

A STUDY ON ISSUES AND PRACTICE OF VALUE ADDED TAX IN NEPAL

A THESIS

Submitted By

Kedar Mandal

Campus Roll No: 42/064

Ramswarup Ramsagar Multiple Campus Janakpur dham, Nepal

T.U.Regd. No: 7-2-14-734-2004

Exam Symbol No: 140025(2nd year)

Submitted To

Office of the Dean

Faculty of Management

Tribhuvan University

In Partial Fulfilment of the Requirements for the Degree of
Master of Business Studies (M.B.S.)

Janakpur Dham, Nepal

January, 2014

RECOMMENDATION

This is to certify that the thesis

Submitted by

Kedar Mandal

Entitled

**A Study on Issues and Practice of Value
Added Tax in Nepal**

Has been prepared as approved by this department in the prescribed format of Faculty of Management, Tribhuvan University. This is forwarded for examination.

.....
Dr. Shailendra Labh Karn
(Head of Research Department)

.....
Dr. Binod Sah
(Thesis Supervisor)

.....
Jugeswor Sah
(Campus Chief)

Date: -

VIVA- VOCE SHEET

We have conducted the viva- voce examination of the thesis.

Submitted by
Kedar Mandal

Entitled
**A Study on Issues and Practice of Value
Added Tax in Nepal**

And found the thesis to be the original work of the student written in accordance with the prescribed format of faculty of management, Tribhuvan University. We recommend this to be accepted as partial fulfillment of the requirement for the Degree of Master of Business Studies (M.B.S.)

Viva- Voce Committee:

Chairperson, (Research Department)

Member, (Thesis Supervisor)

Member, (External Expert)

Date: -

DECLARATION

I hereby declare that the work reported in this thesis entitled “ A Study on Issues And practice of Value Added Tax In Nepal” have submitted to faculty of Management, Tribhuvan University is my original work. It is done in the form of partial fulfillment for the master of business studies (M.B.S.) under the supervision and guidance of Dr. Binod Sah and Dr. Shailendra Labh Karn, Head of the Research Department, R.R.M.Campus Janakpurdham.

January 2014

.....
Kedar Mandal
Researcher
R.R.M.campus Janakpurdham.
T.U. Redg. No7-2-14-734-2004
Roll No. 42/064

ACKNOWLEDGEMENT

This is really an appreciable curriculum of T.U. because it helps the students to express their theoretical concept gained during the study period into the practical field. So, being concerned to thesis, I have also got a chance to express my theoretical concept gained from class and library study into this practical field. The present study “A Study on Issues and Practice of Value Added Tax in Nepal.” has been prepared for the partial fulfilment of the requirement for Master Degree in Business Studies.

At first, I would like to pay thanks to my father and mother as well as my brother and sister who headed me towards the light of education and path of truth. Due to their non-stopping effort for guidance, today I came in this position. So, I would like to share the credit of my success with them, I'm really indebted by them.

After this, I would like to express my cordial gratitude to my all teachers. For this dissertation, I would like to pay my sincere thanks to thesis supervisor Dr. Binod Sah and Dr. Shailendra Labh Karn chairperson of the research department, R.R.M.Campus. His incessant suggestion and guidance from the beginning to the end is really an appreciable effort.

I would also like to express my gratitude to all my other members of R.R.M. Campus, especially, staffs from M.B.S. department, libraries staff as well as all known and unknown people who supported as well as inspired me to complete this. Similarly, I am very grateful to my dearest friend.

Last but not least I am greatly indebted to all my family members. In this regard, I'm grateful to my friends Bijay Mandal, Samit Jha, Lalit N. Yadav and Sandeep Mandal for their motivational effort and support even though they have very busy hour.

Kedar Mandal
Researcher

TABLE OF CONTENTS

Page no.

RECOMMENDATION

VIVA VOCE SHEET

DECLARATION

ACKNOWLEDGEMENTS

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABBREVIATIONS

CHAPTER I: INTRODUCTION **1-09**

1.1 Background of the study 1

1.2 Statement of Problems 4

1.3 Objective of the Study 7

1.4 Significance of the Study 7

1.5 Limitations of the Study 8

1.6 Organization of Study 8

CHAPTERII: REVIEW OF LITERATURE **10-55**

2.1 Conceptual Review **10**

2.1.1 Historical Background of VAT 10

2.1.2 Introduction of Value Added Tax 12

2.1.3 Meaning of VAT 12

2.1.4 Adoption of VAT in Nepal 14

2.1.5 Types of VAT 16

2.1.6 Methods of Computing VAT 17

2.1.7 Principle of VAT 22

2.1.8 History and Development of VAT	22
2.2 Value Added Tax Law in Nepal	23
2.2.1 History and Development of VAT in Nepal	23
2.2.2 Basic Features Of Nepalese VAT System	29
2.2.3 Coverage of VAT in Nepal	30
2.2.3.1 Standard Rated Area	30
2.2.3.2 Zero Rated Areas	30
2.2.3.3 Exempted Goods and Services	31
2.2.3.4 Structure of Nepalese TAX System	31
2.2.3.5 Need for Reforms On Present TAX System In Nepal	32
2.2.3.6 VAT as a Tax Reformer in Nepal	32
2.2.3.7 Control of the Corruption	32
2.2.3.8 Lack of Education	33
2.2.3.9 Lack Of Customer's Awareness	33
2.2.3.10 Collection of More Government Revenue	33
2.2.3.11 VAT as a substitute of Sales TAX	33
2.2.3.12 Superiority of VAT to Sales TAX In its Various Forms	35
2.2.3.13 Superiority of VAT in Manufacturing Level Sales TAX Wholesale Level TAX	36
2.2.3.14 Superiority of VAT to Retail Sales TAX	37
2.2.4 TAX Administration	38
2.2.4.1 Registration (VAT Act 2052-Sec.10)	40
2.2.4.2 Deregistration (VAT Act 2052-Sec.10)	41
2.2.4.3 Accounting (VAT Regulations Act 1996:Annex 8-9)	41
2.2.4.4 VAT Invoice (VAT Regulations Act 1996:Annex 8-9)	42

2.2.4.5	Return Filling (Section -18)	42
2.2.4.6	VAT Collection	43
2.2.4.7	Tax Credit	43
2.2.4.8	Assessment	44
2.2.4.9	Refund	44
2.2.4.10	MIS (Management Information System)	45
2.2.4.11	Appeal	45
2.2.4.12	Offences and Penalties	46
2.2.4.13	Rewards	46
2.3	Review of Related Studies	46
2.3.1	Review of Books	46
2.3.2	Review of Journals and Articles	49
2.3.3	Review of Previous Research and Dissertations	51
	CHAPTER III: RESEARCH METHODOLOGY	56-58
3	Introduction	56
3.1	Research Design	56
3.2	Population and Sample	56
3.3	Nature and Source of Data	57
3.4	Techniques of Presentation and analysis of Data	58
	CHAPTER IV: PRESENTATION AND ANALYSIS OF DATA	59-90
4.1	Presentation and Analysis of Data	59
4.1.1	Revenue Structure of Nepal	59
4.1.2	Structure of Tax Revenue	61
4.1.3	Registration	64

4.1.4	Non-Filer	66
4.1.5	Tax Returns	67
4.1.6	Revenue Collection from VAT	69
4.1.7	Composition of VAT Revenue	71
4.1.8	Share of VAT Revenue to GDP	72
4.1.9	Share of VAT Revenue in Total Revenue	74
4.1.10	Share of VAT Revenue in Total Tax Revenue	76
4.2	Presentation and Analysis of Primary Data	77
4.2.1	VAT Administration	77
4.2.2	VAT As the Best Way to increase Public Revenue	79
4.2.3	Habit of Taking Bills on Purchase	80
4.2.4	Percentage of Customers Demanding Bills	81
4.2.5	VAT Education	81
4.2.6	Weakness in VAT Administration	82
4.2.7	Behaviour of VAT Administrator towards tax payer	83
4.2.8	Problems in VAT Collection	84
4.2.9	Problem in Account Keeping	85
4.2.10	Problems in the implementation of VAT	87
4.3	Major Findings of the Study	87
CHAPTER V: SUMMARY, CONCLUSION AND RECOMMENDATIONS		91-97
5.1	Summary	91
5.2	Conclusion	93
5.3	Recommendations	95
BIBLIOGRAPHY		
APPENDIX		

LIST OF TABLES

<i>Table no.</i>	<i>Title</i>	<i>Page no.</i>
Table no.1	Computation Of VAT in Different Method	21
Table no. 2	Computation of Sales Tax and the Cost Price to Consumer	34
Table no. 3	Computation of Sales Tax and the Cost Price to Consumer	35
Table no. 4	Group Of respondents and sample Size	57
Table no. 5	Revenue Trend in Nepal	60
Table no. 6	Structure of Total Tax Revenue	62
Table no. 7	Year-wise number of VAT registration	64
Table no. 8	Year-wise number of VAT Return Non –Filers	66
Table no. 9	Status of Tax Returns	68
Table no.10	Revenue Collection from VAT	69
Table no.11	Composition of VAT Revenue	71
Table no.12	VAT Revenue as Percentage of GDP	73
Table no.13	VAT Revenue as Percentage of Total Revenue	74
Table no.14	VAT Revenue as Percentage of Total Tax Revenue	76
Table no.15	Efficiency of Nepalese VAT Administration	78
Table no.16	Best Way to increase Public Revenue through VAT	79
Table no.17	Habit of taking Bills on Purchase	80
Table no.18	Percentage of Customers Demanding Bills	81
Table no.19	Effective Media for VAT Education	82
Table no.20	Weakness in VAT Administration	83
Table no.21	Behaviour of VAT Administrator towards Taxpayers	84

Table no.22Problems in VAT Collection	85
Table no.23Problems in Account Keeping	86
Table no.24Problem in Implementation of VAT	87

LIST OF FIGURES

<i>Figure no.</i>	<i>Title</i>	<i>Page no.</i>
Figure No.1	Structure of Total Revenue ,Tax Revenue and Non-Tax Revenue	61
Figure no. 2	Structure of Tax Revenue	63
Figure no. 3	Year-wise number of VAT registration	65
Figure no. 4	Status of VAT Return Non-Filers	67
Figure no. 5	Status of Tax Return	68
Figure no. 6	Status of Target and Achievement of VAT Collection	70
Figure no. 7	Composition of VAT Revenue	72
Figure no. 8	Share of VAT Revenue in GDP	73
Figure no. 9	Share of VAT Revenue in Total Revenue	75
Figure no.10	VAT Revenue as percentage of total revenue	77