

VALUE ADDED TAX IN NEPAL: EFFECTIVENESS OF IMPLEMENTATION

A Thesis

Submitted to Department of Economics,
Faculty of Humanities and Social Sciences of Tribhuvan University,

In Partial Fulfillment of the Requirements for the Degree of

MASTER OF ARTS

in

ECONOMICS

Submitted by

Janardan Paudel

Department of Economics,

Prithvi Narayan Campus, Pokhara

Tribhuvan University

March 2013

ACKNOWLEDGEMENT

It gives me a feeling of great pleasure to see the research work in the form of thesis. This thesis is not an outcome of individual effort of mine. It is the product of combined effort of all who supported me to prepare this thesis paper. The support of many friends brings this work into its final shape. I am grateful and thankful to all those friends for their support.

I express, in particular, my heartfelt gratitude to my research supervisor Associate Professor Deo Narayan Sutihar, P.N. Campus, Pokhara for his invaluable suggestions, encouragement and regular guidance without which I would not have been able to complete the work on time. I also express my gratitude to Professor Dr. Yadav Prasad Sharma Gaudel, Head of the Department, Department of Economics, P.N. Campus, Pokhara for providing proper guidance about procedure of completing research work. I want to also remember Campus Chief Gahendreshwor Koirala, P.N. Campus, Pokhara who encouraged me for further study and other faculty members of the Department of Economics, P.N. Campus, Pokhara.

Now I am sadly remembering my friend late Ramchandra Wagle who actually inspired me to admit in P.N. Campus as a student of Economics. I suppose the almighty God will certainly inform his soul that I have completed the work today.

I can not express my gratitude in words for the help provided by my close friend Pashupati Baral for coordinating to finalize this thesis. He always helped me in various difficult conditions, without his help I could not have complete the M.A. (Economics) course. I am so much grateful for his invaluable cooperation.

Here, I have to remember my old friend Mr. Jibadagni Pokhrel who provided me the photocopy of various related materials from the Central Library, T.U., Kirtipur. The staff of IRD Library and IT Division

supported me by providing reading materials and data from Protax Database of Inland Revenue Department. My friends Punnya Rijal and Lal Prasad Pangenı provided me various information for preparing this thesis. Mr. Ambar Bahadur Rai, my staff at Inland Revenue Office, Dharan and Taranath Parajuli of The Creative Computer, Pokhara helped for computer formatting of this document. I am so much grateful to all of them.

I want to remember Brothers Shiva Prasad Baral and Mahendra Raj Pandey, Sisters Durga Baral and Saraswati Parajuli Pandey, Chora/Chori Asmita, Amisha, Ankit and Aavas who helped me in various ways in Pokhara to complete this work.

I would like to express my deep appreciation towards my beloved wife Pabitra for her continuous encouragement and support during my study period. I want to thank my children Subigyan and Subigyia for not disturbing me during my study.

I have to say something about myself here, I am thinking about the topic to study for thesis purpose. I pondered one time and decided to conduct research on my own field. So I selected the topic “Value Added Tax in Nepal: Effectiveness of Implementation” for research purpose which is also useful for my career.

Since last twenty four years I am working in institutions related with economy such as Nepal Rastra Bank, Nepal Industrial Development Corporation (NIDC), Auditor’s General Office and Inland Revenue Offices. So the research is based on experience too. I hope it will be useful for students, teachers, scholars, policy makers in the field of taxation.

March 13, 2013

Janardan Paudel

Campus Roll No. 10/062

T.U. Registration No. 18110-87

ABSTRACT

This era is the era of globalization and open market economy. It is difficult to find any country in the world which is not influenced by world phenomena. Tax reform is emerging issue in each and every country of the world. Value Added Tax which has been so much popular in recent years is a major part of tax reform in the world.

Nepal is also on the way of tax reform for aiming to increase revenue for economic development, broaden the tax base, narrow the tax rate, reduce dependency on foreign aid and to reduce resource gap.

The main objective of study is to analyze the history of VAT in Nepal, to study the current practice and to find out the contribution of VAT in GDP, total revenue, total tax revenue and indirect tax revenue. I followed the descriptive research methodology which is based on secondary data analysis and analytical description of result.

The ratio of VAT on GDP is around 4.5%, on Total Revenue 30.87%, on Total Tax Revenue 36.90%, on Total Indirect Tax Revenue 49.68% and on Total Direct Tax Revenue 126.74%.

VAT from internal collection and import is 36% and 64% respectively. Major source of internal collection of VAT is other services and Production which covers 32% and 30% respectively. The Debit return filer are decreasing and Zero return filer are increasing. The ratio of the Credit return filer are somehow stable. The VAT refund amount is increasing but the ratio of refund compared to VAT collection is decreasing.

The implementation of VAT in Nepal is the major part of tax reform. It should be made successful at any circumstances. For this there should be a close cooperation between the private sector and government in the VAT implementation process. The various issues concerning to

VAT should be resolved through broad discussions and consultations with the private sector. The private sector should always be persuaded to actively participate in the VAT implementation process. Any contradictory situation and direct confrontation should carefully be avoided. There should be a well communication and exchange of ideas between the two sides and tax authority should do continuous effort in order to develop the taxpayer's positive attitude towards VAT system.

LETTER OF RECOMMENDATION

This Thesis entitled “VALUE ADDED TAX IN NEPAL: EFFECTIVENESS OF IMPLEMENTATION” is prepared by Mr. Janardan Paudel under my supervision. I hereby recommend it for approval by the Thesis Committee.

Deo Narayan Sutihar
Associate Professor
Thesis Supervisor

Date: 15th March 2013

APPROVAL SHEET

We certify that the thesis entitled “VALUE ADDED TAX IN NEPAL: EFFECTIVENESS OF IMPLEMENTATION” submitted by Janardan Paudel to the Department of Economics, Prithvi Narayan Campus, Pokhara, Faculty of Humanities and Social Sciences, Tribhuvan University, in partial fulfillment of the requirements for the degree of MASTER OF ARTS in Economics has been found satisfactory in scope and quality. Therefore, we accept this thesis as a part of the said Degree.

Thesis Committee

Prof. Dr. Yadav Prasad Sharma Gaudel
Head, Department of Economics

Prof. Dr. Bednath Sharma
External Examiner

Date: March 20, 2013

Deo Narayan Sutihar
Thesis Supervisor

TABLE OF CONTENTS

	Page
Letter of Recommendation	i
Approval Sheet	ii
Acknowledgment	iii
Abstract	v
Table of Contents	vii
List of Table	ix
List of Figure	x
List of Acronyms	xi
CHAPTER 1: INTRODUCTION	1-12
1.1 Background	1
1.2 Taxation and Economic Development	5
1.3 Focus of the Study	7
1.4 Statement of the Problem	7
1.5 Objectives of the Study	9
1.6 Importance of the Study	9
1.7 Limitations of the Study	10
1.8 Organization of the Study	11
CHAPTER 2: REVIEW OF THE LITERATURE	13-45
2.1 Theoretical Review	13
2.2 Review of Literature	33
2.3 Research Gap	45
CHAPTER 3: RESEARCH METHODOLOGY	46-48
3.1 Conceptual Framework	46
3.2 Research Design	46
3.3 Sources of Data	47

3.4	Methods of Collecting Secondary Data	47
3.5	Classification and Editing of Data	48
3.6	Data Processing Procedure	48
3.7	Procedure of Presentation and Analysis	48
CHAPTER 4: PRESENTATION AND ANALYSIS OF DATA		49-79
4.1	Structure of Tax in Nepal	49
4.2	Analysis of Different Practical Aspects of VAT	56
4.3	Major Findings	75
CHAPTER 5: SUMMARY, CONCLUSION AND SUGGESTION		80-88
5.1	Summary	80
5.2	Conclusion	81
5.3	Suggestions	82
BIBLIOGRAPHY		86
APPENDIX		89

List of Table

Table No.		Page
1	: Calculation of VAT Payable	15
2	: Structure of Total Revenue	50
3	: Structure of Total Tax Revenue	52
4	: Percentage Increase of Direct and Indirect Tax Revenue as Compared to Previous Year	53
5	: Structure of Direct Tax Revenue	54
6	: Structure of Indirect Tax Revenue	55
7	: VAT to GDP Ratio	58
8	: VAT on Total Revenue	59
9	: VAT on Total Tax Revenue	60
10	: VAT on Indirect Tax Revenue	61
11	: VAT on Direct Tax Revenue	62
12	: Direct and Indirect Tax Revenue as Percentage of GDP	63
13	: VAT from Internal Collection and Import	64
14	: VAT Collection on Internal Source in the Year 2010/11	65
15	: Trend of PAN and VAT Registration	66
16	: Status of VAT Return Filer as on Ashad End	68
17	: Status of VAT Non Filer on Ashad End	69
18	: Status of Total VAT Returns	70
19	: VAT Refund Status	71
20	: Total VAT Collection and Refund Status	73
21	: Total Internal VAT Collection and Refund Status	74

List of Figure

Figure No.		Page
1	: Structure of Indirect Tax Revenue (FY 2010/11)	56
2	: VAT Collection on Internal Source in the Year 2010/11	65
3	: Trend of PAN and VAT Registration	67
4	: Status of Total VAT Returns	70
5	: Total VAT Collection and Refund Status	73

List of Table

Table No.		Page
1	: Calculation of VAT Payable	15
2	: Structure of Total Revenue	50
3	: Structure of Total Tax Revenue	52
4	: Percentage Increase of Direct and Indirect Tax Revenue as Compared to Previous Year	53
5	: Structure of Direct Tax Revenue	54
6	: Structure of Indirect Tax Revenue	55
7	: VAT to GDP Ratio	58
8	: VAT on Total Revenue	59
9	: VAT on Total Tax Revenue	60
10	: VAT on Indirect Tax Revenue	61
11	: VAT on Direct Tax Revenue	62
12	: Direct and Indirect Tax Revenue as Percentage of GDP	63
13	: VAT from Internal Collection and Import	64
14	: VAT Collection on Internal Source in the Year 2010/11	65
15	: Trend of PAN and VAT Registration	66
16	: Status of VAT Return Filer as on Ashad End	68
17	: Status of VAT Non Filer on Ashad End	69
18	: Status of Total VAT Returns	70
19	: VAT Refund Status	71
20	: Total VAT Collection and Refund Status	73
21	: Total Internal VAT Collection and Refund Status	74

List of Figure

Figure No.		Page
1	: Structure of Indirect Tax Revenue (FY 2010/11)	56
2	: VAT Collection on Internal Source in the Year 2010/11	65
3	: Trend of PAN and VAT Registration	67
4	: Status of Total VAT Returns	70
5	: Total VAT Collection and Refund Status	73

List of Acronyms

CBS	:	Central Bureau of Statistics
FNCCI	:	Federation of Nepalese Chambers of Commerce and Industry.
FY	:	Fiscal Year
GDP	:	Gross Domestic Product
GST	:	General Sales Tax
IMF	:	International Monetary Fund
IRD	:	Inland Revenue Department
MOF	:	Ministry of Finance
MST	:	Manufacturing Sales Tax
NPC	:	National Planning Commission
NRB	:	Nepal Rastra Bank
NRs	:	Nepalese Rupees
OECD	:	The Organization for Economic Co-operation and Development
PAN	:	Permanent Account Number
RST	:	Retail Level Sales Tax
SAARC	:	South Asian Association for the Regional Co-operation
SAFTA	:	South Asian Free Trade Area
VAT	:	Value Added Tax
WB	:	World Bank
WDR	:	World Development Report
WTO	:	World Trade Organization