

# **Value Added Tax (VAT) System in Nepal**



**A Thesis**

**Submitted By**

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## **RECOMMENDATION**

This is to Certify that the Thesis

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**“VALUE ADDED TAX (VAT) SYSTEM IN NEPAL”** has been prepared and approved by this Department on the Prescribed format of Faculty of Management.  
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## **DECLARATION**

I hereby declare this thesis entitled “Value Added Tax (VAT) System in Nepal” submitted to the Faculty of Management, Hari Khetan Multiple Campus, Tribhuvan University is my original work done in the format of T.U. for the partial fulfillment of the requirement of Degree of Master of Business Studies (MBS) under the supervision and guidance of Dr. Alok Dutta, Lecturer, Hari Khetan Multiple Campus, Birgunj, Parsa.

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## **ABBREVIATIONS**

VAT	Value Added Tax
GST	Goods and Service Tax
GNP	Gross National Product
IRD	Inland Revenue Department
MOF	Ministry of Finance
HMG/N	His Majesty of Government of Nepal
GN	Government of Nepal
EC	European Council
UK	United Kingdom
SAARC	South Asian Association for the Regional Co-operation
MODVAT	Modified Value Added Tax
NNP	Net National Product
TPIN	Tax Payer Identification Number
PAN	Permanent Account Number
IMF	International Monetary Fund
FY	Fiscal Year
No.	Numbers
JICA	Japan International Co-operation Association
FNCCI	Federation of Nepal Chamber of Commerce and Industry

WTO	World Trade Organization
T.V.	Television
T.U.	Tribhuvan University
NCC	Nepal Chamber of Commerce
RAS	Revenue Administration Support
DANIDA	Danish International Agency
USA	United State of America
Govt.	Government
TR	Total Revenue
Mfg.	Manufacturing
Adm.	Administration

# **CHAPTER -1**

## **INTRODUCTION**

### **1.1 Background of the Study**

Tax is a compulsory contribution made to government by its citizen according to some general rules. Without reference to any special benefit, which said contributors are expected to produce. In other words tax may be defined that it is a reliable source to increase revenue of government for the use of public benefit.

Tax may be classified as Direct and Indirect. Direct Tax comprise of Income Tax, Property Tax, Land Tax, Vehicle Tax, etc. These taxes are directly imposed on a person or an organization that bears tax burden ultimately. Indirect Taxes are levied on the supposing that the persons or organization first collect on to pay can transfer the burdens to other e.g. Entertainment Tax, Hotel Tax, Contract Tax, Value Added Tax (VAT), Education Tax etc. In the act tax word of Dalton “An Indirect Tax is imposed on one person but paid partly or wholly by another”.<sup>1</sup> VAT is also fall on the group of indirect taxes.

Value Added Tax [VAT] is the recent innovation in the field of taxation. It is the tax imposed on value added by business firm on goods and services at the successive stages of production and distribution. Value addition on a commodity or services is simply the excess of sales value over business purchases by a business entity. During the successive stages of production and distribution processes, business enterprises add value to their purchase by processing or handling them by own machinery, building or other capital goods. VAT is considered as one form of sales tax. It is the multiple stage tax which has grown as heterogeneous of turnover tax and retail level sales tax. Thus VAT is the multistage sales tax which is levied

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<sup>1</sup> Puspa Raj Kandel; Tax laws and tax planning in Nepal(2004)



on the value added of business enterprise at different stage of production and form of old sales tax.

There is predominant role of indirect taxes, specially import duty and sales tax in Nepalese structure. Income tax and other indirect taxes did not seem to play effective role in revenue generation because of their inefficient operation. Sales tax, however, provided a considerable bulk of revenue, but it suffered from its very narrow base and cascading and pyramiding effects, creating distortions without generating potential amount of revenue. The Value Added Tax [VAT] has been considered as an attractive alternative to exist as an indirect tax system spreading around the world at a speed which is unmatched by any of other tax in the modern time [Shoup 1990 A.D.]. Although it is the youngest form of taxation innovated in first decade of the twenty century . It has been emerging as a main element of the worldwide tax reform, in every attempt of tax reform VAT is gaining the primary preference.

The concept of VAT was first developed by 'Dr. Willem Von Siemens' for Germany in 1919 A.D. But Carl S. Shoup, an American Professor suggested this Value Added Tax in 1949 A.D. to use in Japan. However it was applied first in France in 1954 A.D. VAT has been spreading rapidly since the 1960s and now this has become one of the main stays of the tax system in over the world covering around 130 countries.

In Nepal VAT has come into consideration to replace indirect taxes like as Sales Tax. For this propose a mission was established in Bhadra 2050 B.S. for study, suggestion and implementation process about VAT. But the process of VAT could start since 2052 B.S., on worlds only when the parliament pass VAT act and declared its enactment from Mangsir 1,2054 (1997). Value Added Tax also called as a goods and service tax [GST] because it is charged on goods and Services.

**VAT with single rate of 10% has been decided to implement with effecting from 1<sup>st</sup> Mangsir 2054, but due to some problem it was only implemented from 1<sup>st</sup> Magh 2054. But HMG Nepal has increased it to 13% with effect from 1<sup>st</sup> Magh 2061.**

VAT is also called as a tax on consumption as its burden is forwarded to the consumer. Sellers are simply an instrument for collection tax during the sales. They don't been the real burden of tax. While selling the goods and services they sales the tax too. The real tax payer is the final consumer who buys the goods and services for consumption and not for sale. VAT is based on the principle of destination, means VAT should be levied on goods where they are destined of consumption. VAT is only levied by a seller who remits the tax to the state. The consumers will take into account part of the tax that he considered not to be consumed, in his price to the dealer. Upon scale by the dealer to another consumer. VAT is due again corollary to this everybody can say that consumption takes places more than ones and VAT is charged at all time.

The direction and lessons of tax reforms in developing countries like Nepal established that VAT is the most important choice and ingredient of tax reform. It may be adopted by a developing country with no entry difficulty and is an important. Instrument for the mobilization of internal resources and the pressure of VAT on economic activities is minimal or not at all. The tax reform and adoption of a VAT is therefore essentially connected with the efforts of many under developed countries to achieve the goal of country's economic development.

The value is added both on goods and services and the tax is collected from sellers. A simple process of value added tax is depicted in table below:

**Table 1.1**  
**Value Added Tax Amount in Each Stage**

Levels/ Activities	Purchase price	Value Added	Selling Price Before VAT	VAT @ 13%	Selling price after VAT	VAT Amt. paid to the Govt.
Imported Goods	1000	-	-	130	-	130
Imp.-Mfg.	1000	100	1100	130	1243	13
Mfg- Wholesalers	1100	200	1300	169	1469	26
Wholesalers Retailer	1300	300	1600	208	1808	39
Retailer Consumer	1600	400	2000	260	2260	52
Total VAT 260						

The consumer price of goods = 2000+260=2260

Source: Arbitrary Figure Estimated

In above table, Let the price of imported goods be Rs.1000 and value added amount is each stage in Rs.100, 200, 300 and Rs.400 respectively and the total VAT payable to Govt. is Rs.260 at VAT rate 13%. The consumer price of goods is Rs.2260.

## 1.2 Statement of Problem

Nepal stands in the 192<sup>nd</sup> position out of the 208 countries on the basis of GNP per capita according to the World Development Report [WDR 2009]. Nepal's GNP per capita of \$ 473 is the lowest among the SARRC nations. This shows that Nepal being one of the poorest and least developed country in the world, Tax as a major instrument and important policy tools have an important role towards increasing the rate of capital formation and there by achieving a high rate in

economic growth. The role of taxation in economic development lies in its function as raising a maximum volume of revenue.

Value added tax is the most important and effective techniques to collect more revenue for economic development. However, the introduction VAT, planned in Nepal has triggered a hot debate among the businessman, government and academic regarding its good and bad effect in Nepalese economy. Many questions remain unanswered and sometimes, are thrown into doubt. Various issues have been raised regarding to VAT system in Nepal. Many problems are arising successively implementation of VAT system in Nepal.

These problems are as follows:

- 1 Lack of suitable management policy of the government.
- 2 Problem on billing system.
- 3 Increasing gap between revenue estimated and collection.
- 4 Wide-spread contradiction and non-cooperation by traders.
- 5 The existence of open boarder and large amount of unauthorized trade from India & China to Nepal.
- 6 Unnecessary price hike in name of VAT.
- 7 Lack of the co-ordination of VAT department and traders.

### **1.3 Objectives of the Study**

The basic objectives of this study are as follows:

- ) Trend of VAT collection and its contribution in government revenue.
- ) To analyze the problem faced by the government in VAT collection.
- ) To study the efforts made by government to collect VAT.
- ) To evaluate the performance of VAT and find out the status and prospect

of VAT in Nepal.

) To effective use of Tax system in the context of Nepal.

#### **1.4 Significance of the Study**

VAT is the most of the popular idea to collect the revenue for the countries. Evidence shows that VAT was used in most of the countries in short time. There are a lot of researches on VAT in abroad but very few of these are concerned about countries like Nepal. And also most of the efforts on VAT were held only on the theoretical background. 12 years have just been passed since VAT because operation. Since there exists on acute resource gap in Nepal the question of resource mobilization is a challenging proposition. In this context, VAT may be instrumental for mobilizing internal resource more effectively. This study is focused on various problem faced by govt. to implementation of VAT system and collection of VAT and suggests some measures to solve the problem.

This study is useful for he Readers interested in the field of taxation, Policy Makers, Researchers, Tax Officials and Especially the student of Masters Degree engaged in the research work on Value Added Tax as well as in the field of Nepalese tax system as a whole. This study provides a clear idea and knowledge to those persons who are interested to know more about VAT System in Nepal and who are confused about the VAT system.

#### **1.5 Research Methodology Used**

Research methodology is the research method used to answer the research question.

### **1.5.1 Research Design**

Among the different available research design, I will follow the case study research. The study will make an intensive study of VAT collected by the different Inland Revenue Department (IRD) under the Ministry of Finance (MOF). To achieve the objective of the study, descriptive and analytical design will be used.

### **1.5.2 Sources of Data**

The data and information used in this study “Value Added Tax (VAT) System in Nepal” are from both primary and secondary sources.

#### **1.5.2.1 Primary Data**

Primary data has been collected by administering questionnaire to sample population in Inland Revenue Department (IRD), Birgunj including Tax Officer and Tax Payer (i.e. Businessmen, industrialists, Professional), Students, Teachers and other Stock Holders. The Sample size is 40. The sample is taken randomly.

#### **1.5.2.2 Secondary Data**

Secondary data have collected from VAT department, Internal Revenue Department (IRD), Income Tax Office, Ministry of Finance, Published Reports, Booklets, Websites and Other Articles, Report from HMG Nepal Economic Surveys, Journals and News Papers also collected form investigation. I will use mainly this data.

### **1.5.3 Population and Sample**

In the case of Primary Data, the sample size is forty which is taken from

Birgunj SMC of Sample Population. But in the case Secondary Data, Report of MOF (Ministry of Finance) will be the Sample.

#### **1.5.4 Data Analysis Methods**

Simple Statistical Tools have been applied for the Data presentation and analysis like as Mean(  $\bar{X}$  ) , Percentage (%),and others.

#### **1.6 Limitation of the Study**

This study will be conducted with certain limitation and constrains. The main limitation will be as follows:

1. The study is based basically on the data of 5 years (2004/05 to 2008/09 i.e.2061/062 to 2065/066).
2. Basically, the data used in the study from secondary.
3. Primary data used from opinion or view of various kinds of people like Tax Experts, Businessmen and Consumer it may not exactly matched on present situation of VAT system in Nepal.
4. The study is limit up to availability data and sufficient literate.
5. The study is based on theory and practice.
6. Due to the lack of time and other difficulties, the study is kept of certain place under Birgunj SMC.

## **1.7 Organization of the Study**

Considering the objectives in mind, the study will be organized in to the following five chapters.

### **Chapter I: Introduction**

This chapter will include background of the study & subject matter, Statement of problem, objective of the study, significance of the Study, limitation of the study and organization of the study.

### **Chapter II: Review of Literature**

This chapter include the relevant previous writing and studies to find the existing gap, Theoretical studies of VAT, origin & Development of VAT in Nepal, Features & Types of VAT, methods of calculating VAT and Nepalese VAT System.

### **Chapter III: Research Methodology**

This chapter will contain Introduction, Research Design, Population and sample size, Data Collection Procedure and Procedures of Processing Analysis of Data.

### **Chapter IV: Data presentation and Analysis**

This chapter will consist of Performance of VAT, Present status and prospect of VAT in Nepal, Trend of VAT collection on study period, Contribution of Vat in Govt. Revenue, and uses of statistical tools.



## **Chapter V: Summary, Conclusion and Recommendations**

This chapter will include the summary and conclusion, major findings and recommendations of the study.

## **CHAPTER – II**

### **REVIEW OF LITERATURE**

#### **2.1 Theoretical Studies of VAT**

Tax is a compulsory contribution to the government from a person without exception of special benefit. In a broader sense, there are two types of tax. One is Direct Tax and another is Indirect Tax. Property Tax, Gift Tax and Income Tax etc. are examples of Direct Tax. It is directly paid by the person on whom it is legally imposed. On the other hand Value Added tax (VAT), Hotel Tax, Entertainment Tax, Education Tax, Custom Duty and Excise Duties are the example of Indirect Tax. It means that indirect tax is imposed on one person who paid the tax liability by collecting it from customer by adding it to the goods and services sold or distributed. Thus, Indirect Tax is indirectly collected from the general public or ultimate or final consumer.

Value Added Tax (VAT) is the best form of the Indirect Tax which is imposed on value added amount in different levels of production and distribution of goods and services. It is the most important tax innovation of the second half the twentieth century and the speed with which the VAT has spread around to the world is unmatched by that of any other tax in the modern time. The VAT being a tax on value added, created by a business entity and imposed at every stage of business process, is different then other kinds of tax. In this sense, the same value added is never taxed twice that is cumulative effects do not occur.<sup>2</sup> In practice the VAT is collected from producer and distributors at many points and treated as multiple stage commodity tax. The tax base for VAT is the value added in

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<sup>2</sup> Sijbren cossen, op cit, p139

production and distribution rather than the value of sales only.

Value Added Tax (VAT) is the improved and modified form of the traditional sales tax and avoids cascading effect existed in sales tax. Value added at each stage of the production and distribution activities. The stage may be import, manufacturing, wholesale and retail. Value added is sale value minus purchase value or conversion cost plus profit. Conversion cost may include wages, interest, rent, depreciation, other expenses & overhead and taxes excluding VAT and income tax. Generally the tax base (value added) can be directly ascertained from the following equation.<sup>3</sup>

$$\text{VALUE ADDED (TAX BASE)} = \text{SALES} - \text{PURCHASE}$$

$$\text{VALUE ADDED (TAX BASE)} = \text{CONVERSION COST} + \text{PROFIT.}$$

Where,

$$\text{CONVERSION COST} = \text{WAGES} + \text{INTEREST} + \text{RENT} + \text{DEPRECIATION} + \text{OVERHEAD} + \text{OTHER EXPENSES} + \text{TAXES EXCLUDING VAT.}$$

## 2.2 Origin and Development of VAT in Nepal

The concept of Value Added Tax is originated from Germany in 1919 A.D. At that time Dr. Willem Von Siemens developed the philosophy and principle of Value Added Tax by recommending it for Germany to replace turnover tax (i.e. Multi Stage Sales Tax) to avoid the problems of cascading effect 'Prof. Thomas S. Adams' recommended Value Added Tax (VAT) for USA in 1921 A.D..

A mission led by Prof. Carl S. Shoup, a Value Added Tax (VAT) for Japan in 1949 A.D. and develop its broad structure. "This mission suggested the *Fuka-*

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<sup>3</sup> Dr. Pokharal B.B. "Taxation in Nepal" M.K.. Publishers and distributors Bhotality KTM.Nepal

*Kachi-Zei* (VAT) for Japan in order to avoid the undesirable and unintended effect of the Japanese enterprise and turnover taxes”<sup>4</sup>. However, the tax was considered very seriously. It decided by the Japanese Government not to introduce it promptly. Showing the case of further study although, the Michigan State of USA introduced a limited feature of VAT but the tax was not introduced by any country till 1953 A.D.”<sup>5</sup>

The speed of introducing VAT was geared up in early sixties, while Ivory Coast followed it in France in 1960 A.D. and Senegal in 1961 A.D. and it was approved by EC Council of Ministers. They consider VAT as a standard form of Sales Tax. Brazil and Denmark introduced VAT in 1967 A.D. and France extended it through retail level in 1968 A.D., while Germany followed the route in the same year by adopting VAT through retail level and Luxembourg and Sweden in 1969 A.D. In the movement of introducing VAT Equator, Norway and Luxembourg set up in 1970 A.D. Similarly, Belgium and Ireland coincide in the flow of adopting VAT in 1971 A.D. and 1972 A.D. respectively. Austria, Bolivia, Italy, UK and Vietnam introduce VAT in 1973 A.D. In this concern Vietnam Pioneered, in the move being the first country into Asia region and United Kingdom imposed the tax as she becomes a member of the EU.

The continuous flow of adoption VAT stopped in 1978 A.D. and 1979 A.D. and started to move slowly from 1980 A.D. while Mexico culminated it at the same year and Haiti in 1982 A.D. Dominican Republic and Guatemala Accompanied in 1983 A.D. and by people’s Republic of China in 1984 A.D., while Indonesia & Turkey adopted VAT in 1985 A.D.<sup>6</sup>

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<sup>4</sup> Rup.B.Khadka(18 May,1994), Op.cit.

<sup>5</sup> Rup.Khadka(1998)op.cit.p.9

<sup>6</sup> Babu Ram Subedi;”VAT and Its applicability in Nepal”,August 1998,p.81

The gear again accelerated toward VAT from 1986 when morocco, New Zealand, Niger, Portugal, Spain and Taiwan made a change in their sales taxes by VAT and by Grenada and Greece in 1987 A.D. VAT took place in Iceland, Kenya, Pakistan, Trinidad and Tobago in 1990 A.D. while Bangladesh, Benin, Canada, Jamaica, Mali and South Africa adopted VAT in 1991 A.D. Among the SAARC countries India Introduced MOD-VAT (Modified Value Added Tax) in 1986 A.D. for manufacturing products in order to correct excise duty. Pakistan, Bangladesh and Sri-Lanka adopted Value Added Tax in 1991 A.D. Albania, Macedonia, Belize, Uganda and Guyana adopted VAT in 1996 A.D. Among the SAARC Countries, India Introduced MOD-VAT (Modified Value Added Tax) in 1986 A.D. for manufacturing products in order to correct Excise Duty. Pakistan, Bangladesh and Sri-Lanka introduced Value Added Tax in 1990 A.D, 1991 A.D, and 1998 A.D. respectively. Ultimately Nepal, Surinam and Barbados introduced VAT in the year 1997 A.D. As a response, the business community showed their dissatisfaction through various ways and HMG has decided to implement VAT in real practice form (1<sup>st</sup> Magh 2054 B.S.) 14<sup>th</sup> Fan.1998 A.D.<sup>7</sup>

The concept of VAT in Nepal was introduced in early 1990s. Nepal government indicated its intention to introduce it in the eight plan. Subsequently, the Finance Minister declared to introduce a two-tier sales tax system to make the base of implementing VAT from the fiscal year 1992/93. A VAT task force was created in 1993, under the financial assistance of USAID in order to make necessary preparation for the introduction of VAT. The VAT task force prepared the draft of VAT legislation. The Parliament of Nepal enacted “Value Added Tax Act, 1995 (2052 B.S.) in 1995 A.D. Subsequently, VAT regulation was made in 1996 A.D. Although the Act was passed 1995, its implementation was delayed due

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<sup>7</sup> Babu Ram Subedi;”VAT and Its applicability in Nepal”,August 1998,p.84

to political instability and strong opposition from the business community. Ultimately HMG has decided to adopt VAT from November 16, 1997 A.D. (1<sup>st</sup> Mangsir, 2054 B.S.) but some what hurriedly in the light of its preparation. It is facing transitional problem as well as sharp opposition from business community. So it was implemented from 14<sup>th</sup> January, 1998 A.D. (1<sup>st</sup> Magh 2054 B.S.) in real practice in Nepal.

### **2.3 Features of VAT**

VAT is an indirect tax that is imposed on different goods and services on the basis of value added of value added amount in different stages of production and distribution. It is not a genuinely new form of taxation but merely a sales tax administered in different form, although it is eventually born by the final consumer. VAT is collected at each stage of production and distribution chain. The main features or characteristics of VAT are as follows:

- ) It is an Indirect Tax
- ) It is based on Value Added
- ) It is a Broad-Based Tax
- ) It avoids Cascading and Pyramiding
- ) It has the Self-Policing and Catching up Benefits
- ) It provides the facility of Tax Credit and Tax Refund.
- ) The consumption of VAT through tax credit method.
- ) The Principle of Destination.
- ) The level of threshold is Rupees 2 million.
- ) The application of VAT to all business turns over through the retail stages.

- ) The rate of Vat is single and positive @ 13%
- ) The provision of exemption and zero rate for the goods and services
- ) The allowance of tax credit for taxable supplies including the zero rate supply
- ) Small entrepreneurs are exempted to register in VAT office.
- ) Self assessment system.

## 2.4 Types of VAT

There are several bases for classifying VAT. In practical sense, the types of VAT can be classified on a three fold basis on the ground of treatment of producer's goods. The precise treatment of deductibility of tax paid on durable capital goods is of great concern in distinguishing VAT of various types. "Capital goods" includes any assets that will not be used up entirely within the tax year of purchase. (i.e. Machinery, Building, Equipment, Furniture, Vehicle etc.) goods from the tax base.

The classification of VAT on the basis of the treatment of capital goods is much important. Considering the treatment of capital goods, the following classification has been made in broad sense.

### a. **Gross National Product (GNP) Type of VAT**

Under this type, capital goods purchased by a firm from other firms are not deductible from 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 of gross domestic product is:

$$\text{Base of VAT} = \text{GNP} = C + I_g$$

Where,

$$C = \text{Consumption}$$

$$I_g = \text{Gross investment.}$$

## **b. The Income Type of VAT**

Under the Income type of VAT capital goods purchased from other firms are not deducted from the tax base, however, the depreciation in the subsequent year is allowed to deduct from the tax base. Similarly, it requires that an excess of year-beginning inventory over year end Inventory to be deducted.[ Shoup, 1969:252]. So the tax base in this type of VAT is the consumption plus net Investment. In aggregate sense that tax base is equal to net national Income.

In this type,

$$\text{Base of VAT} = \text{NNP} = C + I_n$$

Where,

$$C = \text{Consumption}$$

$$I_n = \text{Net Investment}$$

## **c. The Consumption Type of VAT**

All capital goods purchased from other firms in the same tax year are allowed to deduct from the sales value while calculating base under the consumption type of VAT. Although the depreciation is not



deducted from the tax base. A tax on the Incremental Value Added in the production of consumer goods is referred to as the consumption type of VAT.<sup>8</sup> The consumption VAT restricts the burden of tax to final consumption goods and the exempts' capital goods.<sup>9</sup> In national accounts term the base of consumption type of VAT is,

$$\text{GNP} = \text{Ig}$$

Or,

$$\text{GNP} - (\text{In} + \text{D}) = \text{C}$$

Where,

GNP = Gross National Product

Ig = Gross Investment

In = Net Investment

D = Depreciation

C = Consumption

Among those three types of VAT, the Consumption Type of VAT has been widely widely used in several countries like Europe and Elsewhere in recent years. The reasons for the popularity of this type are that this variant does not affect decisions regarding investment and growth since it relieves investment from any tax burden.<sup>10</sup>

## 2.5 Methods of Calculating VAT

VAT can be computed by the following three methods:

### I. Additional Method

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<sup>8</sup> R.A.Musgrave and P.B>Musgrave, op.cit,p.338.

<sup>9</sup> David Crowford, et.al.,cit.,P5

<sup>10</sup> R.W.lindholm,"The Value Added Tax", A Short Review of the Literature; Journal of Economics Literature,Vol.8,1970,p.1180.

This method is also known as the Direct Value Added Computation method. Under this method the tax base is obtained by adding the incomes produced by the firm. In other words the tax base is computed by adding the payments made by the firms to the factors of production employed in turning out the product such as Wages, Interest, Rent, Royalty and Profit. This method is appropriate for the income type of VAT that includes in its base in regards to all factors.

For example:

**Table-2.1**  
**Calculation of VAT Liability under Addition Method**

	Stages of production and distribution			
	Manufacturing	Wholesale	Retail	Total
a) Wages	1000	500	200	1700
b) Rent	500	200	100	800
c) Interest	400	150	60	610
d) Profit	100	50	40	190
d) Value Added (a + b + c + d)	2000	900	400	3300
f) VAT@13%	260	117	52	429

Source: Arbitrary Figure Estimated

## **II. Subtraction Method**

Under this method, Value Added is determined as net turnover which is obtained by subtracting the cost of materials from sales proceeds.

Thus, VAT is levied on the amount which is derived by subtracting purchase from sales. This method for the consumption type of VAT, no account is needed to be taken of capital goods produced within the firm and no inventory accounting is required. For example:

**Table No.- 2.2**  
**Calculation the VAT Liability under Subtraction Method**

	<b>Stages of production and distribution</b>			
	<b>Manufacturing</b>	<b>Wholesale</b>	<b>Retail</b>	<b>Total</b>
a) Sales	4000	5000	6000	15000
b) Purchase	2000	4100	5600	11700
c) Value-Added (a-b)	2000	900	400	3300
d) VAT @ 13%	260	117	52	429

Source: Arbitrary Figure Estimated

### **III. Tax Credit Method**

This method is also known as the Invoice Method. Under this method tax is levied on the Total Value of Sales and Tax Payers are permitted to deduct from their gross tax liability the taxes already paid by their suppliers and passed on to them. Thus in contrast to the subtraction method, tax on purchase is subtracted from the tax on sales under the credit method, Under this method excess of input tax over the output tax is refundable or can be claimed as a tax credit generally, Value added tax is not to be included in the base, for example:

**Table No.-2.3**  
**Calculation the VAT Liability under Tax Credit Method**

	Stages of production and distribution			
	Manufacturing	Wholesale	Retail	Total
a) Sales	4000	5000	6000	15000
b) Tax on sale @ 13%	520	650	780	1950
c) Purchase	2000	4100	5600	11700
d) Tax on purchase @ 13%	260	533	728	1521
e) Net VAT (b-d)@ 13%	260	117	52	429

Source: Arbitrary Figure Estimated.

## 2.6 VAT Vs Sales Tax.

Sales tax is defined as a tax collected at selling point from purchase, while selling the goods and services. This tax is also known as tax levied on the use of income. It is the ream rather than personal tax. So it is imposed on market transaction. The Legal base of sale tax is the “Selling price of goods and services.”<sup>11</sup> Sales taxes are applied to all on a wide range of commodities and services as distinguished from excises imposed upon particular goods or classes of goods. Sales tax is like income taxes, in the sauce that they are imposed on flow generated in the production of current output but they differ in other respects. Income taxes are imposed on seller’s side of factors

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<sup>11</sup> Subedi Babu Ram;”Value added tax and its applicability in Nepal” Bhrikuti Academic publication Ktm (1998)p.53

transaction (i.e. on the net income received by Household). Sales Taxes are imposed seller' side of product transaction (i.e. on the gross receipts of Business Firms).<sup>12</sup>

Usually the taxes applied to all distribution, except those sales that are explicitly excluded or exempted. In this sense, sales tax could be distinguished as single stage and multiple stage sales taxes, and general sales taxes and relative sales taxes. On these ground, the form of sales taxes are:

- Turnover Tax
- Manufacture's / Importer's Sales Tax
- Wholesale Level Sales Tax
- Retail Level Sales Tax
- Value Added Tax

Sales tax is one of the important members of the tax family. It belongs to that type of taxation which is known as “commodity taxation”. Sales taxes are imposed upon the sales of all commodities except those specially exempted. Sales tax flat rate levy on the selling price of an item. A sale is a very imposed upon the sales or elements incidental to the sales such as receipts from them of all wide range of commodities, including tax imposed at fractional rates upon a gross receipt in the form of business occupation or license tax.<sup>13</sup> Sales taxes are taxes impose upon sales of goods and services. A sales tax levied on manufacturing is purchase, sales tax on consumption.

Sales tax imposed on sales of commodities and services. On the other hand purchase tax applies to the purchase by dealers rather than sales by them. Where, Value Added Tax (VAT) is a recent innovation in the field of commodity taxation.

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<sup>12</sup> R.A. musgrane and paggy B.Musgrane or public finance in theory and practice Mc Graw Hill, Kongakusha Ltd.(1976)

<sup>13</sup> Iron F.Due, “Sales taxation”, op.Cit,p3

It is included in the sales tax family but from an analytical point of view, it is better to remember that VAT is essentially different from sales tax because the legal tax base of VAT (i.e. Value Added at each stage) is different from the base of sales tax (i.e. Total Sales Value)<sup>14</sup>

Sales Tax is the base of Total Sales Value but VAT is imposed on each stage of Value Added. Tax formalities will be much easier under the VAT than existing Sales Tax. Some industrialists and businessmen fear that VAT will be complicated to comply with and would require them to hire a separate accountant for the purpose of VAT. This is not true. VAT is easier than Sales Tax which is shown by the following table:

**Table No.-2.4**  
**VAT Vs Sales Taxes**

<b>Formalities</b>	<b>Sales Taxes</b>	<b>VAT</b>
1. Registration	Yes	Yes
2. Renewal of Registration	Yes	No
3. Approval of the Price by Tax Office	Yes	No
4. Certification of invoices by the VAT office	Yes	No
5. Issuance of invoice	Yes	Yes
6. Maintenance of books of account	Yes	Yes
7. Tax credit	Yes (partially only)	Yes (Full)
8. Submission of Return	Yes (four forms)	Yes (One form)
9. Signature of the Tax Officer on Voucher	Yes	No
10. Payment of Tax	Yes	Yes
11. Submission of Annual Return	Yes	No
12. Annual Assessment	Yes	No

<sup>14</sup> Kanda Rup B. "Sales taxation in Nepal" Ratna Pustak Bandar Ktm. Nepal P.11

Source: Khadka Rup B. “*Sales Taxation in Nepal*” Ratn Pustak Bhandar Kathmandu Nepal.

## **2.7 Nepalese VAT System**

The frame work of the Nepalese VAT System is specified in the VAT Act and Regulations. The VAT System is also governed to some extent by the finance Act, 1999. Some procedural matters relating to VAT are also introduced through operating manual. The government also has introduced some notifications relating to the VAT System. Similarly, the VAT Department has issued several circulars on various procedural matters form time to time.

### **2.7.1 Types of VAT**

Generally, we found there are three types of VAT like as:

- (i) Consumption Type VAT
- (ii) Income Type VAT &
- (iii) GNP Type VAT.

But, in the Nepalese context Consumption Type of VAT System has adopted. Under this System tax is levied on Value Added at each stage in the process of Production and Distribution. Particularly speaking, how ever Value Added is never calculated directly, but the some result is obtained indirectly through the input tax credit mechanism i.e. VAT is levied on output and a credit is allowed for the full amount of the tax paid on the business input, including capital goods at previous stages. The end result is that each and every VAT registrant pays VAT on its Value Added only.

### **2.7.2 Tax Exemption and Zero-Rating**

VAT is based on the Destination Principle. IT is levied on the goods and services where the place of supply is in Nepal and importation of goods and services in Nepal. Exports of goods and services are zero-rated. This means that the tax base is domestic consumption. VAT is a broad-based tax, which applies all business turnovers through to the retail stage, with a few exceptions. It is levied on a large number of goods and services other than those specifically exempted by law.

Currently, the following goods and services are exempted from VAT:

- © Basic agricultural products such as Paddy, Rice, Wheat, Green and Fresh Vegetables, Fresh Fruits, Eggs, Unprocessed Cereals, Oil Seeds, Unprocessed Food, etc. but excluding food held out for Sales by Hotels, Restaurants, Cafes and Similar Establishments.
- © Goods and Services of basic needs such as Piped Water , Fuel, Wood, Coal and Kerosene.
- © Live Animals, Agricultural inputs including Machinery, Manure, Fertilizer, Seeds and Pesticides.
- © Social Welfare Services including
  - Medicines, Medical and Health Services
  - Educational services.
  - Books, newspapers
- © - Transportation services, etc.
- © Artistic and Cultural Goods and Services such as Books, Printed Material, Radio & Television Transmission, Painting etc.
- © Specified personal or professional services.



- © Other goods or services such as postal services, Financial Insurance Services, Bank Notes, and Cheque Books, Gold and Silver, Land and Building betting, Casinos, Lotteries.

Zero-rating means such items which are taxed at zero percent rates. Thus, further means that no VAT is payable on them, but they are otherwise regarded as taxable. So, a registered person making zero-rated sale may take full credit for the VAT paid on the taxable inputs to his business.

VAT is levied with a single positive rate 13%. A few transactions i.e. goods and services are zero-rated which are as follows:-

- © Export of goods.
- © Goods or Stores taken on Board an Aircraft, Provided that the goods are taken on Board an aircraft on flight to a destination outside Nepal for delivery to another country and fuel is used by the aircraft on a flight to a destination outside Nepal.
- © Goods that have been shipped for use as stores on a flight to destination outside Nepal.
- © Imports of goods and services by Accredited Diplomats.

### **2.7.3 Taxable Supply**

VAT is levied on a 'Taxable Supply' which is defined as the process of Selling, Exchanging or Delivering Goods or Services or the Grant of Permission there to a contract therefore a consideration. To be a Taxable Supply the consideration can be in money or money's worth.

### **2.7.4 Place and Time of Supply**

Under the Nepalese VAT system the place of supply is defined as follows:

- ) For Moveable Goods, the Place Where the Goods were sold or transferred.
- ) For Immovable Goods, the Place Where the Goods are located.
- ) For Imported Goods, the Customs Points where the goods first time enter in Nepal.
- ) For Goods Supplied by a Vender to Himself, the Place Where the Vender or Producer of the Goods Resides.
- ) For Services, Where the Benefit of Service Received.

Time of supply is important under VAT in order to establish the Tax Liability. For most practical purpose, the time of supply will be the date of the Invoice, but it is important to bear in mind that there may be an alternative date of supply. Under the Nepalese VAT system time of supply is defined as follows:

1. The Time of Supply of Goods or Services
2. The Time of Issue of an Invoice
3. The Time of Receipt of Payment for the Goods and other service.

In the case of supply of services, the time of supply is defined as the time when the services are performed.

### **2.7.5 Taxable Value**

The taxable value of a transaction is the price paid which is also consideration for the goods or services, by the recipient to the supplier, provided that the supplier and recipient are independent of each other. If the goods are

delivered to the recipient or any taxes other than VAT, changeable on the goods or services.

In the case of imported goods, the tax base is the sum of import value, freight, transport cost, insurance, commission, import duties plus any changes paid by the importer. In case of a transaction taking place between associated person or goods being exchanged or bartered or at any time when the value declared is lower than the prevailing market value, the taxable value of the transaction shall be the market value of the goods or services. This value shall be taken as the consideration in money agreed between independent sellers and buyers for the supply of goods or services.

### **2.5.6 Tax Credit**

Under tax credit system VAT registrant making taxable supplies, including the zero-rated supplies, are entitled to claim input tax credit. In other words, a tax payer is allowed to deduct tax paid on purchase from the tax collected on sales for his/her business. It is however, allowed to the extent that the purchased/imported goods or services are used for goods and services sold in taxable transaction, including exports. Since, only VAT registrants are allowed to claim input tax, small vendors falling below the registration threshold and not registered for VAT are required to pay VAT on their purchases but can not claim an input tax credit. There are four case of tax credit in Nepalese VAT System.

1. In case of Taxable Supply
2. In case of Mixed Supply
3. Partial Credit
4. No credit

### **2.7.7 Tax Refund**

Tax refund is an important element of VAT system. It generally happens in the case of zero-rated supplies such as exports. This is because exporters of taxable goods do not have to collect tax on their exports but are entitled to claim tax paid on the inputs of exports. Tax refund also arises in following situation.

1. Refund to Exporters
2. Refund to Non-exporters
3. Refund to Diplomats
4. Other refunds

### **2.2.8 Administration**

#### **i. Registration**

Suppliers of taxable goods and services are required to register under the VAT act and collect this tax. It is, however, not necessary for them to register if they deal with only tax exempt goods and services. Similarly, small vendors falling below the registration threshold are also not required to register for VAT. The existing level of threshold is Rs.2 million. In the case of imports, traders having annual commercial imports below Rs.2000,000 are not required to register only when the transaction of taxable supply exceeds the registration threshold. However, vendor falling below the registration threshold can register voluntarily.

#### **ii. De-Registration**

Apply for de-registration under the following conditions:

1. In the case of an incorporated body, if the incorporated body is closed down, sold or transferred, or if the incorporated body otherwise ceases to exit.
2. In the case of a partnership firm, if it is dissolved.
3. In the case of individual ownership, if the owner dies.
4. If a registered person ceases to be engaged in taxable transactions.
5. If person is registered in error.

### **iii. Taxpayer Identification Number (TPIN) / Permanent Account Number (PAN)**

Tax payers are required to mention TPIN / PAN in the following documents:

1. Tax invoice/abbreviated;
2. Purchase and sales books;
3. Correspondence to the VAT office;
4. Documents relating to income tax;
5. Documents relating to the exports/imports; and
6. Documents relating to obtaining a loan from a bank or financial institution exceeding Rs.100,000.

If a taxpayer is deregistered, his Taxpayer Identification Number (TPIN / PAN) become ineffective. This number is not given to any other taxpayer. If he is registered, he is given this number (i.e. the original number) again.

## **2.7.9 Invoicing**

VAT is an invoice-driven system. Under this system, each registrant is required to issue a tax invoice or an abbreviated invoice. Tax invoice issued to VAT tax payer. Tax invoice is a crucial document for VAT as it established the seller's liability for tax and the purchase's entitlement to credit. It provides necessary information required by the VAT act and regulation. However, it is not necessary to specify the format and content of the tax invoice the taxpayer is allowed to prepare the format of tax invoice according to his requirement, Abbreviated tax Invoice which is Issued to unregistered person.

## **2.7.10 Accounting**

VAT registrants are required to maintain purchase and sales books and list all sales and purchase in these books. They are also required to prepare VAT account

### **I. Purchase Book**

VAT register are required to maintain an account of their business purchase for VAT purpose. They have to record of purchases by Invoice. At the end of each accounting VAT registrant must total the amount of taxable purchase/importers, tax-example and the tax paid on purchases/imports.

### **II. Sales Books**

Similarly, VAT registrants are required to maintain account of their sales for VAT purpose. At the end of each accounting period VAT registrants are required to the total amount of taxable (standard-rated and

zero-rated) and tax-exempt sales they have made in the period and the tax collected on sales.

### **III. VAT Account**

VAT registrants are also required to maintain the VAT account. It is a monthly summary of taxable purchase and sales and VAT paid on purchases and sales.

### **IV. Others**

VAT registrants can maintain their business accounts on computer with prior approval of VAT administration.

### **V. VAT Return**

In the Nepalese Vat system tax payers must complete a VAT return and submit their returns to the concerned VAT office within 15 days of the month following the end of the accounting period. This is for the use of compulsory registrants; and four months for voluntary registrants. The head office is required to submit tax returns for the transcription carried out by it and its branches and sub branches, if any. There are no special rules, for example for seasonal business or others. Even if there is no transaction, it is necessary to submit a zero return.

#### **2.7.11 Payment of Tax and Penal Provisions**

If a registrant's output tax liability is greater than his input tax credit, he is required to remit the difference to the government within 25<sup>th</sup> days of the following

month in which the tax liability occurred. Compulsory registrants have to pay tax every month which voluntary registrants will have to pay tax on a trimester basis.

The VAT Act makes provision basis for the additional charges as late payment penalties. The rate of such penalty is 10% of the value payable in the first month, an additional 10 percent in the second month, and then no further action. There is also a provision for interest on non-payment. The current rate of interest is 15% interest on overdue is charged on a calendar Month basis.

Penalty for non-Issuance of invoice is Rs.500 each time whereas the corresponding figure for failure to keep the required information in account is up to Rs.10000 each time. Similarly, a taxpayer who has committed fraud or tax evasion will be charged with a penalty not exceeding 100 percent of the amount of tax, or 6month jail, or both.



### **2.7.12 Audit of VAT**

Vat audit is a selective review of tax payer's book and records including year end statement, balance sheet and profit and loss account to ensure that the major area of purchases, sales and stocks are substantially correct. The purpose of the VAT audit is to find out the actual VAT liability of the tax payers according to law and regulation. The VAT audit may be divided into two parts field audit and office audit. Office audit includes advisory visits, verification of records and fraud investigation and the latter includes desk audit checking the return for arithmetic accuracy and completeness.

### **2.7.13 Use of Computer**

The use of computer is an essential feature of modern VAT system. Computers provide a mechanism for operation of VAT system with a greater efficiency at lower costs. As tax collection cost tends to go up than the rate of collection of tax due to the increase in salaries of the employees and stagnant economic activities, the declining probes for computer both hardware and software with their substantially increased capacity has opened a wider scope for the use of computers in VAT operation with easy and minimum supporting cost. In Nepal, initially, it was planned to computerize the whole VAT administration. But this was changed at later data due of the budget constraints and personal problem. It was decided to computerize the VAT department first and then to extend it to the VAT office in phase wise.

## **2.8 Review of Previous Studies**

Although VAT is the recent innovation in the field of taxation, several researches, experiment and studies have been making in global context. But very few studies and research have been done on the topic of Nepalese VAT system. Various report, articles, previous research and studies, thesis, dissertation reviewed about VAT and Value Added Tax System in Nepal in this chapter.

### **2.8.1 Choi (1983)<sup>15</sup>**

Examination and evaluates the Value Added Tax in Korea from its introduction to its effects on the economy in his paper “Value Added Tax in the republic of Korea”. VAT in peoples’ Republic of Korea was introduced in 1977 as a part of large tax reform with the objectives of the simplification of tax restructure and its administration, the promotion of exports, capital formation and maintenance of neutrality in indirect tax system. Introduction of VAT was also guided by revenue consideration. The characteristic of Korea VAT were of general type as had been lesser then its supporter had claimed in its favor or its opponents had feared would result from its introduction. The VAT did not have a major impact on the price increases, it showed a good impact on investment, and VAT supported exporters more than the previous tax system. One of the most controversial issues of VAT was its regressive. Studies found that the VAT in Korea was more or less regressive with respect to income. In its overall evaluation, VAT in Korea has worked relatively well, in some case much better than its designer and taxpayers had anticipated. The VAT has broadened tax base, reduced evasion, increase revenue and solved many problems associated with previous taxes.

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<sup>15</sup> Choi, Kwang(1983)’Value added taxation in the republic of Korea”Economic Bulletin for Asia and Pacific VOL. No.2(Dec)New York:

However, the VAT may be simple in theory; the Korea experience with VAT during last 10 years had made it clear that it was not so simple in practice. It created a host of problems that gave rise to voluminous paper work, more or less arbitrary distortions in trade and consumption and inequalities in the distribution of tax burden. The proper assessment of several problems are relating to VAT including coverage, rate structure , administration, special taxpayer, co-ordination with direct taxation etc. It will help other countries to learn from Korea experience.

### **2.8.2 Lukacs (1988)<sup>16</sup>**

Offers on explanation of the underlying theories pushing Hungary to develop a VAT system, Under the substantially changing economic condition, there was need to lift the state regulation and leave the economy to be operated by the profit mechanism. In addition to certain other factors, the development of market force required through changes in the price structures its wage content and taxation. In other words, the reform included the tax and price reform was to diminish the tax burden on the business sector, make it more uniform and simplicity in taxation and budgeting relationships. By reducing the part of taxes payable from corporate income the level of produces prices might have fallen with other portion of taxes being transformed into cost. This was gong to be ensured by introducing VAT and personal income tax parallel with modifying the taxation of the business sector and system of producer prices.

### **2.8.3 Carl S.Soup (1998)<sup>17</sup>**

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<sup>16</sup> Lukacs Jozef(1988)"The Introduction of VAT in 1988" Bulletin for the International Burean of Fiscal Documentation VOL.41, No.10 Amsterdam;IBFD.

<sup>17</sup> Shoup S. Carl(1998)"Value added tax Developing Countries, Research Observer", VOL3, No.2 the World Bank Washington D.C.

In a article made and attempt to analyze the structure of the VAT and different policy Issue relation to the developing countries. A VAT covering all economic activities from the earlier stage of farming or mining right through the retail level is considered comprehensive. Consumption type of VAT and tax credit method for computation is superior. VAT is more revenue productive and serves self-enforcing features, and it's regressively can be reduced by providing zero rated for foods and basic essential. VAT will have favorable effect and it is relatively easy to administrator. But it is inflationary because it must be recouped by firms through increase in price. In comparison with turnover tax and retail sales tax, VAT stands in the first position but it requires caution in implementation. Although, the choice between turnover tax and VAT becomes a matter of weighting the pros. and cons. Basic accounting and efficient tax administration are lacing in developing countries, which creates difficulty for the successful implementation of VAT in such countries.

#### **2.8.4 Alan A. Tait (1991)<sup>18</sup>**

In a paper entitled “VAT policy, Issue; structure, regressively, inflation and exports” mainly deals on the policy issue of VAT by illustrating some theoretical as well as empirical proofs. He has made the following conclusions: - VAT provides a new buoyant revenue base and improves tax system in terms of neutrality and efficiency. Experience broadly shows that VAT contributes from 12 percent to 30 percent of revenue in most countries, representing about 5 percent to 10 percent of gross national product (GNP). However, VAT is more complicated

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<sup>18</sup> Tat, Alan A.Ed (1991)“Value added tax” Value added tax” Administrative and policy issue, IMF occasional papers 88 washington D.C.

than other sales taxes from administrative point of view and substantial refunds can be involved. Further, collecting VAT and paying refunds make it inefficient.

The study compares VAT and its most usually quoted alternative retail taxes in several respects and concludes; neither RST nor the VAT can tax unofficial and black transactions and both are open to evasion by under recording sales. However undervaluation is more difficult in VAT. A VAT covering all stage of production to the retail level and the services is more preferable single rated VAT with only few exemptions and without zero rates makes it more regressive. However, VAT in trying to soften the regressively of VAT major distortions can be introduced. If VAT is replaced to get equal tax yield, relative price may be increased; and it will have deflationary effect rather than inflationary if net revenue is raised.

Lastly, at least, if VAT can not promote exports world makes the system easier. A VAT administration is affected by the decisions regarding: Whether all retail sales are included; should services be taxed; choice of proper rates; and the treatment of capital goods, financial services, food, small traders.

### **2.8.5 Nepal Chamber of Commerce (1997)<sup>19</sup>**

Study to VAT in Nepalese economy in 1997, Dr. Puspa Raj Karnikar headed the team. The main finding of the study report was follows:

- ❖ VAT effects adversely in price level.
- ❖ It increases the price of imported goods.
- ❖ Ultimately increase the cost of production there by reduces the exports business.
- ❖ Requirement of book-keeping is complicated
- ❖ It would finally affect the small traders.

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<sup>19</sup> Nepal Chamber of commerce (1997), "study Report on possible Effects of value added Tax in Different Areas (Nepali version)"; Kathmandu: Nepal chamber of commerce.

- ❖ It is Untimely to implement.
- ❖ It would be unjustifiable on social ground.
- ❖ Present administration is incapable for handling VAT.
- ❖ Computerization system is not sufficient and it is new concept for the tax administration.

The study report suggested for a partial VAT on some commodities. It was in favor of phase-wise implementation of VAT. The study analysis negative impact of VAT neglecting its positive impact.

### **2.8.6 Dr. Khadka (2000)<sup>20</sup>**

In this book “The Nepal tax system” reviews the Nepalese tax system and tax administration and points out the needs to introduce VAT in Nepal. The main reason to introduce VAT was to develop a stable source of revenue by broadening the tax base. In the coming future, the revenue from custom duty will diminish because of the enactment of SAFTA and WTO agreement. In such condition broad based internal tax system is required.

The sales tax was narrow based and most of the sales tax is collected from custom/ manufacturing points. The huge exemption made on socio economic ground resulted on weak tax administration and low fields of revenue. Moreover, delegation of taxing authority to the local bodies to make them financially autonomous also caused low performance of central taxes. In such a condition, another stresses on the proper implementation of VAT in Nepal. But VAT is not the great panacea because there are many hindrances on the implementation of VAT. Most of the business vendors do not want to register under VAT. Cross checking has not been possible and undervaluation is dominating so, in conclusion,

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<sup>20</sup> Dr. Khadka, Rup B.(2000) Nepal; Overview of VAT system”, Asia- Pacific Tax Bulletin Vol-6, No.5.

the author stress that VAT will generate more revenue in days to come when it became fully operational.

### **2.8.7 A High Level Task Force Headed by Prof. Dr. Dahal, Madan K. Reviewed the Nepalese Tax System in 1995<sup>21</sup>**

The report outlined the following reason to adopt VAT in Nepal.

- ) To broaden the tax base and increase the tax revenue
- ) To make the tax system transparent and elastic.
- ) To prevent tax evasion
- ) To make the system efficient and
- ) To encourage exports.

After analyzing the various aspects of tax structure and the position of the economy, the report finally recommended the following aspects to be incorporated before adopting the VAT in Nepal.

- ) A functional organization pattern
- ) Development of effective tax refunds system.
- ) Measure to increase self-compliance
- ) Computerization of the administration.

### **2.8.8 Subedi, Babu Ram (1997)<sup>22</sup>**

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<sup>21</sup>Prof. Dr. Dahal, Madan Kumal et. Al.(1995), “Tax system review task force’s Report”, Ministry of Finance, HMG/N

In his study has found that VAT is the best form of sales tax as it is neutral regarding the methods of production and the point of view of revenue potentiality. The self enforcing method of VAT makes the administrative task easier. The replaced sales tax to be inefficient and less productive because it has created cascading and pyramiding effects. For theory as well as practical purpose, VAT is the best alternative to reduce such inefficient, as it would generate more revenue with fewer distortions.

The study concludes that administrative efficiency is the main problem to implement VAT in Nepal. Other problems associated with the application of VAT are lack of account keeping system, lack of knowledge about VAT, lack of co-ordination between various agencies or organization and government, lack of co-operation between private and public sectors, low public awareness, tax evading practice etc.

The study recommends that without extending it to retail level desired revenue generation is impossible but it seems to be impossible in the present context of Nepal. So efficiency implementation is necessary which may generate 1.5 to 2.5 fold more revenue. In conclusion, the study states that VAT is not a hen with golden eggs and not a panacea to cure all ill rather it requires active efforts and commitment for all side.

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<sup>22</sup> Subedi babu Ram(1997) “Applicablity of VAT in Nepal. M.A. Dissertation Central Department of Economics T.U Kathmandu.



### **2.8.9 Kul Bahadur Gurung (2002)<sup>23</sup>**

In his study that many believed that the VAT would not survive, but the Fact is that it did. The outcome however was unexpected. VAT would not broaden the tax base as desired. Today Nepalese VAT system has a fairly comprehensive base including goods and services are consumption based, and have a reasonable threshold that renders VAT administration practicable. The point that needs to be stressed VAT is a modern system of taxation, that pre-supposes the existence of a certain economic order, comprising of business standards and ethics, documentation (technology) and simplified regulations that are simple, respected and complied with. Therefore, successful application of VAT will require assessment of these fundamental pillars, in our context, with a view to gradually overcome inherent deficiencies in each sector with a positive approach. Today even when there is an overall economic downturn, VAT is flourishing. It is going to remain the mainstay of revenue.

### **2.8.10 Sainju Mohan Man (2001)<sup>24</sup>**

The researcher comments the VAT system that was implemented with the objective of introducing a modern tax system to make revenue collection scientific and assist the development of Nepal has entered its fifth year of existence. Experience of the past four years reveals that the VAT system is gradually succeeding in making the revenue system of Nepal more scientific and has also been increasing internal revenue generation which is very praiseworthy. By gradually resolving the problems seen in its concept, the role of the tax

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<sup>23</sup> Gurung, Kul Bahadur (2002) "VAT implementation in Nepal(in reference to present position and future prospects)" MBA Dissertation central Department of Management T.U

<sup>24</sup> Sainju Mohan Man(2001), Value Added Tax "Four years of implementation" , Inland Revenue Department and VAT project Kathmandu.

administration, industrialists, businessman, and most importantly the consumers is crucial and hence their full and honest contribution is expected. The mobilization of internal revenue occupies an important role in the mission of national development. Therefore the researcher suggest, a part from the government's commitment and honestly in making a scientific and systematic tax system to make VAT more successful and effective, there is equal need for contributions from industrialist, businessmen as well as consumer.

## **CHAPTER - III**

### **RESEARCH METHODOLOGY**

### **3.1 Introduction**

This study is focused particularly on ‘Value Added Tax (VAT) System in Nepal’. So, information relating to Value Added Tax is collected from different sources as far as possible. Primary as well as secondary sources of data are used to fulfill the objectives of the study. Specially to fulfill the objectives of examining the secondary sources of data and information related to VAT are derived from Books, Booklets, Articles, Magazines, Internet, Report of MOF etc. Where to examine the various issues related to a VAT in Nepal and to suggest useful alternative to the problems faced by the VAT System in Nepal. Much focus is given on the primary sources of data and information. In considering the various effect of VAT, a general forecast is made on the basis of information, evidences, fact realities as well as experiences of foreign countries. To find out the opinions of respondents representing different groups related to VAT, and opinion survey technique through administered questionnaire, personnel interview as well as telecommunication is conducted. The collected data have been tabulated into the separate format, and descriptive statistical analysis, such as simple average, percentage and simple tools have been used where necessary. The result has been expressed in the form of description.

### **3.2 Research Design**

Most of the materials of this study are concerned with past phenomena of the performance rather numerical or theoretical. Basically it will be theoretical as well as practical study, on VAT administration. This study has tried to analyze the system by its own procedure. Basically, descriptive, analysis, tabulation, questionnaire, primary data, interaction

with resources person, secondary data has been followed.

### **3.3 Pollution and Simple Size**

Population is total set of items, persons etc, from which a sample is taken. The population of this study includes VAT experts/officers, traders/businessmen and consumers, student, teachers etc. who are directly or indirectly related to VAT. The area of VAT population is so large and complex that it is almost inconvenient to distinguish and count. So, in this study, for simplicity, the sample is drawn from population that includes VAT expert/officials, businessmen and customers for better result; the purposive sampling method is followed. The size of sample is 40. The area of these samples is inside the Birgunj sub-metropolitan city.

### **3.4 Data Collection Procedure**

Data relevant to this study are collected using various techniques. To fulfill the objectives data have been collected from primary as well as secondary sources. Procedure of collecting data has been given below:

#### **3.4.1 Primary Data**

Primary data are the first hand information taken from resource for special use. In other words data collected at the first time are known as primary data. Sources of primary data of this study collected by the responsive sample of persons from various sectors which has been collected through the structure questionnaire. Personal contact as well as interviews was also conducted to perform research work of 40 persons including Tax Experts, Tax Officials, Businessmen & consumer selecting randomly.

### **3.4.2 Secondary Data**

The secondary data have been collected from the books, articles, magazines, booklets, newspaper and annual report, Internet. The major sources of secondary data are:

1. Published documents from Ministry of Finance as Economic Survey.
2. Published report and seminar paper of industry and trade association.
3. Annual report from Inland Revenue Department.
4. Published Journals from VAT department, tax office, Nepal Rastra Bank, Budget Speech and Chamber of Commerce.
5. News paper, Journals, Business age, Rajaswa Bajar, Soptlight, Nepal Tax Patrika VAT act 2052, Income tax act 2058 etc.
6. Published and Unpublished report, Dissertation project work etc.
7. International Monetary Fund (IMF).
8. Different Websites and May more.

### **3.5 Procedure of Processing and Analysis of Data**

Collected data have been firstly tabulated into separate format systematically according to the subject in order. Then, simple statistical tools such as average/ mean, percentage, graph and chart have been used where necessary and they have been presented and analyzed in descriptive way.

#### **i. Mean / Average**

Total sum of observation divided by the number of observation is known as mean. It is also known as Average. It is calculated as:

$$\overline{X} = \frac{X}{n}$$

**ii. Percentage**

It is an arithmetical tools which divides the set of observation in to 100 parts.

## **CHAPTER- IV**

### **RESENTATION AND ANALYSIS OF DATA**

## 4.1 Performance of VAT

### 4.1.1 Registration

The first step in the actual operation of a VAT is the registration of firm subject of the tax and the development of a master role of tax payers. In this process all the vendors having a taxable business requires to register for VAT. Any business enterprises if they desire to register can register voluntarily. However, there is no compulsion to register for small vendors who have an annual turnover below the threshold.

The registration procedure starts with a notice to the potential taxpayers through extensive publicity campaign. Then registration forms are distributed so that the vendors will fill up to be a formal member of the taxpayer under the VAT system. Then the registration form is returned back to the VAT department and their coding is made. Thus registered tax payers may be unknown about VAT in detail so an informative visits needs to be made and check whether the details provided by the taxpayers are correct or not. Although all the vendors having the transaction of taxable capacity may not be registered so it is almost essential to make a door-to-door check, especially in developing countries. The newly hired staff of inspectors and enforcement officers can be used for this purpose. However, vendors may desire to come into the VAT net since an unregistered vendor can neither claim back input tax paid on his purchase nor collect output tax on his sales and hold it until it is required to be paid to the Inland Revenue Department.

The Trend of VAT Registrants is as below table No-4.1

Table-4.1

Trend of VAT Registrants

Year	No. of Registered Tax Payers
------	------------------------------

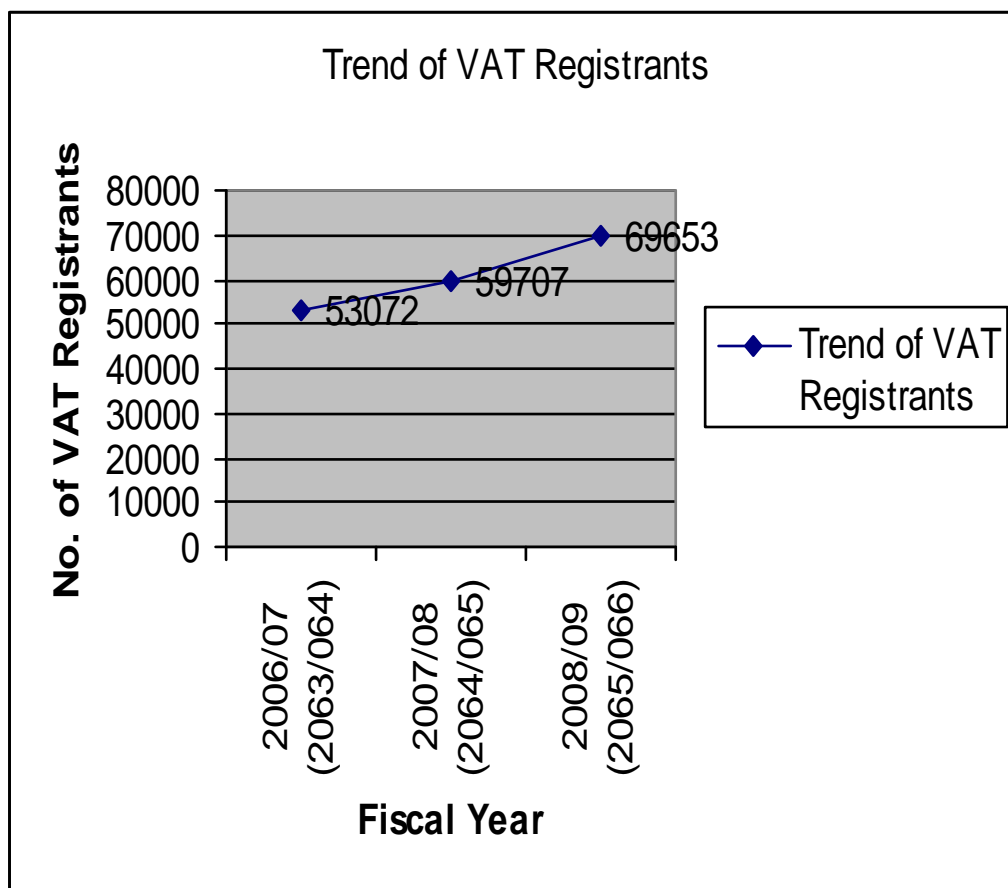
	Numbers	% Increase
2006/07 (2063/064)	53,072	-
2007/08 (2064/065)	59,707	12.50
2008/09 (2065/066)	69,653	18.76

Source: Inland Revenue Department, Lazimpat.

The above table shows No. of entities and organizations registered into VAT office compulsory from FY 2006/07 to FY 2008/09. No. of entities and organizations registrants are increasing trend. To calculate increase percents are based on fiscal year 2006/07. Increasing trend of registrants are growing rapidly. In FY 2007/08 increasing percent of Registrants are 12.5%. In FY 2008/09 No. registrants are 69,653 and their increase percent is 18.76%.

Figure No.- 4.1





#### 4.1.2 Tax Invoices

The tax invoice is a crucial document for VAT as it establishes the seller's liability for tax and the purchaser's entitlement to credit. A VAT registrant is required to issue a tax invoice whenever a transaction takes place, although, it is not desirable to require that invoices be issued, particularly on smaller transaction. However, it is desirable to require that invoices be issued on all sales to other registered forms, and on all sales in excess of a certain monetary sums. In the case of the small transaction made with the unregistered purchasers that is consumers. It is better to use the abbreviated invoice, if this facility is allowed by the VAT administration. In general two types of invoices - tax invoices and final consumer invoices are issued. The former is issued to the VAT registered sellers and the

letter is issued to the unregistered purchases.

Tax invoice must be prepared in three copies and the first copy should be clearly identified as tax invoice. The original copy is given to the purchaser, the second copy is retained for audit purpose and third copy is used by the seller in preparing a record of the transaction. It becomes the duty of purchaser to obtain an invoice.

Tax invoice must be prepared in three copies and the first copy should be clearly identified as a tax invoice. The original copy is given to the purchaser, the second copy is retained for audit purpose and third copy is used by the seller in preparing a record of the transaction. It becomes the duty of purchaser to obtain an invoice.

Tax invoice is the important document for tax computation. However, some times invoices are not at all necessary, such as in the case of a self supply, while in some cases they are for all practical purposes not possible e.g. newspaper sale, street stalls, passenger transport etc. that is why vendors are not required to issue a tax invoice. For example, in Korea a tax invoice need not be issued for the supply of zero rated foods and services, a supply of goods and services without any consideration, transportation by taxi, street stall sales and peddling etc. the self-policing mechanism is served by VAT only when the invoice system is accurate. So, buyers are needed to make responsible for demanding an invoice for their purchases exceeding a certain amount and a sample check of the place of business is needed in order to control tax evasion.

### **4.1.3 Accounting**

Every VAT registered vendor should keep clear accounts of his/her purchase and sales, which come into the VAT base. The record of all invoices including other information such as the serial number and data of issue, transaction subject to different rates, the amount changed, self consumed goods etc should be kept fairly so that VAT authorities can review, check, calculated the amount of VAT and tax credit easily. Generally, such records are kept fairly for 4 to 6 years so that it can be provided to the tax administration if asked to check its accounts may depend on the provision regarding the period in which the final VAT assessment must be completed or the case finalized, in case of appeal. It is desirable to make such a period as short as possible because longer the period for the preservation of accounts the more of the burden it puts to the registered venders. The tax administration is not responsible if any vender can not get tax refund due to the lack of proper records.

Accounting system can be made simple and clear by using a separate purchase book to record all the details of purchases and a separate sales book which record all the details of sales. However, in case of small vendors the cash flow problems can be made simple by allowing accounting for their output tax only upon receipt or payment. Government can also provide a form for the accounting purpose to the venders.

### **4.1.4 Tax Assessment**

VAT is a self-assessed tax. Tax Payers determine the tax liability themselves and tax invoice, purchase and sales book helps them in assessing their liability themselves. The registered businessman is the agents at the government as they need to collect taxes and submit to the government. The registrant is required to remit the difference of VAT on or before the 25<sup>th</sup> day following the end of each month. Hence the role of purchases book, sales book and a VAT account is vary cercal under VAT system assessment is a process to investigate, compare and reconcile documents and determination of annual to be paid by tax payers.

The assessments are as follows:

- ) General Assessments
- ) Computer Assessments
- ) Management Assessments

#### **4.1.5 Fillings of Returns or Tax Return**

A tax return is a summary of the transactions of a VAT registered vendor which consists of total purchase, total sales, input tax, output tax, net tax liability etc. during a taxable period. Sections 18 of the VAT act 2052; all taxpayers are required to submit a tax return on a self-assessments basis within the 25<sup>th</sup> day of the following months, i.e. within 25 days at the expiry of the tax period. Return could be debit, credit or zero.

After filling the tax return from, each vendor requires to submit it and the tax due within the specified period. The payment system having frequent interval is desirable which avoids the accumulation of the liabilities that the vendor cannot meet. Such a frequent interval also provide an even flow of money to the

government and smooth our the work load as compared longer Intervals, general practice also shows that the standard tax period is of one month. Usually, payment of VAT is making through banks.

#### **4.1.6 Non-Filers**

There is a legal prevision in VAT law that all the registrants are required to submit their tax return after 25 days of completion of tax period. It does not matter whether transaction is donning or not in any tax period. It is necessary to submit the tax return within specified time. Registrant who became fall to submit their tax return is known as non filers.

### **4.2 Present Status and Prospects of VAT in Nepal**

#### **4.2.1 Present Status of VAT**

After several year of preparation, VAT was introduced and survived because of the efforts of a small group of extremely dedicated, motivated and hard working people who never gave up their hopes of making VAT successful one day. In Nepal it was decided to introduce VAT, as this form of taxation seems to be the best for any type of country. VAT would make it possible to broaden the tax base, to have a simple and modern tax system that exempted export and basic goods from taxation and finally to increase revenue. The functional structure has proved its metal during the seven year of VAT implementation, as the VAT department was conceded of the modern, transparent and professional public service sector in Nepal.

The implementation VAT has already passed seven years and now running in 8<sup>th</sup> year. The first two years of the VAT i.e. pre and post VAT era heralded

many Ups and downs. But the vat made history by emerging as a winner despite all odds. As fate would have it, untraceable negotiation, procrastinate action, resentment by traders etc. put VAI off balance. It is sad that despite much hype and preparation, the result of VAI has been debatable. To some it is just another felled attempt, but other are still watching patiently for the delivery of what it was exempted to do, the present status of VAT in Nepal analyze following three position.

### **a) Status of Registration**

Efficiency in information to tax payers and tax payer's services are the two components that have a direct bearing on the actual level of enforcement. That VAT registrants were increasing trend every year. Total no. of VAT registrants in fiscal year 2006/07 was 53,072 and in fiscal year 2008/09 were 69,653. It means no. of registered tax payers in increasing trend indicated right track towards achieving this balance. But then the efficiency in information services and facilities are more effective component.

### **b) Status of VAT Collection**

The collection amount of VAT in present is very negligible. It means it is not VAT policy and administration has been failed. There are a lot of problem which are directly effecting on tax revenue. The main problem of the country in present political instability terrorism because of terrorism problems more than 50% tourist has been reduced from 2<sup>nd</sup> and 3<sup>rd</sup> country as that the business of hotels restaurant industries area as well as many other sector of the country could not collected as estimated revenue. In Fiscal year 2004/05 estimated indirect tax VAT was Rs.19,950,000 thousand but actual collection was Rs.18,885,400 thousand.

Similarly in FY 2005/06; 2006/07; 2007/08 and 2008/09 estimated indirect tax VAT were Rs.22,824,800; 26,055,001; 29,742,644 and 39,947,480 thousand but actual collection of indirect tax VAT were RS.21,613,043; 26,095,599; 29,815,703 thousand respectively but the actual of 2008/09 is not available.

### **c) Status of VAT Administration**

The administration is the vital tools of every tax system. However VAT is the modern and scientific tax systems. The account system of VAT is based on computerization. After more than seven years of operation of VAT in a country like Nepal it has been vindicated once again that good tax means good administration. The VAT administration also stated with a new vision. Human resource development, computerization, functional structure, decentralization etc were done by Nepalese government. The successful implementation of VAT Needs vigorous, dynamic, self motivated, trained skilled and capable administration.

### **4.2.2 Prospects of VAT in Nepal**

Through VAT, at present is still facing problems, there problems can be overcome is VAT is implemented honestly and effectively and this will help to change whose revenue structure of the country. For this if the government has to take stern action against any one who does not comply by its regulation, it should not hesitate to do so. But as the first and foremost step the government officials must show their integrity to implement VAT. The following can be the measures to make VAT a success in Nepal.

#### **a) Creating public Awareness about VAT**

In Nepal the main glitch in the VAT system is the lack of public awareness. Many people are still not clear about the concept of VAT. Even seven years of its implementation, the working of VAT and its effects are still unclear to them. The culture of asking for bills while purchasing goods has not developed so far. Until the bills are not issued, VAT can not be effective.

At the time when VAT was introduced, the government has launched campaigns through TV, radio and newspapers to educate the public. The efforts to educate the public should be continued. At present, the IRD through the media has been creating awareness among the consumers and their need to ask for the invoice for purchase. The advertisement and hoardings have been quite successful in convincing the customers of their rights and how the vendors have exploited them. Thus, the vendors will be bound to issue invoices.

## **b) Educating Tax Payers**

Strong voices against VAT have been raised by the business community right from the beginning this is natural because first of all, people try to resist to change and the second reason is that most of the businessmen do not keep proper accounts and most of them evade taxes this is against the principle of VAT. The business community of the tax payers should be educated regarding the merits and demerits of VAT. For this, frequent interactions and a special education program can be launched. Call centers should be set up to provide information and various aspects of VAT.

## **c) Decreasing the custom duties**



The problem of under inducing too a greater extent can be solved by the reduction in rates of custom duties and increase in the exemption limit of income tax. Accurate invoicing is likely to take place only if the government pays heed to the pleas of the tax payers.

#### **d) Simplifying the Refund System**

The tax refund is the basic essence of VAT. The refund system, if improved, can do wonders with the VAT system. Delays in the refund of tax should be avoided in order to impart confidence in the VAT system. Obviously, people would object to VAT if refunds are not made timely by the tax authorities. Making due refund claims is the right of the tax payers and making the refund system systematic and easy is the duty of the tax officers. Only by making the refund system simple will the appropriateness of the VAT system and its credibility increase. However, the tax officer's shows are equally cautious to detect fraudulent refund claims made.

Improving the administrative capability is the key requirement to ensure that VAT achieves success. VAT system requires extra skills and knowledge, especially for auditing and investigation purposes. Comprehensive training should be imparted to tax officials which covers every thing from theoretical aspects of VAT. Operational issues, interpretation of VAT law, rules and regulation, registration procedures, filing returns and payments, compliance, tax payer's services, tax payer's services, tax credit, auditing and investigation skills, general knowledge of computers spot observations and interaction with the businessmen.

### **4.3 Trend of VAT Collection over the Study period**

Revenue mobilization in Nepal was slow for a long time. It was not more than 12% of GDP; all the known and required reform measures were implemented in custom duties, excise duties, sales and income tax. The reform packages advised by the World Bank and IMF were implemented. Even then the pace of revenue mobilization was slow. It led to the search of another tax system. In a sense, it was quite natural as in the World and especially among developing nations, the success story of VAT was very popular. The rate of revenue mobilization, in especially those countries under VAT regime, was encouraging. Within a short span of time more than 120 countries adopted this tax system though Nepal was still to enter into this regime. In the backdrop of the failure of all known measures to increase revenue, it was quite natural to expect that VAT would enhance revenue collection and this was exactly the case when VAT was first introduced in Nepal.

VAT is a most scientific, innovation and powerful tax with built in quality of universal application for both development and developing economies. The biggest virtue of VAT is that it is revenue buoyant and highly instrumental for resource mobilization especially in an economy with acute shortage of resources. Now VAT rate is increased from 10% to 13% has fairly comprehensive based including goods and services, is consumption based, and has a reasonable threshold that renders VAT administration practicable. Nepalese VAT system has already come a long way and that it should experience further revenue productivity in the future.

In spite of preliminary resistance, VAT is currently well received by the consumer as business and industrial communities of Nepal, for this is account based tax that lead to transparency and accountability both on the part of tax payers and tax collectors. The trend of Nepalese VAT collection was increasing trend over the study period from 2004/05 to 2008/09 which was shown in the following table no. 4.2

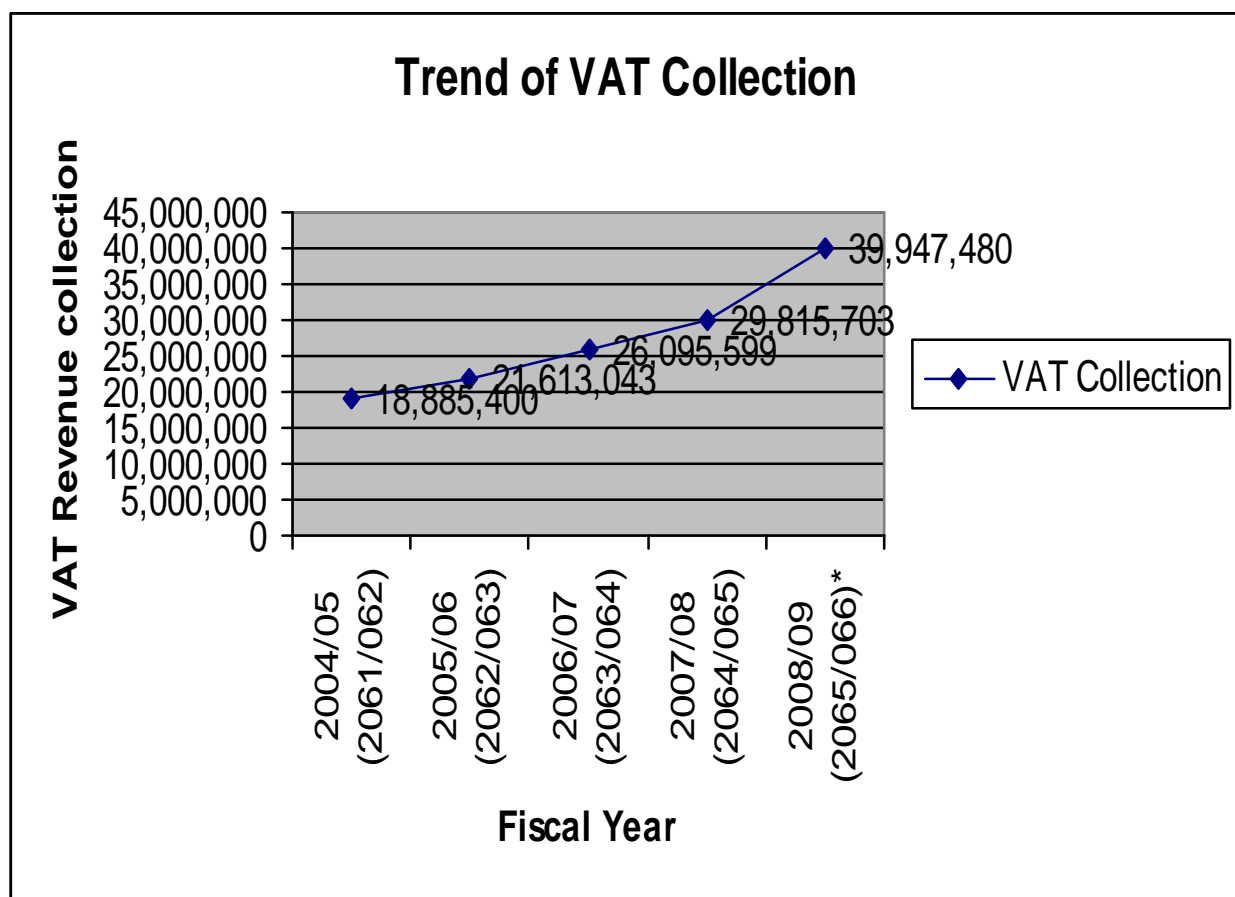
**Table No. - 4.2**  
**Trend of VAT Collection**

<b>(Rs. In '000)</b>		
<b>Year</b>	<b>VAT Collection</b>	<b>Increasing %</b>
2004/05 (2061/062)	18,885,400	-
2005/06 (2062/063)	21,613,043	14.44
2006/07 (2063/064)	26,095,599	20.75
2007/08 (2064/065)	29,815,703	14.26
2008/09 (2065/066)	39,947,480	33.98

Source: Inland Revenue Department, Lazimpat.

The above table shows that VAT revenue collection was increasing trend from FY 2004/05 to 2008/09. The net VAT revenue collection in the first VAT implementation fiscal year 2004/05 was Rs.18,885,400 thousand. The highest increasing percent age of VAT revenue collection was in the fiscal year 2008/09 which was 33.98%. The above table can be shown by following trend line.

**Figure No.-4.2**



The last 5 years trend of VAT collection shows increasing growth in VAT revenue collection. It is more obvious that revenue collection through VAT would also not be the exception since there is a lot of instability in political situation as well as in economic trends. There might be a lot of reasons behind the less collection of VAT revenue, but in this context these reasons are not concern of the topic. Using these last 5 years trend it is an attempt to project the growth and size of next 11 years. For forecasting trend of VAT revenue collection future 11 years. Using “Least Square Method” (See Appendix No.-1).

These values are shown in the following table:

**Table-4.3**

**Estimated Trend of VAT Revenue Collection for Future 11 years**

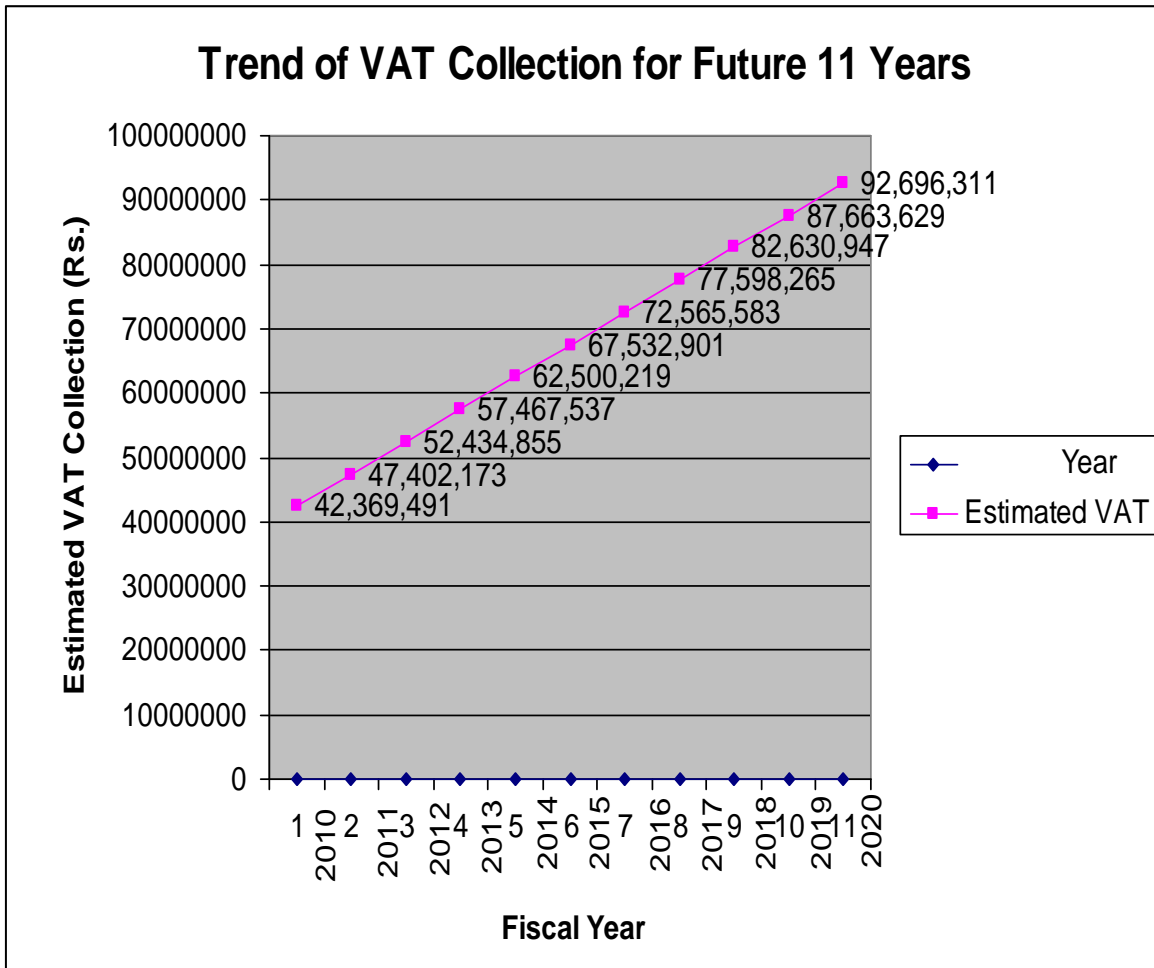
(Rs. In '000)

<b>Year</b>	<b>Estimated VAT</b>	<b>Increasing %</b>
2010	42,369,491	5.71
2011	47,402,173	1.19
2012	52,434,855	1.06
2013	57,467,537	0.96
2014	62,500,219	0.88
2015	67,532,901	0.80
2016	72,565,583	0.75
2017	77,598,265	0.69
2018	82,630,947	0.64
2019	87,663,629	0.60
2020	92,696,311	0.57

Source: Forecasted Figure

The future trend of VAT revenue collection will be increasing trend but increasing percentage will be decreasing trend. In year 2010, the VAT revenue collection will be Rs.42,369,491 thousand and increasing percentage will be 5.71%, after five year i.e. year 2015 VAT revenue collection will be Rs.67,532,901 and increasing percentage will be 0.80%. After 11 year i.e. year 2020, VAT revenue collections will be Rs.92,696,311 thousand and increasing percentage will be 0.57%.

**Figure No.-4.3**



VAT Revenue is classified into Import Revenue and Inland Production Revenue. The VAT collection from Inland Production and Import are shown separately as in the following table:

**Table No. -4.4**  
**Composition of VAT Revenue**

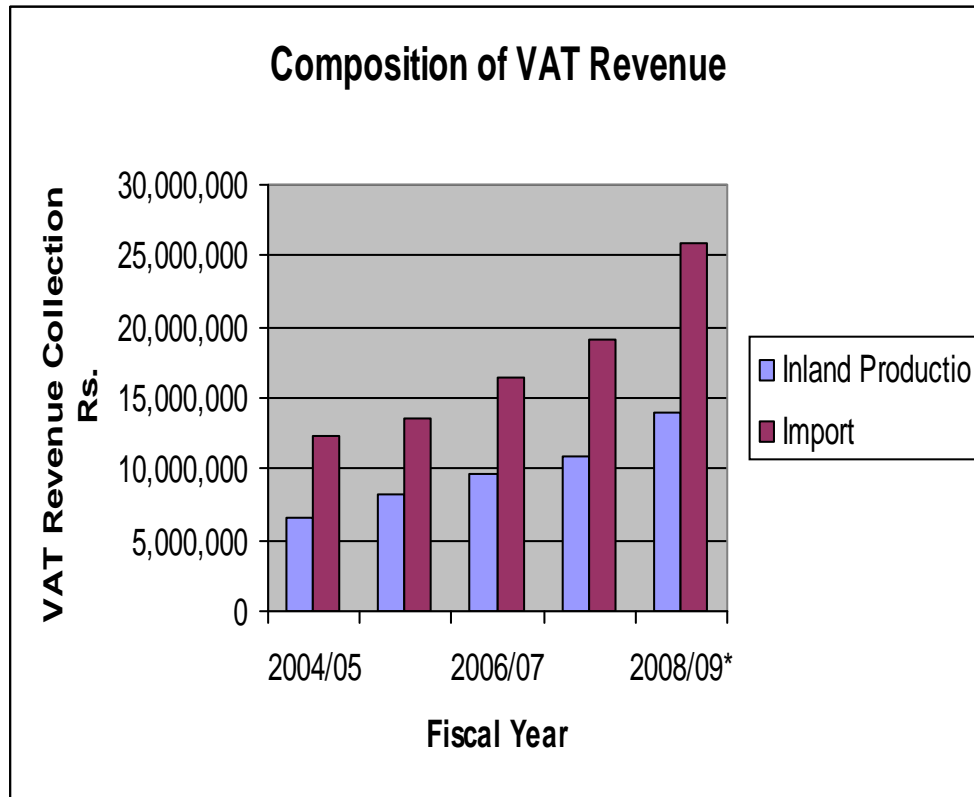
<b>(Rs. In '000)</b>					
<b>Year</b>	<b>Total</b>	<b>Inland Production</b>		<b>Import</b>	
		<b>Amount</b>	<b>% Increases</b>	<b>Amount</b>	<b>% Increases</b>
<b>2004/05</b>	<b>18,885,400</b>	<b>6,614,973</b>	<b>35.00</b>	<b>12,270,427</b>	<b>65.00</b>
<b>2005/06</b>	<b>21,613,043</b>	<b>8,150,502</b>	<b>37.72</b>	<b>13,462,541</b>	<b>62.28</b>
<b>2006/07</b>	<b>26,095,599</b>	<b>9,631,330</b>	<b>36.91</b>	<b>16,464,269</b>	<b>63.09</b>
<b>2007/08</b>	<b>29,815,703</b>	<b>10,808,241</b>	<b>36.25</b>	<b>19,007,462</b>	<b>63.75</b>
<b>2008/09</b>	<b>39,947,480</b>	<b>14,023,658</b>	<b>35.10</b>	<b>25,923,822</b>	<b>64.90</b>

Source: Inland Revenue Department, Lazimpat.

The above table shows the contribution to VAT revenue collection from Inland Production and Import revenue. In every Fiscal Year from fiscal year 2004/05 to 2008/09, Revenue collection from Import was higher than the Revenue collection from Inland Production. The revenue collection from both sources are up and down ward. In the first two FY (i.e. 2004/05 & 2005/06), the revenue collection is increasing order and there after it is increasing in decreasing order.

The above table is shown by diagram as follows.

**Figure No.-4.4**



Finally, the VAT collection trend of the study period was increasing trend but it was not in satisfactory level. Actual VAT collection was not reach expect level. However not only in Nepal but actual implementation of VAT in many developed as well as undeveloped countries show that many difficulties in applying VAT, and could not collected revenue as expected. The less collection of VAT revenue seems the lack of proper implementation so that the government has to be trying to emphasis on the effective VAT Implementation. There are certain points which may be useful in order to do effective implementation and collection of VAT in Nepal that are as follows:

- a) Increase the administration capability.
- b) Developed potential taxpayer identification.



- c) Provide incentive for traders.
- d) By launching special educational programs and penalty.
- e) Developed simple accounting system for traders and so on.

#### 4.4 Contribution of VAT in Government Revenue.

The income of the government through all sources like taxes, fees, fines/penalties, donation etc. is called government revenue or public revenue. Public revenue may be divided into two main headings: Tax Revenue and Non-Tax Revenue. Tax Revenue contributes about three quarters of total revenue while Non-Tax Revenue represent about one quarter of total revenue at the central level. The trend and composition of Tax Revenue and Non-Tax Revenue in the recent year are given in following table:

**Table No.- 4.5**  
**Contribution of Tax and Non-Tax**

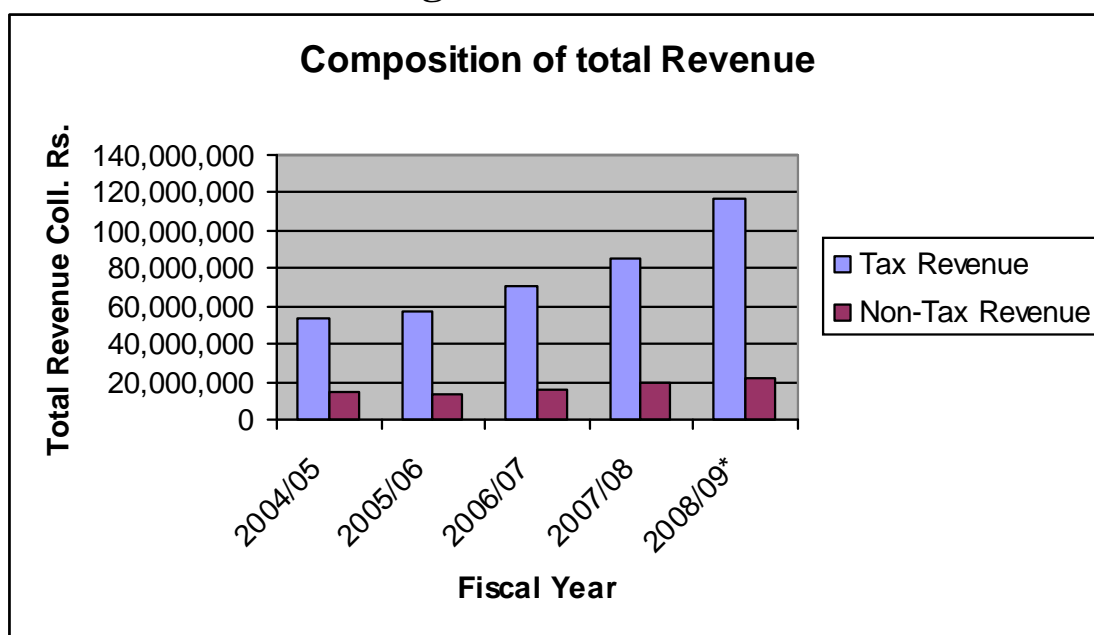
Year	Total Revenue	(Rs. In '000)			
		Tax Revenue		Non-Tax Revenue	
		Amount	% Increases	Amount	% Increases
2004/05	68,875,063	54,104,779	78.55	14,770,284	21.45
2005/06	70,768,468	57,426,995	81.15	13,341,473	18.85
2006/07	86,686,005	71,126,728	82.05	15,559,277	17.95
2007/08	104,939,301	85,155,458	51.15	19,783,843	18.85
2008/09	138,371,954	116,996,653	84.55	21,375,301	15.45

Source: Inland Revenue Department, Lazimpat.

The above table shows the composition of Nepal's total revenue, which constitutes Tax and Non-Tax Revenue from the fiscal year 2004/05 to 2008/09. The share of and Tax Revenue has always been greater than the share of Non-Tax Revenue. This indicates that the role of Tax Revenue is very much important in

revenue mobilization of Nepal and to meet the increasing government expenditure. In fiscal year 2004/05, the total revenue collection was Rs.68,875,063 thousand in which the contribution of Tax and Non-Tax Revenue was 78.55% and 21.45% respectively. In fiscal year 2006/07, the total revenue collection was Rs.86,686,005 thousand in which the share of Tax and Non-Tax Revenue was 82.05% and 17.95% respectively. The contribution of both Tax and Non-Tax Revenue seem to be growing simultaneously. The above table can be shown by graphically as below:

**Figure No.- 4.5**



VAT play vital role for revenue generation. The share of VAT in the total revenue is shown in the following table:

**Table No. - 4.6**

**Contribution of VAT in Total Revenue**

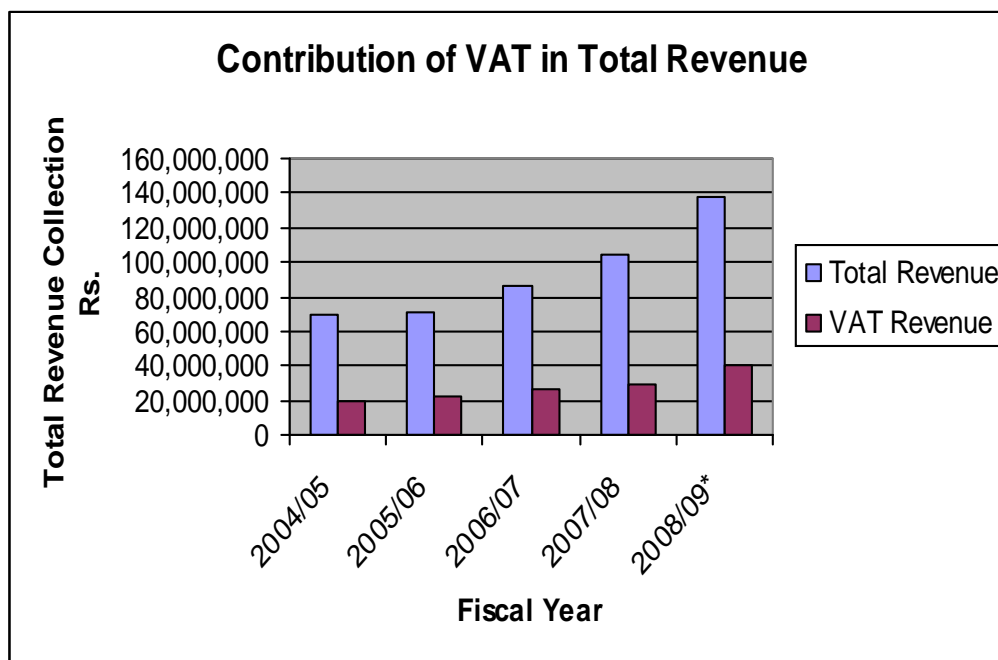
(Rs. In '000)

Year	Total Revenue	VAT Revenue	% of T.R.
2004/05	68,875,063	18,885,400	27.42
2005/06	70,768,468	21,613,043	30.54
2006/07	86,686,005	26,095,599	30.10
2007/08	104,939,301	29,815,703	28.41
2008/09	138,371,954	39,947,480	28.87

Source: Inland Revenue Department, Lazimpat.

The above table shows the contribution of VAT in total revenue. In fiscal year 2004/05 contribution of VAT in total revenue was 27.42%. It was increasing trends till fiscal year 2006/07. In fiscal year 2008/09 the VAT was 28.87% on total revenue.

**Figure No.- 4.6**



## 4.5 Problem Faced by Government to Collect VAT

The government of Nepal has faced a lot of problem to collect VAT during over the VAT implementation period. Resistance from the business community, ignorance of general people and the lack of full support and commitments from the politicians and government official forced the authority responsible for implementation VAT to make compromise on various aspects of VAT which has weakened the process to its implementation right from the beginning the culture of doing business without maintaining proper books of account has made implementation VAT difficult. The problem is further intensified due to lack of culture of issuing and receiving bill at the point of sales and purchases , non adherence to standard norms and codes of doing business , negative behavior of tax official and of sense of accountability in the government and political parties . It is a big problem faced by the government.

On one hand, there are problem associated with billings where the business man do not issue invoice or issue incorrect invoices and, on the other hand, there are problems related to valuation at the point of import and production. In addition, more problems originate when every official or employee interpret the act, rules letters and circulars on a discretionary manner. Additional problems have emerged in its implementation due to our geographical structure, lack of education, unauthorized and unorganized business due to the open boarder in the bordering market etc. this tax system does not seem very effective despite VAT having completed seven years in operation due to the political situation of the country, the lack of good co-amongst VAT, customs and other taxes, lack of the practice of issuing and demanding correct invoice amongst the individual and business sector, the lack of a system of maintaining accounts and the attitude of some employees and some tax payers.

There are many problems the government has been facing to collect VAT. These are as follows:

### **a) Problem Faced on Billing System**

The major problem associated with VAT is the lack of compliance on the part of businessmen with the billing requirements. They hardly issue bill to customers, though it is mandatory under the VAT Act. And, if customers insist, they would charge extra money. Such practice has also discouraged the customers to demand VAT bill. Low valuation of imported goods at the customers is another major obstacle facing the government and is the root cause of the failure of the billing system.

Issue of an invoice is a must under VAT system. Likewise, it is the responsibility of the consumer to ask for the invoice, however, at the retail level. On one hand, consumer are not interested in asking for an invoice as they consider it useless and wastage of time, on the other hand, retailers are under no pressure to issue an invoice. Thus at the retail level, evasion is most likely to take place because cross-checking is not possible at this level. Even the registered ones may not be interested to obtain invoice; they can omit some of their transaction from the books of account.

### **b) Problem Faced on Under Invoicing Practices**

One of the challenges lying ahead of VAT collection and VAT implementation is the rampant practice of under invoicing. In Nepal, a Majority of goods are imported and the imports are allowed to enter the country only after paying custom duty at the specified rate. Depending upon the price of the goods imported, less or more custom duty has to be paid and as a result, other taxes are also affected. Therefore, if an invoice with a less amount is made and goods are imported, then less custom duty has to be paid. This practice of making invoices

with fewer amounts on immortal goods so as to evade customs along with other taxes is called under invoicing. Once the goods enter the country by undervalued billing, the VAT revenue along with custom duties are evaded and this cannot be caught up in later stages of distribution if similar under valued billing continues to take place.

### **c) Problem Faced on Tax Refund**

To impact confidence among the tax payers on the VAT system, the VAT administrators should not neglect the tax refund aspect. Though the VAT Act prescribes a fairly simplified procedure for this, in reality, it is quit different. There have been widespread complaints regarding the system of tax refund. The tendency is to set off cash refunds against future earnings even when cash refund is due. This is of particular concern to tax payers at the time of capital investment or at the time of declining business environment. The number and volume of refund claims made so far as found to be still very low compared to the potential refund number and amount.

### **d) Open Boarder Problem**

Nepal shares an open boarder with India and Tibet, which encourages large volume of smuggling business. Most of the imports are made through the secret ways without having to pay custom duties and VAT. Open boarder gives two kinds of incentives: one Nepalese consumer living in boarder town often go directly to India boarder to purchase cheaper goods and other the products from India are brought for trading purpose through giving rise to a large amount of unauthorized trade. This is the most serious problem in front of the government of Nepal.

## **e) Geographical Problems**

Geographical condition of our country has created an important issue about the VAT implementation and revenue collection. Mainly three sets of problems have been arisen due to the geographical condition.

- I. In many district of Nepal there is no transportation development to these areas. In these areas, the means of transportation is air but the cost of manual or air transport is very high due to maximum freight costs which increase the cost of goods and VAT is higher in the remote areas than other developing areas.
- II. There are small scale business activities in the remote areas. The revenue collection from such areas would be a negligible amount as compared to collection cost. Therefore, the high collection cost does not permit VAT to be applicable in same of the districts in Nepal.
- III. Controlling and collecting VAT in far and remote areas is not easy due to the lack of transportation and communication etc. it is difficult to control the many functions of VAT likes inspection, audit, tax refund' penalty hearing appeals in the remote areas due to the lack of adequate tax office.

## **f) Problem of Non-Cooperation Between The Government and Private Sector**

Government policies in Nepal are often formed and implemented without a due consideration and preparation. With regard to VAT the government never took

the private sector into confidence. Private sector is not much involved in designing the VAT structure rules, regulation and solving the wide range of issue. On one hand, the private sector is actively opposing the implementation of VAT, at least, at present. On the other hand, the government is firm to implement the new tax. Such a divergence would lead to many undesirable consequences which would make the VAT an unsuccessful.

The VAT structure, rules and regulation formed without consulting and discussing with the private sector are likely to become unpractical and non-operational. International experience also shows that the VAT is less likely to be effective or successful where the private sector does not fully co-operate with government.

#### **g) Problem on Registration**

Some business, especially small traders who are liable to register, may not register themselves as tax payers. It is administratively very difficult to discover all the legal tax payers under the VAT because of the threshold limit. Tax evaders may take a good advantage of this difficulty. Further, non-compliance of the tax from the registered tax payers may also occur due to administrative weaknesses.

#### **h) Tax Evasion**

The large amount of illegal trade and other established tax evading practices pose a great challenge to a VAT in Nepal, Most of the tax evasion occurs at the import level. The existence of long open boarder, weak and easily corruptible tax



administration are the major factor facilitating tax evasion. There are several possible ways and forms of tax evasions in VAT in Nepal. These are:

- I. Non-registration.
- II. Sellers don't report their sale to the tax authority.
- III. UN recorded trade.
- IV. Dummy business.
- V. Smuggle goods supply by the channel of exempted business.

### **i) Problem on Threshold**

From the very beginning the debate about its threshold is going on and without visible sign of any consensus reached about it. If threshold isn't permitted in VAT, small retailers should also be included in this system. That's why all concerned, no matter whether they are big or small businessmen or industrialists need to be registered themselves. It is impractical to think that thousands of taxpayers will be managed properly in the light of the fact even ten to twelve big customs are not controlled properly. On the other hand, it is quite difficult to justify the decision to bring very small retailers in VAT net from administrative, legal or even revenue perspectives. According to the critics of VAT threshold, illegal importing is encouraged, as it is quite easier to sell these illegal items through them.

### **j) Problem on Account Keeping**

Nepalese retailers lack the habit of maintaining proper accounts of their transactions. But in VAT system, tax payers need to issue invoices and transaction accounts and VAT audit need to be maintained. One of the reasons of

the ineffectiveness of VAT is the absence of proper maintenance of transaction accounts. This is also a most serious problem for government for better collection of VAT and better implementation of VAT.

### **k) Problem on Tax Administration**

Nepal's tax administration is not effective all around. Wide spread use of discretionary measures and lack of transparency manifest in day to day administration it has resulted into arbitrary tax assessments, harassment of genuine tax payers and provide opportunities for corruption. It is, therefore necessary to effective change in all aspects of taxation (i.e. policy, law, procedures and administration in order to implement tax reform in meaningful way).

Nepal has already witnessed a widespread resentment and nation wide demonstration by the traders on the eve of the introduction of VAT all those oppositions were not directed against the VAT but against customs and income tax administration. Since the implementation of a VAT renders transparency at all level and enhance. Experiences have proved that however, good a tax policy would be what matters is its administration. So that the government of Nepal have tries to build up sound tax administration in order to effective VAT collection.

### **l) Problem of Political Instability**

The government of Nepal has been facing the problem of political instability since introduced of VAT in this country. Changing of government frequently create many problem on VAT collection also. Because difficult governments have

different attitude and their own views that directly affect VAT collection, regulation, and implementation.

#### **4.6 Efforts Made by the Government to collect VAT**

It is not that, the government of Nepal does not have the option doing nothing for the collection of VAT, from the earlier period to till now. In the every beginning when the businessmen worked to have old sales tax exemptions restored, a VAT as a single stage levy; a geographical and higher threshold, etc. The government conceded several of their demand on the pledge that from the next fiscal year the VAT would be implemented enacting the VAT law, a continuation of the old sales tax system, reduces rate for few domestic products were the major concessions allowed by the government. It was also agreed that a joint task force were to be formed to look into the matters relating to the registration aspects of retail shops. Since the beginning of VAT until now, the government has made maximum efforts to collect VAT.

In May 2000, an interaction program was held. Mat politicians and parliamentarians were invited to this program. For the first time, in Nepal, there was not argument against VAT as such and discussions on the issue of its proper implementation because the overriding concern. Proper implementation, transparency, fairness and service minded organization were key issue discussed during this problem.

Similarly, the Inland Revenue Department and the DANIDA VAT project organized a program on the occasion of four year completion of VAT IN Nepal. This article reviewed the problems, challenges and achievements made until the merger of the two former departments, namely the Department of taxation and the

VAT Department, into the Inland Revenue Department, into the Inland Revenue Department in April 2001. This conference organized to more completion of four years of VAT did conclude with the note, that through VAT in it was acceptable to legitimate business, the practical aspect, concerning application of laws and rules into action showed considerable scope for improvement.

The efforts made by the government concerned to VAT collection can be describe as in the following points.

#### **a) Effort made on Effective Tax Administration**

The new administration in the VAT Department was organized along functional lines. The purpose was to have a function-based responsibility under which it would be easy to monitor the performance and also facilitate the establishment of a professional organization in a relatively short span of time. The function structure is also supposed to be held established accountability and to reduce collusion the tax payers and tax officers. Setting up a functional VAT administration become easy because of the startup staffs were mostly fresh entrants into the revenue service. The foundation of the tax design is quit modern and extensive training was imported and core groups formed in specific function areas. To improve Administrative capability, effective implementation VAT Act, law, rules and regulation different training and seminar was organized by help of RAS project, OECD, DANIDA, JICA for employees and tax payers.

#### **b) Effort Made on Public Awareness**

The extended period was a blessing in disguise for every one who was engaged in the implementation process of the VAT. Some more training information campaigns, meeting, etc. were held to convince people about the

introduction of VAT. Massive education programs were carried out across country. Over hundreds of talk programs were organized for cross section of the society businessmen, journalist etc. during 7 years of VAT implementation, government have made many efforts to collection VAT, A number of tax payer awareness campaigns have been lunched. A huge number of information folders has been produced and distributed; massive tax payer information has been published in the newspaper and aired through radio and television. Signboard, books, articles, pamphlets and so many others information concerned with VAT was produced and published across the country.

### **c) Effort Made on Incentive and Penalties System**

The government have many incentives and penalties introduced, to make VAT effective and to collect more revenue, those businessmen have not necessary registration whose business transaction is under threshold, concession for 1.2 millions of import from India and Tibet without the VAT certificate, no compulsory invoices for unregistered traders, a reduction tax deducted at source, a revision in the book value of systems, tax refund system etc. an incentive has been provided by the government to business community.

Similarly, besides the above incentive and facilities provided to business community. There are provisions of penalties for the faulty businessman. The government has defined fault as to the transaction such as non applied for the registration before transaction started, misused of registration number, non issuing of bills, non keeping of account, not included the particulars appointed of account, user of false account or invoice etc. the government can penalize to the business according to their fault.

#### **d) Effort Made on Launching Special Package Program**

The government of Nepal had effort made of launching special package programs also made effective collection. Under this special package programs the government has decided to award 25 Commercial Important Persons [CIPs] annually. Giving by the latest decision, president of Federation of Nepal Chamber of Commerce and Industry [FNCC] and Nepal Chamber of Commerce [NCC] too will be designated as ex- officio Commercially Important Persons [CIPs]. The new announcement has been made by following the recommendations of the private sector.

Similarly, the government has reputed 10 persons as commercially important person from banking, financial and production oriented area service and banking area operating in the outside the Kathmandu Valley and highest tax payer person of the Nepal. The commercially important person can use extra commercially important person lounge, trafficking from Tribhuvan International Airport. This program introduced by the government is very fair. By this king of program taxpayers will be enthusiastic.

#### **e) Effort Made on Improving Billing System**

The success of VAT system hinges on how the billing habit will be improved in future, billing system is the life blood of VAT collection.

However the government or tax administration does not have done more practiced on improving billing system. It is not that, they don't have done anything about this regards, but how much they have done is not enough. Sales billing remains the key factor for true implementation of VAT system. So that the government has been spent millions rupees to educate the mass about billing system. And lateral entry system in the market has also operated. The formal billing must be made compulsory to all taxable supplied.

#### **f) Effort Made in Tax Refund**

Tax refund is important policy issued by the government for tax payer. After it became clear that refund is reality, claims started to be made, in order to ease the refund process; two strategies were adopted for regular exporters a refund verification mechanism was introduced whereby VAT would be refunded in 30 working days. For the rest, the VAT rule of 60 days prevailed, but the implementation was not that easy.

By the above description, it is cleared that the government has made a lot of efforts about vat collection. Tax administration had given primary priority since its introduction.

### **4.7 Empirical Investigation**

An empirical investigation has been conducted in order to find out various aspects of VAT from the experience of real life situations. The major tool used for this purpose is an opinion questionnaire (see Annex ). A total of 40 sets of questionnaire were distributed to the tax expert/economist, tax officials,

businessmen and consumers. The responses received from various respondents have been arranged, tabulated and analyzed in order to facilitate the descriptive analysis of the study.

The questionnaires were asked either for the yes/no response or for ranking of choice according to number of alternatives, where first choice was most important and last choice was least important.

Sample size and group of respondent are given in the following table.

**Table No.4.7**  
**Group of Respondents**

Respondents	Sample	Percentage
Tax Expert/Economist	5	12.5
Tax Officials	15	37.5
Businessmen	10	25
Consumers	10	25
Total	40	100

## **1. Problem on VAT Collection**

VAT is introduced in Nepal, mainly to increase public revenue. VAT is collection from tax payers. Being modern and scientific it is expected that tax collection will be increased through VAT, but the result has not shown satisfactory yet. What are the problems behind it? This is the crucial question. There may be various problems that may be the causes of dissatisfactory VAT collections. The question was asked “*What kind of problem the government is facing to collect VAT?*” to tax expert, tax officials, businessmen and consumers can be seen from table 4.8 for each option.



**Table 4.8**  
**Problem on VAT Collection**

<b>Alternatives</b>  <b>Respondent</b>	<b>Total</b>	<b>Registration</b>		<b>A/C Keeping</b>		<b>Billing</b>	
		<b>No.</b>	<b>%</b>	<b>No</b>	<b>%</b>	<b>No</b>	<b>%</b>
Tax Experts	5	1	20	1	20	3	60
Tax Officials	15	0	0.00	0	0.00	15	100
Businessmen	10	1	10	4	10	5	50
Consumer	10	2	20	2	20	6	60
Total	40	4	10	7	17.5	29	72.5

Source: Opinion Survey, 2010

Form the above table it is clear that the most serious problem is billing. Which, government is facing out of total respondent 72.5% respondent are in favor of this option. Out of 40 respondents only 10 respondents or 10% respondents are in favor of registration option. Out of 40 respondents only 7 respondents or 17.5% respondents are in favor of account keeping. So, we conclude that Government is facing billing problem mostly to collect VAT.

## 1.i Fair Billing and Accounting System

Customers have no habit to take bill on their every purchase. This implies there is very low public consciousness level towards VAT. On the other hand businessmen do not also want to issue bills. The businessmen have the intension of malpractice on VAT. So they don't provide bill to consumer. Similarly Account

Keeping is compulsory for successfully implementation of VAT. Most of the businesses are running traditionally in Nepal. They do not want to record of their transactions transparently. In this situation to keep fair Billing & Accounting the question was asked "*What action the government should take to keep fair billing and accounting system?*"

The views of different sectors people presented below in table No.4.9

**Table No.4.9**  
**Fair Billing and Accounting System**

Alternative \ Respondent	Total	Audit of VAT		Public Awareness		Supervision	
		No.	%	No.	%	No.	%
Tax Experts	5	0	0.00	3	60.00	2	40.00
Tax Officials	15	2	13.33	10	67.67	3	20.00
Businessmen	10	0	0.00	10	100.00	0	0.00
Consumer	10	0	0.00	6	60.00	4	40.00
Total	40	2	5.00	29	72.5	9	22.5

Source: opinion survey, 2010

From the above table 60% tax experts claim that government should undertake public awareness program to keep fair Billing and Accounting System. Out of total respondents, 72.5% respondents are in favor of public awareness. Only 5% respondents are in favor of Audit of VAT and 22.5% respondents are agreed with Supervision.

### **1.ii Registration Problem**

The registration was compulsory for those business enterprises who have taxable transaction and taxable capacity, however the traders falling below the threshold limit can register their voluntarily. In Nepalese context many business or traders are not register their business transaction in VAT office. So the registration is a serious problem in Nepalese VAT system. For this problem solved the question was asked “*How the registration problem can be solved?*” The result of survey presented as in the following table No. 10.

**Table 4.10**  
**Problems of Registration**

<b>Alternatives Respondent</b>	<b>Total</b>	<b>Public Awareness</b>		<b>Supervision</b>	
		<b>No.</b>	<b>%</b>	<b>No</b>	<b>%</b>
Tax experts	5	5	100.00	0.00	0.00
Tax Officials	15	8	53.33	7.00	46.67
Businessmen	10	2	20.00	8.00	80.00
Consumer	10	1	10.00	9.00	90.00
Total	40	16	40.00	24.00	60.00

Source: Opinion Survey, 2010

The above table shows cent percent Tax Experts approved the registration problem is arises from lack Public Awareness but 90% Consumer believed that lack of Supervision is main case of Registration Problem. 30% Businessmen also agree with Supervision. Out of total respondents 40% respondents are in favor of Public Awareness and 60% respondents are in favor of Supervision.

### **1.iii Effective Public Awareness Program**

In Nepal the main glitch in the VAT system is the lack of public awareness. Many people are not clear about the concept of VAT. Even after of years of its implementation, the working of VAT and its effects are still unclear to them. Low public awareness is the most burning problem in Nepal. *“For effective public awareness what program the government should under take?”* this question was asked to respondents.

Their views presented as table No 4.11

**Table No.4.11**  
**Effective public Awareness Program**

<div style="text-align: center;"> <div>Alternatives</div> <div>Respondent</div> </div>	Total	Publishing Booklets and Advertisement		Literacy	
		No.	%	No	%
Tax experts	5	2	40.00	3	60.00
Tax Officials	15	13	86.67	2	12.67
Businessmen	10	5	50.00	5	50.00
Consumer	10	10	100.00	0	0.00
Total	40	30	75	10	25

Source: Opening Survey, 2010

In the above table, 40% Tax Expert, 86.67% Tax Officials, 50% Businessmen and 100% Consumer are agreed with Publishing Booklets and Advertisement in their views which are the best alternative for effective public Awareness Program. 60% Tax Experts, 13.33% Tax Officials, 50% Businessmen are in favor of conducting Literacy. Out of total respondents 75% respondents are with agreed Publishing Booklets and 25% are agreeing with conducting Literacy.

## 2. Problem in Effective Implementation of VAT

VAT is taken as more revenue generating Tax. VAT has not given satisfactory result as it was expected. In the path of implementation of VAT, there are various problems as obstacles on smooth implementation. Because of newly introduction tax, there is low public awareness towards it. In regard, this field survey has been conducted to find the most problem on effective implementation of VAT.

**Table no. 4.12**

### **Problems of Effective Implementation of VAT**

<b>Alternative \ Respondent</b>	<b>Total</b>	<b>Open Boarder</b>		<b>Un-billing/ Under Billing</b>		<b>Adm. Incapibility</b>	
		<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>
Tax Experts	5	2	40.00	1	20.00	2	40.00
Tax Officials	15	0	0.00	11	73.33	4	26.67
Businessmen	10	2	20.00	4	40.00	4	40.00
Consumer	10	1	10.00	5	50.00	4	40.00
Total	40	5	12.5	21	52.5	14	35

Source: opinion survey, 2010

In the view of Tax Officials the most serious problem on effective implementation VAT in Nepal is Un-billing /Under billing. 73.33% Tax Officials are agreed with this problem. Out of total respondents 12.5% are in favor of Open Boarder, 52.5% are in favor of Un-billing /Under Billing and 35% are in favor of Administrative Incapability.

## 2.i Control Open Boarder Problem

Open Boarder between Nepal and India are creating many problems and effecting a VAT collection directly. Many Businessmen have claimed that only little amount of goods from India has been imported through customs. Goods imported illegally are sold through taxable channel. An opinion survey was performed about control of open boarder problem. The question was conducted to control of open boarder problem. 40 persons including Tax Experts, Tax Officials, Businessmen and Consumers for aim of views three alternative are provided for respondent. The result is as follows:

**Table No.4.13**  
**Control Open Boarder Problem**

Alternative \ Respondent	Total	Seal the Boarder		Strike Penalty System for Smugglers		No Price Discrimination of Goods between two countries	
		No.	%	No.	%	No.	%
Tax Experts	5	1	20	3	60.00	1	20.00
Tax Officials	15	0	0.00	11	73.33	4	26.67
Businessmen	10	0	0.00	5	50.00	5	50.00
Consumer	10	0	0.00	6	60.00	4	40.00
Total	40	1	2.50	25	62.5	14	35

Source: opinion survey, 2010

From the above table, it is cleared that there are several ideas that can control the open boarder problem. 62.5% respondents are concerned with Strike Penalty System for Smugglers. Seal the Bounder and no. of Price Discrimination of Goods Between Two Countries is supported by 2.5% and 35% respondents respectively. Tax officials, out of 15 respondents 73.33% respondents are in favor of Strike Penalty System for Smuggler. Out of total no respondent, only 2.5% respondents are in favor of Seal the Boarder.

## 2.ii Un-billing and Under Billing

Another question was conducted with the problem of un-billing and under billing. The question was to different sector's persons for this purpose 40 respondents were included. Four alternative were provided and question was asked "How un-billing and under billing problem can be solved?" This is presented below in the table No. 4.14

**Table No.4.14**  
**Un-billing and Under Billing Problem Solved**

Alternative Respondents	Total	Public Awareness		Monitoring		Highly Penalty		Size of Goods pur.	
		No.	%	No.	%	No.	%	No.	%
Tax Experts	5	2	40.00	3	60.00	0	0.00	0	0.00
Tax Officials	15	7	46.67	4	26.67	0	0.00	4	26.66
Businessmen	10	6	60.00	2	20.00	1	10.00	1	10.00
Consumers	10	0	0.00	6	60.00	4	40.00	0	0.00
Total	40	15	37.5	15	37.5	5	12.5	5	12.5

Source: opinion survey, 2010

Out of four alternative 60% Tax Experts are agreed with Monitoring and 60% Businessmen are in the favor of Public Awareness but 60% Consumers are in the favor of Monitoring. Out of total respondent 37.5% are concern with Public Awareness, 37.5% are concerned with Monitoring and 12.5% respondents were concerned with high Penalty and size of goods purchased or imported.



### 2.iii Administrative Incapability

The next question was related to Administration incapability problem and question was “How Administrative incapability problem is arises?” Three alternatives were provided for respondents i.e. Recruitment Policy of Government is not Good, Corruption & Brining and Government has not Enough Computerize System. The view of respondent was presented as follows:

**Table No.4.15**  
**Administrative Incapability**

Alternative Respondents	Total	Recruitment Policy of Govt. is not Good		Corruption and Bribing		Govt. has not Enough Computerize System	
		No.	%	No.	%	No.	%
Tax Experts	5	0	0.00	3	60.00	2	40.00
Tax Officials	15	8	53.33	2	13.33	5	33.33
Businessmen	10	5	50.00	1	10.00	4	40.00
Consumers	10	3	30.00	6	60.00	1	10.00
Total	40	16	40.00	12	30.00	12	30.00

Source: opinion survey, 2010

Majority of the respondents 40% agree to the recruitment policy of Govt. is not good, 30% agree to the corruption & bribing and rest 30% concerned with Govt. has not enough computerize system. 60% tax experts and consumers are in the favor of corruption and bribing. 53.33% and 50% tax officials and businessmen are respectively in the favor of recruitment policy of Govt. not good.

### 3. Weakness to Collect VAT

The another questions were asked 40 respondents from different sectors to find out the answer of this question “What are the weakness of government failure to collect VAT?” Four alternatives were given i.e. lack of expertise, corruption and bribing, lack of physical infrastructure lack of sufficient field office. The main causes of failure of VAT collection according to the views of different sectors, people are as below:

**Table No.4.16**

**Major Weakness of Govt. Failure to Collect VAT**

<b>S. No.</b>	<b>Weakness of Government</b>	<b>No. of Questionnaire Distributed</b>	<b>No. of Respondents</b>	<b>%</b>	<b>Rank</b>
1.	Lack of Expertise	40	10	25	3
2.	Corruption & Bribing	40	2	5	4
3.	Lack of Physical Infrastructure	40	16	40	1
4.	Lack of Sufficient Field Office	40	12	30	2

Source: opinion survey, 2010

From the above table the most important option is ranked 1 and least imported option is ranked 4. There are four options given. Lack of Physical infrastructure is the major weakness of Government, 40% respondents are agreed with option. So, it is most important. Corruption & bribing is the least important because with this option agreed only 4% respondents.

### 3.i Control Corruption & Bribing

For another question was conducted with control corruption and Bribing. This question was asked 5 Tax Experts, 15 Tax Officials, 10 Businessmen and 10 Consumers. The question is “What action the Govt. should take to control corruption & bribing?” Views of different sector’s people are presented below:

**Table No.4.17**  
**Control Corruption and Bribing**

<b>Alternative Respondents</b>	<b>Total</b>	<b>Penalty System</b>		<b>Monitoring</b>	
		<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>
Tax Experts	5	1	20.00	4	80.00
Tax Officials	15	6	40.00	9	60.00
Businessmen	10	5	50.00	5	50.00
Consumers	10	4	40.00	6	60.00
Total	40	16	40.00	24	60.00

Source: opinion survey, 2010

Out of total respondent 60% believed that monitoring is control the corruption and bribing. According to these respondents view the govt. should undertook monitoring, 40% respondents believed on penalty system. While 80% tax experts in favor of monitoring but only 50% businessmen in favor of monitoring.

### 3.ii Penalty System

Penalties are useful measure to encourage firms to file and pay on time and hence to recoup the loosed due to the malfunctions of taxpayers. actually, Penalties are designed to punish the tax payers who do not follow the legal rule of the VAT system provided by the corresponding authority. Penalties are considered essential, as they create an incentive to tax payers to defer evasion and noncompliance, for smooth functioning and producing a full revenue potential of a VAT system. In this connection question was asked “Does the penal system improve VAT collection effectively?” To the different people and result of this survey as follows:

**Table No.4.18**  
**Penalty System**

Alternative Respondents	Total	Yes		No		To Some Extent		I Don't Know	
		No.	%	No.	%	No.	%	No.	%
Tax Experts	5	0	-	2	40	3	60.00	0	0.00
Tax Officials	15	3	20.00	10	66.67	2	13.33	0	0.00
Businessmen	10	2	20.00	3	20.00	1	10.00	4	40.00
Consumers	10	0	0.00	3	30.00	0	0.00	7	70.00
Total	40	5	12.50	18	45	6	15	11	27.5

Source: opinion survey, 2010

Survey result show that most of the respondents agree with the penalty system are not good. However 60% of tax experts suggest. Its is charge to some extent. Out of total respondents 27.5 respondents is not know about the penalty system. Only 5%respondents suggest the penalty system is good.

### 3.iii Improve Tax Expertise

Another question asked to the respondents “How does the government improve tax expertise?” the view of tax experts, tax officials, businessman and consumer about improvement is as follows:

**Table No.4.19**  
**Improve Tax Expertise**

<b>Alternative Respondents</b>	<b>Total</b>	<b>Training &amp; Seminar</b>		<b>Specialization on Tax</b>	
		<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>
Tax Experts	5	4	80.00	1	20.00
Tax Officials	15	8	53.33	7	46.67
Businessmen	10	5	50.00	5	50.00
Consumers	10	8	80.00	2	20.00
Total	40	25	62.5	15	37.5

Source: opinion survey, 2010

Field survey shows that 60% tax experts and consumers are in favor of training and seminar out of total respondents 62.5% respondent's vies is training and seminar is the panacea of improve tax expertise. Remaining 37.5% respondents are in favor of specialization of taxation.

#### 4. Efforts Made By Government to Collect VAT

It is not that, the government at Nepal does not have the option of doing nothing for the collection of VAT, since the earlier period to till now, in the very beginning when the businessmen worked to have old sales tax exemption restored, a VAT as a single stage levy; a geographical and higher threshold etc. Since the beginning of VAT until now, the government has made maximum effort to collect VAT. In this connection a question asked to different sector's person is "What effort the government has made to collect the VAT?" Three options are given, i.e. Penal system, Reward system public awareness. The result of this survey is as follows;

**Table No.4.20**  
**Efforts Made by Government to Collect VAT**

Alternative Respondents	Total	Penal system		Reward system		Public Awareness	
		No.	%	No.	%	No.	%
Tax Experts	5	1	10.00	1	10.00	3	60.00
Tax Officials	15	3	20.00	0.00	0.00	12	80.00
Businessmen	10	0	0.00	1	10.00	9	90.00
Consumers	10	0	0.00	3	30.00	7	70.00
Total	40	4	10	5	12.50	31	77.50

Source: opinion survey, 2010

Survey result show that most of the respondents agree with the public awareness, However 10% and 12.5% respectively, where in favor of penalty system and reward system respectively. 60% tax experts, 80% tax officials, 90% Businessmen and 70% consumers are agree with public awareness. Only 20% tax official and 30% consumers in the favor of penalty system and reward system respectively.

## 4.i Types of Reward

The next question was related with the type of reward and the question was “Which types of reward is given by the government?” Three alternatives were provided for respondents i.e., cash reward, exemption limit, and self actualization. The question was distributed to total 40 respondents. Their views about types of reward are as follows table No. 4.21

**Table No.4.21**  
**Types of Reward**

<b>Alternative Respondents</b>	<b>Total</b>	<b>Cash Reward</b>		<b>Exemption Limit</b>		<b>Self Actualization</b>	
		<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>
Tax Experts	5	5	100.00	0	0.00	0	0.00
Tax Officials	15	12	80.00	1	6.67	2	13.33
Businessmen	10	5	50.00	0	0.00	5	50.00
Consumers	10	3	30.00	0	0.00	7	70.00
Total	40	25	62.50	1	2.50	14	35

Source: opinion survey, 2010

Out of total respondents, 62.5% respondents are in favor of cash reward 35% respondents are in favor of self actualization and only 2.5% respondents are in favor of exemption limit. Cent percentage of tax expert 80% tax officials, 50% business and 30% consumers are agree with cash reward. However 50% business and 70% consumers are agreed with self actualization. Only one tax officials are agree with exemption limit.

## 5. Present Position of VAT in Nepal

From the implementation period to till now, the VAT is still on the cross road. Its stability and survival are at stake. A large number of challenges has faced and to face also in future period. These are many problems and issues of VAT implantation in Nepal of course the problems on VAT implementation have a lot, but the problems and issues have removed gradually and makes effective VAT implementation. For remove problems and makes VAT effective is better to improve on bulling system. Tax refund, tax levy, tax base, threshold problem, improve on accounting etc.

Form the above explanation, it can be identified about the present position of VAT. In summary and position survey is also performed to identify about the present of VAT in Nepal.

**Table No.4.22**

### **Present Position of VAT in Nepal**

<b>Alternative Respondents</b>	<b>Total</b>	<b>Sound</b>		<b>Medium</b>		<b>Unsound</b>	
		<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>
Tax Experts	5	2	40.00	3	50.00	0	0.00
Tax Officials	15	0	0.00	13	86.67	2	13.33
Businessmen	10	1	10.00	8	80.00	1	10.00
Consumers	10	1	10.00	7	70.00	2	20.00
Total	40	4	10.00	31	77.50	5	12.50

Source: opinion survey, 2010

The above table shows that out of 40respondents, 31 people, i.e. 77.50% respondent medium poison of VAT in Nepal. 5responded i.e. 12.50% expressed sound position of VAT in Nepal.



## 6. Future of VAT in Nepal

The observation on international experience of VAT is advantageous to the revenue mobilization if VAT administration is strong. However nothing can be said about the possible result and effects until the implementation of VAT will starts properly in Nepal.

The smuggling trade is at peak point, which is creating parallel economy as a challenge to the national economy, the leakage is a higher magnitude, the tax base of sales tax system is narrow and revenue collection is at the lower advantageous. However without proper implementation, there is a big doubt whether VAT will be bright in future or not. In this connection opinion survey was performed to identity about the future of VAT in Nepal. The question was “Do you this that the future of VAT is bright in Nepal?” The opinion survey’s result is presented as below:

**Table No.4.23**  
**Future of VAT in Nepal**

<b>Alternative Respondents</b>	<b>Total</b>	<b>Yes</b>		<b>No</b>		<b>I Don’t Know</b>	
		<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>
Tax Experts	5	5	100.00	0	0.00	0	0.00
Tax Officials	15	13	86.67	0	0	2	13.33
Businessmen	10	5	50.00	2	20.00	3	30.00
Consumers	10	7	70.00	1	10.00	2	20.00
Total	40	30	75	3	7.50	7	17.50

Source: opinion survey, 2010

The above table indicates that most people think future of VAT in Nepal is bright. Out of total respondents 75% respondents think future of VAT in Nepal is

bright. Only 7.5% respondents think that future of VAT is not bright in Nepal. Rest 17.50% has no comment on future of VAT in Nepal.

## 7. VAT is Extra Burden or Not

The question was asked to search the attitude of tax payers about whether VAT is extra burden or not and it increase the price of goods or not. This question was asked tax experts, tax officials, businessmen and consumers for research investigation. The question was “Do you think that VAT is the extra burden to tax payers and it increase the price of goods?” The view of respondents presented in the following table no. 4.24

**Table No.4.24**  
**VAT is Extra Burden or Not**

<b>Alternative Respondents</b>	<b>Total</b>	<b>Yes</b>		<b>No</b>		<b>I Don't Know</b>	
		<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>
Tax Experts	5	5	100.00	0	0.00	0	0.00
Tax Officials	15	3	20	12	80.00	0	0.00
Businessmen	10	8	80.00	0	0.00	2	20.00
Consumers	10	8	80.00	0	0.00	2	20.00
Total	40	24	60.00	12	30.00	4	10.00

Source: opinion survey, 2010

Out of total respondents 60% respondents are expressed that VAT is extra burden and increasing the price of goods and 30% respondents are expressed that VAT is not extra burden and not increase the price of goods. Rest 10% respondents no expressed about VAT is extra burden and it increase price of goods or not.

## 8. Revenue Leakage

Nepal is suffering from low revenue collection, VAT can't be apart from it. Revenue leakage is appearing a serious problem facing by govt. To know the cause the revenue leakage a question was put forwarded. The question was "What may be the reason of revenue leakage?" The respondents should have to give their responses on ranking basis. There were four alternative choices given to respondents to rank them. To evaluate which is the most important reason, that was ranked 1<sup>st</sup> and which was least important option that was ranked 4<sup>th</sup>. The view of tax experts, tax officials, businessmen and consumers is as presented below in the table no. 4.25

**Table No. 4.25**  
**Causes of Revenue Leakage**

<b>S. No.</b>	<b>Causes of Revenue Leakage</b>	<b>No. of Questionnaire Distributed</b>	<b>No. of Respondents</b>	<b>%</b>	<b>Rank</b>
1.	Corruption	40	10	25	3
2.	Smuggling	40	4	10	4
3.	Illegal and Unrecorded Trade	40	14	35	1
4.	Under Invoicing or Un-billing	40	12	30	2

Source: opinion survey, 2010

From the above table, the important cause of revenue leakage is illegal and unrecorded trade. Out of 40 respondents 35% respondents are in favor of this cause. 30% respondent views are under invoicing or un-billing is the cause of revenue leakage. The view of 25% and 10% respondents are corruption and smuggling respectively.

## **CHAPTER- V**

### **CONCLUSION, MAJOR FINDINGS AND RECOMMENDATION**

#### **5.1 Summary and Conclusion**

The system of VAT implemented from 16<sup>th</sup> November 1997 (i.e. 1<sup>st</sup> Mangsir, 2054) has entered in the 13<sup>th</sup> years after completing 12<sup>th</sup> years of operation in Nepal. The concept of VAT commenced in 1919 AD in Germany while this tax was first implemented in France in 1954 AD. Currently, more than 130 countries of the world have adopted this system being influenced by the reforms in the tax administration and tax collection through this system.

(Value Added Tax VAT) is the most recent innovation in the field of taxation. It is levied on the Value Added of Goods & Services. It covers the value in all stages of production and distribution. Actually, VAT is replacement of Sales Tax, Hotel Tax and Contract Tax.

Among various types of VAT i.e. gross national product and types, income type and consumption type, the later variant exclude capital goods from its base, thus it does not panelize investment and growth. It is considered to be natural with respect to the methods of production and for its being administratively feasible. Three principle methods ensuring the VAT base are: additional method, subtraction method and tax credit method. The tax credit method is more popular in the world. VAT collected total sales minus VAT paid on total purchases by a firm is the net VAT liability under this method while addition method adds factor products and

sales value minus purchase value under the subtraction method. The tax credit method is considered as a tool for cross checking measure under a VAT system. In this since, VAT is said to be s ‘self policing’ in nature. To adjust international trade, VAT uses the two principles i.e. origin and destination principle.

The existing Nepalese sales tax system is not efficient it generates less of the potential amount of revenue and it is far from equity norms. Focusing on the ever-increasing gap, inefficiency of works considered that, VAT is applicable in Nepal which will be more useful existing tax system. This is necessary for making the tax system broad based natural stable and more revenue generating transparent, and to eliminate growing fiscal deficits as well as to eliminate dependency on foreign loans in Nepal. VAT is the best form of sales tax which simply of the above requirements. Low public awareness as well as tax payer’s ignorance may create problems for the implementation of VAT in Nepal .as VAT covers a large number of goods and services, will be neutral creating positive impacts on production and distribution. The most serious problem for implementing VAT in Nepal is the administrative inefficiency. Qualified, intelligent competent knowledge and well trained manpower is necessary to implement and audit the business transaction fro VAT purpose. Administrative incapability, non-standard accounting system is the serious problem for it, due to the lack of information and knowledge of tax payers about VAT in Nepal. More qualified intelligent and skilled manpower need to be trained well to make it efficient.

In the implantation of VAT in Nepal, there are arisen many problems, which are challenges in the application of VAT. Narrow tax base, weak public consciousness level, defective organization structure, improver tax administration, geographical barrier, open boarder and unauthorized trade are existing problems in the implantation of VAT in Nepal. Un-billing/ under billing is also the greatest

problem in the implantation. Retailers say that they cannot issues proper invoice because they themselves do not get proper invoice from their supplies. Importers produce take invoices for custom propose showing value much lower than the price they supplies have paid. Since the importer has a document showing price, it creates problems to maintain proper record all the way to the retail level. On the other hand, most of the officials engaged in the VAT administrative are not motivated. They want to transferred either to the income or custom a administration where there are more possibilities to earn private money.

It is not that, the government at Nepal does not have the potion of doing nothing for collection of VAT, since the earlier period till now. The government organized many training and seminar. VAT advertisement given through T.V., Radio, New papers, pamphlets etc. for public awareness in the many conference and seminar the government has expressed the view of efforts on billing system, incentive and penalty system, lunching special packaged program, tax refund policy etc. government has made a lot of effort about proper implantation of VAT and VAT collection.

In the empirical study, the analyses have been done about VAT on the basis of information collected from tax official, businessmen and consumers. The tool that is basically used is the questionnaire; the questions are asked to 40 different individuals relate to field. Out of total respondents, 5 tax experts, 15 tax officials, 10 businessmen, and 10 consumers.

## 5.2 The Major Findings

During the research studies, the researcher have found many number of positive and negative comments about value added tax system in Nepal from the person of government tax experts, businessmen and consumers. The major findings of this research are as follows;

- A) Administrative capability is great importance for effective implantation of VAT in Nepal. Some aspects with private sectors organizational structure, audit and inspection, selection of skilled and experience manpower are needed to improve for effective implantation of VAT.
- B) The implantation of VAT in Nepal is a Good case for other countries to study when considering the reform of their indirect tax system. But the Culture of doing business without maintaining multiple sets of book of account have made implantation of VAT difficult.
- C) From the studies about “Value added tax system in Nepal”, it is found that, there are lots of problems in VAT existing now. Most of the traders, businessmen 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. Businessmen and traders are not encouraged by the government and tax administration. However, now the government has started introduce special packaged programmers, but it is not enough.
- D) The functional structure and computerized administrative 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 negative influence on compliance and the program issuance of bills remained a major bottleneck.

- E) The problems in further intensified due to lack of culture of issuing and receiving bills at the point of sale and purchases, non-adherence to standard norms and codes of doing business, negative behavior of tax officials and lack of sense of accountability in the government and political parties. It is a big challenge to resolve these problems. Apparently VAT cannot deliver the intended result unless these problems are addressed seriously.
- F) The existence of open boarded and large amount of unauthorized trade from India and China pose a great threat to the success implantation of VAT in Nepal. The illegal imports would help to from a channel resulting in a large-scale tax evasion, because the tax administrative is not strong enough to check the situation. The illegal trade and tax evasion will not improve, if the tax administration does not improve on the physical and technical checking as well as boarded patrolling and posting of the honest and dedicative at custom point.
- G) Although, the revenue collection from VAT and registration of registrants are increasing trend but not satisfactory. In Nepal, more revenue can be produced by ‘widening’ the coverage of the VAT small trades which fall on threshold limit could not have been brought under VAT net. They should be registered. The revenue can increase by discouraging tax evasion. There is wide spreading practice of evading tax.



### **5.3 Suggestions and Recommendation**

A value added tax should be adopted in Nepal as an important measure of reforming tax system. For its proper implantation, the various problem to VAT should be considered seriously and be resolved. Now days the government is facing many problems to implantation of VAT system and to collect VAT revenue. Although this situation prevails efforts to implantation of this tax must be taken and a timely basis for effective implantation it will function like other is pursued then neither the implantation of VAT will be effective nor can the describe objectives or this tax be obtained. Under such a condition, the situation instead of improving can deteriorate. In order to prevent such a situation, the policy makers must be always alert and the tax administrators always active and long with this it is necessary to develop an attitude of correctly implementing this tax. The employees too need to be given more information about it as well as training. It is equally necessary to reduce customs and in come tax rates for the success of VAT.

- A) Tax related information should be published regularly through journals, Magazines, newspapers pamphlets, radio, television and cinema. Interview programs with professors, researchers, tax experts and economists should be conducted and published through media. Similarly the students at school as well as campus level should be given knowledge about VAT. The school as well as campus level curriculum should included tax education and social obligation of paying tax.

- B) Efficiency Nepalese VAT system mainly depends up on its three major subsystem, i.e. VAT Policies, VAT Laws and Vat Administration. So, for the success of Nepalese VAT system, emphasis should be given highly to these three subsystem.
- C) The key to the success of VAT implementation is now Nepal Government arranges the staff positions. The Ministry of Finance must bear in mind that in the absence of dedicated and committed staffs with a positive attitude, the system will not succeed. As Customs and Income Tax, VAT Administration get high preference in the internal positing the ministry must come out with some institutional arrangement which remain qualified staffs in the administration of the VAT. Otherwise, there is a danger, which is a current saying that why should be businessmen kill the VAT, the staff in the VAT will kill it themselves. So that the government should produce gazette manpower and to trained them well.
- D) The rate of VAT must categories in to different nature goods. At present there are only 13% and 0% rate, which is not suitable.
- E) If the policy of VAT is to be made successful then its problems have to be divided in to short term and long term problem and must be continuously resolved.

## **Short Term Problem**

It is good to keep the consumers well informed about VAT. But by only advertising and issue invoice is not enough. It is necessary to have information on which sharp or on what goods, VAT is to be levied. There must be a system through which a businessman while quoting the price of goods must quoted the price including VAT. So, that a situation of 13% more price on demanding an invoice does not arise. There must also be a system of initiating action immediately on those who do not abide. There must have a compulsory system of issuing an invoice on each and every small purchase through cash machines in every shop. The Tax amount is not paid in any country willingly. For this the Tax Administration must be efficient and effective.

## **Long Term Problem**

The public must be given the confidence not only by the Tax Administrators but also by Government of Nepal that the Tax paid by them is being spent on National Welfare. One must be to implement the policy of changing hereditary and family business into institution, which through appropriate act, law and action can eradication the corruption prevailing in the country.

In the end, we can conclude the if the government maintains some flexibility and understanding and the private sector too responds to the government's gesture and honestly co-operates then this Tax system which is the prime source of our internal revenue mobilization will achieve complete success.

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