

ANALYSIS OF VALUE ADDED TAX SYSTEM IN NEPAL

**A Dissertation Submitted to the Office of the Dean, Faculty of Management in Partial
Fulfillment of the Requirements for the Master of Business Studies (M.B.S)**

Submitted by

Dhurva Raj Oli

Shankar Dev Campus

T.U. Regd. No: 7-3-39-1452-2018

Campus Roll No: 3190/075

Exam Roll No: 13298/19

Putalisadak, Kathmandu

May, 2024

CERTIFICATE OF AUTHORSHIP

I hereby corroborate that I have not researched and submitted the final draft of dissertation entitled **ANALYSIS OF VALUE ADDED TAX SYSTEM IN NEPAL** the work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor it has been proposed and presented as part of requirements for any other academic purposes. The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

.....

Dhurva Raj Oli

Shankar Dev Campus

T.U. Regd. No: 7-3-39-1452-2018

Campus Roll No: 3190/075

Exam Roll No: 13298/19

REPORT OF RESEARCH COMMITTEE

Dhurva Raj Oli has defended research proposal entitled **ANALYSIS OF VALUE ADDED TAX SYSTEM IN NEPAL** the research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestion and guidelines of supervisor Bhoj Raj Ojha and submit the thesis for evaluation and vice-voce examination.

.....

Bhoj Raj Ojha

Dissertation Supervisor

Dissertation Proposal Defended Date:

.....

Dissertation Submitted Date:

.....

.....

Asso. Prof. Dr. Sajeeb Kumar Shrestha

Chairperson of Research Committee

Dissertation Viva Voce Date:

.....

APPROVAL SHEET

We, the undersigned, have examined the thesis entitled **ANALYSIS OF VALUE ADDED TAX SYSTEM IN NEPAL** presented by Dhurva Raj Oli candidate for the degree of Master of Business Studies (MBS Semester) and conducted the Viva-Voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

.....

Bhoj Raj Ojha

Dissertation Supervisor

.....

Internal Examiner

.....

.....

Internal Expert

External Expert

.....

Asso. Prof. Dr. Sajeeb Kumar Shrestha

Chairperson Research Committee

.....

Asso. Prof. Dr. Krishna Prasad Acharya

Campus Chief

ACKNOWLEDGEMENTS

First of all, I would like to thank Tribhuvan University for giving chance to prepare the thesis for a partial requirement to the fulfillment of Master Degree of Business Studies program held under Tribhuvan University. After many months of hard work and sincere effort from my side, this research has been conducted.

I would like to acknowledge the following notable personalities who have contributed their valuable efforts in different ways in creation of this research. I would express my profound gratitude to my thesis supervisor Bhoj Raj Ojha of Shanker Dev Campus for his valuable guidance and kind support to me all the way through this thesis his co-operation in the revision of this thesis has precisely helped me to groom and bring it in this form. I also owe deep gratitude to all reputed authors whose writings have provided me the necessary guidance and invaluable materials for the enrichment of my research papers in all possible ways. My special appreciation goes to my colleague and to all my family members, teachers and friends for their continuous encouragement and help to complete this work directly or indirectly.

Perfection is anything can hardly be thought of knowing the universal fact "Human is Error", I Have taken utmost care to avoid errors, but I know they are inescapable, so I shall be obliged if they are forgiven.

Dhurva Raj Oli
Shankar Dev Campus

ABBREVIATION

%	Percentage
&	And
A.D	Anno Domini
B.S.	Bikram Samba
BIMSTEC	Bay of Bengal Initiative for Multi-Sectorial, Technical and Economic Corporation
CEDAC	Central of Economic Development Administration Company
CPI	Consumer Price Index
Dr.	Doctor
DT	Direct Tax
Etc.	Etcetera
EU	European Union
FNCCI	Federation of Nepal Chamber of Commerce and Industry
FY	Fiscal year
GDP	Gross Domestic Product
GNP	Gross National Product
IMF	International Monetary Fund
IRD	Inland Revenue Department
MODVAT	Modified Value Added Tax
MOF	Ministry Of Finance
No.	Number
NRB	Nepal Rostra Bank
Prof.	Professor
SAARC	South Asian Association for Regional Corporation
SAFTA	South Asian Free Trade Area
TR	Total Revenue
TU	Tribhuvan University
USAID	United States Agency for International Development
VAT	Value Added Tax

Abstract

The conducted field survey shows there are many problems on this field. Level of awareness of the accountant and businessperson paying VAT is at low level on some provision of VAT Act. Their knowledge is very important so that proper use and implementation of VAT system can be ensured. Likewise, revenue administration has various issues that can be improved with good attitude of people. For example, making tax payer friendly environment at tax office and giving enough respect to the tax payer can improve the image of tax officer also. The reasons are poor planning, unaccountable staffs, weak and corrupt bureaucracy etc. corruption is widely spreading in political as well as administration from top level to bottom level of authority. People are less literate about theoretical concept of VAT, so they cannot play creative support for the implement of VAT. It is necessary for the taxpayers to know that the VAT with its benefit. Different education programs, seminars etc. should be organized for taxpayers as well as general public in all over the country with the objectives of aware them about VAT which helps to bring more and more tax payers in the tax circumference. The internal revenue is sometimes in sufficient even to meet regular expenditure and most of the development activities depend on foreign aids where Nepal has been compelled to harmonize the donor. The major problems of domestic resource mobilization are poor utilization of the poor natural resource base, small and stagnant industrial sector, poor economic growth and inadequate tax effort etc. So, in this context, revenue generation from internal sources is very important in which income tax is one of the major sources and it is considered as a good remedy to cure growing resource gap problem in Nepal. Income tax was introduced in the FY 1959/60 and the percentage of income tax to the government revenue is in increasing trend at present but it is not regarded as satisfactory in comparison to other developing countries. Due to the various problems related to income tax, revenue collection from income tax is low in Nepal. It is thought that Nepalese income tax is not appropriate enough and the administration is worse.

Key Word ANALYSIS OF VALUE ADDED TAX SYSTEM IN NEPAL

INTRODUCTION

1.1 Background of the Study

Every government requires sufficient funds to execute development plans, manage daily administration, ensure peace and security, and support public welfare activities. These funds primarily come from two sources: debt and revenue. Debt can be sourced domestically or internationally. Domestic debt refers to borrowing within the country, while foreign debt comes from international sources. On the other hand, government revenue comes from two main categories: tax and non-tax sources. Non-tax revenues include income from gifts, grants, earnings from public enterprises, and administrative revenues like registration fees, fines, and penalties. Tax revenues, such as customs duties, excise duties, VAT, and income tax, constitute a significant portion of government income in Nepal. Taxation alone contributes approximately eighty percent of the government's revenue, highlighting its crucial role as the primary income source (Bhattarai & Koirala, 2064:1).

The background of the study on the VAT (Value Added Tax) system analysis in Nepal encompasses several key factors and contexts that influence the understanding and implementation of VAT within the country. VAT was introduced in Nepal as part of broader tax reforms to modernize the tax system and enhance revenue collection capabilities. The VAT system replaced the previous Sales Tax system and aimed to broaden the tax base while ensuring equitable taxation across various economic activities.

Understanding the legal framework surrounding VAT in Nepal involves examining the VAT Act and related regulations. This includes provisions related to registration, filing returns, input tax credits, exemptions, and compliance requirements. The effectiveness and clarity of these legal provisions are crucial for both taxpayers and tax administrators. The study would likely address the challenges faced in the implementation of the VAT system. These challenges may include inadequate awareness and understanding among taxpayers and tax administrators, administrative inefficiencies, compliance issues, and difficulties in enforcement.

It is crucial to assess the impact of VAT on businesses and the wider economy by examining its effects on prices, consumer behavior, competitiveness, economic growth,

and revenue generation. This evaluation aims to determine whether VAT has successfully met its economic objectives and contributed positively to fiscal sustainability. Additionally, it involves analyzing the administrative framework and capabilities of tax authorities tasked with VAT collection and enforcement. This includes evaluating their effectiveness in taxpayer education, audit and enforcement strategies, IT infrastructure, and overall efficiency in managing VAT-related issues.

Studying public perception and awareness of VAT is crucial as it directly influences compliance rates. It involves understanding how taxpayers perceive VAT, their knowledge of their rights and responsibilities, and their satisfaction with VAT administration. This understanding helps identify areas needing improvement. Comparative analysis with VAT systems in other countries, especially within the region or among developing nations, provides insights into best practices, challenges, and potential reforms that could enhance Nepal's VAT system. Based on these findings, the study typically concludes with policy recommendations aimed at addressing identified challenges, improving VAT administration, boosting compliance, and maximizing revenue collection. The goal is to ensure fairness and efficiency in the tax system.

Taxation entails compulsory financial contributions from individuals and businesses to the government as stipulated by law. Taxpayers do not receive direct benefits corresponding to their tax payments; instead, these funds are utilized by the government for public welfare and developmental initiatives. Effective taxation plays a crucial role in promoting economic stability and growth. Therefore, tax systems should encourage investment while discouraging excessive spending, thereby improving revenue collection and promoting equity in society by reallocating resources from less productive to more productive sectors.

Taxation is generally classified into two main categories: direct and indirect taxes. Income tax, a notable form of direct tax, contributes substantially to government revenue. It is imposed on individuals' earnings derived from diverse sources such as business profits, investments, and employment wages. Income tax is regarded as fair because it correlates with the taxpayer's income level—higher earnings incur greater tax liabilities.

Value Added Tax (VAT) stands out as a significant indirect tax applied to the value added to goods and services at every stage of their production and distribution. The primary objective of VAT is to simplify tax collection processes, enhance operational efficiency, and mitigate instances of tax evasion. In Nepal, VAT holds pivotal importance as a fundamental component of the tax system. Nepal's economy is largely dependent on agriculture and tourism, with tourism being a crucial contributor to foreign exchange earnings. However, these sectors alone are insufficient to meet the country's developmental requirements, primarily due to Nepal's broader economic underdevelopment. Key factors contributing to this include limited natural resources, its landlocked geographic position, inadequate modernization of institutions, weak infrastructure, and ineffective developmental policies.

As a developing nation, Nepal confronts considerable hurdles in mobilizing adequate domestic resources for funding its development projects. This shortfall necessitates a heavy dependence on foreign aid to finance its developmental expenditures. External assistance, comprising grants and loans, forms a significant portion of Nepal's development budget.

Despite implementing planned economic policies over several decades, Nepal has faced challenges in achieving its development objectives as outlined in successive five-year plans. These plans aimed to bolster economic output, employment rates, infrastructure development, stability, industrial expansion, commercial growth, international trade, and the establishment of robust public institutions. Socially, the plans aimed for advancements in health, education, and equitable income distribution. However, resource allocation frequently did not align with these priorities, necessitating significant reliance on foreign assistance for plan implementation.

In conclusion, while Nepal's government plays a crucial role in infrastructure development, social services, and poverty alleviation, the country's limited resource mobilization capacity necessitates substantial foreign aid dependency for development initiatives. Achieving sustainable economic development requires addressing these challenges through improved domestic revenue generation, effective resource allocation, and strategic policy reforms tailored to Nepal's unique economic and social landscape.

Nepal's economic performance in recent years has been below expectations, with an average growth rate of around 4 percent over the last decade. This is notably lower compared to neighboring countries that have experienced much higher growth rates. Political instability has emerged as a major obstacle, preventing Nepal from achieving its desired economic potential. Furthermore, challenges such as ongoing concerns about peace and security, inadequate infrastructure particularly in electricity supply, and strained labor relations have compounded these economic difficulties. These persistent issues collectively present significant hurdles to Nepal's economic advancement, impeding efforts to attain more robust and sustainable growth rates (Economic Survey 2021/2022).

In Nepal, Value Added Tax (VAT) was introduced on November 16, 1997, replacing the Sales Tax, Hotel Tax, Contract Tax, and Entertainment Tax. However, due to political instability and strong opposition from the business community, its full implementation was delayed until the fiscal year 1998/99. VAT was designed to generate equivalent revenues as the four taxes it replaced. Its effective implementation is crucial as both customs duties and income tax collections are significantly influenced by VAT revenues. VAT functions by taxing the estimated market value added to a product or material at each stage of its production or distribution, ultimately borne by the consumer. Since its introduction, VAT has played a pivotal role in enhancing tax collection efficiency in Nepal, marking a significant milestone in the country's tax reform efforts.

Taxation can be implemented through either direct taxes or indirect taxes. Direct taxes are levied directly on individuals or entities by the government. Examples include Income tax, Property tax, Interest tax, Estate tax, Vehicle tax, Expenditure tax, and Gift tax. These taxes are borne directly by the taxpayer upon whom they are imposed.

In contrast, indirect taxes are imposed on one entity but the burden may be passed on to others, either partially or entirely. Examples of indirect taxes include Sales tax, Hotel tax, Excise duty, Entertainment tax, Passenger tax, Import and Export duties, and Value Added Tax (VAT). VAT, as indicated by its name, is imposed at different stages of sales based on the value added to goods and services. It is a contemporary and systematic tax system aimed at enhancing tax collection efficiency and minimizing tax evasion.

Ultimately, the final burden of VAT is borne by consumers who purchase goods and utilize services.

VAT is considered a progressive tax reform system of the 21st century and has been widely adopted in over 135 countries worldwide. Its implementation contributes significantly to modernizing tax systems and enhancing revenue collection capabilities globally. The concept of Value Added Tax (VAT) originated with Dr. Wilhelm Von Siemens in Germany in 1919. Further development of VAT occurred in Japan in 1949 under the guidance of Prof. Carl Shoup during a tax mission. Initially, VAT remained a theoretical concept until it gained practical consideration in the early 1950s as a replacement for the multi-stage sales tax known as "Umsatzsteuer," which was criticized for issues like cascading and vertical integration effects. Germany initially hesitated to implement VAT due to concerns about administrative complexity. Instead, they reduced the rate of Umsatzsteuer in 1953.

In the early 1920s, Prof. Thomas S. Adams in the United States advocated for replacing the current tax system with a Value Added Tax (VAT), coinciding with the introduction of corporate income tax. France took the lead by implementing VAT in 1954, initially targeting the industrial sector. Throughout the late 1960s, VAT gained increasing popularity and has since been embraced worldwide as a contemporary and effective tax mechanism. Countries such as Denmark and Brazil adopted VAT in 1967, drawn by its capacity to reduce tax cascading and enhance tax administration efficiency.

France, pioneering the implementation of VAT, expanded its application to include retail for the first time, while Germany followed suit in the same year. By 1969, Netherlands and Sweden had also adopted VAT, with Luxembourg, Belgium, and Ireland following in 1970, 1971, and 1973 respectively. In Asia, Vietnam became the first country to adopt this advanced tax system in 1973. The global popularity of VAT continued to grow, with South Korea, China, Indonesia, and Taiwan introducing VAT in 1977, 1984, 1985, and 1986 respectively. The Philippines followed suit in 1988, Japan in 1989, Thailand in 1992, and Singapore in 1994.

In the SAARC region, Pakistan led the way by adopting Value Added Tax (VAT) in 1990. India initially introduced Modified Value Added Tax (MODVAT) in 1996, but

fully transitioned to VAT as a replacement for sales tax nationwide on January 4, 2005. Although some states initially hesitated due to political reasons, most, including significant states like Andhra Pradesh and Maharashtra, eventually adopted VAT. Each state in India has the autonomy to determine its own VAT rates under the framework established by an Empowered Committee.

Nepal initiated its exploration of VAT in the early 1990s, aiming to shift from a two-tier sales tax system to a VAT framework starting from the fiscal year 1992/93. To facilitate this transition, a VAT task force was established in 1993 with support from USAID to develop VAT legislation. The Nepalese Parliament subsequently passed the Value Added Tax Act in 1995 (2052 BS), with VAT regulations finalized by 1996. However, due to political instability and opposition from the business community, its implementation was delayed until November 16, 1997. VAT in Nepal replaced several previous taxes, including sales tax, hotel tax, contract tax, and entertainment tax.

Initially set at 10 percent, Nepal increased its VAT rate to 13 percent starting from February 15, 2004, in response to fiscal challenges and the necessity for enhanced revenue collection through an efficient tax mechanism. VAT in Nepal operates as a consumption-based tax, applied up to the retail level with a focus on destination. The system incorporates provisions for input tax credits and includes exemptions for specific goods and services, such as agricultural products. Unlike approaches in some other countries, Nepal has chosen to implement a single VAT rate system to streamline administration for taxpayers and tax authorities, aiming for effective compliance and implementation.

1.2 Problem Statement

Nepal is acknowledged as one of the world's poorest and least developed nations, characterized by low per-capita income and over one-third of its population living below the poverty line. The country encounters substantial challenges in achieving economic development and prosperity, amplified by its heavy dependence on foreign aid and internal fiscal inefficiencies. In response to these challenges and to enhance revenue generation, the government has adopted Value Added Tax (VAT) as a modern tax system.

The Value Added Tax (VAT) system in Nepal is integral to the country's fiscal strategy, aimed at boosting revenue generation and fostering economic stability. Despite its implementation, Nepal faces several challenges and intricacies that necessitate a thorough examination. Evaluating the effectiveness of VAT involves assessing its impact on businesses, consumer behavior, price stability, and overall economic growth. Additionally, it is crucial to analyze the administrative capabilities of tax authorities in VAT collection, enforcement, and taxpayer education. Understanding public perception and compliance levels towards VAT is essential for identifying areas needing improvement. Comparative studies with VAT systems in neighboring and similar developing countries can offer valuable insights into best practices and potential reforms. Ultimately, this analysis aims to provide policy recommendations to optimize Nepal's VAT system, ensuring it contributes effectively to fiscal sustainability and economic development.

In Nepal, the VAT system plays a critical role in bolstering government revenue and managing economic affairs, thereby supporting fiscal stability and promoting overall economic growth. However, persistent challenges such as compliance issues in the informal sector and inflationary pressures need to be addressed. Continuous efforts are necessary to streamline VAT administration, enhance taxpayer education, and adjust strategies to align with the dynamic economic landscape.

In conclusion, while VAT represents a significant revenue stream for Nepal, ongoing reforms and strategic adjustments are vital to maximize its effectiveness and ensure it contributes optimally to national development objectives. This study aims to address the following key questions:

- a) How does VAT contribute to the total government revenue and income tax revenue?
- b) Is there any relationship between the relationships between Dependent variables i.e. Total Revenue And Independent variables i.e. Tax revenue, Non tax Revenue, Direct tax, Indirect Tax and Total VAT collection?
- c) What is the impact of Dependent variable i.e. Total Revenue on Independent variables i.e. Tax revenue, Non tax Revenue, Direct tax, Indirect Tax, Total VAT collection?

1.3 Objective of the Study

As indicated by its title, this study aims to analyze the practical implementation of VAT within the Nepalese context. The primary goal is to examine various issues concerning VAT and offer actionable suggestions. The specific objectives of the study include:

- A) To assess the contribution of VAT on total government revenue and income tax revenue.
- B) To examine the relationship between Dependent variables i.e. Total Revenue And Independent variables i.e. Tax revenue, Non tax Revenue, Direct tax, Indirect Tax and Total VAT collection
- c) To analyze the impact of Dependent variable i.e. Total Revenue on Independent variables i.e. Tax revenue, Non tax Revenue, Direct tax, Indirect Tax and Total VAT collection.

1.4 Rationale of the Study

The study of the Value Added Tax (VAT) system in Nepal is crucial for several compelling reasons. Firstly, VAT serves as a fundamental component of Nepal's fiscal policy, playing a significant role in revenue generation for the government. Understanding its practical implementation and effectiveness in collecting taxes is essential to ensure fiscal sustainability and economic stability. Secondly, analyzing the VAT system provides insights into its impact on economic activities, prices, and consumer behavior. This evaluation helps in assessing its role in promoting or hindering economic growth and development.

Thirdly, studying the VAT system in Nepal involves examining administrative challenges such as compliance issues, enforcement capabilities, and taxpayer education. Identifying these challenges can lead to recommendations for improving administrative efficiency and effectiveness. Furthermore, conducting a comparative analysis with VAT systems in neighboring and similar developing countries allows for benchmarking and learning from best practices and successful reforms implemented elsewhere.

Moreover, the study aims to provide evidence-based policy recommendations tailored to Nepal's specific economic context. These recommendations can include reforms to

enhance compliance, streamline administrative processes, and adapt VAT strategies to address emerging economic dynamics. Ultimately, the study seeks to contribute to the optimization of Nepal's VAT system, ensuring it aligns with national development goals of economic growth, poverty reduction, and sustainable development.

1.5 Limitations of the Study

The Limitations of the study are as follows:

- The study focuses solely on corporate tax analysis, excluding other direct and indirect taxes like customs duty, excise duty, VAT, and property tax.
- Due to a specific deadline, the research covers data from only 2012/013 to 2021/022, limiting the depth of analysis.
- The literature on VAT is insufficient and dispersed, hindering a comprehensive understanding.
- Primary data collection is restricted to the Kathmandu Valley, offering insights primarily from a metropolitan area.
- Executives often avoided filling out questionnaires or left some questions unanswered, impacting the depth of analysis.
- The study's results heavily rely on both primary data from respondents and the reliability of secondary data, which may vary.

CHAPTER-II

REVIEW OF LITERATURE

2.1 Conceptual Review

Before the implementation of Value Added Tax (VAT), sales tax played a significant role in Nepal's economy. While some form of sales tax had been collected since as early as 1965, its contribution to the GDP never exceeded 3%. However, over time, sales tax grew in importance as a revenue source for the government, eventually contributing over 20% of total revenue collected. In terms of tax revenue alone, sales tax accounted for more than a quarter of the total taxes collected. As part of indirect taxes, its contribution exceeded one-third of total tax revenue. Initially overlooked, sales tax gained prominence later when the government's overall tax revenue efforts remained below 11% of GDP. Despite its increasing significance, the growth of sales tax revenue was constrained by structural issues in revenue collection, including challenges related to tax cascading and vertical integration. These issues hindered the potential for rapid growth in sales tax revenue, highlighting the complexities in Nepal's fiscal landscape prior to the introduction of VAT.

Before the introduction of Value Added Tax (VAT), Nepal had already begun incorporating indirect taxes into its revenue system starting in the late 1950s. Government revenue primarily relied on sources such as land revenue, customs duties, and excise duties for several decades. Income tax and business profit tax were introduced for the first time in the fiscal year 1959-60 AD. The initial formalization of indirect taxation began with the government's finance bill of 1965 (2022 B.S), which introduced a retail-level sales tax set at 2% on a wide range of goods and services. Initially, this tax was implemented without a formal procedural law and was announced solely through the government budget. Subsequently, the Sales Tax Act of 1966 was enacted, formalizing the administration and regulation of sales tax in Nepal. This legislative step represented a significant evolution in Nepal's tax system, laying the groundwork for further advancements, including the eventual adoption of VAT.

2.1.1 Introduction of Value Added Tax (VAT)

Value Added Tax (VAT) is a consumption tax applied to goods and services at each stage of their production and distribution cycle, based on the value added at each stage. Unlike traditional sales taxes that are only imposed on the final sale to the consumer, VAT is levied on the incremental value added by businesses throughout the supply chain. Businesses are responsible for collecting VAT on their sales and remitting it to the government. The tax amount is typically calculated as the difference between the selling price of the product or service and the cost of materials and services used to produce it.

One of the key features of VAT is its input-output mechanism: businesses can deduct the VAT they have paid on their purchases (input VAT) from the VAT they charge on their sales (output VAT). This ensures that VAT is ultimately borne by the final consumer. VAT rates can vary across countries and often include exemptions or reduced rates for specific goods and services deemed essential or deserving of preferential treatment.

The VAT system is highly valued for its efficiency in generating government revenue, as it minimizes tax cascading effects (taxes on taxes) that can occur with traditional sales taxes. It also promotes transparency in tax collection and administration, making it harder for businesses to evade taxes compared to other tax systems. Globally, VAT has been widely adopted by many countries and plays a crucial role in their fiscal policies, contributing significantly to their revenue streams and aiding in effective economic management.

2.1.2 Meaning of VAT

Value Added Tax (VAT) marks a significant evolution from Nepal's previous tax systems, such as sales tax, by offering a more sophisticated and efficient method for revenue collection. Introduced on November 16, 1997, VAT replaced multiple existing taxes including sales tax, hotel tax, contract tax, and entertainment tax. This shift aimed to address longstanding issues associated with previous tax structures, particularly concerning tax cascading and administrative complexities.

Before VAT, Nepal had experimented with indirect taxes, including a basic retail-level sales tax from the mid-1960s. However, these early tax measures lacked comprehensive

procedural laws and formal administrative frameworks. The formal adoption of VAT in Nepal followed meticulous planning and legislative efforts, facilitated by the establishment of a dedicated VAT task force in 1993. This task force played a pivotal role in drafting the necessary legislation and laying the groundwork for VAT implementation.

VAT is designed primarily as a tax on consumption, aligning with international norms where exports (goods and services consumed abroad) are typically exempt from VAT or subject to VAT refund mechanisms to avoid taxing the same product or service multiple times throughout its production and distribution cycle. This approach not only aims to streamline tax administration but also enhances transparency and compliance, thereby supporting Nepal's broader fiscal objectives.

Despite facing initial challenges such as political instability and opposition from business sectors, Nepal successfully implemented Value Added Tax (VAT) with a unified rate of 10%. Since its inception, VAT has adapted to economic changes and emerged as a significant contributor to government revenue. As a consumption-based tax, VAT is applied at each stage of production and distribution, ensuring that the final burden falls on the end consumer. This systematic approach not only enhances the efficiency of revenue collection but also brings Nepal's tax system in line with international standards, which in turn supports economic growth and ensures fiscal stability. According to Khadka (2000), VAT in Nepal has replaced various taxes previously levied on the sale of goods and services, such as sales tax, hotel tax, contract tax, and entertainment tax, streamlining the tax regime and improving administrative effectiveness.

Value Added Tax (VAT) distinguishes itself from traditional taxes by its mechanism of providing input tax credits, which effectively prevent tax cascading and reduce the tax burden on consumers. This feature is crucial in discouraging tax evasion and maintaining price stability, thus supporting economic growth. In Nepal, VAT is recognized as a modern and scientifically designed tax system that reflects contemporary economic dynamics, including liberalization, privatization, and globalization.

VAT integrates seamlessly with open economy principles and market-driven economies, enhancing transparency and promoting self-regulation within the tax system. As noted by IRD & VAT Project (2001), the VAT system in Nepal is an improved and reformed version of the conventional sales tax, addressing various shortcomings associated with the previous tax regime. By replacing multiple taxes like sales tax and others, VAT streamlines the tax structure, improves administrative efficiency, and aligns with international standards, thereby contributing positively to Nepal's fiscal framework and economic development goals.

Value Added Tax (VAT) in Nepal signifies a progressive and sophisticated approach to taxation, designed to overcome the shortcomings of previous tax systems while fostering sustainable economic development. Its introduction reflects Nepal's dedication to modernizing fiscal policies and aligning with global economic standards, ensuring effective revenue mobilization and fair distribution of tax burdens.

VAT's implementation in Nepal addresses key deficiencies observed in older tax regimes, particularly in terms of preventing tax cascading and reducing opportunities for tax evasion. Unlike traditional sales tax systems, VAT permits businesses to deduct the VAT they have paid on their inputs (input tax credit), thereby mitigating the accumulation of taxes at different stages of production and distribution. This feature not only promotes transparency and fairness but also helps maintain price stability in the market, which is essential for economic growth.

As highlighted by Adhikari (2012), VAT's ability to allow input tax credits contrasts sharply with sales tax systems that lack such provisions, leading to cascading tax effects and higher risks of tax evasion. By incentivizing compliance and streamlining tax administration, VAT supports Nepal's broader economic goals by creating a more conducive environment for business operations and investment.

Overall, VAT in Nepal represents a significant step towards enhancing fiscal efficiency and supporting sustainable economic growth, reflecting the country's commitment to modernizing its tax policies in line with global best practices.

2.1.3 Development of VAT in Nepal

The introduction of Value Added Tax (VAT) in Nepal marks a significant advancement in the country's fiscal policy framework, aimed at modernizing tax administration, improving revenue collection efficiency, and promoting economic stability. VAT was formally implemented in Nepal on November 16, 1997, replacing a range of previous indirect taxes such as sales tax, hotel tax, contract tax, and entertainment tax. This transition was motivated by the need to address longstanding issues like tax cascading, where taxes were applied repeatedly at different stages of production and distribution, resulting in increased costs for consumers and inefficiencies in generating revenue.

Before Value Added Tax (VAT) was introduced, Nepal's tax system predominantly relied on basic forms of indirect taxation, notably a retail-level sales tax that was initiated in the mid-1960s. These early tax measures operated without comprehensive procedural laws or formal administrative frameworks, resulting in inconsistencies and difficulties in collecting revenue effectively. Recognizing the shortcomings of these outdated tax structures, Nepal undertook a deliberate effort to transition towards VAT implementation. This transition was supported by thorough planning and preparation efforts aimed at modernizing the tax system to enhance efficiency and effectiveness in revenue collection.

The journey towards implementing Value Added Tax (VAT) in Nepal commenced with the formation of a dedicated VAT Task Force in 1993, supported by technical assistance from international organizations such as USAID. This task force was instrumental in drafting comprehensive VAT legislation and establishing the necessary administrative procedures. These included taxpayer registration processes, filing mechanisms, and protocols for audits and enforcement.

Despite encountering initial challenges such as political instability and opposition from vested interests within the business community, Nepal successfully rolled out VAT with a standardized rate of 10%, applied uniformly across all sectors of the economy. This implementation marked a significant milestone in Nepal's fiscal reform efforts, aiming to streamline tax administration, enhance revenue collection efficiency, and align with international best practices in taxation.

The Value Added Tax (VAT) system has undergone substantial evolution since its inception, marking a global shift towards more efficient and equitable taxation practices. Originating in France during the 1950s, VAT was introduced to address the deficiencies of traditional sales tax systems, particularly in combating tax cascading—where taxes are levied repeatedly on the same product throughout its production and distribution stages. Initially applied within the industrial sector, VAT gained momentum across Europe and internationally due to its capacity to streamline tax collection processes, reduce economic distortions, and bolster government revenue generation.

Central to VAT is its application at each stage of the production and distribution chain. Businesses levy VAT on the value they add to goods and services, deducting the VAT already paid on their inputs. This mechanism ensures that the final burden of taxation rests with the end consumer, promoting fairness and alleviating the overall tax burden compared to conventional sales taxes.

The implementation of VAT typically necessitates comprehensive legislative reforms and administrative adjustments. This includes establishing frameworks for taxpayer registration, compliance monitoring, and audit procedures. International organizations often provide technical assistance to aid countries in transitioning to VAT, facilitating the development of robust tax administration systems.

Despite its advantages, the introduction of VAT can encounter challenges such as initial resistance from stakeholders, administrative complexities, and the imperative for extensive taxpayer education. Nevertheless, many countries have successfully integrated VAT into their fiscal policies over time, tailoring it to fit national economic contexts while contributing to sustainable economic growth and fiscal stability.

In conclusion, the evolution of the VAT system represents a significant milestone in global tax policy. It enables countries to modernize their tax frameworks, enhance the efficiency of revenue collection, and foster economic development, all while ensuring a more equitable distribution of tax burdens across society.

Since its introduction on November 16, 1997, Value Added Tax (VAT) has held a crucial role in Nepal's tax system. However, in the fiscal year 2012/013 budget speech, the government highlighted the importance of strengthening VAT implementation further.

Effective strategies typically involve expanding the tax base while considering reductions in tax rates to stimulate compliance and economic growth. In contrast, the government chose to raise the VAT rate to 13%, which some view as a less than ideal approach to achieving comprehensive VAT implementation in Nepal. This decision underscores the necessity for a more nuanced and strategic plan to optimize VAT administration and efficacy within the country.

2.1.4 Types of VAT

There are three main variants of Value Added Tax (VAT), namely Product Type VAT (P-VAT), Income Type VAT (I-VAT), and Consumption Type VAT (C-VAT), each characterized by distinct approaches to taxation and methods of calculating the tax base.

A. Product Type VAT (P-VAT):

P-VAT taxes all expenditures within the Gross Domestic Product (GDP) framework, excluding only government wage expenditures. Under the origin principle, P-VAT taxes exports (which originate domestically) but excludes imports (as their value originates abroad). Thus, the base of P-VAT can be described as encompassing all domestic expenditures, except for government wages.

$$\text{Base of P-VAT} = \text{GDP} - G_w = C + I + G_c + (x - m)$$

B. Income Type VAT (I-VAT):

I-VAT excludes depreciation from its base calculation. It taxes the net investment expenditure rather than the gross, reflecting the economy's aggregate expenditure on capital goods adjusted for depreciation:

$$\text{Base of I-VAT} = \text{GDP} - G_w - D = C + (I - D) + G_c + (x - m)$$

C. Consumption Type VAT (C-VAT):

C-VAT, considered the most superior form of VAT, excludes gross investment expenditure entirely from its base. It focuses solely on consumption expenditures, aligning with the destination principle of taxation, which relieves exports from VAT:

$$\text{Base of C-VAT} = \text{GDP} - G_w - I = C + G_c + (x - m)$$

The Consumption Type VAT is preferred for several reasons:

- It does not affect investment decisions since it does not tax investment expenditures.
- It simplifies tax administration by not requiring differentiation between intermediate and capital goods.
- It aligns with the destination principle, beneficial for foreign trade as exports are exempt from VAT. Nepal has adopted the Consumption Type VAT, recognizing its advantages and aligning its tax system with international practices.

In international practice, Value Added Tax (VAT) systems can vary based on their structure and implementation approach. Here are the main types of VAT commonly observed:

1. Destination Principle VAT (Consumption-Type VAT):

This is the most widely adopted form of VAT globally. Under this system VAT is imposed at each stage of production and distribution, but the tax burden ultimately falls on the final consumer. Exports are zero-rated or exempted, ensuring they are not subject to VAT to maintain competitiveness in international markets. Imports are typically subject to VAT at the same rate as domestic goods, promoting neutrality and fair competition. The base of taxation is consumption expenditure, reflecting the value added at each stage of production and distribution.

2. Origin Principle VAT (Product-Type VAT):

This variant of VAT taxes goods and services based on their origin rather than their destination. It taxes goods and services at the point of production or origin, including exports. Imports are exempted or taxed minimally to avoid double taxation. The base of taxation includes all domestic sales and imports, but excludes exports to prevent taxation on foreign consumption.

3. Income Type VAT (I-VAT):

Income Type VAT is less common but exists in some forms, particularly in academic discussions and theoretical models. It excludes capital goods and sometimes excludes investment expenditures from the tax base. This variant aims to tax final consumption

more directly by focusing on income-related transactions rather than value added at each stage of production.

4. Sectoral VAT: Some countries implement VAT systems that vary by sector or industry, applying different rates or rules depending on the type of goods or services. This approach can be used to incentivize certain sectors or discourage consumption of specific goods. It may complicate administration but can be tailored to address sector-specific economic goals or challenges.

5. Dual VAT: In some countries, particularly those with federal structures or complex tax environments, dual VAT systems may exist. These systems apply different VAT rates or rules at federal and state levels, allowing for regional variations in taxation. The aim is to balance national tax policy with regional economic conditions and priorities.

In general, Consumption-Type VAT is the most widely adopted model globally, valued for its simplicity, neutrality, and efficiency in generating revenue. However, variations such as Product-Type VAT, Income-Type VAT, and sector-specific approaches highlight the flexibility of VAT systems in addressing diverse economic and administrative requirements across different countries.

2.1.5 Methods of Computation of VAT

The computation of VAT (Value Added Tax) can be approached through different methods, each tailored to suit specific economic considerations and administrative capacities. Here are the main methods of computing VAT:

1. Tax Credit Method (Invoice Method):

Description: Under this method, VAT is levied on the value added at each stage of production and distribution. Businesses charge VAT on their sales (output VAT) and deduct the VAT paid on their purchases (input VAT) from other businesses. The difference between output VAT and input VAT is remitted to the tax authority.

Calculation: The tax revenue (T) is calculated as:

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

- t is the VAT rate,
- SV is the sales value,
- CPI is the cost of purchased inputs.

2. Subtraction Method:

Description: The Subtraction Method for calculating VAT operates similarly to the Tax Credit Method in that it assesses VAT based on the value added at each stage of production and distribution. However, unlike the Tax Credit Method which relies on explicitly stated VAT amounts on invoices, the Subtraction Method does not require VAT to be separately itemized. Instead, VAT under this method is computed as a percentage of the difference between total sales (which include embedded VAT) and total purchases (also including embedded VAT). This approach simplifies the administrative burden on businesses by focusing on the net value added rather than detailed invoicing of VAT amounts at each transaction stage.

Calculation: The tax revenue (T) is calculated as: $T = t(SV - CPI)$

3. Addition Method:

Description: The Addition Method involves adding the VAT amount to the value of goods or services at each stage of production and distribution. Unlike the Tax Credit and Subtraction Methods, where VAT is deducted or calculated based on input VAT, the Addition Method simply adds a predetermined VAT percentage to the sales price at each stage.

4. Sector-Specific Methods:

In some cases, especially in specific sectors or for certain types of transactions, countries may adopt sector-specific methods to compute VAT. These methods may include variations in how VAT is applied, exemptions, or special rules based on the nature of the goods or services involved. Each method of computing VAT has its own implications for tax administration, compliance, and economic impact. The choice of method often depends on factors such as administrative capability, economic structure, and policy objectives aimed at promoting transparency, efficiency, and revenue collection while minimizing tax evasion.

2.1.6 Principles of VAT

The principle of Value Added Tax (VAT) revolves around taxing the value added at each stage of production and distribution of goods and services. VAT is designed as a consumption tax where the ultimate burden falls on the final consumer, but it is collected

incrementally at each stage of the supply chain. Here are the key principles that underpin VAT:

1. Taxation at Each Stage: VAT is imposed on the value added to goods and services at each stage of their production and distribution. This means that every seller in the supply chain charges VAT on their sales (output VAT) and can deduct the VAT they have already paid on purchases (input VAT). The result is that VAT is paid only on the value added at each stage, rather than on the total value of the product.

2. Consumption-Based Tax: VAT is fundamentally a tax on consumption. Unlike direct taxes such as income tax, which are based on individuals' ability to pay, VAT is applied to consumption expenditures. The final burden of the tax falls on the end consumer who purchases the goods or services.

3. Uniformity and Standardization: VAT systems typically aim for uniformity and standardization in tax rates and procedures across different sectors and regions within a country. This simplifies compliance for businesses and ensures fairness in the tax system.

4. Neutrality: VAT is designed to be neutral with respect to the decisions of businesses and consumers. It should not distort economic choices such as investment or consumption patterns. By taxing all final consumption equally, regardless of how goods and services are produced or distributed, VAT promotes economic efficiency.

5. Transparency and Self-Policing: VAT systems are structured to be transparent and self-policing. Businesses are required to document their transactions thoroughly, including VAT paid on purchases and charged on sales. This documentation allows tax authorities to verify compliance easily and reduces the opportunity for tax evasion.

6. Border Adjustments: VAT systems often include provisions for border adjustments, particularly when goods are exported or imported. Exports are typically zero-rated (i.e., taxed at 0%), while imports are subject to VAT at the point of entry. This ensures that goods are not subject to double taxation and supports international trade competitiveness.

7. Destination Principle: Many VAT systems operate under the destination principle, where VAT is levied based on the destination or location of consumption rather than the origin of goods or services. This principle aligns VAT with consumption and economic activity within a country.

8. Revenue Efficiency: VAT is recognized for its efficiency in revenue generation. It provides a stable and predictable source of government revenue, contributing to fiscal sustainability and funding public services and infrastructure.

Overall, the principle of VAT is to create a broad-based, efficient, and fair tax system that supports economic growth while ensuring equitable distribution of the tax burden among consumers and businesses involved in the production and consumption of goods and services.

2.1.7 History and Development of VAT

The history and development of Value Added Tax (VAT) trace back to the mid-20th century, marking a pivotal evolution in modern taxation systems globally. VAT originated in France in 1954 as a response to the shortcomings of traditional sales taxes prevalent at that time. Sales taxes often resulted in tax cascading, where taxes were applied at each stage of production without accounting for taxes already paid in earlier stages. This inefficiency led to higher costs for consumers and administrative complexities for businesses.

VAT was conceptualized as a more efficient taxation method that would address these challenges. It aimed to tax only the value added by each business in the production and distribution chain. This meant that businesses would charge VAT on their sales to customers but could deduct the VAT they had paid on their inputs (input VAT). As a result, VAT ensured that taxes were levied only on the value added at each stage, from raw materials to the final product, thereby eliminating the cascading effect and reducing the overall tax burden on consumers.

The adoption of VAT gradually gained momentum beyond France, spreading across Europe and eventually to other parts of the world. Its appeal lay in its ability to streamline tax collection, minimize economic distortions, and improve revenue generation for governments. Over time, variations of VAT emerged to suit different economic and administrative contexts, cementing its status as a cornerstone of modern tax systems worldwide.

France's pioneering implementation of Value Added Tax (VAT) in 1954 set a precedent that influenced many European countries to adopt VAT during the late 1960s and early

1970s. This adoption was driven by VAT's ability to address issues associated with traditional sales taxes, such as tax cascading. The European Economic Community (EEC), precursor to the European Union (EU), played a crucial role in harmonizing VAT systems among its member states, which facilitated its widespread adoption across Europe.

Beyond Europe, VAT gained traction in other parts of the world. In Canada, the federal Goods and Services Tax (GST) was introduced in 1991, and subsequently, several provinces merged it with their provincial sales taxes to create the Harmonized Sales Tax (HST). This move aimed to streamline tax administration and reduce compliance costs for businesses operating across different jurisdictions within Canada.

In Asia, countries like Japan and South Korea implemented VAT systems in the 1980s and 1990s as part of broader efforts to modernize their tax frameworks and improve revenue collection efficiency. VAT's adoption in these regions underscores its role as a preferred tax mechanism for enhancing fiscal stability and supporting economic growth through more efficient and equitable taxation. In the SAARC region, Pakistan led the way by adopting Value Added Tax (VAT) in 1990. Following Pakistan's initiative, India introduced a modified version called Modified Value Added Tax (MODVAT) in 1996. However, India fully replaced its sales tax with a comprehensive VAT system nationwide only on January 4, 2005. This transition was facilitated by the Empowered Committee established by the Government of India, which laid down the foundational framework for uniform VAT laws across different states. Despite this uniform framework, India's federal structure allows individual states the autonomy to set their own VAT rates and regulations within their respective jurisdictions. The complete rollout of VAT across India commenced on April 1, 2005, marking a significant milestone in harmonizing tax practices nationwide.

Globally, VAT has gained widespread acceptance and has been implemented by approximately 130 countries. Its adoption underscores its effectiveness in modernizing tax systems, enhancing revenue generation, and reducing tax cascading effects prevalent in traditional sales tax systems.

2.1.8 Reduction of Tax Liabilities

In least developed countries such as Nepal, indirect taxes are pivotal for revenue generation, with Value Added Tax (VAT) standing out as a significant innovation since the latter half of the twentieth century. VAT supersedes traditional sales taxes by adopting a comprehensive approach that encompasses the value added at every stage of production and distribution. This modern tax framework aims to bolster revenue collection efficiency while minimizing opportunities for tax evasion. In Nepal, VAT plays a foundational role within the income tax system, contributing to its overall effectiveness in supporting fiscal stability and economic development efforts.

VAT plays a critical role in Nepal's efforts to mobilize revenue by enhancing transparency in transactions and discouraging tax evasion across various sectors. The system ensures that taxes are applied at each stage of value addition to raw materials, allowing businesses to claim credits for taxes paid during earlier procurement stages. This mechanism effectively prevents the issue of double taxation on goods and services. Experience from tax reforms in developing countries underscores VAT as the preferred choice and a vital component of fiscal reform initiatives. Its implementation is relatively straightforward in developing nations and serves as a crucial tool for generating internal resources. Importantly, VAT imposes minimal or no additional burden on economic activities compared to other tax systems, thereby supporting sustainable economic development goals.

VAT not only enables efficient revenue collection and administration but also aligns with the developmental aspirations of underdeveloped countries. Its adoption is integral to broader efforts aimed at achieving economic growth through optimized tax systems and fostering financial stability.

2.2 Empirical Review

The studies by Lambert (2022), Shoup (2021), Olabisi (2020), Abedisi and Ojara (2018), Alizadeha and Motallabi (2016), and Khan and Shadab (2013) collectively shed light on various aspects of taxation, particularly focusing on Value Added Tax (VAT) and its implications across different contexts.

Lambert (2022) emphasizes the foundational principles of taxation, advocating for simplicity, fairness, and longevity in tax systems. He discusses the Cost of Service theory, which posits that those benefiting from government services should collectively share the costs through taxation, highlighting the disproportionate impact of consumption taxes on low-income earners.

Shoup (2021) provides a historical perspective on VAT, tracing its development from traditional turnover and sales taxes to its adoption as a more efficient consumption-based tax system. He discusses VAT's application under different economic principles (destination vs. origin) and its effectiveness in replacing earlier tax regimes, aiming to minimize tax cascading and enhance revenue collection.

Olabisi (2020) focuses on tax evasion and avoidance in Lagos State, Nigeria, highlighting their detrimental effects on government revenue. His study underscores the importance of public awareness and effective utilization of tax revenues to deter individuals from engaging in these practices.

Abedisi and Ojara (2018) delve into the impact of tax avoidance and evasion on personal income tax administration in Nigeria. They explore how higher tax rates can incentivize tax avoidance and evasion, leading to suboptimal performance in tax collection. Their findings underscore the need for effective tax administration and public trust in tax systems.

Alizadeha and Motallabi (2016) investigate VAT's influence on government expenditures in Iran, focusing on current and construction expenditures relative to GDP. They find a positive relationship between VAT and both types of expenditures, suggesting that VAT primarily boosts construction expenditures compared to current expenditures as a proportion of GDP.

Khan and Shadab (2013) examine the implementation and impact of VAT in India following its introduction in 2005, replacing traditional sales taxes across states. Their study evaluates VAT's revenue generation, buoyancy, and administrative efficiency, offering insights into its role in enhancing fiscal management and efficiency at the state level.

These studies collectively highlight Value Added Tax (VAT) as a crucial element of contemporary tax frameworks, impacting revenue generation, expenditure allocations, and broader fiscal governance across varied economic environments. Each study provides unique perspectives on VAT's development, its operational effectiveness, and the challenges it faces within different regional and economic settings. Collectively, they enhance our understanding of VAT's evolution as well as its pivotal role in shaping modern tax policies worldwide.

2.3 Review Nepalese Context

Dhakal (2012) authored a comprehensive book titled "Income Tax and House and Compound Tax Law Practice," which covers income tax regulations in Nepal along with discussions on house and compound taxes and Value Added Tax (VAT).

K.C. (2014) wrote "Tax Laws and Tax Planning: Theory and Practice," focusing on topics such as business income inclusion and exclusion, rules for deductible income, and fundamental timing and accounting issues in tax planning.

Mallik (2013) published "Nepalko Adhunik Aaykar Pranali," analyzing Nepal's Income Tax Act of 2058 with examples. The book emphasizes the development of income tax laws, the significance of the income tax system, new provisions under the Act, computation of income tax, deductions, tax administration, documentation, and tax collection.

Adhikari (2011) authored "Value Added Tax in Nepal: Theory and Practice," exploring the theoretical aspects of VAT, including its historical background, objectives, merits, and demerits. It also delves into Nepal's VAT implementation, tax administration system, legal provisions, and the Value Added Tax Rules of 1996 and 1997.

Kandel (2016) wrote "Tax Laws and Tax Planning," covering key features of the Income Tax Act, different heads of income under the Act, provisions related to depreciation, tax planning strategies, corporate tax planning, capital structure, and Value Added Tax in Nepal.

Thapa (2016) conducted a study on the effectiveness of Value Added Tax (VAT) in Nepal, analyzing VAT's contribution to total government revenue, trends in VAT

collection, effectiveness of VAT administration, registration processes, location strategies, and staff behaviors in tax offices.

Poudel (2017) studied the role of Value Added Tax (VAT) in tax revenue generation in Nepal, discussing both theoretical and practical aspects of VAT, focusing on its impact on tax revenue generation and structural issues within Nepal's tax system.

Timsina (2019) presented on "Tax Elasticity and Buoyancy in Nepal," exploring tax elasticity and buoyancy concepts in Nepal's tax system, examining responsiveness to changes in import values and income tax growth.

Koirala (2021) conducted a study titled "Performance of Value Added Tax System in Nepal: A Model-Based Descriptive Analysis," evaluating Nepal's VAT policy outcomes over nearly 24 years. Using econometric modeling and descriptive analysis, the study assessed VAT revenue trends, highlighting factors such as import growth, private consumption levels, and the impact of a new VAT withholding system on revenue generation.

These studies collectively provide insights into the theoretical underpinnings, practical implications, and performance evaluations of tax systems in Nepal, particularly focusing on income tax laws, VAT, tax planning strategies, revenue generation dynamics, and the administrative effectiveness of tax policies.

2.4 Research Gap

The concept of Value Added Tax (VAT) represents a departure from traditional sales tax systems by aiming to levy taxes on the value added at each stage of production and distribution of goods and services, encompassing stages such as importation, manufacturing, wholesale, and retail. Adopted by both developing and developed countries, VAT serves multiple purposes: establishing a stable revenue source, broadening the tax base, fostering economic growth, addressing macroeconomic challenges, modernizing the tax system, and enhancing transparency in Nepal's fiscal regime. In Nepal, consumers, businesses, and industrial communities generally support VAT due to its transparency and accountability benefits, making it a significant contributor to government revenue alongside other indirect taxes.

Despite its potential advantages, the effectiveness of VAT in Nepal hinges on successful implementation, an area where the country faces several challenges due to its status as a

developing nation. These implementation challenges critically impact VAT's success. Key issues include inadequate infrastructure, limited awareness among accountants and business owners regarding VAT provisions, negative attitudes among tax officials, and a lack of accountability in government and political spheres. Field surveys highlight widespread issues such as poor planning, unaccountable personnel, and bureaucratic weaknesses, which undermine efforts to implement VAT. Corruption, prevalent across political and administrative levels, further complicates matters, contributing to suboptimal outcomes.

Addressing these challenges necessitates comprehensive reforms aimed at enhancing taxpayer awareness, improving administrative practices, fostering a more supportive environment for taxpayers, and effectively combating corruption. Educating taxpayers about the theoretical foundations and benefits of VAT is crucial to gaining their support and cooperation. Ultimately, overcoming these obstacles is essential for maximizing VAT's potential as a revenue generator and ensuring its positive impact on Nepal's economic development and governance.

CHAPTER-III

RESEARCH METHODOLOGY

Research methodologies for studying Value Added Tax (VAT) typically involve a blend of quantitative and qualitative approaches to comprehensively analyze its impact, effectiveness, and implementation challenges. A robust research methodology for VAT begins with defining clear research objectives and questions, followed by the selection of appropriate methods and techniques tailored to the specific context of the study.

Quantitative methods often form the backbone of VAT research, leveraging statistical analyses and econometric modeling to quantify the relationship between VAT policies and economic variables. Researchers may utilize time-series data from economic surveys, tax records, or national accounts to track trends in VAT revenue collection, assess its buoyancy and elasticity, and analyze its contribution to government finances. Econometric models such as ARDL (Autoregressive Distributed Lag) or panel data models may be employed to explore the causal relationships between VAT rates, compliance behaviors, and economic indicators.

Qualitative methods complement quantitative analyses by providing deeper insights into the subjective aspects of VAT implementation. Qualitative approaches involve interviews, focus groups, case studies, and content analysis of policy documents, legal texts, and administrative reports. These methods help uncover stakeholders' perceptions, attitudes, and experiences related to VAT, including challenges faced by taxpayers, interactions with tax authorities, and institutional barriers hindering effective implementation.

Furthermore, comparative analysis across countries or regions with varying VAT structures and administration practices can enrich the research methodology. This comparative approach allows researchers to draw lessons from international experiences, identify best practices, and contextualize findings within a broader theoretical framework.

Ethical considerations are paramount in VAT research, particularly concerning data confidentiality, informed consent for interviews, and maintaining impartiality in analysis

and reporting. Researchers must navigate these ethical dimensions while ensuring the rigor and validity of their findings through triangulation of data sources and methods.

In conclusion, an effective research methodology for studying Value Added Tax (VAT) should blend quantitative and qualitative approaches to offer a holistic understanding of its impact, challenges, and avenues for improvement. Integrating empirical analysis with stakeholder perspectives and international comparisons enables researchers to generate valuable insights that can inform policy decisions and optimize VAT administration and compliance strategies.

Complementing quantitative analysis, qualitative approaches capture stakeholder experiences, perceptions, and behaviors related to VAT implementation. Interviews, case studies, and focus groups with taxpayers, businesses, and government officials offer nuanced insights into operational challenges, administrative bottlenecks, and factors influencing compliance or evasion.

By combining these methodologies, researchers can deliver comprehensive research outcomes that illuminate VAT's multifaceted role in economic governance. Such insights are crucial for designing effective policies, enhancing administrative efficiency, and fostering compliance, ultimately supporting sustainable economic development and governance in Nepal.

3.1 Research Design

This study adopts a descriptive and analytical approach, emphasizing the importance of selecting an appropriate research design to effectively achieve its objectives. Research design is conceptualized as the blueprint outlining methods, structures, and strategies essential for obtaining answers to research questions while managing variability in data collection.

Designing research on Value Added Tax (VAT) entails developing a structured framework to investigate its implementation, impact, and associated challenges comprehensively. A robust research design for VAT typically comprises several essential components:

Firstly, clearly defining research objectives is paramount. For instance, the study may seek to evaluate VAT's effectiveness in revenue generation and economic stability within Nepal. These objectives serve as a compass throughout the research process, guiding the formulation of research questions and methodologies.

Secondly, formulating specific research questions aligned with these objectives helps in focusing the investigation. Questions could delve into various areas such as the influence of VAT on consumer prices, compliance behaviors among businesses, or the efficiency of VAT administration in Nepal.

Thirdly, selecting appropriate methodologies tailored to the research questions and available resources is crucial. Quantitative methods, like statistical analysis of VAT revenue trends and inflation rates, or qualitative methods such as interviews with tax officials and business owners, can offer comprehensive insights into different dimensions of the VAT system.

Furthermore, providing recommendations and implications based on research findings ensures that the study contributes to policy discussions and advancements in VAT administration and compliance in Nepal. A structured research design integrating these components enables researchers to systematically explore and analyze various facets of the VAT system, thereby generating valuable insights to enhance its efficacy and address implementation challenges effectively.

3.2 Nature and Sources of Data

The data used in this study are taken from secondary sources. The major sources of the data are as follows:

3.3 Procedure of Data Collection

The data utilized in this study were sourced primarily from secondary sources, selected to support the research objectives effectively. The main sources of data included:

- Economic Surveys from various years published by the Ministry of Finance, Government of Nepal.
- Annual reports issued by the Inland Revenue Department across different years.
- Economic Bulletins published by the Nepal Rastra Bank covering various years.

- Budget Speeches from different years, provided by the Ministry of Finance, Government of Nepal.
- Various books and publications related to VAT.
- Websites of organizations such as the World Bank, IMF, Ministry of Finance (MOF), Inland Revenue Department (IRD), and Central Bureau of Statistics (CBS).
- Other pertinent records and datasets deemed relevant for the study.

Throughout the data collection process, efforts were made to filter out unnecessary information, focusing solely on acquiring essential data aligned with the study's objectives. This approach ensured that the data used were pertinent and directly contributed to addressing the research questions and objectives effectively.

3.3 Procedures of Data Collection.

The secondary data & information has been obtained from various sources like, annual report, unpublished official records and other related documents, others newspapers, article and management etc.

3.4 Procedures of Data Presentation and Analysis

In analyzing Value Added Tax (VAT) data from secondary sources, a systematic approach to data presentation and analysis is crucial to derive meaningful insights and facilitate informed decision-making. The process begins with comprehensive data collection from reliable sources such as economic surveys, government reports (e.g., Ministry of Finance publications, Inland Revenue Department reports), central bank bulletins (e.g., Nepal Rastra Bank's Economic Bulletin), and data repositories of international organizations like the World Bank and IMF. Once collected, the data undergoes rigorous cleaning and preparation to ensure accuracy and consistency. This involves removing errors, handling missing values, and standardizing formats to enable comparability across different datasets and time periods.

Descriptive statistics are then calculated to summarize key aspects of the VAT data, including measures of central tendency (mean, median, mode), variability (standard deviation, range), and distributional characteristics (skewness, kurtosis). Visual tools such as histograms, frequency distributions, and box plots are utilized to present these

descriptive statistics effectively, providing insights into the distribution and patterns of VAT revenue or other pertinent variables.

Time-series analysis is employed to examine trends and variations in VAT collection over time. This involves calculating growth rates, seasonal adjustments, and plotting time-series graphs to visualize fluctuations and long-term trends. Sectoral and geographical analyses are conducted to assess VAT contributions across different economic sectors and regions, employing maps, bar charts, and stacked area plots to highlight variations and patterns.

Cross-sectional analysis compares VAT data across different segments of the economy or taxpayer categories, shedding light on factors influencing VAT compliance and revenue generation. Regression analysis may be utilized to explore relationships between VAT revenues and explanatory variables such as VAT rates, economic indicators, or policy changes. This helps in understanding the impact of these factors on VAT outcomes and identifying drivers of revenue fluctuations.

Qualitative insights from policy documents, expert opinions, or stakeholder interviews are integrated where applicable to enrich the analysis. These qualitative inputs provide contextual understanding and help interpret quantitative findings in the broader policy and administrative context of VAT.

Data visualization plays a crucial role in presenting analysis results effectively, ensuring clarity and accessibility for diverse audiences including policymakers, researchers, and stakeholders. Charts, graphs, and tables are used to visually communicate trends, relationships, and findings derived from the data analysis process.

Finally, the interpretation of findings from the data analysis is synthesized into actionable insights and recommendations. This includes identifying policy implications, suggesting improvements in VAT administration, and highlighting areas for further research or data collection to enhance understanding of VAT dynamics. By following these procedures, researchers and analysts can conduct robust data presentation and analysis of VAT using secondary sources, supporting evidence-based decision-making and policy formulation in the realm of tax policy and economic management.

3.5. Data Analytical Tools

To effectively achieve the study objectives, the collected data was processed to ensure clarity and ease of analysis. The primary methods of data presentation included tables and diagrams, with Microsoft Excel serving as the primary tool for analysis. Various techniques such as percentages, graphs, charts, diagrams, and trend analysis were employed to present factual information and insights derived from the data.

Upon completion of data collection, all information underwent careful organization, coding, categorization, and recording in both E-Views version 10 databases and Microsoft Excel files. This meticulous processing aimed to maintain accuracy and consistency in aligning the data with the intended research objectives. Statistical tools were subsequently applied to analyze the data comprehensively, addressing the research questions effectively.

The presentation of findings utilized tables and figures, which are instrumental in visually representing trends and patterns identified through the analysis. Additionally, statistical measures such as mean, standard deviation, and frequency distributions were computed to draw meaningful inferences from the collected responses.

Overall, these systematic procedures ensured that the data was handled rigorously and interpreted accurately, thereby facilitating a robust analysis and presentation of insights pertinent to the study of Value Added Tax (VAT).

The research employs several tools for the analysis and interpretation of data:

3.5.1 Descriptive Statistics

Descriptive statistics serve as numerical summaries that effectively describe and summarize data collected from various sources such as experiments, surveys, or historical records. In the context of analyzing interest rates and other variables pertaining to commercial banks in Nepal, statistical tools like mean, standard deviation, and measures of maximum and minimum values are employed. These tools provide insights into the central tendency, dispersion, and range of the data, enabling a comprehensive understanding of the variables under investigation within the banking sector of Nepal.

3.5.2 Correlation Analysis

Inferential statistics play a critical role in statistical analysis, especially when the study aims to explore relationships between variables and make predictions. This type of analysis allows researchers to draw conclusions about the data beyond the sample studied. It helps determine whether the relationships observed in the sample data can be generalized to the entire population. In the context of this study, the effectiveness of VAT is analyzed in relation to various variables such as types of business, years of business operations, knowledge and perceptions of VAT, interactions with tax offices, satisfaction with procedures, and perceptions of VAT implementation. Inferential statistics will be used to explore these relationships, providing insights into how VAT impacts different aspects of business operations and stakeholders' perceptions in Nepal.

3.5.3 Regression Analysis

Regression analysis is a fundamental statistical method used to examine the relationship between a dependent variable and one or more independent variables. It is invaluable for assessing the strength of these relationships and for modeling future interactions between variables. In statistical modeling, regression analysis encompasses various techniques aimed at estimating and analyzing relationships among variables. It is particularly useful when investigating the dependency of a dependent variable, such as the effectiveness of VAT in this study, on multiple independent variables.

In the context of this research, regression analysis will be applied to explore how the effectiveness of VAT relates to independent variables such as types of business, years of business operations, knowledge and perceptions of VAT, interactions with tax offices, satisfaction with procedures, and perceptions of VAT implementation. By doing so, regression analysis allows researchers to understand how changes in one independent variable affect the typical value of the dependent variable, while keeping other independent variables constant. This method provides insights into the nuanced relationships that influence the effectiveness of VAT in Nepal.

Regression Models

To examine the impact of firm specific variables on effectiveness of VAT in NEPAL.

The following regression model is formulated;

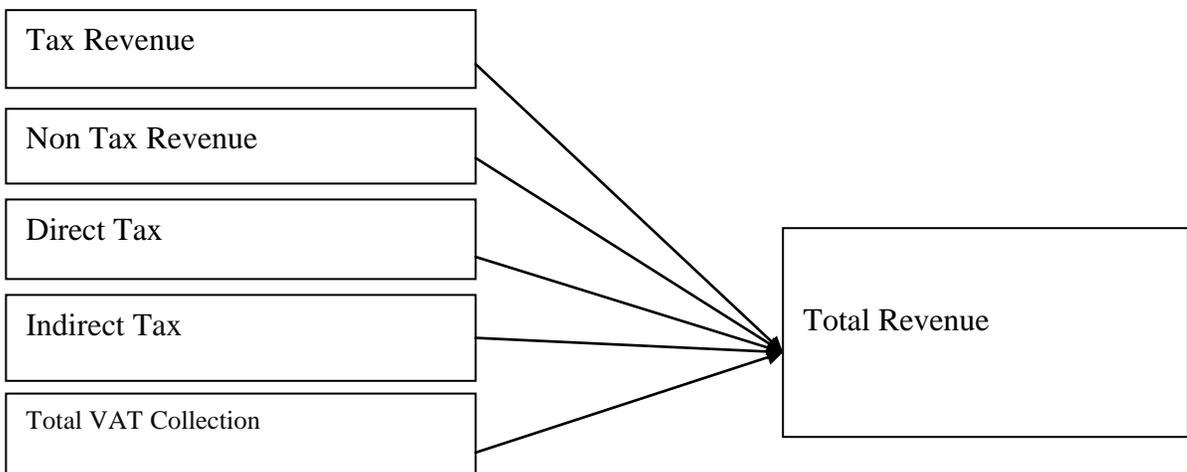
$$TR = b_0 + b_1TAR + b_2NTR + b_3DT + b_4IDT + b_5TVC + \dots + e$$

Where, TR refers to total revenue, b_0 refers to intercept of regression equation, b_1 refers to Tax Revenue (TAR), b_2 refers to Non-Tax Revenue, b_3 refers to Direct Tax (DT), b_4 refers to Indirect Tax (IDT), b_5 refers to Total VAT Collection (TVC) and 'e' refers to error term of the regression equation.

3.6 Research Framework and Definition of Variables

Independent Variables

Dependent Variables



(Source: Koirala, 2021)

Figure 1: Research Framework

Dependent Variable:

Total revenue

Exploring total revenue in the context of Nepal involves examining various sectors of the economy contributing to the country's overall revenue generation. Understanding and

optimizing revenue generation across these sectors is crucial for Nepal's economic growth and development. Additionally, addressing challenges such as poverty, political instability, and infrastructure deficits is essential for sustaining and increasing total revenue over the long term.

Independent Variables:

Tax Revenue

Tax revenue refers to the income generated by the government through various taxation measures imposed on individuals, businesses, and transactions. Effective tax administration and compliance are crucial for maximizing tax revenue collection in Nepal. The government periodically revises tax policies and rates to align with economic objectives and revenue targets.

Non Tax Revenue

Non-tax revenue comprises income generated by the government from sources other than taxation. Effective management of non-tax revenue streams requires transparent policies, sound financial governance, and prudent investment practices to optimize returns and support sustainable development initiatives.

Direct Tax

Direct taxes are considered progressive because they are based on the ability to pay, with higher-income individuals and businesses typically subject to higher tax rates. The collection of direct taxes in Nepal is administered by the Inland Revenue Department (IRD) under the Ministry of Finance.

Indirect Tax

Indirect taxes are regressive to some extent because they may have a disproportionate impact on low-income individuals who spend a higher proportion of their income on consumption. The collection of indirect taxes in Nepal is administered by various government agencies, including the Department of Customs and the Inland Revenue Department.

Total VAT Collection

VAT was introduced in Nepal to modernize taxation, broaden the tax base, and boost government revenue. Despite initial challenges in compliance and administration, it has become a significant income source at both central and local levels. VAT's expansion to peripheral regions aimed to integrate them into the formal economy, but effectiveness varies due to infrastructure, economic activity, and compliance issues. The government has worked on simplifying procedures, educating taxpayers, and enforcing compliance to maximize revenue, including in rural areas. Official reports and government sources offer the latest data on VAT collection in Nepal's peripheral regions.

CHAPTER IV

RESULTS AND DISCUSSION

4.1 Analysis of Secondary Data

Secondary data refers to information gathered previously for purposes other than the current study. This data is typically in the form of raw data or published materials. Additionally, unpublished records or statistics compiled by others prior to the study are also considered secondary data. In the context of this study, secondary data has been sourced from various sources including the Economic Survey, Budget Speech, Inland Revenue Department reports, Annual Reports, and relevant newspapers.

The collected secondary data has been systematically tabulated, presented, analyzed, and interpreted to achieve the study's objectives. This process ensures that the insights derived from the data contribute effectively to addressing the research questions and goals of the study. By utilizing secondary data, researchers can leverage existing information to gain valuable insights into topics such as economic trends, fiscal policies, and tax administration without the need for primary data collection, thereby optimizing resources and time in research endeavors.

4.1.1 Government Revenue of Nepal

Taxation is a vital component of a nation's fiscal landscape, constituting a significant portion of domestic revenue alongside foreign aid. Often exceeding 75% of total internal resources, taxes reflect a country's fiscal policies and priorities, bolstering its financial capacity and supporting diverse economic activities.

The revenue derived from taxes plays a crucial role in nation-building by enabling governments to undertake essential social and developmental initiatives. These include infrastructure projects, social welfare programs, and improvements in public services. To fund such endeavors, governments rely on substantial resources sourced from both domestic and external channels.

Tax revenue encompasses income generated through direct and indirect taxes levied on individuals, businesses, and other entities. In contrast, non-tax revenue includes fees,

finances, dividends from state-owned enterprises, royalties, proceeds from asset sales, interest payments, and other miscellaneous sources of income. Financial reports and government publications often present a breakdown of tax revenue versus non-tax revenue through tables and diagrams, offering transparency and clarity on how different revenue streams contribute to the government's financial framework and overall economic stability. These visual representations provide stakeholders with a comprehensive overview of revenue distribution, highlighting the pivotal role of taxation in sustaining public finances and supporting national development agendas.

Table 2

Total Revenue Collection

	(Rs. in millions)
Fiscal Year	Total Revenue
2012/013	98674
2013/014	78952
2014/015	87712
2015/016	107622
2016/017	143475
2017/018	177991
2018/019	198376
2019/020	244373
2020/021	296021
2021/022	356620

Source: Economic Survey of Ministry of Finance for the fiscal year 2021/2022

The table shows an increasing trend in total revenue collection over the years, with occasional fluctuations. Tax revenue was gradually increasing in every year since 2012/13 amounting Rs. 98674 Million. It was decreased in 2013/14 amounting Rs. 78952 million. The Contribution of tax revenue was found Fluctating in different years. The total revenue collection shows a generally increasing trend from 2012/013 to 2021/022, indicating growth in economic activities and tax compliance over the years. Some

significant fluctuations were noticed i.e. decrease in 2013/014 and rapid increase in 2017/018 due to some external and internal factors.

Table 3
Contribution of Tax Revenue Collection

(Percentage)	
Fiscal Year	Tax Revenue Percent
2012/013	84.29
2013/014	82.30
2014/015	81.09
2015/016	79.12
2016/017	81.58
2017/018	89.77
2018/019	89.34
2019/020	86.64
2020/021	87.57
2021/022	87.61

Source: Economic Survey of Ministry of Finance for the fiscal year 2021/2022.

The table shows that after a period of decline and subsequent increase, the tax revenue contribution stabilized at a relatively high level from 2017/018 onwards. This stability indicates consistency in tax revenue collection as a significant source of income for the fiscal entity in the years following 2017/018. The contribution of tax revenue in total revenue in F.Y 2012/13 was 84.29%. The percentage of tax revenue contribution declined from 84.29% in 2012/013 to 79.12% in 2015/016, indicating a decrease over these years. And There was a notable increase from 79.12% in 2015/016 to 89.77% in 2017/018, showing a significant rise in tax revenue contribution during these years. From 2017/018 onwards, the tax revenue contribution remained relatively stable. There are minor fluctuations within this period but generally, the contribution remained within the range of 86.64% to 89.77%.

Table 4

Contribution of Non Tax Revenue Collection

(Percentage)

Fiscal Year	Non Tax Revenue Percent
2012/013	16.20
2013/014	15.20
2014/015	18.91
2015/016	20.88
2016/017	18.42
2017/018	10.23
2018/019	10.66
2019/020	13.36
2020/021	12.43
2021/022	12.39

Source: Economic Survey of Ministry of Finance for the fiscal year 2021/2022.

The table shows that non-tax revenue contribution experienced fluctuations over the years a period of growth from 2012/013 to 2015/016, A sharp decline from 2015/016 to 2017/018 and Followed by stabilization from 2017/018 onwards. Non-tax revenue contribution increased from 16.20% in 2012/013 to 20.88% in 2015/016, showing a steady rise over these years. There was a significant decrease from 20.88% in 2015/016 to 10.23% in 2017/018, indicating a sharp decline in non-tax revenue contribution during these years. From 2017/018 onwards, the non-tax revenue contribution stabilized with minor fluctuations: While non-tax revenue remains a significant part of the revenue mix, its contribution stabilized at a lower level compared to tax revenue, which showed a more consistent and dominant share in the fiscal revenue profile over the years analyzed.

4.1.2 Tax Revenue Structure in Nepal

In Nepal, total tax revenue is categorized broadly into direct tax and indirect tax revenue streams. Direct tax revenue encompasses various taxes imposed directly on individuals, businesses, and other entities. These include income tax, property tax, interest tax, gift tax, vehicle tax, expenditure tax, contract tax, among others. On the other hand, indirect tax revenue comprises taxes levied on goods and services rather than on income or

profits. This category includes sales tax (VAT), entertainment tax, passenger tax, hotel tax, import tax, excise duty, and similar levies.

The allocation and impact of direct and indirect tax revenue are pivotal components within Nepal's fiscal structure. Direct taxes primarily encompass levies on income, wealth, and specific transactions, directly tied to individual or corporate financial activities. In contrast, indirect taxes are imposed on consumption or expenditure, affecting goods and services purchased rather than personal or business income directly.

Tables 5 and 6 serve to illustrate the absolute figures and proportional contributions of direct and indirect tax revenue in Nepal. This presentation format is essential for stakeholders and policymakers alike, offering a clear overview of how each tax category contributes to the overall revenue generation of the Nepalese government. It enables a deeper understanding of the composition and relative significance of direct versus indirect taxes within the broader fiscal framework, aiding in informed decision-making and policy formulation aimed at optimizing revenue streams and fiscal sustainability.

Table 5

Contribution of Direct Tax on Revenue Collection

Fiscal Year	Direct Tax Revenue Percent (Percentage)
2012/013	27.25
2013/014	26.69
2014/015	27.11
2015/016	30.59
2016/017	26.71
2017/018	24.28
2018/019	31.84
2019/020	31.87
2020/021	31.34
2021/022	46.25

Source: Economic Survey of Ministry of Finance for the fiscal year 2021/2022

The above table shows the significant variability in direct tax revenue contribution over the years, with fluctuations observed from 2012/013 to 2017/018, followed by a marked increase from 2018/019 onwards. The sharp rise in 2021/022 highlights the impact of direct taxes on overall revenue, potentially reflecting changes in tax policies, economic conditions, or taxpayer behavior. This analysis underscores the importance of direct taxes as a substantial component of total revenue collection in recent years. \

There are fluctuations in direct tax revenue contribution during these years, ranging from 26.69% in 2013/014 to a peak of 30.59% in 2015/016, and dropping to 24.28% in 2017/018. This indicates variability in the share of direct taxes in revenue collection. From 2018/019 onwards, there is a notable increase in direct tax contribution: 2018/019: 31.84%, 2019/020: 31.87%, 2020/021: 31.34% and 2021/022: 46.25%. Particularly, the jump to 46.25% in 2021/022 suggests a significant surge in direct tax revenue as a percentage of total revenue.

Table 6
Contribution of Indirect Tax on Revenue Collection

(Percentage)

Fiscal Year	Indirect Tax Revenue Percent
2012/013	74.12
2013/014	73.31
2014/015	72.89
2015/016	69.41
2016/017	73.29
2017/018	75.72
2018/019	68.17
2019/020	68.12
2020/021	68.65
2021/022	53.75

Source: Economic Survey of Ministry of Finance for the fiscal year 2021/2022

The table shows that, while indirect taxes historically constituted a substantial portion of total revenue, there has been a decline in their contribution in recent years. This decline may reflect changes in tax policies, economic conditions impacting consumption patterns, or shifts in the revenue mix strategy. The sharp decrease in 2021/022 highlights the need for further examination of factors influencing indirect tax revenue collection and its implications for fiscal planning and policy adjustments.

Indirect tax revenue contribution remained relatively stable during these years, fluctuating within a range but generally maintaining a high proportion of total revenue. From 2018/019 onwards, there is a noticeable decline in indirect tax revenue contribution: 2018/019: 68.17%, 2019/020: 68.12%, 2020/021: 68.65% and 2021/022: 53.75%. The drop to 53.75% in 2021/022 indicates a significant decrease in the share of indirect taxes in total revenue collection.

Table 7
Contribution of Total VAT Collection

Fiscal Year	(in million)	
	Total VAT Collection	
2012/013	18885	
2013/014	21613	
2014/015	26096	
2015/016	29816	
2016/017	39701	
2017/018	54921	
2018/019	61664	
2019/020	70930	
2020/021	83418	
2021/022	101110	

Source: Economic Survey of MOF 2021/022

The table shows that a strong upward trend in VAT collection over the years, reflecting both economic expansion and potential changes in tax policy or compliance. The

accelerated growth in recent years underscores the increasing importance of VAT as a significant revenue source for the fiscal entity. This analysis highlights VAT's role in contributing to overall revenue and suggests its continued significance in fiscal planning and budgetary considerations.

VAT collection shows consistent growth from 18,885 million in 2012/013 to 39,701 million in 2016/017. This period demonstrates a significant increase year over year. There is a notable acceleration in VAT collection from 54,921 million in 2017/018 to 101,110 million in 2021/022. This represents a substantial increase over these years.

4.2 Descriptive Analysis

Table 8

Descriptive Statistics

Variables	Range	Minimum	Maximum	Mean	Std. Deviation
TR	.59	1.36	1.95	1.7216	.23282
TAR	.625	1.25	1.85	1.69	.34756
NTR	5.71	11.86	17.57	15.1580	2.06174
DT	63.40	95.64	159.04	124.9496	25.49464
IDT	65.12	88.25	165.20	136.30	26.30475
TVC	.74	3.85	4.59	4.1780	.29150

The above table shows that a detailed view of the variability and central tendencies of different revenue components. Tax revenue shows relatively stable values with low variability, while total annual revenue and non-tax revenue exhibit more variability. Direct and indirect taxes also show moderate variability, reflecting fluctuations in economic activity and tax policy impacts. The small standard deviation for total VAT collection suggests consistency in VAT revenue figures over the observed period.

Tax Revenue (TR) ranges from 1.36 to 1.95, with a mean of 1.7216. The low standard deviation (0.23282) indicates that the values are closely clustered around the mean, suggesting consistency in tax revenue figures over the observed period. The Tax Revenue (TAR) ranges from 1.25 to 1.85, with a mean of 1.69. The standard deviation

(0.34756) suggests some variability in total revenue, indicating fluctuations that may include non-tax revenue components.

Non-Tax Revenue (NTR) ranges from 11.86 to 17.57, with a mean of 15.1580. The higher standard deviation (2.06174) indicates greater variability in non-tax revenue compared to tax revenue, suggesting fluctuations in sources like fees, fines, and other government income.

Direct Tax (DT) ranges from 95.64 to 159.04, with a mean of 124.9496. The standard deviation (25.49464) indicates moderate variability in direct tax revenue, which includes taxes directly levied on income, profits, and capital gains. Indirect Tax (IDT) ranges from 88.25 to 165.20, with a mean of 136.30. The standard deviation (26.30475) suggests moderate variability in indirect tax revenue, which includes taxes levied on goods and services rather than directly on income or profits.

Total VAT Collection (TVC) ranges from 3.85 to 4.59, with a mean of 4.1780. The small standard deviation (0.29150) indicates that VAT collection figures are closely clustered around the mean, suggesting stability or consistency in VAT revenue.

4.3 Correlation analysis

In correlation analysis, the focus is on calculating the Pearson correlation coefficient, denoted as (r), which measures the strength and direction of the linear relationship between two variables. This coefficient ranges from -1 to +1, where a value closer to +1 signifies a strong positive correlation, while a value closer to -1 indicates a strong negative correlation. A correlation coefficient of 0 suggests no linear relationship between the variables. The sign of (r) indicates the direction of the association: positive for a direct relationship and negative for an inverse relationship.

Table 9

Correlation Analysis

Variables	TR	TAR	NTR	DT	IDT	TVC
TR	1					
TAR	-.711 [*]	1				

NTR	.397	-.406	1			
DT	.544	-.080	.155	1		
IDT	.684*	-.393	-.080	.128	1	
TVC	-.145	-.073	.120	.111	-.467	1

The table shows the insights into how different revenue components relate to Tax Revenue, highlighting potential dependencies and dynamics within the revenue structure of the entity.

TR (Total Revenue): Correlation with itself: 1. This is always 1 because it's the correlation of a variable with itself. TAR (Tax Revenue):Correlation with TR: -0.711 (*negative correlation*). This indicates a strong negative correlation between Tax Revenue (TR) and Tax Revenue (TAR), suggesting that as Tax Revenue increases, Total Annual Revenue tends to decrease, and vice versa.NTR (Non-Tax Revenue):Correlation with TR: 0.397. This positive correlation indicates a moderate positive relationship between Tax Revenue (TR) and Non-Tax Revenue (NTR), implying that they tend to increase together, though not strongly.DT (Direct Tax):Correlation with TR: 0.544. This positive correlation suggests a moderate positive relationship between Tax Revenue (TR) and Direct Tax (DT), indicating that they tend to move together.IDT (Indirect Tax):Correlation with TR: 0.684 (*strong positive correlation*). This strong positive correlation indicates that Tax Revenue (TR) and Indirect Tax (IDT) tend to increase together significantly.TVC (Total VAT Collection): Correlation with TR: -0.145 (*negative correlation*). This negative correlation suggests a weak negative relationship between Tax Revenue (TR) and Total VAT Collection (TVC), indicating that as Tax Revenue increases, Total VAT Collection tends to decrease slightly, and vice versa.

The negative correlation between TR and TAR (-0.711) suggests that changes in Tax Revenue are inversely related to changes in Tax Revenue. The positive correlations between TR and NTR (0.397), TR and DT (0.544), and TR and IDT (0.684) indicate that Tax Revenue tends to increase with increases in Non-Tax Revenue, Direct Tax, and Indirect Tax. The negative correlation between TR and TVC (-0.145) suggests a slight inverse relationship between Tax Revenue and Total VAT Collection.

Table 10

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.977 ^a	.955	.899	255.955

a. Predictors: (Constant), TR,TAR,NTR,DT,IDT, and TVC

The table provides a snapshot of how well the predictors collectively explain the variance in the dependent variable, the strength of the relationships, and the accuracy of predictions made by the model.

R Square: This indicates how well the independent variables (predictors) explain the variation in the dependent variable. An R Square of .955 suggests that the predictors collectively explain approximately 95.5% of the variance in the dependent variable.

Adjusted R Square: This adjusts the R Square for the number of predictors in the model, providing a more accurate measure of how well the model fits the data. An Adjusted R Square of .899 indicates that about 89.9% of the variance in the dependent variable is explained by the predictors.

Std. Error of the Estimate: This is a measure of the accuracy of predictions made by the model. A lower value (255.955 in this case) indicates better accuracy, suggesting that the model's predictions are relatively close to the actual values.

The predictors listed (TR, TAR, NTR, DT, IDT, and TVC) are presumably independent variables used in the model to predict the dependent variable. These variables are presumed to be independent variables used in the regression model to predict the dependent variable. The constant term (intercept) is included by default in the regression model and represents the predicted value of the dependent variable when all predictors are zero.

Table 11

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5556817.197	5	1111363.439	16.964	.005 ^b
	Residual	262051.703	4	65512.926		
	Total	5818868.900	9			

a. Dependent Variable: TR

a. Predictors: (Constant), TR,NTR,DT,ID, and TVC

The ANOVA table provided summarizes the analysis of variance for a regression model with a dependent variable (TR) and several predictors. Here's a detailed interpretation of each component.

Regression Sum of Squares: This represents the sum of squared differences between the predicted values of the dependent variable (TR) and the mean of TR. A higher value indicates that the regression model explains a significant amount of variation in TR. Here, the regression sum of squares is 5556817.197.

Residual Sum of Squares: This is the sum of squared differences between the actual values of TR and the predicted values from the regression model. It reflects the unexplained variation or the error of the model. In this case, the residual sum of squares is 262051.703.

Total Sum of Squares: This is the total variation in the dependent variable, calculated as the sum of squares of the differences between each observed value of TR and the overall mean of TR. The total sum of squares is 5818868.900.

Degrees of Freedom (df):

Regression df: Represents the degrees of freedom associated with the regression model, which is the number of predictors (including the intercept) minus one. Here, $df = 5$.

Residual df: Represents the degrees of freedom associated with the residual error, which is the total number of observations minus the number of predictors. Here, $df = 4$.

Total df: Represents the total degrees of freedom, which is the sum of the regression df and the residual df. Here, $df = 9$.

Mean Squares:

Regression Mean Square: This is the regression sum of squares divided by its degrees of freedom. It represents the average amount of variance explained by the predictors. Here, Mean Square = 1111363.439.

Residual Mean Square: This is the residual sum of squares divided by its degrees of freedom. It represents the average amount of unexplained variance or error in the model. Here, Mean Square = 65512.926.

F-statistic: This is the ratio of the regression mean square to the residual mean square, weighted by their respective degrees of freedom. A higher F-statistic indicates a stronger relationship between the independent variables (predictors) and the dependent variable (TR). Here, $F = 16.964$.

Significance (Sig.): This is the p-value associated with the F-statistic. It indicates the probability of obtaining an F-statistic as extreme as, or more extreme than, the one observed, under the assumption that the null hypothesis (that all coefficients are zero) is true. In this case, the significance level is .005 (b), which is less than the conventional threshold of 0.05, suggesting that the overall regression model is statistically significant.

The regression model as a whole (including predictors: (Constant), TR, NTR, DT, ID, and TVC) significantly explains the variation in the dependent variable TR, as indicated by the low p-value (Sig. = .005).

The F-statistic ($F = 16.964$) further supports the conclusion that at least one of the predictors has a statistically significant relationship with TR.

This analysis suggests that the model has explanatory power and that the predictors collectively contribute to predicting the dependent variable TR.

Table 12
Coefficients

Model	Unstandardized		Standardized	t	Sig.
	Coefficients		Coefficients		
	B	Std. Error	Beta		
1 (Constant)	-748.454	1366.181		-.548	.001
NTR	-34.191	109.057	-.041	-.314	.005
DT	124.007	50.795	.643	2.441	.024
ID	4.504	73.918	.016	.061	.040
TVC	48.369	16.020	.881	3.019	.001
TR	-748.412	165.583	-.515	-4.520	.011

a. Dependent Variable: TR

The table provided contains the coefficients from a regression model, including both unstandardized and standardized coefficients, as well as their respective statistical measures. Here's a detailed analysis of each component.

Constant: This represents the intercept of the regression equation. In this case, the constant is -748.454 with a standard error of 1366.181. The t-value (-0.548) and the associated significance level (.001) indicate the statistical significance of the intercept.

Predictors (Independent Variables):

NTR: The unstandardized coefficient is -34.191, indicating that for a one-unit increase in NTR, the dependent variable TR decreases by approximately 34.191 units on average. The standardized coefficient (Beta) is -0.041, suggesting that NTR has a small negative effect on TR when considering the standard deviations of both variables. The t-value is -0.314, and the significance level is .005.

DT: The unstandardized coefficient is 124.007, indicating that for a one-unit increase in DT, the dependent variable TR increases by approximately 124.007 units on average. The standardized coefficient (Beta) is 0.643, suggesting that DT has a moderate positive effect on TR after accounting for the standard deviations of both variables. The t-value is 2.441, and the significance level is .024.

ID: The unstandardized coefficient is 4.504, indicating that for a one-unit increase in ID, the dependent variable TR increases by approximately 4.504 units on average. The standardized coefficient (Beta) is 0.016, indicating a very small positive effect of ID on TR relative to their standard deviations. The t-value is 0.061, and the significance level is .040.

TVC: The unstandardized coefficient is 48.369, indicating that for a one-unit increase in TVC, the dependent variable TR increases by approximately 48.369 units on average. The standardized coefficient (Beta) is 0.881, indicating a strong positive effect of TVC on TR relative to their standard deviations. The t-value is 3.019, and the significance level is .001. Interestingly, TR appears as a predictor in its own regression model. The unstandardized coefficient is -748.412, indicating that for a one-unit increase in TR, the dependent variable TR decreases by approximately 748.412 units on average. The standardized coefficient (Beta) is -0.515, suggesting that TR has a moderate negative effect on itself when considering the standard deviations of both variables. The t-value is -4.520, and the significance level is .011.

The significance level (Sig.) indicates whether each predictor's coefficient is significantly different from zero. Generally, a significance level less than .05 (or .01) suggests that the predictor is likely contributing to the prediction of the dependent variable. These coefficients allow for the comparison of the strength of each predictor's effect on the dependent variable, taking into account the different scales of the predictors.

Based on the coefficients and their significance levels, TVC appears to have the strongest positive effect on TR (Beta = 0.881). TR (the predictor itself) has a negative effect on TR (Beta = -0.515), suggesting some form of negative feedback or self-regulation. NTR, DT,

and ID have relatively smaller effects on TR, with NTR and ID showing negative effects and DT showing a positive effect. This analysis provides insights into how each predictor contributes to explaining the variability in the dependent variable TR in the regression model.

4.4 Discussion

Lambert (2022) explored taxation principles, emphasizing simplicity, fairness, and sustainability to foster broad societal support. The study discussed the cost of service theory as foundational in effective tax policy.

Shoup (2021) examined Value Added Tax (VAT) as the latest evolution in national-level sales taxation, focusing on its application across production stages to tax value added.

Koirala (2021) conducted a model-based analysis on Nepal's VAT system, highlighting increasing VAT collection and its role in discouraging tax avoidance and evasion through effective public goods utilization. High tax rates were found to correlate with increased tax avoidance and evasion in personal income tax.

Alizadeha and Motallabi (2016) studied VAT's impact on government expenditures in their context, noting a greater influence on construction spending relative to current expenditures, contrasting with outcomes in developed countries.

Khan and Shadab (2013) analyzed India's VAT introduction, emphasizing its reformative impact on state revenue efficiency compared to previous tax systems.

Dhakal (2012) authored "Income Tax and House and Compound Tax Law Practice," focusing on Nepal's income tax, house tax, compound tax, and VAT provisions.

K.C. (2014) wrote "Tax Laws and Tax Planning: Theory and Practice," covering business income criteria, allowable deductions, and timing considerations in taxation.

These studies and publications collectively contribute insights into VAT's implementation, impact on revenue generation, and broader implications for fiscal policy in different contexts. Sure, here's a paraphrased version of the text:

Nepal introduced Value Added Tax (VAT) in 1997 to replace the Sales Tax, aiming to streamline tax administration, broaden the tax base, and improve revenue collection efficiency. VAT in Nepal operates under a multi-stage taxation system, levying taxes at each stage of production and distribution. This approach ensures taxation across various economic activities and allows businesses to claim input tax credits, thereby preventing tax cascading and promoting compliance.

VAT has become a critical revenue source supporting Nepal's public expenditures in infrastructure, healthcare, education, and social welfare. The stable revenue stream from VAT has strengthened the government's fiscal capacity, reducing dependence on foreign aid. Economically, VAT has established a predictable and transparent tax regime, enhancing Nepal's appeal to domestic and international investors aligned with global tax practices. Despite its advantages, implementing VAT in Nepal faces challenges. Compliance issues, particularly among small and informal businesses, hinder effective tax collection. Administrative constraints in enforcing VAT regulations uniformly across sectors and regions are also significant concerns. Moreover, complex VAT laws and procedures may deter compliance and increase administrative burdens for businesses.

Additionally, VAT's regressive nature, potentially burdening lower-income groups through higher prices, necessitates policies to mitigate its impact on vulnerable populations. Addressing these challenges requires enhancing tax education, upgrading technological infrastructure for efficient tax administration, and simplifying VAT procedures.

Looking ahead, improving VAT administration efficiency is crucial. This includes strengthening institutional capacity, leveraging technology for better compliance and enforcement, and engaging stakeholders to address their concerns. Exploring sector-specific adjustments to VAT rates based on economic conditions can optimize revenue collection while promoting inclusive growth.

In conclusion, VAT has evolved into a cornerstone of Nepal's fiscal policy, significantly contributing to revenue generation and economic stability. Overcoming implementation

challenges and ensuring fair tax distribution will be pivotal for sustaining VAT's role in Nepal's socio-economic development. Regarding the study on VAT collection trends and effectiveness of VAT registration and location, it highlighted an increasing trend in tax revenue over the study period. Indirect tax revenue notably exceeded direct tax revenue, underscoring VAT's substantial contribution. The study identified implementation challenges such as inadequate laws, administrative shortcomings, corruption, and political instability affecting compliance. Recommendations included structural improvements, business environment enhancements, strategic policy adoption, and the introduction of an online VAT payment system for efficiency and transparency.

CHAPTER V

SUMMARY AND CONCLUSION

5.1 Summary

This chapter presents a summary, conclusions, and recommendations based on the study conducted. Value Added Tax (VAT) stands as one of the most recent innovations in the realm of taxation, originally introduced by Dr. Wilhelm Von Siemens in Germany in 1919 and subsequently adopted in France in 1954. Since then, it has been widely implemented across the globe, including in Nepal, a developing country striving for substantial resources to fuel its economic development. Despite various government measures to boost revenue collection, there remains a significant gap between expenditure and revenue.

Taxation plays a pivotal role in the economic development of nations, deeply intertwined with their economic fabric. In recent years, many developing countries have prioritized overhauling outdated and inefficient tax structures as a crucial component of their development strategies. These reforms not only challenge traditional norms but also establish new precedents and principles in tax policy. Taxation fundamentally involves compulsory payments to the government by individuals or entities, forming a substantial part of government income used for public services, infrastructure development, and other essential expenditures crucial for economic growth and social welfare.

Effective taxation policies are essential for fostering economic growth by ensuring a stable revenue source for governments to invest in various sectors. A well-designed tax system can also incentivize savings, investments, and entrepreneurship, stimulating economic activities and overall development. Conversely, poorly designed or inefficient tax structures can distort incentives, discourage investments, and promote tax evasion and informal economic activities. Thus, the relationship between taxation and economic development is symbiotic, with taxation crucial for financing development initiatives and shaping economic behavior and growth trajectories within countries.

In Nepal, Value Added Tax (VAT) has significantly reshaped the fiscal landscape since its introduction in 1997. This tax reform aimed to modernize the tax system, improve

revenue collection, and support economic growth through a more efficient and transparent taxation mechanism. VAT replaced the Sales Tax with a multi-stage taxation approach, taxing each stage of production and distribution. This change expanded the tax base and allowed for input tax credits, reducing tax cascading and enhancing compliance.

VAT has emerged as a vital revenue source for Nepal, funding government expenditures in critical sectors such as infrastructure, education, and healthcare. The stable revenue stream has bolstered fiscal sustainability and reduced reliance on external aid. Moreover, aligning VAT practices with international standards has boosted Nepal's attractiveness for investments, contributing to economic stability and growth.

Despite its advantages, VAT implementation in Nepal faces challenges including compliance issues among small businesses, administrative capacity constraints, and complexities in tax laws. The regressive nature of VAT also raises concerns about its impact on lower-income groups, necessitating policies to mitigate inequalities.

In conclusion, VAT represents a cornerstone of Nepal's fiscal policy, significantly contributing to revenue generation, economic stability, and development. Addressing implementation challenges and ensuring equitable tax distribution will be crucial for sustaining VAT's role in Nepal's socio-economic progress.

5.2 Conclusion

On the basis of above analysis and conclusions, the following specific suggestions have been recommended for the effective and efficient mobilization of additional financial resources through customs duty. The implementation of customs duty has not devoid the challenge yet. To establish this tax on a completely successful scale and to make it a part of the daily life of the people requires much bigger efforts than what we have now. There are lots of major challenges faced in the implementation of custom duty. The following measure could be adopted.

Taxation is considered as the most important source of development finance. The steady increase in the demand for governmental services and economic plans for the rapid growth of a country's economy has considerably changed the role and scope of taxation.

Taxation is treated as an important fiscal instrument in increasing the overall revenue and in achieving the economic and social objectives of the country.

Nepal adopted the Value Added Tax (VAT) system for several compelling reasons. Firstly, it aimed to establish a reliable revenue source for the government, ensuring stable funding for public services and development projects. Additionally, VAT was intended to broaden the tax base by capturing transactions across multiple stages of production and distribution, thereby enhancing economic growth. The introduction of VAT was also motivated by the need to address Nepal's deteriorating macro-economic performance by generating adequate revenue.

Moreover, implementing VAT aimed to modernize Nepal's tax system, making it more scientific, transparent, and efficient. This reform sought to enhance accountability and transparency for both taxpayers and tax collectors, fostering trust in the system. Indirect taxes, such as VAT, have become a crucial component of government revenue, constituting two-thirds of total revenue compared to one-third from direct taxes. VAT represents an improved and refined version of sales tax, focusing on the value added at each stage of the supply chain, including importation, manufacturing, wholesale, and retail. This approach has gained acceptance globally, with both developing and developed countries adopting VAT as part of broader tax reforms to streamline and standardize their tax systems.

In Nepal, VAT has been well-received by consumers, businesses, and industrial communities for its transparency and accountability benefits. Since its implementation in 1997, VAT has played a pivotal role in shaping Nepal's fiscal landscape, aligning it with international standards while supporting economic development and fiscal sustainability.

The effectiveness of Value Added Tax (VAT) hinges significantly on its implementation process. In the case of Nepal, a developing country, several challenges have hindered the smooth implementation of VAT, thereby compromising its effectiveness. These challenges include issues like porous borders, public ignorance about tax compliance, insufficient support and commitment from political leaders and government officials, and political instability. These factors have collectively undermined the anticipated outcomes of VAT implementation.

Addressing these challenges is crucial to enhancing the positive impact of VAT in Nepal. Efforts must focus on administering and minimizing the problems associated with VAT implementation. For instance, improving tax compliance could be achieved through initiatives aimed at fostering a culture of issuing and receiving proper invoices during sales and purchases. Moreover, rectifying negative behaviors among tax officials and instilling a greater sense of accountability among government and political entities are essential steps toward successful VAT implementation.

Overall, overcoming these implementation hurdles is vital for Nepal to leverage the full potential of VAT as a modern and transparent tax system. By tackling these challenges effectively, Nepal can strengthen its fiscal framework, boost revenue collection, and contribute more effectively to economic development initiatives.

VAT in Nepal has proven to be a cornerstone of fiscal policy, significantly enhancing revenue generation and economic stability. Its adoption of a multi-stage taxation approach has streamlined tax administration and minimized economic distortions. However, addressing challenges related to compliance, administrative capacity, and equity remains crucial for sustaining VAT's effectiveness.

Moving forward, Nepal should focus on strengthening institutional capacity, improving tax education and outreach, leveraging technology for better compliance, and considering sector-specific adjustments to optimize VAT's impact. By doing so, Nepal can continue to harness the potential of VAT to support inclusive growth and achieve sustainable development objectives in the years ahead. Internal revenue generation in Nepal often falls short of meeting regular expenditures, necessitating heavy reliance on foreign aid to bridge the fiscal gap. This dependence compels Nepal to align its policies with donor requirements. The challenges in domestic resource mobilization stem from factors such as underutilization of natural resources, a small and stagnant industrial sector, slow economic growth, and inadequate tax efforts. Therefore, enhancing revenue generation from internal sources is crucial.

Income tax stands out as a major component of Nepal's revenue stream, introduced initially in the fiscal year 1959/60. However, despite its increasing contribution to

government revenue in recent years, income tax collection remains unsatisfactory compared to other developing nations. Various issues plague the income tax system in Nepal, leading to low revenue collection. There is a prevailing perception that the structure and administration of Nepalese income tax are inadequate and inefficient.

Addressing these challenges is imperative to bolster internal revenue mobilization in Nepal. Improving the effectiveness and efficiency of income tax administration, alongside broader reforms to enhance tax compliance and economic growth, are essential steps towards reducing Nepal's dependency on foreign aid and achieving sustainable economic development. However, the income tax laws and administration in Nepal require thorough scrutiny and effective implementation. The tax laws themselves are not inherently flawed; rather, certain provisions need clearer articulation. There is a pressing need for strong commitment from authorities to ensure fair and consistent enforcement of these laws.

Furthermore, revitalizing tax administration involves strategic manpower development planning. This initiative aims to enhance the efficiency and capabilities of tax personnel. Simultaneously, implementing tax education programs becomes crucial. These initiatives are intended to improve both tax administration and compliance among taxpayers. By addressing these aspects comprehensively, Nepal can strengthen its income tax system, foster better compliance, and ultimately enhance revenue collection for sustainable economic growth.

5.3 Implications:

Value Added Tax (VAT) implementation carries significant implications for both governments and businesses alike. Firstly, for governments, VAT represents a major source of revenue, often contributing a substantial portion to the national budget. This revenue is crucial for funding public services, infrastructure development, and social welfare programs. VAT's broad-based nature ensures that it captures consumption across various economic sectors, thereby diversifying and stabilizing the government's revenue base. Moreover, VAT promotes fiscal discipline and efficiency in tax administration. Unlike traditional sales taxes, VAT operates on a credit-invoice method, where businesses collect taxes on their sales and receive credits for the VAT they have paid on

their inputs. This system reduces the likelihood of tax evasion and improves compliance due to the traceability of transactions throughout the supply chain.

From a business perspective, VAT introduces both challenges and benefits. On one hand, businesses must navigate the complexities of VAT compliance, including accurate record-keeping, timely filing of returns, and understanding the tax implications of their transactions. This can impose administrative burdens, especially for small businesses with limited resources. On the other hand, VAT allows businesses to claim credits for the VAT they pay on their inputs, thereby reducing the overall tax burden on production activities. This input tax credit mechanism encourages investments in production and distribution processes, promoting economic efficiency and competitiveness.

Overall, the implications of VAT extend beyond mere tax collection. They encompass broader economic impacts, including incentivizing formalization of the economy, promoting transparency in business transactions, and supporting sustainable fiscal policies. Effectively managed, VAT can contribute positively to economic growth, fiscal stability, and social welfare, making it a cornerstone of modern tax systems worldwide.

In the context of computerized billing systems, there exists a concern that tax invoices may not accurately reflect the true value of transactions. To address this issue, the Inland Revenue Department (IRD) has implemented direct access to the software installed at businesses' premises to review such instances of potential discrepancy. Enhancing the effectiveness of publicity and educational programs is crucial to raise awareness among taxpayers about their obligations under VAT regulations.

Furthermore, maintaining proper coordination among various government departments involved in revenue collection is essential for ensuring seamless operations and minimizing gaps in enforcement. Establishing computer networking systems at all customs points can streamline data exchange and facilitate real-time monitoring of transactions, enhancing overall tax administration efficiency. To simplify tax procedures and reform tax administration, it is imperative to undertake comprehensive reforms that reduce bureaucratic hurdles and improve transparency. Effective market monitoring systems should be enforced to promptly address cases where businesses fail to issue

invoices or deliberately undervalue transactions. Legal measures should be swiftly taken against offenders to uphold compliance and deter tax evasion practices.

Another critical challenge lies in ensuring proper accounting practices among businesses. Many small traders still adhere to traditional methods and may resist maintaining transparent records. The government should formulate robust policies and plans to incentivize and enforce sound accounting practices across all organizations. Additionally, controlling borders effectively is vital to curb illegal trade activities. Strengthening surveillance at warehouses and highways can prevent illicit transactions and ensure that all goods are properly accounted for under VAT regulations. These measures collectively aim to enhance VAT implementation effectiveness, promote compliance, and bolster revenue generation for the government. The success of VAT is not only the success of the IRD, but also the success of nation as a whole. The role of general media, radio, TV, Newspaper plays an important one. Emphasis should be given on mass media. Awareness towards VAT system should be created among general public, non-governmental and government organization.

It is essential to foster a positive perception of VAT among the public, starting with educational initiatives targeting students at both school and college levels. Introducing VAT education into the curriculum can instill a sense of tax responsibility and obligation from a young age. Providing various incentives and facilities to VAT registrants can further encourage compliance among businesses.

Incentivizing genuine businessmen through rewards and discounts can be an effective strategy to promote voluntary tax compliance. However, in the current Nepalese context, political instability poses a significant challenge. To mitigate this, the government must demonstrate strong political commitment and administrative capability. Establishing a robust recording system is crucial for ensuring transparency and accountability in VAT administration.

Addressing the lack of proper accounting and auditing practices, and addressing indifferent attitudes among tax officials, is vital to overcoming obstacles to effective VAT implementation. Strengthening the appeal system to provide recourse for taxpayers facing issues with VAT assessments is also essential. Therefore, the government of Nepal

should prioritize the enforcement and application of VAT regulations rigorously. This proactive approach is essential for fostering a stable financial environment, enhancing revenue collection as projected, and ultimately ensuring the country's economic stability and development

TABLE OF CONTENTS

<i>Title Page</i>	<i>i</i>
<i>Certificate of Authorship</i>	<i>ii</i>
<i>Report of Research Committee</i>	<i>iii</i>
<i>Approval Sheet</i>	<i>iv</i>
<i>Acknowledgements</i>	<i>v</i>
<i>Table of Contents</i>	<i>vi</i>
<i>List of Tables</i>	<i>vii</i>
<i>List of Figure</i>	<i>vi</i>
<i>Abbreviations</i>	<i>x</i>
<i>Abstract</i>	<i>xi</i>
CHAPTER I INTRODUCTION.....	1
1.1 Background of the Study	1
1.2 Problem Statement.....	6
1.3 Objective of the Study	8
1.4 Rationale of the Study.....	8
1.5 Limitations of the Study.....	9
CHAPTER-II REVIEW OF LITERATURE	10
2.1 Conceptual Review	10
2.1.1 Introduction of Value Added Tax (VAT).....	11
2.1.2 Meaning of VAT.....	11
2.1.3 Development of VAT in Nepal.....	14
2.1.4 Types of VAT	16
2.1.5 Methods of Computation of VAT.....	18
2.1.6 Principles of VAT	19
2.1.7 History and Development of VAT.....	21
2.1.8 Reduction of Tax Liabilities	23
2.2 Empirical Review.....	23
2.3 Review Nepalese Context	25

2.4 Research Gap	26
CHAPTER-III RESEARCH METHODOLOGY	28
3.1 Research Design.....	29
3.2 Nature and Sources of Data	30
3.3 Procedure of Data Collection.....	30
3.4 Procedures of Data Presentation and Analysis	31
3.5. Data Analytical Tools	33
3.5.1 Descriptive Statistics.....	33
3.5.2 Correlation Analysis	34
3.5.3 Regression Analysis.....	34
Regression Models.....	35
3.6 Research Framework and Definition of Variables.....	35
CHAPTER IV Results and Discussion	38
4.1 Analysis of Secondary Data.....	38
4.1.1 Government Revenue of Nepal.....	38
4.1.2 Tax Revenue Structure in Nepal	41
4.2 Descriptive Analysis	45
4.3 Correlation analysis	46
4.4 Discussion.....	53
CHAPTER V SUMMARY and CONCLUSION	56
5.1 Summary	56
5.2 Conclusion	57
5.3 Implications:	60
REFERENCES	
APPENDIX	

REFERENCES

- Abedisi, S. & Gbegi. (2018). Effect of tax avoidance and tax evasion on personal income tax administration in Nigeria, *Nigeria: International Financial Journal*, 4 (6), 159-169.
- Koirala K.B (2021). Performance of Value Added Tax System in Nepal: A Model-based Descriptive Analysis. *The Journal of Nepalese Business Studies*. 15(1), 99-106.
- Koirala, G.P. & Bhattarai, I. (2014). *Tax Laws and Tax Planning*. Kathmandu: Dhaulagiri Books and Stationeries.
- Lambert, A. (2022). Principles of Taxation Constitute. U.K.: *The Journal of Finance*, VII (3), 298-305.
- Olabisi, W. (2020). An Assessment of Tax Evasion and Tax Avoidance in Lagos State. Lagos: *International Financial Journal*, I (2), 13-19.
- Poudel, S. (2013). *A Comparative Study on Income tax Act 2031 and Income Tax Act 2058*. Kathmandu: An unpublished Master's Degree Thesis, Submitted to Faculty of Management, Public Youth Campus, T.U.
- Poudel, S.P. (2017). Role of value added tax on tax revenue generation in Nepal, Kathmandu: *The Academia Journal of National University Teachers. Association of Nepal*, 2 (1), 126-131.
- Shoup, C.S. (2021). Values Added Tax, Washington D.C: *Research Observer* 3(3), 24-32, *the World Bank*.
- Timsina, S. (2019). Tax Elasticity and Buoyancy in Nepal. Kathmandu: *The Journal of Finance*, (5), 41-49.

Websites:

www.economywatch.com/business-and-economy/vat.html

www.google.com

www.ird.gov.np

www.mof.gov.np

www.nrb.org.np

www.taxrates.cc/html/nepal-tax-rates.html

www.wikipedia.org/wiki/value-added-tax

LIST OF TABLES

Table No.	Title	Page No
Table 1	Summary of Empirical Review.....	35
Table 2	Total Revenue Collection.....	39
Table 3	Contribution of Tax Revenue Collection.....	40
Table 4	Contribution of Non Tax Revenue Collection	41
Table 5	Contribution of Direct Tax on Revenue Collection.....	42
Table 6	Contribution of Indirect Tax on Revenue Collection	43
Table 7	Total VAT Collection.....	44
Table 8	Descriptive Analysis.....	45
Table 9	Correlation Analysis.....	46
Table 10	Model Summary	47
Table 11	ANOVA.....	48
Table 12	Coefficients.....	49

ANALYSIS OF VALUE ADDED TAX SYSTEM IN NEPAL

By: Dhurva Raj Oli

As of: Jul 5, 2024 4:13:19 PM
17,812 words - 26 matches - 2 sources

Similarity Index

2%

Mode: Summary Report ▼

sources:

258 words / 1% - Internet from 21-Mar-2019 12:00AM
pt.scribd.com

150 words / 1% - from 03-Jan-2024 12:00AM
fastercapital.com

paper text:

Abstract The conducted field survey reveals numerous challenges in the field. There is a noticeable lack of awareness among accountants and businesspersons regarding certain provisions of the VAT Act, which is crucial for the effective implementation of the VAT system. Similarly, improvements are needed in revenue administration, where issues such as creating a taxpayer-friendly environment at tax offices and ensuring respectful treatment of taxpayers can enhance the image of tax officers. Corruption is pervasive in both political and administrative spheres, spanning from top-level authorities to lower levels. Furthermore, there is a lack of literacy about the theoretical concepts of VAT among the populace, hindering their ability to provide creative support for VAT implementation. It is essential for taxpayers to understand the benefits of VAT. To address these challenges, education programs, seminars, and awareness campaigns should be conducted nationwide to educate both taxpayers and the general public about VAT, thereby expanding the tax base. Internally generated revenue is often insufficient to cover regular expenditures, leading to a heavy reliance on foreign aid, which necessitates alignment with donor priorities. Key issues in domestic resource mobilization include underutilization of natural resources, a small and stagnant industrial sector, slow economic growth, and inadequate tax efforts. Therefore, enhancing income tax revenue is crucial, as it constitutes a significant portion of government income. However, despite its potential, income tax collection in Nepal faces numerous challenges, stemming from perceived inadequacies in the tax system and administrative inefficiencies. In summary, addressing these issues requires comprehensive reforms in tax administration, increased public awareness, and a concerted effort to improve the effectiveness and efficiency of revenue collection mechanisms in Nepal. Internally generated revenue often falls short of covering regular expenditures, leading to significant reliance on foreign aid aligned with donor priorities. Key challenges in domestic resource mobilization include the underutilization of natural resources, a small and stagnant industrial sector, slow economic growth, and insufficient tax efforts. Key words: Total Revenue, on Tax Revenue, Direct tax and Indirect tax

CHAPTER I INTRODUCTION 1.1 Background of the Study Every government requires sufficient funds to execute development plans, manage daily administration, ensure peace and security, and support public welfare activities. These funds primarily come from two sources: debt and revenue. Debt can be sourced domestically or internationally. Domestic debt refers to borrowing within the country, while foreign debt comes from international sources. On the other hand, government revenue comes from two main categories: tax and non-tax sources. Non-tax revenues include income from gifts, grants, earnings from public enterprises, and administrative revenues like registration fees, fines, and penalties. Tax revenues, such as customs duties, excise duties, VAT, and income tax, constitute a significant portion of government income in Nepal. Taxation alone contributes approximately eighty percent of the government's revenue, highlighting its crucial role as the primary income source (Bhattarai & Koirala, 2064:1).