

ANALYSIS OF VAT SYSTEM AND PRACTICES IN NEPAL

A THESIS

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RECOMMENDATION

This is to certify that the Thesis

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ANALYSIS OF VAT SYSTEM AND PRACTICS IN NEPAL

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DECLARATION

I hereby declare that the work reported in this thesis entitled “**ANALYSIS OF VAT SYSTEM AND PRACTICES IN NEPAL**” submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Degree of Master’s in Business Studies (M.B.S) under the supervision of **Mr. Surendra Keshar Amatya** and **Mr. Dhundi Raj Bhattra**i of Nepal Commerce Campus.

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Abbreviatins

CPI	Cost of Purchase input
DANIDA	Danish International Development Agency
DG	Director General
GDP	Gross Domestic Product
IME	International Monetary Fund
IRD	Inland Revenue Department
IRO	Inland Revenue Office
MBS	Master in Business Studies
PAN	Permanent Account Number
SAARC	South Asian Association for Regional Co-operation
SV	Sales Value
TPIN	Taxpayer Identification Number
UK	United Kingdom
USA	United States of America
USAID	United States Agency for International Development
VAT	Vat Added Tax
WCO	World Custom Organization
WTO	World Trade Organization

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Nepal is a developing country in the world. Nepal is surrounded by the two countries, India in the east, west and south and China in the north. Nepal is a landlord country. Geographically, the country is divided in three regions like Mountain, Hill and Terai. Here are 5 development regions and 75 administrative districts. Districts are further divided into smaller units, called village development committee, municipality.

Value added tax has been permanent issue in Nepalese economy since its inception 1997. Value added tax is in indirect tax and definitely a new concept as compared to other taxes. VAT is youngest and most emerging tax. It is imposed on the value added by a firm through its production and distribution activities. It implies the difference between the purchase price and selling price. So, VAT include the entire expenses incurred in the process of preparing the goods for sales after the purchase plus the profit margin . Thus the tax liabilities at each stages is based on the value added ,different between the value of outputs and the value of the inputs. So, VAT is different in every stage of conjunction pattern.

Value added tax is more sufficient and beneficial tax system than sales tax system .Under sales tax system tax payers add profit for them on their cost price that already includes tax this again increase selling price of the product by an amount that more than the amount of profit to the tax payers. It is the case of cascading .Value added tax is more appropriate tax system to avoid cascading problem. The concept of VAT was first forwarded by “Wilhelm von Siemens” of Germany in 1919 as substitute “Umastzsteuer”(Multi stage sales tax) in order to avoids the cascading and vertical integration of the multi stages sales tax. In 1954 France introduce the Value added tax limited up to the wholesale level only.

In the Nepalese context VAT was implemented on Mangsir 1, 2054 (NOV-16, 1997).DANISH government agency (DANIDA) supported for the implementation of VAT however the process of registration in VAT department started since baishak,2054.The 8th

five years plan planned to implement the VAT in Nepal at the end of plan period . In Nepal VAT came into existing by replacing the sales tax ,entertainment tax ,hotel tax etc.

In last it can be said that VAT is popular tax in the contemporary world .Today more than 130 country in the world use this tax system and most of the business person understand the principle and application aspect of VAT accept it .Following are the some characteristics of a full fielded VAT system.

- a) It is an indirect tax by nature.
- b) It is based on added value.
- c) It is a broad based tax.
- d) It is based on self assessment system
- e) It avoids cascading and pyramiding.
- f) It has the self-policing and catching up benefit.
- g) It is provide the facility of tax credit.
- h) Timely tax realization.
- i) While over payment exists, tax refund is applicable.
- j) Provisions of tax exempt goods and services for tax rationalization for social and economic purposes.

VAT is the new concept of taxation. It covers the value added to each commodity by a firm during all stage of production and distribution and VAT is forwarded completely to the ultimate customer.

1.2 Statement of problem

Nepal is poor country in south Asia. The country's total annual import is more than annual export which shows that Nepal is very poor country in the world. VAT had become familiar and was well received by the consumers as well as business and industrial communities of Nepal. But, due to Lack of adequate infrastructure and attitude of businessmen and the tax administration appear hostile to the effective implementation of VAT in Nepal. The culture of doing business without maintaining proper books of accounts, not issuing and receiving bills at the point of sales and purchase has made implementation of VAT difficult.

Apparently VAT couldn't deliver the intended result unless the problem are address seriously. In this condition Government of Nepal decided to introduce VAT in Nepal from the fiscal years 2054/055 B.S. with replacement of sales tax, entertainment tax, hotel tax and contract tax. Preliminary work was started since the fiscal year 050/051 B.S. to introduce VAT. After the midterm election 2051 B.S, there was frequent change in the government in Nepal. This government instability disturbed its smooth functioning for a certain period. However the coalition government of CPN (UML). Rastriya Prajatantra Party and Sadbhavana Party did commitment to introduce it from Mangsir 1, 2054 (16 November 1997) For this purpose VAT registration work had been already started from Baishakh 2054 B.S.

According to the business community of Nepal, VAT is not applicable in Nepalese context because it increases tax burden to Consumer and creates difficulties to administration as a problem of Uncompleted of manpower in tax system. However the government Claims that VAT is a modern and scientific tax system which does not Increase unnecessary tax burden When the VAT was introduced in Nepal, at that time many private Sector had been seen opposite of VAT. The government of the Nepali Congress in the budget speech of the fiscal year 2054/055 decided to Implement VAT system in spite of the objection of the business Community. VAT is directly related with goods and service. It makes the Relation with seller, distributor, dealer retailer and consumer. According to the view of consumer it can be said that there are some difficulties in VAT system of Nepal. In Nepal tax structure, sales tax is found to suffer from vary low tax base Cascading effect and distribution effect but VAT is considered as best form of sales tax with the merits of self policing catch up effect board base etc. So there is need of the vat in place of sales tax so vat plays an important role in the economy and effective revenue collection system.

This study will relay on solving the following problems:

1. In what extent the nation is able to collect revenue from VAT in different year?
2. What is the contribution of VAT in GDP?
3. In what extent the business-men and consumers are aware about the VAT system of Nepal?
4. What are the major problems of VAT collection system in Nepal (With reference in Butwal sampling area)?
5. What should and should not do to make VAT collection effective?

1.3 Objectives of the study

Value added tax is sources of collecting of revenue. Revenue is the blood of nation which helps to improve the economic activities of the nation. The basic objectives of this study is to examines the awareness of VAT in present situation in Rupandehi,. The study shall focus on detail investigation analysis of various aspect of VAT. However the following specific objective will set for the study.

1. To know the revenue collection from VAT in different year.
2. To find out the contribution of VAT in GDP
3. To explore the knowledge about VAT on business-men and consumers in Butwal, Rupandehi
4. To detect the problems of VAT collection system in Nepal (With reference in Butwal sampling area).
5. To provide suggestions for making VAT collection effective.

1.4 Focus of the study

VAT itself a complicated modern tax system more effort should be made on actual circumstances. Theoretical and practical knowledge required to implement and evaluate VAT

properly. So this study analyses Nepalese VAT system with its practice. This study analyse the amount received from vat different year. This study will provide clear idea and knowledge to those persons who are interested to know more about VAT. This study also provides the clear idea about the vat system in Nepal. This study will focus on awareness of people about VAT system in Butwal, Rupandehi and it also provides the suggestion of different person to make effectiveness technique to collection of VAT.

1.5 Limitations of the study

Any subject could not be studied in without limit of time frame. Every study have own limitation. Like this VAT has also some limitation. The main limitation of the study are maintained below.

- 1) This study is based on availability of reliable data and sufficient literature
- 2) Field survey is based in Butwal, Rupandehi, only.
- 3) Field survey is focused on Butwal municipality, Rupandehi only.
- 4) This study covers around 7 year's data only.
- 5) Limited business-men, tax experts, tax officers and consumers are consulted to collect primary data.
- 6) Rounding figure is used to put the data analysis in table.
- 7) This research has been conducted to fulfill the requirements of MBS course with in a prescribed time.

1.6 Organization of the study

This study will be divided in to five chapters. Prior to body of this thesis, several pages of preliminary materials such as title page, Viva-voce sheet, recommendation, Declaration of the researcher, Acknowledgement table of content, list of tables, list of figures and abbreviations used have been included.

Introduction

This is a first chapter which deals with background, statement of problem, focus of the study, objective of study, research methodology and limitation of study and organization of the study.

Literature review

The second chapter "Literature review" presents the review of related literatures and available studies, written and prepared by different experts and researcher.

Research methodology

The third chapter "Research Methodology" present the methodology used in this study. It deals with research design, nature and sources of data, collection of data, data processing and method of data analysis.

Presentation and analysis of data

The fourth chapter fulfills the objectives of the study by presenting the data and analyzing them with the helps of various accounting and statistical tools and techniques followed by methodology.

Summary conclusion and recommendation

The fifth chapter summarizes the whole study. Moreover it draws the summary conclusion and forwards the recommendation for the improvement of effective VAT collection system and to increase public conscious about VAT system.

At the end of the study, bibliography and appendices have also been incorporated.

CHAPTER-II

CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE

Review of literature means the study of relevant topics in the related field of research or reviewing related research studies and findings such that all part studies, their conclusions and deficiencies may be known and further research could be done. This chapter is basically divided into conceptual framework which includes the meaning, objectives, types, principle etc of VAT, highlighting the literatures that are available in concerned subject. The other part is related with reviews of books, journals, articles, web search, research papers, workshop and some master's degree thesis done at past on the relevant topics, as every study is very much based on the past knowledge.

2.1 Conceptual Framework

Value Added Tax is the most recent innovation in the field of taxation. Actually, VAT is considered one of the most important tax reforms of the second half of the twentieth century. It is a scientific tax system, which was first introduced in 1954 in France. VAT is a family member of indirect tax. Indirect tax is primarily so called because the real burden of tax under this type can be shifted forward to the consumers or in other words, it is not borne directly by the person who pays it. As long as the burden of the tax can be shifted forward, it is indirect. To obtain the exact definition of VAT, the following section gives its practical and precise meaning as implicit in the definition of and institutions.

2.2 Meaning of VAT

Value added tax is the latest innovation in the field of indirect tax system. VAT is the youngest member of sales tax family. It is a broad based indirect tax. The term VAT exists, in English from value added tax. It is nearest from the French term added value tax. VAT is a sales tax in advanced form. It is imposed on different stages. It is the tax imposed on added value of good and service. Value added tax is on of the form of indirect tax too. Encyclopedia of taxation and tax policy says "value added tax is a broad based tax on business designed to measure net value generated in a country" Being a broad based tax it is imposed on producer, wholesaler, retailer and consumers also. It is related to both the goods and services. It is

levied on industry as well as commerce. Accordingly, It measures net value generated in a country i.e. GDP.

There are two types of tax direct tax and indirect tax. Income tax, property tax gift tax etc are the examples of direct tax. It is directly paid by the person who is legally imposed. Value added tax hotel tax entertainment tax custom duty, excise duties are the example of indirect tax. It is imposed by on person but paid partly or wholly by an other. It means that indirect tax is imposed on person who transfer the liability by collecting it from customer by adding it to the goods and services sold or distributed. Thus indirect tax is indirectly collected from the ultimate customer. Value added tax is the modern innovation indirect tax in the field of taxation. It is a most powerful tool of the revenue generation. Value added tax is the improved and modified sale tax and it avoids cascading effect existed in sales tax. Value added tax is levied on value added at each stage of the production and distribution activities (*Amatya, Pokhrel & Dahal, 2060*).

Value added means sales value minus purchase value on conversion cost. Conversion cost may include wages interest rents, depreciation, depreciations and taxes excluding income tax and VAT. "Value added tax is a tax imposed on value added on goods and services by business firm at the successive stage of production and distribution value added tax is the excess of sales value over purchase by the manufacturing or trading firms during a period of time" (*Subedi, 1998*).

This definition emphasis as the tax is imposed on value added on goods and services at each stage of production and distribution value added is the added value in sales from purchase simplification of meaning and structure of vat is cleared from the following equation and tables.

Table no. 2.1

Structure of VAT

Particular	Sales value	Added Value	Vat in sale 13%	Vat in purchase	Total Vat
Producer	5000	5000	650	-	650
Wholesaler	7000	2000	910	650	260
Retailer	9000	2000	1170	910	260
Total					1170

Source: Estimated figure

Value added (Tax base) = Sales – Purchase, or

Value added (Tax base) = Conversion (conversion cost = Wages, salaries, interest, rent,)

In this example (Table no 2.1) the government raises tax 1170 from different stage. From producers Rs. 650 wholesaler Rs. 260 and retailer Rs. 260 of Rs. 5000 Rs 2000 and Rs. 2000 respectively. In the above table it is also clear that the producer does not get the chance to deduct the tax in purchase whereas most of the wholesaler and retailer have got chance to deduct tax on purchase from sales. In conclusion we can say that vat is the latest innovation tax system, in which tax is imposed on value added on goods and services at every stage of production and distribution. It is indirectly collected from the ultimate customer.

2.3 Principle of VAT

VAT is that tax system which do not discriminate the imported or internal production. In the basis of above statement principle of vat is introduced. They are:

a. Principle of Origin:

Under this method, the tax base is obtained by adding the incomes produced by the firm. This implies that all exports are taxable and all imports are non taxable. Where there is border and cross country trade, this principle gets important to imported goods and service over domestic production. Countries with international boundaries do not prefer to have this

principle of taxation is essential. The main reason behind this principle is of revenue loss. This principle discourages the export either directly or indirectly. This principle says that the vat is imposed where the production is but it is not imposed in import. So this principle gives facility to imported goods and service than internal.

a. Principle of Destination

The most popular form of principle adopted by a large number of countries is destination principle. Under this principle, goods or services are taxed on at the place where they are produced but the place where they are consumed. This means all imports are taxed while all kinds of goods and services are free to taxation. The main advantage of this principle is non-discrimination between import and internal production.

Vat is imposed where the production or service is consumed. This principle is favourable for promoting export. Many countries follow this principle because they are eager to boost export. Nepal's VAT system is also characterized by the Destination Principle. As this principle all the imported are taxable and exported are tax exempted. This principle emphasizes the export business and it does not discriminate imported goods and internal production.

2.4. Types of VAT

There are three possible types of Vat: the product type (P-VAT), income type (I-VAT) and the consumption type (C-VAT). The meaning of three variants of vat can be understood by comparison of income and expenditure aggregates in the national income accounts. Expenditure on the gross domestic product (GDP) consists of final private consumption expenditure (c), gross investment expenditure (I) final government non-wages expenditure on goods and service (G_w) and the trade balance (the values of exported (x) less imported (m) goods and non factor service) *(Howell, 1995:86)*

$$\mathbf{GDP = C + I + Gc + Gw + (x-m)}$$

While gross domestic income (GDI) is the sum of factor income payments (wages, interest, profits, etc)- commonly referred to as the value added (v) of production and depreciation (d)

$$\mathbf{GDI = V + D}$$

2.4.1 Product Type (P-VAT)

Broadly speaking a P-VAT taxes all expenditure (except government wage expenditure, which is infeasible to tax under any variants of VAT) on GDP if implemented on the origin principle, and on GDP adjusted for the trade balance if implemented on destination principle. This variant does not allow the deduction of depreciation from the tax base in subsequent years either. Assuming for the time being that the origin principle is employed, so that exports, being of domestic origin, are taxed but imports, whose value originated from abroad, are not. Then the base of a P-VAT is simply the sum of all expenditures on GDP (hence its name as a product type VAT) net of government wage expenditure. This base can be expressed : (Howell, 1995:8)

$$\text{Base of P-VAT} = \mathbf{GDP = C + I + Gc + Gw + (x-m)}$$

2.4.2 Income type (I- VAT)

Gross investment expenditure, which is part of the base of a P-VAT, reflects an economy's actual aggregate expenditure on capital goods (i.e. gross capital formation) in a given period. Part of this expenditure, however, is used to compensate for capital goods that have been consumed or depreciated. While depreciation as such is merely a book-keeping entry and does not represent an actual economic transaction, it does affect the computation of profitability, and thus the value added, of business. An I-VAT excludes depreciation from its base. It therefore taxes the net, rather than the gross, investment expenditure (Howell, 1995: 86).

$$\text{Base of I-VAT} = \mathbf{GDP - Gw - D = C + (I - D) + Gc + (x - m)}$$

In other words, Capital goods purchased from the outside suppliers are included in tax base in the year of purchase but depreciation is excluded from the tax base. Income type of vat can be explained in the following equation.

Value added (Tax base) = Wages + interest + rents + profits + capital goods purchased from outside (in the year of purchase)

OR, Value added (Tax base) = Sales – purchases – depreciation

2.4.3 Consumption Type VAT (C-VAT)

If, in addition to depreciation, expenditures on capital goods, which contribute to a net augmentation of the capital stock are also not taxed, then the entire gross investment expenditure would in effect be excluded from the tax base. The resultant base would be the base of a C-VAT:

Base of C-VAT = GDP - Gw - I = C + Gc + (x - m)

In this way, the variants of VAT differ in its treatment of capital goods. Among these three types of VAT, the consumption variant is the most superior form of VAT and is universally practiced.

2.5 Features of VAT

Value added tax is the most recent innovation in the field of taxation but it is not new concept of tax. It is the refined form of traditional sales tax. The main features of vat are as follows:

-) Indirect tax in nature.
-) Free from cascading effect.
-) Based on value added principle.
-) Timely tax realization.
-) Provision for tax credit facilities.
-) Provision for refund in case of overpayment.
-) Based on self assessment system.
-) Separate treatment of capital goods.
-) Zero bade for social and economic purpose.
-) Provision for tax exempts goods and services. (*Amatya, Pokhrel, & Dahal, 2007*)

2.6 Advantages and disadvantages of VAT

Advantage.

As compared with other taxes there is less chance of tax evasion due to its catch up effect.

-) It is simple to administrate as compared other tax
-) It is transparent and has minimum burdens consumer.
-) Its burden can be shift to another so it is a shiftable tax system.
-) Price does not increase as a result of vat.
-) Less participation of tax payer. (*Bhattraï and Koirala 2008*)

Disadvantages

-) It is costly to implement as it is based on full billing system.
-) It is relatively complex to understand. The calculation of vat in every stage is not easy task.
-) To implement the vat successfully consumer need to conscious otherwise tax evasion will be widespread. (*Bhattraï and Koirala 2008*)

2.7. Methods of calculating VAT

There are three methods of calculating VAT they are as follows:

- 1) Addition method
- 2) Subtraction method
- 3) Tax credit method

2.7.1 Addition method

Addition method is also termed as 'direct value added computation method or under this method value added is directly ascertained by adding profit to the conversion costs incurred by the firm. Following table shows the computation of vat through addition method.

Table no. 2.2

Calculation vat through addition method

Particular	Amount
Conversion cost:	
Salaries	30000
Wages	40000
Interest	10000
Rent	20000
Depreciation	35000
Profit	15000
Total value added	195000
Value added Tax(13% of total Value added)	19500

Source: Estimated figure.

In the above table business men pay the factor of production (conversion cost) as salaries, wages, interest, rent and depreciation Rs.30000 Rs.40000, Rs10000, Rs.20000 and Rs.35000 respectively and he earn profit Rs.15000 the total value added by the business is Rs.150000 and he pays the tax Rs.19500 (i.e. 13% of Rs.150000).This method is simple to understand and easy to calculate but this method creates some complexities in calculating various stage.

2.2.2 Subtraction method

This method is known as net turnover method. Under this method, each merchant tax liability is computed by applying the applicable VAT rate to the difference between his total sales (inclusive of thotal purchase (inclusive VAT element in his sales price). Hence, unlike the credit method, the vat amount is connected with a taxable transation in not required to be explicitly state on the associated invoice This method is appropriate for the consumption

variant of vat . the tax revenue under this method can be calculated by using this formula
 $T=t(SV-CPI)$

Following table show the methods of calculating vat through subtraction method.

Table 2.3

Calculating VAT through subtracting method

Particulars	Amount
Sales proceeds	1200000
Less: cost of goods purchase from outsiders	(800000)
*Value added	400000
VAT(13% Of 400000)	52000

Sources: Estimated figure

In the above table total sales is Rs.1200000 and total purchase is Rs.800000 and value added is Rs.400000. The business men should pay tax Rs.52000 (i.e. 13% of Rs.400000) This method is simple to understand and easy to calculate but. It is very difficult to calculate specially where multiple rate of vat exist.

2.7.3 Tax credit method

This method also called Invoice Method. Under this method, tax is levied on the total value of sales and its 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 sales value (SV) minus cost of purchase input (CPI), a given tax rate, say (t) the tax revenue (T) will be

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

Since business is required to start the tax on invoices under the tax credit method, it facilities boreder tax adjustments. This implies that the amount of tax that levied on export can be refund 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.

Nepal has adopted this tax credit method.

The following example may help understand the subtraction method in better ways:

Lets, A retailer purchase a machine Rs 1692308.00 and sales it to a costumer @ Rs.237692.00

Table no. 2.4
Computation of VAT through tax credit method

Particulars	Amount
Tax collection from sales proceeds (Rs.237692.00 x 13%)	300000
Less: Tax paid in inputs (Rs 1692308.00 x 13%)	(220000)
Net tax liabilities of the businessman (300000-220000)	80000

Sources: Estimated data

In the above table (no. 2.4) the business man collect the vat Rs.300000 and he paid tax in purchase Rs.80000 (i.e. Rs.300000 - Rs.220000) is the tax liability which is to be paid by the business man.

Among the three methods tax credit method is mostly widely used. Under this method tax evasion and under valuation of tax is not possible due to its catch up effect, which could not achieve under addition and subtraction method it is technically and legally superior in controlling tax evasion as well as reducing affects which efficient administration system and creates a well audit. Nepal has also adopted tax credit method to calculate vat.

2.8. Evaluation of value added tax.

VAT is the most recent innovation in the field of taxation. The concept of VAT was developed for the first time by Dr. Wilhelm V. Siemens in Germany in 1919 A.D. The concept of VAT was developed further in 1949 by a tax mission to Japan headed by Prof. Carl S. Shoup. the tax however, remained as only a topic of academic interest until 1953 A.D. In 1954 France introduced a VAT covering the industrial sector the tax was however, limited up to the wholesale level. By the end of 1960s only eight countries including France, Brazil Germany, the Netherlands, Sweden etc. had introduced VAT (Bhattraai and Koirala 2007)In

Asia, Vietnam introduced VAT in 1973 but avoided in the same year and again used in 1999 A.D. Out of seven countries of the SAARC region, Five countries have implemented VAT system. Republic of Pakistan introduced the system on November 1, 1990. For the first time in the region. VAT in Pakistan is applicable in transactions up to wholesale stage only. Bangladesh introduced the system in 1991. But there, VAT is applicable in transactions of production and import stage only. The Nepal and Sri Lanka too introduced the system in 1997 and 1998 respectively. Nepal introduced VAT in 16 November 1997 with replacement sales tax, contract tax, hotel tax and entertainment tax. Unlike above Nepal has implemented full VAT system i.e. VAT is require in retail transactions also. India has introduced the system in some prescribed regions of the country on April 1st , 2005. (*Shrestha 2005*)

As the dates provide by IMF the rapid and seemingly irresistible rise of the VAT is probably the most important tax development of latter twentieth century and certainly the most breathtaking. Forty five years ago the tax was a child in the revenue sectors. Value added tax is the most efficient tax system developed so far. The system operates in a way that it becomes beneficial to all concerned. Under the system tax authority can collect more government revenue in one hand on the other hand consumers can have relatively cheaper commodities as the systems helps government to reduce tax rates.

Now a days around 130 countries have introduced VAT system across the world. the system has been chief source of revenue of the governments of those countries. About 70% of people of the world live in VAT. IMF, UNIDO, WTO, WCO etc. organization are focusing on political, social policy. After liberalization of the decade of the 1970s, VAT started to spread world wise. Good result of VAT in the implemented countries attracted to apply VAT in the virgin countries. From this fact researcher find out some more countries are in process to adopt the system.

Nepal introduced VAT in November 1997. However the concept of this tax in Nepal was introduced in early years of 1990s. Government included the concept of introducing VAT n Nepal in its 8th plan Finance act 1992 and 1994 introduced two tier sales tax to make the base of implementing VAT. VAT task force was formulated in 1993 in technical assistance of USAID which suggested the steps to be followed while implementing the VAT in Nepal. It drafted the VAT law as well high level tax system review task force headed by Prof. Madan Dahal suggested implementing VAT in Nepal in 1995. VAT related act and rules were

enacted in 1995 and 1996 respectively. The years of the use of VAT in other countries of the world can be shown as follows.

Years	Countries
1954	France
1960	Invory Coast
1961	Senegal
1967	Brazil, Denmark
1968	Germany, Uruguay
1969	Netherlands, Sweden
1970	Equador, Luvembury, Norway
1971	Belgium
1972	Ireland
1973	Austria, Bolivia, Italy, UK, Vietnam
1974	Argentina, Chile, Columbia Costarica, Micaragua
1976	Honduras, Israel, Peru
1977	Korea, Panama
1980	Mexico
1982	Haiti
1983	Dominica Republic, Guatemala
1984	China
1985	Indonesia, Turkey
1986	Morocco, Newzeland, Niger, Portugal, Spain, Taiwan
1987	Grenada, Greece
1988	Hungary, The Philippines, Tunisia
1989	Japan, Malawi
1990	Iceland, Kenya, Palcistan, Trinidad and Tobago
1991	Bangladesh, Behiu, Canada, Jamaica, Mali, South Africa, Egypt.
1992	Algeria, America, Azerbaijan, Cyprus, EI Salvodor, Estonia, Fiji, Kajahstan, Kyrgyzastan, Russia, Moldova.

	Tajikistan, Thailan, Turkmenistan, Ukraine, Uzbekistan
1993	Czech, Republic, Puraguay, Poland, Romania, Georgia,
1994	Bulgaria, Finland, Cithuania, Singapore, Western Samoa, Madagascar, Nigeria
1995	Gabon, Ghana, Switzerland, Zambia, Malta, Mawitania, Togo, Latvia
1996	Albania, Guinea, Uganda
1997	Barbados, Congo Republic, Nepal
1998	Croatia, Mongolia, Sirlanka, Tanzania, Vanuatu
1999	Cambodia, Cameroon, Mozambique, Netherlands, Autils, Pappila, New Guinea, Slovenia.
2000	Australia, Chad, Macedonia, Namibia, Sudan
2001	Rwanda
2002	Lebanoon

Source : Chamlagain 2009

In Nepal value added tax was introduced on 16 November 1997. This tax was lived in place of the sales tax, Hotel tax, contract tax and entertainment tax. However it could not be implemented fully until the F/Y 1998/ 99 due to political instability and strong opposition from the business community. In conclusion we can say that VAT has own long history in practice and it is popular tax system. VAT replace the many taxes. It adopted many country today more than 130 countries in the world used this system.

2.9. Principles Governing VAT

The following are the principles which govern value added tax.

A Principle of Transparency:

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

B Principal of Cascading Effect.

Vat removes cascading effect. Cascading effect means tax on tax ie. 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 on 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 based on production. Goods and services that are exported are taxed at zero rate.

2.10 Coverage of value added tax

VAT is a tax on goods and services consumed in Nepal. The tax is based on the principle that each producer or distributor adds value, in some way to the materials they have purchased and it is this added value that is taxed at each stage of the production and distribution. The coverage of VAT in Nepal is based on transfer, sales, supply, import and export of goods and services except some special provisions. It is levied on the value added at each stage of the production or distribution. Every person or firm or company who is involved in such a transaction is liable to pay and collect tax. The actual coverage is structured by the standard and zero rates as well as tax-exempted provisions. In other words, tax coverage is guided by the tax invoice system. VAT is administered by the invoice system.

For the purpose of value added tax, all goods and services are classified into two basic categories: they are taxable goods and services and non-taxable goods and services.

2.10.1 Taxable goods and services

Taxable goods and services are further classified as standard-rated goods and services and zero-rated goods and services.

a) Standard rated area.

Standard rated areas consist of the goods and services that are taxed at the standard rate of 13%. The vendor supplying standard rated goods and services are entitled to recover the input tax paid in his purchases used to make standard rated supply. All goods and services except those which are specified as taxed at the rate of 13% on tax exempt are included under standard rated areas. (*Amatya, Pokhrel and Dahal 2004*).

b) Zero rated area

Zero rated area consists of certain goods and services that are taxed at zero rate the rate of zero percent. It means that vat is not lived on zero rated goods and services but they are otherwise registered as taxable goods or services. The vat registrant supply zero rated goods and services is allowed to take full credit for VAT paid on his purchases used to make a zero rated supply.

2.10.2 Exempted goods and services

Value added tax is levied on all goods and services that are produced within the country or are imported in to the country. However some goods and services specified by the law are exempt from value added tax. The purchase is not required to value added tax on exempt goods and services and the supplier is not allowed to input tax credit on purchases related to these goods and services. Mainly following types of goods and services purposed for exemption.

- a) Basic Agricultural product.
- b) Goods of basic necessity.
- c) Livestock and their product.
- d) Agriculture related product and equipment.
- e) Medicines medical treatment and other health services.
- f) Education.
- g) Books, newspapers, printed materials, and printing and publishing.
- h) Culture, arts and craftsmanship, related services.

i) Passenger transport and goods transportation services.

j) Commercial or professional services.

k) Building & land

l) Betting, casinos, and lotteries

(Amatya, Pokhrel and Dahal 2004)

2.11 Tax Administration

Inland Revenue department established under the ministry of finance authorized by Nepal government has the overall responsibility for tax administration and implementation. Nepal government may establish tax offices of the department and appoint tax officers in required number and designate any officer of Nepal government to act as a tax officer and specify their Jurisdictions to faceplate the department in fulfilling its responsibilities. Tax officers are considered as part of department. The vat law has designated a director general as the chief of the department the act has also designed tax officer that any tax officer or chief tax officer appointed for the purpose of the act by Nepal government or any other officer designed by Nepal government empowering to use the power of a tax. Officer in accordance with the provisions of the act are known as tax officers. Under the IRD there are 23 Inland Revenue offices through out the country.

2.11.1 Registration (VAT act 2052-Sec 10)

All the firms or vendors carrying on taxable transaction must be registered for vat. Registration must not necessary for small vendors having annual return below the threshold. Nepal government introduces a new provision for registration procedures are given below.

Fill in vat application fit form

1. Fill in VAT registration application fit form.
2. In case of partnership, fill also next form designed for partnership firms.
3. Attach is with the copes of business and income tax registration certificate.
4. Submit it to the concerned VAT office so that office gives a temporary certificate and allocate tax payer identification (TPTN) and forwards the details to the VAT department.

5. By processing the information VAT department prepare. The VAT certificate with in TPIN and provides it to the concern tax payer through the corresponding VAT office.
6. Tax payer has to display the original certificate at main place of his transaction and certified copies at other places so that intended person can see easily.
7. In the process, tax payer have to furnish information within 15 day in case of changes in the information mentioned in the VAT application form.
 - a. Tax invoice / abbreviated invoice
 - b. Purchase & sales book.
 - c. Documents for the correspondence to the VAT office.
 - d. Documents relating to custom duties
 - e. Documents relating to obtain a loan from a bank or any financial instructions exceeding Rs. 100000.
 - f. The tax payer has to furnish information within 15 days, in case of change in the information maintained in the VAT application form.

2.11.2 De-registration (VAT Act. 2052 : sec. 10)

A VAT registration firm can apply for deregistration under the following condition

1. In case of an incorporated firm if incorporated firm is close down sold or transferred or if incorporated firm ceased to exist by any means.
2. In case of the personal ownership, if owner is dies.
3. In case of partnership firm, if it is dissolved.
4. If registered person ceased to be engaged in the taxable transaction.
5. If registration is done error.

2.11.3 Accounting (Vat regulation Act. 1996)

Value added tax is levied on value added at each stage of selling and distribution activities of taxable goods and services. It is taxed on the basis of transaction of taxable goods and

services. The effectiveness of VAT depends upon the record and accounting transactions. So vat registrants are required to keep clear accounts of his transaction of purchase and sales, which are standard, rate zero rate and exemption. The registration person has to maintain records of the following records. Information about VAT accounts. Records relating to trade accounts, cash receipts and payments. Tax invoices and abbreviated tax invoices issued by him. Tax invoices and abbreviated tax invoices received by him. All documents relating to his imports and exports. All debit and credit notes submitting the functions in the values of goods purchased or sold by him and other documents pertaining there to. Books of purchase & sales. (*Amatya, Pokhrel and Dahal 2004*)

Purchase books

Vat registrants is required to maintain a purchase book containing a complete record of transactions of all the purchase and imports goods and services through out the month. Purchase book most contain the

- a) Invoice date
- b) The invoice number
- c) Suppliers name and TPIN
- d) The total purchase value
- e) The purchase value of taxable goods or services
- f) The import value of taxable goods or services
- g) The month of input tax

Sales book

A taxpayer has to maintain a sales book comprising a complete record of all the sales or supplies of goods and services through out the month the sales book is similar to purchase book and has to be included the following contents.

- a) Invoice date
- b) Invoice number
- c) The customer's name and PAN

- d) Total sales value
- e) The sales value of taxable goods or services
- f) The amount of output tax etc

Vat Account

A registration person is also required to maintain a vat account throughout the tax period. A vat account is an integrated and abbreviated form of the purchase and sales book and most contain the information about the purchase, sales input tax, output tax and the amount of self-assessed tax that has to be paid to the government by the person. A Vat Account is a monthly summary and it has to be shown to the tax official.

Tax invoice

A vat registrant must issue a vat bill while selling or supplying goods and services. Such bill is known as a tax invoice. It is the key document for vat because it establishes liability of tax for the seller and entitlement of input tax for the seller and entitlement of input tax credit for tax purchasers. So issuing and receiving an invoice is one of the prime duties of the registered person and if a tax invoice is not issued, the registered person and if a tax invoice is not issued, the person has to face a penalty and will forgo the facilities of input tax credit. A tax invoice has the following contents.

- a. Invoice number.
- b. Seller's TPIN
- c. Seller's name and address
- d. Buyer's name and address
- e. Buyer's TPIN (tax payer's other than retail sales)
- f. Transaction date.
- g. Date of issue of invoice
- h. Mode of payment.
- g. Description of the sale

h. Quantity and cost of sales

i. Taxable value tax rate.

j. signature of seller

Debit or credit note

If there is any difference in value of after the commodity or service has been supplied based on the tax invoice then a debit or credit note has to be issued. A registered person has to maintain a monthly record or debit or credit notes along with the following information

a. Serial number.

b. Date of issue

c. Name address and registration number of the supplier.

d. Recipients name address and registration number (if he is registered person)

e. Number and date of the tax invoice connected with the transaction.

f. Particulars of the goods or services and reasons of credit or debit.

g. Amount credited on debited.

h. Tax amount credited on debited.

2.11.4 Submission of return

Each registered person has to submit the tax return to the concerned tax officer within 25 days after the expiry of tax period. According to VAT rules 26.3 the tax period of small vender who has registered voluntarily and whose annual turnover is of value up to 2 million may be fixed at 4 months. In case any registered person dies or becomes mentally or physically incapacitated to submit the tax return the tax official may require the person's hire or legal representative to submit a tax return for the period till the day of the person's death or becoming mentally or physically unable. In case any taxpayer becomes incapable to submit a tax return or dies, the person's heir or guardian are individually or jointly required to submit the tax return. If any taxpayer is a legal person any director, executive chief, on any employee appointed by the management they are required individually or jointly to submit the tax

return on behalf of such taxpayer. In case any tax payer is a legal person and is dissolved or liquidated the liquidator is required to submit the tax return.

2.11.5 Tax assessment

The procedure of ascertaining tax liability of a person and tax payable by the person is known as tax assessment. Nepalese value added tax is based on self assessment system. There are also other methods of tax assessment.

A Self assessment

If a taxpayer on self determines the taxpayer's tax liability such assessment is known as self tax assessment. In this method the taxpayer has to fill tax return and ascertain the taxpayer's tax liability and submit it to the tax officer along with the tax the as per return mentioned above within specified time. Each taxpayer is allowed to self assess the amount of tax required to pay every period.

B Management assessment

If tax officer make assessment if a return is not submitted within the time limit or it an incomplete, erroneous or fraudulent return is failed. Similarly the officer may take an assessment if there is a reason to believe that the amount of tax was understated or otherwise incorrect. Tax assessment make by tax officials in such condition is known as management assessment.

C Jeopardy assessment

The tax official may make jeopardy assessment in case of doubtful situation. Whenever there is a reason to believe that the collection of tax is in risk because any person is about to leave in Nepal or to transfer the person's property to anybody or to remove or conceal assets, a tax officer with the approval of the director general may immediately asses and collect the tax due or about to become due.

2.11.6 Tax credit

The vat registrants are allowed to deduct the input tax paid or payable. The amount paid or payable by a registered person while purchasing or importing goods and services is known as input tax. The recovery of input tax from the output tax is known as input tax credit. The facility of input tax credit is the main features of vat. If the amount of output tax is less than input tax, the balance amount can be adjusted against the tax due in following tax period. If

the amount cannot be adjusted over six consecutive months then the claim can be made for the balance amount to be refunded.

Full credit

Under the full credit, a registered person gets credit of all amount of tax paid on purchases on imports. Under this category the entire input tax incurred in the purchase of goods and services for taxable transaction can be claim to deduct from the tax collected through the selling and distribution of goods or services. To utilize tax deduction facility the goods on services have to be exclusively used only for purpose of taxable transactions (*Amatya, Pokhrel and Dahal 2004*)

Partial credit

Under the partial credit, a registered person cannot get all credit for the amount of tax paid on purchases of goods or services even if that is exclusively used in the business activity.

Proportionate credit

A taxpayer can supply both taxable and tax exempt goods and services. In such cases the taxpayer may deduct only the tax paid on purchase directly related to the taxable goods or services. In such case a taxpayer fails to establish the direct relationship of the purchased or imported goods with the taxable goods or services such taxpayer may deduct the amount of tax paid on his purchases or imports by calculating the proportion of taxable transaction value out of his total sales value.

No credit

Some goods are difficult to determine whether they are used for business purpose or personal purpose, in such goods input tax can't be deduct. The tax paid on purchase of alcohol mixed beverages fuel for vehicles, goods on services for entertainment can not be deducted.

2.11.7 VAT refund

If input tax of a registered person is greater then output for a month, the person is allowed to adjust his excess amount of tax against any outstanding amount in the month. The remainder of the excess of input tax may be available to adjust for the next month. A registered person

may claim for refund the amount of the remaining excess after adjusting for a continuous periods of six months. Vat law has made the provision for tax refund in the case of purchase of goods and services by foreign diplomats, international organizations and those purchases through bilateral and multilateral agreements and in the case of wrongly paid tax.

2.12 Rights and duties of taxpayer rights of taxpayer

The vat laws has committed that each taxpayer is treated with due respect and honor and was assured the following rights to each taxpayer in general.

- a. Right to get certificate
- b. Right to get copy
- c. Right to get accounts certificated
- d. Right to get initials
- e. Right to get refund along with interest
- f. Right to get information. (*Amatya, Pokhrel and Dahal 2004*)

Duties of taxpayer

There are several obligations of a registered person or a taxpayer generall the taxpayer has the following duties to be performed.

- a. To pay tax in time.
- b. T issue tax invoice.
- c. To maintain records and keep accounts
- d. To preservation records.
- e. To notify the change of place.
- f. To put certificate accessible.
- g. To allow to enter and examine.

2.13 Penal Provisions

Penal provisions have been made for any non-compliance. For example, a vendor will be required to pay liable tax plus up to Rs 10000 or 10% of payable tax, whichever is higher, if he fails to register at the commencement of his business. Penalty for non-issuance of invoice is Rs 500 each time whereas the similar amount for the failure to keep the required information in account is up to Rs 10000 each time. Similarly, a taxpayer that has committed fraud or tax evasion will be charged with a penalty not exceeding 100% of the amount of tax, or six months jail or both.

2.14 Appeals

A taxpayer may not always agree with the assessment made by the tax officers. In that case, he may appeal against such assessments. Such a provision has been made under various taxes. In the case of VAT, taxpayer may file an appeal to the revenue tribunal within 35 days against a tax assessment or a penalty order by a tax officer or an order by the Director General relating to the suspension of his place of transaction. However, before filing an appeal, the taxpayer must deposit the disputed amount of the assessed tax due, the rest of the amount of tax due plus the whole amount of the fine shall have to be deposited or a bank guarantee of the same has to be provided.

2.15 Review of thesis, books, articles and other relevant publications.

IMF, Staffs (1993) states that many developing countries have been giving increased attention to VAT as a means of rationalizing their sales taxes and improving their revenue following the adoption of this form of tax by western European countries. The VAT structure of eight developing countries and it covers several issues such as revenue productivity, administrative difficulties and comparison of VAT with other sales taxes. The study considers that VAT can be made neutral only with a comprehensive and uniform coverage. More elastic and revenue productive by a lower rate, ease in cross-checking, less incentive for tax evasion and superior even than the retailer's sales tax on the ground of neutrality are the good features of VAT and achievement of these features largely depends on the implementation aspect. Experience shows that developing countries are apt to limit the range of the VAT by including the most trouble some sectors because they pose different problems. In general VAT will have faster speed than the GDP trend. Fundamental difficulties in

developing countries arise from the problem of dealing with small taxpayers. VAT is suggested to extend to the retail level only after gaining experience from other sales taxes. Lastly, the study considers VAT as a major step in the process of tax reform in the world; however, it may be an additional burden when the administrative structure is poorly designed.

Kwang cho (1995), analysis and evaluates the VAT experience in Korea through his paper "*Value-Added Tax in introduction to effect on the economy*". VAT in the Republic of Korea was introduced in 1977 as a major step of tax reform with the objectives of simplifying tax structure and its administration, promoting exports and capital formation. Besides these, introduction of VAT was also supported by the expectation of higher revenue productivity and maintaining neutrality in the indirect tax system/A single rate of 10% was used since the introduction of VAT and general characteristics remained same as the VAT adopted by the European countries. Korean VAT was the consumption type covering all the stages of production and distribution and the tax credit method was used for compilation. Experience showed good symptoms for the prospects of VAT, as the effects of it were better than the expectation made by either VAT supporter or opponents. VAT showed a good impact on investment and encouraged exporters as compared to the previous tax system, and there were no major impacts on the increase in income as well. However, VAT being a member of indirect taxation, could not remain an exception from the viewpoint of regressivity. To some extent, there was a regressive impact of VAT with respect to income. The experience showed that practice is not as simple as theory. It created a host of problems that gave rise to voluminous paper work, more or less arbitrary distributions in trade and consumption and inequalities in the distribution of tax burden. From the policy point of view, VAT revolved around three issues: (i) coverage of the VAT (ii) The level and structure of the tax rate and (iii) the treatment of small taxpayers. The study, by analyzing positive and negative results of VAT, concludes that Korean VAT has worked relatively well and in some cases much better than its designers and taxpayers had anticipated. As compared to the previous taxes VAT has broadened the tax base, reduced evasion, increased revenue and eliminated many problems that were in existence. Further, Korean experience provided proper lessons for other countries to tackle with the same problems and issues relating to VAT implementation including coverage, rate structure, administration, special taxpayers coordination with direct taxation etc.

Professor Due and Frienlander in their famous book, Government Finance (1997), Evaluates the VAT that in avoiding the adverse consequences of turnover tax and greater revenue raising a proper cross audit is possible. The possibility of cross check is considered as

a beauty of the VAT. In their view, tax reported as paid by one firm to its suppliers for which it taken credit against its own tax liability should appear as tax paid to the government by the supplier. This cross check is not automatic but computers can make it by auditors or ultimately. So the VAT is the most meritorious one, whose users have extended rapidly. Prof. Due & Frienlander also show the dismal aspect of the tax principle that the value added tax is somewhat more complex than the retail sales ta particularly in concept, the number of tax paying firm is somewhat larger, since not only retailers but all manufactures and wholesaler firms must be registered and must file returns. According to them, the tax is somewhat less acceptable to exemptions than other sales tax, since the exemption most be handled throughout production and distribution channels. Farmers pose a serious problem, to register them all as tax paying firms would greatly add to administrative and compliance task if they are not registered they would not receive credit for the tax paid on purchases for farm use. Researcher accepted that "the administrative complexity" is the main visualized problem of VAT in developing countries. However they conclude that, "it is undoubtedly the ideal form of sales tax in many countries"

Dahal (2000), reviewed Nepalese tax system and made some recommendations for a VAT in Nepal. It has mainly analyzed the magnitude of Nepal's tax system and emphasized due to the following reasons: (i) it broadens the tax base and hence increases the tax revenue, (ii) it is more transparent, elastic and prevents tax evasion; (iii) it promotes exports; and (iv) it makes tax system more efficient. Some basic factors to be considered seriously before implementing VAT are: (a) price level, (b) equity and (c) small traders. More focus is given for necessary preparations to be undertaken before implementing VAT and a functional organizational pattern is recommended in the report. In Nepalese context, the- following things include the process of VAT implementation, (i) Choice of the type of VAT and computation method (ii) determination of structure, exemption and threshold (iii) providing basic information to the public (iv) developing more efficient and proper tax administration (v) analysis about the possible effects on different sectors. In conclusion report recommended VAT as the best alternate to eliminate the existing weakness of tax system.

Nepal chamber of commerce (2002), in a study analyzed the VAT in the Nepalese Economy. The major observations on VAT found by the study are as follows:

- (i) Adverse effect on price level,
- (ii) Increase in prices of imported goods would discourage import revenue from import tax.

iii) The account keeping requirements of VAT would increase the tax compliance cost and cost of doing business that would effect the small traders Adversely

(iv) Domestic production will be negatively effected as VAT abolishes the protection policies,

(v) VAT will widen the gap of income distribution and is unjustifiable on social ground,

(vi) It will effect the overall revenue collection negatively and will due to the incapability of existing administration there is great risk for its successful implementation and may be failure. So, a haste decision should not be taken for VAT implementation. Initially, only a partial VAT on some selected commodities basis to know it rows and pros and cons and there it can be extended to full from successively.

Subedi (2003), in his study concludes that, VAT is applicable to Nepal' in the sense of tax performance. The existing tax system being inefficient and fewer products need to be rationalized. Empirically, VAT is found to be the best alternative to eliminate the existing inefficiencies of tax system. VAT would generate more revenue with less distortion and will unity members of taxes producing very low amount of .revenue because of its broad Coverage: In Nepal VAT is desired to achieve the goals of neutrality, revenue productivity, fairness and transparency. However, VAT being of a member of indirect taxes is regressive in nature. Utilizing income tax, special consumption tax and some exemptions for equity goals. The focus of VAT should be accelerated in Nepal. But VAT should be implemented in Nepal only after full and adequate preparation. In theoretical sense VAT is the best form of sales tax, especially due to its neutrality regarding die methods of production and generating more revenue. Further, VAT having the self-enforcing feature would make tax administration easier. This study focuses that VAT should not be taken as 'a hen with golden eggs' rather it is a challenge for Nepal and it should not be considered as a 'panacea' for curing all ills VAT in Nepalese tax system. The most challenging issue for VAT implementation in Nepal is successful tax administration. The existing sales tax administration is not capable of handling VAT. Further, VAT needs more active administrative efforts. Other problems with VAT implementation in Nepal are: Lack of account keeping system, lack of sufficient knowledge about VAT, illiteracy and low public awareness. The existing tax evading practices also seems a serious problem. More advantages of VAT can be achieved only if it is extendedto the retail level but the extension of VAT to retail level is impracticable and impossible in Nepalese context.

This study suggests a moderate single rated VAT and further forecasts that 1.5 or 2.5 times more revenue than the existing sales tax will be generated if VAT itself is the complex system and on the other hand, a taxation system is a part of economic ocean. Thus, we have our capacity of swimming and realize the depth of the ocean before diving into it.

Khadka (2003), an expert in taxation policy in Nepal, in his book entitled, "*VAT and its relevancy to Nepal*" has briefly tried to cover almost all the theoretical aspects of VAT especially the introduction to VAT. The types of VAT (Consumption tax and gross national product) methods of computation of VAT (addition, subtraction and tax credit). The evolutions of VAT, comparison of VAT with other forms of sales tax and the reasons for its adoption and so on. He defines "VAT is the most recent innovation in the field of taxation. 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."

Carl S. Shoup (2005), in an article made an attempt to analyze the structure of the VAT and different policy issues relating to the developing countries. A VAT covering all economic activities from the earlier stage of farming or mining right through the retail level is considered comprehensive. Consumption is superior. VAT is more revenue productive and serves self-enforcing feature, and its regressiveness can be reduced by providing zero-rated for food and basic essentials. VAT will have a favorable effect and it is relatively easy to administer. But it is inflationary because firms through increase in price must recoup it. In comparison with turnover tax and retail sales tax, VAT stands in first position but it requires caution in implementation. Although the choice between turnover tax and VAT becomes a matter of weighing the pros and cons. Basic accounting and efficient tax administration are lacking in developing countries, which create difficulty for the successful implementation of VAT in such countries.

Sharma (2006), in his study entitled "*Value Added Tax in Nepal: Issues and options*" analyzes the different aspects of VAT such as issues concerning applicability, effects on revenue potential. The narrow tax base, inefficiency, and dictionary character, weak administrations are the major defects of the existing sales tax. Adoption of a full-fledged VAT would make the tax system more productive and elastic by widening the tax base and it would not be more regressive than the present tax system's sales tax base in case of imported goods. The study considers 'Applicability of VAT' as the biggest problem on the supports of the following issues:

- (i) Lack of administrative capacity;
- (ii) Underdeveloped business structure, practice and distribution system;
- (iii) business community constitutes a large numbers of small trade most of who are illiterate and lacks proper accounting records;
- (iv) existence of open border and a large amount of authorized trade,
- (v) Under valuation;
- (vi) existing tax evading practice and corrupting nation of the tax administration; and
- (vii) Lack of the co-operation

between the government and the business community: Clearly, VAT will raise price but in general, it would be lower than that of the taxed commodities if it were properly managed. Although VAT regressive on the ground of income distribution, it would not be more than existing sales tax. Further, VAT will have favorable affect on the country's balance of payments, collection of income tax and import duties, on the one hand and on the other hand it will broaden the base for corruption, illegal trade and tax evasion. VAT will also make incentive to the traders to split their business to go below the threshold limit, which makes business sector fragmented, and less efficient. Thus, study concludes that VAT is not fully applicable to Nepal.

Bista (2007), in his research has concluded, "*VAT is applicable and feasible in Nepal*". He has focused the need of VAT for Nepal for several reasons: transparency and avoiding all tax loopholes. VAT helps to the resource gap by broadening the tax base and mobilizing additional resource by controlling tax leakage, smuggling, unofficial trade and corruption through trade and corruption through transparency and account based crosschecking. Positive and favorable effects of VAT on all sectors can be alliance. Only if government can operates the VAT administration with effectively and efficiently. The public awareness level relating VAT and effective administration are essential prerequisite in the additional resources and the rest of the internal resources by boarding the tax base by checking the existing tax loopholes and it ultimately affects the major macro variables positively which accelerates the economic growth. Income inequality, which is one of the major problems of Nepal, can be reduced through VAT by applying the provisions like threshold, exemption and zero-rating. VAT being account-based, invoice based and record based checks the tax loopholes such as under

valuation non-record ingun authorized trade. Further, VAT serves the vertical equity. Existing sales tax is neglected on several reasons such as narrow tax based less elastic, incapable and weak administration, incentive for tax, evasion, corruption, and political intervention. In the context, the best alternative for existing sales tax is VAT with more efficient and capable administrative efforts.

Dhakal (2007), in his dissertation analyzed the Nepalese tax structure along with basic emphasis on historical background and potential revenue of VAT in Nepal. The increasing trend of the resources gap of Nepal is foreign the country to debt trap situation. Domestic resources mobilizes through the properly designed tax system is the best way to uplift situation. Domestic resource mobilized through the property designed tax system is the best way to uplift situation. In tills process Nepal is adopted the destination based, consumption type VAT operated by the tax credit method. VAT encourages investment supports economic growth and keeps price stable. Exemption and zero rating reduce the regressively of VAT, however. It makes the administration complex. The study found that VAT is unable to complete the existing sales tax mainly due to the minimum use of invoice by sellers and as well as having no interest to obtain invoices by purchasers. Elasticity and buoyancy of Nepalese tax system are low. Further, they are decreasing in recent year. VAT, more attractive from the theoretical as well as empirical aspects, is being 'hot milk in mouth' from practical viewpoint due to the inefficient tax administration. Hence, the introduction of the VAT is not the fulfillment of the requirement and VAT system itself a great need of reforming in the Nepalese context.

Kuinkel (2008), in his this entitled "*Effectiveness of VAT in Revenue Collection in Nepal*" has analyzed historical background of VAT in general, contribution of VAT in revenue collection in Nepal, trend of revenue collection before and after the introduction of VAT in Nepal, empirical investigation regarding to effectiveness and problems of VAT in Nepal, etc. In his views the main reasons behind the introduction of VAT in Nepal has to increase revenue mobilization by broadening the tax base to make tax system neutral and efficient to establish a fair and transparent tax system and to promote economic growth. He pointed out some problems relating to VAT. Those problems are lack of required number of qualified and trained tax administrations, lack of awareness, existence of rampant corruption, smuggling and under valuation, narrow tax compliance, open broader and unauthorized trade, lack of coordination between taxpayer and tax collector and between different department of government, lack of courage to take accountability by different groups etc. Finally, he

recommended that there should be need to establish proper accounting and invoicing system, tax administrators, tax payer and consumers should be educated, tax net should be extended to small traders and retailers should be increased the taxable amount of VAT, effective steps should be taken for implementing the threshold accurately, refund system must be immediately resolved, administrative mechanism must be established to achieve the effectiveness of VAT as it had been expected, mass publicity and advertisement must be carried to educate different group of people such as tax administrators, business-men, consumers, student and general public.

Neupane (2009), the study on “*Value Added Tax as an Internal Source of Resource Mobilization in Nepal*” has analyzed historical background of VAT, growing resources gap in Nepalese finance, role of VAT in internal resource mobilization in Nepalese economy, role and status of VAT in the total tax structure of Nepal, potential of revenue yield from VAT in very significant way. He concluded that only implementation VAT as a tax reform system is not enough to collect more revenue. There should be co-relation between government, tax payers and tax administration to achieved better result. He added that VAT system is really challenging in such country like Nepal where with long open boarder, existing of barter system, ignorance of general people about VAT, lack of support from business-men etc. Developing culture of doing business without maintaining correct and proper book of account or maintaining multiple set of books and account has made VAT system effective and unproductive in Nepal. Lack of awareness about VAT bill and VAT collection process among consumers or general people has caused low revenue generation from VAT. He suggest that there must be correlation between stake holder and tax administrators should act in favor of tax system hearty and internally rather than taking it "Raja ko kam kaile jala gham" In order to make VAT system more effective Government should focus on effectiveness of VAT through avoiding tax evasion rather VAT trying to increase VAT rate. VAT could run effectively only when fair trade practice start and all stakeholders acted according to the VAT system, than only Nepal could set up for economic development.

Chauhan (2009), the study "*VAT and its Revenue Potential in Nepal*" has analyzed the revenue potentiality of VAT in Nepal. However the specific objectives of his studies are to examine the historical background, Nepalese tax structure, potential of revenue yield from VAT etc. Mr. Chauhan expressed his viewed that VAT itself not more revenue generator. It needs more administrative efforts. The implementation of VAT in Nepal had very poor result than expected due to poor planning. Bureaucracy and corruption has widely spreading in

political as well as administration. People were less conscious and could not play decisive role whether to implement VAT or not. Taxpayers had not expressed theoretical concept of VAT. It is necessary to convenience the taxpayers with its advantages. Education programs for taxpayers as well as general public are required to aware those about it which help to bring more and more, tax payers in the tax net. He added that the problems were low level of administrative capability, unfavorable economic and business environment. Finally he recommended that tax related information should be published regularly through different sources, there should be a close Co-operation between the private sector and government in VAT implementation process, government should pay it attention to design strong administration etc.

A study of **Aryal (2009)** entitled 'Analysis of vat in Nepal' has analyzed historical background of vat in general, contribution of vat in revenue collection legal provision of vat in Nepal, importance of vat in Nepalese economy. He also analyse the problems of vat collection system and also suggested for the making vat effective in revenue mobilization. He pointed some problems relating to vat. Those problems are lack of required no. of qualified and trained tax administration, corruption smuggling and different parties etc. Finally he recommended that there should be need to establish proper accounting and invoicing system, customers tax payers tax administers tax should be educated close co-operation between government and private sector should be created, refund system must be immediately resolved, there should be close cooperation between the private sector and government in vat implementation process etc.

Chaulagain (2010) conducted a study "*Public awareness about VAT system in Nepal*". This study analyzed the historical background of VAT, revenue collection from vat in different year. Contribution of vat in national revenue, trend of revenue from VAT and empirical investigation regarding to awareness of VAT in Kathmandu valley etc. In his view the revenue collection trend from VAT is increasing year by year and its contribution is positive in national revenue. He also fined some empirical studies about VAT and finds some problems about VAT they are weak administration, lack of proper billing system weak public consciousness, political instability etc one the main problems of effectiveness of VAT. He also find out the awareness level of people about VAT is very law which is increasing smoothly.

Finally he recommended that proper publicity for all related person is fundamental tools for success of vat, tax related information should be published, seminar should be done from different consultant to the public. Peoples are not clear about vat law so it should be simplify in the vat laws.

2.16 Research gap

VAT is the strong source of indirect tax in revenue collection. It plays the important role in the economy. The registration trend of vat is in increasing trend and the revenue collection from vat is increasing year by year. Vat system depends on its legal provisions and popularity depends on public consciousness. To find out the Nepalese VAT system different researchers have research on the topic of vat. Their objectives and analyses are different and every researcher has done differently. The different between this research and other is that, this research is done actually field survey based on Rupandehi, which is not found in other research. Most of the research were based on Kathmandu valley which is not include outside of valley but this survey is based on Rupandehi, which gives the different message to the concern person. Rupandehi is one of the business and industrial city in Nepal. In this district there are two ILROs. One is in Siddharthanagar and another is in Butwal. The revenue collection from this area contributed to total revenue is 2.41%. Butwal ILRO is newly established. Rupandehi is only the district where are two IRLO.

CHAPTER-III

RESEARCH METHODOLOGY

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

3.1 Research Design

To achieve the stated objectives of the study, the study of vat act 1995 made or descriptive research where as analytical research has been carried out in terms of role of vat in generating government revenue in Nepal. For an empirical research, an opinion survey has been conducted. The opinions of various sixty respondents associated with distinct denominations (groups) i.e. tax administrators, tax experts and tax payers were collected through structured questionnaire with

reference to vat system of Nepal, major problem of vat system, remedy to minimize corrupt practice existed in Nepalese vat administration, cause of ineffectiveness of vat administration, the most important factor for effectiveness of vat including necessary suggestion for achieving effectiveness of vat in Nepal. Hence, the research methodology followed in the study can be termed as survey cum analytical and descriptive research design.

3.2 Population and sample

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

Table no. 3.1
Group of respondents size of samples from each group

Serial number	Group of respondents	Samples size	%
1.	Tax experts	6	12
2.	Tax officers	3	6
3.	Businessmen	20	40
4	Consumer	21	42
Total	Total	50	100

3.3 Source of Data

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

a) Primary data

The major tools used for the collection of primary data are distribution of a questionnaire to a responsive of persons. A set of questionnaire was developed and distributed to the selected respondents in order to get accurate and actual information. The questionnaire was distributed to different tax group i.e. tax experts, tax officers, business-men and consumers. Tax experts and tax officers are selected from tax department, various sectors of tax officers in Rupandehi, and Ministry of Law and Justice, reputed lawyers, auditors, and. intellectuals who have knowledge and ideas about vat. Tax payers i.e. business-men and consumers are selected from different trading company, department stores, shopping center, finance company etc. Hundred questioare are distributed for opinion survey. Among of them fifty respondents provide their reasonable opinion.

b) Secondary data

The secondary sources of data are the information serviced from books journals, newspapers, reports and dissertations etc. The major sources of secondary data are from economic survey and annual reports, Ministry of Finance, Publications, Tribhuvan University, reports and records of department of taxation, Ministry of Finance, dissertation related to vat available at library of Shanker Dev campus, central library of TU, publication of vat projects, publication of vat department, economic review and indicators from Nepal Rastra Bank, world development report, published documents of Nepal Rastra Bank and national planning commission, books related to vat, national news paper, journals, souvenir and news magazines, other relevant records and data related to his studies.

3.4 Data Collection procedures

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

3.5 Data processing and analysis procedure

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

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

4.1 Revenue Structure of Nepal

Every Government needs revenue to conduct the foundation of country. Government requires sufficient revenue to carry out development plans to maintain peace and security to do day-to-day administrative function and other public welfare activities. A modern democratic government has to perform different social welfare programs. For this purpose government collects revenue from different source such as tax revenue, from public enterprise, fees, fines, grants etc. or tax revenue is the sum of custom duty, excise duty, value added tax, corporate and personal income tax, property tax, interest tax and other non tax revenue. Some non taxable income are royalties, telephone charge, water charge, electricity charge school fees, registration fee, renew charge, tickets etc.

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

Taxes are not a voluntary contribution by the taxpayer but it is compulsory in nature. Generally a tax is a compulsory contribution imposed by a public authority. Taxation is the main sources of income of the government excluding foreign aid. Tax revenue comprises compulsory, unrequited, non-payable receipts collected by government for public purposes. It includes interest collected on tax areas and penalties collected on non-payment or late payment of taxes. Tax revenue is the principle source of the government revenue; however its contribution differs significantly in .different countries, in the contest of Nepalese economy, tax revenue is major source of government to mobilize internal source effectively and

properly as it has been dominating the government revenue by contributing around three quarters of total revenue. Tax revenue, one of the principle sources of the government revenue, is a compulsory contribution imposed- by a public authority, irrespective of the exact amount of service rendered to the tax payers in return (*Dalton, 1954*).

It covers theoretically and practically includes following heads such as persons, organizations, business firms and even foreigners who are doing business of consuming goods or using service in Nepal. In the fiscal trend of Nepal, tax revenue structure is a combination of two tax elite. They are namely direct tax and indirect tax. In developed economic like USA, UK etc, direct tax plays a leading role for the internal resource mobilization where as in developing countries like Nepal, indirect tax plays pioneering role by dominating direct tax. In general, how much direct tax can mobilize the internal resource shows the magnitude of economic development. But in the context of Nepal, indirect taxation is the principle source to general revenue. So, to divert the economy in the channel of development, it is necessary to increase the share of direct tax, ultimately decreasing the share of indirect tax. Therefore, the attention should be focused on the sufficient resource mobilization through direct taxation.

Direct tax is actually paid by the Person on whom it is imposed legally. By the definition, direct tax is a charge imposed by governmental authority up to property, individual or transactions to rouse money for public purpose. Direct tax is a levy by the government on the income and wealth received by households and business enterprise in order to raise revenue and as an instrument of fiscal policy. (*New Webster's Dictionary, 1986*)

Direct tax is so called because it is normally assumed that the real burden of payment falls directly on the person or business enterprises immediately responsible for paying them, and can not be passed on to any body else. Direct tax is progressive so for as the amount paid varies significantly according to the income and wealth of the taxpayer. With very limited tax base and narrow coverage, direct tax in Nepal seems too less effective to mobilize the domestic resources. Although, it is an inevitable instrument of the fiscal policy and hence, it must be designed and practiced properly. In general, revenue productivity of the direct tax goes on increasing as the economy of the country grows over time. If the economy growth increases, per capita income per annum of that country will automatically raise. In depth it means that he possesses the ability to pay direct tax. Thus, the magnitude of direct tax goes up and substitutes in the place of indirect tax's magnitude. So, higher magnitude of the direct

tax indicates a highly developed country. In contrast, lower the share of direct tax indicates to the less developed or developing country and hence country need to accelerate the growth path to substitute the share of direct tax is less than other developing economies like Pakistan, Bangladesh, etc. Thus, it lies as a minor source of tax revenue source of Nepal. Direct tax in Nepalese economy is composed of different taxes namely income tax, land tax, property tax, and wealth tax, interest tax, tax on registration.

In the current situation, income tax is one of the major sources of direct tax. Nepal is levying four different types of income tax. Its categories are individual income tax, corporate income tax, house rent tax, and interest tax. On the other side, property tax is another major direct tax. It includes land revenue, bhumikar, and house and land registration and house and land tax. The average largest share in the direct tax is occupied by income tax. Indirect tax, a popular approach concerning taxation implies in the world, is a very powerful missile of fiscal policy adopted in the especially for the optimum level of resource mobilizing with the principle: more gain from the tax payers, no pain to the taxpayers. Theoretically, it is a tax that falls firstly and directly on the taxpayers but the other person must bear it due to the shifting of tax burden. So, the real income is indirectly affected. In short, indirect tax is imposed on one person but is paid either partly or wholly by another person. So, the impact and the incidence of tax are on different persons.

Nepal depends heavily on the indirect tax rather than the direct tax because there is not any good alternative especially for the optimum level of revenue mobilization; on hand and on the other hand, wide spread poverty, heavy dependency on agriculture, snail's pace industrialization, low level income and wealth and very weak administration. Since 1951, indirect tax had grown rapidly and speedily. As indirect tax was effective and proper, its tax mobilization was quickly boosting. So most of the developing countries mobilize it effectively and properly of the domestic resources. The major component, of indirect tax in Nepalese tax structure constitutes ' custom duty, excise duty, sales tax/ VAT and contact tax. Custom duties are composed of mainly import duties and export duties. Other component of indirect tax like entertainment tax, hotel tax and other tax contribute very nominal share because they are included in VAT since 1997, Others form of indirect taxes includes remission of Indian excise duties, road bridge tax and other taxes. Like tax revenue, Non tax revenue is another source of the government revenue in the structure. It isn't imposed compulsory by public authority to the. Fees, fines, penalties, dividend, interest, sales of goods and service etc are the bases of non-tax revenue. The composition of non tax revenue in

Nepalese tax system is of the following factors such as charges, fees, fines, forfeitures, receipts from sales of commodities and services, dividends, royalty, sales of fixed assets, principle and interest payment etc. "While there is some scope of generating more revenue through the rationalization of non tax sources, particularly improvement in pricing policies- and operational performances, these sources can not be used effectively as a revenue raise since most of these sources are levied not for revenue purposes". (*Khadka, 2002*)

Normally Tax are divided into two parts. They are

1. Tax revenue
2. Non tax revenue.

4.1.1 Tax Revenue:

In general tax can be defined as a levy or other type of financial charge or fee imposed by state or central government on legal entities or individuals. It is a compulsory levy from individuals, household sand firms to central or local government. It is a kind or money of which it is the legal duty of every citizen of the country to pay honestly.

Tax revenue is also divided into to parts

Direct tax:

It is collected directly by the government from the person who bears the tax burden. The burden of tax cannot be shifted. To whom is imposed, s/he have to paid. Income tax, Property tax, Vehicle tax, Interest tax, Gift tax, Casual gains are the examples of direct tax.

Indirect tax:

It is a form of tax imposed on one person but partly or wholly paid by another. It is collected by mediators who transfer the taxes to the government and also perform functions associated with filing tax. Hence burden of indirect tax can be sifted. VAT, Excise duty, import duty, Export duty are the examples of Indirect tax.

4.1.2 Non Tax revenue:

The revenue except tax revenue is called non tax revenue. It is not a compulsory levy. This type of revenue is collected instead of providing goods and service by government. Administrative income, royalties, charges, business income, compensation, penalties, interest, dividend, cease etc. are the examples of Non revenue tax.

Table- 4.1:
Composition of tax revenue and non tax revenue

FY	Non tax Revenue		Tax Revenue		Total Revenue
	Rs in crore	In %	Rs in crore	In %	
2062/63	1485.15	20.55	5743.04	79.45	7228.19
2063/64	1658.54	18.90	7112.67	81.10	8771.21
2064/65	2246.71	20.88	8515.54	79.12	10762.25
2065/66	2642.26	18.42	11705.19	81.42	14347.45
2066/67	2365.13	13.17	15629.44	86.83	17994.58
2067/68	2704.10	13.53	17277.77	86.47	19981.87
2068/69*	2812.59	13.03	18766.32	86.97	21578.91

**FY 2068/69 is perdition data from the average collection of eight month of same year.*

Source: Economic survey, 2012, MOF

Form the above table the total revenue is increasing. Here, Non tax revenue and tax revenue both are increasing towards but the percentage of both tax and not-tax revenue are fluctuated. In 2062/6 non tax shares is 20.55% and tax revenue shares 79.45%. but in 2063/64 non tax revenue is decreased by 2.36% and get 18.90% and tax revenue is increased by 1.65% and achieved 81.10 .Similarly, in 2064/65, 2065/66, 2066/67, 2067/68, 2068/69 the non tax revenue holds 20.88%, 18.42%, 13.17%, 13.17%, 13.53% and 13.03% and tax revenue holds rest of non tax revenue respectively.

Table 4.2
Structure of tax revenue in Nepal

Rs. In crore

FY	Custom Duty		Tax on production and consumer's service and goods		House and land Registration		Income, profit & property tax		Total Tax revenue
	Rs.	% TR	Rs	% TR	Rs	% TR	Rs	% TR	
2062/63	1534.4	26.71	2811.83	48.96	218.1	3.79	1178.7	20.524	5743.04
2063/64	1670.76	23.49	3543.88	49.82	225.4	3.17	1672.68	23.5169	7112.67
2064/65	2106.24	24.73	4100.53	48.15	294.1	3.45	2014.7	23.6591	8515.54
2065/66	2679.29	22.89	5593.83	47.79	522.3	4.46	2909.74	24.8585	11705.19
2066/67	3515.03	22.49	7939.41	50.79	551.1	3.52	3623.89	23.1863	15629.44
2067/68	3571.16	20.67	8841.1	51.17	357.3	2.06	4508.26	26.0928	17277.77
2068/69	3929.67	20.94	10432.2	55.59	285.7	1.69	4218.67	22.48	18766.32

Source: Economic survey, 2012, MOF

From the above table it shows the revenue collection structure in different financial Year. It shows that the contribution of different tax head on revenue tax. In Nepal *Revenue tax = Custom duty + Tax on production and consumer's service and goods + House and land registration + Income profit and property tax*. Here the total revenue is increasing trend.

4.2 Revenue Collection from VAT

Value added tax is the best form of sales tax, which is neutral regarding method of production and helpful in generation of more revenue collection because of its board coverage neutrality, transparency and fairness, VAT will generate more revenue with less distortion. The revenue collection from VAT in different fiscal years is presented below

Table No. : 4.3

Trend of Revenue Collection From VAT

Rs in crore

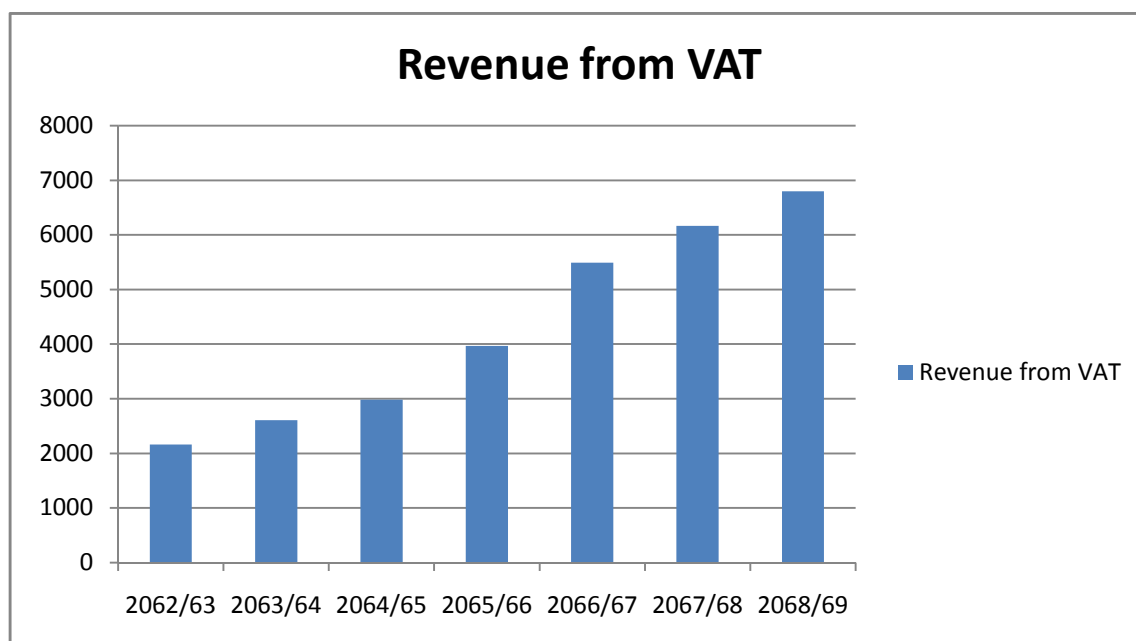
Fiscal year	Revenue from VAT Rs.	Increase/decrease in collection of VAT
2062/63	2161.07	0
2063/64	2609.56	20.75
2064/65	2981.57	14.26
2065/66	3970.09	33.15
2066/67	5492.09	38.34
2067/68	6166.36	12.28
2068/69	6797.7	10.24

Source : Economic survey MOF, 2012.

From the above table no. 4.3 it shows that the collection of VAT is in increasing.

VAT generate 2161.07 crore revenue in fiscal year 2062/63. In FY 2063/64 it increase up to 2609.56 crore, similarly revenue collection from VAT in FY ,2064/65, 2065/66 ,2066/67, 2067/68 and 2068/69 are Rs 2981.57, 5492.09, 6166.36 and 6797.7 respectively.. From the above table, the revenue collection from VAT is in increasing trend. VAT revenue is increasing year by year. We can plot the above data in following figure.

Figure No. : 4.1



4.3 Composition of VAT revenue

The revenue collection from VAT can be divided into two major components as domestic and imports. The current trends show that about one third of total VAT revenues comes from domestic products and two thirds from imports. The following table no. represents the composition trend of VAT revenue. It shows that VAT collection ratio from import and domestic is around stable on two thirds and one third. It shows that the foreign trade is deficit. Internal production is low. The consumption of foreign goods and services is higher than domestic. After analyzing the table no 4.4 we can conclude so. Most of the indirect tax is dependent on import. If the indirect tax is high it means that the nation's economy is poor. And per capita income is low. In the reference seven years, the shares of the VAT collection from import is around 62 to 65 % and shares of VAT collection from domestic is 35-38%. It is concluded that the import rate of Nepal is high and revenue collection source is weak.

Table No. : 4.4**Composition of VAT Revenue***Rs. In caros*

Fiscal year	Import	Percentage %	Domestic	Percentage %	Total Vat Revenue
2062/63	1346.25	62.30	814.82	37.70	2161.07
2063/64	1646.42	63.09	963.14	36.91	2609.56
2064/65	1900.75	63.75	1080.82	36.25	2981.57
2065/66	2578.24	64.94	1391.85	35.06	3970.09
2066/67	3454.1	62.89	2037.98	37.11	5492.09
2067/68	3930.66	63.71	2238.62	36.29	6169.28
2068/69	4301.21	64.1	2446.49	35.99	6797.7

source: Economic survey MOF, 2012

From the table no. 4.4 it shows the composition of Domestic Vat in Rs and table no. 4.5 (B) shows the composition of vat in percentage. The head production, Sales and distribution, contract and consultancy, tourism and other are contribute to generate VAT. Here the total collection from vat revenue is increasing trend. Here in FY 2062/63 vat from imported contributed 62.09 and from domestic 37.70% and up to 2068/69 imported tax contributed 63.09, 63.75, 64.94, 62.89, 63.71, 64.1 and domestic vat contributed 36.91, 36.25, 35.06, 37.11, 36.29 and 35.99 percentage respectively in total vat collection in Nepal. In Nepalese Vat structure, collection, form imports share about two-third and collection from domestic sources occupies one-third only.

4.4 Composition of Domestic Vat collection

For the composition of domestic collection of VAT production sector, distribution sector, contract sector, Tourism sector and other service sector are taking for interpretation. From this composition we can study that how is domestic collection of vat. And other thing is how

is our internal capacity in production sector. The table 4.6 shows the composition of Domestic Vat revenue collection for the seven years since 2062/63.

Table- 4.5
Composition of Domestic Vat collection (in Rs)

Rs in crore

Fiscal year	Import	Prod ⁿ	Sales & Distribution	Contract & Consultancy	Tourism	Other	Total VAT Revenue
2062/63	1346.25	289.77	135.74	116.68	45.08	227.55	2161.07
2063/64	1646.42	326.72	164.58	124.35	60.36	287.11	2609.56
2064/65	1900.75	345.71	228.77	135.03	69.58	301.74	2981.57
2065/66	2578.24	405.79	237.11	160.32	83.64	504.98	3970.09
2066/67	3454.1	601.69	329.92	219.24	222.15	664.99	5492.09
2067/68	3930.66	676.83	425.17	311.52	111.69	713.4	6169.28
2068/69	4364.12	778.25	501.67	325.61	117.28	714.74	6797.7

Sourer: Economy survey, 2012

From the table No.4.5 shows that contribution to vat from production, sales and distribution, contract and consultancy tourism and other sector. In total collection from different head is increasing trend. But share composition composition is up and down

Table- 4.6

Composition of Domestic Vat collection (in %)

Fiscal year	Import	Prod ⁿ	Sales & Distribution	Contract & Consultancy	Tourism	Other	Total Revenue
2062/63	62.30	13.41	6.28	5.40	2.09	10.53	100.00

2063/64	63.09	12.52	6.31	4.77	2.31	11.00	100.00
2064/65	63.75	11.59	7.67	4.53	2.33	10.12	100.00
2065/66	64.94	10.22	5.97	4.04	2.11	12.72	100.00
2066/67	62.89	10.96	6.01	3.99	4.04	12.11	100.00
2067/68	63.71	11.00	6.89	5.05	1.81	11.56	100.00
2068/69	64.19	11.44	7.37	4.79	1.74	10.47	100.00

The table 4.6 shows that the share different sources of vat collection from domestic sector. In domestic sector the vat collection source are divided into five parts ie, production, sales and distribution contract and consultancy tourism and other. The trend of collection vat from different sources is increasing. It shows the satisfactory.

4.5 Contribution of VAT on GDP

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

Table no. 4.7

Contribution of VAT Revenue on GDP

FY	GDP	VAT	% of VAT on GDP
2062/63	61111.8	2161.07	3.54
2063/64	67585.9	2609.56	3.86
2064/65	75525.7	2981.57	3.95
2065/66	90952.8	3970.09	4.37
2066/67	108342.0	5492.09	5.07
2067/68	124642.3	6169.28	4.95
2068/69	141821.6	6797.7	4.79

Source: Economic survey, MOF, 2012

Here in the above table shows that the share of Vat revenue on GDP. Share of the sample year of vat revenue is fluctuate. GDP and VAT Revenue both are in increasing trend. In FY 2062/63 the GDP is 61111.8 crore and Vat Revenue is 21.61.07 Crore and VAT/GDP ratio is 3.54 and similarly in further year up to 2068/69 the GDP is 67585.9, 75525.7, 90952.8, 108342.3,124642.3, and 141821.6 crore and Vat revenue is2609.5,2981.57, 3970.09, 5492.09, 6169.28 and 6797.70 crore respectively. In those year VAT/GDP ratio i.e. contribution to GDP of VAT is 3.86, 3.95, 4.37, 5.07, 4.95, 4.79 percentage respectively.

So forom this table we can concluded that share of Vat on GDP is one of the major component in macro economy. It also shows the consumption power of the people of the nation.

4.6 VAT Registration

The operation of VAT in Nepal is started by addressing the sales tax registrants to register in the Inland Revenue department. The registration is compulsory for these business enterprises that who have taxable transaction and taxable capacity, however the traders falling below threshold limit can register voluntarily. Under the existing sales tax system there are nominal registrants about VAT was in existence the number of registrants increased significantly. However when VAT was introduced in 1997/98 there was strict opposition from the business

community so VAT could not be improved in full form. But, after adjusting different provision and aspects of VAT business community and the government reached to an agreement in 1999/2000. There after VAT was implemented in its full form so that the no. of VAT registration highly increased. The trend of VAT registration is shown in the following tables.

Table No 4.8

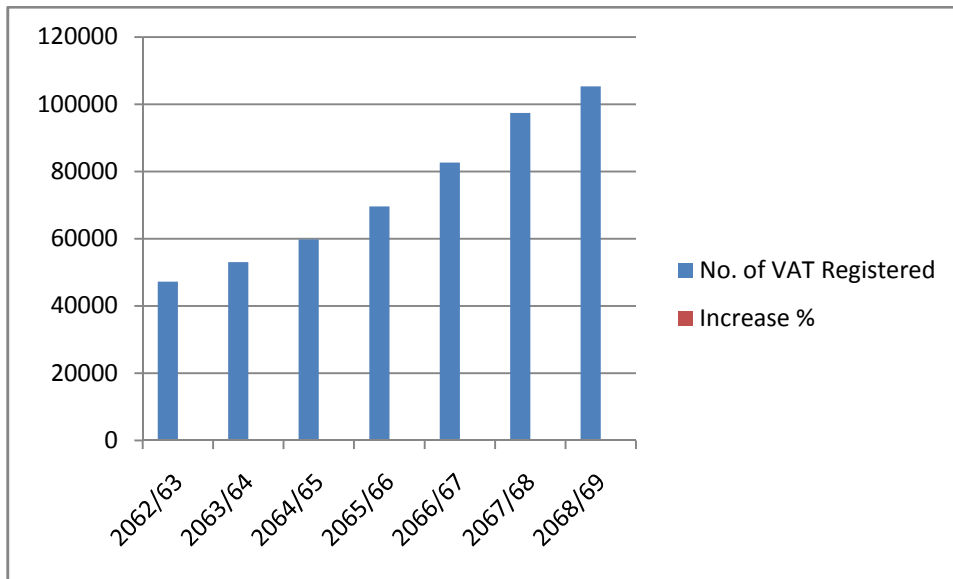
Trend of VAT registration

Fiscal Year	No. of VAT Registered	Increase %
2062/63	47268	-
2063/64	53071	12.28
2064/65	59781	12.64
2065/66	69653	16.51
2066/67	82658	18.67
2067/68	97467	17.92
2068/69	114324	17.30

Source: Annual report 2068/69, Inland Revenue Department

From the above table the registration increased on VAT in FY 2057/58 is 17.53%, in FY 2057/58, 19.23% similarly in FY 2062/63, 17.73% and in FY 2063/64, 13.10%. The registration of VAT is increasing trend. This analysis can be shown in figure also.

Figure 4.2



4.7 Empirical Findings

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

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

For the purpose of survey different questionnaire were prepared to know the opinion of the various persons of different field including tax experts, tax officers business-men and consumer about all sides of VAT such as issues policies. Its effects and other relevance. The sample for this survey is taken only from different fields as given in the table below.

Table No. : 4.9

Sample size of the field survey

Respondents	Sample size	Percentage
Tax experts	6	12
Tax officers	3	6
Businessmen traders	20	40
Costumers	21	42
Total	50	100

The result and the interpretation of the survey is presenting below.

4.7.1 Billing system

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

Table No. 4.10

Views on billing system

Respondents	Possible		impossible		I don't know	
	No	%	No	%	No	%

Tax experts	10	100	-	-	-	-
Tax officers	3	100	-	-	-	-
Businessmen	15	62.5	6	25	3	12.50
Customer	12	44	10	37	5	19

Source : Field survey in Butwal Rupandehi, 2012.

From the field survey it is found that all the tax experts and tax officers advocate for the possibility of billing system in VAT system 62.5% of business men claimed that billing system is possible 25% argue that it is impossible and 12.50% are unknown about it. similarly 44.44% consumer said that there is possibility of billing system, 37% said impossible and 18.5% are unknown about the billing system.

4.7.2 About VAT Rate

VAT rate is very significant and sensitive for revenue mobile station. The success of VAT system stands upon the degree of VAT rate. The VAT rate was 10% at first but after from 2061 VAT rate was increased to 13% due to broader base and coverage. In such situation, field survey was conducted to identify the rate structure of VAT. The following table shows the views on this mater.

Table No. : 4.11

Views on rate of VAT

Respondent	Low rate		High rate		Normal rate		Don't know	
	No	%	No	%	No	%	No	%
Tax experts	-	-	1	16.66	4	83.33	-	-
Tax officers	-	-	-	-	3	100	-	-
Businessmen	-	-	18	75	6	25	-	-
Customer	-	-	13	48	14	52	-	-

Source: Field survey in Butwal, Rupandehi, 2012.

The result shows that most of the respondents agree with the existing rate of 13% i.e. normal. However 75% traders claim that rate of VAT is high. likewise 48.5% customers says that it seems high rate and 52 percent says it in ok, one VAT officers reports that there is general increment need in rate of VAT to generate high revenue. The study shows that the rate structure in the present situation is normal. Unless and until tax system is not implemented well, the rate structure is not an instrument to rise the revenue from taxation. Once implementation is effective, it will be better to change the rate structure to some extent according to the requirement.

4.7.3 Rising price due to VAT system

In the beginning period of VAT implementation, there was strong position from the business community. The basic agreements behind it was due to rise in the price from VAT. After the implementation of VAT, there was a voice from different people on price rising on commodities. Consumer also complained that business men charge more price with out following the VAT act. Here an Endeavour has been made to get the information from the respondents to find out whether there will be raised in price due to VAT system. The following table presents the views of respondents on this aspect.

Table No. 4.12

Views on rising price due to VAT system

Respondents	Yes		No		I don't know	
	No	%	No	%	No	%
Tax experts	-	-	6	100	-	-
Tax officers	-	-	3	100	-	-
Businessmen	6	25	18	75	-	-
Customer	9	33	12	45	6	22

Source : Field survey in Butwal Rupandehi,2012.

In the outcome 100% of tax experts and tax officers 75% traders and 45% consumer say that there is no rise in price due to VAT. According to the study 22% customers have no idea about this questions 25% business-men and 33% consumer say the price of commodity increases due to VAT system.

4.7.4 Superiority of VAT over sales tax.

VAT is the new innovation in the field of taxation. It is developed from sales tax. VAT is being preferred by many countries of the world is superior over sales tax system. Without comparison we can't say VAT is superior over sales tax with base to effective revenue mobilization, the tackle to all tax evasion, wide tax base, transparent VAT is concerned as superior than sales tax. The survey result on this aspect is summarized in the table below.

Table No. : 4.13

Views on superiority of VAT over sales tax

Respondent	Yes		No		I don't know	
	No	%	No	%	No	%
Tax experts	6	100	-	-	-	-
Tax officers	3	100	-	-	-	-
Businessmen	20	75	6	25	-	-
Customer	21	56	10	37	2	7

Source : Field survey in Butwal Rupandehi,2012.

According to the survey result 100% tax expert and tax officers, 75% business-men and 56% consumer provides their arguments VAT is superior than sales tax. 25% business men and 37% consumer say VAT is not superior than sales tax. They argue that VAT is not different then sales tax it is also a kind of sales tax. And 7% consumer is not clear whichever is best. They are unknown about sales tax and are not clear about the VAT system. According to the

aggregate study VAT is superior than sales tax on effective revenue collection and mobilization, the tackle to all tax evasion wide tax base and transport.

4.7.5 Views on VAT structure

The structure which covers basically base, rate coverage exemptions etc. is one of the most important aspect for the successful operation of VAT in any economy. The tax structure of VAT in Nepal is designed on the VAT act 2052 and different laws and regulations are prepared in successive years. The field survey has been conducted to find out whether the existing tax structure is appropriate or not. The findings of this survey can be presented in the following table as:

Table No. 4.14

Views on tax structure

Respondents	It's ok		It has to be improve		I don't know	
	No	%	No	%	No	%
Tax experts	3	62	2	33	-	-
Tax officers	2	6	1	33	-	-
Businessmen	6	25	2	50	6	25
Consumer	10	37	5	12	12	44

Source : Field survey in Butwal Rupandehi, 2011.

Field survey shows that 67% tax experts, 6% of tax officers 25% of business-men and 37% of consumer are agreed about the existing tax structure of VAT. Out of the 6 business men and 12 consumer are unknown about the tax structure of VAT. 33% tax experts and tax officers 50% business-men and 12% consumer supporting the opinion that is not compatible with the existing rules and regulation so it has to be improved.

4.7.6 Views on expanding the base of VAT

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

Table No. : 4.15

Views on expanding the base of VAT

respondents	Reducing threshold		Including all service sector		Incorporating agriculture sector		All		I don't know	
	No	%	No	%	No	%	No	%	No	%
Tax experts	2	33	3	50	-	-	1	17	-	-
Tax officers	1	33	2	67	-	-	-	-	-	-
Businessmen	9	37	5	21	2	8	5	21	3	13
Consumer 6	6	22	5	19	2	7	10	37	4	15

Source : Field survey in Butwal Rupandehi, 2013

From the above opinion survey 33% tax experts 33% tax officers 37% business men and 22% consumer are favour to reduce the existing threshold of VAT to expand the VAT base. While 50% tax experts, 67% tax officers 21% business-men and 19% consumer favors for including all the service in to the tax net. 8% business-men and 7% consumer are favour of incorporate agriculture sector 13% business men and 15% consumer are unknown about it.

4.7.7 Views on extent of threshold

In earlier period of implementation of VAT there was a great dispute between the government and the business community as to the threshold, although there was a problem generated by the shortage of statistical figure. It is due to lack of information fix the

threshold. Further, how much the present threshold can secure specially to the small vendors by giving a facility of tax exemption has been a confusion and doubt because of shortage of statistical figure according the small vendors. The following table shows the views of the respondents from different field.

Table No. : 4.16

Views on extent of threshold

Respondents	Yes it is		No it is not		I don't know	
	No	%	No	%	No	%
Tax experts	-	-	6	100	-	-
Tax officers	1	33	2	67	-	-
Businessmen	6	25	12	50	6	25
Consumer	4	15	10	37	13	48

Source : Field survey in Butwal Rupandehi, 2011.

From the above figure 100% tax experts, 67% tax officers, 50% businessmen and 37% consumers claimed that the present threshold is not enough to secure the small vendors. According to their opinion the present threshold need to be changed. However 33% tax officers 25 business-men and 15% consumers claimed present threshold is enough. According to them present threshold is enough it need not to be changed. Similarly 25% business-men and 48% consumers are unknown about it. It means the present threshold limit is enough and no need to be increased current limit because it can secure properly the small vendors.

4.7.8 Views on productivity of single VAT Rate

Because of multiple rates, tax reforms became much more complicated to both tax payers and tax officers. Despite this reason different countries already implemented various tax rate according to their economic condition. But all tax administrators prefer to use a single rate of VAT to implementation like wise Nepal has preferred a single VAT rate which is 10% at

beginning and increased to 13% according to vat enactment. Here the field survey has been conducted to find out the single vat rate is effective. The outcome is presented in the table below.

Table No. : 4.17

Views on single VAT rate

Respondent	Yes it is		No it is not		I don't know	
	No	%	No	%	No	%
Tax experts	6	100	-	-	-	-
Tax officers	3	100	-	-	-	-
Businessmen	12	50	6	25	6	25
Consumer	12	44	10	37	5	19

Source : Field survey in Butwal Rupandehi, 2012.

According to the survey 100% tax experts, and tax officers, 50% business men and 44% consumer says single vat rate is effective. 25% business men and 37% consumer are disagree about it. 25% business-men and 19% consumers are unknown about it. According to this information the single vat rate is effective.

4.7.9 Views on "is the present threshold secure all the small vendors"

Despite the bitter fact that small vendors are many and its role should be inevitable and dominant to the business structure of developing countries. Small vendors in the developing countries are may so government can able to include these small vendors in the tax net. Due to this revenue should be increased by broadening and widening the tax base. But its implementation is not free from problems. The 1st one is the small vendors who are illiterate and ignorant as to the vat, can't meet basic requirement guide by the vat incitement to the taxpayers, secondly the operation of vat administration will be complicated and costlier regarding vat enactment. Third one is the growth of tax leakage and corruption is continuous day by day. Therefore the concept of threshold is kept at 2 million which is applied to tackle such kinds of problems by avoiding adverse effect on revenue accumulated and also on the business of small vendors. According to the enactment the threshold rupees is 2 millions if

the turnover of small vendors is below the fixed threshold small vendors have legal exemption from VAT. So the questionnaire was asked to find out the view about it "whether present threshold is enough to secure the small vendors". Views from respondents are presented in table below.

Table no. 4.18

Views on efficiency of present threshold to secure small vendors

Respondents	Yes it is		No it needs to enlarge		I don't know	
	No	%	No	%	No	%
Tax experts	6	100	-	-	-	-
Tax Officers	3	100	-	-	-	-
Businessmen	12	50	3	12	9	38
Consumers	12	44	10	37	5	19

Source Field survey in Butwal Rupandehi, 2012.

The finding shows that 100% tax experts and tax officers 50% businessmen and 41% consumers are satisfied with present threshold keep in the vat enactment. However 12% business-men and 37% consumers are not satisfied with current VAT enactment and rule. Beside 38% business-men and 19% consumers have not educate information and knowledge about it. From the above survey present threshold limit is enough to secure the small vendors in Nepal.

4.7.10 Views on "Can Vat Secure. Properly to all small vendors"

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

Table No. : 4.19

Views on "Can VAT secure properly to all small vendors"

Respondents	Yes it can		No it can not		Possible		I don't know	
	No	%	No	%	No	%	No	%
Tax experts	6	100	-	-	-	-	-	-
Tax officers	3	100	-	-	-	-	-	-
Businessmen	18	75	2	8	2	8	2	9
Consumers	10	37	4	15	6	22	7	26

Source field survey in Butwal Rupandeh, 2012

From the outcome 100% tax experts and tax officers 75% business-men and 37% consumer claimed that present threshold source properly all small vendors. However 8% business men and 15% consumer viewed that it can't cover all the small vendors. Similarly 8% business-men and 22% consumer agreed for possibility to secure all small vendors and remaining 9% business-men and 26% consumers are unknown about it. From the overall view. The present threshold can secure properly the small vendors in Nepal through there is no record of how much small vendors exist in market. Beside this, Government also should developed the turnover limit for these vendors. After finding the turnover scale of these small vendors Vat administration should fix and operate threshold provision.

4.7.11 Views on Tax Burden of VAT to the tax payers.

Value added tax covers the value added to each commodity by a firm during all stage of production and distribution and it is sifted forward completely to the ultimate users. In short the tax burden ultimately shifts on the tax payer. The problem on this view generally includes dislike of general people to pay more tax on commodities mainly in Nepalese environment general people have a lower income level. So they don't have much more purchasing power likewise the government is still ineffective to give the general people in return of tax paid by them. Again the growing corruptions in the government are expected on the unproductive sectors. Therefore, Nepalese tax payers are worried about the possible tax burden level and

shifting. The field survey has been conducted to find out views of different respondent on burden of VAT to the tax payers. The outcomes are presented in table below

Table No. : 4.20

Views on Tax burden of VAT to the tax payers

Respondents	Higher		Lower		Normal		Zero		I don't know	
	NO	%	NO	%	NO	%	NO	%	NO	%
Tax experts	3	50	-	-	3	50	-	-	-	-
Tax officers	2	67	-	-	1	33	-	-	-	-
Businessmen	12	50	3	12	6	25	-	-	3	12
Consumer	18	67	-	-	-	-	-	-	9	33

Source Field Survey in Butwal Rupandehi, 2012.

Survey shows that 50% tax experts, 67% tax officers 50% business men and 67% consumer viewed that the burden of VAT to the tax payers is higher. However 50% tax experts, 33% tax officers, and 25% business men voted that the burden of VAT is normal. Similarly 12% business-men viewed that the burden of VAT to the tax payer is lower remaining 12% business-men and 33% consumer are unknown about it. The outcome shows that the tax burden of vat falling to taxpayer may be high.

4.7.12 Views on existing exemptions

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

Table No. : 4.21**Views on existing exemptions**

Respondents	It is ok		It should be reduce		It should be increase		I don't know	
	No	%	No	%	No	%	No	%
Tax experts	6	100	-	-	-	-	-	-
Tax officers	3	100	-	-	-	-	-	-
Businessmen	12	50	8	33	-	-	4	17
Consumers	18	67	3	11	-	-	6	22

Source : Field Survey in Butwal Rupandehi, 2012.

From the field survey 100% tax experts and tax officers, 50% business-men and 67% consumer provided their views regarding present exemption is ok. 33% business-men and 11% consumer agreed to reduce existing exemption criteria. Similarly 17% business-men and 22% consumers are unknown about if. The finding shows that current exemption is wide but due to this an opportunity for tax evasion may be increase.

4.7.13 View on sufficiency of legal provisions and rules of VAT

Before the implementation VAT, the government has prepared VAT act 2052 BS and VAT regulation 2053 BS. But, the legal provision and rules in general different to understand by all. The documents of these enactments carry all the matters such as VAT administration and its operation, the tax officers and its authority's tax payers and its responsibility, the procedure of VAT collection, Identification of new tax payers, monitoring, cross checking, penalties and punishment. The field survey has been conducted to find out whether the present act and regulations are sufficient or not with reference to current system of VAT. The attitude of the respondents on this aspect is present in the table below.

Table No. : 4.22

Views on sufficiency of legal provisions and rules of VAT

Respondents	Yes		No		I don't know		Moderate	
	No	%	No	%	No	%	No	%
Tax experts	5	83	-	-	-	-	1	17
Tax officers	6	67	-	-	-	-	1	33
Businessmen	10	42	5	21	3	13	6	25
Consumer	9	33	5	19	9	33	4	15

Source : Field survey in Butwal Rupandehi,2012

The field survey 83% tax experts 67% tax officers 42% business-men and 33% consume rare in favor of present legal provisions and rules of VAT. While 21% business-men and 19% consumer said that present legal provision are not sufficient. 13% business-men and 33% consumer are unknown about it. And 17% tax experts 33% tax officers 25% business man and 15% consumer have moderate view about this question. It can be said that the present rules and legal provision are enough to implement VAT system effectively and properly.

4.7.14 Views on problems in the process of VAT implementation

The tax payers and tax collector both have to be well known and conscious about the record keeping and process of VAT system. Though 12 years have been already passed but still it has a great challenge in this aspect. The field survey has been conducted to know the views of different respondents about to explore the problems on process of VAT records. The study shows registration, collection, tax refunds and miscellaneous is the main problems for the implementation. The attitude of different respondents are presented in the table below.

Table No. : 4.23

Views on problems in the process of VAT implementation

Respondents	Registration		Collection		Tax refund		Other	
	No	%	No	%	No	%	No	%
Tax experts	3	50	3	50	-	-	-	-
Tax officers	1	33	2	64	-	-	-	-
Businessmen	6	25	6	25	6	25	6	25
Consumer	9	33	6	22	5	19	7	26

Source : Field survey in Butwal Rupandehi,2012.

About survey shown that 50% tax experts, 33% tax officers 25% businessmen and 33% consumers seems to unsatisfied with registration problem, while. 50% tax experts, 67% tax officers 25% business-men 22% consumer showed the problem in collections. Similarly 25% business-men and 19% consumer said there is problem in tax refund. Besides these respondents have analyze miscellaneous problems such as billing system. Dishonesty between tax payers and tax collectors and so on. Some are unknown about it they are included in others.

4.7.15 Views on main problems of VAT system in business sector

Business men / traders are the main tax payer group in VAT system. The taxpayers have to prepare sales and purchase account of all transaction. They have compulsory given and receive bills while selling and purchasing goods. Though this makes the tax system transparent the business-men have to employ assistants and fulfill various formalities. The field survey shows that, the major problems which business men are facing the registration, account keeping system, cost of record keeping of vat billing and so on. The outcome of survey on this aspect is presented in the table below.

Table No. : 4.24**Views on problems of VAT system in business sector**

Respondents	Registration		Account keeping		Belling system		Others		I don't know	
	No	%	No	%	No	%	No	%	No	%
Tax experts	3	50	3	50	-	-	-	-	-	-
Tax officers	1	33	1	33	1	33	-	-	-	-
Business	6	25	6	25	6	25	6	25	-	-
Consumer	10	37	15	56	2	7	-	-	-	-

Source : Field survey in Butwal Rupandehi, 2012.

According to the field survey 50% tax experts, 33% tax officers, 25% business-men and 37% consumer considered that there is problem exist in business sector on registration process. The view of other 50% tax experts, 33% tax officers, 25% business-men and 56% consumer considered there is a problem of account keeping system, 33% tax officers 25% business-men and 7% consumer supported that business sector is suffered from problem of billing system, 25% business-men gives miscellaneous views.

4.7.16 Views on improvement of revenue mobilization through VAT

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

Table No. : 4.25

Views on improvement of revenue mobilization through VAT

Respondents	Yes		No		I don't know	
	No	%	No	%	No	%
Tax experts	6	100	-	-	-	-
Tax officers	3	100	-	-	-	-
Businessmen	18	75	-	-	6	25
Consumer	18	67	-	-	9	33

Source : Field survey in Rupandehi, 2012.

From the above table 100% tax experts and tax officers, 75% business-men and 67% consumer viewed that there will be improvement of revenue mobilization through VAT. While 25% business-men and 33% consumers are unknown about it.

4.7.17 Views on major weakness of VAT administration

VAT system has been implemented instead of ineffectiveness of provisions sales tax system because the revenue creation of it was not so much significant to the economy with respect to VAT. For the effective and successful implementation of VAT we have to identify the current weakness of administration. It is reported that there have been various weaknesses behind the non functioning of VAT system in an expected way. VAT administration reform is weak inadequate and incomplete which course problems and challenges in the path of operation of VAT administration. It is found that major weakness of Vat administration in Nepal are lack of expertise, lack of trained man power, weak financial resources, lock of physical infrastructure and others miscellaneous. The field survey was concluded in this aspect to know the major weakness in Vat administration. The outcome on this view is shown in the following table.

Table No. : 4.26**Views on major weakness of VAT administration**

Respondents	Lack of expert		Lack of trained man power		Lack of physical infrastructure		Weak economy		All above of	
	No	%	No	%	No	%	No	%	No	%
Tax experts	1	17	2	33	-	-	1	17	2	33
Tax officers	-	-	1	33	-	-	1	33	1	33
Businessmen	6	25	6	25	-	-	6	25	6	25
Consumer	9	33	10	37	-	-	3	11	5	19

Source : Field survey in Butwal Rupandehi, 2012.

From the above field survey, 17% tax experts, 25% business-men and 33% consumers viewed that major weakness of VAT administration is due to lack of experts. While 43% tax experts 33% tax officers 25% business-men and 37% consumer reported due to lack of trend manpower. Similarly 25% business-men and 11% consumer supported major weakness due to weak economy of country. Likewise 33% tax experts, 33% tax officers, 25% business-men and 19% consumer viewed. All reasons mentioned above.

4.7.18 Views on making VAT effectively successful

VAT has already been in Nepalese environment however it has not year secured the expected results and many problems are still exist in the real field. It is necessary to identify the existing problems and solve them successively to make the VAT more successful in future. There are so many options to make VAT more successful. There are strengthen and improve VAT administration, trained and educated officers public awareness programme about VAT etc. The views of various respondents on this aspect is presented in the table below.

Table No. : 4.27**Views on making VAT effectively successful**

Respondents	Strange than & improve vat administrations		Trained and educated officers		Improve low regulation		Public awareness programme	
	No	%	No	%	No	%	No	%
Tax experts	1	17	1	17	2	33	2	33
Tax officers	1	33	-	-	-	-	2	67
Businessmen	6	25	6	25	6	25	6	25
Consumer	12	44	6	22	6	22	3	11

Source : Field survey in Butwal Rupandehi, 2012

According to above field survey 17% tax experts 33% tax officers 25% business-men and 44% consumer viewed that to make vat effectively successful, there will be need of strength and improvement in VAT administration. Similarly 17% tax experts 25% business-men and 22% consumer supported on trained and educated officers. Likewise 33% tax experts 25% business-men and 22% consumers supported on improve laws and regulation 33% tax express 67% tax officers 25% business-men and 11% consumer viewed that to make vat effectively successful, there will be needed public awareness programme.

4.7.19 Views on current challenging problems of VAT

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

Table No. : 4.29**Views on current challenging problems of VAT**

Respondents	Smuggling and under valuation		lack of proper billing		lack of proper accounting		weak tax administration	
	No	%	No	%	No	%	No	%
Tax experts	3	50	1	17	-	-	2	33
Tax officers	1	33	2	67	-	-	-	-
Businessmen	6	25	6	25	3	12	3	12
Consumer	10	37	7	26	5	19	5	19

Sources : Field survey in Butwal Rupandehi, 2012

From the field survey it is found that 50% tax experts, 33% tax officers, 25% business-men and 37% consumer argue that smuggling and under valuation is the main challenging problem associated with VAT. Similarly 67% tax officers, 17% tax experts, 23% business-men and 26% consumer argue that lack of proper billing is the main problem of VAT implementation. 12% business-men and 19% consumer argue about lack of proper account about it, 33% tax experts, 12% business-men and 19% consumers said that the main problem of vat implantation is weak tax administrations.

4.7.20 Views on effectiveness of VAT in future

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

Table No. : 4.29

Views on effectiveness of VAT in future

Respondents	Yes it will be		No it won't		I don't know	
	No	%	No	%	No	%
Tax experts	6	100	-	-	-	-
Tax officers	3	100	-	-	-	-
Businessmen	12	50	6	25	6	25
Consumer	15	56	5	19	7	26

Source : Field survey in Butwal Rupandehi, 2012.

According to the field survey 100% tax experts 100% tax officers 50% business-men and 56% consumers are totally optimistic that vat will be effective in future but 25% business-men and 19% consumers are pessimistic the vat won't be effective in future remaining 25% business-men and 20% consumer are unknown about it. From the survey it is found that majority of respondents are sure vat will be effective in future.

4.8 Major findings of the study

On the basis of previous chapter data presentation and analysis some important findings can be drawn. Vat has been most essential choice as ingredient of tax reforms of developing countries like Nepal. Which leads to revenue enhancement and sustainable economic development? There is tremendous scope for increasing the revenue from vat and sound implementation of vat will obviously increase its contribution in coming days.

The government expenditure is increasing continuously but revenue resources are very limited which lead the country to fiscal crises. The major cause of persisting fiscal deficit in Nepal is due to the poorly designed and defective tax system, which causes inadequate mobilization of resources. In recent decades developing as well as developed countries in the world have increasingly focused their attention towards reforming the tax system by realizing the poor designed tax structure in order to mobilize higher volume of resources for the development purpose and make the economy health efficient and self dependent to a greater extent.

In this sense, vat became a power point of attraction of many countries and gaining popularity day by day. For making vat effectively successful in future, it is necessary to

overcome the current challenging problems like smuggling and under valuation, lack of proper billing, lack of proper accounts and weak tax administration. The successful operation of vat is extremely challenging for a burgeoning economy like Nepal, Where there is long open broader a large segment of the economy is yet to be magnetized, business system is still running in traditional way, geographical structure is rugged, non adherence of standard norms and codes is wide spread, public consciousness level is very low existing practice of smuggling and under valuation in boarder area is supporting for the under invoicing in the successive stage of production and distribution. All the rules and regulations are not seen in real practice, bribing and corruption is wide spread in the tax administration and all other sectors of the economy.

These are the facts exists in Nepalese environment which encourages business- men for the tax avoiding practices and make them less responsible in this system. Due to broader tax base, catch up effect, self-enforcing nature, transparency etc respond viewed about the positive effect of vat on revenue mobilization. Billing system is one of the major aspects of effective implementation of vat but businessman hardly issue bill to consumers. Consumers too are not much interested in taking bills due to miss concept of increase in the price of goods. Such practice has discouraged the consumers to demand vat bill and is the root cause of the failure of the billing system.

Most of the taxpayers are not conscious about vat system. Taxpayers are still unknown about its threshold, exemption, zero rating and other related issues, which are essential criteria for vat registration. It proves that government has no proper homework before its primary implementation. Tax leakages have badly eroded Nepalese tax base. Tax revenue has been flowing out through tax leakage, which directly restricts the growth of revenue collection. Vat is expected to tackle the existed tax leakage. Most of the respondents were in favor of eliminative effect of vat on tax leakages.

Major findings of secondary data

The Vat system has been implemented in Nepal has completed 15 years of its operation and inter into sixteenth year. But in the data presented in his research is only of 7 year ie 2062/63 to 2068/69 due to several constraints. To achieve expected level of success.

A large amount of government revenue comes from taxation. More than 80% government revenue comes from tax revenue and less than 20% revenue comes from non tax revenue

whereas the tax revenue and non tax revenue both are increasing in trend. In FY 2062/63 the total revenue is 7228.19 crore and further up to 2068/69 is Rs 8771.21, 10762.25, 14347.45, 17994.58, 19981.87 and 21578.91 crore respectively. It showed that the total revenue trend is increasing.

In Nepal, collection of VAT has been classified as imports and domestic sources, out of which collection from imports share is 1346.25 crore in the FY2062/63 as compared to domestic contribution amount is just Rs 814.82 crore or just 37.7% of the total VAT revenue. This surely indicates that there is a heavy dependence on imports rather than domestic products. A round of 2/3 of total vat revenue is collected from import and only 1/3 is form domestic. So it is concluded that the higher level of dependency is in in comsumption.

The registration of business organization in vat office is in increasing trends total no. of vat registration in FY 2062/63 were 42268 and in FY 2064/65 were 53071, in FY 2065/66, 2066/67,2067/68, and 2068/69 were 53071, 59781, 6953, 82685, 97467, 114324 thousand.

From the above study we can concluded that the share on tax revenue is increasing because the vat registration trend is also increasing that means tax payer are increasing..

The contribution of vat to GDP is just 4.36 in and average of seven years. The contribution of vat is increasing trend to FY2066/67 and reachedh 5.07 but in2067/68 and 2068/69 it is downward and get 4.95 and 4.79 respectively even the VAT revenue is increased by 12.28% and 10.24% in those year. So there is not large share or contribution of VAT revenue on GDP.

Findings of primary data

The billing system plays the crucial role in the field of vat. But it is one of the major problem exists in Nepal. Regarding the current status of possibility of billing system in purchases, 44.44% consumers, 62.5% business-men and 100% traders and tax experts advocate for possibility of billing system 25% business-men and 33% consumer reached to the conclusion that vat will raise the price of commodities. 100% tax experts and tax officers 75% business-men and 56% consumer are favor of vat other respondents advocate the against the superiority of vat over sales tax. 33% tax experts and tax officers 37% business-men and 22% consumer are favor to reduce the existing theirs holder to expand the VAT base. 50% tax experts, 67% tax officers, 21% business-men and 19% consumers are favour for including all service sector in to the tax net. 100% tax experts 67% tax officers, 50% business-men and 37% consumers claimed that the present threshold is not enough to secure the small vendors they viewed the present threshold need to be changed, 33% tax officers, 25% business-men and 15% consumer claimed present threshold is enough. 100% tax experts and tax officers,

50% business-men and 44% consumer viewed single vat rate is effective. 50% tax experts, 67% tax officers 50% business-men and 67% consumer viewed the burden of VAT to the tax payer is high, while 50% tax experts, 33% tax officers, 25% business-men and viewed that the burden of VAT is normal.

Most of the respondents are the favors of present legal provision and rules some respondents especially business-men and consumer are unknown about legal provision and rules. Most of the respondents argued that current rate structure of vat is sufficient to have greater revenue field where some respondents claimed that it has to be improved some respondents are unknown about it. Vat administration is still weak, traditional corrupted, inadequate and incomplete. Which cause problems and challenges in the path of successful implementation of vat out of the major weakness of vat administration 20% tax experts, 25% business-men and 33% consumers viewed lack of experts. 33% tax experts 33% tax officers 25% business-men and 37% consumer are in favor of lack of trained manpower. And other respondents provided mixed opinion about it.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Tax is a compulsory contribution to the government from a person without expectation of special benefit. It is a compulsory payment to the government from a person according to law. In a broader sense there are two types of tax. One is direct tax and an other is indirect tax. Income tax, property tax, gift tax are example of direct tax which is directly paid by the person on whom it is legally imposed on the other hand value added tax, sales tax, hotel tax, entertainment tax, excise duty, custom duties are example of indirect tax. It is imposed on one person but paid partly or wholly by another. It means indirect tax is imposed on one person who transfer the tax liability by collecting from customer by adding it to the goods and services sold or distributed. Value added tax is a modern innovation indirect tax in the field of taxation. Value added tax is the improved and modified form of traditional sales tax. VAT is the most important tax reform in the 21st century. VAT is already implemented more than 125 countries in the world. VAT is multi stage commodity and service based tax that is levied on the value added of business enterprises at different stages of production and distribution value added tax affects the only added portion of price. It has nothing to do with the rest of the prices. Purchasers pay VAT to the sellers and seller transfer to government deducting VAT paid on their business purchases by the amount collected from the consumers on their sales. The ultimate burden of VAT shifted to the customers. Every business men above the threshold should compulsory registered in VAT office. The registered person get credit facility tax paid on their purchases. Small vendors below the threshold limit is not compulsory to register in VAT office. Below the threshold could be registered voluntarily. Value added tax is first implemented by France in 1954. After then almost all countries of the world began to implement AT system. In Nepalese context VAT was implementing in 1996 AD. The revenue collection from tax is the major parts. About 1/3 person of revenue is collected from tax. The share of direct tax in total tax revenue is reducing continuously. In this way indirect tax plays the vital role in the revenue generation. The structure of Nepalese VAT is designed in the VAT Act. 1996 AD. It's coverage is defined with reference to both taxable transaction and taxable persons. According to the VAT Act 1996 the tax rate in 13% and exports are subject to a rate of zero percent. There are certain cases such as exemption

and zero rating, under which commodities are tax free. A tax payers can deduct all tax paid on purchase. This deduction is known as input tax credit. Nepalese VAT Act also provided tax refund facilities. It also defined the threshold limit. Business men below the threshold limit are not compulsory to register in VAT. This threshold limit in Nepalese context is Rs. 2 million. This act also provided the self assessment system of tax. The first step of VAT administration is registration. The business men who registered in VAT is the legal tax payer. All registered person should be receive and give the bills while purchasing and selling of commodities. All registered person should maintain the sales book, purchase book, VAT account, tax invoices and debit and credit note. Value added tax is becoming popular in Nepal. The registration on vat in FY 2068/69 was 114344 and the revenue collection from VAT in FY 2068/69 was Rs. 6797.7 crore. The trends of VAT registration and revenue collection from VAT is in increasing. VAT collection authorities are taken the from Inland revenue department and revenue offices under the Inland revenue department. There are 22 revenue offices collects the taxes in Nepal. In the empirical study the analysis has been done about VAT on the basis of information collected from different sectors. The information collection tools is use questionnaire. The question are asked 50 different respondents i.e. 6 tax experts 3 tax officers 20 business men and 21 consumers.

5.2 Conclusion

Tax is a compulsory contribution to the government from a person without expectation of any benefit. There are mainly two types of tax direct and indirect tax value added tax is a form of indirect tax. Value added tax is an improved and modified form of sales tax. It is levied on value added of goods and services at each stage in production and distribution. This stage may be import manufacturing wholesale and retail. Value added tax puts greater signification revenue mobilization in Nepal. The main reasons of becoming VAT popular are transparent, broaden tax base and discourage tax evasion. So VAT is the most important sources of government revenue. Value added tax is becoming popular in developed and developing countries, because of its some special benefits. Value added tax is the latest innovation tax system in the field of taxation. The implementation of Vat began from France and more than 125 countries adopted the VAT system. Nepal adopted the VAT system in the decade of 1990 and it fully implemented in 1997. Nepal is a developing country the main sources of revenue in Nepalese economy is tax and foreign Grant's & loans. There are many disadvantages of foreign sources. No body provides grants and loans without terms and conditions. So to

develop the Nepalese economy the government should emphasis to collect the revenue from internal courses. In Nepalese context the revenue collection from VAT is in increasing trends. In an aggregate 2/3 percentage of tax collects from VAT.

Adopting of VAT for Nepal is both a compulsion and necessity. It can't curtail its development projects for which more revenue is required. The narrow tax base of previous sales tax failed to generate the minimum required amount of revenue because it include only imports and manufacturing units. Similarly, most of the goods and services were exempt from tax income tax however some potential was for revenue generation in Nepal. The income tax is decreasing slowly because government can not put more burdens on people to pay income tax. The globalization and recent trend of tax affect the Nepalese economy. Nepal becomes a member of WTO. Nepal should follow the rules of WTO which affect sin custom duty excise duty in Nepal is limited due to the construction of industrial activities. In this situation Nepal can't collect the sufficient revenue from income tax, custom duty and excise duty. Consumption base tax is only a alternative way to collect more revenue. Which helps to reduce the burden of foreign debt and will provide a great relief to our future generation? There is no doubt on the fact that in the long ream, VAT will help to make Nepalese economy stronger. The successful implementation of VAT system has greater significance in Nepal. The issue, however, today is not whether vat or no vat but now to make the implementation of vat more effectiveness and efficient. It is not matter that vat should be removed but the implementation aspect of vat must be managed and enhanced. Vat regime is extremely challenging in a burgeoning economy like Nepal where, with long open border, a large segment of the economy is yet to be magnetized. Resistance from the business community, ignorance of general people and the lack of full support and commitments from the politicians and government officials forced the authority responsible for implanting vat to make compromises on various aspects of vat which has weakened the process of its implantation right from the beginning. The attitude of business-men and the tax administration also appear hostile to the effective implementation of vat in Nepal. The culture of doing business without maintaining proper books of accounts or maintaining multiple sets of books of accounts has made implementation of vat difficult. The problem is further intensified due to lack of culture of issuing and receiving bills at the point of sale and purchase, negative behavior of tax officials, and lack of sense of accountability in the government and political parties. It is a big challenge to resolve these problems. Apparently, vat cannot deliver the intended results unless these problems are addressed seriously.

Theoretically, the Nepalese vat system has no weak provisions. It is one of the best models in the world. In practice, however, the system is not effective even today. Most of the problems concerning the operation of vat in Nepal have been identified. The government needs to take necessary steps to sort out emerging problems in implementation of vat. The government needs full co-operation from the tax administration, the taxpayers and businessmen as well as consumers in its efforts to generate more revenue. Vat must be made successful and this largely depends upon honesty faith and morality of tax officials and business people. Responsibility and accountability in every section of the economy is the basic requirements as well as honesty and confidence between the business people and tax administration. There is need for will power and action. The government must be curative. Unnecessary hindrance to economic activities must be avoided. In the absence of growth in economic activities, revenue generation cannot be increased. Thus, it is time for action and improvements for effective and successful operation of vat in Nepal for further perspective as well as present needs of development.

5.3 Recommendations

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

1) The vat can be taken as an important form of domestic resource mobilization in Nepal. So it should be adopted as an important measures of reforming sales tax, entertainment tax

contract tax and ' hotel tax and should be extended through retail level as a bulk of tax performance to generate more revenue.

2) Most of the taxpayers as well as public are still unknown about vat and its effects on various aspects. They have developed a kind of miss-concept regarding to vat. They do not think that sellers already include vat in price of goods rather they do think vat is an extra charge. So proper publicity for all relate a person is the fundamental tool for success of vat. Tax related information should be published regularly through journals, magazines, newspaper, pamphlets, radio, television etc. Interview programs with professors, researchers, tax experts and economists should be conducted and published through, advertising medias. similarly the student, at school levels as well as campus level's curriculum should be included tax education and social obligation of paying tax.

3) An efficient, strong and fair administration is the most crucial for the proper implantation of vat. But, vat administration is still weak, traditional corrupted in nature. In spite of these, there is lack of expertise, well-trained and skilled officers in the vat administration. So, informative programs such as seminars, training, and discussions should be organized to make the tax officers skilled and capable in their field of job and service minded attitude needs to be developed in the mind of tax officers.

4) Many rules and regulations of vat are only limited in papers and they are not seen in practice. All the rules and regulations should be in practice. Government should make effort to discourage under valuation, including purchases of some consignments, which are imported at an unrealistically low value. Audit and investigation system need to be improved and make effective, and strictly penalize those who do not follow the rules. Strict rules should be prepared also for tax officers and it is necessary to take action against these officers who are directly or indirectly involved in collusion and corruption, without any hesitation. Also the reward system should be made effective.

5) Many business-men having taxable capacity are still beyond the tax net so the enforcement should be made more effective and voluntary compliance should be encouraged. The level of voluntary compliance could be raised through a set of promontory and regulatory measures including positive and service minded attitude of the tax personnel, realization of tax structure, simplification of tax producers and forums, strengthening tax administration,

conducting audit and investigation in an effective manner, and penalizing those who do break the rules the procedures regarding registration, collection, interest, penalty audit, and appeal should be simplified and improved.

6) Lack of proper billing system, is being the most challenging problem in Nepalese context. So consumers should be well informed to the take the real bills which they have to pay and strict warning should be given to business that use to issue false bills/ invoice. So issuing invoices for every taxable sells must be made compulsory.

7) The existing long open border is the main cause of smuggling trade under valuation system. So border should be effectively controlled to prevent the illegal trade. There should be a effective checking system to prevent any kind of illegal trade in border side.

8) Vat laws should be effectively implemented. Timely revision should be made on unpractical acts, rules and regulation on the basis of experience gained.

9) There should be a close co-operation between the private sector and government sector for the successful implementation of vat. But in practice, there is a crisis of confidence between the private and government sector. There were made many agreements between vat payer and vat collector. Persons of each sector blaming to another. Due to lack of understanding between them, there is loss of revenue; the tax authorities in many cases arbitrarily fix taxable amount, which is beyond the current feature of vat system. Hence, it is necessary to co operate the private sector with government. A proper cooperation between both sectors should be established confidently.

10) There should be effective awareness programs through advertising media for taking invoice for every taxable purchases by consumers, Beside this, every business firm should come to patch a notice for consumers in from of counter informing about not forget to take bill. Monitoring, system of the vat administration is not so effective. Because of this, taxpayers are still encouraged for tax evading practices. Many business-men do not issue invoice for their selling and even do, follow the other improper invoices. So, an effective and efficient auditing, investigation and monitoring system should be developed.

- 11)** Existing threshold and tax refund are two possible gates for tax evasion. It seems that existing exemption has a broad coverage however some exemptions are unavoidable due to administrative complexity and equity aspect. So exemption should be minimized gradually/successively.

- 12)** Taxpayers should have provided better honor for their regular contribution of paying tax to the government, and be provided better services.

- 13)** Computer system and networking program must be developed and linked so as to make the vat work simple which also helps to make data base system effective.

- 14)** In the present Nepalese environment, there exists instability of political situation, so government should create an environment of strong political comment for effective and successful implementation of vat system.

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Websites:

www.ird.gov.np,

www.mof.gov.np,

www.geogle.com

Appendix - I

Questionnaire

Name of respondents:

Organization / Office:

Occupation:

Age:

Sex:

Please tick your answer which one is appropriate.

1. What is your view about billing system?

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

2. How do you think about the existing rate of VAT in Nepal?

- a) High rate b) Low rate
- c) Modern/Normal rate d) I don't know

3. Will price rise due to VAT system?

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

4. Do you think VAT is superior than sales tax?

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

5. What do you think about the existing tax structure of VAT?

- a) It is OK b) It has to be improved
- c) I don't know

6. Which way of VAT does increase the base of VAT?

- a) Reduce threshold b) Include all service sector
- c) Incorporating agriculture sector d) All above

7. Is the present threshold is enough in Nepal?

- a) Yes, its is
- b) No it is not
- c) I don't know

8. Do you think that the single VAT rate is effective?

- a) Yes, it is
- b) No; it is not
- c) I don't know

9. Is the present threshold enough to secure the small vendor?

- a) Yes it is
- b) No, it needs to enlarge
- c) I don't know

10. Can VAT secure properly to all small vendors?

- a) Yes, it can
- b) No, it can't
- c) Possible
- d) I don't know

11. What do you think about the tax burden of VAT to the tax payer?

- a) Higher
- b) Lower
- c) Normal
- d) Zero
- e) I don't know

12. What is your view on the existing exemption of VAT?

- a) Its OK
- b) It should be Reduced
- c) It should be increased
- d) I don't know

13. Do you think that current legal provision and rules of vat is sufficient in Nepal?

- a) Yes
- b) No
- c) Moderate
- d) I don't know

14. What are the main problems in the present Vat implementation?

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

15. What are the main problems of present Vat system in business sector?

- a) Registration
- b) Accounting keeping
- c) Billing system
- d) Others (please specify)
- e) I don't know

16. Will VAT system in Nepal improve revenue mobilization?

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

17. What are the major weaknesses of VAT administration?

- a) Lack of experts
- b) Lack of trained manpower

18. What kind of efforts is needed to make VAT effectively successful?

- a) Strengthen and improved VAT administration
- b) Trained and educated officers
- c) Improved VAT laws and regulation
- d) Public awareness program
- e) Other (please specify).....

19. What are the major challenging problems of VAT in Nepal?

- a) Smuggling and under Valuation
- b) Lack of proper billings
- c) Lack of proper account
- d) Weak tax administration
- e) Other (please specify).....

20. Do you think that Vat will be effective in future?

- a) Yes, it will be
- b) No, it will not
- c) I don't know

Appendix I

14. What are the problems of vat system in business sector in Nepal?
a. Registration b. billing c. Accounting d. other
If other mention.....
15. Dose the provision of Vat system helps to improve the government revenue?
a. Yes b. No c. I don't know
16. What is the major weakness of the vat system
a. Lack of expert
b. Lack of trained Manpower
c. Lack of physical infrastructure
d. Weak economy
e. All of above
17. What is the main point of make vat successful
a. Strength vat administration
b. Trained or educated man power
c. Improved law and education
d. Provide public awareness program
18. Which is the cost current challenging problem of vat system in Nepal?
a. Smuggling and under valuation
b. Lack of proper billing
c. Lack of proper accounting
d. Weakness of tax administration.
19. What do you think about the effectiveness of vat in future is strength?
a. Yes it will be b. No, it is not c. I don't know

Thank You

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