

CHAPTER: ONE

INTRODUCTION

1.1 Introduction

Nepal has been gradually initiated remarkable economic reform programs after restoration of multiparty democracy. The macroeconomic policies are guided by neo-liberal thinking in political scenario and market orientation in economic aspect. Nepal is laboring hard in striking a balance between burgeoning demand of monetary and non-monetary resources and limited resources required to fulfill the demand of socio economic services of the mass.

Fiscal policies were oriented towards reducing the tax rate, increasing the tax base, and waiving of subsidies and tax rebate. Fiscal targets were made more stringent with an objective of maintaining fiscal discipline. Revenue mobilization system was strengthened by simplifying the tax system, and by reforming in tax administration. Income tax rates, custom tariffs were reduced and sales tax, entertainment tax, contract tax, and hotel tax were substituted by well-praised, broad-based, transaction-based, scientific, and transparent system of taxation, which is known as value added tax (VAT).

Government expenditures has been increasing alarmingly not only because of heavy developmental outlay for infrastructure building and basic public service delivery, but also of recurring expenditure for less responsive and bloated size of public bureaucracy and inefficiency of the public enterprises. Heavy dependency on foreign loan and assistance for resource mobilization has expanded the size of debt service charge and repayment of installment of the principal loan. The current socio-political unrest has also boosted the security expenses.

The taxation may play dual role in this regard. One, taxation may be used to make the maximum volume of resources available in public sector. Second, taxation may be used to promote investment environment in the country. However, taxation in under developed and developing country has been designed so poorly that it has not been able to be a catalytic for economic development. The low level of domestic revenue mobilization has further aggravated the revenue-expenditure gap. The inefficient and

unaccountable public sector management along with stagnant, process-oriented, self-centered behavior of the development administration has become failure to utilize the foreign assistance. Due to liberalization of the state policies, globalization of domestic economy, and privatization of public service delivery system, interdependence between the nations has emerged so vigorously that every nation started to follow the liberal, open, competitive, and market-oriented economic policies. The eighth plan and subsequent other plan has been placing a high importance on implementation Value Added Taxation.

"As the name suggests VAT is a tax on value added" (Silwal, 2000;1), a member of indirect-tax-family, is the most recent innovation in the field of taxation. This tax is based on the transaction of goods and services. It is considered as new version of sales taxation. With the objective of increasing revenue mobilization in domestic transaction, of reforming the tax administration, and of controlling the revenue leakage, Nepal had launched Value Added Tax since 16, November 1997.

VAT can be the main source of revenue because of its nature. Every year, through the budget speech, Government of Nepal declares to develop the VAT, as the major source of revenue but Government expectation has not been fulfilled because of poor implementing capacity of tax administration. Moreover, the compliance level of the taxpayers is meager, tax education and awareness of the consumer is also very poor. The critical success measures of value added tax rest upon three dimensions, viz, the Government, the taxpayer, and the consumers. The poor implementing capacity and weak enforcement mechanism of Government, un-responsible and self-centered tendencies of taxpayers, and poor awareness about invoicing system of the consumer are equally responsible for being less success of value added taxation in Nepal.

VAT is new concept on collecting revenue, which is recently innovated in the field of the taxation. Each stage of the goods and service are lived to tax as its added value. It covers the value added to each commodity by a firm during all stages of the production and the distribution and the VAT is forwarded completely on the ultimate consumers.

1.2 Statement of the Problem:

Revenue is the most important thing for the government. Each and every activities of the government need revenue. No work can be accomplished without revenue. There are two major sources of revenue. Tax revenue can be distinguished in many ways. The most well known are; tax and non-tax revenue, direct tax and indirect tax, progressive and regressive tax, income and property tax, and so on.

One of the major sources of indirect tax is sales tax. VAT is the latest and modern version of sales tax. Sales tax has a long history although VAT was emerged in 1919 in Germany and introduced in France in 1954 for the first time in the world.

Both sales tax and VAT are based on the sales of goods and services. As per law, taxpayers are those who are registered for value added tax purpose. In real sense, taxpayers of both taxes are the consumer because they pay taxes to the salesperson for the government sake. Consumers are *de facto* taxpayers, whereas salespersons are known as *de jure* taxpayer. As per Value Added Act, 2052, taxpayers are those who are duly registered. VAT is called as a consumption tax also because it is normally included in the price of the goods and services, and the real burden of tax is forwarded to the consumer. Sales tax has many demerits like cascading, tax pyramiding etc. Cascading denotes tax on tax in the chain of production and distribution, while pyramiding implies incidence of tax rate in the excess of actual rate at the last echelon of consumption.

Having no demerits live cascading and tax pyramiding no impact of tax on investment, production, and other economic activities because of having tax credit and refund system within the VAT. Thus VAT has become a popular tax all over the world.

Globalization, economic liberalization, free market policy, emergence of regional trade organizations and WTO may create competition. In these contest custom tariff in to be reduced upped a certain level. The shortfall of revenue in custom tariff in to be replaced by VAT, has become our compulsion.

The desires and expectations of the people are growing on day by day. To fulfill these expectations of the people, the need of the revenue to the government is increasing. In this situation, VAT became a suitable option to the whole world, not only to our nation.

As stated above, VAT is based on the sales transaction of goods and services, this system can only be implemented if there is sound billing and recording system on the part of taxpayer. In order to run the system perfectly, Nepal Government has been implementing "Tax payers' Awareness regarding VAT collection and its implementing in Nepal" since it emerged. To measure and assess the efforts to these programs it is necessary to tie-up VAT collection with its invoice.

A careful examination of this issue imperative analysis is necessary to implement VAT successfully in coming days. To evaluate the Nepalese VAT by identifying its present problems, not only from theoretical aspect but also from the practical experience, this is the subject matter of this study. The study has tried to answer the following questions:

- ❖ What are the roles of taxpayers' awareness regarding the VAT Implementations in Nepal?
- ❖ How to examine the importance and effectiveness of VAT in revenue collection?
- ❖ How to identify current problems of VAT in Nepal?
- ❖ How to analyze the Nepalese tax structure?

1.3 Objective of the study:

The main objective of the study is to assess the taxpayer awareness regarding VAT. The specific objectives of this study are as under:

- ❖ To assess the impact of VAT in Government Revenue in Nepal.
- ❖ To analyze the Nepalese tax structure.
- ❖ To find out the relationship between VAT collection and tax payers' awareness program.
- ❖ To examine the importance and effectiveness of VAT in revenue collection.
- ❖ To evaluate current problems of VAT in Nepal.
- ❖ To suggest policy priority in respect to VAT implementation.

1.4 Focus and Significance of the study:

Nepalese tax system is charged to be based on negotiation between taxpayers and tax administration. To nullify this blame, government had introduced VAT from 16 Nov. 1997. The desire was good but its implementation has not been effective so far. The undemanded availability of tax invoices and real condition to issue sales invoices by the salesman in the market is still problematic. The invoices are the main bases not only for VAT but also for income tax. The program has been introduced to increase VAT collection through taxpayers' education. The main purpose of the study is to assessment of taxpayer education. There are various researches on VAT conduct aboard as compared to Nepal. About nine years have been passed since VAT came in operation but many Nepalese are unknown about various aspects of it. VAT, being itself a complicated and modern tax system more effect should be made on actual circumstances. Theoretical and practical knowledge are required to implement VAT properly. So, this study analysis Nepalese VAT system with its problems with it's revenue contribution. Because of this reason, the study wills directly beneficial policy maker, private sector, researcher and other general people. Policy maker will be able to identify the areas requiring improvement and for the proper implementation of VAT in Nepal. It will also provide clear idea and knowledge to these people who are interested and confused about VAT system. Recommended options will helps to make the decision about effective implementation of VAT in Nepal. From such stand points, the study deserves great significance.

1.5 Limitation of the study:

The research was kept limited to VAT collection only. The data were used what were available in the Inland Revenue Department.

Questionnaires were distributed to the respondents of Kathmandu Valley and Internal Revenue Department.

Any other external factors such as peace and security position of the country, public and private investment outlays, production of goods and services, employment level, consumption patterns, and respondents' personal biases were not taken under consideration. This study was based on the data of very short period of time. Hence, this

study did not largely focus on the policy and cannot overwhelmingly generalize the result. Similarly, to keep the research work feasible, to keep study⁶ in track, to go according to plan, budget and time constraints, the researcher has to barricade the research from some limitations.

The major limitations of the study are as follows:

- ❖ The extent of the study is based on the availability or reliable data and sufficient literature.
- ❖ Due to the constraint and other difficulties, field survey was done in Kathmandu.
- ❖ Major data have been used this study, secondary data, primary information gathered from tax office, tax experts, businessman, tax payers and consumers.
- ❖ The sample in small size in study may not fully represent Kathmandu city as a whole.
- ❖ This study is based on only nine years from 1996/97 to 2004/05 of data for statistical analysis.

1.6 Organization of the study:

This study is divided into five chapters which are as follows:

Chapter one: Introduction in this chapter includes, background, statement of problem, objective of the study, signification of the study and limitation of the study.

Chapter two: Literature review in this chapter includes with the conceptual framework, VAT and review of related available studies.

Chapter three: Research methodology, in this chapter includes research design, population and sample source of data, data collection procedure which will be applied in this study.

Chapter four: Fulfill the objective of the study by presenting the data and analyzing them with help of different tools to be followed by methodology.

Chapter five: Summary, conclusion, and recommendation have been incorporated at the end of the study.

Bibliography and appendices are also incorporated at the end of the study.

CHAPTER: TWO

CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE

2.1 The concept and definition of VAT:

Value Added Tax (VAT) is an indirect tax that is levied on the value added portion of goods and services in the production and distribution process. Difference between sales and purchase price can be said as value added portion. "The value added by a business firm is the difference between the receipts from the sale of the firm's product and sum of the amount paid by the firm for goods and services purchased during the period from business firm; it is equal to the sum of factor payment made by the firm." (Due and Friedlander, 1997; 419). "They are imposed at the time of purchase of a commodity or the enjoyment of the service so that the taxpayers do not feel the burden of tax." (Sundhram and Andley; 1998, 108).

Suppose the sales price of the commodity 'A' is Rs. 100 and purchase price is Rs. 90. Then the difference between sales and purchase price will be Rs. 10 and that portion is called as value addition.

The great scholar Tolly has said that VAT is a tax on consume expenditure and is collected on business transaction and imports (Tolley's VAT) Rup Khadka, who is one of the VAT specialist in Nepal, stated. Since VAT is levied only on the value addition made at each stage in the process of production and distribution, this tax system is more neutral, efficient, elastic and fair and is also said to be an improvised version of sales tax.

VAT is broad based tax. It is administered by registering the vendors whose annual turnover is more than threshold. The threshold is a limit within which the taxpayers are not compelled to come under the purview of value added taxation. The threshold is determined by adding the total turnover of the taxable goods and services. Although VAT is supposed to be regressive tax, and it is levied almost all goods and services, yet the especially exempts certain basic and necessity goods and services. It is levied at the time of sale transaction made by the registered taxpayer. The registered taxpayer is entitled to credit the input tax paid at the time of purchase/ import/

manufacturing. Hence it is calculated by deducting the input tax paid from the output tax collected from the sale transaction. No taxpayer collect VAT. "Much of the rule of tax administrator is performed by the taxpayer himself in the sense that he assesses his tax liability and files the periodic returns himself: (Silwal; 2000, 13).

2.2 Historical background of VAT:

Dr. Wilhelh Von Seimens in Germany first propos bed the concept of the VAT in 1919. Although the concept was evolved in Germany, France dared to implement it for the first time in 1954. Ivory Coast is the second country, which adopted VAT in 1960. Gradually Senegal, Brazil and Denmark adopted this tax system and thereafter, many (more than 130) countries started adoping it. In the recent years, VAT has become an inseparable part of any tax reform program. The government had in April 1997, made a decision that the VAT will be finally introduced on November 16, 1997 (2054 Marga) and was implemented from the same day.

This is the only tax, which very much published in the media and discussed at various levels before implementing. There were protests, campaigns and slogans against VAT in the market mainly from business community. For this they stroked and closed the market for 11 days. Only some of the industrialists had supported the VAT because it was better to prevailing sales tax, which was imposing on them. Although some of the personnel and administrators were in against of VAT but it was implemented forcefully because of political commitment and bold administrative leaders.

The contribution of Danida VAT project is appreciable to this context. Without technical and economic support VAT could not be implemented properly. Contribution to computerized record system and human resource development were most important tasks supported by the Danida VAT project.

Prior to the introduction of value-added tax (VAT) in 1997, Nepal used to levy several independent domestic trade taxes on goods and services. Among the domestic trade taxes, sales tax was the most important source of revenue, which had undergone considerable changes from its introduction in 1965 to its replacement by VAT in 1997. In 1965, sales tax was originally levied at the retail level but as the tax could not be implemented effectively at this level, it was moved to the wholesale level in 1968.

When this too proved ineffective, the tax was shifted to the import/ manufacturing level in 1974. The import/ manufacturing level sales tax was collected at the customs point in the case of imports while it was levied on the sales of sales tax registered manufacturers in the case of domestic products.

Attempts were made to rationalize the import/ manufacturing level sales tax system and broaden its base in the mid-1980. In this context, in 1985, an advance sales tax system was introduced. Under the new system, sales tax registered firms were required to pay an advance sales tax on the import/local purchase of their raw materials, auxiliary raw materials and chemicals. The advance sales tax was credited against the tax collected by the sales tax registered manufacturers on their sales. While the new system helped to check the loss to some extent, it complicated the tax system and opened some scope for harassment of taxpayers by tax officials.

Sales tax system was revised in 1992/93 when a two-tier sales tax system was introduced in the case of some selected domestic products. Under this system, besides manufacturers, dealers and distributors of the selected domestic products were required to register for sales tax purposes and collect tax on their sales.

The new system, however, made the sales tax system more inequitable and inefficient. Since the tax was levied on the dealer's price of only a few goods, other items that were subject to tax on only the manufacturer's sales became artificially cheaper. The manufacturers of the items subject to the two-tier sales tax found it difficult to sell their products, and tried to sell their products directly to the retailers, thereby keeping the middle-men out in order to lower the tax liability. As a result, the two-tier sales tax system was opposed strongly and it was abolished in 1994/95 (Khadka; 2000).

In the context of the introduction of VAT, a number of changes were introduced into the domestic trade tax regime. For example, excise duties were abolished on a number of revenue unproductive items, and the number of rates of sales tax was reduced gradually and brought down to a uniform rate just before the introduction of VAT. Finally, on 16 November 1997, VAT was introduced in place of import/manufacturing level sales tax, hotel tax entertainment tax and contract tax.

VAT was introduced in Nepal for several reasons. Firstly, it was necessary to introduce VAT in order to broaden the base of domestic trade taxes. As the import/manufacturing level sales tax was levied only on the value added up to import/manufacturing point, value added after that point was kept outside the tax net legally. Further, the base of this tax was narrow administratively due to under-valuation. In the case of imports, the tax was levied on the total of import value fixed for the purpose of the customs duties used to be much more lower than the actual value, the base of sales tax was much lower than its potential base. In the case of domestic products, manufacturers used to establish artificial sales depots, sell their products at artificially lower prices to sales depots, pay less tax, increase the prices at the sales depot and reap a large profit. Thus the sales tax unnecessarily invited the valuation problem associated with import/excise duties.

Furthermore, the import/manufacturing level sales tax had a cascading effect as importers/manufacturers were required to pay tax on their imports/purchases and also pay tax on their selling price that included the tax paid at the time of import/purchase.

In addition, there was a pyramid effect because vendors used to consider the tax as a cost element and used to apply profit margin on tax amount.

Furthermore, the import/manufacturing level sales tax was unequal in the sense that it put proportionately higher burden on items that did not have a high value-added. This meant that the tax burdened domestic products more than the imported luxury items. It was further discriminatory since it had more control on domestic products than imports, as manufacturers were required to be registered, maintain records of sales, obtain approval for their selling prices and submit monthly and annual returns, whereas importers did not have to fulfill any of these formalities.

In addition to the above, Nepal had to introduce VAT as its tax revenue, which was largely from customs duties, was shrinking due to the reduction in import tariffs. The import tariffs were being reduced as part of an overall tax reform, and furthermore, a drastic reduction in customs tariffs by India and other trading partners put further pressure for the reduction of tariffs in Nepal. Also, as Nepal had been seeking membership to the World Trade Organization (WTO), it would be necessary to lower the overall level of import tariff. It was also necessary to transfer some of the property based

national level taxes such as land revenue and house and land tax to the local bodies in order to make them financially more autonomous. In this context, it was necessary to levy a broad-based tax like VAT to generate revenue at the central level. Having a broad-based feature of VAT and necessity to transfer some of the property based national level taxes such as land revenue and house and land tax to the local bodies in order to make them financially more autonomous, it was necessary to levy VAT to generate revenue at the central level (Khadka; 2000).

2.2.1 Preparation Made for the Introduction of VAT

The idea of introducing a VAT in Nepal was originated in the early 1990s and the Government adopted a policy to introduce VAT in place of several domestic trade taxes within the period of the eight plan (1992/93-1996/97). To this end, in September 1993 a VAT task force was constituted to make necessary preparations for the introduction of VAT. A VAT steering committee was also set up to evaluate and monitor the Vat preparatory activities. Technical assistance was provided by various development agencies. The VAT preparatory work can be grouped into following five headings.

2.2.2 Legal Basis

The VAT law was drafted in 1994 and after wide deliberations, was passed by the Parliament and provided with the royal assent on 20 March 1996.

The VAT regulations were drafted in July 1996. They were discussed at different stages and were approved by the Cabinet on 27 January 1997. The VAT operational manual was initially drafted in 1996 in nine volumes and was finalized in the fall of 1997. The Government approved it in 21 September 1997.

2.2.3 Administrative System

A new organizational structure and personnel system was adopted to administer VAT. Under the new structure, several sections and subsections were created on the basis of the function of VAT administration. A large taxpayer section was created to monitor various sections of the VAT Department and VAT offices.

An officer oriented personnel structure was created to administer VAT. Under the new system, higher-level positions were increased while lower level positions were decreased, and additional personnel were recruited. Numerous training programs were also organized for tax officials on various aspects of VAT.

2.2.4 Computerization

A comprehensive computer system was developed to run VAT. Several modules such as registration, return, payment, refund, assessment, collection, audit etc. were developed, tested and implemented. A number of computer user manuals were prepared and tax officials were provided with the appropriate training. All activities regarding VAT are now operated using a computerized system.

2.2.5 Tax Education

As VAT was new to Nepal, a comprehensive VAT educational program was launched to educate the public on the various aspects of VAT. In this context, seminars, public speeches and interaction programs were organized in different parts of the country. VAT presentations were also made during programs arranged by various local and international bodies and organizations, such as the Chambers of Commerce, Bar Association, etc. Other VAT awareness methods utilized include the use of explanatory brochures, media advertisements, visits by tax officers, etc.

2.2.6 Adjustments in Other Taxes

Some adjustments were made in other taxes in order to create a congenial environment for the implementation of VAT. For example, as stated. Earlier, excise duties were reduced on a number of revenue unproductive items. The number and level of sales tax rates was lowered and brought down to a uniform rate of 10%. The rates of customs duties and income tax were also reduced. Similarly, a system of levying import duties on transaction value, in place of administratively fixed value, was introduced in the field of customs duties and a practice of accepting books maintained by taxpayers in place of the negotiated assessment system in respect of income tax was adopted to ease the VAT implementation.

2.3 Features of VAT:

If VAT were to be introduced, the tax base would have been broadened as it could be levied up to the retail point. To a certain extent, VAT is a self-policing system because any understatement would disadvantage the buyer since the credit for input tax would be affected, while any overstatement would result in higher tax liability for the seller. Furthermore, VAT could be applied anywhere in the economy without leading to a cascading/pyramiding effect because purchase VAT is not considered as a cost element due to the credit mechanism. VAT was also expected to make exports tax-free through the use of zero-rating and the refund mechanism for excess credits (Graham; 1991).

Since the burden of VAT depends upon the final price irrespective of the proportion of value-added at different stages in the process of import/production and distribution, it places an equal burden on both imports and domestic products or on the items, which have a high value-added at the import/manufacturing level or in the distribution process.

The tax experts and administrators involved in the design of the Nepalese VAT system make every attempt to design a system best suited for Nepal. While no compromises were made on the main principles of VAT, certain provisions were made within the basic framework to suit local conditions such as the registration threshold level which was fixed at a fairly high level in order to keep small traders outside the tax net and a soft approach was recommended regarding the implementation of VAT in remote areas of the country. A few goods and services, which were extremely difficult to administer, were exempted from VAT.

2.3.1 Consumption- Type VAT

A consumption-type VAT was adopted due to its superiority over other forms of VAT. Unlike other forms of VAT, the consumption type VAT provides a tax credit for tax paid on all sorts of inputs including capital goods, therefore doing away with the need to distinguish between capital goods and other goods. This makes it simple to administrator. Furthermore, as investment is free from the burden of taxation under the consumption type VAT, it does not encourage taxpayer to use labor in place of capital, i.e. the tax is neutral regarding the use of methods of production.

2.3.2 Tax Credit Mechanism

For the sake of simplicity, tax credit mechanism was selected. Under this system, a taxpayer is required to levy VAT at the rate of 10% on his selling price. He has to add collected VAT on sales and paid VAT on purchase for each tax period and set-off the latter from the former and pay the balance to the government.

2.3.3 Destination Principle

A destination principle based VAT was adopted. Under this system, VAT is levied on domestic consumption, meaning that VAT is levied on all imports while exports are relieved from VAT by means of zero-rating.

2.3.4 All Stages

The VAT is levied at all stages in the process of production and distribution, including the retail point. While there was pressure from parts of the business community to limit VAT to the import/manufacturing level, it was not accepted as Nepal had already implemented a VAT - like sales tax at the import/manufacturing level. Besides, it was hard to justify the exclusion of wholesalers and retailers from the VAT.

Under the Nepalese VAT regime, the size of the business is more important than the place of vendors in the production and distribution chain. Since small vendors, particularly in a country like Nepal, are often illiterate, and do not maintain proper records, their exclusion is therefore justified on administrative, efficiency, revenue, and compliance grounds. That is why a policy of keeping small vendors out of the tax net by means of a fairly high threshold was adopted instead of keeping certain distribution stages outside the tax net.

2.3.5. Threshold

Nepal's VAT regime seeks to keep small vendors outside the tax net, who are defined using a 'turnover' threshold as the criteria. The threshold is currently set at NPR 2 million.

However, it is common practice to register all importers, irrespective of their level of turnover. The assumption here is that a vendor who is involved in international trade can comply with the VAT formalities. However, importers with commercial imports of less than NPR 10,000 per import are not required to register for VAT purposes. This exemption from registration is aimed at the small traders in the border area who bring goods from India on a small quantity (Ghimire; 1998).

2.3.6. Exemptions

A policy to keep the number of exemptions to a minimum was adopted. Exemptions were granted on administrative or social grounds and also to minimize the problem of excess credit and consequent refund.

While a policy to keep the number of exemptions at a minimum level was adopted at the time of designing the VAT law, the number of exemptions expanded after the introduction of VAT due to the pressure from various influential lobbies. The list of currently exempt goods and services is given in Annex 1.

2.3.7. Single Positive Rate

A single positive rate of VAT of 10% was fixed and this was done for a number of reasons, including:

- ❖ Simplification of administration as it is easier to issue invoices and maintain accounts;
- ❖ Reduce tax evasion by eliminating the scope to apply lower rates to goods and services that are subject to higher rates; and
- ❖ Maintain economic efficiency, as a single VAT rate does not induce producers and consumers to change their economic decisions.

2.3.8. Zero-Rate

In addition to the positive rate of 10%, a zero-rate was also prescribed under the Nepalese VAT. The zero-rate was recommended for exports in order to maintain the competitiveness of Nepalese products in the international market. This is because VAT would not apply to the exports but exporters would receive input tax credit, meaning that

exports would be completely free from VAT. The list of zero-rated goods and services is given in Annex 2.

2.3.9. Tax Credit

The tax credit is the most important feature of the VAT system. Under the Nepalese VAT system, taxpayers are entitled to claim input tax credit. It is, however, allowed to the extent that the purchased/imported goods and services are used for goods and services sold in taxable transactions, including exports. A taxpayer must hold and be able to produce a valid tax invoice for the goods or services for which a credit is being claimed.

A taxpayer is not entitled to claim input tax credit on purchases related to his exempt sales. In the case of mixed transactions (i.e. making both taxable and tax exempt transactions), a taxpayer is entitled to claim input tax credit only on the purchases related to the making of taxable sales.

With regards to overheads such as stationery or telephone charges, which can be used in both taxable and tax-exempt sales, the taxpayer is allowed to claim the tax on purchases, which he can clearly identify as being for taxable sales. If such overheads are used only in connection of tax-exempt sales, no credit is allowed. Otherwise, a taxpayer is authorized to claim a proportion of his input tax based on the proportion that the taxable sales bear to the total sales. A partial credit is granted for goods such as cars and computers that can be used for both business and automobiles and 60% on computers.

An input tax credit is not granted for some items, such as liquor, soft drinks, light petroleum (petrol) fuel for vehicles and entertainment expenses since it is very difficult to ascertain whether these items have been used for business or personal purposes. However, people who mainly sell such products are allowed to take credit of tax paid on the purchase of these goods.

2.3.10 Tax Refund

The tax refund is an important aspect of VAT with the credibility of the system being questioned if refunds are not processed timely and properly. On the other hand, the

tax refund system will be misused if the refund claims are not scrutinized properly. So, a proper balance needs to be maintained between these two.

The Nepalese situation and the international experience were considered carefully while designing the VAT refund system for Nepal. Theoretically, all excess credit should be refunded immediately. However, a mixed system of immediate refund to exporters and carry forward to the following six months for others was designed. Since exporters will not have anything to adjust in the future due to the zero-rating of the exports, an immediate refund to the exporters is required.

In the case of non-exporters, there is a possibility of a future adjustment to the excess input tax credit. The carry forward system is administratively simple since there is no need for taxpayers to prepare refund claims and tax administration does not have to process refund claims. It avoids risks for misuse, since the tax administration can have opportunity to detect fraud if someone files credit returns continuously for six months or more. It also avoids the possibility for collusion and corruption since taxpayers do not have to apply for refund until six months. Taxpayers can claim for refund if they remain in a credit position for six months or more. It also makes it possible to claim input tax credit in the following tax period. Further, as the workload for the refund process will be lower under the carry forward system for taxpayers other than exporters, exporters may get refund in time.

The tax refund is granted after verifying the export declaration forms, letter of credit/bills of entry and proof of payment to authenticate the export and the import declaration forms or purchase invoices to authenticate the tax paid on inputs. This system of verification was introduced in order to prevent misuse. Also, in order to prevent abuse by the tax authorities, a full audit is not required for the procession of a refund (Deu; 1976).

In Nepal, the duty draw back system never worked due to the absence of a budget. In order to avoid the problem of budget allocation and long process of realizing budget and approving refunds, a system of providing refunds directly through the VAT revenue collected on imports was introduced. VAT revenue collected by seven major customs offices is deposited with the Treasury only after the deduction of the refund made. As a result, VAT refund has not been suffered from the lack of a budget or the long process of

releasing a budget. Since the refund does not affect VAT department's target, the administration does not hesitate to provide appropriate refunds.

The VAT refund application is not done separately but in the tax return form itself. In 2002/03, field offices were authorized to approve refunds up to NPR 1 million and this amount was raised to NRs 2 million in 2003/04. Refund claims in excess of NRs 2 million are to be approved by the Inland Revenue Department.

While it was necessary to provide refund within 60 days from the receipt of the refund claim, the VAT Department adopted a policy of providing a refund within a month of the receipt of the refund claim. In 2003/04, the refund process was revised marginally. Under the new system, refunds should be made within 15 days of filing tax return when approval is required from the field offices and within 30 days when approval is required from the Inland Revenue Department. The Government is required to pay an interest of 15% on any amount that is not refunded within the specified time frame.

The concept of deemed exports, e.g. sales in convertible foreign currencies in the local market, was not introduced mainly on an administrative ground. This is because under such a system, any local sales in foreign currency will be zero-rated, which is very difficult to administer and causes revenue loss.

Accredited diplomats also get refund on a reciprocal basis. Since their imports are zero-rated, they do not have to pay tax on imports but they are required to pay VAT on domestic purchases first and then claim for refund. Similarly, other officials of international organizations that are accredited by the Ministry of Finance also are entitled to claim a refund. Similarly, the project run under bilateral or multilateral agreements also get this facility.

There are also situations where VAT may be collected by mistake, for example on a product that is either zero-rated or exempt. There is a provision for the refund of this tax to the person who paid it.

A tourist refund scheme was considered but was not adopted due to administrative reasons. It is very difficult to handle a tourist refund scheme in itself. It was believed to be even more difficult due to the cross border trade with India and the foreign exchange control system (Khadka; 19989).

2.4 Types of VAT:

There are three types of VAT. Basic difference between all three types lies in how capital equipments is treated in computation of VAT. The three types of VAT are:-

- Consumption type
- Income type
- Gross national product type

There are three methods of calculation for VAT, they are;

- Addition method
- Subtraction method
- Tax credit method

Above two methods are not practicable because the record of purchase and sales price of each and every goods and services cannot be maintained separately. The third one, tax credit method is simple, easy to understand and to keep record because this method is based on the billing system. Various products can be purchase and sales by one invoice. It is not necessary to keep the record product-wise separately in this method. Kike Nepal, all over the world this method is applied for the calculation of VAT.

Why VAT is adopted in most countries as the form of sales tax? There are three major reasons. They are Revenue, Neutrality and Efficiency.

Having the catch up effect, self policing feature, and not having cascading and tax pyramiding features, VAT has become a most popular tax systems in all over the world. Having broad base of tax and higher potentiality of revenue (collection) are the other features to become more popular.

Although the popularity of VAT is growing on, yet it has some demerits also. As already stated, VAT is based on the sale of goods and services, it only can run properly with proper billing system. Under invoicing and not invoicing are the major challenges to VAT because tax is levied on the sales of goods and services and is calculated and computed through the issued invoice. If the taxpayer does not issue the invoice the system can not function. If the taxpayers do not maintained the prescribed record system this tax also can not function. So billing and recording system should be properly functioned to run the VAT as its principle (Khadka; 1989).

Many efforts were made but the problem of not invoicing and under-invoicing are remain the same. The major cause of not invoicing and under-invoicing is illiteracy of the customer, absence of knowledge in people about VAT. To remove these problems, to raise the awareness of the consumer (people) Nepal Government has introduced a program. The name of the program is "Consumer Awareness Gift Program." In Nepali, this program is called "Jaagaruk Upabhokta Upahaar Kaaryakram." This program is launched at Kathmandu valley for the first phase from Feb. 2004 (2060 Magh). Now, 150 days of implementation of the program are passed and it is the time to evaluate the effectiveness of the program in respect to VAT collection (Khadka; 1989)

2.5 Method of VAT collection:

2.5.1 Registration

VAT registration began on 16 November 1997 when all sales tax registered manufacturers were required to convert into VAT registrants if they had an annual turnover of more than NPR 2 million. Other vendors, who were not registered under the sales tax, were required to register for VAT within 90 days from 16 November 1997. It was, however, not necessary for them to register if they only dealt with tax exempt goods and services. Similarly, small vendors falling below the registration threshold were also not required to register under VAT, but could do so voluntarily.

VAT registrants are given a registration certificate and a taxpayer identification number (TIN) by the VAT administration. It is necessary to state the TIN by the VAT administration. It is necessary to state the TIN on all specified documents, including the tax invoice (Khadka; 1989).

2.5.2 Invoicing

Nepal has adopted a tax credit method of VAT calculation. Under this system, every VAT registrant is required to issue a tax invoice whenever a transaction takes place. It is necessary to mention the seller's TIN, the purchaser's TIN if the purchaser is registered, address of buyers and sellers, description and price of goods and VAT amount on the invoices. It is necessary to prepare a minimum of three copies of each invoice. The first copy is to be given to the purchaser while the seller should retain the other two

copies. The invoices should be issued in sequential numerical order. However, a VAT registrant can prepare invoices with different serial numbers for branches or different sections of a business with prior approval from the tax office.

A VAT registrant may issue an abbreviated invoice in the case of sales below NPR 5,000, including VAT with the prior approval of the tax officer. It is not necessary to provide the details of purchasers and indicate VAT separately in the abbreviated invoice.

A VAT registrant is required to issue debit/credit notes when there is a cancellation of supply, alteration in the previously agreed consideration for the supply or return of goods or part of the goods to the seller.

If the tax mentioned in the invoice is higher or lower than the actual tax chargeable, the seller will have to issue a credit or debit note to the purchaser. In the credit or debit note, it is necessary to mention, among other things, the taxable value stated on tax invoice, the correct amount of taxable value, the difference between these two amounts and tax levied on the difference. It is also necessary to give reasons for the issuance of credit or debit note.

2.5.3 Book keeping

A VAT registrant is required to maintain a purchase and sales book and list each transaction in these accounts. Computerized accounts may be maintained with the prior approval of the VAT administration. At the end of each accounting period, the VAT registrant must total the amount of taxable purchases and imports, tax-exempt purchases and imports, and, taxable and tax-exempt sales made in the period. In the case of mixed supplies, the proportion of input tax the taxpayer is entitled to pay for the tax period must be computed.

A VAT registrant is also required to maintain the VAT account, which is a monthly summary of taxable purchases and sales, and tax paid on purchases and charged on sales.

All documents and accounts relating to the business must be retained for the period of six years (Khadka; 1989).

2.5.4 Assessment

VAT is a self-assessed tax, whereby the taxpayer determines his tax liability, files his tax return and pays the tax within a stipulated time. However, not all taxpayers may file their returns within the specified time. Similarly, not all taxpayers may file the correct returns. In such cases, VAT officials may have to make tax assessment. Such assessments would either be a 'computer assessment' or a 'management assessment.'

In a computer assessment, the computerized system will automatically make an assessment for non-complying taxpayers on the first day of the month following the expiry of the month in which the tax returns were due. The assessment is made using the higher of, the highest taxable turnover declared in the last 12 months by the taxpayer, or, the average monthly taxable turnover from the records, and then increasing this amount by 20% to which the VAT rate is applied (Khadka; 1989).

VAT assessments by tax officials will only normally extend back four years from the time of the submission of the return by a taxpayer or the due date for the submission of a tax return. Taxpayers will receive a notice of the processed assessment before the finalization of the assessment.

2.5.5 Return

The tax return of each tax period must be filed at the relevant tax office within 25 days of the expiry of the tax period. The tax period is monthly for the compulsory registrants and once every four months for voluntary registrants. Taxpayers involved in the tourism industry have the option to file bi-monthly returns.

On receiving a VAT return, the tax officer is required to examine the return and check for arithmetical accuracy. If this confirms that the amount shown, as payable and other particulars on the return are correct, the return is to be accepted (Khadka; 1989).

2.5.6 Payment

If a VAT registrant's output tax liability is greater than his input tax credit, the amount of VAT due is to be paid within 25 days of the month following the end of the tax period.

Payment of VAT is to be made to the concerned tax office if the tax liability is less than NPR 5000, while amount higher than this should be paid at designated banks. The payment receipts should be submitted to the concerned tax office (Khadka; 1989).

2.6 Examination of VAT in Nepal

By Nepali standards, the formulation and passage of the VAT Act, design of regulations, preparation of the VAT operational manual, creation of an organizational structure, etc., were done in a short time. The preparation for VAT in Nepal was comprehensive and much more detailed than for the introduction of any other tax and this created a favorable environment for the implementation of VAT and gradual acceptance by the population. Owing to the fact that in the process of designing the VAT system, the involvement of both national and international experts and tax administrators were sought and a lot of homework was done, an appropriate VAT system was designed for Nepal. No compromises were made on the main principles of VAT although taking into consideration the specificity of Nepal certain provisions were made within these principles. Therefore, mistakes have not been observed in the VAT structure and operational process even after six years of VAT implementation. There has been a positive trend in registration, revenue collection and refund. Taxpayer level of compliance has also been improving slowly.

However, the implementation has not progressed smoothly due to a number of reasons including:

- Opposition from the business community and also certain segments of the tax administration which had been taking advantage of the lack of transparency in the former tax regime.
- The fragile political situation. There was a change in the government 11 times in a period of 12 years. Under such a situation, it was difficult to implement any broad measure effectively, let alone VAT.
- A weak and unmotivated tax administration. Many positions remained vacant for a long time due to the delay in the recruitment of tax officers by the Public Service Commission, high turnover of personnel and general disinterest in VAT

as the VAT administration was considered the least attractive in the revenue administration.

- The merger of the VAT and income tax administration in 2001 also adversely affected the implementation of VAT to some extent. As the management of the former tax administration dominated the merged entity, attention was diverted from VAT to income tax matters. Modern administrative practices adopted by the VAT administration were affected by traditional income tax procedures. The VAT database was also adversely affected.

Due to the above-mentioned factors, VAT could not be implemented fully and effectively. The level of tax compliance is still very low. Not all potential taxpayers have been registered and not all registered vendors comply with VAT properly. For example, not all vendors issue invoice or proper invoices of their sales. While some vendors have been issuing improper invoices others have been stating that an additional 10% has to be paid if invoices are required. There is also a problem of under-invoicing at the customs. It has been seen as the biggest problem in the implementation of VAT in Nepal (Khadka; 1989).

In the absence of invoice/proper invoice, it is not possible to maintain proper accounts. It is said that some vendors maintain two sets of accounts, i.e. one for their business purpose and the other for tax purposes. The lack of proper invoicing and book-keeping has resulted in a discouraging status of returns, which can be seen from the excessive number of credit returns. While it is not unnatural to receive credit tax returns under the VAT system, until now the share of credit returns has been excessively high. In general, most tax returns should be debit returns. Since businesses and professions are undertaken to earn a profit, the sales are expected to exceed the purchases. Under such circumstances, the tax collected by the taxpayer from sales should exceed the tax paid on inputs and the taxpayer should be in a position to pay to pay tax to the Government.

As of June 2003, the accumulated tax credit was NRs 3, 659 million and this was due to the non-issuance of invoices and/or misuse of the credit mechanism. The provision relating to old stock, which was introduced in system, taxpayers were allowed to declare their stock at the market value without any documentary evidence. They are then required

to pay 2.55 of the declared value as VAT at the time of the declaration of stock and make a claim later on 10% of the same value as an input tax credit.

Tax dues have also been very large (NRs 2, 790 million in June 2003). Some public enterprises have not been depositing the VAT collected in the Treasury due to their liquidity problem, and some taxpayers do not pay VAT due to their large credit sales and so on.

On the one hand, some taxpayers complain that the VAT refund system has not been put into proper practice, while the tax administrators complain that there is delay in refund owing to the fact that the taxpayers do not even comply with simple formalities.

The Nepalese tax administration is still weak and faces motivational problems. Many tax officials are not that eager to implement recently introduced reform measures in the tax system and tax administration, and fail to make proper use of the information technology introduced in tax administration.

The internal monitoring activities are also limited. There are only small numbers of staff assigned to carry out internal monitoring, and they are also occasionally required to carry on other duties. Internal monitoring in the field of customs, that collects more than 60% of VAT has not been institutionalized.

2.7 Taxpayers Education Programs

As VAT was a new concept in Nepal, a comprehensive taxpayer education program was launched to impart knowledge regarding the various aspects of VAT to parliamentarians, industrialists, businessmen, consumers as well as various sections of the society.

2.7.1 Seminar/Interaction

Seminars and interaction programs were organized as a part of the taxpayer educational program. In this context, 24 April 1994 the first interaction program was organized with the officials of the FNCCI. On the occasion, discussions were held on many aspects of VAT and the draft of VAT Act also presented for feedback. On 15 May 1994 an interaction program was organized with the officials of the Nepal Chamber of

Commerce. Thereafter, several discussions were held from time to time with these institutions.

Interaction programs on VAT were also held with the district-level chambers of Commerce and Industry of Bhadrapur, Dharan, Biratnagar, Banepa, Narayanghat, Birgung, Pokhara, Butwal, Bhairawa, Nepalgunj, Dhangadhi, Mahendranagar, and Kathmandu. Interaction programs with some of these were held more than once.

Similarly, interaction programs were also held with various specific associations, such as those dealing in pharmaceuticals, travel trade, contracts, plastic goods, tobacco and beverages, stationery manufacturing, overseas import-export, motion pictures, hotels, color labs, super markets, color and paints, construction goods, hosiery, restaurants, carpets, electronics, biscuits, automobiles, goods carrier, etc. with most of these associations, interactions were held only once but with some several interactions took place (Khadka; 2000).

VAT interaction programs were also organized for professional organizations such as a Chartered Accountants Association, Nepal Auditors Association, etc. Altogether three interaction programs were held for the parliamentarians and a two-day seminar was organized for the journalists.

Discussion programs in VAT were also organized together with the Tribhuvan University, Kathmandu University, budhanilkantha School, Rotary Club, Everest Exhibition, Himalayan Exhibition, and the Nepal Editors' society. Similarly, various training programs were also organized for potential taxpayers. With the objective of providing practical knowledge regarding various aspects of VAT, free training was imparted to the registered taxpayers not only at the center but also in the districts. The trainees were also imparted knowledge regarding aspects that were of immediate necessity, such as taxable goods and services, how to levy tax, issuance and receipt of invoices, maintenances of sales and purchase books, submission of tax returns, etc.

Various types of visits were also organized under the VAT educational program. Some time prior to the implementation of VAT and some time after its implementation, the tax officials paid a visit to the transaction sites of various taxpayers. The main objective of this visit was to familiarize the taxpayers with the formalities that they would have to fulfill under VAT

Several months after the implementation of VAT, the tax officers again visited the taxpayers' transaction sites. This visit was primarily undertaken to check if the taxpayers were fulfilling the formalities in the proper manner. The tax officers detected several problems during the visit. For example, sales and purchase books were not maintained properly, invoices not issued as per VAT requirement, tax deduction claimed without invoices, tax deduction claimed of goods deposited at the customs' point, and tax deduction was claimed for the customs duty also. After being corrected by the tax officers such mistakes have been reducing.

It is equally essential to impart knowledge regarding VAT to the consumers. Efforts have been made to provide information to the consumers on issues such as which goods and services are VAT exempted, what kind of vendors can collect VAT and how to identify them, the reason why it is necessary to take invoices, etc. in order to disseminate information on VAT and create awareness among consumers, 15 to 20 September 2000 was observed as a "VAT Week". During that week widespread publicity on the need to issue and receive invoices was undertaken by making in the major business areas of Nepal (Khadka; 2000).

2.7.1.2 Brochures

To educate the potential taxpayers and various sectors of the society on various aspects of VAT, the following brochures were prepared and distributed on the large scale (Internal Revenue Department, 2008).

2.7.1.3 In Nepali

- Value Added Tax: A Brief Introduction
- Value Added Tax: Inquires and Solutions
- Some Questions and Answers Related to Value Added Tax
- Value Added Tax Registration
- Value Added Tax Records and Accounts
- The Procedure of Completing the Value Added Tax Returns
- Value Added Tax and the Import-Export Trade
- Value Added Tax and Hotel Industry

- Value Added Tax Administration: An Introduction
- The Tax Credit and Tax Refund Procedure
- Provision of Value Added Tax Audit
- Value Added Tax and the Business Community
- Value Added Tax and the Consumer
- Value Added Tax and the Travel Agency Business
- Let us Pay VAT and Become a Part of Nation Development
- Let us Give and Take Invoices: Let's Make VAT a success
- Value Added Tax: A 'Must' Information for New Registrants

2.7.1.4 In English

- Common Questions and Answers on Value Added Tax
- Value Added Tax Registration
- Completing the VAT Returns
- Keeping VAT Records
- Value Added Tax and the Import-Export Trade
- Value Added Tax and Hotel Industry
- Value Added Tax inspection
- VAT information for the Consumer
- An Introduction to VAT Administration
- Tax Credit and Tax Refund Procedure
- VAT in Nut shell
- VAT and Business Community
- VAT Refund for Diplomats, International Agencies and Foreign Aided Projects

2.7.1.5 Publication of Articles

With the objective of educating the potential taxpayers and various sectors of the society on different aspects of VAT, several articles regarding this tax were published.

2.7.1.6 VAT related videos

The following VAT related videos have been produced and aired:

- A brief introduction to VAT
- The impact of VAT on prices
- VAT Registration
- Documentary on VAT formalities
- VAT billing

2.7.1.7 Posters

The following posters were prepared and posted in a large numbers in the main business cities:

- List of VAT exempt goods and services and the impact of VAT on prices
- Registration of taxpayers

2.7.1.8 TV and Radio Programs

Several Programs were organized on TV and radio regarding various aspects of VAT.

2.7.1.9 Advertisement

Massive advertisements were issued through newspapers, radio and television on various aspects of VAT.

2.8 Training Programs

Several efforts have been made to make the tax administration capable and effective. The former Sales Tax and Excise Department was converted into VAT Department on July 16, 1996 and was made responsible for the administration of VAT. A new organizational structure and personnel system was adopted for VAT. The new organizational structure was based on functional line. Under the structure, specific sections such as large taxpayers, internal monitoring, registration, taxpayer services, tax refund, tax audit, investigation, policy, information technology, etc. were created. Among these sections, the large taxpayer section was given the responsibility to provide service to the large taxpayers throughout the Kingdom and the tax refund section was given the responsibility to make all the refunds. Similarly, the organizational structure of the VAT

offices was also created along functional lines and those offices were divided into four levels based on their potential work area.

To carry out VAT administration, new positions were created. In the former sales tax and excise administration there were too many assistant level staff and only a few officer level staff. Under the new structure, the number of higher-level officials was increased while the number of clerical staff was reduced.

Since VAT was new for the tax officials as well, various training programs were organized in order to familiarize the tax officials with various aspect of VAT. For the officials of the Sales Tax Department and offices, the Finance Ministry, Revenue Investigation Department, the Accountant General's Office, Auditor General's Department and the Revenue Administration Training Center, an introductory course was organized in the early January 1996. Thereafter, innumerable programs were organized. The training programs organized in the initial stage were more general. Following this, specific training programs were organized covering specific issues such as registration, refund, collection, accounting, auditing, etc. similarly, in order to discuss and find solutions to resolve problem encountered in VAT implementation and to give information regarding various procedural changes adopted from time to time, a system was established to hold regular meetings among the chief's of the VAT offices.

In addition, training and study tours in relation to VAT were also organized for the officials working in the VAT administration to Bangladesh, the Netherlands, Indonesia, Singapore, Thailand, Korea, and Denmark.

The training programs as regular after the merging the Department of VAT and Department of Income tax into Inland Revenue Department both the inward as well as cross-country. The training cultures bring in this department after the starting the establishment DANIDA project in revenue administration. Thank to the Government of Denmark (Internal Revenue Department, 2008).

2.9 Introduction to "Consumer Awareness Gift Program"

2.9.1 The concept of CAGP:

The billing system is a must for successful implementation of VAT. The government has been facing problems and criticisms from different corners of the society

in regards to effectiveness of VAT only because of low tendency of taking and giving the tax invoice at the time of purchase and sales. The consumers are poorly aware about the importance of tax invoice, they are rarely enthusiastic and they do not want waste time in conversation with sales persons for demanding the tax invoice from the vendors as they normally are indifference to the tax policy of the government. People want some benefits or some feedbacks from their actions and behavior, so the consumers may be positive towards taking tax invoices if they consider it beneficial for them. The rhetoric publication of public notice in regards to tax invoice, continuous broadcasting of information and tax payer education programs in daily national newspapers and TV networks, and formal execution of billing enforcement made by frontline offices has not been as successful as the government had expected in regards to billing system. People paid less attention towards such publications and broadcasting.

In order to increase the efficiency and effectiveness in issuance of tax invoices by the registered taxpayers, the government has to revamp its enforcement policy along with new policy move targeting the consumers. For this endeavor, "The Consumer Awareness Gift Program" (CAGP) has been introduced with a hue and cry by a policy move in an Annual Estimation of Income and Expenditure, the Budget, of Nepal Government for the fiscal year 2003/2004. The policy laid down in the budget was intended for the purpose of increasing the effectiveness of Value Added Tax (VAT) by increasing the billing issuance practice through increasing the consumer awareness and by reforming in the tax audit process, custom valuation system, taxpayer registration procedure (Internal Revenue Department, 2008).

2.9.2 Objectives of the CAGP

The main objective of this CAGP is to increase the effectiveness of VAT through increasing the working relationships between buyers and sellers in terms of volume of tax invoices taken and issued by the consumers and registered taxpayers. The auxiliary objectives of this program was to enhance the level of consumer education and awareness in terms of tax invoices, increase the efficiency of tax officials in tax audit, and control the leakages and fraudulent activities of taxpayers. Consumers are the principal agents to check the fraudulent and illegal activities of the vendors at the time of transaction. The

effective working relationships between buyers and sellers at the time of transaction are deemed fundamental for effective transaction. They can control each other by reducing the likelihood in manipulation chances by under-invoicing or over-invoicing.

2.9.3 The relationship between billing system and CAGP

The CAGP may encourage consumers to demand the tax invoices at the time of purchase of taxable goods for their final consumption. The lottery system for the invoice holders will obviously provide a chance to win lottery of a handsome amounts. There may be a positive and significant relationship between billing system and CAGP. As popularity of CAGP is mounting high, the billing system may also take its momentum with a faster speed.

The Inland Revenue Department (IRD) has developed a working procedure of this program that comprises the followings:

-) Include only those tax invoices into the lottery system that are issued to non registered taxpayers, viz, final consumers.
-) Include only those invoices into the program that are issued for individual or natural person. Other legal and formal entity and registered taxpayers are not allowed in this program.
-) All invoices, except the invoices of vehicle and star hotels, can be included in this program.

Before declaration of the winner of gift or award, the government should verify the originality and validity of the tax invoice on an sampling basis (Internal Revenue Department, 2008).

2.9.4 The Relationship between billing system and VAT collection

The relationship between billing system and VAT collection is significant and positive. The taxation is solely dependent upon the billing system of VAT. Unless the vendor issue the tax invoices, the output tax of VAT will be nil at all. The billing system is a nervous system of tax administration not only for the VAT, but also for Income tax and the others. The government has been noticing a positive but mild indication of increment of collection of VAT along with Income Tax at a growth rate of more than 13

percent since the commencement of this program in Kathmandu Valley and gradually outside the Valley.

2.9.5 The relationship between CAGP and VAT collection

The CAGP may encourage consumers to demand the tax invoices at the time of purchase of taxable goods for their final consumption. The lottery system for the invoice holders will obviously provide a chance to win lottery of a handsome amounts. There may be a positive and significant relationship between billing system and CAGP. As popularity of CAGP is mounting high, the billing system may also take its momentum with a faster speed.

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

In the view of problem of acute budget deficits and foreign dependency, the predation of VAT should acceleration in Nepal. But VAT should be implemented in Nepal only after full and adequate preparation. In theoretical since, VAT is the best from of sales tax, especially due to its neutrality regarding the methods of production and generating more revenue. Further, VAT having the self-enforcing features world makes tax administration easier.

According to the study VAT should not be taken as easy task, rather it is very challenging issue for major challenging issue for VAT implementation in Nepal is successful tax administration. The existing sales tax administration is not capable of handling VAT. Further VAT needs more active demonstrative efforts. Other problems with VAT implementation in Nepal are lack of account keeping system, lack of sufficient knowledge about VAT illiteracy and low public awareness. The existing tax evading

practice also seems a serious problem. More advantage of VAT can be achieved only if it is extension to the retail level but the extend so of VAT to retail level is impracticable and impossible in Nepalese context.

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

Ghimire, (1998) in his dissertations “Value added tax: key issues in Nepal” explain great importance for the effective implementation of VAT administration capability in Nepal. Organization structure, audit and inspection, experienced man power is needed to improve for effective implementation of VAT. VAT is considered as a board based tax and potential advantage of it can be attained fully if the tax is extended through retail level. For the period of time, he suggested improve following aspects: (1) Administrative power and creditability (2) identification of tax payer (3) registration (4) education / programmes (5) incentive for small trades.

He also find some difficulties in implementation of VAT in Nepal those are (1) Rate structure (2) Small traders in large proportion (3) Lack of boarder, strong administration, educational programme, registration programme, technical data base system, combination of various revenue offices, high level VAT implementation team, coordination of VAT department close co-operation between government and private sector etc. are essential prerequisites for the success for implementation of VAT in Nepal. Focusing on the ever increasing resources gap, inefficiency in sales tax and need of revenue for handling developmental works, VAT should be implemented in Nepal.

Sharma (1998): examined several aspects of VAT administration such as its problems, constructions, possibility, operation and other aspects. In his dissertation, he has found the following findings:

- ❖ An adequate VAT education programmes are not conducted and VAT administration has also facing lack of demonstrative personnel’s.

- ❖ Most of the trades and businessman are lacked with minimum concept of VAT. They are mainly facing pricing, billing and account problems.
- ❖ The relation between government and business community is broken, which has been barrier to implement VAT successfully in Nepal.

His suggestion to the government to implement VAT successfully in Nepal is as follows:

- ❖ The government should pay attention of design the story administration.
- ❖ The government should try to produce gazette man power and to train them well.
- ❖ Comprehensive educational programme should be lunched by the government.

At last he concludes that VAT requires the strengthened administration for its effective and efficient implementation.

Sharma (1998): in this dissertation, found the following findings:

- The serious defect of present sales tax is very narrow tax base so the sales tax is not productive and elastic. Adoption of full-fledged VAT replacing the sales tax would largely broaden the tax base.
- In case of imported goods, tax base in VAT would increase about three folds of the present sales tax base.
- The implementation of VAT would make the tax system more productive and elastic removing the unfairness of Nepalese tax system, increasing the competitiveness of Nepalese product, removing the production distortions and other model pressures on economic actives cause by the inherent defect of sales tax.
- Adoption of general type of VAT, covering the retain sales with certain exemption would increase the tax base more than two folds. It Means that VAT has very high revenue potentiality.

There are several issues in the applicability of VAT in Nepal. The first and most important issue is the administrative issue. Lack of administrative issue, lack of

demonstrative capability is the greatest problem in implementation of VAT in Nepal. The second biggest problem for the applicability of a VAT is passed by country's undeveloped business structure, practice and distribution system. The third problem is the existence of open boarder and a large amount of unauthorized trade form India to Nepal, existing under valuation of imports, existing tax evading practice and corrupting nature of tax administrators, lack of co-operation between the government and private sectors

Bista (1999); In his research, focused the need of VAT for Nepal for several reasons. They are effective revenue mobilization industrial development strong administrant, transparency and avoiding all tax loopholes. VAT helps to reduce the resource gap by broadening the tax abase mobilizing corruption through transparency and account based cross-checking. Positive favorable effect of VAT on all sectors can be aliened only if government can operate the VAT administration with effectively and efficiency.

In his research the following findings can be gained.

- ❖ The sales tax system is failure to several cases; narrow tax base inelasticity of tax rate, incapable and weak administration, tax leakage, corruption and political intervention. So the entire tax reform is needed.
- ❖ A VAT is account based, invoice based and record based it checks the tax loopholes such as under valuation, non-recovering and miniaturized trade. It discourages such issues and problems existed in the sales tax system.
- ❖ VAT mobilizes the additional resources and rest of internal resources by burdening tax base and by discouraging the existing tax loopholes.
- ❖ For implementation of VAT the public awareness level relating VAT and VAT administration should be good and it is a perquisites in the preparation of vat.

Vat administration should be strong and efficient in order to implement property. But in Nepal, VAT administration has been facing the problems like corruption, incapability, delaying, ineffectiveness, inadequate physical environment, inexperienced and untrained employee and weak organizational set up.

Dhakal (2000); in his dissertation analyzed the Nepalese tax structure along with the basic emphasis and historical background and potential revenue of VAT in Nepal. In increasing trend of the recourses gap of Nepal is forcing the country to debt-

trap situation. Domestic resource mobilization through the properly designed tax system is the best way to uplift the situation. In this process, Nepal is adopt the destination based, consumption type VAT operated by the tax credit method. VAT encourages investment, supports, economic growth and keeps price stable. Expectations and zero rating reduced the regressively of VAT, however it makes the administration complex. Te study found that VAT is unable to complete the existing sales tax mainly due to the minimum use of Invoice by seller and as well as having no interest to obtain invoice purchaser. Elasticity of Nepalese tax system is very low. Further they are decreasing in recent year's VAT more attractive from the theoretical as well as empirical aspects are being hot milk in mouth from practical view point mainly due to the inefficient tax administration. Hence the introduction is not fulfillment of the requirement and VAT system itself has a great need of reforming in the Nepalese contest.

Khapung (2002) on a research study made by the topic "Effect on revenue collection from indirect taxes" has found the following major findings of his study.

- a) Taxation is the backbone of the countries economic development. VAT being the latest innovation in the field of indirect tax system. VAT system has been accepted globally at an increase rate as a part of tax reform with the strong motivation of bringing out simplicity in the tax system.

VAT is more scientific so it enhances the optional of tax by broadening tax base and minimizing the tax leakage. It reduces smuggling, unofficial trade and corruption through transparency and account based cross checking. If government operates the VAT are to be positive and favorable on all sections.

- b) Although the comparative importance of direct tax revenue is increasing, indirect tax still contributes three fourth of government revenue.

Relative importance of custom duties to Nepalese revenue structure is increasing trend. Custom duties contribute the largest portion of indirect tax. Share of excise duty is decreasing smoothly in the low income developing countries, the share of excise increase as economy expands and diversities. However decreasing rate of excise duty of our revenue structure indicates the negative side of economy and industrialization.

Contribution of sales tax/ VAT to the total tax revenue/total revenue/indirect tax revenue is relatively study after introduction of VAT system, share of VAT has been decreasing indicating the unhealthy practice of VAT.

However, the share of indirect tax in total tax revenue is smoothly decreasing and that of direct tax is smoothly increasing, it indicates the beginning of the betterment of Nepalese economy.

- A. Trend indirect tax could not rise even after the implementation of VAT systems. It was expected increase of indirect tax revenue at a decreasing rate is rather steep after implementation of VAT. It indicates the administrative inefficiency and ineffectiveness. However VAT is not being able to improve the tax system due to various reasons.
- B. After implementation of VAT, the different between estimated and actual tax revenue has substantially been increased. It shows the ineffectiveness of VAT system in our system in our country due to various reasons.

Yet even taking into account low degree of resource mobilization sluggish economic development and growth and problems of revenue collection in the country where many areas are inaccessible and the movement of people and goods over open border difficult to control, the progress made in this direction is far from satisfactory level.

Gautam (2006), in this dissertation “revenue collection from VAT and it’s problems” explain great importance in total revenue. From his view, VAT is found to the best alternative for revenue collection. The share of VAT revenue is increasing trend in every fiscal year from 1997/98. VAT is a essential choice for revenue collection. VAT become in power point of attraction of many countries and gained popularly day by day, the structure of VAT administration is till weak, traditional, corrupted and incomplete, most of the taxpayers are not conscious about the VAT system, smuggling business activates are increased due to the tax administration are major finding 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.

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.

He recommended that implementation of the proper billing system to avoid the problem of revenue collection in Nepal and consumers to be informed to take the real bill which they have paid the value of goods and service. Rules and regulation of VAT carry out in real practice.

2.10 Research Gap

There are not sufficient study/reports conducted in such a particular topic that revenue collection of VAT in Nepal. No study has been done earlier in awareness of tax payer education in Nepal. This is the first and unique research work in Nepal. They have shown the revenue collection from VAT in our country Nepal along with problem and prospects, but those studies try to show real condition. This study, specially focused on the evaluate Nepalese VAT by identifying existing problems related to revenue collection from VAT. Further, an attempt has been make to analyze tax payer education in Nepal and revenue collection from j VAT and this study try to find out about the recent problems which were not shown by previous studies. So this study will be fruitful to those interested person, parties, scholars, teachers, students, businessmen and Government for academically as well as policy perspectives.

CHAPTER THREE

RESEARCH METHODOLOGY

Research methodology is a process of arriving to the solution of problem through planned and systematic dealing with the collection analysis and interpretation of the fact and figures. Research methodology refers to the various sequential steps to adopt by a researcher in studying a problem with certain objectives in view (Kothari; 1997:19). It tries to make clear view of method and process adopted in the entire aspect of the study. It is known as a path from which we can systematically solve the research problems.

3.1 Research design:

There is hardly any research and study done so far about contribution of taxpayer's awareness programmed in the collection of VAT because this program is being lunched in Nepal since February 2004.

There are few quantitative data. Data are not sufficient to analyze the effectiveness of the program.

This study was limited in analyzing VAT collection of the period from the with corresponding period of the 5 years. The data was collected from secondary sources i.e. annual publications of Inland Revenue Department (IRD), Economy Survey published by ministry of Finance (MOF).

To get opinions about the effectiveness of the program a questionnaire method of data collection was applied. The data from questionnaire were collected from the person random selection.

To analyze the opinion collected from the primary sources, simple statistical tools e.g. percentage, ratios were used.

3.2 Population of the study:

The overall study of the interval revenue was targeted towards many intervals revenues, like VAT, income tax, and excise duty. The inland Duty Department and its 22 frontline Inland Revenue offices were being engaged in the tax collection.

The data were collected form the respondents of Katmandu valley. The other contributing factors imports and exports, internal economics activities, investments outlays, general incremental change on the parts of collection and many other factors for revenue collection are kept silence.

3.3 Sample collection:

In considering the time and resources constraints the sample size was as given below:

Respondent group	Sample size
Consumers	35
Businessmen	30
Tax Officials	35
Total Sample	100

3.4 Data collection:

Primary Data:

Normally this study was based on the secondary data, but structured questionnaires method was used to collect primary data. The researcher himself collected the primary data from the aforementioned population groups and sample size. The questionnaire were distributed on the basis of the random basis.

Secondary Data:

The required secondary data was collected from published sources, i.e. yearly Reports published by IRD and economics survey published by the Ministry of the Finance. The consumer compliance level was analyzed by the data of invoices from the computers networking of the departments.

3.5 Data collection procedure:

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

3.6 The Information Received from Primary and secondary:

Sources are firstly tabulated into separated format systematically in order to achieve the described objectives. After that data are tabulated and analyzed. For the purpose of analysis generally simple statistical tools have been used which are simple percentages methods, graphs, charts, diagrams and regression.

CHAPTER – FOUR

PRESENTATION AND ANALYSIS OF DATA

4.1 Revenue Structure of Nepal

The total revenue of government of Nepal is collected from tax and non-tax structures. The tax revenue, which is compulsory sacrifice of the people, can be divided into two components, direct and indirect taxes. The composition of total revenue collection of Nepal from the fiscal year 1997/98 to 2007/08 is shown in the table below:

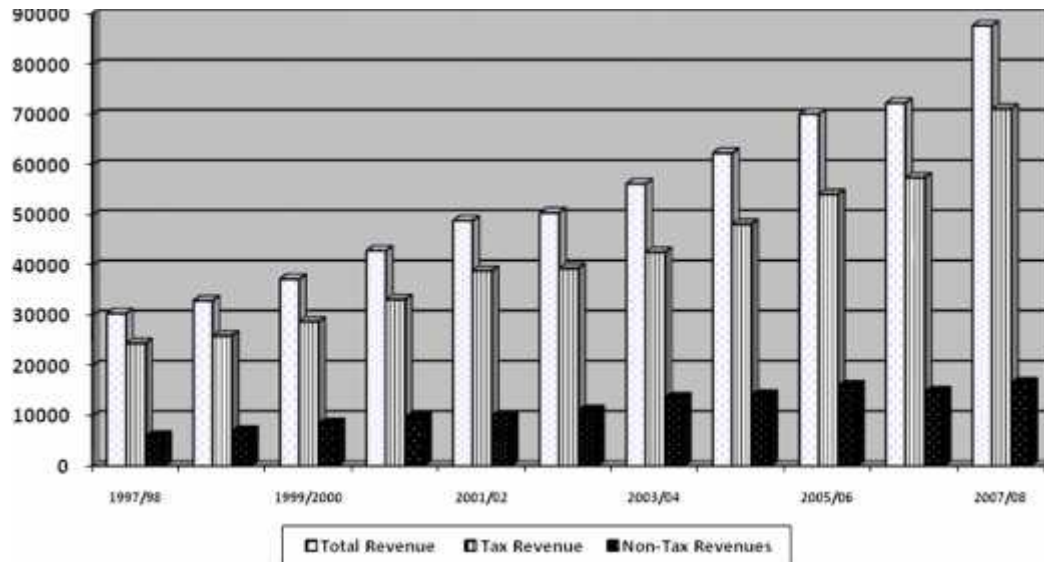
Table 4.1
Composition of Total Revenue Collection of Nepal from the Fiscal Year
1997/98 to 2007/08

Fiscal Year	Total Revenue	Tax Revenues		Non-Tax Revenues	
		Rs.	%	Rs.	%
-	Rs.	Rs.	%	Rs.	%
1997/98	30373.50	24424.30	80.41	5949.20	19.09
1998/99	32937.90	25939.80	78.75	6998.10	21.25
1999/2000	37251.30	28752.90	77.9	8498.40	22.81
2000/2001	42893.80	33152.10	77.29	9741.60	22.71
2001/02	48893.60	38865.10	77.97	10028.80	20.51
2002/03	50445.50	39330.60	75.74	11115.00	22.03
2003/04	56229.80	42587.00	74.54	13642.70	24.26
2004/05	62331.00	48173.64	77.29	14158.41	22.71
2005/06	70122.00	54104.70	77.16	16018.00	22.84
2006/07	72282.10	57430.4	79.45	14851.70	20.54
2007/08	87711.20	71126.70	81.09	16585.5	18.91
Average			77.96		9.79

Source: Economic Survey, 2009 MOF, GON

Fig. 4.1

Trend and
com



position total revenue in Nepal for FY 1997/98 to 2007/08

Source: Economic Survey, 2007/08, Ministry of Finance (MOF), GON

The above table and bar diagram shows the composition of Nepal's total revenue, which constitutes tax and non-tax revenue from the fiscal year 1997/98 to 2007/08. The share of tax revenue has always been greater than the share of non-tax revenue. The average share of tax revenue for the period 1997/98 to 2007/08 was 77.96 percent and the average share of non-tax revenue was 19.97 percent.

From the fiscal year 1997/98 to 2007/08, the amount of tax revenue is found in increasing every year with the amount of Rs. 30373.5 million to Rs. 87711.2 million but the figure of in percentage of tax revenue in the total revenue has been found fluctuating in different years. From fiscal year 1997/98 to 2005/06 the percentage contribution of tax revenue to total revenue has been decreased but it has increased from 77.16 percent in fiscal year 2005/06 to 81.09 percent in fiscal year 2007/08.

Likewise , the trend of non-tax revenue collection was also increased from Rs. 5949.20 million to Rs. 1658.5 million during the period of 1997/98 to 2007/08, though percentage wise it has been fluctuating. This indicates that the role to tax revenue is very important of Nepal. Tax revenue has been placed a major source of government revenue in Nepal.

4.2. Tax Revenue Structure of Nepal

Tax revenue refers to the total sum of direct and nondirective tax revenue. So, the total tax revenue is composed of direct and indirect tax revenue. The tax composition is known as direct and indirect tax.

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

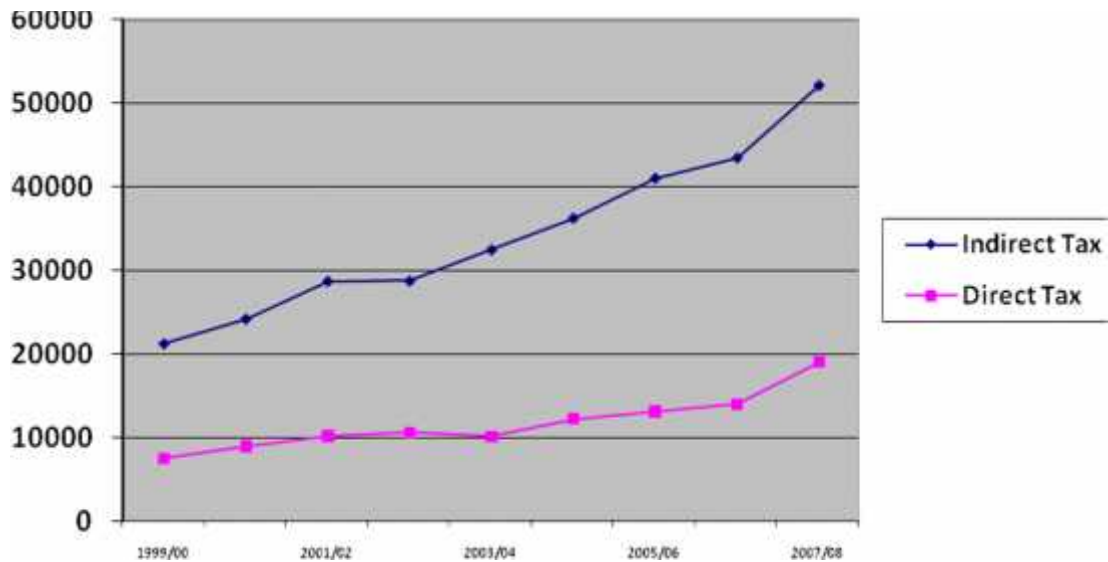
The trend and composition of tax revenue for the fiscal years 1999/2000 to 2007/08 are given in the table below:

Table 4.2
Trend and Composition of Tax Revenue of Nepal from Fiscal Year 1999/2000 to 2007/08

Fiscal Year	Total Tax Revenue	Direct Tax		Indirect Tax	
		Amount (in million)	% total tax revenue	Amount (in million)	% total tax revenue
1999/2000	28752.9	7515.4	26.14	21236.8	73.86
2000/01	33152.1	8915.5	27.00	24200.7	73.00
2001/02	38865.1	10159.4	26.14	28705.7	73.86
2002/03	39330.6	10597.4	26.54	28733.1	73.06
2003/04	42587.0	10101.8	23.73	32481.2	76.27
2004/05	54104.70	12213.4	25.35	36260.4	75.27
2005/06	57430.40	13071.8	24.16	41032.9	75.84
2006/07	71126.70	13968.1	24.32	43462.3	75.68
2007/08	85155.54	22728.01	26.69	62427.53	73.31
Average			25.54		74.46

Source: Economic survey 2009, Ministry of Finance (MOF), GON

Figure 4.2
Trend of Direct and Indirect Tax Revenue



Source: Economic survey 2008/09, Ministry of Finance (MOF), GON

When we analyze and see the above table and trend line, we can easily say that the completely Nepalese tax structure is dominated by indirect tax revenue. However, share of indirect tax as percentage of the total tax revenue is decreasing continuously. In the similar manner, share of direct tax to total tax revenue is increasing in subsequent years. The average share of direct tax revenue in total revenue for the period 1999/2000 to 2007/08. Was 25.54 percent and the share of indirect tax revenue was 74.46 percent. The volume of direct tax and indirect tax was Rs. 7515.4 million and Rs. 21236.8 million e. e. 26.14 percent and 73.86 percent of total income respectively in the fiscal year 1998/99. The amount of direct tax revenue is increasing every year as it increased from Rs. 7515.4 million to Rs. 18980.3 million in 1999/2000 to 2007/08. The amount of indirect tax revenue is also in increasing trend. It has increased from Rs. 2123.8 million in FY 1999/2000 to Rs. 52164 million in 2007/08. The percentage contribution of indirect tax to total tax revenue is fluctuating from year 1999/2000 to 2007/08. The contribution of indirect tax revenue to total tax revenue was minimum 73 percent, in year 2000/01 and maximum, 76.27 percent in fiscal year 2001/03.

4.3. Empirical Studies

For most of the research work, empirical studies play a vital role to find out the actual status of research subject matters. There have been various empirical studies conducted before and after the implementation of VAT system in Nepal. It is viewed that this system has not been implemented effectively as expected. There was a strong opposition from the business community during the implementation period of VAT. In the beginning period of implementation, there was lack of skilled and trained manpower and officials. Administrative structure was also not set up properly. However, in present context, different informative programs, seminars and meeting are held to make the businessmen, consumers and public aware to the VAT.

For the purpose of survey, questionnaire were prepared to know the opinion of various people from different fields including tax experts, tax officials, businessmen/traders and consumers about various aspects of VAT. The result and interpretation of the empirical studies scan be presented as follows:

4.3.1 Views on Knowing about VAT

Proper knowledge about VAT is very important to implement VAT effectively. To know whether the respondents are introduced to VAT or not, a question, “Do you know, what VAT is?” was asked. The survey provided the following results:

Table 4.3
Views on What VAT is

Respondent \ Responses	A		B		C		Total
	No	%	No	%	No	%	No
Tax Officials	-	-	9	100	-	-	9
Tax Experts	-	-	9	100	-	-	9
Businessmen/Traders	-	-	9	100	-	-	15
Consumers	5	33.33	8	53.33	1	6.67	27
Total	5	16.67	47	78.33	3	5	60

A = A kind of income tax

B = A kind of sales tax

C = No idea

Source: Opinion Survey, 2009

Survey results shows that the most of the respondents are familiar to VAT. It is revealed that 78.33% of the total respondents know about VAT as they responded saying that VAT is a kind of sales tax. It included 100% tax officials and tax experts each, 53.3% businessmen/traders and 77.78% consumers. However 21.67% of respondents are not familiar with VAT, as 33.33% businessmen and 7.40 consumers responded that they have no idea about VAT.

It can be concluded that though majority of people are introduced to VAT, awareness is still required for consumers.

4.3.2 Views on Introduction of VAT in Nepal

To know the respondents knowledge on the time of introduction of VAT in Nepal, a question, “When was VAT introduced in Nepal?” was asked. The survey result on this aspect can be presented below:

Table 4.4
Views on Introduction of VAT in Nepal

Responses	A		B		C		D		Total
	No	%	No	%	No	%	No	%	
Tax Officials	-	-	9	100	-	-	-	-	9
Tax Experts	-	-	9	100	-	-	-	-	9
Businessmen/Traders	2	13.33	12	80	-	-	1	6.67	15
Consumers	3	11.11	23	85.19	-	-	1	3.70	27
Total	5	8.33	52	86.667	-	-	2	3.33	60

A = Many years ago

B = some years ago

C = Recently

D = No idea

Source: *Opinion Survey, 200*

According to the field survey, in total 86.67% of the respondents were familiar with the time of introduction of VAT in Nepal as they responded saying some years ago. It included 100% tax officials and tax experts each, 80% businessmen and 23% consumers. Similarly, 8.33% of the respondents responded as many years ago. However, 3.33% respondents replied that they have no idea regarding the introduction time of VAT in Nepal. This result shows though majority of the people know about the introduction of VAT in Nepal, awareness program may help to increase this percentage.

4.3.3 Views on Real Taxpayer of VAT

To know the respondents view regarding the real taxpayer of VAT the question was put, “In your opinion, who is the real taxpayer of VAT?” opinion result is summarized in the table below:

Table 4.5
Views on the Real Taxpayer of VAT

Responses Respondents	A		B		C		Total
	No	%	No	%	No	%	No
Tax Officials	9	100	-	-	-	-	9
Tax Experts	9	100	-	-	-	-	9
Businessmen/Traders	11	73.33	4	26.67	-	-	15
Consumers	22	81.48	5	18.52	-	-	27
Total	51	85	9	15	-	-	60

A = Consumers

B = Businessman

C = No idea

Source: *Opinion Survey, 2009*

Survey results shows that 100% tax officials and tax experts each opinioned consumers as the real taxpayer of VAT. Similarly, 73.33% businessmen and 81.48% consumers also provided their views on consumer as the real taxpayer of VAT. Whereas 26.67% businessmen and 18.52% consumer presented that businessmen are the real taxpayer of VAT. This concludes that majority of the respondents are known with the real taxpayer of VAT.

4.3.4 Introduction to VAT

The level of knowledge and awareness about VAT in the concerned parties, consumer, businessmen, and tax officials is just 75% in total over the period of 7 years of its implementation. Out of 100 respondents, 21.667% were not familiar with VAT, as they responded by saying that VAT is a kind of Income Tax and 3.33% responded by saying that it was a kind of liquor tax.

Response to the Questionnaires

Table No. 1

<i>Respondents</i>		<i>Consumers</i>				<i>Businessmen</i>				<i>Tax Officials</i>				<i>Total</i>			
Q.no.	Questions	A	B	C	D	A	B	C	D	A	B	C	D	A	B	C	D
1	What is VAT ?	7	15	1		5	14			1	16	1		13	45	2	

A = A kind of income tax

B = A kind of sales tax

C = A kind of liquor

D = No idea

Source: Field Survey

Table 1 shows the picture that only 65 % consumers and 73% businessmen were familiar with VAT and around 5% tax officials were not found familiar with VAT. This is not a satisfying situation of VAT system.

4.3.5 Views on Current Rate of VAT

To know whether the respondents know the current rate of VAT in Nepal a question, “Do you know what the current rate of VAT in Nepal is?” was asked. The respondents responded as follows:

Table 4.6

Views on the Current Rate of VAT

Responses	A		B		C		D		Total
	No	%	No	%	No	%	No	%	No
Respondents									
Tax Officials	9	100	-	-	-	-	-	-	9
Tax Experts	9	100	-	-	-	-	-	-	9
Businessmen/Traders	12	80	2	13.33	-	-	1	6.67	15
Consumers	18	66.67	7	25.93	-	-	2	7.41	27
Total	48	80	9	15	-	-	3	5	60

A = 13%

B = 12%

C = 11%

D = Don't know

Source: Opinion Survey, 2009

According to the above schedule, 100% tax officials and tax experts, 80% businessmen and 66.67% consumers know the current rate of VAT in Nepal as they responded the VAT rate as 13%. However, 3.33% businessmen and 25.93% consumer responded that the current VAT rate is 12%. Similarly, 5% of the total respondents including 6.67% businessmen and 7.41% consumers presented their view as no any idea about the current rate of VAT. This shows the need of awareness programme for public.

4.3.6 Views on Introduction to Invoicing System

For the effective implementation of VAT system, the provision of issuing tax invoice at the time of sales should be understood by these four parties. With the increase in the level of knowledge on the part of consumer, businessmen and tax officials about the invoicing system will lead to the success of VAT system. To know the taxpayers level of introduction to invoicing system a question was asked, “Do you ask for the tax invoice after purchasing goods or services?” the survey result on this aspect can be presented as below:

Table 4.7

Views on Asking Tax Invoice After Purchasing Goods and Services

Responses Respondents	A		B		Total
	No	%	No	%	No
Tax Officials	9	100	-	-	9
Tax Experts	9	100	-	-	9
Businessmen/Traders	13	86.87	2	13.33	15
Consumers	22	81.48	5	18.52	27
Total	53	88.33	7	11.67	60

A = Yes

B = No

Source: *Opinion Survey, 2009*

The survey result shows that 100% tax officials and tax experts ask for tax invoice after purchasing goods or services. Similarly, 86.67% businessmen and 81.84% consumers ask for invoice while purchasing goods or services. However, 13.33% businessmen and 18.52% consumers do not ask for tax invoice after purchasing goods and services. The outcome shows that still awareness programme is necessary to increase the level of taxpayers towards VAT and its invoicing system.

4.3.7 To know the reasons behind asking tax invoice after purchase of goods or services a question, “If yes, why do you ask such invoice at the time of purchase of goods and services?” was asked. The respondents provided different views, which are presented as follows:

Table 4.8

Views on Reasons behind Asking Tax Invoice after Purchase of Goods and Services

Responses	A		B		C		D		E		F	
	No	%	No	%	No	%	No	%	No	%	No	%
Respondents												
Tax Officials	-	-	6	66.67	-	-	1	11.11	-	-	2	22.22
Tax Experts			8	88.88			-		-	-	1	11.11
Businessmen/Traders			4	30.76			1		8	61.54	-	-
Consumers			15	68.18	7	31.82	-			-	-	-
Total			33	62.26	7	13.20	2		8	15.09	3	5.66

A = Just so

B = To get the authenticity of the seller

C = To show the price of the commodity to my family

D = To participate in Consumer Awareness Gift Program (CAGP)

E = To show it to the auditor

F = Others

Source: Opinion Survey, 2009

According to the above schedule, 66.67% tax officials and 88.88% tax experts, 30.76% businessmen, 68.18% consumers said that they ask for tax invoice to get the authenticity of seller. Similarly, 31.82% consumers ask for tax invoice to show it to their family. Likewise, 11.11% tax officials and 7.69% businessmen ask tax invoice to participate in CAGP. In the same way, 61.54% businessmen in total ask tax invoice to show it to the auditor. However, in total 5.66% respondents including 22.22 % tax officials and 11.11% tax experts replied that they ask tax invoice after purchase of goods and services to get the money in the government treasury.

It can be concluded that 62.26% the respondents of the survey ask tax invoice to get the authenticity of seller.

4.3.8 Introduction to Invoicing System

The provision of issuing tax invoice at the time of sales should be understood by these three major parties. As the level of knowledge on the part of consumer, businessmen, and tax official about invoicing system increases, the effectiveness of VAT system takes its due course. There are three types of tax invoices that can be allowed to registered taxpayers to issue at the time of transaction.

Table No. 4.9

Introduction in Invoicing System

<i>Respondents</i>		Consumers				<i>Businessmen</i>				<i>Tax Officials</i>				<i>Total</i>			
Q.no.	Questions	A	B	C	D	A	B	C	D	A	B	C	D	A	B	C	D
4	How many types of tax invoices can be issued in current system ?	2	3	4	6		15	4	1		2	19	4	2	20	27	113

A = One

B = Two

C = Three

D = Four

Source: Field Surve

Table 4 shows that only 53% respondents are familiar with this provision. Around 31% consumer and 23% businessmen, and 86% tax officials were found familiar with this provision. This survey has come out of the conclusion that a large chunk of concerned parties is unknown about VAT system.

4.3.9 Views on Being Known to VAT

A question was asked to the respondents regarding how they came to know about VAT. The survey result on this aspect is presented below:

Table 4.10**Views on Being Known to VAT**

Responses	A		B		C		D		Total
	No	%	No	%	No	%	No	%	No
Tax Officials	-	-	-	-	-	-	9	100	9
Tax Experts	-	-	-	-	-	-	9	100	9
Businessmen/Traders	11	73.31	2	13.33	1	6.67	3	20	15
Consumers	20	74.07	2	7.41	2	7.41	3	11.11	27
Total	31	51.67	2	3.33	3	5	24	40	60

A = From media (Radio/Television/Paper)

B = From friends

C = From tax administrator

D = Others

Source: *Opinion Survey, 2009*

According to the survey 100% tax officials and tax officials and tax experts each presented their view that they came to know about VAT through studying laws act, rules and regulations. Similarly, 20% businessmen and 11.11% consumers also viewed that they came to know about VAT studying books. In the same way, 51.67% of the respondents including 73.11% businessmen and 74.07% consumers came to know about VAT through media i.e., radio, television and paper etc. however, 3.33% of respondents including 6.67% businessmen and 7.41% of consumers came to know about VAT through friends and 5% of respondents including 6.67% businessmen and 7.41% consumers came to know about VAT from tax administrator. This concludes that most of the respondents came to know about VAT through media and studying books, rules and laws. It can be said that media is one of the most reliable means for increasing consumer awareness among consumers.

4.3.10 Views on Whether VAT is the Extra Burden to Taxpayers and Increases Price of Goods:

It has been felt that tax is an extra burden for taxpayers and it will increase the price of goods and services. Moreover, taxpayers feel that the collected tax by the government is expended on the unproductive sector therefore, Nepalese taxpayers are

worried about the increasing burden of tax on them. The field survey conducted to find out views of different respondents on burden of VAT resulted as follows:

Table 4.11

Views on VAT as the extra burden to taxpayers and increasing the price of goods

Responses	A		B		C		Total
	No	%	No	%	No	%	No
Tax Officials	6	66.67	3	3.33	-	-	9
Tax Experts	6	66.67	3	3.33	-	-	9
Businessmen/Traders	11	73.33	4	26.67	-	-	15
Consumers	17	62.96	8	29.63	2	7.41	27
Total	39	65	19	31.67	2	3.33	60

A = Yes

B = No

C = No idea

Source: Opinion Survey, 2009

The above table shows that 66.67% tax officials and tax experts each, 73.33% businessmen and 62.96% consumers feel tax as the extra burden to taxpayer and increases the price of goods and services. Similarly, 39.63% consumers feel that VAT is not an extra burden to taxpayers and increasing the price of goods and services. However, 7.41% consumers said that they have no idea regarding the question.

4.3.11 Views on Effect of VAT in Nation’s Economic Growth

During the field survey a question, “What effect will have VAT in nation’s economic growth?” was asked to know the views of respondents about the effect of VAT on economic growth of the nation. The survey resulted as follows:

Table 4.12

Views on Effect of VAT in Nation's Economic Growth

Responses	A		B		Total
	No	%	No	%	No
Respondents					
Tax Officials	9	100	-	-	9
Tax Experts	9	100	-	-	9
Businessmen/Traders	15	100	-	-	15
Consumers	25	92.59	2	7.41	27
Total	58	96.67	2	3.33	60

A = Positive

B = Negative

Source: Opinion Survey, 2009

The survey result shows that 96.67% of the total respondents including 100% each of tax officials, tax experts and businessmen and 92.59% consumer responded that VAT has positive effect in nation's economic growth. However, only 7.41% consumers viewed that VAT has negative effect in nation's economic growth. This concludes that majority of people have positive attitude towards VAT.

4.3.12 Views on Public Awareness Regarding VAT

Views were collected from different respondents to know the level of awareness regarding VAT among public. For this a question was asked, "Do you think that public are fully aware of VAT in Nepal?" the field survey resulted the following outcomes:

Table 4.13

Views on Public Awareness Regarding VAT

Responses	A		B		C		Total
	No	%	No	%	No	%	No
Tax Officials	-	-	9	100	-	-	9
Tax Experts	6	66.67	9	100	-	-	9
Businessmen/Traders	11	73.33	13	86.87	2	13.33	15
Consumers	-	-	22	81.48	5	18.52	27
Total	-	-	53	88.33	7	11.67	60

A = Yes fully

B = Little bit

C = Not at all

Source: Opinion Survey, 2009

From the above table, 100% tax officials and tax experts each, 86.67% businessmen and 81.48% consumers feel that public is little bit aware of VAT. Similarly, 13.33% businessmen and 18.52% consumer feel that public is not at all aware of VAT in Nepal.

In conclusion, majority of people feel that public is only little bit aware of VAT in Nepal. Hence, awareness programme is essential for the effectiveness of VAT system in Nepal in future.

4.3.13 Views on Reasons behind being Against VAT and Non-maintaining

Account:

In order to know the reasons behind being against VAT and non-maintaining account the next question was asked, “What are the reasons behind being against VAT and non-maintaining accounts?” the respondents were requested to rank their responses

from 1 to 6 according to preference. The response received from respondents is tabulated below:

Table 4.14
Ranks of the Reason of being Against VAT and Non-maintaining Accounting

Reasons	Ranks						Total
	1	2	3	4	5	6	
Lack of knowledge of VAT	25	15	10	5	2	3	60
Difficult accounting procedures	5	3	12	15	15	10	60
Problems of billing and invoicing system	3	20	13	10	12	2	60
Problems on audit and administrative work	2	6	8	18	21	5	60
It is the extra burden of tax	3	8	6	4	8	31	60
Negative attitude towards VAT	10	10	12	10	2	8	60
	Total						60

Table 4.15
Weighted Value and Mean Value of Ranks for the Reason of being Against VAT and Non-maintaining Account

Reasons	Weighted value	Mean value	Overall ranks
Lack of knowledge of VAT	287	4.78	I
Difficult accounting procedures	178	2.97	IV
Problems of billing and invoicing system	226	3.77	III
Problem on audit and administrative work	173	2.88	V
It is the extra burden of tax	141	2.35	VI
Negative attitude towards VAT	248	4.13	II

From the above table 4.13.1, the major reason of being against VAT and non-maintaining account ranked in order of preference are as follows:

- a) Lack of knowledge of VAT
- b) Negative attitude towards VAT

- c) Problems of billing and invoicing system
- d) Difficult accounting procedures
- e) Problem on audit and administrative work
- f) It is the extra burden of tax

4.3.14 Views on Problems of VAT in Nepal at Present

In order to know the problems of VAT in Nepal the next question was asked, “What are the problems of VAT in Nepal at present?” The respondents were requested to rank their responses from 1 to 7 according to preference. The response received from respondents is tabulated below:

Table 4.16
Ranks of the Problems of VAT in Nepal

Reasons	Ranks							Total
	1	2	3	4	5	6	7	
Problem on billing system	8	8	23	7	7	5	2	60
Problem of open boarder with India	8	14	12	10	12	2	2	60
Weak government economic policy	11	10	4	13	5	15	2	60
Difficult accounting procedure	2	5	5	12	20	6	10	60
Lack of awareness in public	28	18	6	4	3	1	0	60
Lack of proper co-ordination between the taxpayers and tax administration	2	10	8	12	8	18	2	60
Problem on tax refund	1	1	2	4	8	6	38	60
	Total							60

Table 4.17

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

Reasons	Weighted value	Mean value	Overall ranks
Problem on billing system	280	4.67	III
Problem of open boarder with India	282	4.70	II
Weak government economic policy	256	4.27	IV
Difficult accounting procedure	199	3.32	VI
Lack of awareness in public	361	6.02	I
Lack of proper co-ordination between the taxpayers and tax administration	224	3.73	V
Problem on tax refund	113	1.88	VII

From the above table 4.14.1, the major problems of VAT in Nepal at present ranked in order of preference are as follows:

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

4.3.15 Views on the Government Focus on to Operate VAT System Effectively:

The respondents were requested to present their views on what the government should focus for effective operation of VAT system. The views of different respondents are tabulate below:

Table 4.18**Views on the Government Focus on to Operate VAT System Effectively**

Responses	A		B		C		D		E		Total
	No	%	No	%	No	%	No	%	No	%	
Respondents											
Tax Officials	-	-	-	-	8	11.11	1	11.11	-	-	9
Tax Experts	-	-	-	-	8	11.11	1	11.11	-	-	9
Businessmen/Traders	7	46.67	1	6.67	3	20	3	20	1	6.67	15
Consumers	5	18.62	1	3.70	18	66.67	3	11.11	1	3.70	27
Total	12	20	2	3.33	37	61.67	8	13.33	2	3.33	60

A = Improve government policy

B = reforms in law

C = Motivation to registration in VAT

D = Develop the co-ordination with private sectors

E = No Idea

Source: Opinion Survey, 2009

According to the survey result, majority of the respondents give their opinion that the government should give more emphasis on motivation to registration in VAT, in order to operate VAT system effectively. In total 60 respondents 61.67% respondents viewed, the motivation to registration in VAT can result in effective operation of VAT system. Similarly, 20% respondents gave emphasis on improving government policy, 3.33% gave focus on reforms in law to operate VAT system effectively. In the same way 13.33% of the respondents viewed that the government should develop the co-ordination with private sectors to operate VAT system effectively. However, 3.33% of respondents responded that they have no any ideas regarding the question. Hence, it can be concluded that the major focus of government should be on motivation to registration in VAT for the smooth operation of VAT system.

4.3.16 Views on New Programme to be Launched by Government for Increasing Awareness Regarding VAT

This research was intended to identify the education level of taxpayer regarding VAT. So attempt was made to collect views from different respondents regarding programme to be launched by the government for increasing consumer awareness in VAT. The opinions on this aspect are presented as under:

Table 4.19
Views on New Programme to be Launched by Government for Increasing Awareness Regarding VAT

Responses	A		B		C		D		E		Total
	No	%	No	%	No	%	No	%	No	%	No
Respondents											
Tax Officials	2	22.22	2	22.22	1	11.11	3	33.33	1	11.11	9
Tax Experts	3	33.33	2	22.22	1	11.11	3	33.33	-	-	9
Businessmen/Traders	8	53.33	-	-	-	-	7	46.47	-	-	15
Consumers	14	51.58	3	11.11	2	7.41	8	29.63	-	-	27
Total	28	46.47	7	11.66	4	6.67	21	35	1	1.67	60

A = Inclusion of Tax Education from school curriculum

B = Organize seminars and workshop on VAT matters for tax

C = Organize different types of information campaign

D = Disseminate information through media

E = Others

Source: Opinion Survey, 2009

The field survey shows that, 46.67% of total respondents viewed that government should bring the program of including TAX education from school curriculum to increase consumer awareness in VAT. Similarly 10% respondents focused on organizing seminars and workshop on VAT matters for taxpayers and 6.67% respondents focused on organizing different information campaign to increase consumer awareness. In the same way, 35% of the respondents presented their view to disseminate information through media. Remaining 1067% focused on promotion of tax education in Nepal in order to increase consumers' awareness. Then we can conclude that taxpayers' awareness programme is necessary to increase consumers' awareness regarding VAT in Nepal

either it is through the inclusion to tax education from school curriculum, organizing seminars and workshop or information campaign, or disseminate information through media. However, the major focuses of respondents are on tax education from school curriculum and next on disseminate information through media.

4.3.17 Introduction to Invoicing System

The provision of issuing tax invoice at the time of sales should be understood by these three major parties. As the level of knowledge on the part of consumer, businessmen, and tax official about invoicing system increases, the effectiveness of VAT system takes its due course. There are three types of tax invoices that can be allowed to registered taxpayers to issue at the time of transaction.

Table No. 4.20

<i>Respondents</i>		<i>Consumers</i>				<i>Businessmen</i>				<i>Tax Officials</i>				<i>Total</i>			
Q.no.	Questions	A	B	C	D	A	B	C	D	A	B	C	D	A	B	C	D
15	How many types of tax invoices can be issued in current system ?	2	3	4	6		15	4	1		2	19	4	2	20	27	113

A = One

B = Two

C = Three

D = Four

Source: Field Survey 2009

Table 4 shows that only 53% respondents are familiar with this provision. Around 31% consumer and 23% businessmen, and 86% tax officials were found familiar with this provision. This survey has come out of the conclusion that a large chunk of concerned parties is unknown about VAT system.

4.4 Analysis of Secondary Data

4.4.1 Trend of VAT Registration

The operation of VAT in Nepal starts with addressing the sales tax registrants to register in the VAT department according to VAT act, these with an annual transaction above the VAT threshold must be registered in VAT but not those required registering with VAT but they can join in VAT voluntarily.

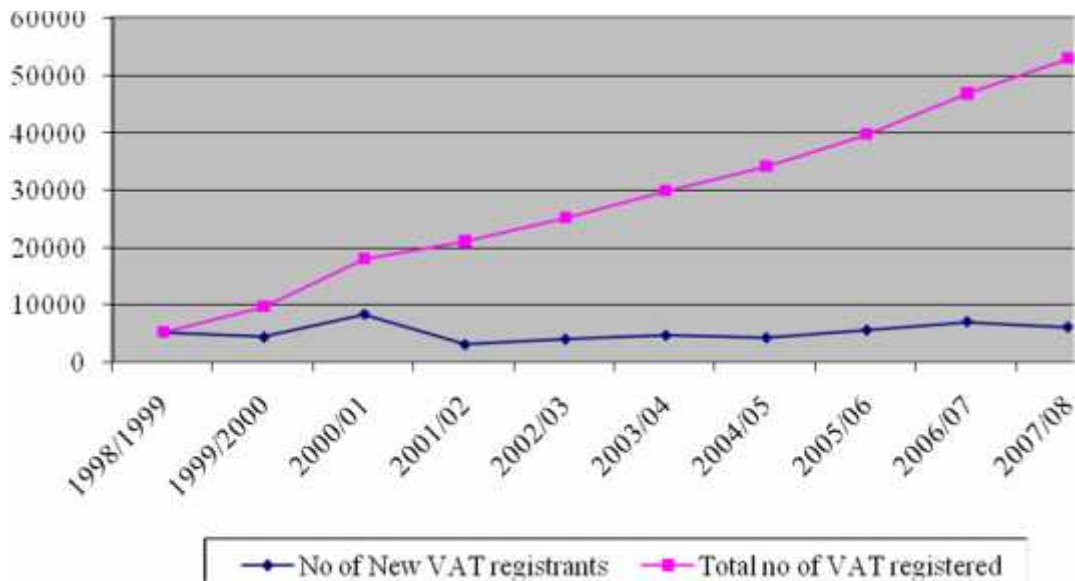
When VAT was introduced in 1997/98, there was strong opposition from the business community. However, during the 10 years of VAT implementation, a number of tax pays awareness programme have been launched. Massive taxpayer information has been published and aired through media and newspaper. Because of these efforts, there is increasing trend of VAT registration every year. The trend of the VAT registration is shown in the following table.

Table 4.19
Trend of VAT Registrants

Fiscal Year	Number of new VAT registrants	Total number of VAT registrants	Growth Percentage
1998/99	5237	5237	-
1999/2000	4405	9642	84
2000/01	8305	17947	86
2001/02	3146	21053	17
2002/03	4056	25149	19
2003/04	4723	29872	18
2004/05	4302	37174	14
2005/06	5602	39776	16
2006/07	7055	46831	18
2007/08	6134	52965	13
Average Growth			28.50

Source: Annual report, IRD, 2009, Kathmandu

Fig. 4.3
Trend of VAT Registrant



The above table and diagram shows that the total number of VAT registrants in 1998/99 was 5237 and it reached 9642 in the fiscal year 1999/2000. During the ten years period, the number of VAT registrants increased from 5237 in the fiscal year 1998/99 to 52965 in the fiscal year 2007/08 by more than 10 folds. This shows that the trend of VAT registration is satisfactory though the average growth rate is only 28.5 percent.

4.4.2 Composition of VAT Revenue

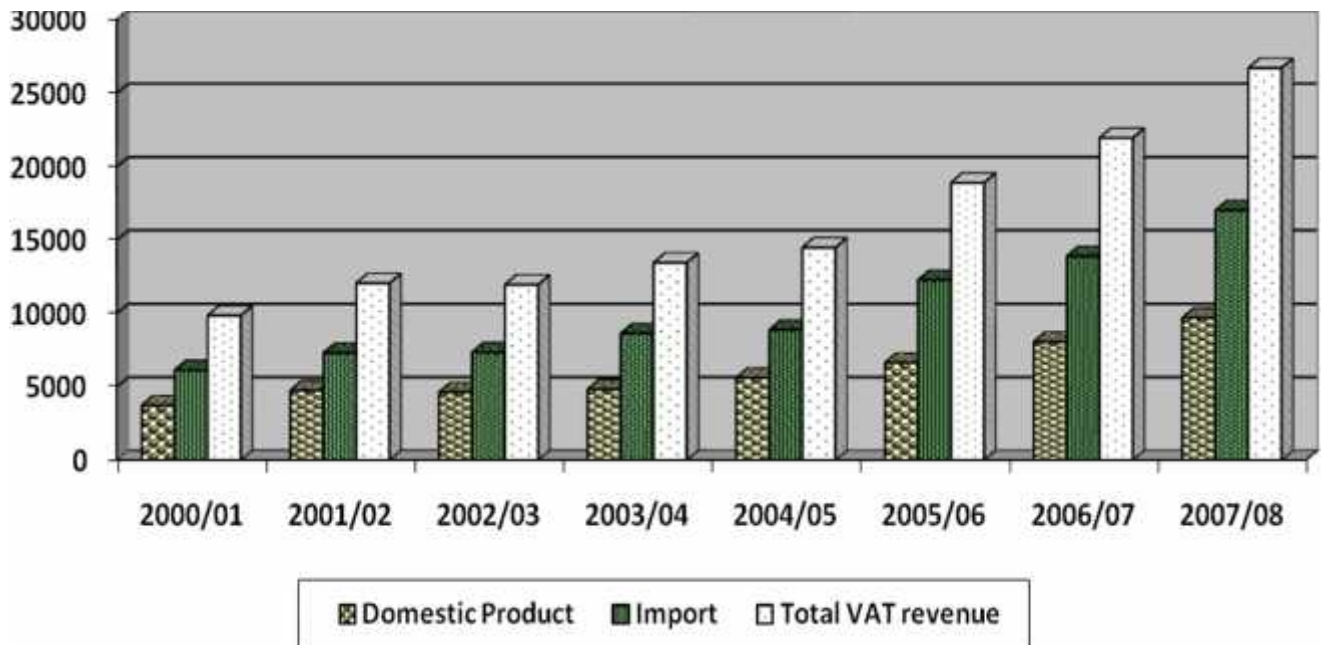
The total VAT collection can be divided into two parts: domestic and imports. The current trends show that about one-third of total VAT revenues come from domestic products and two-third from imports. The following table represents the composition of VAT revenue:

Table 4.20
Composition of VAT Revenue (Rs. In Millions)

Fiscal	Domestic product		Import		Total VAT revenue
	Amount	Percent	Amount	percent	
2000/01	3720.0	37.07	6130.0	62.23	9850.0
2001/02	4744.7	39.00	7303.1	61.00	12047.8
2002/03	4608.4	39.00	7339.6	61.00	11948.0
2003/04	4819.6	35.84	8629.5	64.16	13449.1
2004/05	5604.1	38.71	8874.8	61.29	14478.9
2005/06	6624.3	35.06	12270.3	64.94	18894.6
2006/07	8075.4	36.71	13888.6	63.29	21946.0
2007/08	9690.0	36.29	17014.2	63.71	26704.2

Source: Annual report, IRD 2008/09, Kathmandu

Figure 4.4
Composition of VAT Revenue



According to the above table and figure, the share of domestic products and imports in total VAT revenue in the fiscal year 2000/2001 was 37.77 percent and 62.33 percent respectively whereas 39 percent and 61 percent respectively in fiscal year 2001/2002. Similarly, in fiscal year 2002/2003, the share of domestic products and imports was 35.84 percent and 64.16 percent respectively and 38.71 percent and 61.29 percent respectively in fiscal year 2003/04. Likewise, in the fiscal year 2007/08, the contribution of domestic products and imports to the total VAT revenue was 36.29 percent and 63.71 percent respectively.

4.4.3 Trend of Revenue Collection from VAT

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

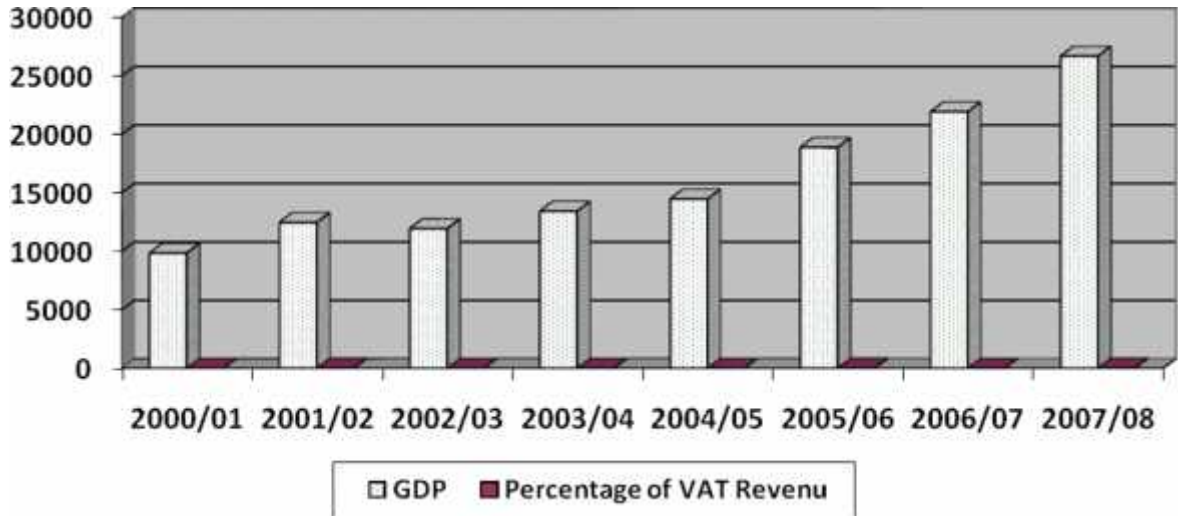
Table 4.21
Trend of Revenue Collection from VAT

Fiscal Year	Revenue Collection	Percentage Change
2000/01	9850	
2001/02	12477.8	22.31
2002/03	11948.0	0.83
2003/04	13449.1	12.56
2004/05	14478.9	7.66
2005/06	18894.6	30.50
2006/07	21946.0	16.14
2007/08	26704.2	21.6

Source: Annual Report IRD, 2008/09

Figure 4.5

Trend of Revenue Collection from VAT



The above table and diagram shows that the amount of VAT collection in fiscal year 2000/2001 was 9850 million. Similarly, it increased by 22.3 percent and reached 12047.8 in the fiscal year 2001/2002. Likewise, revenue collection from VAT in fiscal year 2002/2003, 2003/04, 2004/05, 2005/06, 2006/07 and 2007/08 Rs. 11948 million, Rs. 13449.1 million, 14478.9 million Rs. 18894.6 million, Rs. 21946.0 million and Rs. 26704.2 million respectively. The trend of VAT collection decreased as 0.83 percent negatively in fiscal year 2002/2003, it increased by 12.56 percent of previous year in fiscal year 2003/04. Similarly, it has been increasing in decreasing trend from fiscal year 2005/06 to 2007/08 but has increased from Rs. 21946 million in fiscal year 2006/07 to Rs. 26704.2 but has increase from Rs. 21946 million in fiscal year 2006/07 to Rs. 26704.2 million in fiscal year 2007/08. Despite of various difficulties in the implementation of VAT, the trend of revenue collection through VAT is not so bad. Since, Vat is broad based tax, it will prove to be stable base of revenue to the government. However, it can be expected that more and more revenue can be generated in coming days, if implemented effectively and efficiently. For this, the major focus should be directed towards taxpayers' awareness programme.

4.4.4 Contribution of VAT to Government Revenue (GDP)

VAT has been playing a vital role in government revenue (GDP) of Nepal since its implementations. It is the best tax than sales tax. The contribution of value added tax (VAT) to government revenue (GDP) can be presented in table below:

Table 4.22

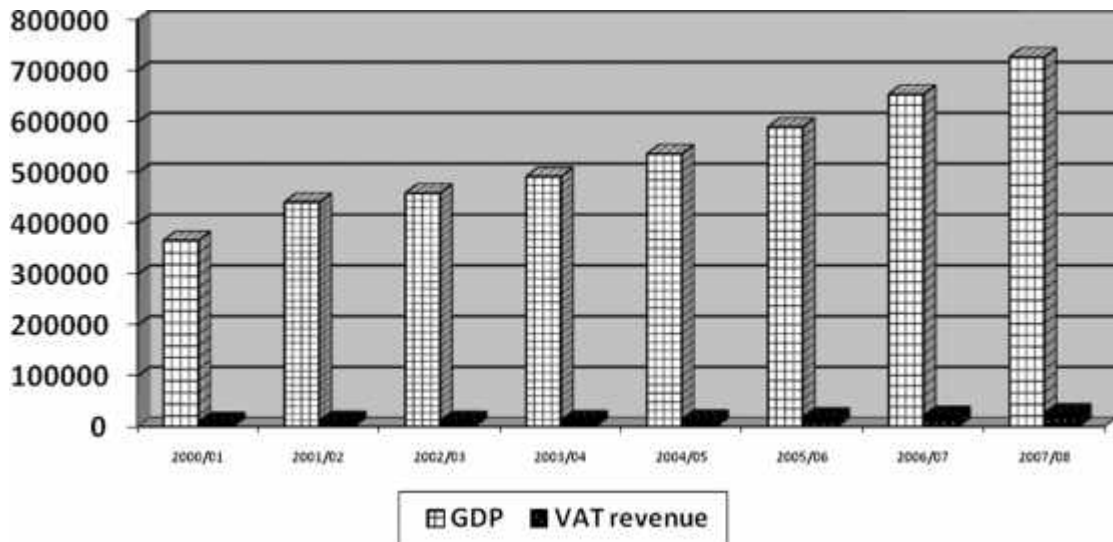
Contribution of VAT to Government Revenue (GDP)

Fiscal Year	GDP	VAT revenue	Percentage of VAT revenue to GDP
2000/01	366251	9850.0	2.69
2001/02	441519	12047.8	2.73
2002/03	459443	11948.0	2.60
2003/04	492231	13449.1	2.73
2004/05	536749	14478.9	2.70
2005/06	589412	18894.6	3.21
2006/07	654055	21946.0	3.36
2007/08	727089	26704.2	3.67

Source: Economic Survey, 2009.

Figure 4.6

Contribution of VAT to Government Revenue (GDP)



According to above table and figure, it is clear that the share of value added tax in GDP in Nepal is very low and it is below 3 percent throughout the period. The share of VAT in GDP of Nepal in fiscal year 2001/2003, 2002/03, 2003/04, 2005/06, and 2006/07 respectively.

From the fiscal year 2000/01 to 2004/05, it has increased from 2.69 percent to 3.21 percent. After then, it is increased to 3.67 percent.

4.4.5 Share of VAT Revenue in Total Tax Revenue

The contribution of VAT revenue in total tax revenue can be presented in the table below:

Table 4.23
Share of VAT Revenue in Total Tax Revenue

Fiscal Year	Total Revenue	VAT Revenue	% Total Tax Revenue
2000/01	33152.2	5850.0	29.71
2001/02	38865.0	12047.7	31.0
2002/03	39330.6	11948.0	30.38
2003/04	42486.9	13449.1	31.65
2004/05	48173.0	14479.0	30.06
2005/06	54104.7	18894.6	34.92
2006/07	57430.4	21946.0	38.21
2007/08	71126.73	26704.2	37.55

Source: Economic Survey, 2009.

Figure 4.7

Share of VAT Revenue in Total Tax Revenue

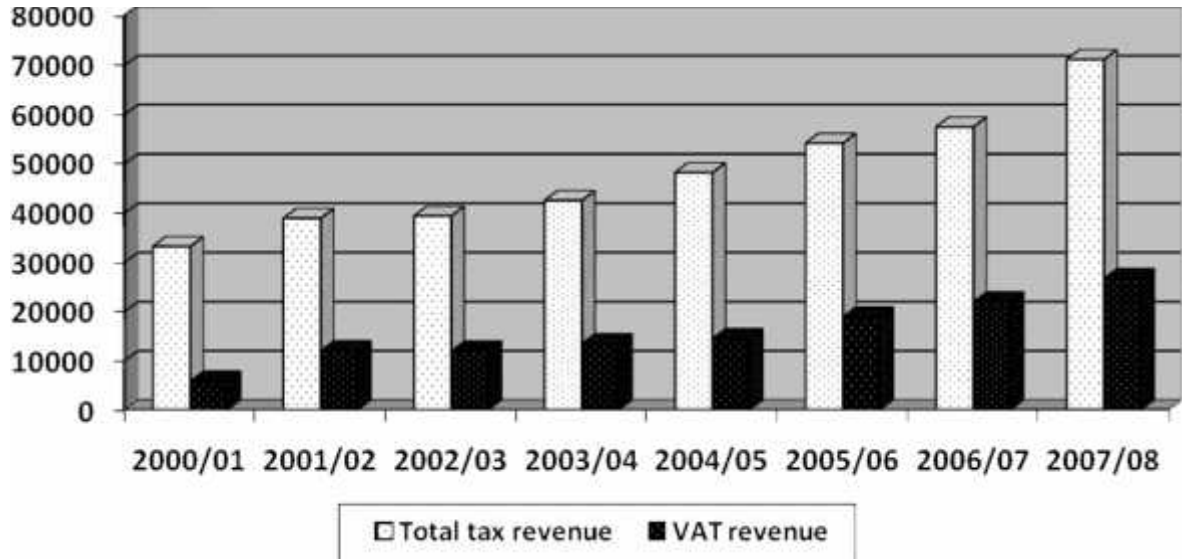
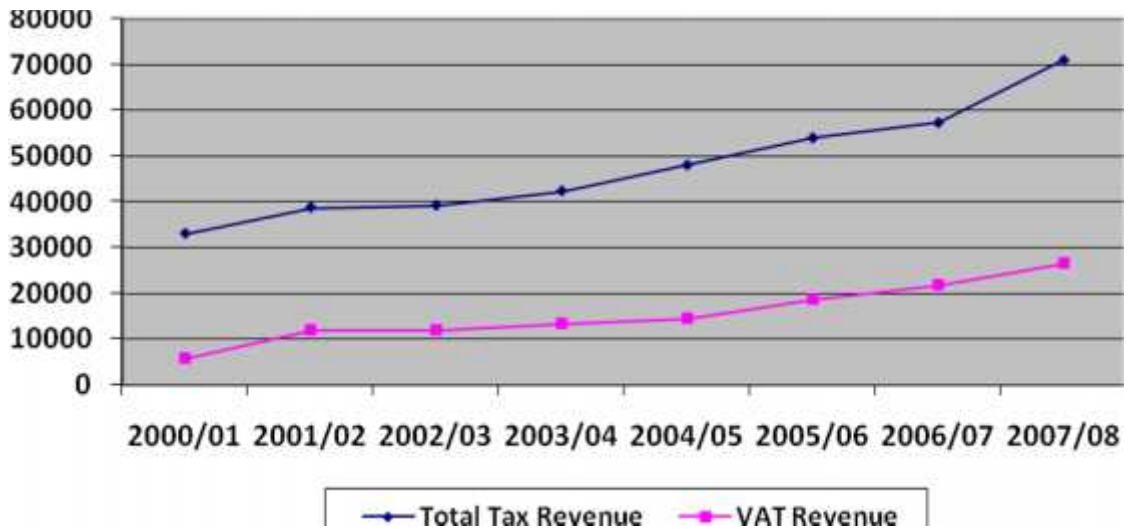


Figure 4.8



Source: Economic Survey 2008/09, MOF, GON

According to the above table and diagram, VAT revenue was 29.71 percent of total tax revenue in fiscal year 2000/01. During the study period of eight years, the percentage trend of VAT revenue to the total tax revenue has increased from 29.71 percent to 37.55 percent in fiscal year 2000/01 to 2007/08. But in fiscal year 2002/03, it has decreased to 30.38 percent. Similarly, in FY 2006/07, the share of VAT revenue in

total tax revenue has been increase to 38.21 percent while decreased to 37.55 percent in FY 2007/08. So, in overall, the VAT revenue with comparison to total tax revenue has been increasing through fluctuating some years.

4.4.6 Share of VAT Revenue in Total Indirect Tax Revenue

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

Table 4.24
Share of VAT Revenue in Total Indirect Tax Revenue

Fiscal Year	Total indirect tax	VAT revenue	%of total Tax Revenue
2000/01	24200.7	9850	40.70
2001/02	28705.7	12047.7	41.97
2002/03	28733.1	11948.0	41.46
2003/04	32481.2	13449.1	41.44
2004/05	36065.25	14479.0	41.13
2005/06	41032.9	18894.6	47.08
2006/07	43462.9	21946.0	50.49
2007/08	52146.43	26704.2	51.21

Figure 4.9
Share of VAT Revenue in Total Indirect Tax Revenue

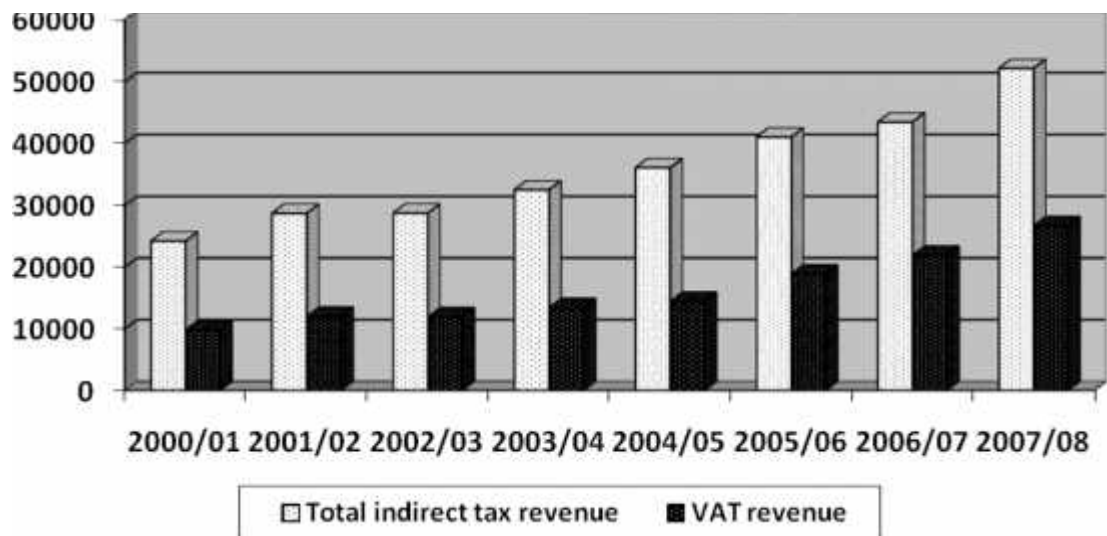
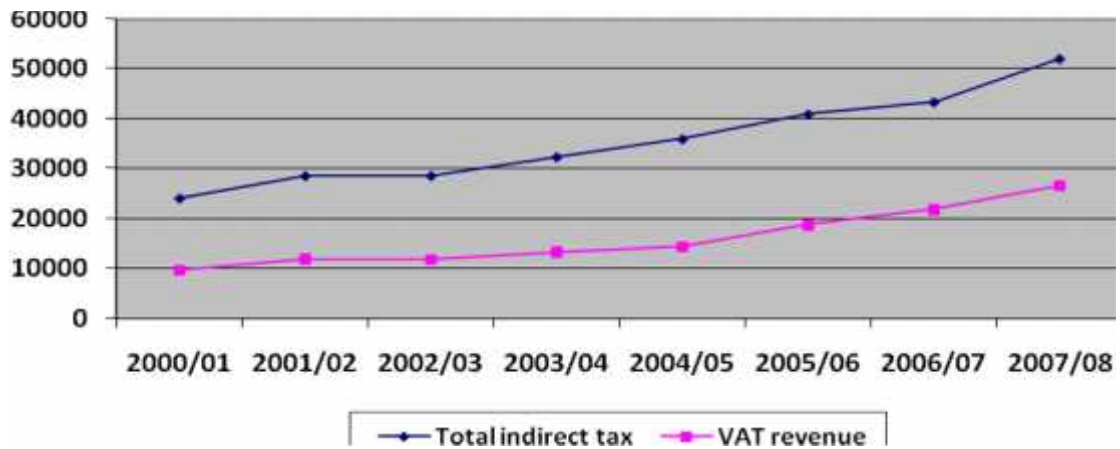


Figure 4.10

Share of VAT Revenue in Total Indirect Tax Revenue



4.5 Major Findings of the Study

Based on previous chapters and data presentation and analysis, some important findings can be drawn. The major findings are presented below:

-) VAT has been the most essential choice as ingredient of tax reforms of developing countries like Nepal, which leads to revenue enhancement and sustainable economic development. There is tremendous scope for increasing the revenue from VAT and sound implementation of VAT will obviously increase its contribution in coming days.
-) The trend of VAT registration over the study period has been increasing day by day, as it has increase from 5237 registrants FY 2000/01 to 52965 registrants in FY 2007/08, by almost 10 folds. Though the average growth rate is only 28.5%, the trend can be expected for more growth in future. The trend of VAT collection over the study period of 2001/02 to 2007/08 is also in increasing trend except in the fiscal year 2001/02. It has increased from Rs. 9850 million in FY2000/01 to Rs. 26704.2 million in FY 2007/08. So it is satisfactory.
-) The contribution of VAT to government revenue (GDP) on Nepal is very low with comparison to other developed countries. The contribution of VAT revenue as a percentage of GDP remained 2.69, 2.73, 2.60, 2.73, 2.70, 3.21, 3.36 and 3.67 from the FY 2000/01 to 2007/08 respectively.
-) The contribution of VAT revenue to the total tax revenue is in increasing trend, though it is fluctuating percentage wise. It is beneficial for sound economic development. Despite the various difficulties on the implementation of VAT, the

collection trend of revenue through VAT is not so bad. It is expected to generate more and more revenue in coming days. VAT generated about Rs. 9850 million revenue in FY 2000/01. It has reached up to Rs. 26704.2 million in FY 2007/08, which is 175.93% increased in comparison to FY 2000/01.

- J Though ten years have passed, since the introduction of VAT in Nepal, still people are not fully aware of Vat. However, the majority of public are introduced to Vat as 78.33% of respondents view VAT as a type of sales tax. Similarly, 86.67% respondents know the introduction period of VAT and about 80% respondents know the current rate of VAT in Nepal as 13%.
- J More than 88% respondents are aware enough to ask tax invoice after purchasing goods or services. Most of them opinioned that they ask for tax invoice to get the authenticity of sellers.
- J About 51.67% respondents came to know about VAT from media while 40% respondents came to know about VAT by studying books, law, rules, act etc, which include majority of tax experts and tax officials.
- J Similarly, 65% respondents feel VAT as extra burden to taxpayers and opinioned that it increases the price of goods and services.
- J Majority of respondents supported that VAT will have positive effect on Nepal's economic growth and 3.83% opposed it.
- J About 88.33% respondents feel that publics are only little bit aware of VAT in Nepal. Most of them suggested for inclusion of tax education from school curriculum and focus on disseminate information through media and organize different awareness programme to increase public awareness regarding VAT.
- J The main reasons behind public being against VAT and non-maintaining account are lack of knowledge of VAT, negative attitude towards VAT, problem on billing, and invoicing system, difficult account procedure etc.
- J Lack of awareness in public, problem of open boarder with India, problem on billing system, weak government economic policy, lack of proper co-ordination between the taxpayers and tax administration etc. are the major problems of VAT in present context of Nepal.
- J Government should give major focus on motivation taxpayer to be registered in VAT, organizing different programme for the effectiveness of VAT in future.

CHAPTER: FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary and conclusion

Nepal has adopted a policy of developing VAT as the primary source of revenue, as it is an efficient way of generating revenue. It generates less cost to the economy than other taxes, including customs duties and other minor domestic trade taxes. So the Government should try to increase tax base through bringing the hideout taxpayer into the tax net and reducing the list of goods and services that are exempted so far. It is necessary to broaden the base of VAT legally and administratively. In order to broaden the tax base legally, an attempt must be made to keep the list of exemptions to a minimum. Exemptions are not an effective way of achieving intended objectives such as equity or promoting certain activities. This would require a business survey by the Inland Revenue offices under their area of jurisdiction.

All VAT registrants should be required to display their registration certificate prominently and unregistered vendors located in specified commercially important areas should have display the signboard/sticker indicating that their annual taxable turnover is below the registration threshold. This needs to be monitored regularly by the tax officials. It is also necessary that all registered vendors comply with the VAT properly. This is particularly important in the context that those genuine businesses which are registered under the VAT and comply with VAT formalities properly consider themselves at a disadvantageous position compared to those businesses which are either not registered or do not comply properly even if they are registered. As VAT is the most efficient way of generating revenue, attempts must be made to raise additional revenue through VAT by also raising the rate of this tax.

An increase in VAT rate should be linked with the reduction of the rate of customs duties and income tax and amalgamation of minor commodity based taxes, charges, duties or fees into VAT. Currently, the VAT threshold has been fixed at Rs. 2 million. In real terms, this has been decreasing annually due to inflation. However, as the business community, tax officials and others have become familiar with this threshold, it should to be changed for some more years to come. However, all importers should be made liable to be registered under VAT ,irrespective of the amount of turnover. It is particularly important in the context that currently, many importers import goods without

being registered due to the provision that it is not necessary to register in case of commercial imports could be higher than Rs. 10000 at one time although in reality the imports could be higher than Rs. 10000. So it is necessary to scrap this provision and make VAT registration compulsory for every importer. It will be beneficial for the both the tax administration and taxpayers to make the tax period bi-monthly instead of the current monthly basis.

While the design of the refund system is good it has at times not been implemented properly. It is necessary that the refund procedure be implemented in a timely and proper manner, and that both tax payers and tax officials are educated on the procedure to prevent any misuse of the refund procedure.

As the tax audit is a relatively new phenomenon in Nepal, there is a lack of a methodical and effective system of tax audit. There have been different experiments regarding the criteria for the selection of taxpayers for audit, such as high credits, erratic transaction trends, large refunds etc. In some years, all taxpayers above a specified level of turnover were selected for a tax audit without any risk analysis. In 2003/04 it was decided that the selection for tax audits will be made solely by the Inland Revenue Department (i.e. Head Quarter). Also, not all taxpayers who have been selected for an audit have actually been audited. All these shortcomings have made the tax audit the most debatable part of the VAT administration.

It is, therefore, necessary that a methodical and effective system of tax audit be developed. The selection of taxpayers for audit should be done using a risk criteria basis. The majority of large taxpayer should be audited and taxpayers should be educated on the basic aspects of the audit in order to make the system more transparent and less debatable. A collection strategy needs to be developed and implemented effectively in order to collect the increasing amounts of arrears. It is necessary to make the internal monitoring system more effective. An internal monitoring team should visit field offices more frequently to provide guidance and conduct internal assessment. Tax invoices play important role in a VAT system that utilizes a tax credit mechanism, as the tax liability is established on the basis of invoices. While several attempts have been made to improve the practice of issuing and demanding invoices, not much progress has been made. Therefore, there is a need to regularly supervise the market, conduct tax audits and investigation, and provide consumer education, etc in order to promote the uses of invoices.

The level of knowledge and awareness about VAT is just 78% in total over the period of 7 years of its implementations. Out of 100 respondents, 22% were not familiar with VAT. The government should launch an intensive education and awareness campaign in major economics and commercial centre first and gradually all over the country. The target group could be consumer. The government needs to train its officials about all functioning of the system. Apart from this government is required to learn from what she did earlier and need to streamline the working procedure of the system. It is equally important that the government should justify the rationality of its policy and make consumer more assured about the policy that she introduced for the benefits of the people not by saying but by its deed.

The vendors are required to have their account transparent by means of proper and actual invoicing system. They should develop their professional competency not only in marketing but also in accounting and reporting system paying due to the law. They should have training from the government institution as well as private institution in respect of accounting and legal matters of the taxation. Since the registered taxpayers both seller as well as buyers of the goods and services, they should give and take tax invoices at the time of transaction in order to make their account fair and transparent. For this, the government and their professional organization should initiate and campaign the awareness program to educate the vendors on the part of invoicing system.

The consumers are the de facto taxpayers. They pay for the government in the name of tax, fees, charges, and donation. It is very important that the money paid by consumers to the government in the name of taxation should be accounted in exchequer of the nation. The billing system is very good means to account for the business. If invoicing system in a country is poor, there may remain a heavy chance to manipulate the account of tax payers and businessmen which open the door tax evasion. In this situation both the government to which people pay for, and the consumer or the people, upon which burden of tax rest, could be cheated by the vendor. To face such type of doubled edged challenged the government should initiate consumer awareness program with a great courage and vigor in order to make people more competent, rational, choosy and able for policing the malpractice of vendor. Apart from this, the people who are sovereign in taking their decision and who are ultimate taxpayers, should develop and organized civil society to check the domineering and exploitative, behavior of the business community and the monopolistic behavior of the state.

5.2 Suggestions and Recommendations

5.2.1 Suggestion for the Government:

1. The government should try to increase tax base through bringing the hideout taxpayers into the tax net and reducing the list of goods and services that are exempted so far, it is necessary to broaden the base of VAT legally and administratively. In order to broaden the tax base legally, an attempt must be made to keep the list of exemption top a minimum. Exemptions are not an effective way of achieving intended objectives such as equity or promoting certain activities. This would require a business survey by the Inland Revenue offices under there area of jurisdiction.
2. All VAT registrants should be required to display their registration certificate prominently and unregistered vendors located in specified commercially important areas should have to display the signboard/stickers indicating that their annual taxable turnover is below the registration threshold. This need to be monitored regularly by the tax officials.
3. It is also necessary that all registered vendors comply with the VAT properly. This is particularly important in the context that those genuine business which are registered under the VAT and comply with VAT formalities properly consider themselves at a disadvantages position compared to those business whish are either not registered or do not comply properly even if they are registered.
4. VAT is the most efficient way of generating revenue, attempts must be made to raise additional revenue through VAT by also raising the rate of this tax.
5. An increases in VAT rate should be linked with the reduction of the rate of custom duties and income tax and amalgamation of minor commodity based taxes, charges, duties or fees into VAT. Currently, the VAT threshold has been fixed at Rs. 2 millions. In real terms, this has been decreasing annually due to inflation. However, as the business community, tax officials and others have become familiar with this threshold, it should not be changed for some years to

come. However, all importers should be made liable to be registered under VAT, irrespective of the amount of turnover.

6. It is particularly important in the context that currently, many importers import goods without being registered due to the provision that it is not necessary to register in case of commercial imports could be higher than Rs. 10000 at one time although in reality the imports could be higher than rs.10000. So it is necessary to scrap this provision and make VAT registration compulsory for every importer. It will be beneficial for both the tax administration and taxpayers to make the tax period bi-monthly instead of the current monthly basis.
7. While the design of the refund system is good, it has, at times, not been implemented properly. It is necessary that the refund procedure be implemented in a timely and proper manner and that both taxpayers and tax officials be educated on the procedure to prevent any misuse of refund procedure.
8. As the tax audit is a relatively new phenomenon in Nepal, there is a lack of a methodical and effective system of tax audit. There have been different experiment regarding the criteria for the selection of taxpayers for audit, such as high credit, erratic transaction trends, large refunds tec. In some years, all tax payers above a specified level of turnover were selected for a tax audits will be made solely by the Inland revenue Department(i.e. Head Quarters). Also, not all taxpayers who have been selected for an audit have actallybeen audited. All these shortcoming have made the tax audit the most debatable parft of VAT administration.
9. It is necessary to make the internal monitoring system moiré effective. An internal monitoring team should visit field offices more frequently to provide guidance and conduct internal assessment.
10. The government should launch an intensive education and awareness campaign in major economics and commercial centre first and gradually all over the country. The target group could be consumer. The government needs to train its official about the well functioning of the system.

11. Apart from this government is required to learn from what she did earlier and need to streamline the working procedure of the system. It is equally important that the government should justify the rationality of its policy and make consumers more assured about the policy that she introduced for the benefits of the people not by saving but by its deed.

5.2.2 Suggestion for the registered Taxpayers.

1. The vendors are required to have their account transparent by means of proper and actual invoicing system.
2. They should develop their professional competency not only in marketing but also in accounting and reporting system paying due respects to the law.
3. They should have training from the government institutions as well as private institution in respects of accounting and legal matters of the taxation.
4. Since the registered taxpayers are both sellers as well as buyer of the goods and services, they should give and take invoices at the time of transaction in order to make their account fair and transparent, For this, the government and their professional organization should initiate and campaign the awareness program to educate the vendors on the part of invoicing system.

5.2.3 Suggestion for the Consumers.

1. The consumers are the De-facto taxpayers. They pay for the government in the name of tax, fees, charges, and donation. It is very important that the money paid by consumer to the government in the name of taxation should be accounted in the exchequer of the nation. The billing system is a very good means to account for the business.

2. If invoicing system in a country is poor; there may remain a heavy chance to manipulate the account of taxpayers and businessmen which people open the door of tax evasion. In this situation both the government to which people pay for and the consumer or the people, upon which burden of tax rest, could be cheated by the vendors.
3. To face such type of double edged challenged the government should initiate consumer awareness program with a great courage and vigor in order to make people more complement, rational, choosy and able for policing the malpractice of vendors.
4. Apart from this the people who are sovereign in taking their decisions and who are ultimate taxpayers should develop an organized civil society to check the domineering and exploitative behavior of the business community and the monopolistic behavior of the state.

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