions. In other word tax coverage is guided by tax invoice system. VAT is administered by invoice method. Tax liability is calculated as $\text{Tax}(+) = \text{tax payable on sales} - \text{tax paid on intermediate purchases}$.

(Neupane: 2005)

2.6.1 Standard Rated Areas.

Nepal has adopted “Inclusive Basket System” which means board-based tax coverage. Under this system all transactions regarding transfer, sales, supply, imports and exports of goods and services, where value add exists are taxable, provision for exempted goods and services under special law. Unless this provision, all the value added economic transactions are taxable and tax is collected at the rate of 13 percent. This is called standard rated area. (Neupane: 2005)

2.6.2 Zero Rated Areas.

Under the VAT system goods and services are, may be, taxed at zero-rate. The objective of this zero rate is to relieve some goods and services from the taxation working under regular VAT system and net for the purpose of promote and encourage export and to maintain diplomatic behaviors. Under this, purchaser is allowed to credit the tax paid on inputs or purchase in concern. However, one has to maintain all records regarding VAT. The VAT is meant to apply only to the consumption of goods and services in Nepal. Supplies made in Nepal that are exported are taxable at zero- rate. Exporters are allowed to claim input tax credits for VAT paid or payable on purchases of goods and services relating to their commercial activities Exports taxed at zero percent (0%) include exports of both goods and services. (Gautan:2006)

2.7 Exempted Goods and Services

Under VAT system all goods and services are divided into two basic categories, taxable and tax-exempt. Goods and services are either taxed at the standard rate of 13 percent or they are taxed at zero percent. Those taxed at the standard tax include all goods and services except those that are specified as taxed at zero percent or tax-exempted. (Prasain:2007)

2.8 Tax Administration

In general the prime goals of VAT administration are to promote voluntary compliance and to promote the VAT revenue by effective and efficient way in these economies. Identification of taxpayers, tax registration, processing of returns, tax audit, assessments, collection, credit, refund and control of stop filers are main functional areas of tax administration.

In the Nepalese periphery, Ministry of Finance is the main responsible body for collecting financial resources and managing the public expenditure. Department of Customs, Revenue Administration Training Center, Department of Revenue Investigation and Inland Revenue Department are the wings of Ministry of Finance. Previously the VAT was administered by Department of Value Added Tax. By 2001- 2002 Government merged the Department of Taxation and Department of Value added Tax and named it Inland Revenue Department (IRD). IRD is currently responsible for the administration of the taxes like Income Taxes, Corporate Taxes, Value Added Tax, Excises, and certain fees and duties like Entertainment fee, Film development Fee, Tourism Development Fee, Liquor control duty, Smoking liquor duty, special fee etc. Likewise the department is also responsible for monitoring the non-tax revenue of the Government. This Department is located in Kathmandu Valley. Under IRD there are 21 Inland Revenue Offices throughout the Kingdom. These offices and department jointly administer the VAT as well as income taxes. His Majesty's Government is the authority to appoint Tax officers required numbers. Similarly, the jurisdiction of a Tax officer is also should be prescribed by Government. All tax officials are the civil servants under the revenue service. Thus, IRD is the authority of mobilizing Inland revenues including VAT.

The IRD has functional organization structure. From operational point of view it has divided in two wings. One is policy related and other is operational wing. The operational wing contains six functional works and these are taxpayer service, tax audit, investigation, collection, tax refund and others. Similarly the policy related wing contains the sections related to personnel administration, internal and financial administration technology, appeals, excise and non-tax. Government of Nepal

may appoint tax officers in required numbers. Government of Nepal may delegate tax administration related authority to other Government to define the Jurisdiction of tax officers. Thus the department carries out the function such as tax administration, tax policy, tax treaty and International Taxation, review and appeal related tax matters, advance ruling, tax enforcement and investigation, tax audit, tax refund, excise and liquor administration, taxpayer services. (Adhikari, 2003:30-31)

2.8.1 Registration (VAT Act 2052:sec,10)

For the implementation of VAT it is essential to have registration for all taxable producers and suppliers timely. According to VAT Act and VAT related other laws of Nepal, the persons (the suppliers or distributors or producers taxable goods and services) are required in concern Inland Revenue Office under VAT Act. And rules and should obtain the TPIN. In other word person who involved in a commercial activities and the turnover exceeds the given threshold is required to register for VAT purpose. A person means an individual, firm, company, association, cooperative, institution, joint business, partnership, trust, government body or religious organization. However, it is not necessary to register who deals only taxable goods and services. Similarly those persons who fall below than defined threshold are not necessary to register, But if they want they can register and take TPIN. A non- registrant is not entitled to collect VAT and utilizes the facility of tax credit and refund. The TPIN refers to the Taxpayer Identification Number that is be allocated to each registrant during the registration process. For registration purpose the taxpayer can get the prescribed form (In Nepali) from any Inland Revenue Office. The TPIN or AN is very important regarding the Inland Revenue administration. The taxpayer should mention the TPIN in the documents related to VAT office, income tax, customs, imports and exports, banks. In addition taxpayer must mention the TPIN in invoices and sales and purchase book. Registration is required for any business that with annual taxable sale of more than Rs. One million. Regarding the calculation of turnover zero-rated sales if the turnover is impossible to identify the purchase, sales, stock the tax officer may treat all these transaction as turnover and may assess the tax. This mean if the zero rated sales exceed the threshold, taxpayer is liable to register. VAT registrants are required to pay VAT on or before the 25th day following the end of each month. Every taxpayer that is involved in taxable sales and exceeds the prescribed threshold is liable to register for VAT before starting or after 30 days of business starting. They must provide their customers with a tax invoice and should maintain records and keep their VAT records for a period of 6 years. It is required to provide notice and advice

to concern Inland Revenue Office if any changes to the business such as new address, telephone number or a reorganization of the partnership. They post their Certificate of Registration at their principal place and copies of at all ranches where customers may observe it and should allow tax officers to enter the business to examine the business records and the stock at hand.

(Adhikari,2003:31-32)

2.8.2 DE-register (Sec, 10-2)

A VAT registration may be cancelled by anyone whose total taxable sales for consecutive calendar quarters is not more than Rs. 1000000 and who has been registered for a full fiscal year or by persons who no longer have a commercial activity. Regarding the cancellation of registration the VAT Act has mentioned conditions as follows:

- If the organization is closed or transferred or collapsed in case of corporate body.
- If the business is running under proprietorship and owners died.
- If the partnership is dissolved in case of partnership.
- If the distributor or producer stops to sale or produce taxable goods and services too.
- If the business is registered by mistake.

Regarding the cancellation, the tax officer will collect the tax on the capital and other goods that the tax credit facility has been taken by taxpayer previously. The categories falling under this ground neither required to collect VAT nor allowed to claim a refund of the VAT that they have in producing their goods and services for sale. (Maharjan,2005:22)

2.8.3 Accounting.

The effectiveness of VAT depends on the VAT accounting system. It should be neither with unnecessary details nor inadequate to provide appropriate and useful information. The VAT accounting should be inform-based as well as less costly. The accounting in VAT consists the process of maintaining purchase, sales book, VAT account and stock. Thus Purchase and Sales books are main part of VAT accounting.

The purchase book contains the information TPIN, the supplier's name and TPIN, the customer's name and TPIN. Similarly in the sales book date, invoice number, name and number of the supplier, purchase price and taxable price of the import, the taxable value and the amounts of VAT should be recorded. The Purchase book is a certified register. The registrants should maintain or record all the purchases during the period all goods and services either taxable or non taxable in separate columns. Similarly, the sales book is another part of VAT accounting. It should be posted in the basis of sales as per the date of its occurrence showing the amount of standard and zero rated sales amount and the tax amount. At the end of tax period it should be totaled and mention the amounts in VAT amount. The VAT account is monthly summary showing the sources of figures in the VAT return. In order to complete the VAT return, a taxpayer should need to ensure that the amount of VAT paid on purchase, the amount of VAT collected on sales, a method of distinguishing between taxable and exempt sales, the times of goods and services supplied and proof that the goods were exported. (Maharjan,2005:23)

VAT Invoices (VAT Regulation 05, Rule 17-3)

The tax invoice is a major part of VAT account. Every registrant is required to issue a tax invoice to the recipient in supplying any goods and services. Tax invoice should contain the name and address of the seller and the purchaser, the seller's VAT number and invoice. Similarly it contains the date of transaction and description of the sale including the number of items purchased and the unit cost of each item and a notation of any discounts. Invoice or Tax bill is the base for whole VAT system. Every registrant should use invoice in prescribed form. The tax invoice must be prepared in three copies and clearly identified as a tax invoice. The original copy is to be given to the purchaser, the second copy is to be retained for audit purpose while the third copy is for sue of the seller in preparing a record account of the transaction. While issuing ax invoice the seller must mention the name, address and TPIN or PAN of the purchaser. If the purchaser has no PAN or TPIN or he is not registrant, it is not compulsory to mention the PAN or TPIN of purchaser by seller. The taxpayer or registrant, in case of any mistake in issued tax invoice or in case of refused by customer to take the goods and services, may cancel the issued tax invoice or bill. But all copies of issued invoices should be attached and should be written the cancellation immediately. Similarly if customer return the goods credit notes should be issued

properly at the same time including the invoice number, date, quantity and price of returned goods. Tax payer may issue an abbreviated invoice but the registrant may have to get prior approval of tax office Tax officer may grant permission for VAT registrant to issue an abbreviated invoice for retail sales below the value of Rs.500. The recipient who receives an abbreviated tax invoice shall not be allowed to credit the input tax. Every taxpayer should maintain and update all VAT related accounting records and liable to produce such records while tax officer would like to observe. The tax payers are liable to preserve such accounts for six years. (Maharjan,2005:36)

Return Filing (Sec 18)

For every month taxpayer should determine the tax himself and should file the return with in 25th day of next month to the related tax offices in concern Inland Revenue Office. It is mandatory to file the return whether there is business transaction or not. If there is no any sale taxpayer should file return with zero number and tax. It is said as Zero-return. But the voluntary registrants or who have the sales less than Rs.1000000, can file by four-monthly return. The registrants who are under the threshold or compulsory registrants must submit the VAT return every month. In case of where the registrants have branches, the head office should submit the return including the transaction of the branches too. If the collected tax amount exceeds the tax paid on purchases, it is named as debit return. If the collected tax amount is less than input tax (Tax paid on purchases) for the month, it is named as credit return. Similarly if there is no any transaction for the period, taxpayer should file zero return. While filing the file registrant should be very careful regarding the time of return, calculation of debit or credit tax and filing of return statement. Taxpayer should mention the TPIN very carefully. The return should be filed in prescribed form provided by VAT office.(Maharjan,2005:37)

2.8.4 VAT Collection

The producers and suppliers are the agents for tax collection on behalf of Department or VAT administration. Usually they collect VAT on sales and they deposit the collected amount after crediting the tax (If any amount remains) in prescribed public treasury account. Tax should be collected in selling price that comprises the costs related to transportation and distribution expenses as well as profit. Excise duty, custom and other tax except income taxes are also included under

the selling price. But the trade discount and trade commission is not included under selling price. But a person who is not registrant is not entitled to collect tax. The collection of VAT is not the responsibility only of business world, Revenue Offices also collect the VAT and its arrears, In Nepalese context if the taxpayer fails to deposit collected tax by regular system, the tax officer may implement various methods and enforcement to collection tax arrears. These methods are given below:

- By deducting the tax from refundable tax amount.
- By possessing the taxpayer's fixed and current account.
- By auctioning the property owned by taxpayer.
- By deducting from the banks account.
- By deducting the amount payable to taxpayers by Government offices or Government owned enterprises.
- By deducting from the amount payable by third person with pre-consent of taxpayer.
- By blocking the export-import business taxpayers(Maharjan, 2005:40-41)

2.8.5 Tax Credit

Tax credit is a facility for taxpayer. Under this system a producer or distributor can deduct the tax paid on input of purchases from the tax collected amount. The difference amount determines the amount of tax in treasury or claim for refund. In other words, the registered businessmen are obliged to collect and remit VAT on their taxable transactions; these registrants are entitled to recover the tax paid on their purchases. This recovery or refund is known as an input tax credit. The input of tax credit is the total of the tax paid or payable on taxable goods and services purchased in Nepal, and the tax paid on taxable goods imported into Nepal. General terms/conditions to entitle for credit area:

- Purchased goods and services should be purchased for taxable transaction.
- Tax invoice should be produced.
- If importation, import and tax paid documents should be produced.

There are some goods which is very difficult to ascertain whether they have been for the purpose of the business or personal purpose. Therefore, certain provisions

have been made as per goods and allow to full credit, partial credit and proportionate credit. Tax credit on sales of liquors, alcohol and alcohol mix liquors, light petroleum for automobiles and entertainment are not entitled to get refunded. (Maharjan,2005:41)

2.8.6 VAT Audit and Investigation

Tax audit of VAT is familiar as VAT audit. VAT audit is the educational as well as friendly visit to the registrants and get the knowledge about the probable difficulties while maintaining VAT as whole system. After completion of VAT audit, if it may show some possibility of fraud. In this condition the investigation conducted refers to the in-depth investigation. VAT audit generally comprises the verification as well as full audit. The full audit and fraud investigation should be conducted by trained manpower. Under verification audit tax officers verify the tax invoices with purchase with purchase and sales register and reconcile the stock with purchase and sales. (Maharjan,2005:46-47)

2.8.7 Assessment.

VAT system is the self assessment system. In other word, VAT system is based on self-assessment. In this system taxpayer determine the tax liability themselves and file the return in concern Inland revenue office. But if taxpayer fails to maintain the legal provisions, tax officer may assess the tax. Tax officer may assess the tax in two ways one is Computer assessment and other is management assessment. If a taxpayer or registrant does not file the return in time, he is defined as non-filer. Under prescribed computer program, the computer prints the list of non-filer after 45 days of last date of tax period. If the tax officers find the error or case of tax evasion while they audit the accounts, in such case the tax officers assess the tax, interest as well as penalties which is known as management assessment. (Maharjan,2005:48)

Refund

Excess of input over output tax in any tax period can be adjusted in the following tax period by carrying forward to next period or can claim for refund to the tax office. Two major criteria have been fixed in VAT law for the claim of refund by taxpayer. It is allowed to claim either by regular export bases or by regular six months credit basis. Exporters having more than fifty percent export of total sales are treated as

regular exporters. There is also a separate provision of refund for the diplomat and foreign aided projects. They are allowed to claim refund immediately. (Maharjan,2005:52)

2.8.8 MIS (Management Information System)

Effective information system is an essential of taxpayers' friendly and good tax administration. A scientific information system provides highly standard services to taxpayers and provides adequate information at right time to the management and decision maker. To meet the very purpose a separate department called Information Technology Section (IT Section). Management Information System (MIS) does the following functions:

Processing of tax application form and related information.

- Updating the taxpayer's individual account.
- Entering, processing and preservation of central data.
- Preparing of master record in database regarding tax collection, refund, tax credit, registration, de-registration, business closed.
- Managing of integrated information between department and field offices.
- Managing and preservation of data and information for long run.

The Inland Revenue Department posts the data in taxpayers' account and sends the result to related Revenue Offices. The information of taxpayer will be kept confidential according to VAT Act. DANIDA VAT project has contributed many to systemize the MIS in Nepal. (Maharjan,2005:54)

2.8.9 Appeal

A taxpayer may file an appeal to the Revenue Tribunal within 35 days against tax assessment or penalty charged by a tax officer or an order by the Director General to the suspension of his place of transaction. A provision of appeal to Director General has been included in first amendment in VAT act as a choice to taxpayer. Before filing the appeal, the taxpayer must deposit the disputed amount of the assessed tax due; the rest of the amount of the tax due plus the whole amount of the fine shall have to be deposited or a bank guarantee of the same has to be provided. (Maharjan,2005:54)

2.8.10 Offences, Penalties

The VAT Act has made the provision of offences as well as penalties. If the registrant fails to use the registrant number or does not clearly display registration certificate, fails to file a return, does not issue invoices, fails to keep an up-to-date account of transaction and obstructs visits by a tax officer, prepare false accounts and invoices or attempts to evade tax. According to VAT Act actions should be taken in case of followings:

- Non registration (who falls taxable criteria)
- Who is non-fillers or stop-filers
- Who has tax due-/arrears
- Who has no VAT accounts and records as prescribed by law.

The Act also has made the provision of punishment to tax officers. If it is found that with a purposeful nature tax assessment made by the tax officer maliciously and negligently then in such a case Director General will be provided with full authority to take action against culprit. (Neupane: 2005)

2.8.11 Reward

According to VAT Act if a person who provides information with evidence showing that a taxpayer has evaded or attempted to evade all or some portions of tax shall be awarded as reward the amount equal to 20% of the amount of tax collected on the basis of that information. The Director General is responsible to provide the reward. (Annual Publication IRD, 2007)

2.9 Review of Related Works/Studies

2.9.1 Review of books

Kharidar ko Guide (Shakti Prasad Pandit: 2053)

In this book Mr. Pandit gives the glimpses of different form of taxes and their provision. He tries to make aware about the general terminology of VAT and its application in Nepal. He clearly defines the every term of VAT that is associated with VAT system and the procedure that business community has to follow if falls under the threshold. (Pandit: 2053 B.S)

“Value Added Tax: A Nepalese Experience”(Narayan Prasad Silwal : 1999)

He discloses the empirical of VAT after its implication. He was actively associated in VAT administration from the very beginning. He regarded sales tax system as.

- Narrow tax base and low rate.
- Low elasticity and buoyancy.
- Parochial administration.
- Abundance of tax but lot of evasion.

Taxpayers were initially scheduled to register in VAT from the July 17, 1997 and VAT was scheduled to effect from the beginning of F/Y 1996-97. At the time of its announcement he realizes that the preparatory work was not complete. In his own words.

- The computer system was not ready.
- The staffing was not complete.
- The manuals were not approved.
- The business community strongly resisted the introduction.

He further added “Talking into account all these factors, it was quite reasonable to postpone the scheduled date from April 16 to November 16, 1997 because the VAT being a modern and voluntary tax had to rely on the computerized information system as well as the cooperation of the business community” Tax base, rate structure, exemption and the threshold issues were major factors affecting VAT design in Nepal. According to his study staff recruitment, issue of retention and issue of attitudes of staff are crucial problems in administration front. (Silwal: 1999)

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

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

Mr. Shakti Prasad Pandit, Under Secretary at the MOF, writes the first article, “**VAT Accounts and Audits**”. He emphasizes for a visit to a tax payer’s premises, if any

irregularity resulting in tax evasion is found while conducting a tax audit, then the tax officer assesses the tax amount that has been evaded.

Mr. Lal Mani Joshi, Deputy Director General of IRD, writes the second article, “**Tax Credit and Tax Refund Process under the VAT system**”. The tax refund process appears to rather lengthy in his opinion. He disclosed that there has been an increase in the amount refunded each year.

In third article, “**VAT Assessment, Penalties and the Appeal Procedure,**” is written by Mr. Ratna Raj Bajracharya, a senior practicing Chartered Accountant. He opines that the requirement of VAT registration for marginal entrepreneurs is not very much conducive for the growth of cottage and small industries as well as marginal entrepreneurs.

The fourth articles, “**Value Added Tax: A Retrospection,**” is written by Mr. Nabaraj Bhadari, Director of IRD, describes the mounting enthusiasm and zeal of the staff to the support of the MOF, the VAT Department and the DANIDA VAT Project.

The fifth articles, “**Implementation of VAT in Nepal: In Evaluation,**” is written by Dr. Govinda B. Thapa, the Director of foreign currency exchange department of RB. The article points towards the weaknesses inherent in the Value Added Tax system in Nepal. He strongly denounces the existence of an unstable government at the time of introduction, which forced the government to accept many compromises in his regard. He makes critique on the lack of serious consideration to the impact of smuggling from the long open borders with India and Tibet. The lack of highly motivated tax administration and proper accounting system are also impeding the functioning of VAT in Nepal.

The sixth article, “**Value Added Tax In The University Curriculum,**” is written by Dr. Pushpa Kandel, Lecturer at the Saraswati Multiple Campus, TU. He opines that an uncoordinated working atmosphere with the government and the Universities, blowing their own trumpets, is not going to benefit the nation in any way.

The seventh article, “**Value Added Tax: The Road Ahead**” is written by Mr. Madu Kumar Marasini, Director at the IRD, advocates for increasing publicity in the cities

where most of the tax payers reside. He also advises for sudden inspection of goods on the road to check tax evasion.

The eighth article, "**Value Added tax and the Practice of Issuing and receiving Invoices in the Context of market Economy,**" is written by Vidyadhar Mallik, Director of the IRD. He believes that if market runs in a fair manner, the market principle will bring "Welfare to much happiness to many". He clearly points out the weaknesses on the part of government, the business community and the general public. This tax system deserves concerted effort of all stakeholders. The business community may use cash machines and inexpensive billing software. They can develop the habit of quoting the price inclusive of VAT and remind customers to take invoice by displaying notices. He urges for black listing and transparency on the part of the business community. Customers can inform the tax authorities about the fraudulent transaction. The tax administration should increase surveillance and consumer education level.

The ninth article entitled, "**Value Added Tax in Nepal: Analysis and Suggestions,**" is written by Dr. Roop Jyoti, a leading industrialist of Nepal. He suggests that the practice of under invoicing should be discouraged and at the same time the custom duties must be gradually decreased.

The next article, "**Value added Tax, The Concept International Experience and its Application in Nepal,**" written by the editor himself. In this article, Dr. Khadka attempts to give the knowledge about VAT to the general public. He has also included the current developments and the status of VAT in the Nepalese as well as international context. He believes that despite different hurdles, VAT implementation is becoming more effective.

The final article entitled, "**Value Added Tax: Its past, present and future,**" is written by Mr. Narayan Pd. Silwal, the former Director of the VAT Department. He points out that lack of ownership after the formation of the Inland Revenue Department (IRD/DANIDA Report:2001)

Value Added Tax in Nepal: Theory and Practice (Chandra Mani Adhikari: 2003)

This book is written by Chandra Mani Adhikari which comprises of three chapters. The first chapter deals with theoretical concept of VAT which includes historical background,

objectives, merit and demerit of VAT. The second chapter comprises Practice of Nepalese VAT which deals with introduction of VAT in Nepal, different terminologies associated with VAT, Tax administration system and legal provision made for the VAT implementation in the Kingdom of Nepal. The third chapter consists of different model question of TU on VAT, specimen of VAT related forms and Accounts and Value Added Tax Rule 1997 and Value Added Tax Act 1995. (Maharjan: 2005)

2.9.2 Review of Journals and Articles

An article entitled, “**The Equity Impact of Value Added Tax in Bangladesh**”, by Shahabuddin M. Hussin in June 1995 wrote that the government of Bangladesh introduced VAT at the time of manufacturing/import stage on July 1,1991. The finding of the study suggest that among the different possible VAT scheme with some exemptions and additional exercises is likely to be more acceptable to the general public and policy makers than a uniform VAT which is in contradiction with the Brazilian experience. (Hussin: 1995)

Development Challenges for Nepal. (Dahal, Acharya, Bhattachan, Nepal: 1999)

Nepal’s tax structure is massively dominated by indirect taxes. The tax effort is estimated to be around 10 percent of the GDP, the lowest in the world. These ratios were found to be 18 and 15 percent in Sri Lanka and Pakistan in recent years. The built-in flexibility is estimated to be 0.8, Nepal’s tax system is interwoven with serious structural constraints that lack simplicity and transparency, two essential prerequisites for a good tax system. In addition, voluntary compliance is extremely poor and all taxes are negotiable. In the context of globalization, especially with respect to SAFTA and WTO/GATT provisions, tax rates are supposed to be drastically lowered to between 0.5 and 20 percent by 2005. This is a major challenge to Nepal’s tax system in the context of sustainable resource mobilization that may decline with a new tax regime and also affect the pace of industrialization. (Dahal: 1998)

There have been no significant departures in approaches to tax reform in Nepal over the years. These approaches were inclined to mobilized revenue of indirect taxes, simplify tax rates, tax laws and regulations and adjust them to new circumstances, and strengthen tax administration. The structural constraints inherent in Nepal’s tax system seem intractable. The comprador class is against tax innovations resulting in huge budget deficits. Although VAT is an improved form of the sales tax levied on the multi stages of

production/distribution, there is serious reservation on the part of the business community about its successful implementation. VAT is said to have the merit of yielding revenue by three to four times the sales tax. The days of intervention are over and now tax rates have to be lowered down and take the reductionist approach compatible with globalization. A new tax regime compatible with SAFTA and WTO/GATT resolutions need a new tax policy for Nepal. An appropriate tax rate, legal base and exemption limits can help tax elasticity. A perfect tax system is that wherein the growth of revenue will be compatible with the growth in GDP automatically, without altering the tax rates and the legal base. In the past, tax rates were adjusted more to meet growth and less to fulfill equity objectives. The adjustments had little consideration to the price stability aspect of taxation. However, one of the major problems facing Nepal's tax system is how to identify the taxpayers estimated to be about 7 percent of GDP, it is financed largely by external debt. The demand for increasing external assistance is attributed to a low revenue mobilization potential. A high tax-GDP ratio may be justifiable from the elasticity point of view, but from the per capita perspective the relative burden of Taxation is already high in Nepal (Dahal,1998 f). Thus, Nepal needs to channelise a large amount of investment to augment the size of the GDP, which is also instrumental for domestic resource mobilization. The researcher during their research in VAT concluded that more people were unfamiliar about the term VAT, some viewed VAT as an index of price rise and some revealed it as a factor necessary for revenue mobilization.

VAT: Analysis and Suggestions (Dr. Roop Jyoti:2002) New Business Age, Feb 2002 issue contains this article by famous industrialist and intellectual personality called Dr. Roop Jyoti. According to him VAT was introduced in Nepal in response to a realization that a fundamental change was necessary in the country's revenue policy. The business community was strongly against the VAT in the beginning but they gradually withdrew the opposition as they went on being clearer about the positive aspects of the VAT and also its simplicity. Government went through many negotiations with business communities before implementing VAT in the Kingdom of Nepal. Taxpayers were opposed to VAT not because of any defect in VAT as a system. Rather they were afraid of frequent contacts with revenue officials who were historically notorious for a behavior that exploited the taxpayers. The success of the VAT is dependent on some prerequisites, such as Acceptance of the correct invoice.

- Self-assessment of taxes

- Refund of the tax amount in a speedy and simple manner when the conditions for a tax refund are met.

VAT is useful in the context of Nepal to because of these reasons.

- Limited scope for revenue officials to use discretion
- Honest taxpayers have practically no need to have contacts with the tax officials
- Due to the self-enforcing mechanism of VAT, the taxpayers are forced to become honest.

According to hem VAT system will fail not because of any defect in it but because of these reasons:

- Inadequate and incorrect step taken to ensure billing and/or billing at the correct prices.
- Failure to enforce VAT threshold in an effective way. (Jyoti:2002)

VAT Refund System (The Kathmandu Post: 2002)

The article published in the November 15, 2002 issue made appoint that Nepalese industrialist and businessmen did not have any faith in the VAT Refund system before four or five years. Most of them used to say that it would be impossible to institutionalize a refund system in Nepal. While refund is one of the important features of VAT system. It was a big challenge for those who were involved in designing the Nepalese VAT system to create a refund mechanism that can be implemented smoothly under the Nepalese circumstances. The possibility of refund arises when collected on his output. Tax refund is granted after verifying the export declaration forms, letter of credits/bills of entry and proof of payment to authenticate the export and the import declaration forms or purchase invoices to mechanism is likely is to be grossly misused by the taxpayers, which does not become sustainable. International experience indicates that VAT refund system has been misused grossly by taxpayers in those countries that provided refund without verification of export and payment of input tax. So, these countries later on stopped granting refunds even to the genuine exporters. In order to avoid such situation, the system of verification has been introduced in Nepal. On the other hand, refund mechanism has been misused by

the tax official in those countries which made full audit mandatory for the refund. This is because resources allocated for audit generally limited. But in case of Nepal problem of allocating budget and realizing the long term process of budget and approving refund, a system of refund directly through the VAT revenue collected on imports has been introduced. It was a dream of the designers of the refund system to implement it in a proper and effective manner in real life. In the first year of introduction of VAT, no one claimed for refund. After publicity regarding the tax refund system the trust of taxpayers gradually increased and claimed for refund. VAT refund figure indicates that the refund system is becoming increasingly effective in real life but there is still long way to go.(The Kathmandu Post:20002)

An article entitled “**Tax System and its Reform in Nepal**” written by Dr. Govinda Bd. Thapa, was published in the Business Age in Dec 2003 views that VAT as an important element of tax return program. Mr. Yadav Prasad Dhungana has scrutinized the legal aspects of VAT in “**Value Added Tax and its Legal scrutiny**” published in the same magazine, he concludes that as other areas of economy that are heavily influenced by political instability, corruption, bad governance\rfrequent change in government and Maoist revolution; VAT also witnesses weak implementation owing to these hurdles. (The Business Age:2003)

2.9.3 Review of Related Research Works

Choi(1983): In this research paper, he examines and evaluates the VAT in Korean Economy. VAT was introduced in Korea in 1977. The main objectives of introduction of VAT in Korea are to simplify the tax structure, to promote exports, to generate capital and to maintain neutrality in indirect tax system. VAT has neither so negative nor so positive effect on the economy of Korea. VAT did not have major impact on price level. It has positive impact on investment and exports. The study found that the VAT has broadened tax base, reduce evasion, increased revenue and solved many problems associated with previous taxes.

The Korean experience of VAT during seven years had proved that VAT is not as simple as in practice as it is in theory. It creates a host of problems that gives rise to voluminous and inequalities in the distribution of tax system. (Choi: 1983)

Dahal(1995): A high level task force headed by Prof. Madan K. Dahal reviewed the Nepal's tax system in 1995. The report outlined the following reason to adopt VAT in Nepal.

- To broaden the tax base and to increase the tax revenue.
- To make the tax system transparent and elastic
- To prevent tax evasion
- To make the system efficient and
- To encourage exports

After analyzing the various aspects of tax structure and the position of the economy, the report finally recommended the following aspects to be incorporated before implementation VAT in Nepal.

- A functional organization pattern.
- Development of effective tax refunds system
- Measure to increase self-compliance
- Taxpayer services and tax education
- Computerization of the administration. (Dahal:1995)

Koichi(1999): The VAT is a useful tax that is considered to have little discretionary effect on resource allocation and to encourage capital accumulation. Nevertheless, VAT is not completely neutral to resource allocation and generally is regressive to income distribution. If one tries to make it less regressive by excluding food and necessities from taxation then one will hurt the neutrality even more. Many Asian governments implemented tax reform based on the introduction of VAT. Generally, the revenue enhancing objectives of tax reforms seem to have been fulfilled. VAT has a regressive characteristic but its possible harms should be compared with the damage from inflation that might occur without the implementation of revenue raising devices including the imposition of the VAT of increasing the rate of VAT. (Koichi:1999)

Dhakal(2001): In this dissertation, he analyses the different aspect of Nepalese VAT system being focused on revenue potentiality. The main objective of this research was to examine the historical background of the VAT, analyze Nepalese tax structure and estimate the potential of revenue yield form VAT. The major findings of the study are:

- Nepal has adopted the destination based consumption type VAT operated through the tax credit method

- Nepal has followed the destination principle to adjust the international trade.
- The primary reason for growing popularity of VAT is its broad coverage without distorting economic efficiency.
- The stepwise collection of VAT discourages the evasion of VAT.
- VAT has some how equity nature as compared to other kinds of sales tax.
- Exemption and zero rating reduce the depressiveness of VAT however, makes the administration complex.
- VAT is more efficient tax to avoid the cascading and pyramiding effects.
- VAT is not immune from the fault of regressive nature. Single positive rate creates repressiveness with respect to expenditure but not necessarily with respect to incomes.
- From the administration point of view that VAT can't be attractive alternative to other kinds of sales tax.
- Due to administrative complexity as well as maintain the equity norms exemption and zero rating are principally purposed out such provision makes the tax base limited.

The recommendation of the study was:

- VAT should be extended through retail level as a bulk of tax performance to generate more revenue.
- The important sectors of VAT offices like tax refund, tax audit, taxpayer's service investigation, return processing and registration should be separated for successful operation.
- The existing destination based consumption type of VAT operation through the tax credit method should remain continuous.
- Consumer should create awareness for taking invoice for every taxable purchase by comprehensive advertisement program. (Dhakal:20001)

Bhattarai(2001): In his dissertation, he analysis the practicing scenario of VAT system in Nepal. Though, VAT is a transparent and modern tax system, the desired revenue is yet to meet. He emphasizes on certain issues and strategies about VAT:

- In spite of seven years of implementation still facing many operational problems.
- Weak and traditional tax administration has created room for corruption and malpractices and irregularities of tax officials.

- Lack of skill manpower also hinders the working delay.
- Nepalese tax system lack coordinated approach and long term strategy.

According to him, VAT could be effective tool of revenue generation.

- By ensuring proper billing system.
- By boarding the tax base.
- By reforming tax administration.
- By adopting a long term and co-coordinated approach.
- By building confidence(Bhattarai: 2001)

Upadhyay(2002): Mr. Prem Upadhyay in his Master/s Degree Dissertation on “Performance of VAT in Nepal” focuses on legal aspects of VAT and its development in the Himalayan Kingdom. He discusses about the general terminologies about the VAT and its functioning. The objective of the study is to find out key issues regarding VAT in Nepal. VAT could be proved beneficial if certain key issues like invoicing, Valuation, threshold, exemption and administrative were taken into consideration. Unless these factors are considered, there will be no fruitful result. (Upadhyay: 2002)

Tiwari(2002): Surya Prasad Tiwari in his dissertation about problems in implementation of VAT in Nepal views that VAT is productive in nature but revenue generation through VAT is however not satisfactory. The reason behind this lacking is administrative weaknesses. VAT administration is responsible for low public awareness and consciousness. A long term strategy should be developed in order to make them aware about its simplicity and transparency. Administrative incapability, under invoicing/un billing is costing a lot for the nation.(Tiwari:2002)

Neupane(2005): In his dissertation, he views that VAT as an internal source of resource mobilization in Nepal. He believes that VAT is the effective means to collect revenue. The basic objective of his study was to find out the actual collection of VAT and factors affecting collection of Value Added Tax. His study focuses on role and status of VAT in the total tax structure of Nepal, estimation of potential revenue yield from VAT and examination of the growing resource gap in Nepalese economy. How VAT could be beneficial and helpful in solving out the growing need of revenue.(Neupane: 2005)

Gautam (2006): In his dissertation, “revenue collection from VAT and its problems” explains great importance in total revenue. From his view, VAT is found to be the best alternative for revenue collection. The share of VAT revenue is increasing trend in every fiscal year from 1997/98. VAT is an essential choice for revenue collection, VAT became a power point of attraction of many countries and gained popularity day by day, and incomplete, most of the taxpayers are not conscious about the VAT system, smuggling business activities are increased due to the tax administration are major findings of his study. He indicates the major problems in revenue collection from VAT that are VAT billing, narrow tax base, smuggling under valuation and unauthorized trade, weak tax administration, weak public consciousness level and geographical barriers. Gautam (2006)

Prasain (2006): In his study he concludes that VAT puts greater significance in revenue mobilization to the Government. Adoption of VAT in Nepal is both a compulsion and a necessity; it cannot curtail its development projects for which more revenue is required. Due to the numerous reasons the revenue collection from other sources of taxation as income tax, customs duties and excise duty are drastically decreasing or remaining unchanged. So to get the pace of revenue generation, VAT is an appropriate path or element. The implementation of VAT will help to reduce the burden of foreign debt and will provide a great relief to our future generation. Prasain (2006)

Kandel (2007) : In his dissertation finds that Value Added Tax is a most scientific, innovative and powerful tax with built-in quality of universal application for both developed and developing economies. The biggest virtue of VAT is revenue buoyant and highly instrumental for resource mobilization especially in an economy with acute shortage of resource. Although, VAT was introduced as part of the national tax reform program. But VAT system in Nepal from its inception has been facing innumerable problems, which curtails its merits and effectiveness. Theoretically, 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 due to the problems concerning the operation of VAT. 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 tax payers and businessmen as well as consumers in its effort to generate more revenue. VAT must be made successful and this largely depends upon honesty, faith and morality of tax officials and business people. He suggests that in absence

of growth in economic activities, revenue generation can not be increased. Thus it is time of action and improvements for effective and successful operation of VAT in Nepal for further perspective as well as present needs of economic development. Kandel (2007)

Ghimire (2008): In his dissertation “contribution of VAT to national income with reference to VAT collection from IRO of Kathmandu district” he opines VAT as a simple, broad, and scientific system in the field of taxation since two-third of the total tax revenue comes as VAT revenue. For financing the huge project the need of great funds has made the government to rethink about increasing the scope of VAT. VAT introduced as part of national tax reform program but it faced many problems due to opposition from the business community and from bureaucrats as well despite preliminary resistance, VAT has been largely accepted by the tax payers as well as business communities and taken as the important tool for mobilizing the revenue. From VAT, revenue is collected in each stage of goods and services such as production, buying and selling. Due to the each stage collection it is effective and more reliable source of income of the government. Ghimire (2008)

According to the study, 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. VAT needs more active demonstrative effort.

2.10 Research Gap

There are not sufficient study/reports conducted in such a particular topic that revenue collection of VAT in Nepal from IRO. A few works have done earlier but they are not able to explain explicitly the real picture of revenue collection and problems of VAT in our country Nepal along with problems and prospects, but those studies try to show real condition. This study specially focused on the evaluation of Nepalese VAT system by identifying existing problems related to revenue collection from VAT. Further, an attempt has been made to analyze revenue collection from VAT and this study tries to find out the recent problems which was not shown by previous studies.

CHAPTER-THREE

RESEARCH METHODOLOGY

This chapter is especially prepared for 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. Field survey techniques are adopted while collecting the primary data to find out the views of respondents representing different group related to VAT. This field survey was adopted to find out the practical aspect of VAT. While conducting the opinion survey, questionnaire were distributed to the tax officers, manufacturer, wholesalers, retailers, and consumers in the sizable manner.

3.1 Research Design

Value added tax is very new concept of tax in present scenario of Nepalese economic system. Now it has accomplished about nine years of implementation. So still sufficient amount of data are not available for an intensive study. Basically this study is based on problems arises in the process of revenue collection from VAT in Nepal. The study has tried to find out the result of objective by its own procedure. It is divided in to five chapters introduction, review of literature, research methodology, presentation and analysis of data and conclusion and recommendation of the study. Hence the research methodology followed in the study can be termed as an analytical and descriptive research design.

3.2 Population and sample

In order to prepare this study, sample size is 50 which has been taken form Lalitpur district. The sample size is composed carefully by consulting with tax experts, professionals, officers and personal judgment of the researcher. The sample size has been divided in to four groups, which include tax experts, tax officer's businessmen, traders and consumers inside the Lalitpur district. Similarly, a set of questionnaire is forwarded to each of the respondents directly for collecting their opinion for this research and collected. The following table shows the group of responded, sample size and the percentage composition of sample size.

Table No.3.1

Groups of Respondents and Size of Sample from Each Group

S.N.	Group of respondents	Sample size	Percentage
1	Tax experts	5	10%
2	Tax officers	8	16%
3	Businessmen/traders	12	24%
4	Consumers	25	50%
Total		50	100%

3.3 Sources of Data Collection

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

- a. Primary data: The major tools used for the collection of primary data are distribution of a questionnaire to a responsive of person. A set of questionnaire was develop and distributed to a selected respondents. The respondents were tax officers, wholesalers, manufacturers, retailers and consumers tax officers were selected from IRO of Lalitpur. Wholesalers, manufacturers, retailers and consumers were selected from different parts of Lalitpur district.
- b. Secondary source of data: The secondary sources of data have been collected in order to achieve the real and fact-full result from this research. All the useful and possible data as per available have been collected. The secondary source of data and information are derived from public books, journals, newspapers, reports etc. The major sources of secondary data are:
 1. Economic survey and budget speeches.
 2. Ministry of finance.
 3. Public of CEDA (Central for Economic Development and Administration).
 4. Publication of VAT department.
 5. Published documents of national planning commission Nepal Rastra Bank.
 6. Book related to VAT.
 7. Publication of VAT project.
 8. World development report.
 9. National newspaper, journals Magazines.

10. Reports and records of department of taxation
11. Publication of Inland Revenue department.
12. Publication of books, reports and seminars papers FNCCI and NCC.

3.4 Data Collection Procedure

Total 50 sets of questionnaire were distributed to the selected respondents in order to get actual and accurate information. Distribution works is done personally rather than sending by any means to get accurate and actual information in time.

3.5 Data Processing and Analysis Procedure

Sources are firstly tabulated into separate format systematically in order to achieve the described objective. After that these data are tabulated and analyzed. For the purpose of analysis generally simple statistical tools have been used which are simple percentage method, graphs chart, diagrams and regression.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Revenue structure of Nepal (Tax and Non tax source)

Every government is responsible to perform numbers of functions for the betterment of the people in the country. A government needs huge volume of income to full fill various types of expenditure. For this, purpose, government collects revenue form different sources. Thus, the income of the government through all the sources like tax, borrowing, fees, donations, etc. is called public revenue. In general government income source are classified mainly into two categories namely tax revenue and non tax revenue. Those both sources are subject to non repayment such as loans, grants; however grants are not compulsory for replay. Those 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 prescribed below:

Table No. 4.1 Revenue Collection Pattern in Nepal

(Rs. In million)

Fiscal year	Total revenue	Tax revenue		Non tax revenue	
		Amount	%	Amount	%
1998/99	37251.0	28752.9	77.19	8498.4	22.81
1999/00	42893.8	33152.1	77.29	9741.7	22.71
2000/01	48893.9	38865.1	79.49	10028.8	20.51
2001/02	50445.6	39330.6	77.97	11115.0	22.03
2002/03	56229.7	42587.0	75.74	136242.7	24.26
2003/04	6229.7	48173.0	77.29	14158.0	22.71
2004/05	70122.7	54104.7	77.16	16018.0	22.84

2005/06	72282.1	57430.4	79.45	14851.7	20.25
2006/07	87711.20	71126.7	81.09	16585.3	18.91

Source: Economic survey. 2006/07 Ministry of Finance (MoF), Government of Nepal.

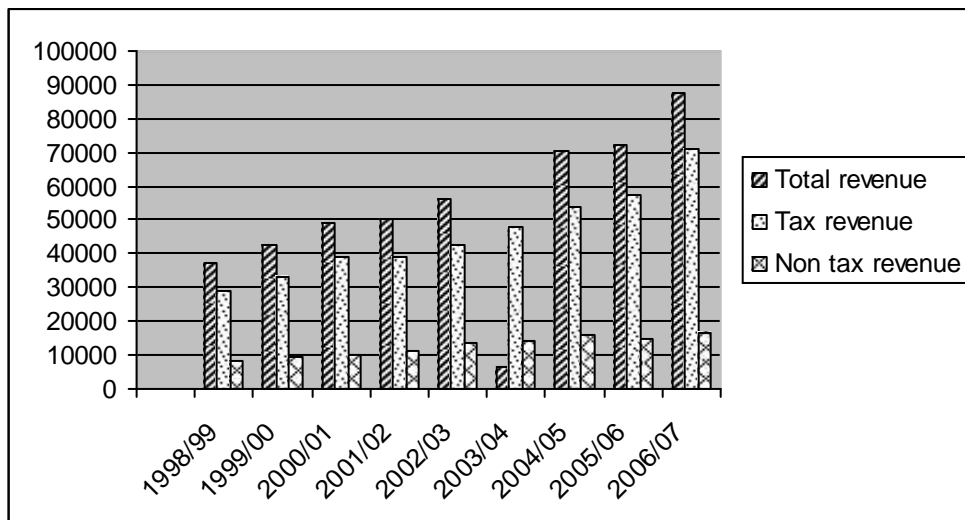
Above table shows that revenue collection trend is in increasing trend. Since the year 1998/99 to the year 2005/06 the total revenue has increased from Rs. 37251 million to Rs. 72282.1 million. Similarly, tax revenue as well as non tax revenue is also increasing trend. Total tax revenue has increased from Rs, 28752.9 million to Rs. 57430.4 million in the year 1998/99 to 2005/06. It is the main source of revenue collection. It has contributed very much in national revenue. Similarly, non tax revenue has also increased from Rs. 8498.1 million to 16018.00 million in the year 1998/99 to 2004/05 but decreased the year 2005/06 to Rs. 14851.7 million. In year, 2006/07 total revenue remained at 87711.20 out of which 79.45% was shared by Tax source and 20.25% was covered by Non tax source.

The tax revenue contributes the third-fourth share in the total revenue of the government. It helps to improve the economic condition of the country. Amount of tax revenue is increasing position but percentage of its is in decreasing position every year. Amount of Non tax revenue is increasing but percentage of it's decreasing of its is decreasing position in every year.

Figure No. 4.1

Total Revenue, Tax and Non tax Revenue in Nepal for Fiscal Year

(Rs in Million)



From the fiscal year 1998/99 to 1999/00, the percentage of tax revenue in total revenue was increased from 77.19 to 77.29 percent, in the same year percentage of non tax revenue decreased from 22.81 percent to 22.71 percent. In the year 2004/05 to 2005/06, the percentage contribution of tax revenue in total revenue was increased 77.16 percent to 79.45 and non tax revenue decreased from 22.84 percent to 20.54 percent.

Increasing in collection of revenue is a reliable means to fulfil the increasing demand of the country. It is a source to fulfil the responsibilities of the government towards the people and country.

4.1.1 Tax Revenue Structure of Nepal

Tax is not a voluntary contribution by the tax payer but it is compulsory in nature. Generally a tax is a compulsory contribution imposed by public authority; taxation is a main source of income of the government excluding foreign aid. Tax revenue comprises compulsory, unrequited, non payable receipt collected by government for public purposes. It includes interests collected on tax arrears and penalties collected on non payment or late payment of taxes. Tax revenue is the principle source of the government revenue; however its contribution differs significant, in different countries. In the context of Nepalese economy, tax revenue is major source of government to mobilize internal source of government to mobilize internal effectively and properly as it has been dominating the government revenue contributing around three quarters of total revenue.

Tax revenue, one of the principle source of the government revenue, is a compulsory contribution imposed by public authority, irrespective of the extra amount of service rendered to the tax payer in return. It covers theoretically 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 year 1998/99 to 2006/07 are given below:

Table No. 4.1.1**Trend Composition of Tax Revenue**

(Rs, in million)

Fiscal Year	Total tax revenue	Direct tax		Indirect tax	
		Amount	%	Amount	%
1998/99	28752.9	7515.4	26.14	2123.6.8	73.86
1999/00	33152.1	8951.5	27.00	24200.6	73.00
2000/01	38865.1	10159.4	26.14	28705.7	73.86
2001/02	39330.5	10597.5	29.94	28733.1	73.1
2002/03	42587.0	10105.8	23.73	32841.2	76.27
2003/04	48173.0	11912.6	24.73	36260.4	75.27
2004/05	54107.7	13071.8	24.16	41032.9	75.84
2005/06	57430.4	13968.1	24.32	43462.3	75.68
2006/07	71126.7	18980.29	26.68	52146.4	73.31

Source: Economic survey, 2006/07 Ministry of Finance (MoF) G/N

From the above table find out that share of the indirect tax as percentages of the total tax revenue is decreasing continuously but amount of the indirect tax is increasing continuously. In the similar manner direct tax to 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 1998/99 to 2006/07 was 26 percent and the share of indirect tax revenue was 43 percent. The volume of direct and indirect tax was Rs. 7516.1 million and 21236.8 million that is 26.14 percent and 73.86 percent of total revenue respectively in the fiscal year 1998/99. The amount of direct tax is increasing every year as it is from Rs. 7515.4, \million 13968.1 million on 1998/99 to 20005/06. The contribution of direct tax revenue in total revenue was minimum 26.14 percent in 1998/99 and maximum 29.94 percent in 2001/02.

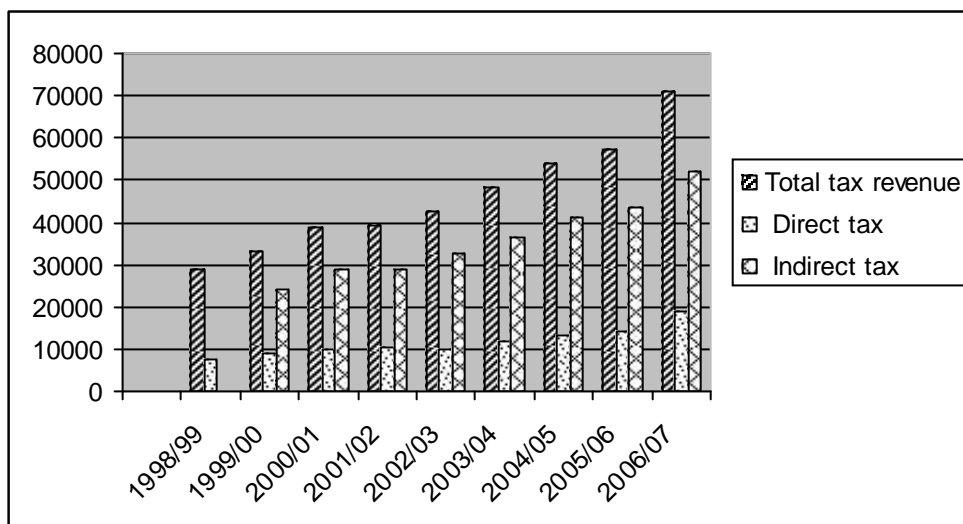
The amount of indirect tax revenue also in increasing trend. It has increased from Rs.21236.8 million in year 1998/99 to Rs. 43462.3 million in 2005/06. The percentage contribution of indirect tax revenue in total tax revenue was minimum 73 percent in 1999/00 and maximum 76.27 percent in 2002/03.

From the above analysis, it seems that the amount of both tax revenue was in increasing trend and percent of direct tax was in increasing trend but percent of indirect tax was in decreasing trend. It shows that it is necessary to try to increase both tax revenue in amount and percent. To increase in percent and amount tax it is necessary to controlling system systematically.

Figure No. 4.1.1

Trend of Direct Tax and Indirect Tax Revenue

(Rs. In Million)



4.1.2 Composition of Direct Tax Revenue

Direct tax actually paid by the person on whom it is imposed legally (Dalton, 1957: 17). Direct tax is a levy by the government on the income and wealth received by households and business enterprise in order to raise revenue and as an instrument of fiscal policy. Direct tax is so called because it is normally assumed that the real burden of payment falls directly on the person or business enterprises immediately responsible for paying them and cannot be passed on to any body else. Direct tax is progressive so far as the amount paid varies significantly according to the income and wealth of the tax payers.

In Nepalese tax structure; the major components of direct taxes are income tax, land tax and house and registration tax. Direct tax in Nepal seems to less effective, to mobilize the domestic resources. Although it is an inevitable instrument of the fiscal policy and hence it must be designed and practiced properly. In general revenue productivity of the direct tax goes on per capita income per annum of that country will automatically rise. Income tax is one of the major source of the direct tax. Nepal is levying four different types of income tax. Its categories are individual income tax corporate income tax, house rent and interest tax. On the other hand property tax is another major direct tax. It includes land revenue, Bhumikar, house and land registration tax. Major components of Nepalese direct taxes are income tax, land tax, house and land registration tax. The shares of the major components of the direct tax are given below:

Table No. 4.1.2

Composition of Direct Tax Revenue

(Rs. In million)

Tax head							Percentage share		
Fiscal year	Income tax	Land tax	Vehicle	Others	Total tax	Income tax	Land tax	Vehicle	Others
1996/97	4218.4	1015.4	106.2	0	5340	79	19.02	1.99	0
1997/98	5008.8	1004.2	174.9	0	6187.90	80.93	16.23	2.91	0
1998/99	6293.5	1003.2	219.4	0	7516.10	83.73	13.35	2.92	0
1999/00	7539.5	1015.9	396.5	0	8951.50	84.22	11.35	4.43	0
2000/01	9446.9	612.9	429.6	0	10159.4	89.74	6.02	4.23	0
2001/02	8906	1131.8	559.7	0	10597.5	84.04	10.65	5.28	0
2002/03	8132	1414.3	559.5	165.8	10271.6	79.17	13.77	5.45	1.61
2003/04	9514.5	1697.5	700.6	268.6	12181.2	78.12	13.94	5.75	2.21
2004/05	10466.1	1799.2	806.5	306.7	13378.5	78.23	13.45	6.03	2.29
2005/06	10980.5	2181.1	847.6	565.7	14574.9	75.34	14.96	5.28	3.88

2006/07	15705.2	3248.4	995.02	26.55	19975.3	78.62	16.26	4.98	0.138
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For the study, direct tax has been divided into four parts viz. Income tax, vehicle tax, land tax and other tax. Table 4.1.2 shows that in F/Y 1996/97, the percentage share of income tax was 79%, follow by income tax 19.02% land tax, 1.99% vehicle tax and not available for other tax respectively of total tax revenue. On an average, the percentage share of income tax constitute of the total direct tax, 80.83% follow by income tax, land tax 13.28%, vehicle tax 4.87%, and other 1.02%. In between F/Y 1996/97 to 2001/2002, the contribution from income tax was follow by 75.64%, land tax 14.96%, vehicle tax 5.82% and other tax 3.88% respectively. F/Y 2006/07 specifies that income tax 78.62% land tax 16.26% vehicle tax 4.98% and others 0.138% of total tax revenue, which is satisfactory to an extent. The contribution on total revenue from income tax showed a increasing trend. This increase in income tax may be attribute by VAT law forced the reluctant businessmen to registered their name and file the return of the income although, there was no substantial increase in VAT itself. It helps to increase the collection of income tax.

Land tax is increasing gradually onward except in the year 2000/2001. The investment activities have not flourished with in nation due to the political instability and violence. In this situation investor might have been investing their investment in purchasing land and building. This might the reason to be increased in land tax revenue in recent years. Revenue from vehicle tax also showed a growth trend over the studied period. It may due to increase number of vehicle in recent year before.

4.1.3 Composition of Indirect Tax Revenue

Indirect tax has been dominant role in tax revenue. Similarly, sales and value added tax has dominant position in indirect tax. For the comparison purpose taxes from contract, hotel and entertainment have been included in sales/value added tax because after the adoption of VAT all these taxes were replaced.

Table No. 4.1.3**Composition of Indirect Tax Revenue**

(Rs. In million)

Fiscal year	Indirect tax					As % of indirect tax			
	Custom	Sales/VAT	Excise duty	Others	Total	% of tax based on international trade	% of sales/VAT	% of excise duty	% of other
1996/97	8309.1	7429.3	1944.3	120.8	17903.5	46.41	41.50	10.86	1.23
1997/98	8202.2	8162.9	2298.1	278.2	18941.4	43.30	43.10	12.13	1.47
1998/99	9517.7	8765.9	2953.2	235.4	21472.2	44.33	40.82	13.75	1.10
1999/00	10813.3	10259.7	3127.2	89.2	24289.4	44.52	42.24	12.87	.37
2000/01	12552.1	12382.4	3771.2	211.4	28917.1	43.41	42.82	13.04	.73
2001/02	12658.8	12267.3	3807	362.1	29095.2	43.51	42.16	13.08	1.25
2002/03	14236.4	13459.7	47875.1	442.5	32923.7	43.24	40.88	14.53	1.34
2003/04	15554.8	14478.9	62267.7	478.1	36738.5	42.34	39.41	16.95	1.30
2004/05	15701.6	18885.4	64459	516.3	41549.2	37.79	45.45	15.51	1.24
2005/06	15344	21610.7	6507.6	659.4	44121.7	34.78	48.98	14.75	1.49
2006/07	167076.6	26095.5	9343.18	-	52145.3	32.04	50	17.92	-

Source: Economic survey fiscal year 2006/07.

Note:-

Excise duty = Industrial product + liquor contract

Tax based on international trade = imports + exports + Indian excise returned + others

Sales Tax/ VAT = Sales / VAT + Entertainment tax + Hotel tax + Contract tax

Table No. 4.1.3 shows that, on an average the % share of revenue constitute of total indirect tax followed by international trade 41.52%, VAT 43.15%, excise duty 14.15% and other tax 1.18%. But after the implementation of VAT the revenue received through this tax decreased from Rs.12382.4 million to 12267.3, then increased at 21610.7 million in year 2005/06 and finally remained at 26095.5 in 2006/07. This shows that VAT collected less revenue may be newly implemented VAT system which has not been well come from the business community at initial stage. It may effect from supervision and administrative capacity of tax office and not proper billing system from businessman.

The interview with FNCCI members reveled that consumer behaviour is characterized by certain aspects like compulsion, luxury and planned shopping. Things like medicine, food and clothing are compulsory purchases; planned shopping is related to shopping is affected if the cost of the compulsory requirement goes up, as the budget will not permit it. And then there is luxurious shopping which happens only after the compulsory and the planned shopping have been taken care of. But the slowdown in economy has definitely had an impact on both planned and luxurious shopping. If such shopping can not be flourishing, the VAT revenue can not be collected.

4.1.4 Tax and Non Tax Revenue as Percentage of GDP

In order to understand the growth pattern of taxation property, it would be describe to examine the share of tax and non tax revenue in GDP. Following table presents an account of the tax revenue as percentage of GDP.

Table No. 4.1.4

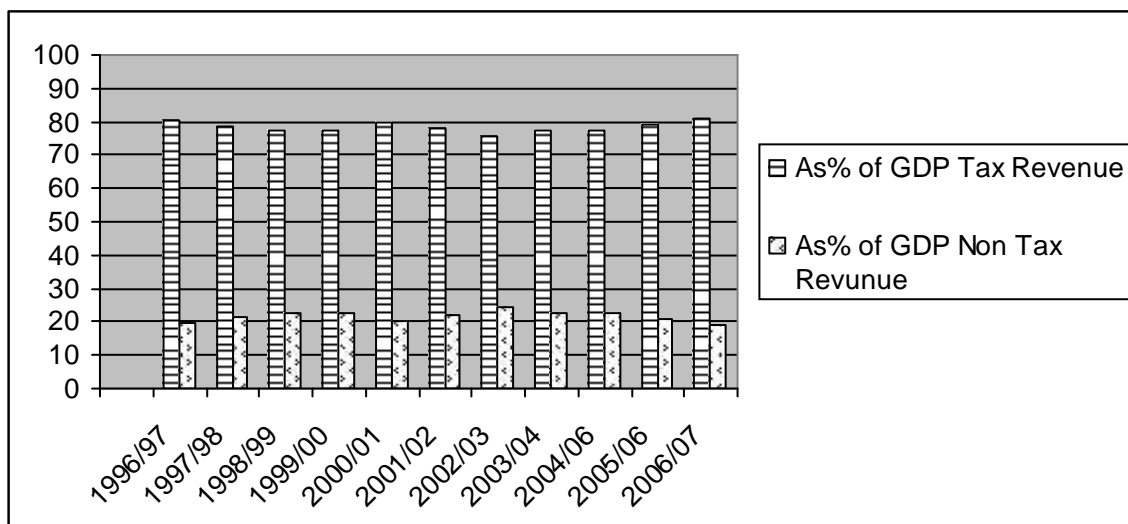
Tax and Non tax Revenue as Percentage of GDP

Fiscal Year	Total revenue		Tax revenue			Non tax revenue		
	Amount	Increment	Amount	Increment	As % of	Amount	Increment	As % of

					GDP			GDP
1996/97	30373.5	-	24424.3	-	80.41	5949.2	-	19.59
1997/98	32937.9	8.44	25937.8	6.20	78.75	6998.1	17.63	21.25
1998/99	37251.0	13.09	28752.9	10.84	77.19	8498.4	21.44	22.81
1999/00	42893.8	15.15	33152.1	15.30	77.29	9741.6	14.63	22.71
2000/01	48893.6	13.99	38865.1	17.23	79.49	10028.8	2.95	20.51
2001/02	50445.5	3.17	39330.6	1.20	77.97	11115	10.83	22.03
2002/03	56229.8	11.47	42587	8.28	75.74	13642.7	22.74	24.26
2003/04	62331.0	10.85	48173	13.12	77.29	14158	3.78	22.71
2004/06	70122.7	12.50	54104.7	12.31	77.16	16018	13.14	22.84
2005/06	72282.7	3.08	57430.4	6.15	79.45	14851.7	-7.28	20.55
2006/07	87711.2	21.34	71126.7	23.84	81.09	16585.3	11.67	18.90

Above table no. 4.1.4 show that the share of tax revenue and non-tax revenue 80.41% and 19.59% respectively to the total revenue in fiscal year 1996/1997. It means a major amount of Government revenue is collected from tax revenue. As compared to tax revenue, the contribution of non-tax revenue has a very low share in Government revenue. Such kind of share of tax revenue and non-tax revenue has not been changed significantly even in fiscal year 2006/2007. In year F/Y 2005/2006, the share of tax revenue is 81.09% and non-tax revenue was 18.90%.

Figure No. 4.1.4 Tax and Non-Tax Revenue in GDP



From the above analysis it seems that the ratio is still much lower than that at many other developing countries. By comparison to the world standard, this is very low level of taxation in our country Nepal.

4.1.5 Share of Direct Tax Revenue

Total tax is the sum of direct tax and indirect taxes. But the share of indirect tax is higher than direct tax. In Nepalese tax structure; the contribution of direct tax revenue is very low in Nepal comparison to the developed countries like United States, United Kingdom, Japan etc. because being an under-developed country, people of Nepal live in substance level and all of their income is spent on consumption. As a result direct tax cannot collect more revenue than indirect tax revenue in GDP.

Table No. 4.1.5**Share of Direct Tax Revenue**

Tax head						Percentage share			
Fiscal Year	Income tax	Land tax	Vehicle tax	others	Total tax	Income tax	Land tax	Vehicle	others
1996/97	4218.4	1015.4	106.2	0	5340	79	19.02	1.99	0
1997/98	5008.8	1004.2	174.9	0	6187.90	80.95	16.23	2.91	0
1998/99	6293.5	1003.2	219.4	0	7516.10	83.73	13.35	2.92	0
1999/00	7539.1	1015.9	396.5	0	8951.50	84.22	11.35	4.43	0
2000/01	9116.9	612.9	429.6	0	10159.40	89.74	6.03	4.23	0
2001/02	8906	1131.8	559.7	0	10597.50	84.04	10.65	5.28	0
2002/03	8132	1414.3	559.5	165.8	10271.60	79.17	13.77	5.45	1.61
2003/04	9514.5	1697.5	700.6	268.6	12181.20	78.11	13.94	5.75	2.21
2004/05	10466.1	1799.2	806.5	306.7	13378.50	78.23	13.45	6.03	2.29
2005/06	10980.5	2181.1	847.6	565.7	14574.90	75.34	14.96	5.28	3.88
206/07	14025.9	599.37	681.99	314.17	15621.43	89.78	3.83	4.63	2.01

For the study, direct tax has been divided in to four parts viz Income tax, vehicle tax, land tax and other tax. Table 4.1.5 shows that in F/Y 1996/1997, the percentage share of income was 79%, follow by income tax 19.02% land tax, 1.99% vehicle tax and not available for other tax respectively of total tax revenue. On an average, the percentage share of income tax constitute of the total direct tax, 80.83% follow by income tax, land tax 13.28% vehicle tax 4.87% and other 1.02. In between F/Y 1996/1997 to 2001/2002 the contribution from other tax was zero. In F/Y 2005/2006 the total contribution from income tax was 3.88% respectively. In year 2006/2007 income tax consists 89.78%, land tax consists 3.83%, vehicle tax consists 4.36% and other taxes shares 2.01% of contribution; in total tax revenue. The contribution on total revenue from

income tax showed an increasing trend. This increase in income tax may be attribute by VAT law forced the reluctant businessman to registered their name and file the return of the income although, there was no substantial increase in VAT itself. It helps increase the collection of income tax.

Land tax is increasing gradually onward except in the year 2000/2001. The investment activities have no flourished within nation due to political instability and violence. In this situation investor might have been investing their investment in purchasing land and building. This might be the reason to be increased in land tax revenue in recent years. Revenue from vehicle tax also showed a growth trend over the studied period. It may be due to increase number of vehicle in recent year before.

4.1.6 Share of Indirect Tax Revenue

Indirect tax has been dominant role in tax revenue. Similarly, sales and value added tax has dominant position in indirect tax. For the comparison purpose taxes from contract, hotel and entertainment have been included in sales/value added tax because after the adoption of VAT all these taxes were replaced.

Table No. 4.1.6

Indirect Tax Revenue

Fiscal Year	Indirect tax					As% of indirect tax			
	Custom	Sales/VAT	Excise duty	Others	Total	% of tax based on international trade	%of sales/VAT	%of excise duty	%of other
1996/97	8309.1	7429.3	1944.3	220.8	17903.5	46.41	41.50	10.86	1.23
1997/98	8202.2	8165.9	2298.1	278.2	18941.4	43.30	43.10	12.13	1.47
1998/99	9517.7	8765.9	2953.2	235.4	21472.2	44.33	40.82	13.75	1.10
1999/00	10813.3	10259.7	3127.2	89.2	24289.4	44.52	42.24	12.87	.37

2000/01	12552.1	12382.4	3771.2	211.4	28917.1	43.41	42.82	13.04	.73
2001/02	12658.8	12267.3	3807	362.1	29095.2	43.51	42.16	13.08	1.25
2002/03	14236.4	13459.7	47875.1	442.5	32923.7	43.24	40.88	14.53	1.34
2003/04	15554.8	14478.9	6226.7	478.1	36738.5	42.34	39.41	16.95	1.30
2004/05	15701.6	18885.4	64459	516.3	41549.2	37.79	45.45	15.51	1.24
2005/06	15344	21610.7	6507.5	659.4	44121.7	34.78	48.98	14.75	1.49
2006/07	16707.6	26095.5	9343.1	-	5446.4	32.03	50.04	17.9	-

Source: Economic survey 2007/2008

Note:-

Excise duty=Industrial product + liquor contract

Tax based or international trade = imports + exports + Indian excise returned + others

Sales Tax / VAT = Sales / VAT + Entertainment tax + Hotel tax + Contract tax

Table no 4.1.6 shows that, on an average the % share of revenue constitute of total indirect tax followed by international trade 41.52% VAT 43.15%, excise duty 14.15% and other tax 1.18%. But after the implementation of VAT the revenue received through this tax decreased from Rs. 12382.4 to 12267.3 million in fiscal year 2001/02, then increased to 26095.5 million in year 2006/07. This shows that VAT collected less revenue then the four taxes that it displaced. The cause of decreasing revenue may be newly implemented VAT system which has not been well come from the business community at initial stage. It may effect from supervision and administrative capacity of tax office and not proper billing system from businessman.

The interview with FNCCI members reveled that consumer behavior is characterized by certain aspects like compulsion, luxury and planned shopping. Things like medicine, Sfood and clothing are compulsory purchases; planned shopping is related to shopping is affected if the cost of the compulsory requirement goes up, as the budget will not permit it. And then there is luxurious shopping which happens only after the compulsory and the planned shopping have been taken care of. But the slowdown in economy has definitely had an impact on both planned and luxurious shopping. If such shopping can not be flourishing, the VAT revenue can not be collected.

4.1.7 Registration in VAT

Registration is the entry point of the tax system. Participants of tax payers to the tax system can be assessed by the trends of registration. All vendors whose taxable transaction is above the threshold are required to register for VAT. VAT registration began on 16th November 1997 when all sales tax registered manufactures were required to convert in to VAT registration if they had an annual turnover of more than Rs 2 million. In mid Nov 1997, 2045 manufactures were registered under the imports / manufacturing level sales tax. There is no provision of registration threshold under this tax. According to tax office other vendors, who were not registered under the sales tax were required to register for VAT with in 90 days from 16th Nov. 1997. This rule is not applicable to them who deal with exempted goods and services only. Similarly, small vendors falling below the threshold limit are exempted from VAT registration. VAT registrants are issued a registration certificate as well as tax payer identification number (TPIN). In the mean time it has made compulsion to all concern to state the TPIN on all specified documents including the tax invoice. The trend of vat registration is shown in Table 4.1.7.

Table No.4.1.7

Trend of VAT Registration

Year	Number of registered tax payers			
	Compulsory Number	Voluntary Number	Total tax Payer	Tax payer's growth %
1997/98	4522	715	5237	0
1998/99	6577	3065	9642	84.11
1999/00	12137	5810	17947	86.13
2000/01	14775	6318	21093	17.53
2001/02	16877	8272	25149	19.23
2002/03	19449	10423	29872	18.78
2003/04	23407	107565	34174	14.75
2004/05	29071	10705	39776	16.39

2005/06	33302	13529	46831	17.74
2006/07	16508	36457	52965	13.10

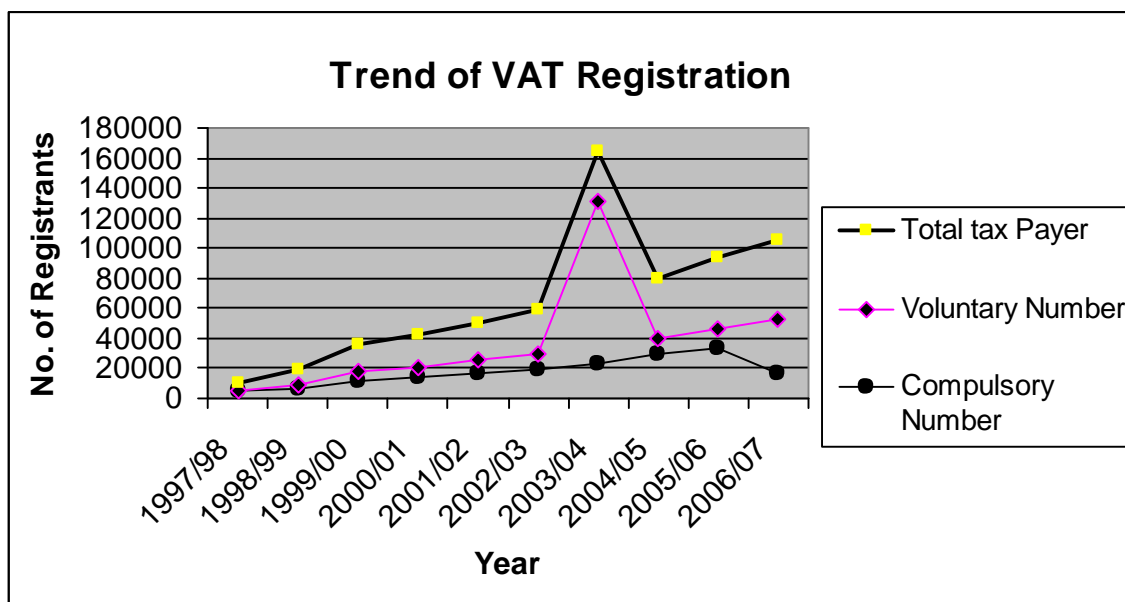
(Economic Survey 2007/08)

In the table no. 4.1.7 showed that the number of registered in VAT has an increasing trend. It is only 5237nos in 1997/98, which is reached to 52965nos in 2006/07. The growth rate of registrants is satisfactory. Compromise made by government with registrants has also helped to increased VAT registrants' number gradually. There may be potential tax payer still outside from the tax net. According to businessman, the registration process and service provide by tax office is not satisfactory.

The operation of VAT in Nepal was started by advertising the sales tax registrants to register in the VAT department. The registration is compulsory for those 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 registration 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 1999/00. There after VAT was implemented in full form so the number of VAT registrations highly increased from fiscal year 1999/00. The trend of VAT registration is shown in the following table:

Figure No. 4.1.7

Trend of VAT Registration (1997/98 to 2006/07)



4.1.8 Revenue Collection from VAT

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

Table No. 4.1.8

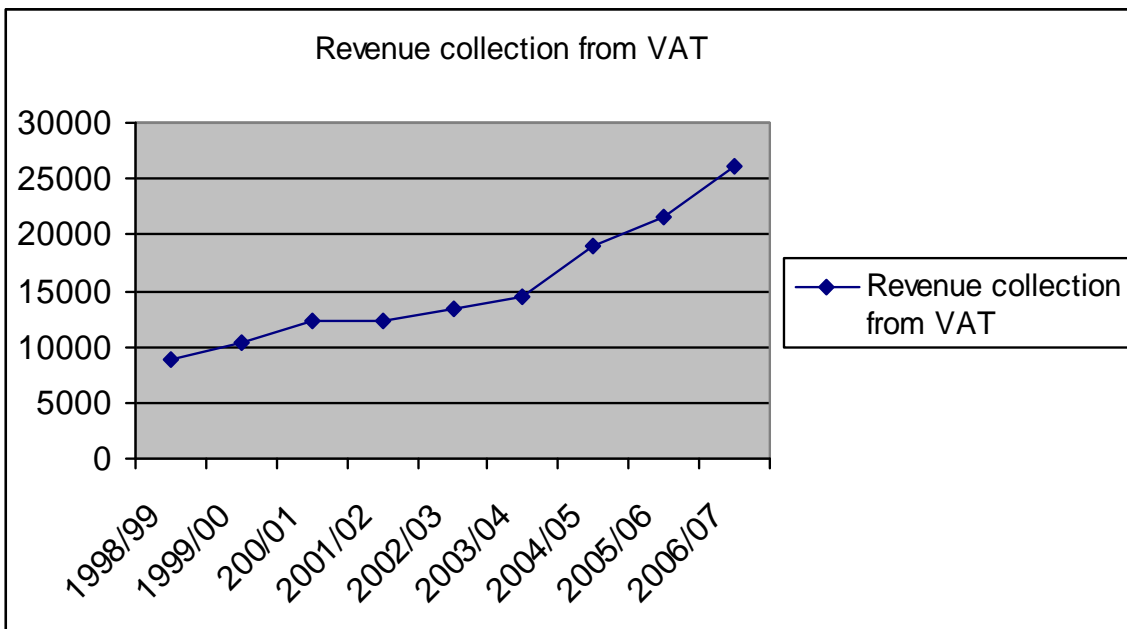
Fiscal Year	Revenue collection from VAT	Percentage change
1998/99	8765.9	-
1999/00	10259.7	14.55
200/01	12382.4	17.14
2001/02	12267.3	-0.98

2002/03	13459.70	12.5
2003/04	14478.90	7.57
2004/05	18885.40	30.43
2005/06	21610.7	12.61
2006/07	26095.59	20.75

Trend of Revenue Collection from VAT

Figure No.4.1.8

Trend of Revenue Collection from VAT



VAT generate about Rs. 8765.9 million in fiscal year 1998/99, revenue was increased up to the percentage in revenue collection was higher in fiscal year 1999/00 than 1998/99 by 14.55. Similarly, revenue collection from VAT in fiscal year 2000/01, 2001/02, 2002/03, 2003/04 and 2004/05 is Rs. 12382.4 millions, Rs.12267.3 million, Rs. 14478.9 million and 18885 respectively. The trend of VAT revenue collection from VAT is increased up to fiscal year 2000/01 and in fiscal year 2001/02, it is decreased as 0.98 percent than previous year. Revenue collection from VAT has reached Rs. 26095.55 million in fiscal year 2006/07 from Rs. 8765.9 million in fiscal year 1998/99.

VAT contributes its share in revenue collection of government, but it has problems in practice, due to the illiteracy of people, poor economic condition of the people, people don't have the sufficient knowledge regarding VAT and its procedures. For the effective collection of revenue with VAT, the government should organize the seminars, conferences, meeting, and publicity of journals about VAT time to time which will help to encourage the active participation of procedures, businessman and final consumers.

4.1.9 Composition of VAT Revenue

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

Table No. 4.1.9

Composition of VAT

(Rs. In million)

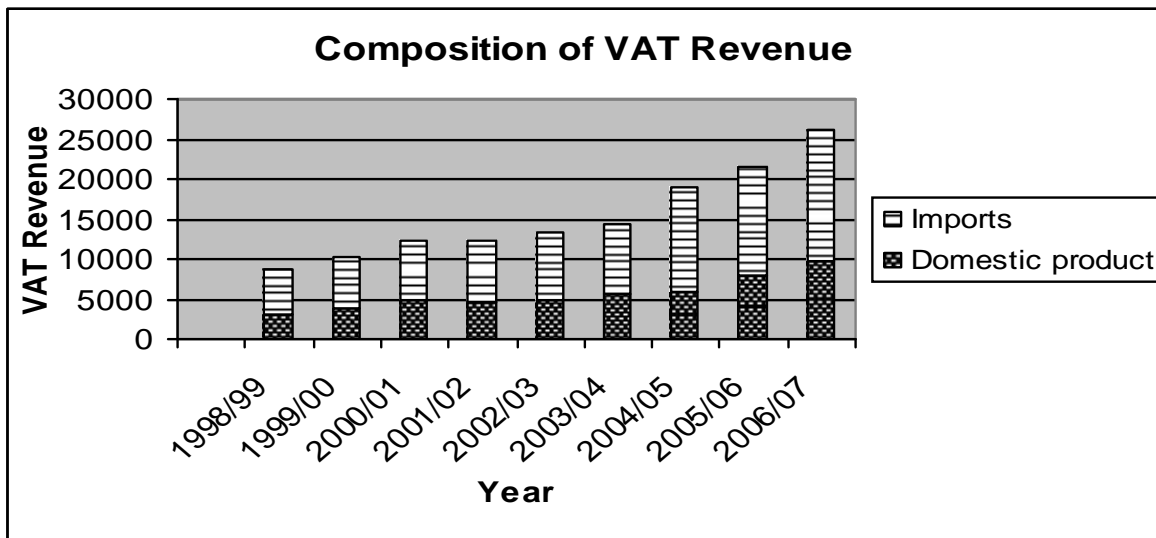
Fiscal year	Total VAT revenue	Domestic product		Imports	
		Amount	Percent	Amount	Percent
1998/99	8765.9	3125.04	35.65	5640.86	64.35
1999/00	10259.7	3874.06	37.76	6385.64	62.24
2000/01	12382.4	4876.19	39.38	7506.21	60.62
2001/02	12267.3	4722.91	38.5	7544.39	61.5
2002/03	13459.7	4819.61	35.8	8640.09	64.20
2003/04	14478.90	5604.12	38.7	8874.77	61.29
2004/05	18885.40	5810.1	30.76	13075.3	69.24

2005/06	21610.7	7996	37.00	13614.7	63.00
2006/07	26095.59	9631.33	36.91	16464.4	63.09

Source: Economic Survey, F/Y 2007/08

Figure No. 4.1.9

Composition of VAT Revenue 1997/98 to 2006/07



From the above table and figure, it shows that the share of domestic product and imports in total VAT revenue 35.65 percent and 64.32 in the fiscal year 1998/99. Likewise, in fiscal year 1999/00, the share of domestic product and imports was 37.075 percent and 62.20 percent. For the fiscal year 2000/01, 2001/02, 2002/03, 2004/05 and 2005/06 and 2006/07, the share of domestic product and import was 39.38 and 60.62, 38.5 and 61.35, 35.8 and 64.11, 38.7 and 61.3 and 30.76 and 69.24; and 37.0 and 63.00 and 36.91 and 63.09 respectively.

At the end, it seems that the share of domestic product is lower than share of imports in VAT revenue. Domestic products should be prioritized rather than the imports.

4.1.10 Composition of Domestic Collection

Domestic VAT revenue consists of three different sector i.e. introduction, distribution and service among which distribution component has low contribution among others. The VAT

revenue collected from dealers, wholesalers and retailers are included under distribution sectors. The following table shows the relative share of production, distribution and service to the total domestic VAT revenue collection.

Table No. 4.1.10

Composition of Domestic Collection

(Rs in million)

Fiscal year	Domestic VAT	Production		Distribution		Service	
		Amount	Percent	Amount	Percent	Amount	Percent
1998/99	3125.04	1145.397	55.48	122.90	5.95	796.68	38.57
1999/00	3874.06	1316.64	46.4	445.50	15.7	1075.45	37.9
2000/01	4876.19	1348.15	36.0	827.61	22.10	1569.10	41.9
2001/02	4722.91	1738.5	37.0	939.73	20	2020.42	43
2002/03	4819.61	1679.75	36.0	1026.51	22	1959.70	42
2003/04	5604.12	1690.65	36.30	1038.46	22.23	1928.30	41.41
2004/05	5810.1	1685.45	35.52	1115.00	23.5	1945.00	41.00
2005/06	7996	1688.35	34.95	1145.00	23.7	1985	41.09
2006/07	9689.97	3247.6	33.51	1581.13	16.3	4861.23s	50.16

Source: Annual Report, 2006/07 Inland Revenue department.

From the above table, the amount of production, distribution and service were Rs. 11450.97 million, Rs. 122.90 million and Rs. 796.98 million respectively totalling Rs. 3125.04 from domestic VAT collection in fiscal year 1998/99. In the fiscal year 2005/06 the amount collected Rs. 7996 million in p[roduction, Rs. 1145.00 million in distribution and Rs.1985.00 million in services, out of Rs. 4830.2 million domestic VAT revenue. The trend of Domestic VAT collection from distribution is in increasing trend, whereas in fiscal year 20005/06. The trend of revenue collection from production and service components were decreasing trend.

At last, the contribution of VAT revenue from domestic collection is in increasing and decreasing trend in total from the fiscal year 1998/99 to 20005/06. It helps to domestic revenue mobilization if the country for the government.

4.1.11 Share of VAT Revenue

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

Table No. 4.1.11

Share of VAT Revenue in GDP

(Rs. In millions)

Fiscal Year	GDP	VAT revenue	% of GDP
1996/97	269570.24	7429.3	2.76
1997/98	289798.64	8162.9	2.82
1998/99	3300183.29	8765.9	2.66
1999/00	366251.33	10259.7	2.80
2000/01	393566.42	12382.4	3.15
2001/02	441519.46	12267.3	2.78
2002/03	459443.46	13459.7	2.93
2003/04	492231.52	14478.9	2.94
2004/05	536749.39	18885.4	3.52
2005/06	589412.33	21610.7	3.67
2006/07	670588.7	26095.59	3.89

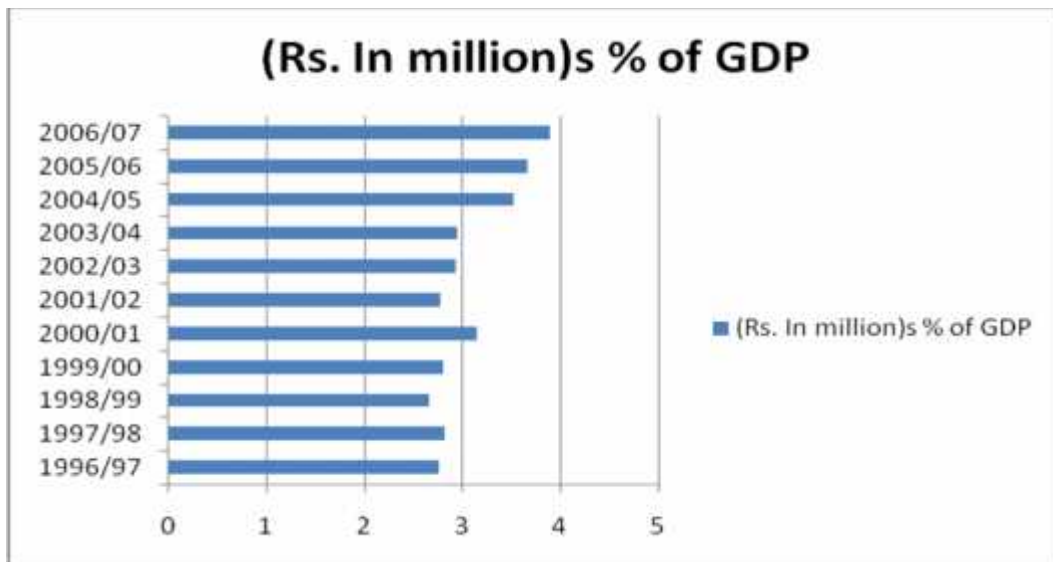
Source: Economic survey fiscal year 2007/08

Table no. 4.1.11 and diagram shows that on average the share of VAT revenue as percentage of GDP was 3.06%. The percentage trend of VAT revenue to GDP is in increasing trend except in F/Y 2001/02. According to estimate of GDP, and revised estimate of VAT the %increase is 3.89% in 2006/07. The interview with academician revealed that the main problem of VAT arise from the businessmen. They asked customer dual rate while selling goods. There are collecting VAT customers but not paid to Government. Lacks of cooperation from businessman and level of consumer are the main cause of VAT.

As shown in the above table, it is clear that the share of value added tax in the GDP in Nepal is very low and it is below 4 percent through eight years period. From the fiscal year 1997/98 to 2004/05 value added tax revenue of Nepal as percentage of GDP is between 2.39 percent to 3.75 percent with no higher fluctuation. From the fiscal year 1997/98 to 2004/05, it is decreased to 2.59 percent.

Figure No. 4.1.11

Share of VAT Revenue in GDP



From the above analysis, it is concluded that percentage contribution of VAT in GDP is very low but the amount of VAT revenue contribution in GDP was increasing trend form fiscal year 1998/99 to 2000/01. In the fiscal year 2001/02 the revenue contribution was

fluctuated in GDP than after fiscal year 2002/03 to 2006/07 is increasing trend. To increase the contribution of VAT in GDP, it is necessary to promote the gross domestic product.

4.1.12 Share of VAT Revenue in Total Revenue

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

Table No. 4.1.12

Share of VAT Revenue in Total Revenue

(Rs. In million)

Fiscal Year	Total revenue	VAT revenue	% of total revenue
1998/99	37251	8765.9	23.53
1999/00	42893.8	10259.7	23.91
2000/01	48893.6	12382.4	25.33
2001/02	50445.5	12267.3	24.32
2001/03	56229.8	13459.7	23.94
2003/04	62331	14478.9	23.23
2004/05	70122.7	18885.4	26.93
2005/06	72282.1	21610.7	29.90
2006/07	87711	26095	29.75

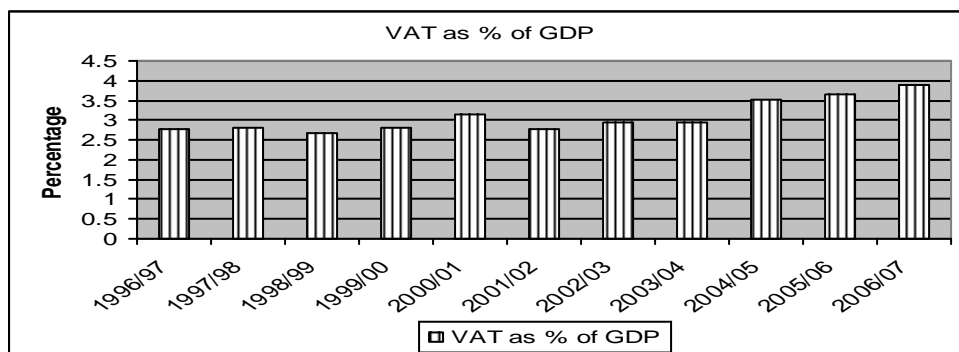
Source: Economic survey fiscal year (2006/07)

Above table 4.1.12 shows that on average VAT revenue to total revenue is 25.35%. The total revenue has increased each year but the % of VAT has increased each year but the % of VAT revenue with total revenue has increased and decreased slightly each year. The decreasing trend of VAT revenue to total revenue may be because VAT is new concept in Nepal. There is lack of co-ordination between business community and government, lack of proper home work before introduction VAT.

Businessmen view that having to go through great bureaucratic hassle to pay taxes. Tax payers are still deprived of using all banks to pay the taxes. Only RBB and NBL have been allowed to make collection. Private Banks would serve effectively if they were allowed to do the job.

figure No. 4.1.12

Share of VAT Revenue in Total Revenue



The above chart also shows the fluctuation in increase of VAT revenue as percent of total revenue. It was as the same we observed in case of GDP as well. The VAT occupies around 4% of total revenue in year 2006/07, which is maximum among the years of VAT practices in Nepal and was minimum in 1998/99.

4.1.13 Share of VAT Revenue in Total Tax Revenue

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

Table No. 4.1.13

VAT Revenue as Percentage of Total Tax Revenue

(RS. In million)

Fiscal Year	Total tax revenue	VAT revenue	% of total tax revenue
1998/99	28752.9	8765.9	30.49
1999/00	33152.1	10259.7	30.95
2000/01	38865.1	12382.4	31.86

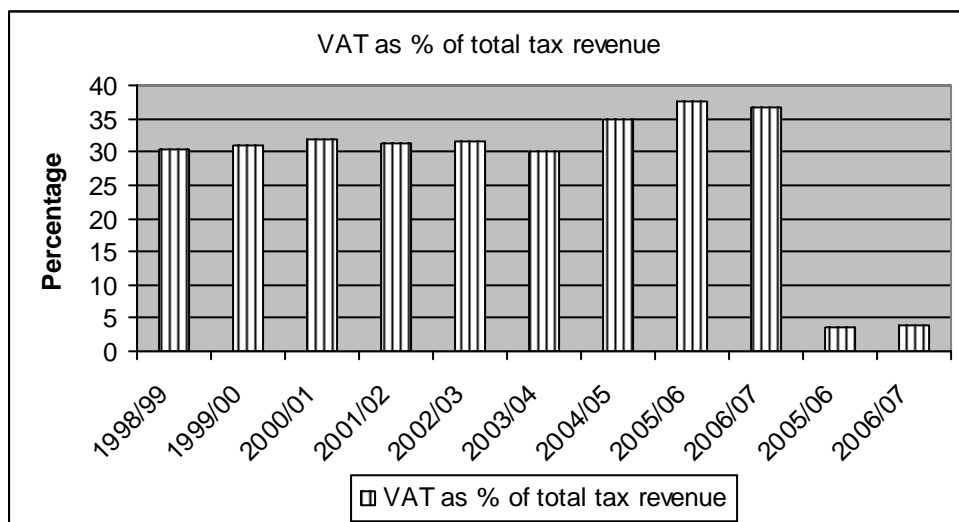
2001/02	39330.6	12267.3	31.19
2002/03	42587	13459.7	31.61
2003/04	48173	14478.9	30.06
2004/05	54104.7	18885.4	34.91
2005/06	57430.4	21610.7	37.63
2006/07	71126	26095	36.68

Source: Economic survey fiscal year (2007/08)

Table No. 4.1.13 shows that on an average the VAT revenue is 32.51% of total tax revenue. The ratio of VAT collection with tax revenue is in increasing trend after implementation of VAT and it was significant in 2004/05 and 2005/06 and 2006/07, and decreasing trend in 2001/02, 1999/00, and 2003/04. This may be due to economic slowdown. The slowdown in economy has definitely had a impact on both planned and luxurious shopping. The selling activities are in low scale the VAT revenue % is in decreasing trend.

It shows that the government was unsuccessful to increase amount as well as percent of VAT revenue's contribution in total tax revenue.

Figure No. 4.1.13 Vat as % of total tax revenue



4.1.14 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 No. 4.1.14

VAT Revenue as Percentage of Total Indirect Tax Revenue

(Rs. In million)

Fiscal Year	Total indirect tax	VAT revenue	% of total Indirect tax
1996/97	17903.5	7429.3	41.50
1997/98	18941.4	8162.9	43.10
1998/99	21472.2	8765.9	40.82
1999/00	24289.4	10259.7	42.24
2000/01	28917.1	12382.4	42.82
2001/02	29095.2	12267.3	42.16

2002/03	32923.7	13459.7	40.88
2003/04	36738.5	14478.9	39.41
2004/05	41549.2	18885.4	45.45
2005/06	44121.7	21610.1	48.98
2006/07	52146.43	26095.59	50.00
Average	31645.30	13981.56	43.39

Source: Economic survey fiscal year (2007/08)

Table no. 4.1.14 shows that the share of VAT revenue in total indirect tax. On an average share of VAT in total indirect tax is 42.74% The ratio between VAT revenue and indirect was satisfactory in each year except in fiscal year 2003/04. It may cause of the initial time of VAT Implementation. When VAT was implemented there were many problems in VAT revenue collection.

Experts view that private sector development has been the key to maintain competitiveness after accession WTO. In the open economy, private sector has a great role to play because they produce goods and services and they perform well, the country also gets benefits. The changes in the tax structure will not make a significant difference. The tax structure has been maintained to make the system compatible. The whole system is more flexible and tax payer friendly.

At the end, it is concluded that the amount of total indirect tax was increasing trend but share of VAT revenue is very low in percent. Percent share of VAT revenue in indirect tax was increasing and decreasing trend. The decreasing percentage trend is not effective in collection government revenue. It is necessary to improve VAT collection procedure and promote to production sector. When the production is increased contribution share of VAT revenue also automatically increase.

4.1.15 Revenue Collection from VAT through IRO of Lalitpur

The revenue collection trend from VAT from IRO of Lalitpur is given below:

Table No. 4.1.15

VAT Collection Trend through IRO of Lalitpur

(Rs. In million)

Fiscal year	VAT Amount	% change
1998/99	2586.24	-
1999/00	2948.31	14.01
2000/01	3432.12	16.41
2001/02	4057.12	18.20
2002/03	4228.61	4.02
2003/04	4707.28	11.23
2004/05	4978.41	5.75
2005/06	5360.25	7.67
2006/07	5842.67	9.01

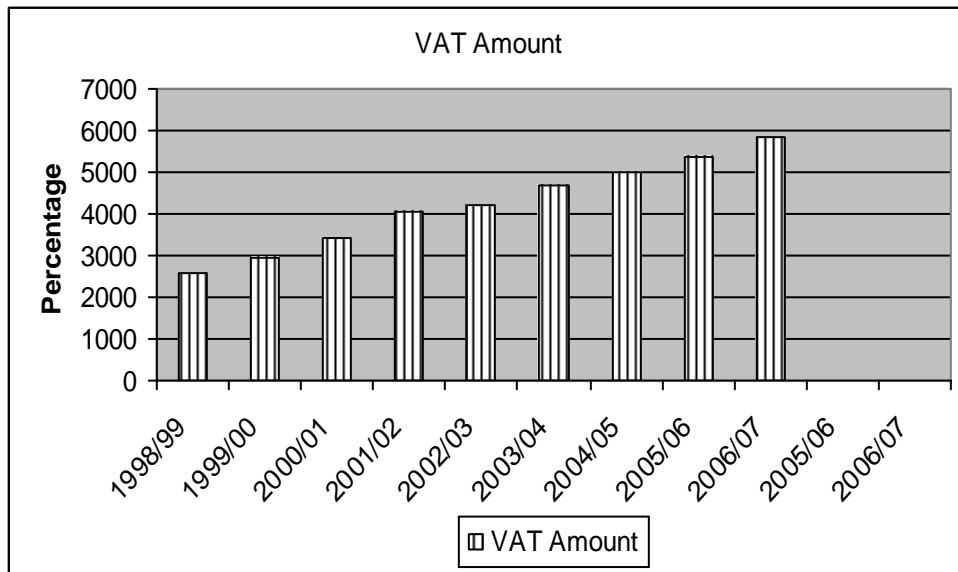
Source: Annual report, IRD

Above table shows that the amount of VAT revenue through IRO of Lalitpur is increasing. In the year 1998/99, it was Rs. 2586.24 thousand but in the year 2006/07, it is Rs. 5842.67. This shows that people are being quite alert about VAT that is why they are paying VAT properly. The maximum percentage of change in collection is found to be in the year 2001/02 i.e about 18.20%.

Above data can be represented through given curve which is as follows:

Figure No. 4.1.15

VAT Collection Trend in IRO of Lalitpur



Above chart show that collection of VAT in IRD of Lalitpur is in increasing trend from 1998/99 to 2006/07. It is continuously increasing. But increase in revenue is not in same ratio.

4.1.16 Share of VAT Revenue from IRO of Lalitpur in National Income

The following table shows the contribution of VAT from IRO OF Lalitpur.

Table No. 4.1.16

Share of VAT Collected from IRO of Lalitpur in National Revenue

(Rs. In million)

Year	National revenue	VAT revenue from IRO of Lalitpur	% of share
1998/99	37251.0	2586.24	6.94
1999/00	42893.8	2948.31	6.87
2000/01	48893.9	3432.12	7.01
2001/02	50445.6	4057.12	8.04
2002/03	56229.7	4228.61	7.51
2003/04	62331.0	4707.28	7.55
2004/05	70122.7	4978.41	7.09
2005/06	72282.1	5360.25	7.415
2006/07	87711.5	5842.67	6.66

Source: Annual report, IRD, Kathmandu.

According to above table the maximum share of VAT collected from IRO of Lalitpur in national revenue is in year 1998/99 i.e about 6.94%. The maximum percentage of share is 8.04 in the year 2001/02 and minimum in 6.87% in the year 1999/00. Its share in national revenue is in fluctuating trend in every fiscal year. In an average, the share of VAT collected from IRO of Lalitpur in national revenue is 7.23%.

4.1.17 Share of VAT Revenue from IRO of Lalitpur in Tax Revenue

The contribution made by VAT collected from IRO of Lalitpur in different fiscal year i.e. share of its VAT revenue in total tax revenue is as follows:

Table No. 4.1.17

Share of VAT Revenue from IRO of Lalitpur in Tax Revenue

(Rs. In million)

Year	Tax Revenue	VAT Revenue from IRO of Lalitpur	% of share
1998/99	28752.9	2586.24	8.99
1999/00	33152.1	2948.21	8.89
2000/01	38865.1	3432.12	8.83
2001/02	39330.5	4057.12	10.31
2002/03	42587.0	4228.61	9.92
2003/04	48173.0	4707.28	9.77
2004/05	54140.7	4978.41	9.20
2005/06	57430.4	5360.25	9.33
2006/07	71126.72	5842.67	8.21

Source: Annual report, IRD, Lalitpur.

According to above table, the maximum percentage of share of VAT collected from IRO of Lalitpur in Tax revenue is in year 2001/02 which was about 10.31% and minimum on the year 2006/07 which was 8.21%. In an average according to above data, the share of VAT collected from IRO of Lalitpur in tax revenue is 9.27%.

4.1.18 Share of VAT Revenue from IRO of Lalitpur in Indirect Tax Revenue

The actual share of VAT revenue from IRO of Lalitpur in indirect tax revenue in different fiscal year is as follows:

Table No. 4.1.18**Share of VAT Revenue from IRO of Lalitpur in Indirect Tax Revenue (Rs. In million)**

Fiscal year	Indirect tax revenue	VAT revenue from IRO of Lalitpur	% of share
1998/99	21472.2	2586.24	12.04
1999/00	24289.4	2948.21	12.13
2000/01	28917.1	3432.12	11.86
2001/02	29095.2	4057.12	13.94
2002/03	32923.7	4228.61	12.84
2003/04	36738.5	4707.28	12.81
2004/05	41549.2	4978.41	11.98
2005/06	44121.7	53060.25	12.14
2006/07	52146.4	5842.67	11.20

Source: Annual report, IRD, Kathmandu.

According to above table, the maximum share of VAT revenue from IRO of Lalitpur in indirect tax revenue is maximum on the year 2001/02 which is about 13.94% and minimum on the year 2006/07 which is 11.20%. According to above data, VAT revenue from IRO of Lalitpur in national indirect tax revenue is about 12.33%. Looking above data, it can be said that percentage of share will go on increasing in near future.

4.1.19 Share of VAT Revenue from IRO of Lalitpur in Total VAT Revenue

IRO of Lalitpur is one which is contributing in total VAT revenue. The actual share of VAT revenue from IRO of Lalitpur in Total VAT revenue in different fiscal year is as follows:

Table No. 4.1.19

Share of VAT revenue from IRO of Lalitpur in Total VAT Revenue

(Rs. In million)

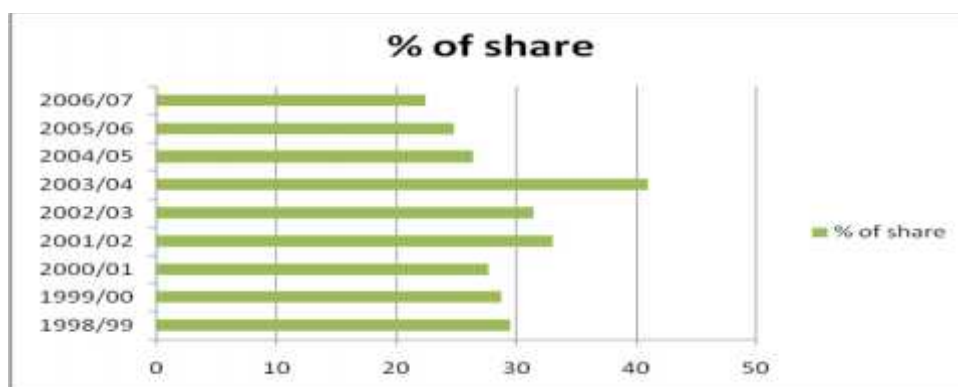
Fiscal year	VAT revenue	VAT revenue from IRO of Lalitpur	% of share
1998/99	8765.9	2586.24	29.50
1999/00	10259.7	2948.24	28.73
2000/01	12382.4	3432.12	27.71
2001/02	12267.3	4057.12	33.07
2002/03	13459.70	4228.61	31.41
2003/04	14478.90	4707.28	41.01
2004/05	18885.40	4978.41	26.36
2005/06	21610.7	5360.25	24.80
2006/07	26095.59	5842.67s	22.39

Source: Annual report, IRD, Lalitpur.

According to above table, the maximum share of VAT revenue from IRO of Lalitpur to total VAT revenue is in year 41.01% in 2003/04 and minimum on the year 22.39% in the year 2006/07. According to above data and average share of VAT revenue from IRO of Lalitpur in national VAT revenue is about 29.44%. The percentage of share of VAT revenue in VAT revenue is in fluctuating trend.

Fig:4.1.19.

Share of VAT revenue from IRO of Lalitpur in Total VAT Revenue



The above diagram shows the contribution of VAT revenue from IRO of Lalitpur as Percentage of total VAT revenue. It shows the highest pay off of VAT from IRO of Lalitpur 41.01% in year 2003/04 and the minimum pay off of 22.39% in year 2006/07 which needs to be taken seriously since the VAT increase in total VAT revenue from this IRO should increase.

4.2 Empirical Study

4.2.1 Field survey and Individual opinion about VAT in Nepal

An empirical investigation has been conducted in order to find out various aspect of VAT from the experience of real life situations. The major tool used for this purpose is an opinion questionnaire. A total of 50 sets of questionnaire were distributed to the tax administrator, the tax experts, tax officers, businessman/traders and consumers .The responses received from various respondents have been arranged, tabulated and analyzed in order to their opinion.

There was a strong opposition form 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 provision of VAT. After that, VAT was extended through the retail level and thus implemented in its full-fledged from in the beginning period of VAT implementation, there was lack of skilled, trained manpower and officers, and administrative structure was not step up properly. But currently different informative programmes, seminars, and meetings were held to provide knowledge for the businessman, consumers and people about the VAT.

The following table shows the group of respondents.

Table No 4.2.1

Sample Sizes of respondents

S.N	Respondents	Sample size	Percentage
1	Tax experts	5	10
2	Tax officers	8	16
3	Businessmen/traders	12	24
4	Consumers	25	50
Total		50	100

4.2.2 Important Factors for Effectiveness of VAT in Nepal

In order to know the most important factor for effectiveness of VAT, respondents were requested to rank their response on the given choice. The question was that “What is the most important factor for effectiveness of VAT in Nepal?” Table No. 4.24 gives a breakdown of responses.

Table No. 4.2.2

Important Factors for Effectiveness of VAT in Nepal

S.N	Factors	No. of questionnaire distribution	No. of respondents	Percentage	Rank
1	Honest tax officers	50	14	28	2
2	Clear cut rules and regulation	50	18	36	1
3	Honest tax payers	50	10	20	3
4	Effective VAT	50	5	10	4

	administration				
5	Other please specify	50	3	6	5

Source: Field survey, 2008

The important factors for effectiveness of VAT ranked in order to preference of the respondents are as follows:

- a. Clear act rules and regulation
- b. Honest tax officers.
- c. Clear act rules and regulations
- d. Effective VAT administration
- e. Others (Please specify).....

Others important factors for effectiveness of VAT specified by two respondents are as follows:

- a. Most professional people are required in tax department as well as in tax office.
- b. Reduction in the discretionary power of tax officers.

From the above opinions it can be concluded that clear act, rules and regulations are the most important factors for the effectiveness of VAT in Nepal.

4.2.3 Views on Future Prospect of VAT in Nepal

The observations on international experience of VAT are advantageous to the revenue mobilization and the strong administration. However, nothing can be said about the possible results and effectiveness until the implementation of VAT will start properly in Nepal.

The smuggling trade level is at peace point, which is creating the parallel economy as a challenge to the national economy, the tax leakage is at higher magnitude, the tax system is narrow and revenue collection is at the lower advantageous in future or not.

Table No.4.2.3**Future prospect of VAT in Nepal**

S. N	Respondents	Total	Medium		Unsound		Sound		Natural	
			Response no.	%	Response no.	%	Response no.	%	Response no.	%
1	Tax expert	5	-	-	-	-	5	100	-	-
2	Tax officer	8	2	25	-	-	6	75	-	-
3	Businessman/ traders	12	3	25	-	-	9	75	-	-
4	Consumers	25	5	20	-	-	15	60	5	20

Source: Field survey, 2008

Among the 50 respondents, questionnaires are distributed for five tax experts, eight tax officers, twelve businessmen and twenty five final consumers. From the above table it shows that hundred percent tax experts are in favour of sound future of VAT in Nepal, Seventy five percent tax officers are in favour of sound future of VAT in Nepal and twenty five percent tax officer are in favour medium future of VAT in Nepal, seventy five percent businessmen are in favour of sound future of VAT in Nepal and twenty five percent businessmen in favour of medium future of VAT in Nepal, sixty percent consumer are in favour of sound future of VAT in Nepal, twenty percent consumer are in favour of medium future of VAT in Nepal and twenty percent consumer are in favour of natural future of VAT in Nepal.

At last, from the above field survey, it is concluded that future of VAT is bright in Nepal because as much as respondents are in favour of sound future of VAT in our country Nepal.

4.2.4 Is 13% rate effective?

VAT rate is effective increased from 10 to 13 percent from the fiscal year 2062/63. VAT was expected to have a greater revenue yield on percent rate structure. However, this expectation is not achieve in practice basically due to its weak implementation aspect. In such situation field survey was conducted to identify the effectiveness of VAT at 13 percent. The following table shows the views on this matter.

Table No.4.2.4

View on Single Rate of VAT 13%is Effective

Respondents	No. of respondents	Yes		NO		I don't know	
		Response No.	%	Response No.	%	Response No.	%
Tax experts	5	5	100%	-	-	-	-
Tax officers	8	8	100%	-	-	-	-
Businessmen	12	6	50%	3	25%	3	25%
Consumers	25	5	20%	-	-	20	80%

Source: field survey, 2008

From the above table it seems that hundred percent tax experts, hundred percent tax officers, fifty percent businessmen and twenty percent consumers are in favour of thirteen percent VAT rate. But fifty percent businessman and eight percent consumers are given their opinion in no and I don't know.

At last, it is concluded that a lot of consumers are unknown about the VAT and VAT rate. So, it is necessary to make able to understand VAT and VAT rate for them.

4.2.5 Is VAT superior than Sales Tax?

VAT, a least development of sales tax is new innovation in the field of taxation, VAT is being preferred by many countries in the world, is superior over sales tax system. Without

comparison with sales tax we can't say' VAT is superior than other sales tax system, with base to effect 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 No. 4.2.5

View on Superiority of VAT Over Sales Tax

Respondents	No. of respondents	Yes It is		No it is not		I don't know	
		Response No.	%	Response No.	%	Response No.	%
Tax experts	5	5	100	-	-	-	-
Tax officers	8	8	100	-	-	-	-
Businessmen	12	6	50	3	25	3	25
consumers	25	2	8	3	12	20	80

Source: Field survey, 2008.

According to the opinion survey 2006 hundred percent tax experts provide their view regarding superiority of VAT over sales tax, hundred percent tax officers provide their view regarding superiority VAT over sales tax, but fifty percent businessmen provide their view regarding superiority of VAT over sales tax other twenty five businessmen provide their view opposite it's system and other twenty five percent businessmen unknown about the VAT system. Eight percent consumers provide their view regarding superiority of VAT over sales tax, twelve percent consumer provides their view opposite its system and other eighty percent consumers are unknown about this question.

At last, the outcome proof that VAT is superior to sales tax on the aspect of revenue mobilization, coverage, and burden tax base, transparent. But consumers are unknown about the VAT system due to the administration weakness.

4.2.6 Views on possibility of Billing System

The businessmen have to pay the amount of different 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 question is designed to show the consumers on billing system of VAT. The outcome of the field survey in this aspect is given below:

Table No. 4.2.6**View on possibility of Billing System**

Respondents	No. of respondents	Yes it is		No it is not		I don't know	
		Response No.	%	Response	%	Response No.	%
Tax experts	5	5	100	-	-	-	-
Tax officers	8	8	100	-	-	-	-
Businessmen	12	9	75	-	-	3	25
Consumers	25	5	20	5	20	15	60

Source: Field Survey, 2008.

From the opinion survey, it is found that all the tax experts and tax officer advocate for the possibility of billing system of VAT. Seventy five percent businessmen advocate for the possibility of billing system of VAT and twenty five percent businessmen don't know about the VAT system. Twenty percent consumer advocate for the possibility of billing system of VAT, other twenty percent provide their view impossible of billing system in VAT and sixty percent consumer, they are unknown about the billing system in VAT.

It is concluded that consumers are unknown about the billing system of VAT.

4.2.7 View on Reason for Need of VAT in Nepal

All most developing countries depend upon the external resource such as foreign aid loan financial assistance. So these countries tried to stand on the internal revenue through VAT system. Being the various difficulties of sales tax, Nepal cannot collected more revenue in the previous years and the populations of the VAT system in the internally were assist to implement VAT system in Nepal, The following table visualize about the opinion of respondent why VAT is needed in Nepal.

Table No.4.2.7**View on Reason for Need of VAT in Nepal**

Respondents	No. of respondents	Effective revenue		Transparency		Burden tax base		Avoid tax leakage	
		Response No.	%	Response No.	%	Response No.	%	Response No.	%
Tax experts	5	3	60	-	-	2	40	-	-
Tax officers	8	4	50	-	-	4	50	-	-
Businessmen	12	9	75	-	-	-	-	3	25
Consumers	25	5	20	5	20	5	20	10	40

By the survey, it is clear that sixty percent tax expert, fifty percent tax officer, seventy-five percent businessmen and twenty percent consumers are agreed that VAT is needed in Nepal due to the reason of effective revenue collection. Similarly, twenty percent consumers are agreed that VAT is transparent method to collect revenue. Forty percent tax expert, fifty percent tax officer and twenty percent consumers were reported that VAT is needed due to burden tax base. Twenty five percent businessmen and forty percent consumer were reported that VAT is needed due to avoid tax leakage.

4.2.8 View on Problem in the process of VAT implementation

The taxpayer and tax collector both have to be well-known and conscious about the record keeping and process of VAT system. Though the eight years have been already passed, but still it has great challenges in this aspect. The field survey has been conducted to know the view of different respondents about to explore the problems or process of VAT record. The study shows registration, collection, tax record and other study shows registration, collection, tax record and others are the main problems for the implementation. The attitudes of different respondents are presented in the following table.

Table No. 4.2.8**Views on Problems in the process of VAT implementation**

Respondents	No. of respondents	Registration		Collection		Tax refund		Others	
		Response No.	%	Response No.	%	Response No.	%	Response No.	%
Tax experts	5	3	60	2	40	-	-	-	-
Tax officers	8	4	50	2	25	2	25	-	-
Businessmen	12	6	50	-	-	3	25	3	25
Consumer	25	10	40	5	20	5	20	5	20

Source: Field survey, 2008.

The above survey shows that 60 percent of tax expert, 50 percent of tax officers, 50 percent of businessmen and 40 percent of consumers seems to be unsatisfied with registration problem, while 40 percent tax expert, 25 percent officer and 20 percent consumer show the problem of tax refund and 25 percent businessmen and 20 percent consumers provide their opinion others in the VAT implementation process.

Ultimately, it is concluded that registration is the major problem in the process of VAT implementation.

4.2.9 View on the Existing Tax Structure of VAT

The tax structure of VAT in Nepal is designed on the VAT in act 1996 and different law and regulations are prepared in successive years. The field survey has been concluded to found out where the existing tax structure is appropriate or not. The finding of this survey can be presented in the following table:

Table No. 4.2.9

View on the Existing Tax Structure of VAT

Respondents	No. of respondents	It is ok		It has to be improved		I don't know	
		Response No.	%	Response No.	%	Response No.	%
Tax experts	5	2	40	3	60	-	-
Tax officers	8	2	25	6	75	-	-
Businessmen	12	3	25	3	25	6	50
Consumers	25	1	4	9	36	15	60

Source: Field survey, 2008.

Above field survey shows that forty percent tax experts, twenty five percent tax officers, twenty five percent businessmen and four percent consumer provide their view existing tax structure is ok. Sixty percent experts, seventy five percent tax officers, twenty five percent businessmen and thirty six percent consumers provide their opinion on the existing tax structure of VAT has to be improved and fifty percent businessmen and sixty percent consumers are unknown about the existing tax structure of VAT.

At the end, it is concluded that tax structure of VAT has to be improved and provide knowledge for the businessmen and consumers about it.

4.2.10 View on Current Legal Provision and Rules of VAT

Before the implementation of VAT, the government has prepared VAT act 2052 B.S. and VAT regulation 2053 B.S. But the legal provision of rules, in general different to understand by all. The document of these enactments carry all the matters such as VAT administration and its operation, the tax officer and its authorities, tax payers and responsibilities, 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

regulations are sufficient or not with reference to current system of VAT. The outcome/attitude of the respondents on this aspect is presented in the table below:

Table No. 4.2.10

Views on Sufficient of Legal Provisions and Rules of VAT

Respondents	No. of respondents	Yes		No		I don't know	
		Response No.	%	Response No.	%	Response No.	%
Tax experts	5	5	100	-	-	-	-
Tax officers	8	8	100	-	-	-	-
Businessmen	12	3	25	3	25	6	50
Customers	25	5	20	5	20	15	60

Source: Field survey, 2008

Above opinion survey shows that hundred percent tax experts and tax officer, twenty five percent businessmen and twenty consumers were in favor of sufficient of legal provisions and rules of VAT. Twenty five percent businessmen and twenty percent consumers were against of sufficient of legal provision and rules of VAT. Fifty percent businessmen and sixty percent consumer are unknown about the legal provision and rules of VAT.

Lastly, it is concluded that it is necessary to provide sufficient knowledge about the legal provision and rules of VAT for businessmen and consumers.

4.2.11 View on Effect are Needed to Make VAT Effectively Successful

It is necessary to identify the existing problems and solve them successively to make the VAT more successful in future. Hence, there are so many options to make VAT more successful. These are strength and improve the VAT administration, improve VAT laws and regulations public awareness program and VAT education to the businessmen. The opinion survey on these texts of different respondents is summarized in the table below:

Table No. 4.2.11

Respondents	No.of respondents	Strength and improve VAT administration		Improve VAT laws and regulations		Public awareness program		VAT education to the businessmen	
		Response No.	%	Response No.	%	Response No.	%	Response No.	%
Tax experts	5	1	20	-	-	2	40	2	40
Tax officers	8	2	25	-	-	2	25	4	50
Businessmen	12	2	16.67	-	-	4	33.33	6	50
Consumers	25	5	20	-	-	5	20	15	60

View on Needed Efforts to Make VAT Successful

Source: Field survey, 2008

According to the field survey, twenty percent tax experts, twenty five percent tax officers, 16.67 percent businessmen and twenty percent consumers provide their opinion on strength and improve VAT administration. Forty percent tax experts, twenty five percent tax officers, 33.33 percent businessmen and twenty percent consumers provide their opinion on public awareness program. Forty percent tax expert, fifty percent tax officers, fifty percent businessmen and sixty percent consumers provide their opinion on VAT education to the businessmen to make VAT effectively successful.

It is concluded that VAT education is needed for the businessmen to make VAT effectively successful. Most of the respondents provide their opinion in favor of it.

4.2.12 Views on major weakness of VAT Administration

For the effective and successful implementation of VAT, we have to identify the current weakness of administration. VAT administration reform is weak inadequate and incomplete which cause problems and challenges in path of operation of VAT administration. It is found that major weakness of VAT administration in Nepalese lack of experts, lack of train manpower, lack of physical infrastructure and weak economy. The opinion survey has concluded in this aspect to

know the major weakness of VAT administration. The outcome this view is shown in the following table:

Table No. 4.2.12

Views on Major Weakness of VAT Administration

Respondents	No. of respondents	Lack of experts		Lack of train manpower		Lack of physical infrastructure		Weak economy	
		Response No.	%	Response No.	%	Response No.	%	Response No.	%
Tax experts	5	-	-	3	60	2	40	-	-
Tax officers	8	-	-	5	62.5	3	37.5	-	-
Businessmen	12	3	25	6	50	3	25	-	-
Consumers	25	5	20	15	60	5	20	-	-

Source: Field survey, 2008

From the above table, it shows that twenty-five percent businessmen and twenty percent consumers provide their opinion major weakness of VAT administration is lack of tax experts. Sixty percent tax experts, 62.5 percent tax officer, fifty percent businessmen and sixty percent consumers provide their view major weakness of VAT administration is lack of train manpower. Forty percent tax experts, 37.5 percent tax officer, twenty five percent businessmen and 20 percent consumer provide their opinion major weakness of VAT administration is lack of physical infrastructure.

At last, it is concluded that the major weakness of VAT administration is lack of train manpower which are involve in this sector. It is necessary to give training for manpower.

4.2.13 Views on Effect of VAT on Tax Leakage

Tax leakage is one of the most challenging problems for the tax administration. Due to the weakness remains in rules and regulation and non-effectiveness in implementation. It is a visible and invisible problem in tax system. So, it is a problematic issue yet. 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 and causes the declining revenue collections. In the contexts of Nepalese economy, it is great challenges so government already introduces VAT system. Due to the major objective 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 as this aspect, the opinion survey has been conducted. The views/outcomes of different respondents is summarized in the table below:

Table No. 4.2.13

Views on Effect of Tax Leakage

Respondents	No. of respondents	Eliminative		Non-eliminative		No effective		I don't know	
		Response No.	%	Response No.	%	Response No.	%	Response No.	%
Tax experts	5	5	100	-	-	-	-	-	-
Tax officers	8	8	100	-	-	-	-	-	-
Business men	12	9	75	-	-	3	25	-	-
Consumers	25	5	20	5	20	5	20	10	40

Source: Field survey, 2008.

According to the opinion survey, hundred percent tax experts and tax officer, seventy five percent businessmen and twenty percent consumers provide their opinion in favor of eliminative power of VAT. Only five percent consumer provide their opinion VAT is not eliminative power to collect tax. Twenty-five percent businessmen and twenty percent consumers provide their opinion in favor of no effect of VAT in revenue collection. Forty percent consumers are unknown about it.

4.2.14 Views on Impact on Government Revenue When VAT was Applied in practice

Tax is one of the major sources of government revenue. VAT is one of the indirect tax. Before implementation of VAT in Nepal sales tax was in practice. But sales tax couldn't success for revenue mobilization of government. So, VAT system was applied in practice. VAT helps to control the tax leakage. Opinion survey is conducted to know the impact on government revenue when VAT applied in practice. The outcomes of different respondents are summarized in the table below:

Table No.4.2.14

View on Impact on Government Revenue When VAT was Applied

Respondents	No. of respondents	Positive		Neutral		Negative		I don't know	
		Response No.	%	Response No.	%	Response No.	%	Response No.	%
Tax experts	5	5	100	-	-	-	-	-	-
Tax officers	8	8	100	-	-	-	-	-	-
Businessmen	12	9	75	3	25	-	-	-	-
Consumer	25	5	20	-	-	5	20	15	60

Source: Field survey, 2008

From the above table, it shows that hundred percent tax experts and tax officers, seventy five percent businessmen and twenty percent consumer provide their opinion in favor of positive impact on government revenue when VAT was applied only twenty five percent businessmen provide their opinion in favor of neutral impact on government revenue when VAT was applied. Sixty percent consumers are unknown about the VAT revenue.

At last it is concluded that VAT laid positive impact on government revenue VAT helps to collect revenue for government and control the tax leakage.

4.2.15 Views on Impact Laid upon the Revenue Collection in Case VAT is formulated in Multi-Rate

The ultimate aim of government implementation of VAT is effectively revenue collection. VAT laid negative impact upon the revenue collection in case VAT is formulating multi-rate. Multi-rate means more than one rate is implied in practice. It is difficult to collect the revenue and refund of tax. So the field survey was conducted to know the views of different group about an impact are laid upon the revenue collection in case VAT is formulated in multi-rate the result of opinion survey is presented in the table below:

Table No. 4.2.15

Views on Impact Laid upon the Revenue Collection in Case VAT is Formulated in Multi-Rate

Respondents	No. of respondents	Positive		Negative		Neutral		I don't know	
		Response No.	%	Response No.	%	Response No.	%	Response No.	%
Tax experts	5	-	-	5	100	-	-	-	-
Tax officers	8	-	-	8	100	-	-	-	-
Businessmen	12	-	-	9	75	3	25	-	-

Consumer	25	-	-	5	20	5	20	15	60
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Source: Opinion survey, 2008

The above table, it shows that hundred percent tax experts and tax officers, seventy five percent businessmen and twenty percent consumer provide their opinion in favour of negative impact laid up on the revenue collection in case VAT is formulated in multi rate. Twenty-five percent businessmen and twenty percent consumer provide their opinion in favour of neutral effect is laid upon the revenue collection in case VAT is formulated in multi-rate. Sixty percent consumers are known about revenue collection and multi-rate of VAT.

At last, it is concluded that multi-rate of VAT laid negative impact on revenue collection. A lot of consumers are unknown about the revenue collection from VAT and multi-rate of VAT.

4.3 Existing Problem in the Implementation of VAT in Nepal

Nepal is still facing number of challenges like poor administration political instability, mal-practices, corruption etc, these existing challenges in revenue collection from VAT in Nepal are explained below:

4.3.1 VAT Billing

Since VAT is based on billing system, the issuance of proper bill is very important for the successful implementation of VAT. In other words, the success of VAT depends on bill issuance by traders and compulsory receipt of bill issuance by customers. In case of Nepalese market, billing system is not effective and still an implement in the effective implementation of VAT. Even after eight years of implementation of VAT consumers are unaware of significance of billing system. The system of asking for bills while purchasing goods has not developed so for despite government commitment of efforts. Due to lack of public awareness about billing system, very people ask for bill for their purchases. There is motivation for the consumers to get bill on their purchase.

The proper issuance of bills has remained a major bottleneck. The revenue generation is not meaningful because the potential revenue is severely lacking due to the non-operation or ill operation of billing system in most of the registered firms. Businessmen registered in VAT offices, holding VAT certificate, full fill just formalities but avoid issuing bill for every transaction. Beside that most of the firms don't issue bill. They issue parallel bills, loose bills and make parallel account one

for the tax purpose and other for business purpose. Consumers too are not much interested for taking bills since VAT amount is added if they demand for bill. If any consumer asks for bill, they would charge thirteen percent more as VAT on the top of the price. Then, general consumers don't ask for VAT bill, Either they take cash memo or a purchase note. People who debate for VAT bill harassed.

Furthermore, the major problem associated with VAT is the back of compliances on the part of Businessmen with bill requirements. Businessmen hardly issue bill to consumers through it is mandatory under VAT act. If consumers insisted, they would charge entry money. Such practice has discouraged the customers to demand VAT bill. Similarly, low valuation of imported goods at the customers is another major obstacle in the successful implementation of VAT and is the roof cause of the failure of the billing system. If this provision couldn't take place in practice, the effectiveness of VAT always remains questionable. Until the bills are not issued, VAT cannot be effective. Billing system is the greater challenge of VAT in Nepal. (Ghimire 2008)

4.3.2 Narrow Tax Base

The base of VAT is narrow, both legally and administratively. For example, several sources of income including agriculture, experts, capital gains, dividends, fringe benefits etc. still have deliberately been kept out of VAT net. Exclusion of agriculture, the biggest sector, along cuts the tax base by all 40.06 percent of GDP. An attempt was made to limit the number of exemptions, under VAT until the introduction of VAT. But the number of exemptions under VAT until the implementation of VAT, many exemption dedications and rebate are granted under the industrial enterprises act. Similarly, large numbers of exemptions are granted under the customs duties. Similarly, high exemptions are granted under the house and land tax. Excise duties currently levied only one domestic product, keeping imports outside the excise net. Almost 70.07 percent of the economic activities that account for GDP are virtually out of the tax net. Economic activities brought under the tax net also not tapped effectively due mainly to the lack of strong political commitment and weak tax administration. This has been reflected in the low number of tax payers and low revenue collection. (Ghimire 2008)

4.3.3. Smuggling, Under Valuation and Unauthorized Trade

Nepal has long border with the both neighboring countries India and China. However, the border with China is not being a serious problem due to the geographical inconvenience caused by mountain area. There is no easy way to pass through the Chinese border and hence level of illegal trade is negligible. But the open border with India being most challenging issue and problem is still alarming. People of the India and Nepal may easily enter one another's country and buy goods not paying customs duties for personal use. However, major problem is due to the large volume of smuggling and under valuation transaction by business enterprise rather than consumers. Once the goods are entered into the country by an under valued billing, VAT revenue along with customs duties is lost and that cannot be catch up in service stage of distribution. Similarly, the goods, which are entered through the illegal route, remain completely beyond the VAT net. Thus a major problem for effective implementation of VAT is created by large volume of smuggling and under valuation while importing goods from India. Beside that, there is not any measurement of unauthorized trade between Nepal and India. Many businessmen have claimed that only a little amount of goods from India comes through customs. So it seems unauthorized trade is very much organized and systematic in border area. (Maharjan 2005)

4.3.4 Weak Tax Administration

An effective and efficient administration is crucial for the proper implementation of VAT. But in Nepal, VAT administration is still in traditional nature and corruption is being a major problem. Transparency is being only a nice slogan but lacking in real field. The tax officers aren't given specialized training on various aspects of taxation. Some of the tax officers are still not familiar with the basic and essential concept of VAT and even new entrance to the tax administration are directly posted to the field officers without being given any basic training for jobs. There is a lack of adequate auditors, treaty negotiators and train personnel on various aspect of taxation. There is also no system of performance-based evaluation of the tax officials for promotion to higher levels. Due to the weak tax administration, there is a big gap between legal system and its actual operation. Beside that, administration inefficiency is another most serious problem for implementing VAT. For effective implementation, qualified, intelligent, well-trained manpower are necessary. Many businessmen are illiterate and can't prepare their account properly and they are facing many problems while maintaining account. So tax administrations must provide basic ideas to the readers and cooperative traders. (Ghimire 2008)

4.3.5 Weak Public Consciousness Level

Public consciousness is a basic element that should be at a higher level in the people so that the government can be guided in the right direction for achieving objectives of any government policies and program. In the context of Nepal, it has a poor public consciousness level related to VAT. The business community has been misinterpreting and also misguiding about the VAT to the people by saying that VAT certainly raises the price level of goods. But there is no voice against such misguidance and misinterpretation. The consumers, who are really interested to make the VAT system successful, want to get VAT bills on their purchase but they are not getting such bills from the business community. Most of the consumers don't demand VAT bills when they are asked by the businessmen to add 13 percent more amount to get VAT bills. But they don't know the fact that businessmen are covering the VAT amount into the price of product indirectly. Thus, by not issuing proper bills businessmen are cheating revenue to the government as they are collecting VAT amount from the consumers indirectly. So far as the consumers remain unfamiliar with different theoretical aspects and existing rules and regulations of the VAT, the problem will remain in existence. Thus, a very weak public consciousness level about VAT is being one of the most significant problems for the proper implementation of the Nepalese VAT system. A successful and effective VAT will be the result when the issuance of invoices is effective through a high level of public consciousness. (Ghimire 2008)

4.3.6 Geographical Barriers

Geographical situation of our country has created an important issue about the applicability of VAT in Nepal. The land distribution seems to be extremely unequal. Such geographical condition has arisen several problems in the path of application of VAT in Nepal. In remote areas where the people must bear the burden of higher price of commodities due to the service rented by porters, animals, and air transportations. Because of these, the burden of VAT is higher in the remote areas than in other accessible areas.

The revenue collection in such areas would be negative amount as compared to collection cost. Therefore, the high collection cost does not permit VAT to be the applicable in some of the district in Nepal. Similarly, controlling and mentoring system of VAT in far and remote areas is not easy due to the lack of transportation, communication, train manpower, sufficient materials etc. It is difficult to control the many functions of VAT like inspection, audit, tax refund, penalty, applies in the remote areas due to the lack of adequate tax officers. (www.vatvalve.com)

4.3.7 Political Instability

Multi-party democracy system is in our country. Lack of the leading capacity of the leaders, selfish attitudes of the political leader, prime minister and minister of the country they are created political instability form the fiscal year 2052/53. Political instability is a great problem in the field of revenue collection from VAT. Tax experts, tax officers, personnel related to tax field couldn't go in the remote sport of VAT. Due to the political instability can't prepare tax act rules and regulations. (<http://papers.ssrn.com>)

4.4 Major Findings of the Study

On the basis of previous chapter, data presentation and analysis, various important findings were obtained. By deeply analysis of the above chapter it was finding as below:

4.4.1 Findings from Secondary Data

VAT has been most essential choice as ingredient of tax reforms of developing countries like Nepal which leads to revenue enhancement and sustainable economics development. There is

tremendous scope for in increasing the revenue from VAT will obviously increase its contribution in coming days.

- VAT has been very effective mechanism to collect the revenue than earlier sales tax because it has broad scope. It has been contributing a significant amount in total tax revenue in Nepal. VAT collected from IRO, Lalitpur has contributed 6.94, 6.87, 7.01, 8.04, 7.51, 7.55, 7.09, 7.415 and 6.66% in total revenue since its implementation in Nepal 1998/99 to 2006/07 respectively.
- The trend of VAT registrants in IRO of Lalitpur is in increasing trend which shows that people are being quite aware regarding VAT system and its advantage due to which VAT revenue in VAT office is also increasing which also proves that VAT administration is successful to some extent.
- The government expenditure is increasing continuously but revenue resources are very limited which lead the country to fiscal crisis. The major cause of persisting fiscal deficit in Nepal is due to the poorly designed and defective tax system which cause inadequate mobilization of resource.
- Future of VAT is bright in Nepal because of the increasing trend in revenue collection from VAT. Despite the 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 coming days. VAT generated about Rs. 2586.24 million revenue in fiscal year 1998/99 from IRO Lalitpur. It reached up to Rs. 5842.67 million in fiscal year 2005/06.
- Overview the current revenue structure of Nepal, the share of tax revenue has been greater than the share of non-tax revenue. About three quarters of revenue comes through tax revenue and one-third from non-tax revenue which shows the dominant role of tax revenue and the foreign grants and aids, which leads country's situation towards fiscal crisis and resource gap.
- The share of value added tax in GDP in Nepal is very low with comparison to other developed countries. The contribution of VAT revenue as percentage in GDP remained 2.76, 2.82, 2.66, 2.80, 3.15, 2.78, 2.93, 2.94, 3.52, 3.67, and 3.98 from fiscal year 1996/97 to 2006/07 respectively, however showing a improving trend likewise the registration into VAT is also increasing day by day. The number of registrants increased from 5237 to 46831 from the fiscal year 1997/98 to 2005/06 by almost same fold.

- The structure of VAT administration is still weak traditional corrupted, inadequate and incomplete which current problems and challenges in the path of successful implementation of VAT out of the major weakness of VAT administration.
- Billing system is one of the major aspects of the effective implementation of VAT businessmen hardly issue bill to consumer. Consumers too are not interested in taking bill due to mis-concept of increasing in price of goods such practice has discouraged the consumers to demand VAT bill and it is the root cause of the failure of billing system.
- VAT can be entrenched as an integral part of Nepalese tax structure in long run if its implementation should be successful. VAT has brought prospects in future but prospect of VAT entirely depend upon its implementation aspect. Mainly the successful implementation depends upon the strong political commitment, cooperative between the customs offices and inland revenue department between private sector and the government bodies, systemization of rules and regulation accordingly over time to time.
- Smuggling business activities are increasing due to weak tax administration and proper operation. It is accepted that VAT system help the government to control these illegal activities.
- In recent decades, developing as well as developed countries in the world have increasing forced their attention towards reforming the tax system by realizing the poor designed tax structure in order to mobilize higher volume of resource for development purpose 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 popularity day by day.
- The major problems exist in business sector are registration procedure, account keeping system, and cost of record keeping for the purpose of VAT.

4.4.2 Finding from Primary Data

- VAT is the modern and the best form of the sales tax. However, implementation aspect is more important for this kind of tax to get its real performance. Amore efficient and effective administration is the most important requirement for effective operation of VAT. Capable administration is lacking due to the lack of strong efficient and fair monitoring system. It needs close cooperation between the customs office and the inland. Revenue office and other general aspect for the better

implementation. But existing problems are still in existence. Inadequate manpower with the little knowledge about VAT, geographical issue, and political issue, and defective organization structure, tax unconsciousness of people, open broader situation and unauthorized trade are existing problems. On the basis of opinion survey, inadequate manpower with little knowledge is the main problem, which is ranked at the first. Similarly, other problem, which is ranked as per their effective on VAT system.

- Most of the taxpayers are not conscious about VAT system. Tax payers are still unknown about its threshold, exemption, zero rating and other related issues which are essential criteria for VAT registration. It proves that government has no proper homework before its primary implementation.
- Vat can be entrenched as an integral part of the Nepalese tax structure in the long run if its implementation should be successful. VAT has brought prospects in future but prospects of VAT entirely depend upon its implementation aspect. Mainly, the successful implementation upon the strong, fair and capable administration, strong political commitment, cooperation between the customs offices and inland revenue department, co-operation between private sector and the government bodies, systemization of rules and regulation accordingly over time to time.
- VAT is superior to the sales tax. Almost respondents are in its favor. So the conclusion can be made VAT is superior to other types of sales tax. VAT is providing satisfactory contribution in total government's revenue.
- Most of the businessmen and consumers don't have knowledge about the VAT structure, pricing, billing, accounting, need of VAT in Nepal, existing tax structure, rules and regulations etc.
- An adequate VAT education programmes aren't conducted and VAT administration has facing lack of administrative personnel. Sufficient tax offices aren't established in place to place by the government.
- Single VAT rate is effective because most of the respondents are provided their opinion in favor of single rate of VAT. Multi-rate of VAT provides negative impact in revenue collection from VAT. It is difficult to compute, record keeping, tax refund etc.
- From the above study it is clear that VAT creates the positive impact in revenue collection because most of the respondents were agree about those points.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This final chapter is an Endeavour to discuss the study in brief as summary, latter goes on conclusion and ultimately ended with the recommendation to implement VAT effectively in the future.

5.1 Summary

Value Added Tax is the latest innovation in the field of taxation. Around 125 countries in the world have been adopted VAT. VAT is a tax charged on the increasing value of goods and services from the point of production to the point of ultimate distribution. It doesn't mean the value of goods and services is increased by 13% in each stage. The tax is charged only on the added value at each stage not to the values as a whole. The tax is shifted from the businessmen ultimately to the consumer. Thus it is indirect tax. It is compulsory to be registered for shifting VAT to the customers by the businessmen.

At first, in 1954, French Government implemented VAT. Then it flourished in other European countries gradually. Its transparency and less chances of tax evasion made VAT popular all over the world. Considering the benefit the prevailing government in Nepal adopted VAT in December 1995. Then, VAT implemented through issuing the finance bill of 1997.

VAT replaced the other taxes such as sales tax, entertainment tax, hotel tax and contract tax. Nepal followed consumption type of VAT with destination principle at the single positive rate of 13%

Economic development is still a challenge for Nepal. For this, adequate fund is needed. VAT was necessary to introduce for revenue generation. Much apparently, VAT came in action of promote economic growth, for improving system, to assure the donor agency by keeping the scientific and effective tax the economy at macro level, to establish an transparent account based tax system.

Domestic products and Imports are the VAT sources for Nepal. Around two third of VAT revenue is collected from imports and the rest one third comes from domestic products. Trend of VAT collection brings a hope that the both sector contribution may be equal in the upcoming years.

VAT has a broad coverage and has power to contribute in national income significantly. Government operating activities and development activities needs sufficient amount of fund. Tax is major source of revenue. It contributes in GDP of a country as well. In Nepal, the VAT contribution in GDP is not satisfactory.

Lack of public awareness as well as tax payer's ignorance may create problem for the implementation of VAT in Nepal. The most serious problem for implementing VAT in Nepal are the ineffective administration, lack of trained, qualified manpower.

In the empirical study, the analysis has been made on the basis of information collected from customers, experts, officers, businessmen and consumers. The tool that is basically used is the questionnaire.

5.2 Conclusion

It is obvious that taxation is important in revenue collection and implementation. Two third of total tax revenue comes from indirect tax. VAT replaced other indirect taxes such as hotel tax, sales tax, contract tax and entertainment tax because it is simple, broad and friendly tax system. With the introduction of VAT, Nepal entered in to major global tax system.

Government needs finance for the execution of its operating and development activities. Sales tax in its past year was not able to realize the revenue due its narrow tax base coverage. It was not able to meet public expenditure as well.

VAT embarks a country with resource shortage as an instrument for maximum revenue realization. In spite of preliminary resistance VAT is currently well received by the consumer, business, industry and commerce. The tax payer education campaign and the lucky draw scheme run by the inland revenue department with the objective of uplifting the level of awareness among the stakeholder of society is needed and praise worthy.

VAT was introduced as a part of the national tax reform program. But VAT system in Nepal from its commencement has been facing innumerable problems which curtails merits and effectiveness. It is progressing slowly due to opposition from business community and the bureaucrats. Despite preliminary resistance, VAT has been largely accepted by the taxpayers as well as the business communities of Nepal. It has now become an important source of funds to finance public expenditure.

VAT is still facing numerous difficulties for its implementation such as lack of public awareness, feeble tax administration; unauthorized trade, political instability, frequent change in the government, narrow tax base coverage, VAT billing, irresponsible office personnel in VAT offices and lack of trained and qualified manpower. Such problems should be avoided for effectiveness of VAT.

5.3 Recommendation

Ultimately it is concluded that VAT helps in internal resource mobilization for developing the infrastructure in any country as an indirect tax. Government should focus in establishing new industry, scientific agriculture system, trade centre and commerce centre, VAT offices in proper places, increasing the public awareness level and hiring the Asain, qualified manpower for good governess of VAT. Some points as recommendation are forwarded here to put the light on the research for which it is prepared.

1. VAT collection procedure should be made flexible, convenient and systematic as it has already replaced other indirect taxes- sales tax, hotel tax, contract tax, entertainment tax. This helps in increasing the number of VAT registrants and will increase domestic revenue simultaneously.
2. The department should focus on making the VAT aspects familiar to the concerned. The stakeholders should know about VAT, VAT state, VAT structure, objective of the VAT. The department should focus on publishing articles, and journals and conduct workshop seminar etc. to make it friendly.
3. Corruption should be discouraged. The monitoring system should be managed. The act, law and policies which are only remained on the paper should be enforced. Tough punishment and reward system should be managed for the corrupt and honest personnel respectively.
4. Politicians are the supreme in Nepal. They are corrupt and they lay down this corruption to the down level as well. Due to this corrupted mentality businessmen and industrialists haven't been able to establish and develop a business culture.
5. To collect the VAT revenue as much as possible, domestic product should be given top priority rather than foreign exports. For this purpose, scientific agriculture system, encouragement to the small cottage industries, and big business house should be privileged with some incentives as rebates and exemptions.
6. The tendency "working tomorrow" should be discouraged. There must be the coordination among government, officials and taxpayers. To make the personnel active and work oriented provide use wards, prizes extra fringe and benefits other than the salary.

7. The time duration for the VAT payment should be determined for its effectiveness. The VAT evictor should be paralyzed according to the rules and regulation.
8. Due to the open boarder with India and China the illegal trades have been taking place. To discourage it, proper supervision and monitoring should be done and to avoid tax cheating as well.
9. The trader and businessmen deny giving actual bill to consumers. From here, they get the chance of cheating the tax which is to be paid to the government. The reason behind it is loopholes of government and tax department separate monitoring system should be established for its effective implementation.
10. For the encouragement of VAT payer to pay VAT voluntarily rather than coercive measures the provision for reward, prize incentive should be introduced.
11. Computer system and networking program must be developed and linked so as to make VAT work simple which also helps to make data base system.
12. The Language of VAT act should be made simple and clear which may encouraged for the VAT payers towards the VAT coverage by understanding its objectives.
13. The sole power remained with tax official should be curtailed in the act.
14. The relation between clause and clause, sub clause to sub clause and other creates double meaning which makes loopholes in the VAT system themselves. That is why clear and meaningful clause and sub clause should be mentioned in act.
15. Expect the most essential goods and service which is directly consumed by people below the poverty line, the other goods and services should not be exempted.
16. The department should try to introduce the multi rate VAT for its wider coverage and maximum revenue generation.

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Appendix-I

Questionnaire to Tax Administrator, Experts, Businessman,

Consumers

Name:

Office/Organization:

Business:

Please tick (v) the answer of your choice or wherever approximate put in order of preference from 1 to last number on the basis of alternatives.

1) What is the most important factor for effectiveness of VAT in Nepal?

- a. Honest tax officers () b. Honest tax payers ()
c. Clear act. Roles and regulations ()
d. Effective VAT administration ()

2) Did you know properly about VAT?

- a. Yes () b. No () c. A bit ()

3) How do you know about VAT?

- a. Newspaper () b. News from radio/T.V ()
c. Lectures/seminars ()

4) Do you think that VAT administration is effectiveness in Nepal?

- a. Yes () b. No ()

5) What is your opinion about future prospect of VAT in Nepal?

- a. Medium () b. Unsound ()
c. Natural () d. Sound ()

6) What effect will have VAT in the nation's economic growth?

- a. Positive () b. Negative () c. No effect ()

7) Do you think single rate of 132% VAT is effective?

- a. Yes () b. No () c. I don't know ()

8) Do you think that VAT is superior than sales tax?

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

9) Will VAT system in Nepal improve revenue mobilization?

- a. Yes () b. No () c. I don't know ()

10) What is your about billing system?

- a. Possible () b. Impossible () c. I don't know ()

11) What are the main reasons for need of VAT in Nepal?

- a. Effective revenue () b. Transparency ()
c. Burden tax base () c. Avoid tax leakage ()

12) What kind of problem has arisen in the process of VAT implementation in Nepal?

- a. Registration () b. Collection ()
- c. Tax refund () d. Others ()

13) What do you think about the existing tax structure of VAT?

- a. It is ok () b. It has to be implemented () c. I don't know ()

14) What are the problems of VAT in Nepal? (Please rank)

- a. Inadequate manpower with sufficient knowledge about VAT ()
- b. Geographical issues () c. Political issues ()
- d. Inefficient tax administration ()s
- e. Tax unconsciousness of the people ()
- f. Open border and unauthorized trade ()
- g. Improper billing system ()

15) Do you think that current legal provision and rules of VAT is sufficient in Nepal?

- a. Yes () B. No () c. I don't know ()

16) What kinds of effects are needed to make VAT effectively successful?

- a. Strength and improve VAT administration ()
- b. Improve VAT laws and regulations ()
- c. Public awareness program ()
- d. VAT education to the businessman ()

17) What types of impact does VAT system create on business enterprises?

- a. Positive () b. Negative ()
- c. Neutral () d. I don't know ()

18) What are the major weaknesses of VAT administration?

- a. Lack of experts () b. Lack of trained manpower ()
- c. Lack of physical infrastructure () d. Weak economy ()

19) What effect will VAT have on tax leakage?

- a. Eliminative () b. Non- eliminative ()
- c. No effect () d. I don't know ()

20) What kind of impact it laid on government revenue when VAT was applied in practice?

- a. Positive () b. Neutral ()
- c. Negative () d. I don't know ()

21) What kind of impacts is laid upon the revenue collection in case VAT is formulated in multi rate?

- a. Positive () b. Neutral () c. Negative () d. I don't know ()

Appendix- II

Trend of VAT

1997/98-2006/07

(Rs in million)

Year (t)	VAT (y)	X= t-2000	X ²	xy	Y=a+bx
1997/98	7126	-4	16	-28504	12874+2505(-4)=2854
1998/99	7122	-3	9	-21366	5359
1999/00	7882.6	-2	4	-15765.2	7864
2000/01	9854	-1	1	-9854	10369
2001/02	12084	0	0	0	12874
2002/03	11964	1	1	11964	15379
2003/04	13459	2	4	26918	17884
2004/05	14302	3	9	42096	20389
2005/06	18885.4	4	16	75541.6	22894
2006/07	26095	5	25	130475	22894
N=10	∑y=128738	∑x=5	∑x ² =85	∑xy=212915.6	-

Let the trend line $y = a + bx$

Where, y=Total VAT

a = VAT when value of x is 0

x = year in case of time series

y = constant increase i.e slope.

Now, $a = \sum y/N = 128738/10 = 12874$

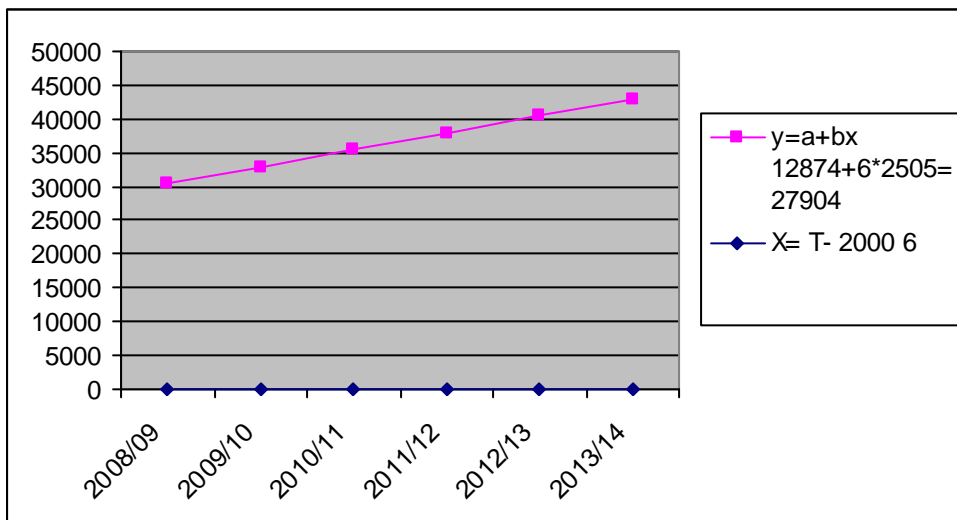
$B = \sum xy/\sum x^2 = 212915/85 = 2505$

On the basis of previous computation the projected trend of VAT can be known by using the value of $a= 12874$ and $b= 2505$ simultaneously.

Estimated VAT trend (Rs in million)

Fiscal year	X= T- 2000	y=a+bx
2007/08	6	12874+6*2505= 27904
2008/09	7	30409
2009/10	8	32914
2010/11	9	35419
2011/12	10	37924
2012/13	11	40429
2013/14	12	42934

Estimated VAT trend for 2007/08 to 2013/14



The above diagram represents the time series analysis of vat trend for upcoming years 2008/09 to 2013/14. The vat estimated for year 2007/08 is Rs.27904 millions and if grows constantly then, it will reach Rs.42934 in the year2013/14.

Appendix- III

VAT Exempted Goods and Services

1. Basic agricultural products:

- a. Paddy, rice, wheat, maize, barely, millet, pulses. Hour and similar unprocessed and Similar unprocessed food materials.
- b. Green and fresh vegetables, fresh eggs, fresh fruits and similar products (expect- Used in hotels, restaurants, bars, guest house, cafeteria and other similar organization.)
- c. Unprocessed cereals (such as sugarcane, tea leaf tobacco. Cotton, cardamom, jute, oil, seeds, soybean)
- d. Herbs.

2. Goods of basic needs.

- a. Unprocessed edible oil.
- b. Piped water, including water supplied by tankers
- c. Fuel, wood and coal
- d. Kerosene
- e. Salt

3. Live animals and animal products

- a. He goat, sheep, yaks. Lie buffalo, bore. Pigs, rabbit and similar other animals their Fresh milk and uncooked, unprocessed varieties.
- b. Cows, she buffalo, and she goat.
- c. Ducks, hens, cocks, turkey and similar oilier birds and similar other fresh meat, egg and similar uncooked/ unprocessed varieties.

d. Fresh or dried fish (other than packed)

4. Agriculture Inputs.

a. Seeds of any plants listed in group-1

b. Manure, fertilizer and soil conditioners.

c. Agriculture hand implements.

d. Pesticides made mainly for use of crops.

e. Agriculture equipment, including tractors.

f. Birds and animals feed.

5. Medicine, Medical and similar health services.

a. Medical or surgical services provided by government institutions.

b. Human bloods and products derived from human blood.

c. Human or animal organs or tissue for medical research.

d. The supply of services by persons on the register of veterinary surge veterinary Doctors.

e. The supply of goods made for and suitable only for the use of daubed persons.

f. X-ray film and oxygen gas to be used for treatment.

g. Raw materials purchased or imported by the drug industries to the extent approved by the department of drug management.

6. Education

a. The provision of research in a school or university.

b. The provision otherwise than for profit of professional or vacating training or refresher training.

c. The provision of education in a school or university and supply of goods made in Connection with such services.

7. Books, newspapers etc.

- a. Books, newspapers, newsletters and periodical
 - b. Newsprint.
8. Artistic and cultural goods and services, carving and periodical.
- a. Painting, handicrafts, carving and related services.
 - b. Cultural program.
 - c. Administration to libraries, archaeology museum 2003 and botanical gardens.
9. Personal or professional services.
- a. Air transport, non tourist passenger transpiration (except cable car) and goods Carrier (expect transportation related to supply)
10. Other goods or services.
- a. Postal services (provided by- G/N only)
 - i. The services of conveyance of letters. Money and post a¹ packets by post office.
 - ii. The supply by the post office of services in connection with the conveyance of letters, money and postal pockets.
 - iii. Postal stamps.
 - b. Financial and insurance services.
 - c. Banks notices and cheque books.
 - i. The printing and issue of bank notes.
 - ii. The supply of bank notes from outside the kingdom of Nepal to the kingdom of Nepal.
 - d. Gold and silver.
 - i. Gold, gold coin and gold ornaments.
 - ii. Silver and silver coins (other than ornaments and goods made or silver)
 - e. Electricity.
 - f. Raw wool

- g. Battery operated tempo, their classics and batten.
- h. bio gas, solar power and wind power, operated power generation plan and their main parts on the recommendation of the alternative energy center.
- i. Aeroplane, Helicopter, Fire bridge and ambulance.
- j. Jute goods.
- k. Industrial machinery included in section 84 of customs tan; and subject to 5% tariff.
- l. Woolen carpet- weaving dying washing knitting.
- m. Aluminum, copper, scrape, circle, plane and utensils.
- n. Cotton sadi, lunge, dhoti, gamacha.
- o. Cotton yarn.
- p. Woolen yarn to be use in hand knitting sweater (except artificial and acrylic) domestically.
- q. Donated goods received for calamities or philanthropic purpose, approved by ministry of finance.

11. Land and building.

- a. Purchase and rent of land and building (except the rental services provided by hotels or similar organization).

12. Betting, casinos, lotteries.

- a. The provision of any facilities for the placing of bets or the playing games of chance.
- b. Lottery

Source: Inland Revenue Department.

Appendix-IV

Zero Rated Goods or Services

1. Export goods.

- a. Goods or services purchased outside the kingdom of Nepal.
- b. Goods shopped for use as stores on a aircraft to an eventual destination outside the kingdom of Nepal.
- c. As Merchandise for sale by retail or supplied to persons in the Course of such a flight.

2. Export of services.

- a. A supply of service by a person resident in the kingdom of Nepal and having no Business establishment agent or legal representative acting of his behalf in the Kingdom of Nepal.
- b. Where goods are supplied on a hire or loan basis by a registered person resident in Nepal to a person resident outside the kingdom of Nepal.

3. Imports of goods and services by accredited diplomats.

Sources: Inland Revenue Department.