

CHAPTER-I

INTRODUCTION

1.1 Background

In the present situation, government spends lot of money to fulfill the responsibility of its people. That responsibility may be either for security or for health, for education or other development activities or for peace or to make secure from other states etc. However without resources the state would be constant. Civil personal, army, police, teacher etc depend on state's fund. To spend lot of money government needs funds that are raised by internal and external way. "The government revenue comes from different sources like grants, administrative income, business income, Tax and foreign aid and loans. Among these most important source of government revenue is taxation. Customs, excise duties, value added tax, corporate and personal income taxes are the examples of the sources of tax revenue. The main objective of taxation is to collect revenue.

Nepal is an under developing and poor country. Education, health, and per capita income are low. The distribution of the resources and return is not balanced. There is Political instability, unfair on civil services operation which causes the low developing and less economic growth. Revenue means the development, freedom and democracy. The history of systematic tax management in Nepal has not been so long. The sensitivity of revenue mobilization was realized only after popular movement of 1950 AD, prior to that the Rana ruler used the national property and revenue of the government as their own individual property. During that time excise duty, customs duty and land tax were the main sources of National income (Mainali, 2004). After the success of popular movement of 1850, the first national Budget was submitted to the nation and thus was started making the tax system much more transparent and systematic.

The government passed the act for getting tax revenue and collecting the tax as per the act. There are different methods adopted to collect the tax departing the tax into two part as direct and indirect tax. Income tax, gift tax, interest tax, property tax vehicle tax, house and land tax are the examples of direct tax. Sales tax (turnover tax), entertainment tax, excise duty, Customs duty, value added tax are examples of indirect tax. Among different indirect tax, the value added tax is the most important part of taxation.

The value added tax is broad based indirect tax. The term value added tax is not word wise. The term exists in English form value added tax. It is nearest from the French word added value tax. In some states. the VAT is preferred to say as Goods and service tax. VAT is general consumption tax assessed on the value added to good and services. VAT was introduced in Germany in 1919 A.D. to replace the multistage sales tax in order to avoid the undesirable effects particularly cascading and pyramiding (Kandel 2007). The first country introducing VAT in Asia is Vietnam. Vietnam introduced VAT in 1973 but avoided in the same year and again raised in 1999. Our neighboring country China introduced VAT in 1984. India also has used for full VAT from 2003. Nepal introduced VAT in 16 November 1997. However the concept of this tax in Nepal was introduced in early years of 1990's. Government of Nepal included the concept of introducing VAT in Nepal in its 8th plan. Finance act 1992 and 1994 introduced two tier sales tax to make the base of implementing VAT. VAT task force was formulated in 1993 in technical assistance of USAID which suggested the steps to be followed while implementing the VAT in Nepal. It drafted the VAT law as well. High level tax system Review tax force headed by Prof. Madan Dhal suggested implementing VAT in Nepal 1995 VAT related act and rules were enacted in 1995 and 1996 respectively (Kandel 2007).

In Nepal VAT was bought to replace sales tax, contract tax, Hotel tax, and entertainment tax. VAT is a modern tax system to improve the collection of

taxes to increase efficiencies for the administration and to do inter link among custom, income tax and excise duty.

In present, VAT is most important because it is eventually borne by the final consumer. It is collected at each stage of production and distribution chain. In conclusion, it can be said that VAT is a popular tax in the contemporary world. Today more than 130 countries in the world use this tax system and most of the business person understand the principles and application aspect of VAT and accept it.

Following are the some characteristics of a full fledged VAT system

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

1.2 Statement of Problem.

Nepal is a land located and poor develop country in south Asia. More than 80% of Nepalese people are depended on agriculture which contributes only 39.9% of G.D.P. The per capita income of Nepal is also very poor which nearly \$320 is. The country's total annual import is more than annual export which shows that Nepal is very poor country in the world. In this condition Government of Nepal decided to introduce VAT in Nepal from

the fiscal years 2054/055 B.S. with replacement of sales tax, entertainment tax, hotel tax and contract tax. Preliminary work was started since the fiscal year 050/051 B.S. to introduce VAT. After the midterm election 2051 B.S, there was frequent change in the government in Nepal. This government instability disturbed its smooth functioning for a certain period. However the coalition government of CPN (UML), Rastriya Prajatantra Party and Sadbhavana Party did commitment to introduce it from Mansir 1, 2054 (16 November 1997) for this purpose VAT registration work had been already started from Baishakh 2054 B.S.

When the VAT was introduced in Nepal, at that time many private sector had been seen opposite of VAT. The government of the Nepali congress in the budget speech of the fiscal year 2054/055 decided to implement VAT system in spite of the objection of the business community. VAT is directly related with goods and service. It makes the relation with seller, distributor, dealer retailer and consumer. According to the view of consumer, it can be said that there are some difficulties in VAT system of Nepal.

According to the business community of Nepal, VAT is not applicable in Nepalese context because it increases tax burden to consumer and creates difficulties to administration as a problem of uncompleted of manpower in tax system. However the government claims that VAT is a modern and scientific tax system, which does not increase unnecessary tax burden.

Keeping this controversial situation in view the study has tries to deal with the following issue.

- a) What changes can be noticed in revenue structure after and before implementation VAT?
- b) What is the share of VAT in total revenue GDP and tax revenue?
- c) What are the trends of VAT registration and its cancellation?

1.3 Objectives of the study

Value added tax is directly related with collecting of revenue. Revenue is the blood of nation which is necessary to do any activities. Value added tax was introduced in 16 November 1997 in Nepal with replacement of sales tax, entertainment tax, hotel tax and contract tax. There was not having more exercise to apply VAT in Nepal. This study is focused to analyze the value added tax in Nepal, past and present. The basic objectives of this study are as follows.

- I. To examine the change in revenue structure after and before implementation of VAT.
- II. To examine the contribution of VAT in total revenue GDP and TAX revenue.
- III. To examine the number of tax payers registered under VAT and cancelled the registration under VAT.

1.4 Importance of Study

It is a bare fact that a state can not run without revenue. Whether it is to pay salary to government employees, security person and constitutional heads or pay loan or run development activities the government needs money. The source of collection money for the government is the tax. Within different type of taxes, indirect tax is basically designed to collect revenue. Among indirect taxes value added tax has the sole objectives of collecting the money needed to run the government. The plan document of Nepal also emphasize on developing value added tax as the main source of revenue (Kandel 2007).

The concept of value added tax is still new in Nepalese community. Our 49% people are illiterate (tenth plan 059/064) that is why it is not easy to apply in both consumer and business side. It is the latest model of sales tax.

VAT was introduced in Nepal before twelve years (2066 B.S.), replacing sales tax, hotel tax, entertainment tax and contract tax. When VAT was introduced, private sector and business community had been seen against it whenever the tax burden effects directly to consumer. In the introducing period the business community used to claim that VAT would create many kind of negative impact on the economy. Now it is necessary to assess all the positive and negative impact of VAT system and put it in front of business community and other interested persons. It is also necessary to know what will be the condition of VAT system after some year and how it is important in Nepalese context. Now it is necessary to undertake research to find out the key areas where certain change and correction is necessary. Therefore this study will help the researchers, civil personal, civil society, business sectors and consumers etc. Policy makers also may get help from this study. Policy makers will be able to identify the areas needed for improvement and for the proper implementation of VAT at present in Nepal. Bureaucrats will improve their weakness, loop holes. Business community will contribute from their own side. They could compare of tax system before and after the implementation of VAT.

1.5 Limitations of Study

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

- I. The information and dates are collected from Inland Revenue department, ministry of finance and other concerned officers.
- II. Due to time and resource limitation mainly secondary dates are used in this study.
- III. Only eighteen years data from fiscal year 1991/92 to 2008/09 are used for study.

IV. All the aspect of VAT is not examined in this study.

1.6 Organization of the study

The organizations of the study are divided in five chapters. They are:

Chapter - I Introduction

The first chapter includes general introduction of VAT, statement of problem, objective of study, importance of the study, limitation of study and organization of study.

Chapter - II Conceptual framework and Review of literature.

The second chapter included about literature survey of books, journals, thesis and dissertations.

Chapter - III Research methodology

The third chapter deals with the research methodology including research design, nature and sources of data, procedure of analysis and presentation of data.

Chapter - IV Presentation and Analysis data

The fourth chapter deals with the presentation and analysis of gathered data using variable statistical tools like table, chart, diagram, percentage, mean and standard deviation.

Chapter - V Summary, conclusions and Recommendation

The unit fifth chapter deals with summary, conclusion and recommendation. At the end of this thesis, bibliography and annex are also incorporated.

CHAPTER -II

CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE

2.1 Conceptual Frame Work

2.1.1 Tax Revenue

Tax is the main source of government. Mainly there are two types of tax revenue, Direct tax revenue and Indirect tax revenue. Direct tax is that type of tax which is really paid by the tax payer. Direct tax is the sum of personal and corporate income tax, property tax, vehicle tax, interest tax and others. Indirect tax is that type of tax, which is levied on one person and paid by another person. Indirect tax is the sum of excise duty, goods and service based tax. Direct tax is important than indirect tax for the economy. Direct tax is more progressive than indirect tax. Social Justice can be established by direct tax. On the other hand both higher income group and lower income group are equally responsible to pay indirect tax.

In development economic like USA, UK etc, direct tax plays a leading role for the internal resource mobilization, where as in developing countries like Nepal indirect tax plays pioneering role by dominating direct tax. In general how much direct tax can mobilize the internal resource shows the magnitude of economic development but in the context of Nepal indirect taxation is the principle source of general review. So convert the economy in the channel of development, it is necessary to increase the show of direct tax.

Tax policy has various objectives among them.

- a) To increase growth rate in relatively short period to the maximum possible extent.
- b) Flexibility in tax structure and maximum revenue productivity.
- c) To have equitable distribution of income and property.

- d) To increase the employment saving and investment.
- e) To minimize regional disparity.

Direct tax revenue

A direct tax is a tax paid by a person on whom it is legally imposed. In direct tax, the person paying and bearing tax is the same. Direct tax is a tax on income and property. The characteristics of a direct tax are equitable as per the property or income, certainty as per the process of payment, amount to be paid time of payment elastic in nature. The example of direct tax revenue are income tax, property tax, vehicle tax, interest tax, expenditure tax death tax, unite tax etc.

Merits

- a) It is equitable as it is imposed on person as per the property or income.
- b) Time procedure and amount of tax to be paid is known with certainty.
- c) It is elastic, the government can change tax rate with the change in the level of property or income.
- d) It enhances the consciousness of the citizen tax payers feel burden of tax and so they can insist the government to spend their contributions for the welfare of the community.

Demerits.

- a) It gives mental pinch to the tax payers they have to curtail their income to pay to the government.
- b) Tax payers fell in convenience as the government imposes tax progressively.
- c) Tendency to evade tax may increase to avoid tax burden.

- d) It is expensive for the government to collect tax individually.

In Nepal, direct tax revenue is the sum of income tax, land tax, research earth tax, property tax, vehicle tax, tax on registration and other. Nepal is levying for different type of income tax namely individual income tax, corporate income tax, house rent and interest tax. In dividable tax included all forms of income and the government has given exemption. Corporate income tax is levied on the net profit of the corporation (company). House rent tax levied on the house rent received by the individual and housing company and the interest tax is levied on the interest received on deposit and investment (bond). Property tax levied on each real property at late rate. Wealth tax is levied on person's wealth in the progressive way. Registration tax is levied on the teamster of ownership or the rights of use of immovable property under the name of house show the structure of direct tax revenue in Nepal.

Indirect Tax Revenues

An indirect tax is a tax imposed on one person but party or wholly paid by another. it is that tax where the person pay the tax and the person bearing the tax are different. An indirect tax is a tax on goods and services. The main features of indirect tax are convenient to pay, mass participation, limited evasion shifting of incidence. The consumer pays the tax to the business person, not the government etc. The examples of indirect taxes are customs, excise value added tax and so on. The merits and demerits of indirect tax revenue are

Merits

- a) It is convenient as the tax payer does not have to pay lump sum amount for tax.
- b) There is mass participation; each and every person getting goods or services has to pay tax.

- c) There is less chance of tax evasion as the tax payers pay the tax collected from consumers.
- d) The government can check on the consumption of harmful goods by imposing higher taxes.

Demerits

1. It is uncertain, as demand fluctuates, tax will also fluctuate.
2. It is a regretful as the tax burdens to the rich and poor same.
3. It has bad effect on consumption, production and employment. Higher taxes will reduce all of them
4. Most of the taxes are included in the price of goods or services as a result; taxpayers do not know how much tax they are paying to the government.

Custom duties are composed of import duties, export duties and export service charges countervailing duties and Indian excise refund. Customs duty is one of the most ancient types of taxes. It is as old as the international trade itself. Customs duties is levied either on ad valorem (on the basis of value) or on specific basis (on the basis of quantity)

Custom duties can be divided in to two parts. Import duty and export duty. The customs imposed on imported goods is called import duty whereas the same imposed on exported goods are called export duty. In Nepal customs duty covers around on third of total tax revenue right now.

Excise duty is also important part of indirect tax revenue. Taxes levied on the manufacturing, sale or consumption of goods or service injurious to health or luxurious goods is called excise duty. It is narrow based indirect tax. Excise duty is also an ancient tax. In Nepal excise duty was introduced at the time of King Surendra Bikram Shah, excise duty provides around 9 % of total tax revenue in Nepal.

A major contributing item on indirect tax revenue of Nepal is sales or VAT. The basic objective of sales tax or VAT is to collect revenue. It is the tax that imposed on the value addition in each stage of production or deals. In Nepal, value added tax was introduced in 1997 replacing the sales tax, entertainment tax, hotel tax and contract tax. Right now the rates of value added tax in Nepal are 13 %. The contribution of this tax to Nepalese tax is around 30 percent. The following table shows the structure of indirect tax revenue.

2.1.2 Meaning of VAT

Value added tax is the latest innovation in the field of indirect tax system. VAT is the youngest member of sales tax family. It is a broad based indirect tax. The term VAT exists, in English from value added tax. It is nearest from the French term added value tax. VAT is a sales tax in advanced form. It is imposed on different stages. It is the tax imposed on added value of good and service. Value added tax is on of the form of indirect tax too. Encyclopedia of taxation and tax policy says "value added tax is a broad based tax on business designed to measure net value generated in a country" Being a broad based tax it is imposed on producer, wholesaler, retailer and consumers also. It is related to both the goods and services. It is levied on industry as well as commerce. Accordingly, It measures net value generated in a country i.e. GDP. (Kandel 2007)

According to Indian Tax institute, VAT is " a tax imposed on the seller of goods and services based on value added by their respective units." value added tax is also known as goods and services tax or added value tax it is a tax system that aims to minimize tax evasion and increase resource mobilization It is imposed on value added amount in each stage and therefore, is equivalent to multi-stage sales tax. In constrict to sales tax. VAT is imposed on added value of production and distribution. The value is added in the form of profit, rent, wages, salary etc. (Kandel 2007)

The following table shows simple process of calculation the VAT

Table - 2.1

Process of calculating a VAT

Stage of sales	Net purchase price (A)	Sales price (B)	Value added	VAT @ 13%
Manufacture	100	200	100	13
Wholesaler	200	350	150	19.50
Retailor	350	500	150	19.50
Total	650	1050	400	52

Source: Arbitrary figure estimated during the study.

From this example, Researcher can say that the value added tax collected in varies steps of production as a placement on the basis of the value added in the process of doing business. Again $VAT = Value\ added\ tax\ rate\ Let\ value\ added\ be\ 400\ and\ tax\ rate\ is\ 13\% \ then\ VAT = 13\% \ of\ 400 = 52.$

2.1.3 Evaluation of value added tax.

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

In Asia, Vietnam introduced VAT in 1973 but avoided in the same year and again used in 1999 A.D. Out of seven countries of the SAARC region, five countries have implemented VAT system. Republic of Pakistan introduced the system on November 1, 1990, for the first time in the region. VAT in Pakistan is applicable in transactions up to wholesale stage only. Bangladesh introduced the system in 1991. But there, VAT is applicable in

transactions of production and import stage only. The Nepal and Sri Lanka too introduced the system in 1997 and 1998 respectively. Nepal introduced VAT in 16 November 1997 with replacement sales tax, contract tax, hotel tax and entertainment tax. Unlike above Nepal has implemented full VAT system i.e. VAT is required in retail transactions also. India has introduced the system in some prescribed regions of the country on April 1st, 2005. (Shrestha 2005)

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

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

Nepal introduced VAT in November 1997. However the concept of this tax in Nepal was introduced in early years of 1990s. GON included the concept of introducing VAT in Nepal in its 8th plan Finance act 1992 and 1994 introduced two tier sales tax to make the base of implementing VAT. VAT task force was formulated in 1993 in technical assistance of USAID

which suggested the steps to be followed while implementing the VAT in Nepal. It drafted the VAT law as well high level tax system review task force headed by Prof. Madan Dahal suggested implementing VAT in Nepal in 1995. VAT related act and rules were enacted in 1995 and 1995 respectively.

VAT adopting year	Countries
1954	France
1960	Ivry coast
1961	Senegal
1967	Brazil, Denmark
1968	Germany, Uruguay
1969	Nether land, Sweden
1970	Equator, Luxemburg, Norway
1971	Belgium
1972	Ireland
1973	Austria, Bolivia, Italy, United Kingdom bielnam
1974	Argentina, Chile, columbia, costa, Rica, Nicaragua
1976	Honduras, Isret, Peru
1977	Korea, Panama
1980	Mexico
1982	Haiti
1983	Domineer, Republic Guatemala.
1984	China
1985	Indonesia, Turkey
1986	Morocco, New Zealand, Niger, Portugal Spain, Taiwan
1987	Grenada, Greece,
1988	Hungary, the Philippines, Tunisia.
1989	Japan, Malawi
1990	Iceland, Kenya, Pakistan, Trinidad And Tobago
1992	Algeria, Armenia, Azerbaijan, Cyprus, Elsalvador, Estonia, Fist Kazakhstan, Russia, Tajikistan, Thai Land, Turkmenistan, Ukraine Uzbekistan, Moldova
1993	Burkina Faso, Czech Republic, Patagua, Poland, Rumania, Georgia, Slovak Replica, Venezuela.
1994	Bulgaria, Finland, Lithuania, Singapore Researchers samara, Madagascar, Nigeria
1995	Gabon, Ghana, Switzerland, Zanzia Malla, Mauritania, Togo, Latvia.

1996	Albania, Guinea, Uganda
1997	Bar Bados, Congo Republic, Nepal
1998	Croatio, Mongolia, Sri Lanka, Tanzania Vanuatu.
1999	Cambodia, Cameron, Mozambique, Antis Netherlands, Papua New Guinea, Slovenia
2000	Australia, Cheld, Macedonia, Namibia Swean
2001	Rwanda
2002	Lebanon
2003	-
2004	-
2005	India

Source: VAT four year of implementation, Khadka (2003)

1. VAT was implemented fully in 1968.
2. VAT was abolished soon after its implementation and reintroduced in 1999.
3. VAT was first introduced only in selected province and selected goods but since the achievement was not satisfactory it was implemented fully in 1994.
4. VAT was abolished after three month of its introduction in 1995 and was reintroduced again in 1998.
5. VAT was introduced in 1995 and was abolished after a change in the government in 1997 and it was reintroduced in 1999.

2.1.4 Types of VAT

The types of VAT are determined on the basis of treatment of capital goods of a firm. Input tax paid for capital goods is allowed or not is the fundamental question in the study of types of VAT. Basically there are three types (i.e. consumption type, income type and Gross National product (GNP) type) of VAT. They are described below.

Consumption type

This is the popular types of VAT type Nepal also applies this type. Under this type VAT excludes all capital goods purchased from other firms. In the year of purchase, all are excluded from the tax base while depreciation is not deducted from the tax base in subsequent years. The base of tax is consumption since investment is relieved from taxation under these types.

Consumption Type VAT = Gross domestic product - cost of intermediate goods cost of capital goods.

a) Income Type VAT

The income type VAT does not exclude capital goods purchased from other firms from the tax base in the year of purchase. This type however excludes depreciation from the tax base in subsequent years. Under this system the tax falls both on consumption and net investment and the conceptual tax base of this variant is the net national income.

Income type VAT = Gross receipt - cost of intermediate goods- depreciation

b) Gross National Product. (GNP) type.

Capital goods purchases are not excluded from the tax base, under this type Capital goods purchase by a firm from other firms are not deductible for the tax base in the year of purchase. It also does not allow the deduction of depreciation from the tax base in subsequent years. Tax is levied both on consumption and gross investment. The tax base of this type is gross domestic product.

GDP type VAT= Gross receipts- cost of intermediate goods.

2.1.5 Method of calculating VAT

Consumption types of VAT system is popular and widely, adopted in the world. In this type the real taxpayer is consumer but the service follower are only the tax collector agent. They are registered on government revenue (tax) office. There are mainly three method of computing VAT liability. They are given below.

a) Addition method

In production or distribution, there are same process and involve the means of production under this method, tax base is obtained by adding the payments made by the firm to the factors of production employed in production processes such as wages, rent, interest and profit. This method is suitable for income types of VAT. (Bhattraï and Koirala 2007)

b) Subtraction method

One can assume that under this method tax base is determined through the means of subtraction by its name. Very simply value added is found out through purchase minus from the sales and rest of the amount regarded base for tax. Under this method value added is determined as net turnover the net turnover is obtained by subtracting the cost of materials from sale proceeds. This method is suitable for consumption type VAT.

$$T = f \text{ (out puts)} - t \text{ (in puts)}$$

c) Tax credit method

The tax base to deposit to the government is calculated deducting the tax paid to purchase or receives the goods and services from the tax collected or charged in the sales. Under this system, tax is imposed on total value of sales and taxpayers are allowed to deduct from their gross tax liability the taxes already paid by their suppliers and pass on to them. As compared to

subtraction method which deducts purchased from sales and levies tax on the difference, tax on purchase is subtracted from the tax on sales under this method. This method is also known as movece method or this method is also called indirect subtract method in that it calculates the value added indirectly while calculating the tax,

$$T = t(\text{output}) - t(\text{input})$$

Out of three methods of computation VAT. Tax credit method is widely used.

2.1.6 VAT and international trade.

When Nepal was entered in WTO at that time Government of Nepal has made major commitment to economic liberalization with the view to adopting international trade. Globalization made the world in a small village. Foreign investment, trade, tourism are affected by the policies of nation. Fiscal policy, Monitory policy, commercial policy, revenue policy etc impact the trade and development. In the case of international trade, for applying VAT, there are two alternative. These two principles or alternative largely depends on the goods and the policies of nation. These two alternatives are found regarding international trade in the system.

i) Origin Principle.

Under this principle goods and services produced in a country are taxed at the place where they are produced or rendered irrespective of whether they are consumed there or not. A country applying this principle taxed all exports and free imports. VAT is charged in the country where goods are originated and goods imported are free of VAT under this principle. Export is taxable and import is received from tax liability under the origin principle. Addition, subtraction and tax credit there three method of consumptions of VAT can be applied equally under this system but tax credit method is not suitable because tax rate importing country needs to

compute export is discouraged under the origin principle due to equal tax burden as domestic supply.

ii) Destination principle

Under this principle tax for import and tax free for exports, is known as destination principle of VAT. Under a destination principle of VAT all exports are allowed to free tax and all imports are tax paid. Under the basic destination rule, tax would be collected at importation and the firm would receive credit for this tax and a refund when the products are exported (Subedi, 1998)

2.1.7 Freeing from VAT

Some goods and services are left free from VAT or not taxable goods and services known as freely from VAT. Such provision makes the tax administration simple and promotes equity among tax payers. There are mainly three provision of freeing form VAT they are,

- i) Exemption
- ii) Zero rating.
- iii) Threshold.

i) Exemption

The supply where the VAT is not imposed is exempt supply. This is not taken into account in determining whether a trader is a taxable person or not. Accordingly input tax attributable to it is not normally available for credit. The objective of the government is to make the vender free from the responsibility for registering and paying tax, but to keep some tax on the final purchaser exemption is a suitable measure.

In Nepal several goods and services are exempt from VAT. Exemption are generation particularly on administrative and social ground the list of goods

and services which are tax exempt are given schedule 1 of the act, amended by finance act 2063 are as follows.

- ⇒ Basic agricultural products.
- ⇒ Goods of Basic needs like water fuel wood and coal, kerosene and salt.
- ⇒ Live animal and animal products.
- ⇒ Agricultural inputs such as seeds, fertilizer pesticides, agriculture equipment, pots to be used for poultry purpose birds and animal feeds etc.
- ⇒ Medicine, Medical and similar health services.
- ⇒ Education including the provision of research in a school or university the provision of professional or vocational training or refresher train and the provision of education in a school or university and supply of goods made in connection with such service.
- ⇒ Books newspapers etc including books, news papers, newsletters and periodicals and newsprint.
- ⇒ Artistic and cultural goods and services carving services painting etc, cultural program, admission to libraries, museums etc.
- ⇒ Passengers and goods transportation services covering air transport non - tourist passenger trains partition (except cable car) and goods.
- ⇒ Personal or professional service including personal services rendered by artists. Sportsmen, authors, writers, designers, translators and interpreters, institutionally or individually.
- ⇒ Other goods or services including postal related services, financial and insurance service, printing related services, ornaments electricity, raw wool, battery operated tempo, their chassis and battery, alternative

energy related items, airplane related items, fire brigade and ambulance, jute goods, industrial machinery, woolen carpets and related items cotton items, goods of philanthropic purpose personal goods imported which is free of tariff due to personal belongings.

⇒ Land and building

⇒ Betting, Casinos, Lotteries. (Kandel, 2007)

ii) Zero Rating

Zero Rating means taxing goods or services with zero rates. In this model the goods and services are taxable but the government defines the criteria of zero rating. The zero rate is a tax rate of nil. Zero rate is equivalent to complete exemption. The zero rate is applied to goods supplied for export. Although no tax is charged on a supply. The input tax paid on it is available for credit. It is opposite of exempt supply because the tax paid input in case of exemption is not credited. Zero rated items according to the value added Tax Act 2052, schedule -2 are -

1. Goods or services purchased or imported by his majesty king, Her majesty Queen, His majesty crown prince, and other members of the Royal Family, (Abolished by the declaration of parliament of Jestha 2065)
2. Export of goods
 - Goods exported outside the kingdom of Nepal or,
 - Goods shipped for use as stores on a flight to an eventual destination outside the kingdom of Nepal or,
 - Goods loaded for use as stores on aircraft to a destination outside the kingdom of Nepal or as merchandise for sale by retail or supplied to persons in the cause of such a flight.

3. Export of Services:

A supply of services by a person resident in the kingdom of Nepal and having no business establishment, assent or legal representative acting on his behalf in the kingdom of Nepal.

4. Imports of goods and services by accredited diplomats.

5. Medical industries can get zero rate facility if they intended.

6. Local purchase from those which were provided exemption from sales tax as per the agreement made previously. (Kandel 2007)

iii) Threshold

In most of the VAT system small suppliers having transactions of up to certain limit are not required to register. The amount determined for that purpose is known as threshold. The main objective of threshold is to make easy to tax administrator to administer and to make easy to small supplier in doing his business. The threshold amount varies from country to country and time to time. It depends on number of factors like revenue requirement, administrative capacity, status of the recording system in the economy etc. (Kandel 2007) to make simplicity VAT Act 1995 and Rules 1996 have fixed the threshold in Nepal. The provisions are

i) Provided that any person who imports in to the kingdom of Nepal goods value at 10000 rupees or more at one time for commercial purpose shall have to register is transaction.

ii) In case any person has reason to presume that his transaction shall exceed twenty million rupees in the coming three months he shall submit an application setting out such conditions to the concerned tax officer in the format as set forth in schedule one for the registration of the transactions.

- iii) If the amount of transactions carried out by any person exceeds twenty million rupees in absence of conditions where presumption could not be made as set forth in sub rule a. The person carrying out such transaction shall submit an application to the concerned the officer in the format set forth in schedule for registration of the transactions with in thirty days of the date on which such excess occurs.
- iv) If the amount of transactions of any consultant Rs one hundred thousand or more yearly that consultant shall have to register in the concerned tax officer.
- v) The transaction of government purchase and construction more than thirty five thousand shall have to register in the VAT office.

2.1.8. Tax Rates

Rates means positive rate excluded zero rate. Design of tax rate structure is chiefly influenced by revenue requirement, administrative, simplicity, efficiency types of products, tax burden etc. Without tax rate one cannot determine the tax liability of concern party. Before the application of VAT there were different rates in sales tax, hotel tax, entertainment tax and contract tax. Now according to VAT system, theoretically and practically, the rate of VAT may be diversified into two rates they are:-

i) Single VAT Rate

In simple single VAT rate means a VAT of which tax is fixed only at one number. The tax rate has direct impact on the tax compliance, consumption as well as investment. It has crucial role in the context of economic development of a country and requires to be levied in the ideal; rate. About 90% VAT applier countries are following the single rate. It is simple to understand easier to calculate. For example, Let us suppose 13 percent is a VAT rate fixed for all level for VAT purpose. The fixed VAT rates is then, known as single VAT rate.

i) Multiple VAT Rate:-

In concept, multiple VAT rate means more than two kinds of VAT rate which are fixed on the basis of the commodities and the services nature. The multiple tax rate system encourages the tendency of the tax evasion, difficulty to administer affect the equity etc. The multiple VAT rate system is economically inefficient as well multiple rate has to classify the goods and services in to groups. For example suppose VAT rates are 1% 2%3% for first, second and third goods respectively for VAT purpose. Those fixed VAT rates are known as multiple VAT rate.

2.1.8 Tax Refund

If the input tax is excess than the output tax, the balance should be carry forward to tax payer it is known as tax refund. Income tax act 2058 has deal with refund and set off the tax. As per the provision of that section. If a person has paid the tax in excess of the tax liability IRD will recover the tax payable by the person at first. After recovering that amount it there is still the tax excess of the liability, the remaining amount will be refunded to the tax payer. The interest payable against the amount of tax, which is not payable, will also be refunded. However the IRD obliged to refund the amount of tax to a person interest at the standard rate for period filing the return and retuning the amount in case of tax deposited with retained filed. Tax credits related to medical and foreign tax for an income year may not be set off or retuned under this section. The tax payer should apply in department for refund of tax in specified form. He/She should also submit the documents related to excess payment of the tax (Income tax rule 2059, sat 36)

2.2 Review of Related Past Studies

Review of literature covers review of past studies conducted by other researcher such a review of books, thesis research articles and project reports are considered as relevant to right study are review here is.

Shoup (1988) analyzed the implementation of VAT in developing countries and suggested some advantages and disadvantages of VAT- According to his research, the advantages of VAT are as follows.

- i) VAT reduces vertical integration because of its nature which is tax on the value added not turnover.
- ii) VAT is more revenue productive and than other tax.
- iii) Its coverage is also more than other forms of sales tax.
- iv) It exempts exports well considering the problem of deducting the capital goods.
- v) It is self-enforcing.
- vi) If foods and necessities are to be zero rated regression may be reduced.

The disadvantages pointed out by the author are:

- i) Difficulty is the case of both compliance and administration and collection.
- ii) Inflationary in Nature.
- iii) It creates more and more problems in developing countries.
- iv) It is regressive.**

Comparing VAT with turnover tax and retail sales tax, he recommended VAT to be superior to them but it needs caution in implementation.

Consumption type of VAT is superior to other forms. Tax credit method of VAT is universally practiced. A VAT is comprehensive it is covered all economic activities from the earlier stage of farming or mining right through to the retail.

His main findings in this study are

- i) VAT is not dealt for all developing countries.
- ii) There is lack of basic accounting and efficient and empirical tax administration, which are the main obstacle to implement it.
- iii) The choice between turnover taxes and the VAT becomes a matter of weighting the pros and cons.
- iv) No generation seems justified on the suitability of the VAT for developing countries as a group. This means circumstance is important.
- v) VAT is now a principle source of revenue for many developing countries.

John, F Due and Friedlander, in Government Finance (1994), he evaluated the VAT that is addition to avoiding the adverse consequences of turnover tax and greater revenue raiser, a proper cross audit is possible. The possibility of cross checking is considered as a beauty of VAT. In their view tax reported as paid by the firm to its suppliers for which it takes credit against its own tax liability, should appear as the tax paid by the suppliers. This cross checking is not automatic but it can be made by auditors, ultimately by computers. So VAT is the most monotonous one, whose uses have extended rapidly.

Due and friend lender also showed the tax principle that the VAT is somewhat more complex than the retail sales tax, particularly in its concept. The number of taxpaying firms is somewhat larger, since not only retailers but all manufactures and wholesale firms must also be registered and must

file their return. According to them, the tax is somewhat less adaptable to exemptions than other sales taxes. Since the exemptions must be handled throughout production and distribution channels, former pose a serious problem. To register them all as taxpaying firms would greatly add to administrative and compliance tasks. If they are not registered they would not receive credit for the tax paid on purchase for firm use. Research accepted that “The administrative complexity” is the main visualized problem of VAT in developing countries. However they conclude that it is undoubtedly the ideal form of sales tax in many countries.

Nepal Chamber Of Commerce organized a national wide discussion programmed on VAT. On the discussion it gave the mixed arguments on the supporting side and against side. In the discussion mainly the business community stood against the VAT. The main summary of the discussion are-

- Government machinery is not capable for implementing VAT.
- Business community has not confidence in the administrant because it has failed to implement many other taxes effectively and fulfill its own commitments even previously.
- Price will be high and hamper to domestic industry and difficult to exports in the competition markets.
- Illegal trade can prosper as of VAT collection on the custom offices. Import and re-export of imported goods will get a negative impact leading to decline in government revenue.
- VAT will inhibit the growth of newly developing trade and an industrial activity in the country.

- VAT has to keep the accounting system but the Nepalese business community is not able to keep modern tax system so it increases costing.
- If a VAT is introduced it will increase consumer price Borden. Markets will dry up and transferred the consumers in the Indian markets.
- If a VAT is introduced it will increase consumer price and reduces the trade and on the other hand Nepalese border markets will dry up and transferred the consumer in the Indian markets.

Sharma (1998), has presented a dissertation to Tribhuvan University named 'Value Added Tax In Nepal, Issued And Options' (1998) for a degree in Economics. In this study paper, he has provided the finding as Nepal has been under going through a several fiscal crisis due to limited sources of revenues and increasing government expenditure. Due to narrow tax base sales tax is not productive and elastic. Adoption of full fledged VAT replacement would be helpful in removing the production distortions on other undue pressures economic activities caused by the interest defects of sales tax. The VAT would increase the competitiveness of Nepalese is greatest problem of implementing a VAT in Nepal. Underdeveloped business structure practices and distribution system is the second biggest problem for the applicability of a VAT in Nepal. Due to the existence of large proportion of small traders in trading activities unfavorable business structure and practices and weak administration there would be anarchy in the tax system. The existence of open boarder and a large amount of unauthorized trade from India to Nepal poses a great threat to success for implement a VAT in Nepal. The existing under valuation of imports is another big obstacle for implementation a VAT. A VAT is bound to have poor result then expected due to the various applicability problems.

Dhakal (2001), in this dissertation, he analyzes the different aspects of Nepalese VAT system being focused on revenue potentiality. The main

objective of this research was to examine the historical background of the VAT. Analyze Nepalese tax structure and estimate the potential of revenue yield from VAT. The major findings of the studies are:-

- Nepal has adopted the destination based consumption type VAT operated through the tax credit method.
- Nepal has followed the destination principle to adjust the international trade.
- The primary reason for growing popularity of the VAT is its broad coverage without distorting economic efficiency.
- The stepwise collection of VAT discourages the evasion of VAT.
- VAT has somehow equity nature as compared to other kind of sales tax.
- Exemption and zero rating reduce the repressiveness of VAT however it makes the administration complex.
- VAT is more efficient tax to avoid the cascading and pyramiding effects.
- VAT is not immolating from the fault of regressive nature. Single positive rate creates repressiveness with respect to expenditure but not necessarily with respect to incomes.
- From the administrative point of view VAT cannot be attractive alternative to other kinds of sales tax.

Due to administrative complexity as well as maintain the equity norms exemption and zero rating are principally proposed out such provision makes the tax base limited.

The recommendation of the study was:

- Value added tax should be extended through retail level as a bulk of tax performance to generate more revenue.
- The important sectors of VAT offices like as tax refund, tax audit, tax payers service investigation return processing and registration should be separated for successful operation.
- The existing destination based consumption type of VAT operation through the tax credit method should remain continuous.
- Consumers should be creating awareness for taking invoice for every taxable purchase by comprehensive advertisement program.

Khadka (2002), in his book, *The Nepalese Tax system (2002)*, has pointed out the need to introduce VAT in Nepal. One of important reason was to develop a stable source of revenue by boarding the tax bare moreover; Nepal will have become less dependent on international trade taxes for its revenue in the future. It will not be a position to levy import duties on trade that takes place within the South Asian Association for Regional Co-operation (SAARC) region after the implementation of the South Asia Free Trade Arrangement (SAFTA). Nepal is a member of the World Trade Organization (WTO) which would also have to be considered in this context. The base of the sales tax was narrow, as sales tax used to be collected at the political grounds and weak tax administration only aggravated the problems. This apart, it has been necessary to transfer some of the national level taxes. Such as land revenue, house and land tax and make them financially more autonomous. In such condition, Khadka stress that “there was no choice but to introduce VAT in Nepal to generate revenue required for improving its deteriorating more economic performance.”

Gurung (2002), in this study that many believed that the VAT would not service but the fact is that it did the outcome however was unexpected.

Today Nepalese VAT system has a fairly comprehensive base including goods and service or consumption based and have a reasonable threshold that renders VAT administration practicable. The point that need to stressed VAT is a modern system of taxation that pre suppose the existence of a certain economic order comprising of business standers and ethics, documentation (technology) and simplified regulation that are simple, respected and complied with therefore, successful application of VAT will require assessment of their fundamental pillars. In our context with a view to gradually overcome inherent deficiencies in each sector with a positive approach. Today every where there is an overall economic downturn VAT is flourishing. It is going to remind the mainstay of revenue.

Khadka (2004), in an article “Overview of VAT in Nepal” concludes that VAT in Nepal was introduced as a major part of the overall tax reform program initiated in the early 1990s. A detailed preparation was made for the implementation encountered varies obstacles issue mainly to the political instability and the opposition from the business community. Despite this the number of VAT registrant and the VAT revenue collection has been increasing gradually. The tax refund system is also becoming institutionalized. The tax has been accepted by the business community and others and is well established. The implementation of VAT will broaden the tax base and develop a stable and reliable source for future revenue generation

Poudel (2004) has submitted a dissertation to T.U. for degree of management entitled “Effectiveness of Value Added Tax in Nepal”. General objective of the study is to examine the major issued involved in the presses of implementation and effectives of value added tax in Nepal. The study was based on descriptive research design. He found that there may be varies key challenges persisting to effective implementation of VAT system. The major findings of this study are following given-

- There may be weak owing to the lack of practice of issuing and receiving invoices. Similarly there may be problem of under invoicing at the customs has not been reduced.
- There may be misunderstanding between tax payer and tax administrator for refund of tax. One blame the VAT system has not been put in to proper practice while other complain that there is delay in refund owing to the fact that the tax payers don't even comply with simple formalities.
- There may be the lack of publicity and effective monitoring. In the implementation of VAT the main glitch has been in terms of the lack of public awareness. Until a time when a situation is created where the consumer himself/ herself, it will be an uphill road for VAT.
- The fragile political situation and economic slowdown may be the cause of implementation VAT effectively. There was a change in 15 times in the period of 17 years. (2046 up to 2065).
- Lack of proper book keeping has resulted in a discouraging status of returns, which can be seen from the excessive number of credit return.
- The difficulties to implement may be the merger of VAT and income tax administration in 2001. Merged entity was dominated by the management of the former tax administration.

Bhatta (2005), in this dissertation entitled 'Value Added Tax System in Nepal.' The researcher found many numbers of positive and negative comment about value added tax system in Nepal. To fulfill his objective, he used descriptive types of analysis. The major findings of researcher are as follows.

1. Administrative capability is great important for the effective implementation of VAT in Nepal. Some aspects of private sector,

organizational structure and inspection system, reward and punishment, political intervention, selection of skilled and experienced man power are needed to improve for effective implementation of VAT.

2. The implementation of VAT in Nepal is a good case for other countries to study when considering the reform of their indirect tax system. But the cultures of doing business without maintaining multiple sets of book of account have made implementation of VAT difficult.
3. From the study about VAT system in Nepal “It is found that there are lots of problem in VAT existing now. Most of the freedoms, businessman and general public do not have obstacles idea about \VAT. They have been facing many problems, such as pricing problem maintaining accounting problem and more over billing problem business man and traders are not encouraged by the government and tax administration, however now the government has started to introduce special package programmers, but it is not enough.
4. The functional structure and comprised administration made it possible not only to monitor revenue but also each and every functional target. Enforcement become more effective and ever voluntary compliance increase during this period, however, the level of proper enforcement and staff attitude problems still had a negative influence on compliance and the program issuance of bills remained a major bottle neck.

Shrestha (2008) submitted the thesis on “A study on VAT implementation, problems and effectiveness in the Nepalese economy”

In his findings, there is no proper system of valuation of goods in custom and control mechanism is also not good. Beside the open boarder is one of the main problems for successful implementation of VAT. Despite the best effort, large numbers of potential tax payers are outside the boundaries of vat net due to which honest tax payers are have to face unfair competition. And his other findings were business persons are not happy with the present increased VAT rate although the present VAT Act is very good for implementation, fine and penalty system is very strong rather than facilitative one, there is lack of education among customers and business

sector and there is need of modern tools regarding registration of tax payer, investigation system, tax audit and systemic database.

Nepal (2008) submitted the thesis on “Revenue generated from VAT in Nepal”. The main objectives of the study were to analyses the status of VAT registrant, to analyses the composition of VAT revenue and to examine the helpfulness of VAT on economic growth.

Nepal cited the following findings:

1. Compulsory registrant is more voluntary registrant in Nepal.
2. Among the sources of revenue VAT has dominant all other sources of revenue collection i.e. income tax, excise duty and other.
3. People show positive response towards applicability of VAT.
4. VAT increase inflation.
5. VAT helps in economic growth.
6. VAT discourages illegal trade.

Pokherl, (2009) submitted the thesis on “Effectiveness of VAT in Nepal”

The study has covered a nine years period from FY 1998/99 to 2006/07. In this dissertation, found the following finding.

In this study, it is found that, there are lots of the traders; businessmen and general public do not have any clear idea about VAT and its aspects. They have been facing many problems such as pricing problem, main training account problem and more over billing problem. Businessmen and traders are not encouraged by the government and tax administration. No registration of business is any publiematic most business above the threshold level has now registered. The implementation of problem of registration, collection, tax refund and miscellaneous, there has been a notable increase in the number of registration. During the year 1999/00 the total number of registrants was 18204, while in the fiscal year the total number of registrants was 51483. Similarly the revenue is Rs 8765.9 million and 32145.41 respectively in the

year 1998/99 and 2006/07. Through ten years have been already passed but record keeping and process of VAT system has still a great challenges and problems for taxpayer. Most of the tax payers are known about the record keeping and process of VAT system. About 37% respondents provided their views on registration difficulty, 29% on collection process and 30% opinioned on problem of tax refund system. Most of the tax payers are not conscious about VAT system. Tax payers are still unknown about its threshold, exemption, zero rating and related issues, which is essential criteria for VAT registration. It proves that government has no proper homework before its implementation. Smuggling business activities are increase due to weak administration proper operation/implementation. It is expected that VAT system help the government to control over these illegal activities. In the implementation of VAT in Nepal many problem arise which are challenges n application of VAT. Narrow tax base, weak public conscious level, improved tax administration, political instability, geographical barriers, open boarder and unauthorized trade exist as problems in the implementation of VAT in Nepal.

Research Gap

In this way various books, papers, dissertations, reports, articles, journals and other reference materials have been reviewed while preparing the dissertation. But there are not sufficient study conducted in such particulars topic that “Value added tax in Nepal, Past and Present “in Nepal most of the studies were related with theoretical aspect. The previous researchers were not able to explain the research gap but this study is focused to review the research gap in Nepal and it concluded that there is a huge research gap. Besides this the country is also facing the increasing burden of foreign loan. They have not shown the number of debit return filer, credit return filer and zero return filer. Besides this, the revenue performance of VAT is not properly studied. Only the limited challenges for VAT implementation are explained. In this study, the area of challenges for effective VAT implement in Nepal is studied. They are not explaining the VAT rules and

regulation. Such special studies have not conducted yet so, this study is different from other related studies. VAT is being an important factor to government tax revenue so that its real situation and exact contribution n GDP, total revenue and tax revenue are also found out which made for effective VAT implementation in Nepal.

There are lots of researchers on VAT in abroad but very few of these are concerned about countries like Nepal. So, the study is mainly focus on the problems of VAT implementation in Nepal. Besides this, the study will be beneficial to the policy makers, revenue department, and students of tax, private sectors and researchers. It will provide the clear concept ideas as well as knowledge to those persons who are interested and want to gain knowledge of VAT system. Similarly, it will be equally helpful to the researchers who carry out their research work. It will lead a step ahead about VAT by this research work. The focus of the research work is on the problems of VAT implementation in Nepalese perspectives.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

Methodology states the method in which data have been extracted and discussed the tools that have used in interpretation of such data to fulfill the objectives. This study is undertaken to examine the condition of value added tax in Nepal, past and present. Actually this is a review of past and present situation of VAT system in Nepal. More specifically to fulfill objective described about research design, nature and sources of data and tools, procedure of presentation and analysis etc.

3.2 Research Design

A research design is a plan for the collection and analysis of data. It is not possible for a researcher to conduct a research present without a research design. Normally research design becomes either primary data or secondary data or both. Most of data and information of the study are concerned with past phenomena of the performance either they are numerical or opinions, the studies have made the base of past rustles of VAT and to analyze it. After collection of past data and experience. This study uses its own procedure. Therefore this study also followed analytical as well as descriptive research design which has been followed.

- a) Descriptive analysis, tabulation.
- b) Data analysis, statistical and mathematical tools
- c) Interact with resource persons

3.3 Nature and Sources of Data

In order to achieve good result of this research, the researcher collected secondary data from different sources.

Sources of secondary data

The secondary sources of data and information derived from Inland Revenue department, different budget speech of government ministry of finance, public and unpublished books, news paper and magazines, articles etc.

- a) Publication of Inland Revenue department.
- b) Publication of VAT project.
- c) Publication of VAT department.
- d) Publication of books, reports and seminar paper of FNCCI and NCC.
- e) Public documents of national planning commission and Nepal Rastra Bank
- f) Budgeted speech of government of Nepal and economic survey.
- g) Publication of central Bureau of statistics.
- h) Daily, weekly and monthly newspaper and magazine which are related to research
- i) Publish and unpublished report article and dissertation on the concerned subject.
- j) Varies books written by tax officers and scholars.

Procedure of Presentation and Analysis

The information collected from different sources i.e. primary and secondary is processed for tabulation and analysis. For the purpose of analysis generally simple statistical tools have be used which are as follows.

- a) Simple percentage
- b) Simple Average
- c) Graphs, chart, and diagrams.
- d) Other statistical tools.
 - Time series
 - Trend line etc

CHAPTER -IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Nepalese Tax Structure

4.1.1 Total Revenue Structure

This section of this chapter is concerned with the total revenue structure of the government of Nepal. Total revenue is divided into two parts, i.e. taxable revenue & non taxable revenue.

Table 4.1 presents the total revenue structure of the government. The presentation has been made for the period before and after introduction of VAT.

Both tax revenue and non tax revenue are equally important for the government. The structure of tax revenue and non-tax revenue is mostly determined by the type of economy that the government adopts. In capitalist economy, amount of tax revenue is generally higher than non tax revenue and socialist economy, the amount of non tax revenue is generally high.

In Nepalese economy amount of tax revenue is generally higher than that non tax revenue. The following table shows the total taxable and non taxable revenue of country.

Table 4.1
Structure of Total Revenue before and after VAT

(Rs in millions)

Fiscal Year	Total Revenue	Tax revenue		Non-Tax Revenue	
		Amount	%	Amount	%
1991/92*	13512.7	9875.6	73.1	3637.1	26.9
1992/93*	15148.4	11662.5	76.99	3485.9	23.01
1993/94*	19580.9	15371.5	78.5	4209.4	21.5
1994/95*	24605.10	19660	79.9	4945.1	20.1
1995/96*	27893.1	21668	77.7	6225.1	22.32
1996/97*	30373.5	24424.3	80.4	5949.2	19.6
Average Growth Rate	21852.3	17110.3	77.8	4742	22.2
1997/98	32937.9	25939.8	78.7	6998.1	21.3
1998/99	37251.3	28752.9	77.2	9498.4	22.8
1999/00	42866.7	33152.1	77.3	9714.6	22.7
2000/01	48893.9	38865.1	79.5	10028.8	20.5
2001/02	50445.6	39330.6	78.0	11115.0	22.0
2002/03	56229.8	42586.9	75.7	13642.9	24.3
2003/04	62331.0	48173.0	77.3	14158.0	22.7
2004/05	70122.7	54104.7	77.2	16018.0	22.8
2005/06	72282.1	57430.4	79.5	14851.7	20.5
2006/07	87712.2	71126.7	81.1	16585.5	18.9
2007/08	107622.5	85155.5	79.1	22467.0	20.9
2008/09	84203	68080	80.9	16123.0	19.1
Average Growth Rate	62741.6	49391.5	78.23	13350.1	21.77
Grand Total	884012.4	695359.8	14081	134477.3	391.9
Aggregate Average	49111.8	38631.1	78.23	8965.2	21.77

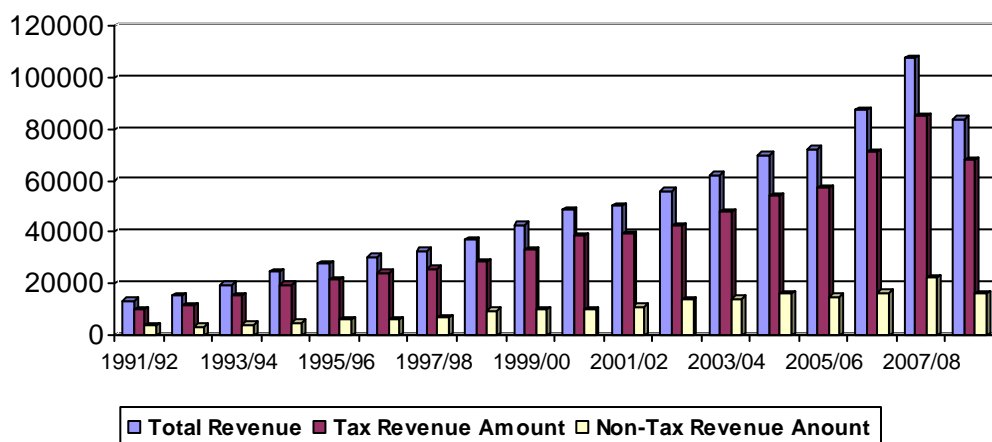
Source: Economic Survey 2008/09, ministry of finance, Kathmandu

Note:

The years marked with * represent the period before the introduction of VAT and the years not marked with * represent the period after the introduction of VAT.

Figure -4.1

Structure of Total Revenue before and after VAT



The table 4.1 and bar graph presents the structure of total revenue before and after VAT. A period between 1991/92 and 2008/09 are covered in the study, which is divided into two parts. Period from 1991/92 to 1996/97 respectively represents the period prior the introduction of VAT and period from 1997/98 to 2008/09 represents the period after the introduction of VAT.

The average contribution of tax revenue and non tax revenue on total revenue before the introduction of VAT is 77.8 % and 22.2% respectively and after introduction of VAT is 78.4 % and 21.6% respectively. Such as the contribution of average growth rate of tax revenue and non tax revenue on total revenue before the introduction of VAT is 77.8 % and 22.2% respectively, same as the contribution of average growth rate of tax revenue and non tax revenue on total revenue after the introduction of VAT is 78.4 % and 21.6% respectively. The above figure proves that the contribution of tax revenue on total revenue is increased after the introduction of VAT. The contribution of tax revenue on total revenue in year 1991/92 is 73%. This slightly increased up to the year 1996/97. In year 1996/97, it reached to 80.4%. On the other hand, the contribution of non-tax revenue on total tax is 20% which is decreasing order. It reached to 19.6% in year 1996/97. It proves that tax revenue was in increasing order and non tax revenue is in decreasing

order before the implementation of VAT. But after implementation of VAT in year 1997/98, the contribution of tax revenue come down to 78.7% and does not cross 80% till 2006/07. On the other hand the contribution of non tax revenue increase to 21.3% in year 1997/98 and does not fall below 20% till 2006/07, which proves that the role of tax revenue is very much important in revenue mobilization of Nepal and to meet the increasing government expenditure. Tax revenue has been placed as a major source of government revenue in Nepal.

4.1.2 Structure of tax revenue

Tax is the main source of government. Mainly there are two types of tax revenue, Direct tax revenue and Indirect tax revenue. Direct tax is that type of tax which is really paid by the tax payer. Direct tax is the sum of personal and corporate income tax, property tax, vehicle tax, interest tax and others. Indirect tax is that type of tax, which is levied on one person and paid by another person. Indirect tax is the sum of excise duty, goods and service based tax. Direct tax is important than indirect tax for the economy. Direct tax is more progressive than indirect tax. Social Justice can be established by direct tax. On the other hand both higher income group and lower income group are equally responsible to pay indirect tax.

Table 4.2
Structure of Total Tax Revenue

(Rs in millions)

Fiscal Year	Total Revenue	Direct Tax		Indirect Tax	
		Amount	%	Amount	%
1991/92*	9875.6	1595.2	16.2	8280.4	83.8
1992/93*	11662.5	2036.2	17.5	9626.3	82.5
1993/94*	15371.5	2855.3	18.6	12516.2	81.4
1994/95*	19660.0	3849.3	19.6	15810.7	80.0
1995/96*	21668.0	4655.9	21.5	17012.1	78.5
1996/97*	24424.3	5340.0	21.9	19084.3	78.1
Average Growth Rate	17110.3	3388.65	19.21	13721.65	80.79
1997/98	25939.8	6187.9	23.9	19751.9	76.1
1998/99	28752.9	7515.4	26.1	21236.8	73.9
1999/00	33152.1	9851.5	27.0	24200.7	73.0
2000/01	38865.1	10199.4	26.9	28705.7	73.8
2001/02	39330.6	10037.8	25.5	29292.8	74.5
2002/03	42586.9	10105.7	23.7	32481.2	76.2
2003/04	48713.0	11912.6	24.7	36260.4	75.3
2004/05	54104.7	13071.8	24.2	41032.9	75.8
2005/06	57430.4	13968.1	24.3	43462.3	75.7
2006/07	71126.7	18980.3	26.7	52146.4	73.3
2007/08	85155.5	23087.7	27.1	62067.8	72.9
2008/09	68080	19714.2	29.0	48365.8	71.0
Average Growth Rate	49391.5	12723.25	25.76	36668.25	74.24
Total	695359.5	174624.1	397.7	520774.8	1376.1
Aggregate Average	38631.1	9701.3	22.1	28932	76.45

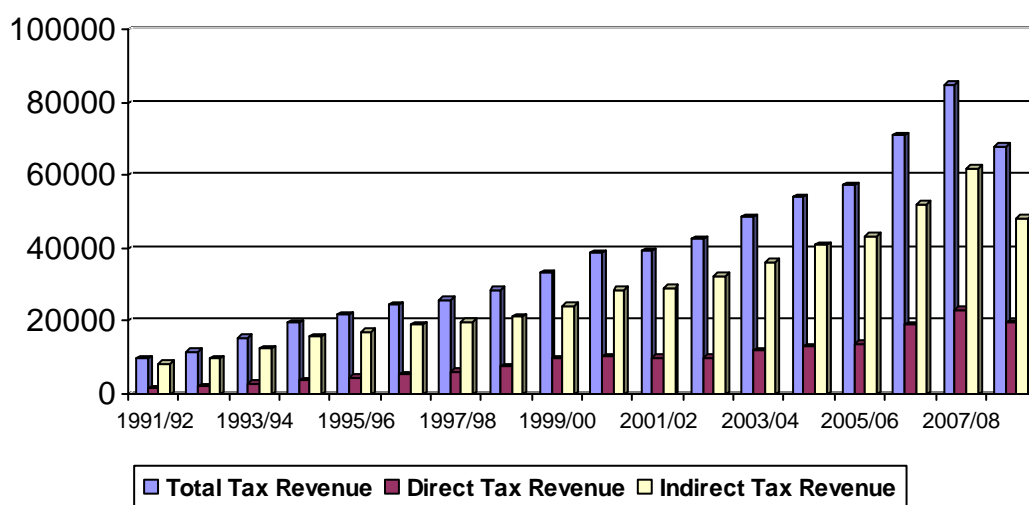
Source: Economic Survey 2008/09, ministry of finance, Kathmandu

Note:

The years marked with * represent the period before the introduction of VAT and the years not marked with * represent the period after the introduction of VAT.

Figure -4.2

Structure of total Tax revenue Bar graph



The table 4.2 and bar graph presents the structure of total Tax revenue before and after VAT. A period between 1991/92 and 2008/09 are covered in the study, which is divided into two parts. Period from 1991/92 to 1996/97 respectively represents the period prior the introduction of VAT and period from 1997/98 to 2008/09 represents the period after the introduction of VAT.

The average contribution of direct tax revenue and indirect tax revenue on total tax revenue before the introduction of VAT is 3388.65 millions and 13721.65 millions respectively and after introduction of VAT is 12723.25 millions and 36668.25 millions respectively. Such as the contribution of average growth rate of direct tax revenue and indirect tax revenue on tax total revenue before the introduction of VAT is 19.21% and 80.79% respectively, same as the contribution of average growth rate of direct tax revenue and indirect tax revenue on total tax revenue after the introduction of VAT is 25.76 % and 74.24% respectively. The above figure shows that the average percentage of direct tax and indirect tax is decreasing after introduction of VAT. After implementation of VAT it helps to increase income tax and other direct tax due to its catch up effect. The trend of the revenue, direct tax, indirect tax shows the confidence with amount collection as direct tax and indirect tax are increasing order.

Table - 4.3**Percentage increase of direct tax Revenue and Indirect tax revenue as compound to previous year**

(Rs in millions)

Fiscal Year	Direct Tax Revenue		Indirect Tax Revenue	
	Amount	% increased	Amount	% increased
1991/92*	15952	-	8280.4	-
1992/93*	2036.2	27.6	9626.3	16.3
1993/94*	2855.3	40.2	12516.2	30.0
1994/95*	3849.3	34.8	15810.7	26.3
1995/96*	4655.9	21.0	17012.1	7.6
1996/97*	5340.0	14.7	19084.3	12.2
1997/98	6187.9	15.9	19751.9	3.5
1998/99	7515.4	21.5	21236.8	7.5
1999/00	8951.5	19.1	24200.7	14.0
2000/01	10199.4	13.9	28705.7	18.6
2001/02	10597.6	3.9	28733	0.1
2002/03	10105.7	0.7	32481.2	10.9
2003/04	11912.6	17.9	36260.4	11.6
2004/05	13071.8	9.7	41032.9	13.2
2005/06	13968.1	6.9	43462.3	5.9
2006/07	18980.3	35.9	52146.4	20.0
2007/08	23087.7	21.6	62067.8	19.0
2008/09	19714.2	-14.6	48365.8	-22.0
Total	174624.3	-	520774.8	-
Average	9701.3	-	28932	-

Source: Economic Survey 2008/09, ministry of finance, Kathmandu

Note:

The years marked with * represent the period before the introduction of VAT and the years not marked with * represent the period after the introduction of VAT.

The table 4.3 presents the percentage increase of direct tax Revenue and Indirect tax revenue as compound to previous year. A period between 1991/92 and 2008/09 are covered in the study, which is divided into two parts. Period from 1991/92 to 1996/97 respectively represents

the period prior the introduction of VAT and period from 1997/98 to 2008/09 represents the period after the introduction of VAT.

From the above table, researchers can say that the increase percentage of direct tax revenue is decreasing order in beginning years. After implementation VAT, it is going increasing order than after in the year 2002/03, the increasing percentage of direct tax revenue is almost zero (0.7). After this in the year 2008/09, it is in increasing order.

In the other hand the increasing percentage of indirect tax revenue is increase and decreasing order. In the year 1991/92, the increasing percentage in 16.3. Then after in the year 1997/98, increasing percentage is 3.5. After implementation the VAT in the year 2002/03, the increasing order is 10-09 then after in the year 2007/08, it is reached in 19.0 percent.

Structure of direct tax revenue

A direct tax is a tax paid by a person on whom it is legally imposed. In direct tax, the person paying and bearing tax is the same. Direct tax is a tax on income and property. The characteristics of a direct tax are equitable as per the property or income, certainty as per the process of payment, amount to be paid time of payment elastic in nature. The example of direct tax revenue are income tax, property tax, vehicle tax, interest tax, expenditure tax death tax, unite tax etc.

Table - 4.4
Structure of Direct Tax Revenue

(Rs in millions)

F/Y	Land Revenue and registration				Tax on property profit and income				
	Land Revenue	House land registration	Total	% of Direct tax	Income Tax	Taxation on property	Others	Total	% of direct tax
1991/92*	65	571	636	39.9	856	68	35	959	61.1
1992/93*	69	686	755	37.1	1125	80	78	1283	63.9
1993/94*	61	772	833	29.2	1825	49	148	2022	70.8
1994/95*	35	903	938	24.4	2712	88	112	2912	75.6
1995/96*	18	1048	1066	22.2	3312	158	119	3589	77.6
1996/97*	6	1009	1015	19.0	3969	201	154	4324	81.0
Average Growth Rate				28.63					71.67
1997/98	4	1000	1004	16.2	4686	286	121	5093	83.8
1998/99	1	1001	1002	13.3	5350	343	819	6512	86.7
1999/00	5	1011	1016	11.4	7006	515	416	7937	88.7
2000/01	5	608	613	6.0	8690	356	464	9510	94.0
2001/02	0	1131	1132	11.3	8907	433	468	9808	88.7
2002/03	0	1414	1414	14.0	7268	560	864	8692	86.0
2003/04	0	1697	1697	14.2	8781	701	733	10215	85.7
2004/05	0	1799	1799	13.8	9709	806	757	11272	86.2
2005/06	0	2181	2181	15.6	10164	848	775	11787	84.4
2006/07	0	2253	2253	11.9	14677	995	1055.0	16727	88.1
2007/08	0	2941	2941	12.7	1799	1069	1088	20147	87.3
2008/09	0	2723	2723	13.8	14547	1256	1189	16992	86.2
Average Growth Rate				12.85					87.15
Grand Total	270	24748	25018	314.8	124305	8812	9134	145517	1475.8
Aggregate Average	15	1375	1390	17.5	6906	490	507.4	8084.2	82.0

Source: Economic Survey 2008/09, ministry of finance, Kathmandu

Note:

The years marked with * represent the period before the introduction of VAT and the years not marked with * represent the period after the introduction of VAT.

The table 4.4 presents the structure of direct Tax revenue before and after VAT. A period between 1991/92 and 2008/09 are covered in the study, which is divided into two parts. Period from 1991/92 to 1996/97 respectively represents the period prior the introduction of VAT and period from 1997/98 to 2008/09 represents the period after the introduction of VAT.

The contribution of average growth rate of land revenue and registration and Tax on property, profit and income before the introduction of VAT is 28.63% and 71.67%, same as the contribution of average growth rate of land revenue and registration and Tax on property, profit and income after the introduction of VAT is 12.85 % and 87.15% respectively. The figure shows, average growth rate of land revenue & registration is decreased after introduction of VAT but other hand Tax on property, profit and income is increased. From the above table 4.4, shows the land revenue is continued decreasing from two fiscal year 1994/95 to 2001/02. Then it is nil. Another land registration is increasing slowly but it is decreased in 2001/01. House and land registration increasing rate is law. The total income is Rs. 2712 million from land and revenue and registration in the fiscal year 1994/95 it is about 24% of total direct tax revenue. The data maintained that the total land revenue and registration is Rs 2941 in the fiscal year 2007/08. This is 11.9% of total direct tax revenue.

In another side the income tax is in increasing order. 959 million is in the year 1991/92. After Fifteen year, it reached in 16727 million. But decrease in 2002/03. Tax on property is increasing and decreasing order and reached from 68 million to 995 million, like wise other tax amount is increasing and decreasing order and reached from 35 to 1088 million in total of tax on property, profit and income shows increasing order and cover 61.1 % in the fiscal year 1991/92 to 87.3 % percentage in 2007/08.

Structure of Indirect Tax Revenues

An indirect tax is a tax imposed on one person but party or wholly paid by another. it is that tax where the person pay the tax and the person bearing the

tax are different. An indirect tax is a tax on goods and services. The main features of indirect tax are convenient to pay, mass participation, limited evasion shifting of incidence. The consumer pays the tax to the business person, not the government etc. The examples of indirect taxes are customs, excise value added tax and so on.

Table - 4.5
Structure of Indirect tax Revenue

Rs in Million

F/Y	Total Indirect tax	Custom duty		Sales tax as VAT		Excised duty		Other tax	
		Amount	%	Amount	%	Amount	%	Amount	%
1991/92*	8280	3359	40.6	2840	34.3	1414	17.1	666	8
1992/93*	9626	3945	41.0	3438	35.7	1453	15.1	790	8
1993/94*	12516	5255	42.0	4693	37.5	1593	12.7	975	7.8
1994/95*	11811	7018	44.4	6032	38.1	1657	10.5	1103	7.0
1995/96*	17012	7327	43.1	6431	37.8	1944	11.4	1307	7.7
1996/97*	19084	8309	43.5	7127	37.3	2298	12.0	1350	7.1
Average Growth Rate	13721.65	5868.83	42.43	5093.5	37.12	1726.5	12.58	1031.83	7.52
1997/98	19752	8502	43.0	7132	36.1	2886	14.6	2241	6.3
1998/99	21237	9518	44.8	7882	37.1	2953	13.9	883	4.3
1999/00	24201	10813	44.7	9855	40.7	3128	12.9	405	1.3
2000/01	28706	12552	43.7	12048	42.0	3771	13.1	335	0.8
2001/02	29293	12659	43.2	11964	40.8	3807	12.9	863	2.3
2002/03	32481	14236	43.8	13460	41.4	4785	14.7	0	0
2003/04	36261	15555	42.9	14479	39.9	6227	17.2	0	0
2004/05	41033	15702	38.3	18885	46.0	6446	15.7	0	0
2005/06	43462	15344	35.3	21611	49.7	6508	15.0	0	0
2006/07	52147	16708	32.0	26096	50.0	9343	17.9	0	0
2007/08	62069	21063	34.0	29816	48.0	11190	18.0	0	0
2008/09	48366	15404	32.0	23741	49.1	9221	19.1	0	0
Average Growth Rate	36668.25	14004.67	38.19	15499.83	42.27	5855.41	15.97	191.09	0.44
Grand Total	490915	203269	732.5	216559	741.5	80624	263.8	8484	37.7
Aggregate Average	27273	11293	40.7	12031.1	41.2	4479	14.6	4713	2.1

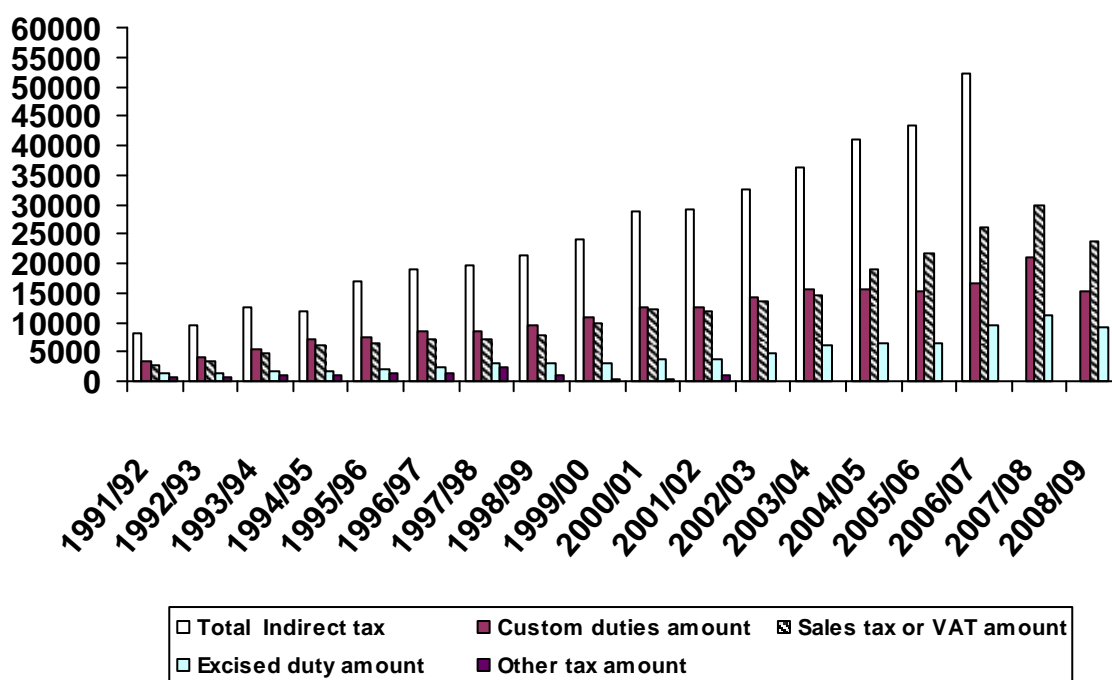
Source: Economic Survey 2008/09, ministry of finance, Kathmandu

Note:

The years marked with * represent the period before the introduction of VAT and the years not marked with * represent the period after the introduction of VAT.

Note: Custom duty included tax on industrial product and liquor contract other tax included entertainment tax, hotel tax, air high tax and other.

Figure - 4.3
Structure of indirect tax revenue



The table 4.5 and bar graph present the structure of indirect Tax revenue before and after VAT. A period between 1991/92 and 2008/09 are covered in the study, which is divided into two parts. Period from 1991/92 to 1996/97 respectively represents the period prior the introduction of VAT and period from 1997/98 to 2008/09 represents the period after the introduction of VAT.

The contribution of average growth rate of custom duty, sales tax as VAT, excise duty and other tax before the introduction of VAT is 42.43%, 37.12, 12.58 and 7.52%, same as the contribution of average growth rate of custom

duty, sales tax as VAT, excise duty and other tax after the introduction of VAT is 38.19%, 42.27%, 15.97% and 0.44% respectively. The figure shows, average growth rate of custom duty & other Tax after introduction of VAT is decreased, but other hand sales tax as VAT and excise duty is increased after introduction of VAT. From the above table 4.5, researchers know that the custom duties are increase in silently. In the year 1991/92, duty is 3359 million now, after twelve years, it is reached in 21063 million in the year 2007/08 like this sales tax, excise duties and other are also changed. In the fiscal year 1991/92, there amount was 2840 millions, 1414 million and 666 million respectively. The situation of other tax is somehow difference then other taxes it was increased up to year 1996/97 (before implement of VAT) and starts to decrease after implementation of VAT and it is nil in latest fiscal year. The main reason of its decline after implementation of VAT is replacement of entertainment, hotel and contract tax by VAT.

4.2 Analysis of different aspects of VAT.

Value added tax is general consumption tax, assessed on the value added to goods and services. In some countries including Australia, Canada, New Zealand and Singapore this tax is known as "goods and service tax" and Japan it is known as "Consumption tax". It is a general tax that applies in principle, to all commercial activities involving the production and distribution of goods and the provision of services. It is a consumption tax because it is borne ultimately by the final consumer. It is not charge on companies. It is charged as a percentage of prices, which means that the actual tax burden is visible at each stage in the production and distribution chain. It is an indirect tax in that the tax is collected from someone other than the person who actually bears the cost of the tax. (Bhattraai and Koirala 2007)

4.2.1 Sales tax/VAT on GDP before and after VAT

To know the contribution of sales tax/VAT on GDP on current price, it would be desirable to examine the sales tax or VAT revenue in GDP. The following table indicates the share of sales tax/ VAT revenue in GDP.

Table - 4.6
Sales Tax/VAT on GDP

(Rs in millions)

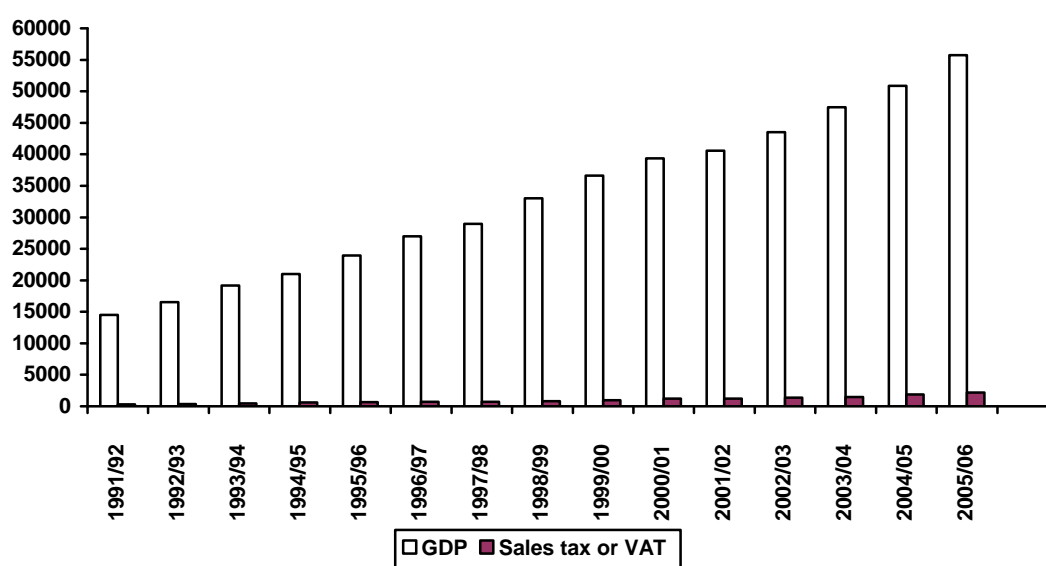
Fiscal Year	GDP	Sales tax or VAT	% of GDP
1991/92*	14493	284	1.95
1992/93*	16535	344	2.08
1993/94*	19160	470	2.45
1994/95*	20998	603	2.9
1995/96*	23939	643	2.7
1996/97*	26957	713	2.6
Average Growth Rate	20347	509.5	2.5
1997/98	28970	713	2.5
1998/99	33002	788	2.4
1999/00	36625	985	2.7
2000/01	39357	1205	3.1
2001/02	40563	1196	2.9
2002/03	43533	1346	3.1
2003/04	47491	1448	3.0
2004/05	50865	1888	3.7
2005/06	55746	2161	3.9
2006/07	59401	2609	4.4
2007/08	63425	2982	4.7
2008/09	47843	2374	4.9
Average Growth Rate	45568.42	1641.25	3.4
Grand Total	668903	22752	55.98
Aggregate Average	37161	1264	3.11

Source: Economic Survey 2006/07, ministry of finance, Kathmandu

Note:

The years marked with * represent the period before the introduction of VAT and the years not marked with * represent the period after the introduction of VAT.

Figure - 4.4
Sales tax/VAT on GDP Bar graph



The table 4.6 and bar graph present the percentage of sales tax or VAT on gross domestic product before and after VAT. A period between 1991/92 and 2008/09 are covered in the study, which is divided into two parts. Period from 1991/92 to 1996/97 respectively represents the period prior the introduction of VAT and period from 1997/98 to 2008/09 represents the period after the introduction of VAT.

The contribution of average growth rate of sales tax or VAT on GDP before the introduction of VAT is 2.5%, same as the contribution of average growth rate of sales tax or VAT on GDP after the introduction of VAT 3.4% respectively, which shows that the average growth rate is in increasing year and year after VAT introduction. The contribution of aggregate average is 3.11%. The above table also shows that the sales tax or VAT is increasing form the fiscal year

1991/92 to the year 2008/09. After implementation of VAT the increasing order of VAT is high. In the fiscal year 1991/92, the sales tax or VAT revenue was 1.95 % of GDP that reached to 2.64 % in the year 1996/97. The contribution of sales tax or VAT on GDP reaches to 4.9 percentage in the Fiscal year 2008/09. In Average the contribution of sales tax/VAT increase after implementation VAT.

4.2.2 Sales tax/ VAT on total revenue and indirect tax

To know the contribution of sales tax/VAT on total tax revenue and total indirect tax revenue, it would be desirable to examine the share of sales tax /VAT revenue in total revenue and indirect tax revenue.

The following table indicates the share of sales tax/VAT in total revenue and indirect tax revenue before and after VAT.

Table - 4.7**VAT on total tax revenue and indirect tax revenue before and after VAT**

Rs. In million

Fiscal Year	Total Revenue	Tax	Total indirect Tax	Sales tax or VAT		
				Amount	% of total tax	% of Indirect tax
1991/92*	9875.6		8280.4	2841.0	28.77	64.31
1992/93*	11662.5		9626.3	3438.2	29.49	36.47
1993/94*	15371.5		12516.2	4693.1	30.53	37.50
1994/95*	19660		15810.7	6032	30.7	38.20
1995/96*	21668		17012.1	6431	29.7	37.80
1996/97*	24424.3		19084.3	7127	29.18	37.34
Average Growth Rate	177110.3		13721.65	5138.72	29.73	41.94
1997/98	25939.8		19751.9	7132	27.24	36.06
1998/99	28752.9		21236.8	7882	27.41	37.16
1999/00	33152.1		24200.7	9855	29.73	40.72
2000/01	38865.1		28705.7	12048	31.00	41.97
2001/02	39330.6		29292.8	11964	30.42	40.84
2002/03	42586.9		32481.2	13460	31.61	41.44
2003/04	48173.0		36260.4	14479	30.10	39.90
2004/05	54104.7		41032.9	18885	34.9	46.00
2005/06	57430.4		43462.3	21611	37.6	49.70
2006/07	71126.7		52146.4	26096	36.7	50.00
2007/08	85155.5		62067.8	29816	35.0	48.0
2008/09	68080.2		48365.8	23741	34.9	49.1
Average Growth Rate	49391.5		36668.25	16391.58	32.22	40.91
Grand Total	695359.8		520774.8	227531.3	565	742.5
Aggregate Average	38631.1		28932	12641	31.4	41.3

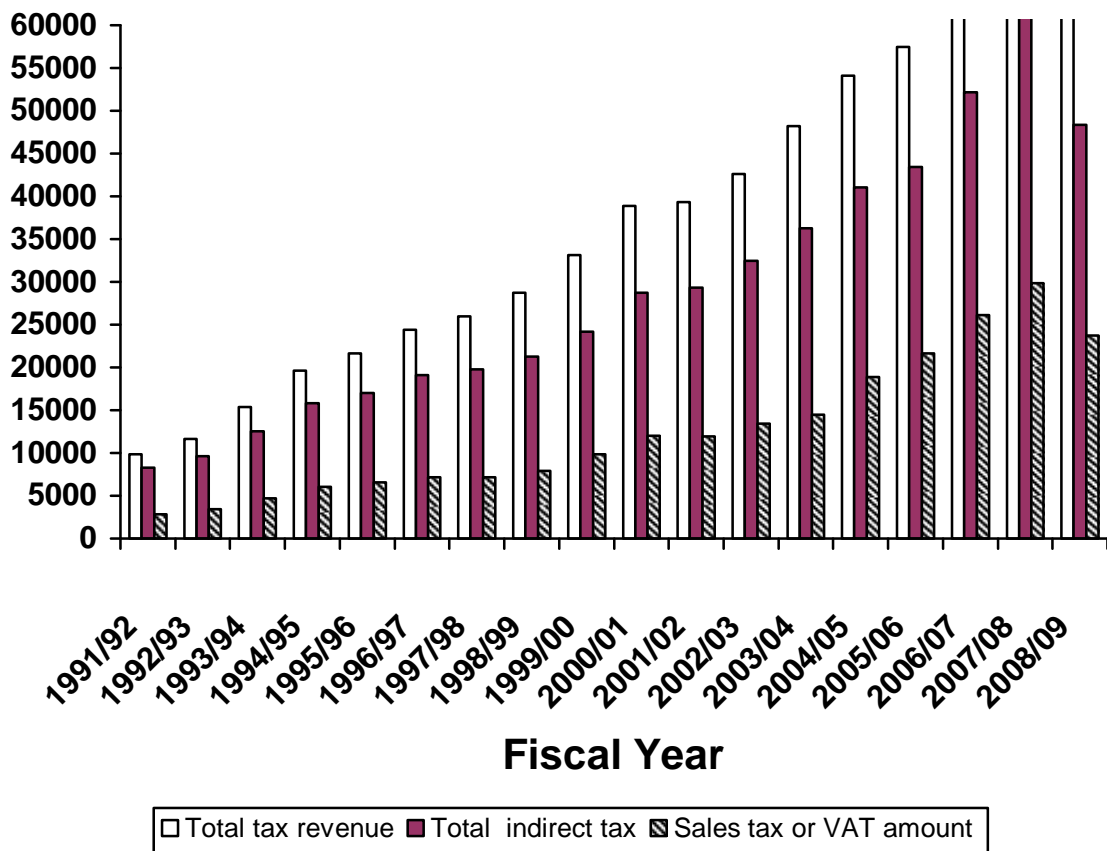
Source: Economic Survey 2008/09, ministry of finance, Kathmandu

Note:

The years marked with * represent the period before the introduction of VAT and the years not marked with * represent the period after the introduction of VAT.

Figure - 4.5

VAT on total revenue and indirect tax revenue before and after VAT



The table 4.7 and bar graph present VAT on total tax revenue and indirect tax revenue before and after VAT before and after VAT. A period between 1991/92 and 2008/09 are covered in the study, which is divided into two parts. Period from 1991/92 to 1996/97 respectively represents the period prior the introduction of VAT and period from 1997/98 to 2008/09 represents the period after the introduction of VAT.

The contribution of average growth rate of VAT on total tax revenue and indirect tax revenue before the introduction of VAT is 29.73% & 41.94%, same as the contribution of average growth rate of VAT on total tax revenue and indirect tax revenue after the introduction of VAT 32.22% & 40.91% respectively, The aggregate average is 31.4% & 41.3% respectively, which shows that the average growth rate of total tax is increased but other hand

indirect tax is decreased after VAT introduction. From the above table 4.7, researcher can say that the sales tax/VAT is the important sources of government revenue. Which occupy more than one fourth of total tax revenue and more than one third of total indirect tax revenue of the government of Nepal. The contribution of sales tax/ VAT on total tax revenue in the year 1991/92 was 28.77 % and on indirect tax revenue in the same year was 64.31 %. The contribution of sales tax or VAT on total tax revenue and indirect tax revenue in the year 1996/97 was 29.18 % and 37.34 % respectively. In the year of VAT implementation the tax revenue and indirect tax revenue is in decreasing order. Now after some year, in the year 2008/09 the contribution of sales tax/VAT on total tax revenue and indirect tax revenue are 34.9% and 49.1% respectively after implementation of VAT the contribution of VAT sales tax on total tax revenue and indirect tax revenue is in increasing order.

4.2.3 Replacement of sales, entertainment, Hotel tax and contract tax by VAT

Sales tax was the important part of indirect tax. A tax based on the sales of goods and services imposed for generating revenue is sales tax. Entertainment tax, hotel tax and contract tax researchers imposed separately with different laws. VAT was introduced with replacement of existing sales tax, entertainment tax, hotel tax and contract tax. Mainly sales tax converted in to value added tax and others are subsidiary.

Sales tax is completely replaced by VAT but hotel, entertainment and contract tax have not been replaced in such way. A small amount of revenue used to be collected under the name of entertainment, hotel and contract tax but their contribution on total is remarkable reduced after the implementation of VAT. Now all the above taxes are being completely replaced by value added tax.

Table - 4.8**Replacement of Sales, Entertainment, Hotel and contract tax by VAT**

(Rs in 10 million)

Fiscal Year	Total		Sales tax / VAT		Contract tax		Hotel tax		Entertainment tax	
	Amount	Amount	Amount	%	Amount	%	Amount	%	Amount	%
1991/92*	328.3	100	284.1	86.5	21.3	6.5	19.1	5.8	3.8	1.2
1992/93*	400.8	100	343.9	85.8	29.3	7.3	22.3	5.6	5.3	1.3
1993/94*	538.1	100	469.3	87.2	35.7	6.6	21.9	4.1	11.2	2.1
1994/95*	685.7	100	603.2	88	50.5	7.4	22.9	3.3	9.1	1.3
1995/96*	742.9	100	643.1	86.6	61.3	8.3	28.4	3.8	10.1	1.4
1996/97*	815.3	100	712.7	87.4	61.1	7.5	30.1	3.7	11.4	1.3
Average Growth Rate			513.87	86.92	43.2	7.27	24.12	4.38	8.48	1.4
1997/98	802.2	100	713.2	88.8	76.2	9.5	4.6	0.6	9.1	1.1
1998/99	852.6	100	788.2	92.4	61.8	7.2	0.2	0.02	2.4	0.3
1999/00	1026.1	100	985.5	96.0	37.5	3.7	0.2	0.01	2.9	0.3
2000/01	1238.2	100	1204.8	97.3	30.4	2.5	0.01	0.0	3.0	0.2
2001/02	1226.7	100	1196.4	97.5	30.1	2.5	0.0	0.0	0.21	0.1
2002/03	1346.0	100	1346.0	100	00	0.0	0.0	0.0	0.0	0.0
2003/04	1447.9	100	1447.9	100	00	0.0	0.0	0.0	0.0	0.0
2004/05	1888.5	100	1888.5	100	00	0.0	0.0	0.0	0.0	0.0
2005/06	2161.1	100	2161.1	100	00	0.0	0.0	0.0	0.0	0.0
2006/07	2609.6	100	2609.6	100	00	0.0	0.0	0.0	0.0	0.0
2007/08	2981.6	100	2981.6	100	00	00	00	00	00	00
2008/09	2374.1	100	2374.1	100	00	00	00	00	00	00
Average Growth Rate			1639.16	97.67	19.67	5.75	0.42	0.05	1.47	0.17
Grand Total	23465.7	1800	22753.2	1693.5	495.2	69.0	149.7	26.9	68.5	10.6
Aggregate Average	1303.7	100	1264.1	94.1	27.5	3.8	8.3	1.5	3.8	0.6

Source: Economic Survey 2008/09, ministry of finance, Kathmandu

Note:

The years marked with * represent the period before the introduction of VAT and the years not marked with * represent the period after the introduction of VAT.

The table 4.8 presents the replacement of Sales, Entertainment, Hotel and contract tax by VAT before and after VAT before and after VAT. A period

between 1991/92 and 2008/09 are covered in the study, which is divided into two parts. Period from 1991/92 to 1996/97 respectively represents the period prior the introduction of VAT and period from 1997/98 to 2008/09 represents the period after the introduction of VAT.

The contribution of average growth rate of Sales, Entertainment, Hotel and contract tax before the introduction of VAT is 86.92%, 7.27%, 4.38% & 1.4%, same as the contribution of average growth rate of Sales, Entertainment, Hotel and contract tax after the introduction of VAT is 97.67%, 5.75%, 0.42% & 0.17% respectively, The aggregate average is 94.1%, 3.8%, 1.5% & 0.6% respectively. From the above figure, it proves that the average growth rate of sales tax or VAT is increased after introduction of VAT but in other hand, Entertainment, Hotel and contract tax all are decreased. Value added tax is implemented to replace the sales tax, entertainment tax. Hotel tax and contract tax. In total of 328.3 million where the amount of sales tax, contract tax, hotel tax and entertainment tax contribute serially are Rs. 284.1, Rs 21.3, Rs 19.1 and Rs 3.8 in the Fiscal year 1991/92 respectively. In the year 1996/97, the sales tax, contract tax, hotel tax and entertainment tax was 712.7, 61.6, 30.1 and 11.4 respectively. When VAT was introduced the sales tax was completely replaced by it. After VAT contribution of contract tax, hotel tax and entertainment tax on total of four is decreasing year after year and in year 2002/03, their contribution is zero. Which shows that value added tax completely replace these four taxes in year 2002/03. Now VAT is able to replace sales tax, entertainment tax, hotel tax and contract tax completely.

4.2.4 Trend of VAT registration and cancellation

Registration and getting VAT certificate is the first function of both tax administration and business person. The numbers of sales tax registrant were 2045 at the time of introduction of VAT in 1997. Out of the threshold are registrants voluntary in VAT. Business community was opposition in the beginning and they discouraged to register in the VAT. Commitment of government, the registrants are increasing yearly and the private sector also

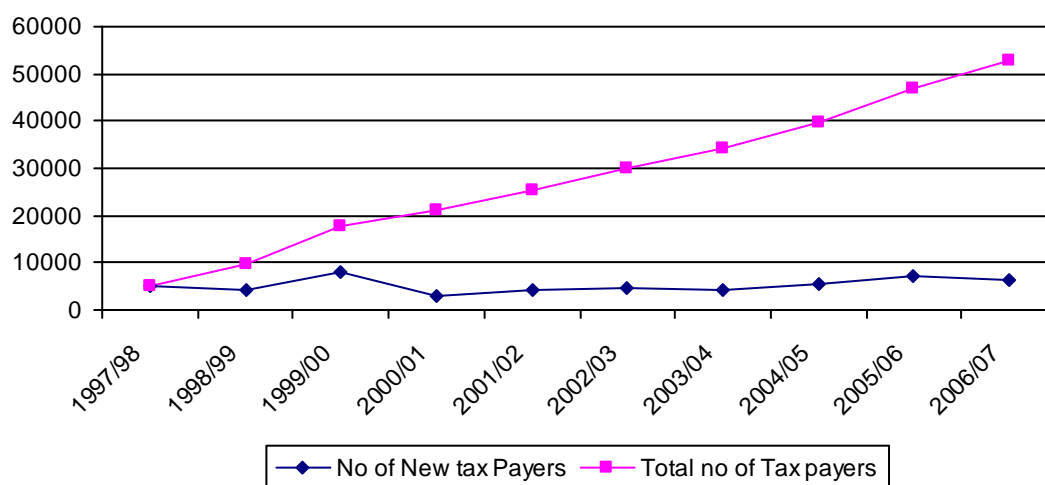
favor of it. There are two departments in the introduction of VAT. VAT department and revenue department. In the past, some researchers registered in VAT department, to improve the revenue collection, refund, registration, audit, data management both revenues department and VAT department merged with the re-structurally inland Revenue department. Total registrants in PAN (Permanent Account Number) are 245550 and VAT are 52965 till 2006/07. The registration and registration cancellation can be seen from the following table.

Table - 4.9
Trend for VAT Registration

Fiscal Year	No of New Tax Payers	Total no of Tax Payers	Increasing % of Tax Payers
1997/98	5237	5237	-
1998/99	4405	9642	84.11
1999/2000	8205	17947	86.13
2000/01	3146	21093	17.53
2001/02	4056	25149	19.23
2002/03	4723	29872	18.23
2003/04	4302	34174	14.40
2004/05	5602	39776	16.39
2005/06	7055	46831	17.73
2006/07	6134	52965	13.10

Source:- Inland Revenue Department Kathmandu.

Figure - 4.6
Trend for VAT registration



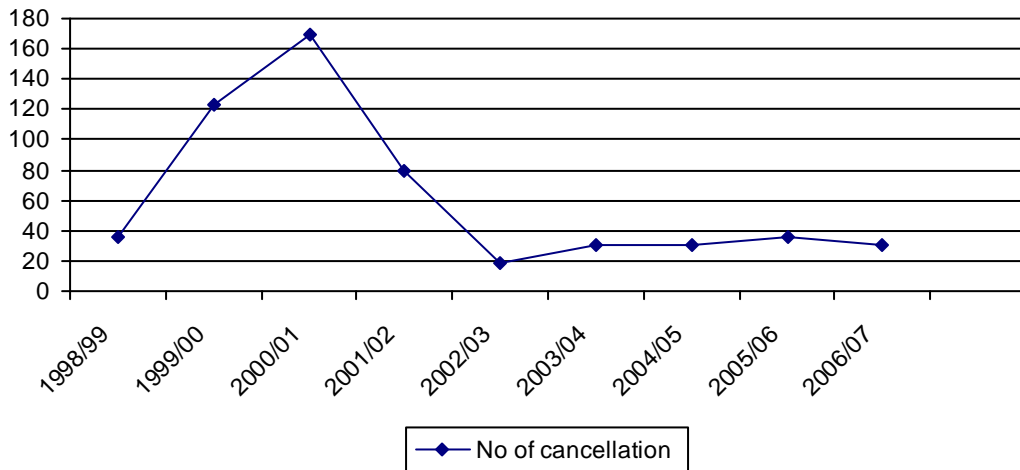
From the above table 4.9, researcher can say that the total no of tax payer is in increasing order because the total number of new tax payer or total no of tax payer is 5237 in the Fiscal year 1997/98 (i.e. VAT implementation period). After this, in 2006/07, the total number of new tax payer and total numbers of tax payer are 6134 and 52965 respectively.

Table - 4.10
Number of Tax payer canceling Registration.

Fiscal Year	No. of Cancellation Registration	Total	Percentages
1998/99	36	36	0.7
1999/00	123	159	1.3
2000/01	170	329	0.9
2001/02	80	409	0.4
2002/03	18	427	0.1
2003/04	30	457	0.1
2004/05	30	487	0.1
2005/06	36	523	0.1
2006/07	31	554	0.1

Sources:- Inland Revenue Department, Kathmandu,

Figure - 4.7
Number of Tax Payer Canceling Registration



Registration canceling is the regular process of VAT. There are many reasons to cancel the registration like it is the corporate organization closed, individual ownership being death, partnership, dissolved, nil trisection year, zero report, confusedly registered etc.

In the above table in the year 1998/99 the 36 registrants cancelled deregistration and it is in increasing and decreasing order. Mainly the canceling order is going in decreasing order. In the year 2006/07, the number of cancellation is only 31.

4.2.5 VAT revenue collection

Value added tax is the best form of sales tax, which is natural regarding method of production and helpful in generates more revenue collection. Because of its broad coverage, naturally, transparency and fairness, VAT will generate more revenue with less distortion. The revenue collection from VAT in different fiscal year is presented below.

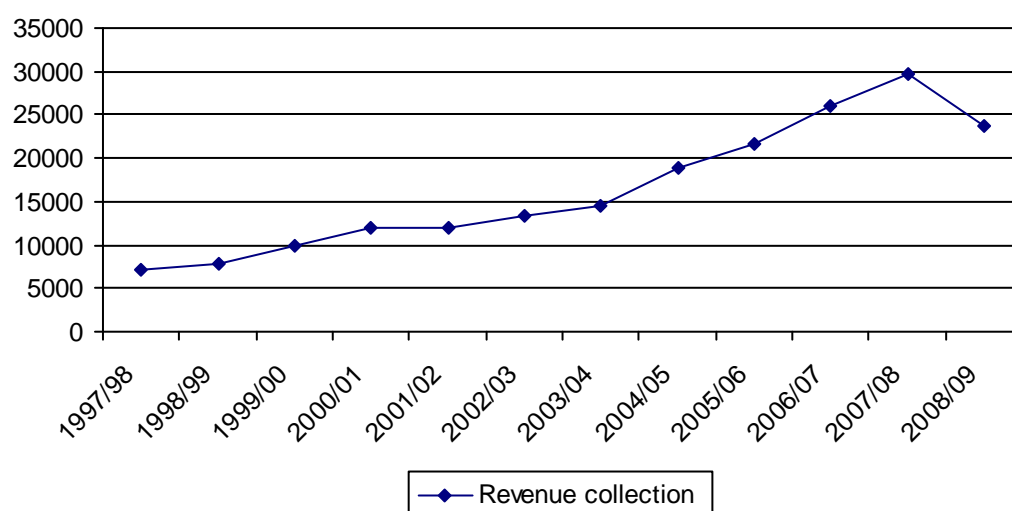
Table - 4.11
Trend of Revenue Collection from VAT

(Rs in Millions)

Fiscal Year	Revenue Collection	Percentage change
1997/98	7132	-
1998/99	7882	10.5
1999/00	9855	25
2000/01	12048	22.30
2001/02	11964	-0.70
2002/03	13460	12.50
2003/04	14479	7.60
2004/05	18885	30.40
2005/06	21611	14.40
2006/07	26096	20.8
2007/08	29816	14.26
2008/09	23741	-20.38
Total	196969	-
Average	16414.1	

Source: Economic Survey 2008/09, ministry of finance, Kathmandu.

Figure - 4.8
Trend of revenue collection from VAT.



From the above table 4.11, researchers can clear that the value added tax revenue is increasing year to year. VAT generated about 7132 million in the fiscal year 1997/98. In the year 1998/99, it reached up to 7882 million that is 10.5% more than previous year similarly it is increase year to year. In the year 2007/08, it is increased 14.26 % to previous year. Though VAT collection has reached Rs. 29816 million in the fiscal year 2007/08. Despite the various difficulties in the implementation of VAT, the collection trend of revenue through VAT is not bad. Value added tax is increasing radically except fiscal year 2001/02. there are many facilities in value added tax i.e. minimum rate, tax credit, tax refund, deregistration zero tax rate, threshold, exemption facilities in value added tax, now tax rate is 13 percent. It is expected that VAT will generate more and more revenue in the days to come when it is implemented effectively and effectively. Since VAT is broad based tax it will provided a stable base of revenue to the government.

4.3 Empirical Study

An empirical investigation was conducted in order to find out the various aspects of value added tax from the experience of the real world. In this empirical study, the analysis has been done about value about tax and the basis of information collected from the tax exports, tax administrators (tax officer) and tax payers. The major tool used for this purpose is questionnaire.

In this study, the questions were asked to 50 different individuals related to this field i.e. tax experts, tax administrators (tax officers) and tax payers. The questionnaire has covered various aspects of value added tax in Nepal: past and present situation. (See the format of questionnaire in appendix). Information received from the respondent's are tabulated and analyzed in the proper way. The following table shows the groups and no. of respondents.

Table - 4.12

Group of Respondents and Number.

S.N.	Group of respondents	Number
1	Value added tax exports	10
2	Value added Tax Administrators (officer)	20
3	Tax payers	20
	Total	50

Source:- opinion survey

4.3.1 Result for Empirical Investigation

a. Soundness of value added Tax administration in Nepal.

To know the opinion about the soundness of VAT administration in Nepal, question was asked with respondents "Do you consider that the value added tax administration in Nepal is sound?" The responses received from the respondents are tabulated as follows.

Table - 4.13

Soundness of VAT Administration of Nepal.

Responses	yes		No		Total	
	No	%	No	%	No	%
Tax experts	4	40	6	40	10	100
Tax administrator	7	35	13	65	20	100
Tax payers	9	45	11	55	20	100
Total	20	40	30	60	50	100

Source: Opinion survey

From the above table 4.13, it was found that cent percent responses of the questions are received. 60 percent respondents researchers disagree about the soundness of value added tax administration of Nepal whereas 40 percent are agreed about the soundness of value added tax administration. On the conclusion, researcher can say that training must be provided to tax experts and administrators.

b. Opinion about Current VAT Rate

To know the opinion about the present VAT rate in Nepal, Respondents are requested to selected one among the three alternatives (High, median and low). The question was asked “What is your opinion about the current VAT rate??. The responses received from the respondents are tabulated as follows:

Table - 4.14

Opinion about Current VAT Rate

Responses Respondents	High		Medium		Low		Total	
	No	%	No	%	No	%	No	%
Tax experts	1	10	7	70	2	20	10	100
Tax administrator	2	10	13	65	5	25	20	100
Tax payers	12	60	6	30	2	10	20	100
Total	15	30	26	52	9	18	50	100

Source: opinion survey

From the above table 4.16, it was found that cent percent responses of the questions are received. 52 percent respondents’ researchers agreed that the present VAT is medium, 30 percent respondents researchers agreed on high where as 18 percent respondents agreed on low tax rate. From the table, it is concluded that the current VAT Rare is medium. Majority tax exports and administrators researchers agreed on it where as some respondent feel that the rate is not absolutely high, but it is higher as compared to taxpaying capacity of Nepalese people.

c. Has the VAT been leaking in Nepal?

To know the opinion VAT has been leaking in Nepal, Questions was asked with respondents,” Has the VAT been leaking in Nepal?” The responses received from respondents are tabulated below:

Table - 4.15**Has the VAT been leaking in Nepal ?**

Responses Respondents	yes		No		Total	
	No	%	No	%	No	%
Tax experts	3	30	7	70	10	100
Tax administrator	10	50	10	50	20	100
Tax payers	12	60	8	40	20	100
Total	25	50	25	50	50	100

Source: Opinion Survey

From the above table 4.17, it was found that cent percent responses of the question received. 50 percent respondents were disagreed about the leaking of VAT and 50 percent respondents were agreed about the leaking of VAT. VAT provides more chance of direct contact between the tax payers and tax personnel. Since direct contacts and dealing facilities collusion mal practice and misuse of power, tax evasion would be easier under the VAT.

d. Whether VAT helps to economic growth or not?

To know that VAT helps to economic growth or not the question was asked with respondents “Whether VAT helps to economic growth or not?”. The responses received from respondents are tabulated below

Table - 4.16**Whether VAT helps to economic growth or not?**

Responses Respondents	yes		No		Total	
	No	%	No	%	No	%
Tax experts	10	100	0	0	10	100
Tax administrator	15	75	5	25	20	100
Tax payers	12	60	8	40	20	100
Total	37	74	13	26	50	100

Source: Opinion survey

From the above table 4.18, it was found that cent percent responses of the questions are received. 74 percent respondent (100 percent tax exports, 75 percent tax officer and 60 percent tax payers) believed that VAT help to economic growth of Nepal. On the other hand, 26 percent of respondents argued that VAT only does not help to economic growth in Nepal.

4.4 Major Findings

After presentation and analysis the data, in this chapter some important findings are given for study. The major findings are given below.

- a) Value added tax system has been implementing in Nepal has completed eleven year, it has the target to increase 0.25 percent GDP per year but due to various complexities and problem this tax system has not been able to achieve the expected level of success.
- b) The government expenditure is increasing continually but a revenue resource is very limited which led to the country to fiscal crises. The major cause of persisting fiscal deficit in Nepal is due to the poorly designed and defected tax system which cause inadequate mobilization of resource.
- c) Government found that contribution of indirect tax revenue is large where the show of indirect tax revenue is more than 75 percent. The value added tax is seemed position after custom in indirect tax revenue.
- d) In Nepalese tax structure; indirect tax is more important than direct tax from the point of view of revenue generation. Before implementation of VAT the contribution of direct tax ratio was around 19 percent but after VAT is around 22% automatically. Indirect tax contribution before implementation VAT was around 79 percent and after VAT it is around 76%.
- e) There are three kinds of indirect tax revenue. These are custom duties, sales tax/VAT and exercise duties. In average custom duties is the main and sales tax is the second position in indirect tax revenue. But in the years

2006/07, fifty percent of indirect tax revenue covered the VAT revenue. The VAT contributed the 50 percent in total indirect tax revenue.

- f) The contribution of sales tax was 1.95 on GDP in fiscal year 1991/02. Value added tax contribute in average around 3 percent of GDP in Nepal. Its contribution on GDP reached to 3.90 percent in year 2005/06.
- g) There is no significant change in revenue structure before and after implementation of value added tax.
- h) Before implementation of VAT, there are various types of tax; those were hotel tax, contract tax, entertainment tax and sales tax having different tax rates. Either the tax rate was less or more than VAT. Hotel tax was between 10 to 14 percent, sales tax was 15 percent, contract tax was more than 100 percent the flat rate 10 percent of VAT replaced and made simplicity and easier.
- i) Number of tax payers registered under VAT has been increasing year after year but their increasing ratio in latest year seen unsatisfactory. The total number of registered tax payers (under VAT) reached to 52965 in the year 2006/07.
- j) Imports generate more VAT revenue than domestic production. Thus import is the main base of VAT in Nepal.
- k) Projection of VAT coming 10 years shows the optimistic future by the base of implemented the past sales tax and VAT.
- l) Status of transaction reports shows the debit taxpayers are less than credit and zero tax payers. The debit tax payers are about 25 percent.
- m) The value added tax revenue for the year 2018/19 is estimated as Rs 22847 million.

CHAPTER -V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Taxation has played an important role in the economic development of each country. Value added Tax is modern Tax system. It is a kind of indirect tax imposed on value added on goods and services by business firm at the successive stage of production and distribution. Value added tax was brought to replace by sales tax, contract tax, hotel tax and entertainment tax. VAT is scientific system of taxation. The types of value added tax are classified in three forms such as a. consumption types as invoice/Tax credit method b. Income type as subtraction method in connection with deducting facility in subsequent then otherwise addition method and c. Gross national production of addition method.

VAT has been regarded as one of the most important innovation in the field of taxation. The evaluation of VAT is the most significant event in the history of commodity tax. German scholar Dr William Von siemens, father of VAT, was the founder of value added tax. He developed the concept of VAT in 1919 AD. The concept of VAT was developed further in 1949 by a tax mission to Japan led by earls S, soup. Any country did not introduce VAT until 1953. In 1954, VAT was first introduced by France to cover the industrial sector alone limiting the tax up to the wholesale level. In 1960, this tax was adopted by Ivory Coast. In 1967, Brazil and Denmark adopted this tax system, there after much other country started adopting this tax. Now more than 130 countries of the world have been implementing VAT in their economy up to now.

In Nepal, 1996/97 budget announced that VAT would be implemented from Marga 1/2054, however full fielded VAT was effective from Bhadra 1/2056. Value added tax act has already been enacted in 1996 to regulate actual practice of VAT. According to value added tax Act 1996, the tax rate is 10

percent and export are subject to a rate of zero percent. There is provision of threshold and exception in VAT Act 1996. Single positive rate of 10 percent, now this rate is changed to 13 percent from Magh 1/ 2061.

VAT is not only important in the economy but also the other related portion may be easier than replaced tax system. The methods are available to compute of VAT. There are addition method, subtraction method and Tax credit method. Addition method includes salary wages, interest, profit etc. Under the subtraction method, value is determined as net turn over, which is obtained by subtracting the cost of material from sales proceeds. Tax credit method is popular in these methods. In practice invoice is the important document in tax credit method. Comparatively easier and simplicity, tax credit method is also adopting for computing VAT in Nepal.

There are two principle of VAT, origin principle and destination principle. Origin principle advocates the theme that "Tax all goods and services where they are originated or produced that relieved those goods from taxes which are imported from abroad. Under a destination principle of VAT, all exports are allowed to free tax and imports are subject to tax. Nepal has been adopting destination principle of VAT.

5.2 Conclusion

Public finance has two sources of revenue; they are tax revenue and non tax revenue. Tax revenue is also classified in to direct tax and Indirect Tax. Direct tax is a tax paid by a person on whom it is legally imposed. Tax payer paid the tax to other and that collects the tax from different persons and paid to government or tax payer and tax imposed are separate. In developed country, the contribution of direct tax is become more than indirect tax. An indirect tax is a tax imposed on one person but partly or wholly paid by another; under developed country like Nepal has the more contribution of indirect tax. The share of direct tax is 26 percent. Custom duty, VAT and exercise duties are main source of indirect tax. Value added tax contributed about 40 percent of

total indirect tax revenue. Thus value added tax is regarded as one of the important source of government revenue. Import is the main base of value added tax in Nepal, around 68 percent of VAT is contributed by import in Nepal.

Generally, the tax base is broad, having with exemptions on goods and services is the simply the reason of popularity of VAT in the world. Other facility of VAT is neutrality role on the methods of production and distribution as well as consumer choice. It is justice able for the consumer to pay the tax to government neither transparency of nor producer. By the transparency of invoice controls the price and increase the competition. Further the stepwise collection of VAT does not encourage tax evasion. VAT is considered vertically neutral because changing the methods of production and distribution cannot reduce the tax liability. This is unsuitable for under developing countries where the gaps of poor and rich people is large and treat the same measure of consumption rate. A poor farmer should pay tax as well as rich people in the clothey are an example.

5.3 Recommendation

1. It is necessary to lunch a comprehensive tax payer education program in order to give ideas about various aspects of value added tax to the existing and potential tax payers and others.
2. The contribution of tax revenue is 77 percent and non tax revenue is about 23 percent. Increasing rate is not high. In the 15 years it is increase more than three times in the amount. In this situation mainly the VAT revenue collection is unsatisfactory. The inland Revenue Department should celebrate “Registration Month” as like as “PAN Saptaha”
3. Both direct and indirect tax is increasing in very low percentage in recent years. So government tax authorities should identity the reason, believed it and take corrective action.

4. Value added tax is implemented for the replacement of sales tax, entertainment tax, hotel tax and contract tax. Therefore the rate of VAT should be 15 percent to make the balance of tax and to increase the VAT revenue. In this way the ratio of VAT will be increased.
5. The increasing rate of registrant tax payer is not satisfactory because it is in decreasing order. Therefore the tax authority should pay attention toward it.
6. VAT collection on import is remarkably higher than domestic production. Such high dependency on import is not the good signal for the government therefore authority should take an effective step to encourage domestic production.
7. Thresholds, zero rating and exemption provision make limiting the scope of VAT. Our economy is not so large while the large economy of India has IN Rs 1000000(ten million) threshold. Furthermore zero rating and exemption provision are large which are not suitable for Nepalese context. These provisions are also the course of tax evasion. Therefore tax authority should properly monitor over these provision to increase the revenue collection through VAT. Government should facilitate to small business person to registration under the VAT. The exempted list should be limited and it helps to increase the registration and collection.
8. The administration should be watchful to discourage any kind of malpractice, fraud evasion and avoidance of Tax. Reward and punishment system should be strictly followed according to performance.
9. The government should apply the "Rasan Card" For the people who are living under the poverty line. By this precision make easier the reduction /minimization of Tax exemption goods and services. Most essential goods and services have to exempt. In this situation VAT will cover the broad base and increasing the revenue collection.

10. The boundary of value added tax should be increased instead of increasing the rate of VAT in order to increase amount of revenue collection through VAT. Unfortunately the government increased the rate of VAT from 10 percent to 13 percent in I Magh 2061, after seven years of VAT Implementation.
11. Facilitate to the small business person to register under the VAT. They have to get credit facilities and yearly reporting systems. This kind of provision, the coverage of VAT will be increased.
12. It is known that double and multiple rate VAT is difficult to administer but it is better to introduce double and multiple rate VAT instead of increasing single rate. High rate in luxuries and imported goods and low rate essential goods should be levied.
- 13 An effective computer program for invoicing and record keeping to need of value added tax should be developed by the Inland Revenue Department and should provided particularly to retailers at nominal cost.
14. The existing destination based consumption types of VAT operation through the tax credit method should remain continuous.
15. This is the age of public private partnership for the development of nation. When the co-partners are way from their objectives it arise the problems. Without the coordination of private sector with government, the mission could not be kissed. In this way coordination is the compulsory function of government and private sector.

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Appendix - I

QUESTIONNAIRES

Name of the Respondent

Position -----

Department-----

(Please tick your answer in the following box, if the question is provided with two or more alternative and put in order of preference from 1st to last number if there is two or more alternative.

1. Do you consider that VAT administration in Nepal is sound ?

a. Yes ---- b. No. -----

2. What is your opinion about the current VAT rate?

The VAT rate is

a. High---- b. Medium----- c. Low-----

3. What are the major problem and weakness in VAT system?

a. Voluntary compliance -----

b. Relatively high tax rate ----

c. Difficult to maintain the account for tax purpose ---

d. Lack of provisions under the Nepalese VAT law----

e. Other (If any, specify) ----

4. In your opinion, are the provision made under the Nepalese VAT act sufficient in all respect?

a. Yes ---- b. No.-----

If any, in which aspect the improvements are needed? Please specify in following numbers.

a.....

b.....

c.....

6. Has VAT been lacking in Nepal?

a. Yes ---- b. No.-----

7. Has VAT been discouraging the Nepal business?

a. Yes ---- b. No.-----

8. Whether VAT helps to economic growth or not?

a. Yes ---- b. No.-----

9. Is VAT inflationary in Nepal?

a. Yes ---- b. No.-----

10. Do you have any comment of the VAT system of Nepal?

a.....

b.....

c.....