

CHAPTER I

INTRODUCTION

1.1 Background of the study

Nepal has been trying to enter into a new era of economic change. In developing country like Nepal, government needs to perform various functions in the field of political, social and economic activities to maximize social and economic welfare. In order to perform these duties and functions government requires large amount of fund.

Now days, the prime concern of every nation of the world is rapid economic development and Nepal is not exception to this ever-continuing process. For the economic development, government has huge responsibility towards the people to fulfill the responsibility of government towards the people; government has to spend a lot of money. The responsibility may be either for security or health or education or other developmental activities. Government spends a lot of funds for protection of common people and for the creation of various socio-economic infrastructures. The main objective of government of any developing country is to improve living standard of people through the development process. In order to uplift the life standard of people, Nepal has given first priority of economic development through planned efforts and government has continued the implementation of several reform programs initiated in the past. Resource mobilization is the foundation for economic development of the nation. If the nation has sufficient funds, it will be able to achieve maximum social welfare. For the fulfillment of country's need, government expenditure is increasing year by year. Government expenditure is increasing because of demand of time, population growth, defense, increase in national income, Government subsidies, Debt servicing, expansion of administrative machinery, Development projects, urbanization, Industrialization, economic incentives, social progress, increase in price and so on, to meet the growing public expenditure; the government has to manage its fund. The government can mobilize both internal and external financial sources to bridge its expenditure. External sources of funds are

more important for undeveloped and under developed countries like Nepal, but, these sources are uncertain, inconvenient and not good for the healthy development of nation. Continuous uses of external sources of fund are not good as it reduces the liquidity position of the government. The internal sources are more preferable to external one for sustainable economic development. External sources of funds are foreign grants and loans. This kind of funds is received from foreign countries and international organization. Internal sources can be classified broadly into two groups i.e. Tax Revenue and Non-Tax Revenue.

Tax Revenue includes direct tax on income, corporate tax, capital gain tax and wealth tax and indirect tax on consumption. Whereas the revenue obtained by the government from sources other than tax is called Non-Tax Revenue. The sources of non-tax revenue are: - government fees, fines and penalties, Surplus from Public Enterprises, Special assessment of betterment levy, Grants and Gifts, dividend and royalties and so on. The non-tax income is important in raising revenue. Non Tax Revenue includes all revenues other than taxes, accruing to the Government. These are internally generated funds. Thus, the tax system plays an important role in generating Public Revenue.

The term 'Value Added Tax (VAT)' can be defined as a tax levied (on the value created) at each stage in the process of production and distribution of a good or service. These stages can be import, manufacturing, dealers, wholesalers and retailers etc. For example, a large paddy collector from the local farmers pays a percentage on the paddy it sells to a miller. The miller then pays the same percentage (less what the paddy collector paid) on the rice (processed paddy) which it then sells to a hotel. The hotel likewise pays the same percentage (less what the paddy collector and miller paid) on the food it serves to its guest. Proponents of a VAT claim it is transparent as each person or company along the supply chain has an incentive to ensure that every other person or company pays the VAT, and thus reducing the likelihood of tax evasion and avoidance. They also argue that it is more straightforward than other taxes (which it replaces) because there are virtually no exemptions or loopholes. It is based on value added principle (Dhakal, 2015).

VAT is the recent innovation in the field of taxation in Nepal. Despite all the constraints and obstructions from the business communities. VAT was introduced in Nepal on 16th November, 1997 with the objective of increasing revenue mobilization

by broadening the tax base and of instilling neutrality, efficiency, fairness and transparency in the administration. It was launched in place of the four different taxes, namely sales tax, contract tax, entertainment tax and hotel tax. In Nepal, consumption type VAT is being implemented. (*Source: Kamal Koirala, 2011*)

In Nepal, Value Added Tax (VAT) was introduced on 16 Nov. 1997. VAT replaces the old Sales Tax, Contract Tax, Hotel Tax and Entertainment Tax. VAT replaces the old Sales Tax, Contract Tax, Hotel Tax and Entertainment Tax. It is believed that successful implementation of VAT will help to generate customs duties and income tax also and it is expected to enhance the revenue collection and it is closely associated with the GDP. This Act classifies goods and services under three categories: they are Vat-able goods and services, exempted goods and services and zero-rated goods and services. It is applied at a single rate (presently 13%, initially 10%) based on the addition of value of the goods and services at each stage in the process of supply and delivery of goods and services. VAT is a multi-staged, commodity and services-based tax which is levied on the value added of business at different stages of production and distribution. It is imposed on different stages. It is imposed on the value of goods and services. The value added tax is an indirect tax that depends upon the consumer. VAT is a broad-based tax as it also covers the value added to each commodity by a firm during all stages of production and distribution. It is a modern tax system which enables an efficient collection system, to increase efficiency and to reduce tax evasion. It is also referred to as the backbone of the income tax system in Nepal. VAT plays a great role in the revenue mobilization in Nepal. The reason behind the VAT system, it makes transparency in all kinds of transactions, helps to make a wide area of tax and discourages tax evasion. Land Revenue Tax, which was supposed to contribute 95% of revenue to the government formerly & Land and Housing Tax, the only property tax of Nepal, is shifted to the local authorities/elected bodies for collection. So the government of Nepal introduced the VAT system. So it is needless to say that VAT is the most important source of government revenue. VAT applies to supplies of goods and services for consideration other than exempt goods by taxable persons. VAT is collected by a taxable person. A taxable person is entitled to deduct the input tax from the tax collected by the sales. Similarly, if the input tax exceeds the tax collected, the

taxpayer may adjust in any tax payable. After adjusting it, if any tax amount remains, taxpayer is entitled to deduct from tax payable in next month. VAT Act has made provision regarding tax refund also. Conditions and procedures of tax refund are also stipulated in the VAT Act. Thus because of many features and contribution future prospects of VAT is good enough. From the past experiences of VAT in Nepal, it would show the clear picture of its incoming future as well. (*Source: Inland Revenue Department*)

In a conclusion, VAT is based on the principle of self assessment system. The Value Added Tax (VAT) is a general, broad based consumption tax assessed on the value added on the goods and services. It applies more or less to all goods and services that are bought and sold for use or consumption in the community. Thus, goods which are sold for export or services which are sold to customers abroad are normally not subject to VAT. The success of the VAT system depends upon the proper account keeping, registration of business, effective billing system and so on. Among the factors, non awareness of consumers is one of the main reasons of failure of billing system.

For VAT purposes, a taxable person is any individual, partnership, company or whatever which supplies taxable goods and services in the course of business. However, if the annual turnover of this person is less than a certain limit (the threshold), which differs according to the member state, the person does not have to charge VAT on their sales. Transparency is the most feature of VAT that will help to control the tax evasion.

1.2 Statement of the problems

Nepal is one of the least developed countries in the world. Its position in terms of GNP per capital is the lowest in SAARC region. This shows Nepal has remained one of the poorest countries in the world. The economic performance of the country in major areas is also disappointing. The economic growth rate is not going to support the increasing population. Basic macro economic indicator of Nepal shows that Nepal's economic performance is not satisfactory. It is said that Nepalese VAT law is

inappropriate and the administration is worse. Tax system should be such that it raises adequate revenue to the government, without discouraging private businesses. Another problem is the lack of education among the taxpayers regarding VAT. There is a need of public education in VAT collection. Next problem is related to the coordination between the government and taxpayers. The scope of direct tax through income taxes and property taxes are rather limited because of the low administrative expertise and large scale of tax evasion. There is no alternative way of VAT in the place of existing sales tax system, which is less productive and narrow base. The problem is that most of the general public doesn't know the concept of VAT even that businessmen have not clearly understand it. In such situation, government should abolish that sort of problem and make VAT remarkable. On the basis of above mentioned factors, the following research questions have been sought to be answered in this study:

1. What is the relationship between VAT collection and Government Revenue?
2. What is the present position of VAT in Nepal?
3. Whether the businessman and consumers are aware about VAT?
4. What types of challenge are faced by the taxpayers while collecting and reporting VAT to the government?

1.3 Purpose of the study

The general purpose of the study is to examine the tax payer's education regarding vat collection in Nepal. The specific purposes of the study are as follows:

1. To assess the relationship between VAT and Government Revenue.
2. To evaluate current scenario of VAT in Nepal.
3. To examine the awareness of businessman and consumers about VAT.
4. To analyze the problem faced by taxpayers on the collection and reporting of VAT.

1.4 Significance of the study

Value added tax (VAT) is a recent phenomenon in the arena of tax administration. VAT in Nepal has many ups and downs and twists and turn so far. If it is properly implemented VAT provides various financial needs. For the successful implementation of VAT co-ordination between government and business community is needed. It has been implemented since 1997 in Nepal. The study has directly beneficial to policy maker, private sector, researcher and general people. It has helped the re-searcher to carry out their research a step ahead about VAT.

VAT is the most important sources to generate revenue. It contributes significantly more revenue in indirect tax. So, this study is useful for the readers interested in the field of taxation, policy makers, researchers, tax officials and especially the student of master's degree engaged in the research work on value added tax as well as in the field of Nepalese tax system as a whole. This study provides a clear idea and knowledge those people who are interested to know more about VAT system in Nepal and who are confused about the VAT system.

1.5 Limitations of the study

This study was specially based on remuneration aspect and not a complete study of tax payer's education. It is only a portion of the overall taxation system. Effective research in the topic is yet to be made. It has also suffers from following limitations:

1. The study focused basically taxpayer's education and awareness but it has not focus the whole taxation.
2. This study has concentrated about the study of Value Added Tax in Nepal.
3. The study was limited from fiscal year 2007/08 to 2016/17.
4. Primary data by questionnaire is collected from Kathmandu only.

1.6 Chapter plan

The study was divided into following five chapters:

Chapter I : The first chapter deal with the background of the study, statement of the problem, purpose of the study, limitations of the study, significance of the study and chapter plan.

Chapter II: The second chapter follows the first chapter and carries meaningful importance in the whole work. It is collected through various journal, news paper, websites, related books and newsletters and more importantly report related ministry of finance (MOF) and Inland Revenue department (IRD).

Chapter III: The third chapter deals with research methodology employed in the study which includes the research design , population and sample, sources of data ,data collection and processing procedure, analysis tool and technique that are planned for conductive this study.

Chapter IV: The fourth chapter includes data presentation and analysis. It has been presented the collected data and result in required form. This chapter deals with main part of the study.

Chapter V: Finally, the fifth chapter provides summary of the study, its conclusion and implication. This is the ending of the work.

Bibliography and appendix are incorporated at the end of the study.

CHAPTER-II

REVIEW OF LITERATURE

The history of VAT is not so long in the global contents, several studies and experiments have been undertaken on VAT. Very few studies have been done on the topic taxpayers and their awareness towards VAT collection. It is the way to discover what the other researcher have covered and left in the area. Generally, review of literature is that chapter where the researcher reviews the books, journals, magazines and other types of the study, which are related to his field of study. Thus a literature review is the process of locating, obtaining, reading and evaluating the resource literature in thereof of the student's interest.

Tax becomes the main source of revenue of the state. Value Added Tax is the latest innovation in the field of taxation. VAT is considered as the reform tax system of the 21st century, which has already been implemented popularly in more than 135 countries in the world. VAT is multi staged, commodity and services based tax which is levied on the value added of business at different stages of production and distribution. It is imposed on different stages. It imposed on value of goods and services. The value added tax is indirect tax depends upon consumer.

VAT is a broad based tax as it also covers the value added to each commodity by a firm during all stages of production and distribution. It is a modern tax system which enables to efficient collection system, to increase efficiency and to reduce tax evasion. It is also refereed as the backbone of income tax system in Nepal.

VAT plays great role in the revenue mobilization in Nepal. The reason behind VAT system, it makes transparency in all kinds of transaction, helps to make the wide area of tax and discourages tax evasion. So it is needless to say that VAT is the most important sources of the government revenue.

2.1 Conceptual Review

2.1.1 Concept of Tax

A tax is a mandatory financial charge or some other type of levy imposed upon a taxpayer by a state or the functional equivalent of a state in order to fund various public expenditures. A failure to pay, or evasion of or resistance to taxation, is punishable by law. Taxation is the system of levying taxes. The system is the set of principles. The principle is a scheme of ideas or body of rules by which a theory is organized. Tax is a compulsory monetary contribution to a state by its residents without getting corresponding benefits of service or goods from the government. The government of any country needs adequate budget to run administrative or development activities. The government through various sources collects the revenue. Tax is the major sources of government revenue.

Seligman has defined tax as a compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefit conferred.

Findlays Shirras defined tax as “compulsory contribution to public authorities to meet the general expenses of the government which have been incurred for the public goods and without reference to special benefits.”

Similarly according to the Plehn “Taxes are general contribution of wealth levied upon persons, natural or corporate to defray expenses incurred in conferring common benefits upon the residence of the states.”

Plehn stressed that taxes are general contribution of wealth levied upon persons, natural or corporate to defray expenses incurred in conferring common benefits upon the resident of the states.

A tax is a compulsory contribution imposed by a public authority irrespective of the exact amount of service rendered to the tax payer in return and not imposed as penalty for any legal offence. Tax is a compulsory payment to the government without expectation of direct expenses of direct return as benefit to the tax payers. A tax is a compulsory contribution of wealth of a person or body of persons for the service of public powers.

Taxation is a system used by governments to obtain money from people and organizations. The government uses collected revenue to support itself and to provide public services. In its nature, it is relatively permanent and compulsory and does not guarantee a direct relationship between the amount contributed by a citizen and the extent of governmental services provided to him (the Columbia Encyclopedia, 2006). Therefore, taxation is a device or process of imposing a tax. Taxes are major fiscal policy instruments and important government policy tools have an important role in increasing the rate of capital formation and thereby a high rate of economic growth can be achieved. Increase in taxes may be directed to increase in saving through the postponement of consumption. The increase in saving means a higher volume of resource is available for making useful and productive investments. Taxation may also play a dual role.

In conclusion, it can be said that a tax is a liability to pay an amount to the state on account of the fact that the assesses have income of a minimum amount from certain specified sources or that they own certain tangible or intangible property or that they carry on certain economic activities or they consume certain goods and services which have been chosen for taxation. (Kandel, 2004:3)

2.1.2 Introduction of VAT

Value Added Tax (VAT) is the most recent innovation in the field of taxation. VAT is a general consumption tax assessed on the value added to goods and service. It is a general tax that applies, in principle, to all commercial activities involving the production and distribution of goods and the provision of services.

Value Added Tax (VAT) is a major source of indirect taxes. It is an improved version of sales tax. It is a tax imposed on value addition on goods and services made by business entities at the successive stages of production and distribution. VAT is charged on person making value addition. (K.c, 2008) Value added tax (VAT) is known as the most recent and effective innovation in the taxation field. It is levied on the value added of the goods and services. Theoretically, the tax is broad based as it covers the value added to each commodity by a firm during all stages of production and distribution.

A value added tax is a tax assessed at each steps of the production and distribution process, levied on the differences between purchase cost of an assets and the price at which it can sold (the amount of value added on it). Tax is added tax product's price each time it charge hands until delivery to the consumer takes place when the final tax is paid. It is a modern tax system to improve the collection of taxes, to increase efficiency and to lesion tax evasion. It is also regarded as the backbone of income tax system in Nepal. The current threshold for vat registration is rupees two millions. Those vendors whose annual turnover is below the threshold can, however, register voluntarily.

VAT is broad based tax as it also covers the value added to each commoding by a firm during all stages of production and distribution. It is a modern tax system to improve the collection of taxes to increase efficiency and to lessen tax evasion. It is also regarded as the backbone of income tax system in Nepal. VAT, like other sales taxes in classified as an indirect tax because it is paid by business firm to the government and shifted to the purchasers of the product rather than being collected directly by the government from the purchases. Goods and services constitutes base of VAT and it is shifted forward to consumer.

2.1.3 Meaning of VAT

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

VAT replaces old sales tax, contract tax, hotel tax, and entertainment tax. It has been designed to collect the same revenue as the four taxes it replaced. Since the collection of both customs duties and income tax depends to a great extent upon the effectiveness of VAT. It is expected to help in revenue collection. It is a modern tax

system to improve the collection of taxes to increase efficiency and to lessen tax evasion. It is also regarded as the backbone of income tax system in Nepal.

It is a tax of the 21st century since it is highly developed and refined. It is a tax that suits the present speed of knowledge, development and skill. VAT applies to supplies of goods and services for consideration other than exempt goods by taxable person. VAT is collected by taxable person. The tax applies to the value added at production and distribution that is to sales proceeds less purchase of material input and certain service. There is the presumption that VAT is shifted forward completely to the consumers.

VAT levied on value added of goods and service at each stage in the process of production and distribution chain. These stages can be import, manufacturing, wholesale and retail. Value added for a firm is sales value minus all expenditures on goods and services purchased from other firms plus profit. The value added can be obtained by adding payments to factors of production (wages, salaries, rent, interest and profit) this value added is the base of VAT. Although VAT is eventually borne by the final consumer, it is collected at each stage of production and distribution chain (Bhattarai and Koirala, 2004: 18.3).

In a nutshell, VAT is an indirect tax that is imposed on different goods and services on the basis of value added amount in different stages of production and distribution. It is not a genuinely new form of taxation but merely a sales tax administered in different form. Vat was invented because very high sales taxes and tariffs encourage cheating and smuggling. It has been criticized on the grounds that (like other consumption taxes) it is a regressive tax. Value added tax is the gross receipt from sales after subtraction all expenditure on goods and purchase from other firms.

2.1.4 Types of VAT

The types of VAT are determined on the basis of treatment of capital goods of a firm. Input tax paid for capital goods is allowed or not is the fundamental question in the study of types of VAT. There are three types of VAT:

- a. Consumption type
- b. Income type
- c. Gross National Product (GNP) type

a. Consumption Type VAT

The consumption type VAT excludes the value of both intermediate inputs and investment items from the gross value of goods and services from the tax base. Depreciation is not deducted from the tax base in subsequent years. The base of tax is consumption since investment is relieved from taxation under this type. Consumption type VAT is widely used. Hence, by the term 'VAT' we basically mean the consumption type VAT. The base of consumption type VAT-as-defined-is close to the one in retail sales taxation.

b. Income Type VAT

The income type VAT includes in the tax base the capital goods purchased from other firms. This type, however, excludes from the base the value of intermediate inputs and depreciation. The tax falls both on consumption and net investment. The tax base of this type is the net national income.

c. GNP Type VAT

A GNP- levied on VAT taxes all final goods and services except for intermediate goods. Investment costs also enter the tax base-no capital expensing or depreciation is allowed. The advantage of this type of the VAT is that the base is relatively large. The big disadvantage is, however, that the investment items will bear the full tax burden.

Most countries apply the consumption type VAT but introduce various ways of giving credit for capital goods. Rarely do countries allow for immediate and full credit of the tax charged on capital goods. They generally limit the credit in a certain period to the level of the VAT chargeable on output and allow the remaining credit to be carried

forward to offset the tax in later periods (for example, this is a common practice in Latin America). On the other hand, some countries selectively grant immediate exemption of the VAT on the purchase of capital goods as part of an overall package of fiscal incentives to priority industries.

There are two important notes. First, both product and income-typed VATs entail cascading effect as they more or less charge the tax on investment items. Thus, they are not production-efficient. The income-typed VAT allows for partial and delayed refunds of tax: investment items are not immediately expensed but gradually deducted from the tax base over a specified period in the project's life—the investment items, therefore, bear partial tax burden in present value terms. However, the GNP or income tax base is relatively larger than the one of the pure consumption-typed VAT and is not commonly applied in practice—China and Brazil are among a few exceptional cases, which apply the GNP-typed VAT (China apply the GNP-based VAT at state level). On the other hand, the pure consumption base would relieve production from tax burden and hence makes the VAT more production-efficient. In addition, as a general consumption tax, the consumption-typed VAT does not distort the investment and saving behavior. (Views on VAT: An Article series, kpmg.com)

2.1.5 Methods of computing of VAT

The VAT, by definition, is the tax on the value added at each stage of a production chain. The value added, in terms, can be defined in two alternative ways. First, value added is equivalent to the sum of wages to labor and profits to owners of the production factors including land and capital. Second, value added is simply measured as the difference between the value of output and the cost of inputs. The two ways of definition of value added give rise to following three major alternatives for computing the VAT liability.

a. Addition Method

This method is also known as the Direct Value Added Computation method. Under this method the tax base is obtained by adding the incomes produced by the firm. In other words the tax base is computed by adding the payments

made by the firms to the factors of production employed in turning out the product such as Wages, Interest, Rent, Royalty and Profit. This method is appropriate for the income type of VAT that includes in its base in regards to all factors.

b. Subtraction Method

Under this method, each merchant’s tax liability is computed by applying the applicable VAT rate to the difference between his total sales (inclusive of the VAT element in his sales price) and his total purchases (inclusive of the VAT element in his purchase price). Hence, unlike the credit method, the amount of VAT connected with a taxable transaction is not required to be explicitly stated on the associated invoice (Howell, 1995: 94). This method is appropriate for the consumption variant of VAT. The tax revenue under this method can be calculated by using this formula.

$$T = t (SV - CPI)$$

Table 1

Calculation of VAT under Subtraction Method

(in Rs.)

Phases of production and Distribution	Net Purchase Price (CPI)	Net Sales (SV)	Value Added (SV-CPI)	VAT @13%
Raw materials Producer	–	3000.00	3000.00	390.00
Producer	3000.00	4500.00	1500.00	195.00
Wholesaler	4500.00	5800.00	1300.00	169.00
Retailer	5800.00	6500.00	700.00	91.00
Total	13300.00	19800.00	6500.00	845.00

c. Tax Credit Method

This method is also called the Invoice Method. Under this method, tax is levied on the total value of sales and it requires that the amount of VAT charged be explicitly stated on the invoice associated with any taxable

transaction. The amount of tax merchant submits of tax authorities is simply the difference between the tax collected on his sales and the tax he paid on his purchases (Khadka, 1997: 6). Since the value added (VA) is sale value (SV) minus cost of purchased inputs (CPI), a given tax rate, say (t), the tax revenue (T) will be -

$$T = t.SV - t.CPI$$

Since business is required to state the tax on invoices under the tax credit method, it facilitates border tax adjustments. This implies that the amount of tax that levied on export can be refunded to exporters. Similarly, this method is effective under the destination principle where exports are zero-rated and the tax credit chain is not broken. It also provides the facility of cross checking.

This method is particularly useful if it is desired to reduce the rate of value added tax at certain stage in the process of production and distribution. Since this mechanism puts an equal burden of taxation on both imports and domestic products, it is further preferred. The tax credit method, thus, is desirable for several reasons and has been adopted by many countries of the world.

Nepal has adopted the tax credit method.

The following example may help understand the subtraction method in a better way. Let's suppose an importer imported a cooler for Rs. 20,000.00. VAT was paid on its import. This product passes through three stages before reaching to the final consumer. The value added (profit) by each businessmen on the cost price are :

importer - 30%, Manufacturer - 50%, Wholesaler - 20% and Retailer - 10%.
The VAT is calculated in the following table with all the given information's.

Table 1 Calculation of VAT under the Credit Method (in Rs.)

Stages	CPI- VAT	Added Value	SV- VAT	VAT @13%	SV + VAT	VAT
Imported Cooler	20000	-	-	2600	-	2600
Importer to Manufacturer	20000	6000	26000	3380	29380	
Manufacturer to Wholesaler	26000	13000	39000	5070	44070	1690
Wholesaler to Retailer	39000	7800	46800	6084	52884	1014
Retailer to Customer	46800	4680	51480	6692.4	58172.4	608.4

2.1.6 Principles Governing VAT

The following are the principles which govern Value Added Tax (VAT).

a. Principle of Transparency

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

b. Principle of Removing Cascading Effect

VAT removes cascading effect. Cascading effect means tax on tax i.e., tax is charged on the value including tax. But VAT has removed this effect by not including the VAT in the cost price to the second stage of the distribution channel. But under sales tax system, sales tax paid at one stage is included in the cost price for another stage.

c. Principle of Neutrality

Neutrality means not to discriminate one to another. VAT does not discriminate one economic activity against others. Tax rate or goods and services to be taxed are not discriminated by VAT. So, in this regard, VAT is neutral.

d. Principle of Destination and Zero Rating

Under this principle, goods and services are taxed at consumption point, not on production. Goods and services that are exported are taxed at zero rates (i.e. the taxpayer gets refund of VAT earlier paid in purchasing raw materials and interrelated goods). Generally, exporters have no incentives to under-declare their export values, and importers have no incentives to overvalue their imports. If the VAT is properly applied, all inputs are free of tax burden. Therefore, the destination principle promotes production efficiency.

2.2 Review of Articles

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

1. Acceptance of the correct in voice.
2. Self-assessment of taxes
3. Refund of the tax amount in a speedy and simple manner when the conditions for a tax refund are met.

VAT is useful in the context of Nepal too because of these reasons:

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

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

1. Inadequate and incorrect step taken to ensure billing and /or billing at the correct prices.
2. Failure to enforce VAT threshold on an effective way.

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

On the other hand, refund mechanism has been misused by the tax official in those countries which made full audit mandatory for the refund. This is because resources allocated for audit generally limited. But in case of Nepal problem of allocating budget and realizing the long term process of budget and approving refund , a system of refund directly through the VAT revenue collected on imports has been introduced. It was a dream of the designers of the refund system to implement it in a proper and effective manner in real life. In the first year of introduction of VAT, no one claimed for the refund.

After publicity regarding the tax refund system the trust of taxpayers gradually increased and claimed for refund. VAT refund figure indicated that the refund system is becoming increasingly effective in real life but there is still long way to go.

Dahal(1996),stated that VAT is a most scientific, innovative and powerful tax with built-in quality of universal application for both developed and developing economies. The biggest virtue of VAT is that it is revenue buoyant and highly instrumental for resource mobilization especially in an economy with an acute shortage of resources." he further added, Nepal has entered into a major global tax system with the introduction of VAT. VAT is an account-based tax that leads to transparency and accountability both as the part of taxpayers and collectors. Open border, non-magnetized economy, non-issuance of invoice etc. Are major problems that would marginalize the prospects for resource mobilization inNepal? This calls for introducing stringent regulations to deal with the delinquency of tax, maintaining records properly and improving efficiency of VAT administration. The success of VAT will have significant bearing on the economy of Nepal.

Sancak, Velloso, & Xing (2010)examined tax revenue during the business cycle by estimating the relationship between tax revenue efficiency and the output gap. We find a positive and significant relationship between these variables; results are consistent for quarterly and annual data, and across advanced and developing economies. We also find that a worsening (improvement) in the VAT C-efficiency is driven by shifts in consumption patterns and changes in tax evasion during contractions (expansions). A key implication is that, particularly during major economic booms and downturns, policy makers should look beyond simple, long-run revenue elasticity's and incorporates into their analysis the effects of the economic cycle on tax revenue efficiency.

Koirala (2011) stated that Value Added Tax (VAT) is a recent phenomenon in the arena of tax administration in Nepal. This paper aims to assess critically the performance of VAT in Nepal since its inception to date, focusing basically on three aspects of it, viz, (i) Current scenario of VAT administration (ii) Major issues, and (iii) Urgent corrective actions required. Most of the qualitative and quantitative

relevant data have been collected from Economic Survey and office of Inland Revenue Department (IRD). The data comprises of both primary and secondary data.

A.Jayakumar(2012) stated that Value added tax (VAT) is a type of indirect tax that is imposed on goods and services. Sometimes, when the government operates on a budget surplus or wants to increase its revenue in order to finance its budget deficit. A question that arises is whether value added tax has been a boon or misery for a developing country like India. Around 136 countries in Asia have recognized the importance of value added tax. In one of the most large scale reforms of the country's public finances in over the past 50 years, India has finally agreed the launch of its much delayed value added tax from 1st April, 2005 at a rate of 12.5%. The tax rate is fixed by meeting of different state level Finance Minister, in New Delhi, designed to make accounting more transparent, to cut short trade barriers and boost tax revenues. The government imposes taxes and duty charges on the fellow people for fulfilling the infrastructural, technological, entrepreneurial demand of the country. VAT is omnipresent in all goods and services provided to the consumer. The paper aims at presenting the importance of value added tax in the Indian society, its impact and the future prospect for product and service industry in India. The data collected is secondary based from the governmental publications and standard for chartered accountants.

Chatama (2013) examined how the use of ICT has modernized Tax administration procedures and improved revenue collection at Large Taxpayer Department of Tanzania Revenue Authority. ICT was introduced into the department in 2001 for facilitating maintenance and timely access of records and fast processing of return so as to remove postal delays; minimize operational costs; curb cheating and plug revenue loss (TRA 2010e). Large Taxpayers and Large Taxpayer Department staff (100%) agree that, since 2001 time for processing return and responding to queries have been reasonably shortened (Victor–Nyambo 2009). TRA reports reveal that, actual revenue collection increased from TZS. 204,397.5 Millions in 2001/02 to TZS. 1,605,751.2 Millions in 2008/09 while revenue contribution share rose to 41% in 2008/09 from 23% in 2001/02. Although other factors in the economy like; increased internal trade, reduced importation and more reliance to home products may cause the

increase, if there is no good tax administration, revenue will not be reflected in collections. The fact that revenue has increased proves that, ICT use enhance better tax administration.

Kumar & Sarkar (2016) explained in their article “Consumers Perception towards the Value Added Tax”, the purpose of this paper is to study the consumer's perception towards VAT in Uttar Pradesh. Consumers’ perception and awareness are evaluated on the basis of their opinion--what they think, what they know about VAT. The paper also aims at presenting the importance of VAT among the consumers and shows how it can enhance the revenue of Uttar Pradesh Government. The data are collected through well structured questionnaire and those are distributed to 600 respondents in 3 zones (Ghaziabad-1, Gautam Buddha Nagar and Lucknow-1) of Uttar Pradesh. For the purpose of analysis and interpretation the researcher has used the following statistical tools of SPSS. On the basis of analysis and interpretation the researcher introduces the major findings that the majority of the consumers pay tax but, they are not much aware of the VAT. Due to the high tendency of VAT the consumers try to avoid the payment of tax in U.P.

Acharya (2016), concluded in study Value Added Tax (VAT) has become an integral part of domestic tax reforms in many developing countries. Taking the case of Nepal, VAT associates a number of refunds to different private sector activities for promoting investment in higher growth and export potential sectors. Total refund, more specifically, export refund has a significant positive impact on the level of GDP. This study is based on the secondary data published by the Inland Revenue Department (IRD), Ministry of Finance (MOF) and other resources. The study conducts trend analysis of the data and then diagnoses how VAT return system is instrumental to the growth performance of the economy. Moreover, it has estimated Nepalese VAT efficiency ratio and its correlates as well. Furthermore, the study establishes relationship between VAT gap and VAT C-efficiency ratio. Furthermore, non-agricultural GDP has strong positive influence to VAT C-efficiency ratio. Likewise, higher the VAT gap, lower is the C-efficiency ratio. If C-efficiency is improved coupled with higher compliance, the capability of the government is strengthened in domestic revenue generation.

2.2.2 Review of Thesis

Ghimire (1998) in his M.A. dissertation entitled “Value Added Tax Key Issues in Nepal” tried to examine the various issues pertinent to VAT in Nepal. His study is based on primary data by administering question to VAT in Nepal. Data analysis tools used in his dissertation are simple statistical tools such as average percentage, ratio etc. He has followed analytical as well as descriptive research design.

Devkota (2000) in his M.A. dissertation on “A Study on Value Added Tax Imposition in Nepal” studied about effectiveness of present information and communication networking in imposition of VAT. He has collected primary data to gather opinions and views relevant to study objectives. Statistical tools he used are simple as ratio, percentage, average etc.

Subedi (2005), in his research work entitled “Implementation and Effectiveness of VAT in Nepal” explains monitoring system of the VAT administration is not effective, because of this; taxpayers are still encouraged for tax evading practice. Many businessmen don not issue invoice for their selling and even to follow the other importer invoice so an effective and efficient auditing, investigation and monitoring system should be developed.

He further explains that the VAT administration should be kept free from any sort of intervention or influences from the outside. Honest and capable person should be selected for key position. Training of the tax personal should be kept at the top most priority. A good working environment should be created inside the administration, reward and punishment system should be strictly followed as a major guideline of conducting administration. Tax officials should closely be monitored for any kind of misdeeds.

Pradhan (2010) concluded his research entitled “Tax payers education regarding vat collection in Nepal”. The objective of this study is to find out the awareness of taxpayers towards VAT collection and suggest to the policy maker to improve the knowledge of people with collection of VAT. So, this study followed descriptive as well as analytical research tools. Data were collected as from primary and secondary

sources. To assess the current status of taxpayers education and awareness regarding VAT, to find the relationship between VAT collection and taxpayers' education, to examine the effectiveness of present management system of VAT, to provide suggestions for improving taxpayer's awareness in Nepal were objectives of VAT. 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, 3.67, 3.71 and 3.79 from the FY 1999/00 to 2008/09 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 1999/00. It has reached up to Rs. 29908.7 million in FY 2008/09, which is 203.64% increased in comparison to FY 1999/00. From the opinion of respondents, it is clear that current VAT rate is not applicable it means most of the respondents show their view against the applicability of current VAT rate. It is found that there are many problems of VAT system in Nepal. From the survey the prioritized problems are unfair and weak administration, lack of consumer awareness, underground economy and others. From the survey of respondents, it is clear that VAT paying system can be effective as political stability, increasing public awareness, billing enforcement and stop illegal trade. From the opinion of the respondents, it is clear that the good knowledge about custom duty to taxpayer help to increase the government revenue i.e. most of the respondents responded that good knowledge about custom duty increase government revenue.

Puri (2011) presented a dissertation entitled "An analysis of tax structure in Nepal". Her research had mainly focused to provide some recommendations for making VAT effective and efficient. Mrs. Puri conducted that research following secondary data. Simple, multiple percentage, histogram, bar-diagram and trend line were used to interpret visually the finding of the research. A large amount of government revenue comes from taxation. More than 75 percent of government revenue comes from taxation, whereas, the contribution of non-tax revenue is less than 20 percent in Nepalese tax structure. The contribution of tax revenue was expected to increase after

the implementation of VAT, but implementation of VAT did not increase the contribution of tax revenue on total revenue significantly. VAT has been implemented in Nepal in order to generate more revenue, but the efficiency of the Nepalese VAT administration is not satisfactory and not up to the expectation of general people. Only few numbers of consumers have purchases. Customers have no habit to take bill on their purchase. This implies that there is very low public awareness and consciousness level towards VAT. On the other hand, businessmen do not want to issue bills. The businessmen have the intension of 'Malpractice' on VAT. So they don't provide bills to customers. This indicates that Government should give proper supervision and rational auditing of business account. Administrative incapability, under invoicing unbilling and lack of public awareness towards VAT are the main problems in the process of VAT implementation in Nepal. The contribution of VAT to GDP is just 2.7 percent in an average of 19 years. The contribution of VAT to GDP reached 4.64 percent in the fiscal years 2009/10. So the VAT/GDP ratio is very low as compared to other developing countries like Nepal. The contribution of VAT in total revenue is not up to the satisfactory level either in an average. It could contribute just about 30.51 percent to the total revenue in fiscal year 2009/10.

Pant (2012), submitted thesis entitled "*VAT Compliance in Nepal: Its Structure and Determinants*" to Shankar Dev Campus. The main objectives of his research work are to examine the structure of VAT in Nepal, to analyze the factors affecting VAT compliance in Nepal, to provide measures improving the collection of VAT. The government should concentrate more on introducing various discretionary measures rather than broadening the VAT base by reducing the tax-exempted goods & service. Under billing system is prevailing in the market which lowered VAT amount. Political instability is a major factor affecting VAT compliance.

Thapa (2013) presented a thesis entitled, "Value Added Tax and its implementation, problems and effectiveness in Nepalese Economy". Both primary and secondary data have used in the study. The main objective of the study is to identify the problems in VAT implementation in Nepal and its effectiveness in Nepalese economy. To present the existing trend of VAT registration, to examine VAT revenue collection, to analyze the problem of VAT implementation in Nepal, to point out the hurdles from the side

of government in collecting revenues, especially VAT. To identify public view points towards VAT were others specific objectives. In VAT collection, internal collection and Import has a ratio of 36:64 for fiscal year 2067/68 which increases VAT collection of 12.33% in comparison to previous year. This shows import contributes higher than internal collection. Nowadays, people are more aware of VAT so many of business are getting registration on VAT. The business registration on VAT is in an increasing trend. According to the businessmen, most of them say the major problem in VAT registration process is lack of sufficient assistance and guidelines by office personnel. Tax office should regulate their staff's in accordance to it. By observing the present scenario of VAT, it can be concluded that VAT has been implemented successfully and effectively in Nepal though the current legal provision and rules of VAT is not sufficient. A question has been asked to the businessmen regarding the reforms to be made for better effectiveness of VAT. Here, the businessmen has a view point that at this time all the goods and services are rated on a flat rate of VAT i.e. 13% which increases the value of goods. So, the government should consider conducting the multi rated VAT system so that goods and services can be equally rated.

Bhusal (2014), carried out a study on "An analysis of structure and challenges of value added tax in Nepal" in which she took the principles objectives of the study is to analysis the effectiveness and contribution of value added tax on the Government revenue of Nepal, to examine the trend and structure of VAT in the government revenue in Nepal, to identify the factors of challenges on VAT implementation in Nepal. The contribution of VAT in total tax revenue is more and attracting i.e. (30.06%) in F/Y 2003/04 and (31.58%) in F/Y 2005/06. The study indicates that the structure and the trend of Nepalese VAT system improving and increasing continuously. It shows that there is better improvement and making effective policy or administration part. To make effective and efficient implementation of VAT there may be improve some problems in VAT system. such as, effective policy of government ,increasing awareness of the consumer improving billing system, review the policy of threshold, exemption ,to overviews on smuggling and undervaluation etc.

Jaishi (2015), talked about the value added tax: issues and options. The researcher used both primary and secondary data and has reached to the following conclusion. The characteristics of the UDCs and thus of Nepal is general poverty; low income, low saving; low investment and capital formation, low productivity, and again low income and general poverty. The implementation of VAT in Nepal would have very poor result than expect due to poor planning and poor implementation. Nepal's whole political and administrative set up is very weak, backward, ill committed and corrupt. Inefficiency prevails everywhere. Lack of seriousness of the government, poor planning and implementation, backward and inefficient administration and underdeveloped economic and business structure would make the tax fall short of the various results that are generally expected from the introduction of VAT: in Nepal. There is a need to be more serious about the situation and conscious efforts should be made for the country's better future. For that enough intelligence should be acquired breaking the wall of poverty in thinking.

Adhikari (2016), in his thesis on “issues and options of value added Tax in Nepal” analyzed the issues and options of VAT in Nepal. He used analytical as well as descriptive research design. Statistical tools he used are ratio, percentage, trend line, correlation etc. According to him, a main issue is administrative capability and situation which definitely are of great importance for the effective implementation of VAT in Nepal. Actually VAT was introduced in Nepal with an ambitious hope to increase the revenue and particularly stop the leakage made through other forms of taxes. But history has shown that the government has already tried many reforms in the field of taxation but no alternative have effectively methods because it lacked proper planning and in other words leading to administrative failure. Even in the administrative areas, there is a wide spread corruption. There is also a red tapism everywhere. So, for that government, administrative capability and transparency are the serious concerns.

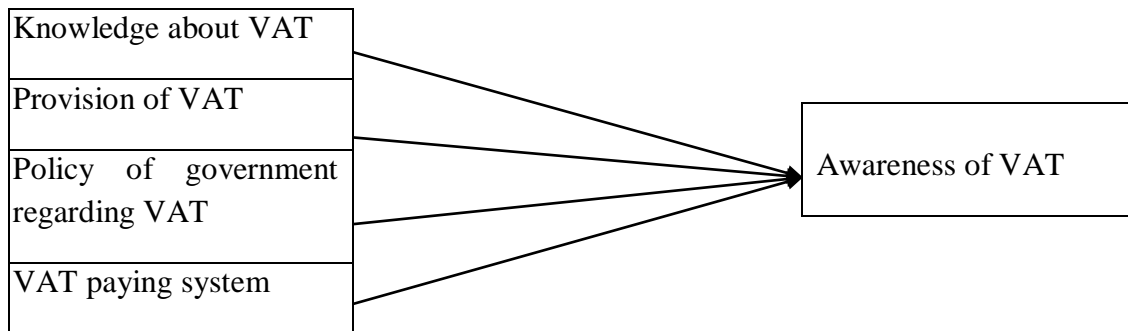
2.3 Theoretical Framework

Figure no 2.1

Structure of Theoretical framework

Independent variables

Dependent variable



2.4 Research Gap

The country has experienced the VAT about the decade and these days various study has been conducted on Nepalese VAT system regarding its implementation, its effectiveness and awareness. About ten years have already been passed since VAT come into operation but very few studies had been undertaken on the topic of VAT in the Nepalese context and most of the studies were related with theoretical aspects. This research covers ten fiscal year from 2007/08 to 2016/17 as well as taking the major market area of Kathmandu metropolitan City by conducting field survey, in order to know somehow about the practical experience of VAT. Similarly, while collecting the primary data, the researcher have visited the respondents (consumers, sole proprietor and partnership) personally. Here, it is tried to found out the awareness of tax and VAT system in general people. So this study will be fruitful to those interested persons, students, scholars, teachers, businessmen and government for academically as well as policy perspective.

CHAPTER III
RESEARCH METHODOLOGY

Research methodology is a research method used to meet the specified objectives. It is a systematic way to find out the probable solution. It refers to the various sequential steps (along with rationale of each step) to be adopted by a researcher in studying the problem with certain objectives in view. Thus the research method designed to achieve the objectives of this thesis contains research design, population and sample, data collection procedure, tools for analysis and methods of analysis and presentations.

3.1 Research design

Research is designed as to fulfill its objectives. Most of the data and information of this study were concerned with past phenomena of the performance either numerical or theoretical. On the basis of survey and collecting published quantitative and qualitative data. This study has tried to analyze and describe the result of the survey. This follows the analytical and descriptive research design, which has been supported by secondary data.

3.2 Population and sample

All the people of Kathmandu Metropolitan city belonging to or associated with value added tax are considered as total population. The study only takes 50 sole proprietors, 50 partnerships and 100 customers of Kathmandu metropolitan as sample. The questionnaires are asked for yes/no response or ask for ranking of alternatives where the first choice was the important or not important. Convenience sampling method has been used as sample method.

Table 3.1

Profile of respondents

S.N	Groups of Respondents	Sample size
1	Sole Proprietor	50
2	Partnerships	50
3	Customers	100
	Total	200

3.3 Source of data

The primary data were collected from the person representing from various sector conducting VAT. The major tool used for the collection of primary data is distribution of a questionnaire to a response of persons. The questionnaire was distributed to three tax groups of Kathmandu taxpayers i.e. sole proprietors, partnerships and Pvt.ltd Company are selected from different manufacturing company, trading company, department stores, shopping centre, financial company etc.

The secondary source of data and information are derived from published books newspapers, journals, reports and dissertations etc. The major sources of secondary data are;

- Published documents from Economic Survey(MOF)
- Publication of IRD and NRB
- Publication of books reports and seminar paper of different institutions such as FNCCI and IMF.
- Budget speech of Nepal Government of various years

3.4 Data collection and processing procedure

Total sets or questionnaire were distributed to the selected respondents in order to get actual and accurate and information. Distribution work has been done personally rather than sending by any to get accurate and actual information in time. The data are used to assess the opinion of people related to education of vat collection in Nepal. The sources of primary data are opinion survey. Secondary data are collected from

website of Inland Revenue Department (IRD), ministry of finance, economy survey, related articles, journals etc.

3.5 Data analysis tools and techniques

In the process of presentation and analysis of the data, various statistical tools are used in order to get the meaningful result. Collected data from primary and secondary sources were first processed for tabulation and analysis. For the purpose of analysis, following simple tools were used:

1. Simple average
2. Simple percentage
3. Graphs, Charts and Diagrams
4. Trend analysis
5. Correlation

3.5.1 Simple average

It is a number expressing the central or typical value in a set of data, in particular the mode, median, or the mean which is calculated by dividing the set of the values/in the set of their numbers.

3.5.2 Simple percentage method:

Simple percentage method is the method to represent raw streams of data as percentage (a part in 100 - percent) for better understanding of collected data.

3.5.3 Bar diagram:

A bar diagram is a visual display used to compare the amounts or frequency of occurrence of different characteristics of data. This type of display allows us to compare groups of data and to make generalizations about the data quickly

3.5.4 Pie chart:

This type of diagram is used to show the break-up of a total into component part.

3.5.5 Trend analysis:

Trend analysis is the practice of collecting information and attempting to spot a pattern or trend in the information. Although trend analysis is often used to predict

future events, it could be used to estimate uncertain events in the past. It is an aspect of technical analysis that tries to predict the future movement of a stock based on past data. It is based on the idea that what has happened in the past gives traders an idea of what has happen in the future.

$$y = a + bx \quad \text{where, } x = \text{is the time period}$$

$y = \text{is the value of the item measured against time}$

3.5.6 Correlation analysis:

Correlation refers to the degree of relationship between two variables. Correlation coefficient determines the association between the dependent variable and independent variable. If between the variables, increase or decrease in one cause increase or decrease in another, then such variables are correlated variables. “Correlation may be defined as the degree of linear relationship existing between two or more variables. Two variables are said to be correlated when the change in the value of one is accompanied by the change of another variable.” There are different techniques of calculating correlation coefficient. Among various techniques we have used Karl Pearson coefficient of correlation.

It is calculated as follows:

Formula

$$r_{X_1, X_2} = \frac{N \sum X_1 X_2 - (\sum X_1)(\sum X_2)}{\sqrt{[N \sum X_1^2 - (\sum X_1)^2]} \sqrt{[N \sum X_2^2 - (\sum X_2)^2]}}$$

Whereas,

r_{X_1, X_2} = Correlation between X_1 and X_2

$N \sum X_1 X_2$ = No. of Product observation and Sum of product X_1 and X_2

$\sum X_1 \sum X_2$ = Sum of Product X_1 and sum of Product X_2

The Karl Pearson Coefficient of correlation always falls between -1 to $+1$. The value of correlation in minus signifies, the negative correlation and in plus signifies the positive correlation. If,

$r = 0$, There is no relationship between the variables

$r < 0$, There is negative relationship between the variables

$r > 0$, There is positive relationship between the variables

$r = +1$, The relationship is perfectly positive.

$r = -1$, The relationship is perfectly negative.

CHAPTER IV

RESULTS

The main objective of this study is to find out the tax payers education regarding VAT collection in Nepal. To fulfill this objective descriptive statistics has been used is essential part of data. After data collection is completed, the data is in raw form. It is necessary to arrange the data to make some sense to researcher and others. It can later be presented to the reader of the research. Similarly, the purpose of analyzing the data is to change unprocessed form to an understanding presentation. Data collected from primary and secondary sources are analyzed in this chapter to achieve the objectives stated in study, in accordance to the research methodology described in chapter III. This chapter includes the presentations of data, analysis of data and major findings of the study.

4.1 Contribution of VAT to GDP

Gross domestic product is the total final output of goods and services produced in the country's territory by residents and non-residents, regardless of its collection between domestic and foreign claims. VAT has been playing vital role in government revenue of Nepal since its implementations and contribution of VAT can relate with GDP. The VAT /GDP ratio measures the consistency of the growth of VAT revenue with the corresponding growth in Gross National Product. This is an indicator of the utilization of taxable capacity. Normally, the growth of VAT revenue mobilization in line with the growth in GDP is desirable for the rapid economic development of a country. The collection of VAT revenue is more reliable than the direct tax revenue, non-tax revenue, which facilitates the process of economic planning and development in the country. VAT has been introduced in Nepal to increase the contribution towards revenue generation. The contribution of VAT revenue in GDP is shown in below table.

Table 4.1**Contribution of VAT to GDP (inbillions)**

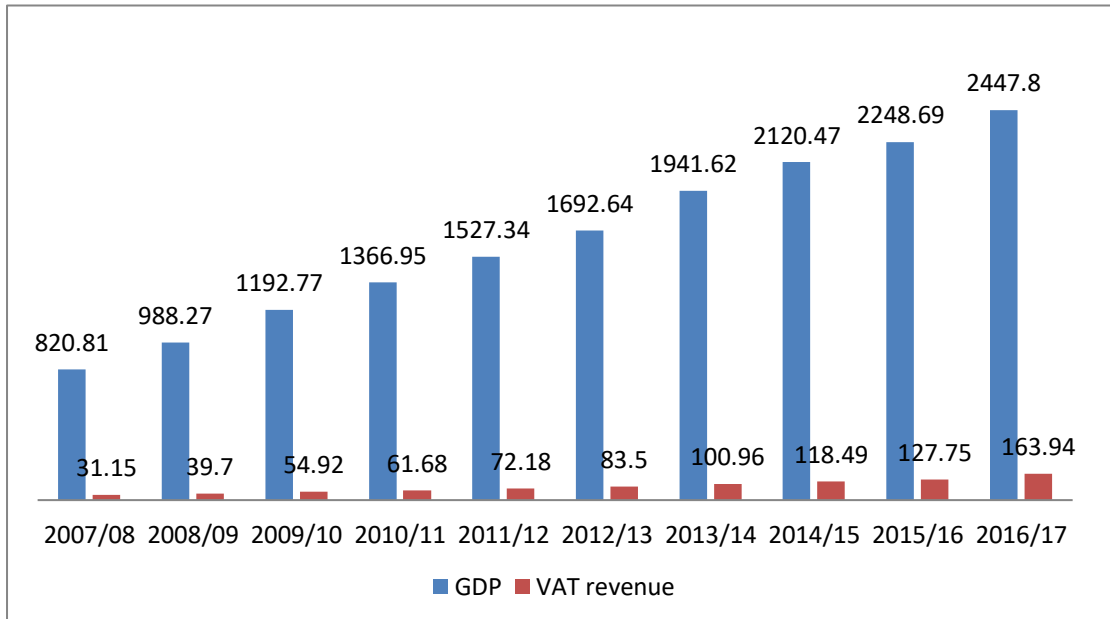
Fiscal year	GDP	VAT revenue	% Revenue to GDP
2007/08	820.81	31.15	3.8
2008/09	988.27	39.7	4.02
2009/10	1192.77	54.92	4.6
2010/11	1366.95	61.68	4.51
2011/12	1527.34	72.18	4.73
2012/13	1692.64	83.5	4.93
2013/14	1941.62	100.96	5.2
2014/15	2120.47	118.49	5.59
2015/16	2248.69	127.75	5.68
2016/17	2447.80	163.94	6.17
Total average	1634.74	85.43	4.92

Source: Economic Survey, Ministry of Finance (MOF)

Annual report of various years, IRD

Table 4.1 shows that the share of value added tax in GDP in Nepal is very low and it is below 5% throughout the period. In fiscal year 2007/2008, the percentage of VAT revenue to GDP is 3.8% which is lower than 2008/2009. From the fiscal year 2008/2009, it has increased from 4.02% to 6.17%. The highest contribution of VAT revenue in GDP is 6.17% in F/Y 2016/17 and the lowest contribution is 3.8% in F/Y 2007/08. The total average contribution of VAT revenue to the GDP is 4.92%.

Figure 4.1
Contribution of VAT to GDP (inbillions)



4.2 Revenue Structure of Nepal

Nepal is one of the developing countries so in Nepal, the contribution of tax revenue used to be almost 80 percent and non-tax revenue almost 20 percent. The share of tax revenue and non-tax revenue in total revenue has been shown in the following table:

Table 4.2**Composition of Total Revenue Collection of Nepal (In Billions)**

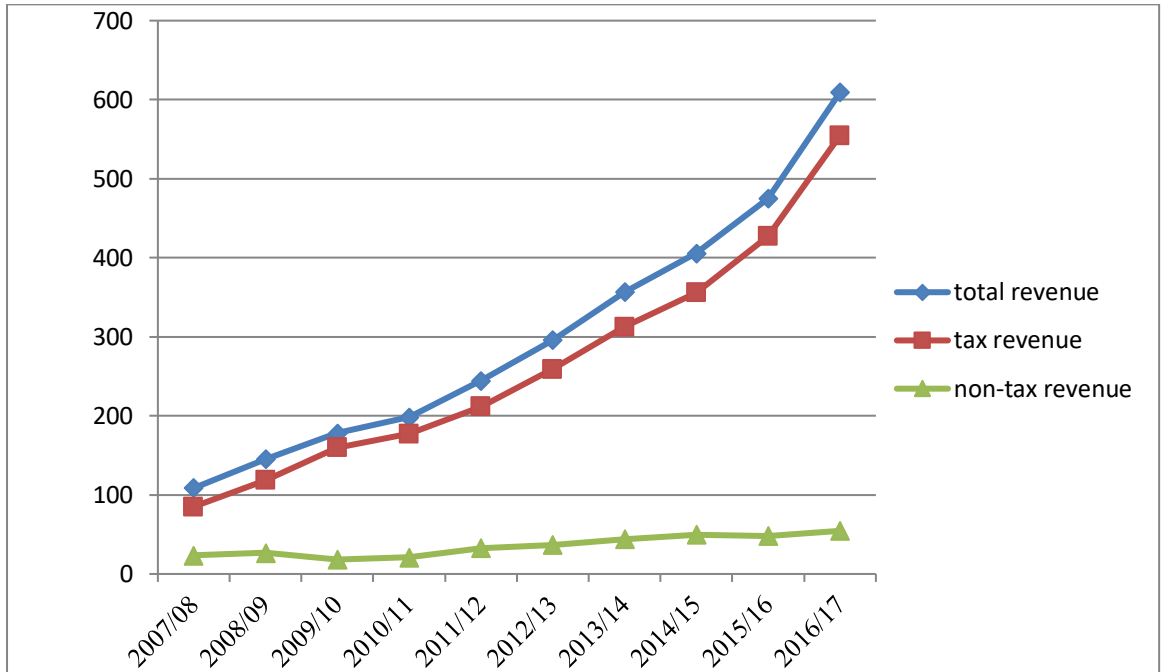
Fiscal year	Total revenue	Tax revenue		Non –tax revenue	
		Amount	%	Amount	%
2007/08	108.7	85.15	78.33	23.55	21.67
2008/09	145.32	118.63	81.63	26.69	18.37
2009/10	177.99	159.78	89.77	18.21	10.23
2010/11	198.34	177.2	89.34	21.14	10.66
2011/12	244.37	211.72	86.64	32.65	13.36
2012/13	296.02	259.21	87.57	36.81	12.43
2013/14	356.62	312.44	87.61	44.18	12.39
2014/15	405.86	355.95	87.7	49.91	12.3
2015/16	475.01	427.01	89.89	48	10.11
2016/17	609.18	554.61	91.04	54.57	8.96
Total average	301.74	266.17	86.95	35.57	13.05

Source: *Economic Survey, Ministry of Finance (MOF)*

Annual report of various years, IRD

Table 4.2 shows the composition of total revenue, tax revenue and non-tax revenue. Tax revenue has dominant role because the table shows in F/Y 2007/08 total revenue is Rs.108.7 billion where 85.15% is contributed by tax revenue and remaining by non-tax revenue. Tax revenue is in increasing trend from f/y 2007/08 but the percentage of tax revenue to total revenue in f/y 2010/11 is slightly decreases and from f/y 2011/12 the percentage is in increasing trend. This tendency is continuous and in f/y 2016/17 total revenue is Rs.609.18 billion and 91.04 % has been contributed by total tax revenue and 8.96 % by non-tax revenue which is slightly decreases in percentage. It is clear that tax revenue has dominant role in Nepalese economy.

Figure 4.2
Composition of Total Revenue Collection of Nepal (In Billions)



4.3 Tax Revenue Structure of Nepal

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 following table shows the composition of tax revenue and the share of direct and indirect tax in total revenue.

Table 4.3**Structure of Tax Revenue of Nepal (in billions)**

Fiscal Year	Total Tax Revenue	Direct Tax		Indirect Tax	
		Amount (Rs)	% total tax with revenue	Amount (Rs)	% total tax with revenue
2007/08	85.15	23.09	27.12	62.06	72.88
2008/09	118.63	34.3	28.91	82.33	71.09
2009/10	159.78	41.75	26.13	118.03	73.87
2010/11	177.15	46.62	26.32	130.53	73.68
2011/12	211.72	56.46	26.67	155.26	73.33
2012/13	259.21	71.44	27.56	187.77	72.44
2013/14	312.44	84.72	27.12	227.72	72.88
2014/15	355.95	98.48	27.67	257.47	72.33
2015/16	427.01	121.15	28.37	305.86	71.63
2016/17	554.61	167.86	30.27	386.75	69.73
Total average	266.17	74.59	27.61	191.58	72.39

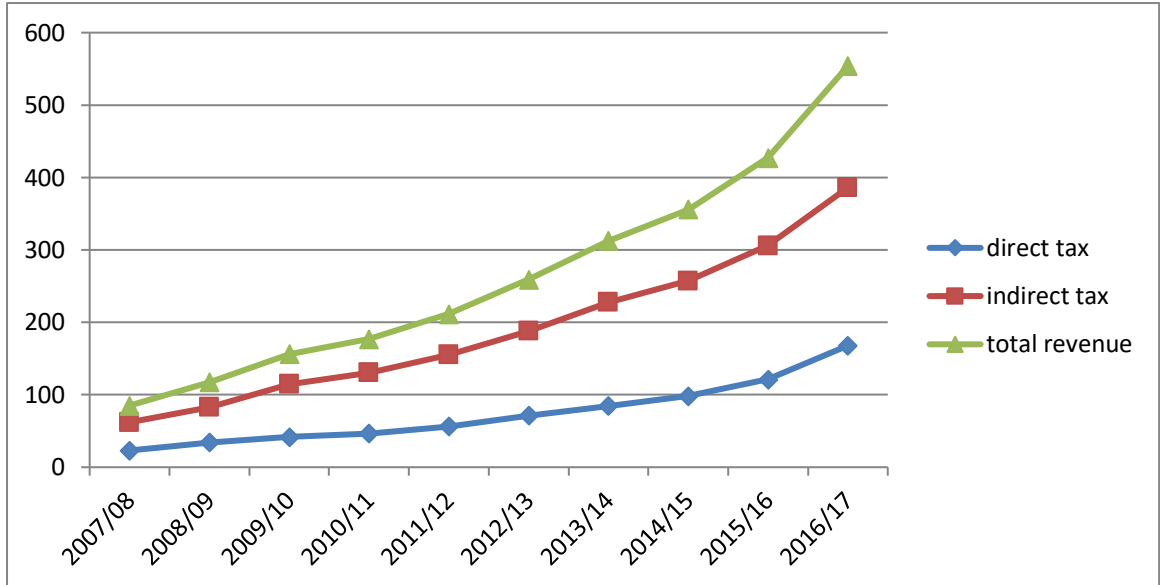
Source: *Economic Survey, Ministry of Finance (MOF)*

Annual report of various years, IRD

Table 4.3 concludes that in developing countries like Nepal, indirect tax plays a vital role in revenue generation. Direct tax has been decreased in the fiscal year 2009/10 (26.67%), 2010/11 (26.32%), 2011/12 (26.68%) and from fiscal year 2012/13 direct tax is starting to increase and the greatest value reached in the fiscal year 2016/17 (30.27%). Similarly, indirect tax has the lowest indication in the f/y 2016/17 and the highest value reached in the f/y 2010/11. In conclusion it can be seen that the direct tax is in increasing trend but from f/y 2015/16 indirect tax is in slightly decreasing trend.

Figure 4.3

Structure of Direct and Indirect Tax Revenue



4.4 Contribution of VAT in Total Revenue

The contribution of VAT to the total revenue is shown in the following table.

Table 4.4

Contribution of VAT on Total Revenue (in billions)

Fiscal year	Total Revenue	VAT revenue	% of VAT Revenue
2007/08	108.70	31.15	28.66
2008/09	145.32	39.7	27.32
2009/10	177.99	54.92	30.86
2010/11	198.34	61.68	31.10
2011/12	244.37	72.18	29.54
2012/13	296.02	83.5	28.21
2013/14	356.62	100.96	28.31
2014/15	405.86	118.49	29.19
2015/16	475.01	127.75	26.89
2016/17	609.18	163.94	26.91
Total average	301.74	85.43	28.70

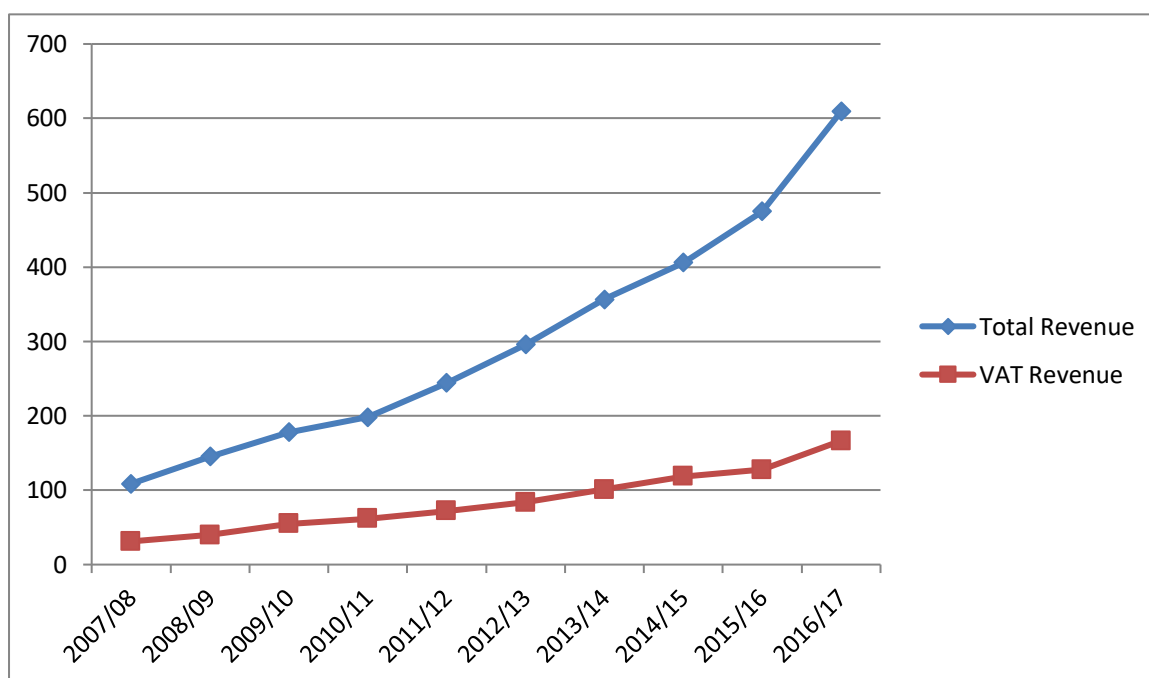
Source: Economic Survey, Ministry of Finance (MOF)

Annual report of various years, IRD

Table 4.4 shows that there is a slightly changes of VAT in total revenue every year. In the fiscal year 2007/08, the percentage of VAT in total revenue is 28.66% similarly in the fiscal year 2008/09 it was 27.32% which is slightly decreases in the contribution of VAT on total revenue. From fiscal year 2009/10 to 2014/15 it was in increasing trend for the contribution of VAT on total revenue but in the fiscal year 2015/16 it was decreased to 26.89% and again from fiscal year 2016/17 it takes in increasing ratio than comparison of previous year. This proves that Nepalese total revenue is in fluctuation which is in increasing and decreasing trend.

Figure 4.4

Structure of VAT in Total Revenue (In Billions)



4.5 Contribution of VAT in Indirect Tax Revenue

Indirect tax is a popular approach concerning taxation, which implied in the world is a very effective fiscal policy adopted specially for the optimum level of resource mobilizing with the principle of more gain from the taxpayers. In short, indirect tax is imposed on one person but it is paid partly or wholly by another person, so the impact and incidence of tax are in different person.

Table 4.5

Contribution of VAT in Indirect Tax Revenue (in billions)

Fiscal year	Indirect tax	VAT revenue	% of VAT revenue
2007/08	62.06	31.15	50.19
2008/09	82.33	39.7	47.08
2009/10	118.03	54.92	46.53
2010/11	130.53	61.68	47.25
2011/12	155.26	72.18	46.49
2012/13	187.77	83.5	44.47
2013/14	227.72	100.96	44.34
2014/15	257.47	118.49	46.02
2015/16	305.86	127.75	41.77
2016/17	386.75	163.94	42.39
Total average	191.58	84.43	45.65

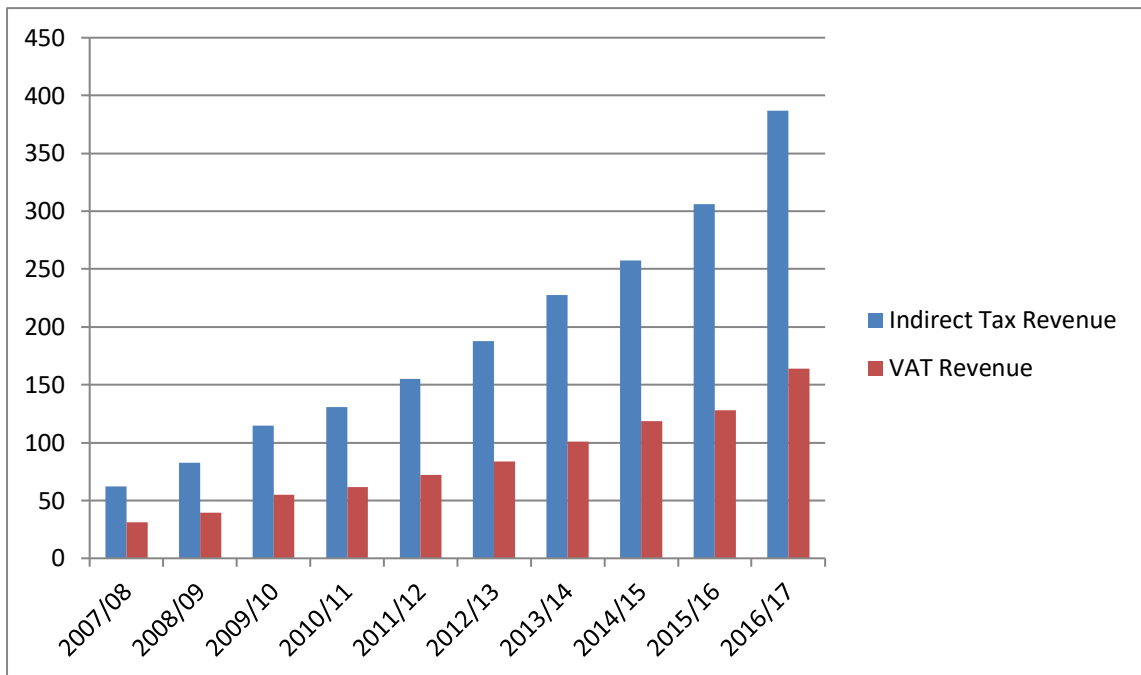
Source: Economic Survey, Ministry of Finance (MOF)

Annual report of various years, IRD

Table 4.5 shows that the contribution of VAT in total indirect tax revenue is in decreasing trend in percentage. From fiscal year 2007/08 to 2013/14 the contribution of VAT to indirect tax revenue is decreasing while in 2014/15 it was increased (46.02%). Similarly in fiscal year 2015/16 the contribution of VAT to indirect tax revenue is decreased (41.76%) and from 2016/17 again it was increased (42.39%) then previous year. It shows that the VAT revenue increases but in percentage with contribution to indirect tax it is in fluctuation ratio.

Figure 4.5

Structure of VAT to Indirect Tax Revenue (In Billions)



4.6 Analysis of the Data with Statistical Tools

4.6.1 Correlation Analysis

Correlation is defined as the association of two or more random variables or is the degree of relationship between variables, which seeks to determine how well a linear or other equation describes or explains the relationship between variables. One very convenient and useful way of interpreting the value of coefficient of correlation between two variables is to use square of coefficient of correlation, which is called coefficient of determination.

4.6.1.1 Gross Domestic Product with Value Added Tax Revenue

The relationship of VAT revenue and GDP is examined with the help of ten year data from the fiscal year 2007/08 to 2016/17. Further, the relation of VAT with GDP, coefficient of determination is presented below:

Table 4.6

Correlation of GDP with VAT revenue

Statistical Tools of Analysis	
Correlation Coefficient γ	0.983
Coefficient of determination (γ^2)	0.967
Average % revenue to GDP	4.92

From the above analysis of GDP and VAT, the correlation coefficient is 0.983. It shows that correlation between GDP and VAT are positively i.e. 0.983, which is greater than 0 and the corresponding P value is 0.967 therefore there is a significant relationship between them. The coefficient of determination (r^2) is 0.967 which means 96.7% of total variation in GDP is explained by the VAT revenue. The contribution of VAT in indirect revenue in an average over the reviewed period has been 4.92%.

4.6.1.2 Total revenue with Tax Revenue and Non-Tax Revenue

The effect of Tax revenue and Non-tax revenue on the total revenue is found out with the help of ten years data from 2006/07 to 2015/16 on which the study has been confined. The correlation of total revenue with tax revenue and non-tax revenue, coefficient of determination are presented below:

Table 4.7

Correlation of Total revenue with Tax Revenue and Non-Tax Revenue

Statistical Tools of Analysis	
Correlation Coefficient (γ)	0.930
Coefficient of determination (γ^2)	0.865

According to the table, the relationship of total revenue with tax revenue and non-tax revenue is very high. Or, there is almost linear relationship between total revenue with two variables, where the calculated value of r is 0.930. The coefficient of determination (γ^2) is 0.865 which means 86.5% of total variation in total revenue is explained by tax revenue and non-tax revenue.

4.6.1.3 Total Tax revenue with Direct Tax and Indirect Tax

The effect of direct tax and indirect tax on the total tax revenue is found out with the help of ten years data from 2007/08 to 2016/17 on which the study has been confined. The correlation of total tax revenue with direct tax and indirect tax, coefficient of determination are presented below:

Table 4.8
Correlation of Total Tax Revenue with Direct Tax and Indirect Tax

Statistical Tools of Analysis	
Correlation Coefficient (γ)	0.994
Coefficient of determination (γ^2)	0.988

Table 4.8 shows that the relationship of total revenue with direct tax and indirect tax revenue is very high. Or, there is almost linear relationship between total revenue and VAT revenue, where the calculated value of r is 0.994. The coefficient of determination (γ^2) is 0.988 which means 98.8% of total variation in total tax revenue is explained by direct tax and indirect tax revenue.

4.6.1.4 Total revenue with Value Added Tax

The effect of VAT on the total revenue is found out with the help of ten years data from 2007/08 to 2016/17 on which the study has been confined. The correlation of total revenue with VAT and sales tax revenue, coefficient of determination and average percentage of VAT in total revenue are presented below:

Table 4.9

Correlation of total revenue with Value Added Tax

Statistical Tools of Analysis	
Correlation Coefficient (γ)	0.997
Coefficient of determination (γ^2)	0.994
Average % revenue to VAT	28.70

From the above analysis of Total Revenue and VAT, the correlation coefficient is 0.997. It shows that correlation between Total Revenue and VAT are positively correlated i.e. 0.997. The coefficient of determination (γ^2) is 0.994 which means 99.4% of total variation in total revenue is explained by the VAT revenue. The percentage of VAT revenue in total revenue over the reviewed period in an average is 28.70. This means 28.70% in total revenue is contributed by VAT revenue.

4.6.1.5 Indirect Tax revenue with Value Added Tax

The contribution of VAT in Total indirect tax revenue and association of total indirect tax with VAT is found out by analyzing the ten years data from the fiscal year 2007/08 to 2016/17 on which the study has been confined. The relationship of Indirect Tax with VAT, coefficient of determination and average of percentage of VAT on indirect tax over the studied period are summarized below:

Table 4.10

Correlation of Indirect Tax revenue with Value Added Tax

Statistical Tools of Analysis	
Correlation Coefficient (γ)	0.998
Coefficient of determination (γ^2)	0.996
Average % indirect tax revenue to VAT	45.65

The association of total indirect tax and VAT is 0.998, which is very high. It can be said that it is perfectly correlated with each other. This result shows that the total indirect tax is largely affected by VAT. The significance of correlation coefficient between VAT and indirect tax revenue is also higher. The coefficient of determination (r^2) is 0.996, which means 99.6% of total variation in indirect tax revenue is explained by the VAT revenue. The contribution of VAT in indirect revenue in an average over the reviewed period has been 45.65%.

The result shows that the correlation coefficient, coefficient of determination and contribution of VAT are all higher and increased proportionately over the succeeding fiscal years although with slight up and downs in the beginning of course.

4.6.2 Time series Analysis

A time series is an arrangement of statistical data in a chronological order. It reflects the dynamic pace of movements of a phenomenon over a period of time. One of the most commonly used method is the Least Square ($Y = a+bx$) which is employed here to measure the trend for further prediction of the GDP and VAT revenue for the next five years from the FY 2016/17 to 2020/2021 to estimate whether there may be increase in the VAT /GDP ratio from the current average of 4.704 percent, given the same trend. Further amount of GDP and VAT are predicted on the basis of the data of the last fiscal years.

The parameter of time series analysis for the further prediction of GDP and VAT revenue, a and b, where a is the Y interception or the computed trend figure of y variable when $x= 0$ and b represents the slope of the trend line or the amount of change in Y variable that is associated with a changeable of one unit in x variable. The x variable in time series represents time and y represents GDP and VAT revenue.

For predicting the amount of GDP, the parameter of the analysis, computed are as follows:

$$a=2248.69 \text{ and } b= 128.22$$

Thus the trend line of dependent variable GDP and independent variable time (i.e. year) is:

$$\text{GDP (YG)} = 2248.69 + 128.22x$$

Similarly, for predicting the VAT revenue, the parameter of analysis, computed are as follows:

$$a = 127.75 \text{ and } b = 9.26$$

Where the trend line of dependent variable VAT revenue and independent variable time (i.e. year) is:

$$\text{VAT Revenue (Yv)} = 127.75 + 9.26x$$

Table 4.11
Percentage Estimation of VAT on GDP (in billions)

Fiscal Year	2016/17	2017/18	2018/19	2019/20	2020/21
GDP	2761.57	2889.79	3018.01	3146.23	3274.45
VAT	164.79	174.05	183.31	192.57	201.83
VAT/GDP	5.97	6.02	6.07	6.12	6.16

Source: Economic Survey, Ministry of Finance (MOF)

4.7 Analysis of Primary Data

a. Are respondents familiar with the Nepalese income tax?

It clears the respondent's familiarity about the Nepalese income tax. The following table shows the respondents view about the income tax.

Table 4.12
Respondent View towards Tax

Respondents	Yes		No		Little		Total	
	No.	%	No.	%	No.	%	No.	%
Sole Proprietor	37	74	5	10	8	16	50	25
Partners	36	72	2	4	12	24	50	25
Customers	58	58	10	10	32	32	100	50
Total	131	65.5	17	8.5	52	26	200	100

Source: Field Survey 2018

Table 4.12 shows that 65.5% of the respondents have knowledge about tax but 8.5% do not have the knowledge about the tax whereas 28% have little knowledge about tax. It shows that most of the Nepalese people know about the income tax of Nepal, which increases the government revenue of the country. In conclusion, most of the respondents are familiar about tax.

b. Do respondents have knowledge of VAT?

This question was prepared to know knowledge about VAT to taxpayers. The responses received from respondents are presented below.

Table 4.13
Knowledge about VAT

Respondents	Yes		No		Little		Total	
	No.	%	No.	%	No.	%	No.	%
Sole Proprietor	35	70	4	8	11	22	50	25
Partners	40	80	2	4	8	16	50	25
Customers	72	72	5	5	23	23	100	50
Total	147	73.5	11	5.5	42	21	200	100

Source: Field Survey 2018

Table 4.13 shows that the most of the respondents 73.5% have the knowledge about VAT system. Among them 5.5% do not have knowledge about VAT where as 21 % have a little knowledge about VAT. This show that the government authorities are not successful to lunch the better public awareness programmed of VAT system to the general public. And awareness programmed must be conduct by the tax payer organization and government must support in this field to maximize the revenue.

c. How do respondents know about VAT?

This question was asked to respondent how they know about VAT. The responses received from respondents are presented below.

Table 4.14

Respondents knowledge about VAT

Respondents	Through book		Through media		If other		Total	
	No.	%	No.	%	No.	%	No.	%
Sole Proprietor	31	62	13	26	6	12	50	25
Partners	36	72	8	16	6	12	50	25
Customers	74	74	16	16	10	10	100	50
Total	141	70.5	37	18.5	22	11	200	100

Source: Field Survey 2018

Table 4.14 shows that 70.5% have learn about VAT through book while 18.5% get knowledge about VAT through media which includes 26% sole proprietor, 16% partnership and 16% customers and 11% any other sources. Here we can see that the best way to know about VAT is through book than media.

d. Is current VAT rate system is appropriate?

Government increased VAT rate from 10% to 13%. This is done to increase the tax revenue in the national coffer. But the impact is not good enough as compared to expected. So the question is being asked “**Is present VAT rate is appropriate?**” and the obtained result is shown in the table below.

Since 2005, VAT rate has been changes from 10% to 13%. From this year the contribution of VAT to GDP has been increased and the position of direct tax and indirect tax is not good enough while the total revenue collection has been increased.

Table 4.15
Appropriateness of VAT

Respondents	Yes		No		Little		Total	
	No.	%	No.	%	No.	%	No.	%
Sole Proprietor	12	24	29	58	9	18	50	25
Partners	21	42	15	30	14	28	50	25
Customers	37	37	33	33	30	30	100	50
Total	70	35	77	38.5	53	25.5	200	100

Source: Field Survey 2018

Table 4.15 shows that most of the respondents that are sole proprietor, partnership and customers thinks that the current VAT rate system are appropriate. There is equally agree and disagree of VAT rate system are appropriate. Similarly 25.5% says that VAT rate system is little appropriate. Beside this the government should be very much serious while deciding the VAT rate as it should be convenience to the businessmen and consumers. If government decrease current VAT rate is effect in the revenue collection for few years.

e. What will be the appropriate rate of VAT for its effective implementation of?

The survey makes clear about the appropriate rate of VAT for its effective implementation of. The responses received from respondents are tabulated below:

Table 4.16

Rate of VAT

Respondents	10%		13%		15%		Total	
	No.	%	No.	%	No.	%	No.	%
Sole Proprietor	37	74	9	18	4	8	50	25
Partners	37	74	13	26	0	0	50	25
Customers	62	62	30	30	8	8	100	50
Total	136	65	52	29	12	6	200	100

Source: Field Survey 2018

Table 4.16 shows that 65% has said that 10% VAT rate are appropriate. The reason for choosing this rate is mostly that higher rate will increase the price of the commodity. Whereas 29% respondents are in view that 13% that is the present rate of VAT is effective rate. While only 6% says that the rate of the Vat should be 15%. This represent that the government should be serious on fixing the rates and it should address on the need of the market. The above analysis shows that mostly respondent want tax rates to be 10% which is better than 13%. For this rate to be effective the government should increase the public awareness and should make every trader compulsory on VAT registration.

f. Do respondents ask for VAT bill while making purchase?

Many of the people are unaware of the importance of the bill for the goods they purchase. They think VAT bill increases the price of the goods. They usually don't ask for the VAT bill for their purchase except in the expensive goods which comes with the warranty for the security of their expensive goods. Following table shows the survey report:

Table 4.17
Respondent view for VAT bill

Respondents	Yes		No		Sometime		Total	
	No.	%	No.	%	No.	%	No.	%
Sole Proprietor	41	82	5	10	4	8	50	25
Partnership	29	58	8	16	13	26	50	25
Customers	47	47	17	17	36	36	100	50
Total	117	58.5	30	15	53	26.5	200	100

Source: Field Survey 2018

Table 4.17 shows it is obtained that 82% (41 sole proprietors) ask to issue VAT bill on their purchase and only 10% don't ask while 8% sometime ask for VAT bill while making purchase whereas from the consumers it is 47% ask to issue bill and 17% don't ask VAT bill. Similarly 58% partnership sometime asks for VAT bill .So this shows that sole proprietors, partnership and customer are more alert to have ask of VAT bill.

g. Does VAT increase the price of the commodity?

It is found in the previous research also that most of the consumers do not ask for invoices while making purchase due to afraid of increase in the price of goods and services. Everyone wants to play less which is the nature of consumers worldwide. By not taking invoice if the goods is found cheaper then why to take bill is a common thought. In the question asked “does VAT increase the price of commodity?” the given table shows the obtained answer.

Table 4.18
Relation between VAT and Price

Respondents	Yes		No.		Don't know		Total	
	No.	%	No.	%	No.	%	No.	%
Sole Proprietor	39	78	9	18	2	4	50	25
Partners	43	86	7	14	0	0	50	25
Customers	80	80	17	17	3	3	100	50
Total	162	81	33	16.5	5	2.5	200	100

Source: Field Survey 2018

Table 4.18 shows that 16.5% of the total respondents have negative opinion towards raising the price of commodity due to VAT where 81% of them says that price raises due to the VAT of the commodity and among them 2.5% replied they do not know about it.

h. What types of problems that businessman faced while paying VAT?

This question developed to know the view of taxpayer's problem while paying VAT. The responses received from respondents are presented below.

Table 4.19
Businessman faced while paying tax

Respondents	Lack of knowledge		Complicated procedures		Weak economy		Total	
	No.	%	No.	%	No.	%	No.	%
Sole Proprietor	31	62	13	26	6	12	50	25
Partners	29	58	17	34	4	8	50	25
Customers	48	48	36	36	16	16	100	50
Total	108	49	66	37	26	14	200	100

Source: Field Survey 2018

Table 4.20 shows the most important problem faced by businessmen while paying business tax is procedural complication 37%. Similarly, due to lack of knowledge about taxpaying procedure is second prioritized problem 49%, weak economy of tax administration is third priorities problems 14%. In conclusion, the majority of respondent responded that the most important problem faced by businessmen while paying tax is lack of knowledge and complicated procedures.

i. What do respondents think about the tax burden of VAT to the taxpayer?

This question was asked to know the opinion about tax burden whether this higher, lower or normal. The response received from the respondent are presented below.

Table 4.20
Burden of VAT

Respondents	Higher		Lower		Normal		Total	
	No.	%	No.	%	No.	%	No.	%
Sole Proprietor	27	54	8	16	15	30	50	25
Partners	17	34	7	14	26	52	50	25
Customers	35	35	17	17	48	48	100	50
Total	79	39.5	32	16	89	44.5	200	100

Source: Field Survey 2018

Table 4.20 shows that 39.5 % respondents are of the opinion that there is higher burden to the tax payers due to VAT system. 44.5% respondents are of the opinion that tax burden will be normal to the tax payer. 16 % respondents think that burden will be lower to the tax payers. It shows that the people who are indulged in illegal business, they feel burden of tax because they are afraid of showing all the transactions of the firm to the government and finally as if they have to pay more tax.

j. What are the major problems of VAT system in Nepal?

Though it has been trying for the successful implementation of VAT, it has to tackle the various difficulties and problems are to be faced. So here, we have tried to find out some of the major problems in the effective implementation of VAT system in Nepal so a question “**What the major problems are of present VAT system?**” is asked to tax experts and tax officials and the finding is presented below:

Table 4.21
Problems in present VAT System

Respondents	Unawareness of computer system		Registration process		Billing system		Total	
	No.	%	No.	%	No.	%	No.	%
Sole Proprietor	23	46	5	10	22	44	50	25
Partners	21	42	5	10	24	48	50	25
Customers	43	43	14	14	43	43	100	50
Total	87	43.5	24	12	89	44.5	200	100

Source: Field Survey 2018

Table 4.21 shows that about 44.5% believe that billing system is the biggest problem of VAT system. Among them 44% of sole proprietor, 48% of partners and 43% of consumers supported this alternative. Second greatest problem on VAT system is unawareness of computer system. About 43.5% believe that unawareness of computer system is one of the problems. From the total percentage, 12% say that registration process is the problem for collection of VAT in Nepal.

k. Who is responsible for effectiveness of the VAT system in the country?

This question was developed to know who was responsible for effectiveness of the VAT system among government, administration and business house and consumer. The responses received from respondents are presented below.

Table 4.22

Effectiveness of VAT

Respondents	Government		Administration		Business house & consumer		Total	
	No.	%	No.	%	No.	%	No.	%
Sole Proprietor	33	66	7	14	10	20	50	25
Partners	32	64	4	8	14	28	50	25
Customers	61	61	15	15	24	24	100	50
Total	126	63	26	13	48	24	200	100

Source: Field Survey 2018

Table 4.22 shows that government is responsible for effectiveness of VAT system. 24% respondents think that business house & consumer is responsible, after business house & consumer it shows the administration is responsible for effective VAT system which is said by 26 respondents out of 200. Nearly 63% out of 200 respondents believes that the government and business house are responsible for effectiveness of VAT system. By surveying it is found that administration is also one of the most responsible and has to adopt many rules and regulation. Some program for public awareness and try to cover the entire trade sector in VAT system.

I. What challenges do you face in implementation of VAT in Nepal?

VAT has now reached the adult from but there are so many challenges that are need to be solved to make the system more effective. The lack of awareness, rules and education, loose mechanism of the government, lack of coordination between custom office, VAT related office etc are the major challenges of VAT implementation in Nepal.

Table 4.23

Challenges faced in implementation of VAT

Respondents	Lack of awareness rules and education		Selfish motive of the private sector		Loose mechanism of the government		Total	
	No.	%	No.	%	No.	%	No.	%
Sole Proprietor	25	50	5	10	20	40	50	25
Partnership	19	38	6	12	25	50	50	25
Customers	36	36	16	16	48	48	100	50
Total	80	40	27	13.5	93	46.5	200	100

Source: Field Survey 2018

Table 4.23 shows that 46.5% of the respondent says that due to the loose mechanism of the government the challenges faced in the implementation of VAT. 40% of the respondent says that lack of awareness rules and education is the challenges faced in implementation of VAT. Hence, from all the alternatives proper implementation of VAT is required.

m. What is the main problem of present VAT system in business sectors?

This question developed to know the main problem of present VAT system in business sector. The responses received from respondents are presented below.

Table 4.24

Present problems of VAT system in business sector

Respondents	Registration		Account keeping		Billing system		Total	
	No.	%	No.	%	No.	%	No.	%
Sole Proprietor	11	22	20	40	19	38	50	25
Partners	8	16	15	30	27	54	50	25
Customers	17	17	36	36	47	47	100	50
Total	36	18	71	35.5	93	46.5	200	100

Source: Field Survey 2018

Table 4.24 shows that 46.5% respondents think that billing system is the main problem of VAT system in business sector. 35.5% of the respondents think that account keeping is the second problem of VAT system in business sector. Yet, 18 % of the respondent thinks registration is also the problem of Vat system in the business sector.

n. What are the major weaknesses of VAT administration?

From the above question we can know the major weaknesses of VAT administration.

Table 4.25

Major weakness of VAT administration

Respondents	Lack of expert		Lack of trained manpower		Lack of physical structure		Total	
	No.	%	No.	%	No.	%	No.	%
Sole Proprietor	10	20	33	66	7	14	50	25
Partners	6	12	35	70	9	18	50	25
Customers	21	21	67	67	12	12	100	50
Total	37	18.5	135	67.5	28	14	200	100

Source: Field Survey 2018

Table 4.25 concludes that lack of trained man power is the main weakness of VAT administration which is 67.5% and second weakness is lack of expert i.e 18.5% . So, to minimize the weaknesses of VAT administration government, tax offices must trained its manpower to minimize the major weaknesses of VAT administration. Every study related to VAT suggests that administration is the main problem in Nepal. Unless and until administration is transparent, capable, trained and honest the government’s intension to collect revenue through VAT will be limited to nothing more than just a day dream.

o. What do respondents think; government has utilized the collected revenue in anefficient way?

VAT was introduced in Nepal to get revenue mobilization and to avoid the problem of existence tax system. As VAT is the best system to get greater revenue productivity due to the many problems relating to the implementation of the revenue collection from VAT is not satisfying as it has been expected. But it has generating refundable amount of revenue. Since, it was implemented in the country on the question asked to the respondents “What do you think, government is utilizing the collected revenue in a proper way?” the following result is obtained.

Table 4.26
Utilization of revenue

Respondents	Yes		No		Little		Total	
	No.	%	No.	%	No.	%	No.	%
Sole Proprietor	6	12	22	44	22	44	50	25
Partners	2	4	27	54	21	42	50	25
Customers	12	12	44	44	44	44	100	50
Total	20	10	93	46.5	87	43.5	200	100

Source: Field Survey 2018

Table 4.26 shows that most of the respondents (46.5%) argue that revenue collection from VAT has not been utilizing in a proper way while 10% believe that it has been utilizing in a satisfactory way and 43.5% of them are little agree about the fact. Though 12% of sole proprietor and 12% of customers say that it has been utilizing in a best possible way but 54% of partnership does not believe it.

p. What are the obligations that must be followed after registering business on VAT?

After getting any business registration on VAT they must follow the prescribed rules, act, laws and regulations related to VAT under the VAT act. So, to know more about VAT rules a question “What are the obligations that must be followed after registering business on VAT?” has been asked to the tax experts and officials and the result obtain is presented below.

Table 4.27

Obligations followed after registering business

Respondents	Must file VAT returns on or before 25 th day following the end of each month		Issue VAT invoice on sales		Maintain books of accounts		Total	
	No.	%	No.	%	No.	%	No.	%
Sole Proprietor	21	42	22	44	7	14	50	25
Partners	25	50	18	36	7	14	50	25
Customers	46	46	41	41	13	13	100	50
Total	92	46	81	40.5	27	13.5	200	100

Source: Field Survey 2018

Table 4.27 the data which is presented it can be concluded that after getting business registration of VAT the mainly obligation that must be followed by tax payers is to file VAT return on or before 25th day following the end of each month as 46% respondents viewed it. Similarly, 40.5% respondents have conclusion that one must issue VAT invoice on sales while 13.5% respondent replied for maintain books of account and keeping records for a period of six years simultaneously.

q. What do respondents think necessary for effective implementation of VAT?

Effective implementation of the VAT system depends on the certain factors like consumer awareness programme and effective training, cooperation between consumer, taxpayer and government and effective reward and punishment system. This helps to generate more revenue for the economic prosperity and development of the country.

Table 4.28

Effective implementation of VAT

Respondents	Consumer awareness programme and effective training		Cooperation between consumer, taxpayer and government		Effective reward and punishment system		Total	
	No.	%	No.	%	No.	%	No.	%
Sole Proprietor	31	62	9	18	10	20	50	25
Partners	29	58	15	30	6	12	50	25
Customers	48	48	36	36	16	16	100	50
Total	108	54	60	30	32	16	200	100

Source: Field Survey 2018

From the above table 4.28, it can be seen that most of the respondent chooses the consumer awareness and effective training as the most needed for the effective implementation of the Vat system in the country. One third of the total respondents are in favor of it (i.e. 54%). After this the respondent are in favor of cooperation between consumer, taxpayer and government which was followed by effective reward and punishment system.

r. Why Nepal has adopted VAT system curtailing previous sales tax, entertainment tax and hotel tax?

Table 4.29

Why Nepal adopted VAT system?

Respondents	Promote economic growth		Establish fairer and transparent tax system		Avoid double taxation		Total	
	No.	%	No.	%	No.	%	No.	%
Sole Proprietor	23	46	17	34	10	20	50	25
Partners	23	46	15	30	12	24	50	25
Customers	44	44	34	34	22	22	100	50
Total	90	45	66	33	44	22	200	100

Source: Field Survey 2018

Experts view about why Nepal has adopted VAT system of tax collection is presented here as per their preference.

- To establish fairer and transparent tax
- To avoid double taxation
- To increase Tax revenue
- To promote economic growth

Even though VAT system is applied to make the tax system more effective and transparent, the result could not be achieved as per desired. 33% experts agree that VAT system is applied to make tax system more effective and transparent. This also avoids the cascading effect of taxation. And 45% agree that VAT is implemented to promote economic growth.

4.8 Major findings

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

- Theoretically, VAT is superior to sales tax in many of its form. As it was abolished already, there is no possibility to compare it with VAT now, so, only theoretical superiority is established.
- The contribution of VAT to GDP of Nepal is very low with comparison to other developed countries. The contribution of VAT revenue as a percentage of GDP remained 3.8, 4.02, 4.6, 4.51, 4.73, 4.93, 5.2, 5.59, 5.68 and 6.17 from the FY 2007/08 to 2016/17 respectively.
- A large no of government revenue comes from taxation in Nepal. More than 75 percent of government revenue comes from taxation where as the contribution of non tax revenue is less than 25 percent in Nepalese tax structure for a long period of time. The contribution of tax revenue was expected to increase after the implementation of VAT could not increase the contribution of tax revenue on the total revenue significantly.
- Of the total revenue in fiscal year 2016/17, the total revenue collection is Rs, 554.61 billion where direct tax contribution is 30.27 percentages and indirect tax contributes 69.75 percentages which is slightly lower than previous years.
- The contribution of VAT to total revenue is slightly fluctuating every year whereas the contribution of VAT to indirect tax revenue decreased up to 2013/14 and increased only on fiscal year 2014/15 then again decreases and slightly increases in 2016/17.
- From the survey, 65.5 percentages of the respondents are familiar towards tax and VAT system of Nepal.
- By observing the view of respondents, most of the respondents know about VAT through book while 18.5 percentages from media.

- The standard VAT rate has (unsurprisingly) a significant impact on revenue. Small changes in VAT rates significantly changes in the tax revenue. 65 percentages of the respondent chooses 10 percentages VAT rate as appropriate and 29 percentages choose the current rate which is appropriate to them.
- In the question asked “Do you ask to issue VAT bill on purchasing?” it is observed most of the respondent have habit of taking VAT bills on their purchase. 36 percentages of customers asks to issue invoice sometimes. So, public awareness program should be lunched thoroughly.
- Only few numbers of consumers have habit of taking VAT bills on their purchases. Customers have no habit to take VAT bill on their purchases. This implies that there is very low public awareness level towards VAT. On the other businessman and partners don not want to issue bill. They have the intension of malpractice on VAT. So they don’t provide bills to customers.
- From the survey many of the respondents are familiar with income tax from the above presented data so 81 percentages know that the VAT rate increases the price of the commodity.
- According to the businessman most of them say major problems while paying business tax is lack of knowledge whereas complicated procedures and weak economy are also the major problems for the respondents. Tax office should regulate their staff in accordance to it and make an easy way of paying tax.
- Due to various problems face by the respondents they think that the tax burden is normal and the present practice of VAT is medium from the view point of respondents.
- It is found from the study that the main problem of present VAT system is billing system 44.5 percentages, through there is somehow problem in refund process too. Weakness of VAT implementation is unconscious tax payer according to tax experts and tax officials. In unawareness of computer system is 43.5 percentages and 12 percentages in registration process.

- Many of the respondents from soleproprietor partners and customers choose government and administration as the responsible party for effectiveness of VAT system in the country. They recommend the transparency in the revenue mobilization for the economic development.
- Most of the respondent says that due to the loose mechanism of the government is the main challenges faced in implementation of VAT. Then 40 percentages of the respondent says due to the lack of awareness rules and education many respondent faced the challenges in implementation of VAT. Hence, from all the alternatives proper implementation of VAT is required.
- Survey say that the present problem of VAT system in business sector is in billing system & account keeping i.e 46.5 percentages and 35.5 percentages respectively. Due to the lack of sufficient assistance and guidelines by office personnel. Tax office should regulate their staffs in accordance to it.
- From the survey lack of trained manpower is the main weakness of VAT administration. Unless and until administration is transparent, capable and trained the weakness of VAT administration will not minimized.
- By observing the present scenario of VAT, it can be concluded that the government has slightly utilized the collected revenue though the current legal provision and rules of VAT is not sufficient.

CHAPTER - V

SUMMARY, CONCLUSION AND IMPLICATIONS

This chapter is the final chapter of the research which briefly deals with the summary of the study. It also tries to draw the final conclusion of the study while attempting to offer various recommendations to increase the effectiveness and efficiency in administration VAT system in the country

5.1. Summary

VAT is a broad-based tax as it covers the value added to each commodity by an entity during all stages of production and distribution. It is a modern tax system to improve the collection of taxes, to increase efficiency and to lessen tax evasion. It is also regarded as the backbone of income tax system in Nepal.

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

Value added tax (VAT) is a type of indirect tax that is imposed on goods and services. Sometimes, when government operates on a budget surplus or wants to increase its revenue in order to finance its budget deficit. Around 136 countries in Asia have recognized the importance of value added tax. The tax is levied not only on goods but also on service provided which is the source of revenue for the government to plan development activities in the country. Since, Nepal is a developing country, the main source for revenue is generated through tax levied on the individual on the purchase of goods or services. The government imposes taxes and duty charges on the fellow people for fulfilling the infrastructural, technological, entrepreneurial demand of the country.

It has been a core component in the broad trend toward tax reform evident in many developing and transition countries; while much remains to be done, the VAT has

served to stabilize and bolster revenue mobilization in many countries while contributing to enhanced economic efficiency. Moreover, the complexity of the indirect taxes that the VAT has typically replaced belies the concern that the VAT is inherently “too complex” for developing countries. Empirical analysis indicates that the importance of international trade, high literacy, and the length of time the VAT has been in place enhance VAT revenues. While the latter two factors imply that the tax is “more successful” in the more developed countries, there is empirical evidence that it has also been “successful” in many developing countries.

From the study it shows that Nepal has been under going through several fiscal crises due to limited sources of revenue and increasing government expenditure. The trend of gap between revenue expenditure shows that, it is even conducive to increase in future leading the country to a debt trap situation. In the wake of such a crisis Nepal has adopted a VAT. Value added tax is a tax imposed on "Value added" by business firms on goods and services at the successive stages of production and distribution "value added" on a commodity or services is simply the excess of sales value over purchases by a business entity. VAT is multiple stage commodities and service based one of the best form of sales tax.

From the survey on taxpayer’s education and awareness regarding VAT collection has some objectives, which are to assess the current status of taxpayers’ education and awareness regarding VAT, to find the relationship between VAT collection and taxpayers’ education to examine the present management system of VAT effective and to provide suggestions for improving taxpayer’s awareness in Nepal. The research has discussed about various aspects of research methodology as; research design used for this study, data collection procedure, population and sample, nature and sources of data, selection of the respondents, procedures of processing and analysis of data. The analysis of secondary as well as primary data gives meaningful results. The major sources to collect secondary data is the annual economic review. To collect primary data opinion survey technique was used in this study. The primary data were collected from three respondent’s group i.e. sole proprietor, partners and customers. Major findings of the primary data analysis have been put in the end of the chapter.

At present, whatever may be from theoretical point of view the issues have become the effective implementation of VAT system in Nepal. It is not matter that VAT should be modified but the implementation aspect should be managed. VAT regime is extremely challenging in a burgeoning economy like Nepal. Resistance from the business community, ignorance of general people, lack of full support and commitments from the politicians and government officials forced the authority responsible for implementing VAT to make compromises on various aspects of VAT which has weakened the process of its implementation right from the beginning. The attitude of businessmen and tax administration also appear hostile to the effective implementation of VAT in Nepal. The culture of doing business without maintaining proper books of accounts or maintaining multiple sets of books of accounts have made implementation of VAT difficult. Due to the lack of experts and skilled manpower in the VAT administration, the auditing system, one of the most important aspects of VAT operation, is not effective. Similarly, immediate campaigns should be undertaken to place attractive hoarding boards in strategic location of the cities with messages regarding VAT invoices and by placing inspiring messages in the popular newspapers and magazines. Public awareness campaign should be undertaken in such a way that whether a consumer goes, whether at home or market place, they encounter with VAT messages and remind them to take invoices. The campaign should as much effective as it could stamp on consumers mind that they should not purchase anything without an invoice.

5.2 Conclusions

The ultimate goal of the underdeveloped countries like Nepal is to achieve the economic development and ensure the rapid rate of economic growth. It needs huge amount of investment in economic overheads and other development activities for which taxation is undoubtedly a primary source of revenue for the government. Taxation may be considered as basic tool in the path of economic development. Due to poor performance on internal revenue, for developing countries like Nepal, Value Added Tax is a best model of taxation. It puts greater significance on revenue mobilization in such countries where Nepal cannot be an exception. The reason behind this is that VAT system is transparent, broaden tax base and discourage tax

evasion. Therefore, it is needless to say that VAT is the most important source of the government revenue.

Recently, developing as well as developed countries in the world have increasingly focused their attention towards reforming the tax system by standardizing and improving the poorly designed tax structure in order to mobilize high volume of resources for the development purposes and make the economy healthy, efficient and self sufficient to a larger extent. In this regard, VAT has become a point of attraction for about 130 countries in the world including Nepal. Actually, VAT was introduced in Nepal in the ambitious hope to increase the revenue and particularly stop the leakages made through other forms of taxes. But history has shown that the government has already tried many reforms in the field of taxation, in the absence of alternative effective methods, lack of proper planning and in other words leading to administrative failure. Indeed, this is true in the case of VAT also, Nepalese businessmen are generally found to avoid the frequent contacts with the tax officials because they are widely known for unofficial benefits. Even in the administrative area, there is a widespread corruption as well as red taps prevailing everywhere. So, for that government, administrative capability and transparency are the serious concerns.

Currently, while the numbers of registrants are increasing but the tax collection has not been satisfactory when compared to the number of registrants. Public awareness is very low. The salesmen are not to issuing bills and the consumers to receiving them. Undervaluation and smuggling of goods are mostly found. The problem seems to be aggravated by the government's increasing the VAT rate to 13 percent which immensely discourages the customer in demanding bills on their purchases. Truly, increment of VAT rate has a purely negatively influence on general people. Their view point is to broaden the tax base instead of increasing the tax rate. Tax rate has been increased time and again for nothing, but this does not get reflected in real revenue mobilizations. Rates should be continued for a long time for transparency and must be incorporated in VAT Act itself. So the government has to pay serious only increasing the tax base itself instead of increasing the tax rates. International

experience tells us that the gradual lowering of duties or tax rate is an effective tool in achieving the desired goals rather than increasing it.

VAT must be successful and this largely depends upon the public awareness, honesty, faith and morality of tax officials and business community. There is need for willpower and action. Unnecessary hindrance to economic activities must be avoided. The government needs full cooperation from the tax administration, the taxpayers and businesspersons as well as consumers in its effort to generate more revenue. Apart from this government is required to learn from what did earlier need to streamline the working procedures of the system. It is equally important that the government should justify the rationality of its policy and make consumer more assured about the policy that introduced for the benefit for the people not by saying but by its deed. Lastly, this research try to shows that the structure and challenges of VAT system in Nepal and also find out that the broad base and uniform basis VAT is a better instrument for managing the economy, promote the exports and improving the balance of payments.

5.3 Implications

After a long preparation, planning VAT was introduced in our country and has already become a decade. Even though, it has made great jump by implementing of VAT, in such circumstances or the basis of major finding and conclusion following recommendation has been made to make VAT more effective revenue collection in Nepal:

- ❖ Most of the respondents from the business sector and non-business sector have the knowledge and strongly agreed with necessary of public awareness program. It is necessary develop the curriculum activity in each and every sector which tax are related, such as farmers points of view, students book, different nation journal and reports and in other social activities. All these activities have developed to get accuracy upon the tax education in Nepal.
- ❖ Awareness towards VAT system should be created among general public, non-governmental and government organization. This research could be useful to make close cooperation between the private sector and government sector for the successful implementation of VAT system.

- ❖ VAT administration should be strong and committed towards to effective implementation of VAT.
- ❖ The success of VAT system is not only the success of the IRD, but also the success of nation as a whole. In currently public awareness status is very low position which indicated the present education policy has to change to make better effectiveness of taxation.
- ❖ The government needs full cooperation with the Tax Administration, the taxpayers and businessmen as well as consumers in its efforts to generate more revenue. VAT must be made successful and depends upon honesty, faith and morality of tax officials and business people. Therefore, it is time to action and improvements for effective and successful operation of VAT in Nepal for future perspectives as well as present needs of economic development.
- ❖ Vat returns submitted by the taxpayer must be complying with the existing laws & regulations.
- ❖ In the computer billing system, tax invoice may not reflect true transaction value. So, IRD has direct access to the software installed at the tax payer business place and review such instances
- ❖ Publicity and educational program must be made more effective.
- ❖ Training programs must be provided tax offices for development of skill manpower administration with current information technology.
- ❖ The proper co-ordination among various government departments involved in revenue collection must be maintained. Computer networking system should be established in all the custom points with department. It is necessary to simplify tax procedure and reform tax administration.
- ❖ Consumer should be made aware of taking invoices, which is their fundamental right and responsibility to the state. Consumer awareness program should be launched through media, journals, magazines, newspapers, pamphlets, seminar, discussion, lottery program etc. effectively which encourages people for invoices after buying goods and services.

- ❖ For proper billing system consumers should be made will informed and strict warning should be given to business that issue false bills for every taxable sees must be made compulsory.
- ❖ Government should be able to ensure the people that the revenue from VAT is used in transparent manner to uplift the economy of country.
- ❖ In the present Nepalese environment there exists instability of political situation, so government should create an environment of strong political commitment for effective revenue collection on VAT.
- ❖ The success of VAT system is not only the success of the IRD, but also the success of nation as a whole. The role of general media, radio, TV, newspaper plays an important one. Emphasis should be given on mass media. Awareness towards VAT system should be created among general public, non-governmental and government organization.
- ❖ Border should be effectively controlled to prevent the illegal trade. Warehouse and highways checking should be done effectively to prevent any kind of illegal trade.
- ❖ The lack of strong political commitment, administrative capability and recording system are the major problems in the implementation of VAT system in Nepal. Furthermore, lack of proper accounting and auditing, indifferent attitude among tax officials and weak appeal system have also been hindrances for the proper functioning of the Nepalese VAT system. So, the government of Nepal should be more concentrated on rules and regulation of VAT system and it should be practically applied. Then only our government can run the country smoothly with the good financial condition and can get the proper revenue as predicted.
- ❖ The trend of under-invoicing, attempt to avoid VAT and producing fake VAT bills by creating fictitious transactions have been found in investigations. Such activities should be discouraged by imposing high penalty fees and fair auditing.

REFERENCES

- Acharya, S. (2016). *Reforming Value Added Tax System in Developing World: The case of Nepal*. Business and Management Studies, 2 (2), 44-63.
- Adhikari, C. M. (2003) *Value Added Tax in Nepal: Theory and Practice*, Pairabi Prakashan, Kathmandu
- Adhikari S. (2016). "*Issues and Options of Value Added Tax in Nepal*." Master Degree Thesis, Submitted to Central Department of Economics, TU Kathmandu.
- Bhattarai, I. and Koirala, G. P. (2006), "*Income Taxation in Nepal with Tax Planning and VAT*", Kathmandu: Asmita Publisher
- Bhusal A. (2014). "*An Analysis of Structure and Challenges of VAT in Nepal*." Master Degree Thesis, Submitted to Central Department of Economics, TU Kathmandu.
- Dahal, M. K. (1996). *Tax structure and policy framework in Developing countries*. The Economic journal of Nepal, Vol. 14. Central Department of Economics Tribhuvan University. Kathmandu.
- Devkota, S. P. (2000). *A study of Value Added Tax imposition in Nepal*. Unpublished Master's thesis, Master's in Business Administration, Tribhuvan University.
- Dhakal, K. D. (2015). *Tax Laws and Tax Planning in Nepal*. Asmita publications, Kathmandu.
- Dhakal, S. (2057). *Problems and prospects of Value Added Tax in Nepal*. Unpublished Master's thesis, Central Department of Economics, Tribhuvan University.
- Ghimire, L.M.(1998). *Value Added Tax key issues in Nepal*. Unpublished Master's thesis, Master's in Business Administration, Tribhuvan University
Government of Nepal (2002-2003) - Ministry of Finance (MOF), Economic Survey, and Budget Speeches
- Jaishi, A. (2015). "*VAT in Nepal: Issues and Options*." Master Degree Thesis, Submitted to Central Department of Economics, TU Kathmandu.
- Jaykumar, A. (2012). *A Study of Impact of Value Added Tax (VAT) Implementation in India*. World Journal of Social Sciences, 2 (5), 145-160.

- Kandel, P. R. (2007), *Tax Law and Tax Planning in Nepal*, Buddha Academic Enterprise Pvt. Ltd, Putalisadak, Kathmandu
- KC, J. B. (2007), *Tax Laws and Tax Planning: Theory and Practice*. Kathmandu: Khanal Books and Stationery.
- Khadka, R. B. (1989). *VAT in Asia and the Pacific Region*. Amsterdam: International Bureau of Fiscal Documentation.
- Khadka, R. (2001). *Income Tax in Nepal: Retrospect and Prospect*. Kathmandu: Ratna Pustak Bhandar.
- Koirala, K. (2011). *Value Added Tax (VAT) in Nepal: A Critical Assessment of its Performance*. The Journal of Nepalese Business Studies, VII, 63-69.
- K.C, J. B. (2008), *Tax Laws & Planning: Theory and Practice*, Khanal Books & Stationery, Kathmandu
- Pant, B. P. (2012), *VAT Compliance in Nepal: It's Structure and Determinants*, An Unpublished Master Degree Thesis Submitted to Shankar Dev Campus, Kathmandu
- Parajuli, S. (2009). *Revenue policy and revenue administration*. Kathmandu: Makalu Books Publication.
- Pradhan, B.T. (2010). "Tax Payers Education Regarding VAT Collection in Nepal." Master Degree Thesis, Submitted to Central Department of Management, TU Kathmandu.
- Puri, B. (2011). "An Analysis of Tax Structure in Nepal." Master Degree Thesis, Submitted to Central Department of Economics, TU Kathmandu.
- Silwal, N. P. (2000), *Value added tax (VAT): A Nepalese experience*. Kathmandu: Mrs. Indu Silwal, Sheela Printers.
- Subedi, K. R. (2005), *Implementation and Effectiveness of VAT in Nepal*. Central Department of Management, T.U., Kirtipur, Kathmandu.
- Thapa, P. (2013). "Value Added Tax (VAT) and its Implementation, Problems and Effectiveness in Nepalese Economics." Master Degree Thesis, Submitted to Central Department of Management, TU Kathmandu.
- Tripathi, R. (2011), *Value Added Tax in India*, Motilal Nehru National Institute of Technology, Allahabad, India

Websites

Wikipedia, the free Encyclopedia- Value Added Tax

www.ird.gov.np (Official website of Inland Revenue Department, Nepal)

www.mof.gov.np (Official website of Ministry of Finance, Nepal)

APPENDIX QUESTIONNAIRE

Dear Sir/Madam,

My name is **Roshan Paudel** from Central Department of Management, T.U, MBS student. I humbly request for yours valuable comments, views, suggestions and information on “Tax payer’s awareness regarding VAT collection in Nepal” which will be utilized in my research work. That’s why I request you to fulfill the following questionnaire.

Name of respondents:

Office/organization:

Sole proprietors.....

Partnerships.....

Customers.....

Please tick any one:

1) Are you familiar with the Nepalese income tax?

a. Yes b. No c. Little

2) Do you have knowledge of VAT?

a. Yes b. No c. Little

3) How do you know about VAT?

a. Through Book b. Through media c. If other

- 4) Is current VAT rate system is appropriate?
 - a. Yes
 - b. No
 - c. Little
- 5) What will be the appropriate rate of VAT for its effective implementation of?
 - a. 10%
 - b. 13%
 - c. 15%
- 6) Do you ask for VAT bill while making purchase?
 - a. Yes
 - b. No
 - c. Sometime
- 7) Does VAT increase the price of the commodity?
 - a. Yes
 - b. No
 - c. Don't know
- 8) What types of problems that businessman faced while paying business tax?
 - b. Lack of knowledge
 - b. Complicated procedures
 - c. Weak economy
- 9) What do you think about the tax burden of VAT to the taxpayer?
 - a. Higher
 - b. Lower
 - c. Normal
- 10) What are the major problems of VAT system in Nepal?
 - a. Unawareness of computer system to normal person
 - b. Registration process
 - c. Billing system
- 11) Who is responsible for effectiveness of the VAT system in the country?
 - a. Government
 - b. Administration
 - c. Business house and consumer
- 12) What challenges do you face in implementation of VAT in Nepal?
 - a. Lack of awareness rules and education
 - b. Selfish motive of the private sector
 - c. Loose mechanism of the government
- 13) What are the main problems of present VAT system in business sectors?
 - a. Registration
 - b. Account keeping
 - c. Billing system
- 14) What are the major weaknesses of VAT administration?
 - a. Lack of expert
 - b. Lack of trained manpower
 - c. Lack of physical structure
- 15) What do you think; government has utilized the collected revenue in an efficient way?
 - a. Yes
 - b. No
 - c. Little
- 16) What are the obligations that must be followed after registering business on VAT?
 - a. Must file VAT returns on or before 25th day following the end of each month
 - b. Issue VAT invoice on Sales
 - c. Maintain books of accounts

- 17) What do you think necessary for effective implementation of VAT?
- a. Consumer awareness programme and effective training
 - b. Cooperation between consumer, taxpayer and government
 - c. Effective reward and punishment system
- 18) Why Nepal has adopted VAT system curtailing previous sales tax, entertainment tax, and hotel tax?
- a. To promote Economic growth.
 - b. To establish fairer and transparent tax system
 - c. To avoid double taxation.