

IMPLEMENTATION OF VAT IN LALITPUR DISTRICT

A Thesis

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CERTIFICATION OF AUTHORSHIP

I certify that the work in this thesis has not previously been submitted for a degree nor has it been submitted as part of requirements for a degree except as fully acknowledged within the text.

I also certify that the thesis has been written by me. Any help that I have received in my research work and the preparation of the thesis itself has been acknowledged. In addition, I certify that all information sources and literature used are indicated in the reference section of the thesis.

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RECOMMENDATION LETTER

It is certified that thesis entitled "*IMPLEMENTATION OF VAT IN LALITPUR DISTRICT*" submitted by Dipeeka Haluwai is an original piece of research work carried out by the candidate under my supervision. Literary presentation is satisfactory and the thesis is in a form suitable for publication. Work evinces the capacity of the candidate for critical examination and independent judgment. Candidate has put in at least 60 days after registering the proposal. The thesis is forwarded for examination.

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APPROVAL SHEET

We, the undersigned, have examined the thesis entitled "***IMPLEMENTATION OF VAT IN LALITPUR DISTRICT***" presented by Dipeeka Haluwai candidate for the degree of **Master of Business Studies** (MBS) and conducted the viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

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ABBREVIATIONS

PR	:	Peer Relationship
WC	:	Working Condition
WL	:	Work Load
RR	:	Roles and Responsibility
ST	:	Stress
REC	:	Recognition
SM	:	Stress Management
GRP	:	Group
OSI	:	Occupational Stress Index
ANOVA	:	Analysis of Variance
TU	:	Tribhuvan University
KU	:	Kathmandu University
PU	:	Pokhara University
UGC	:	University Grants Commission
MOE	:	Ministry of Education
STD	:	Standard
SIG	:	Significance

ABSTRACT

Indirect taxes have a dominant role in the whole tax structure of developing countries like Nepal. VAT has been implemented for the last eighteen years; still it is facing a number of challenges owing to poor administration, lack of good faith and honesty, rampant corruption, the problems of non-issuance of bill and narrow coverage. For the improvement in effective VAT implementation, various areas including proper billing system, efficient tax administration, intensive billing enforcement, wide coverage, computerization, etc. VAT registrants are involving in VAT fraud. In this situation IRD has the various challenges to control the VAT evasion and implement the policy in effective and efficient way. The study is focused on the effectiveness of the VAT implementation of VAT collection policy in real field. It examine out the revenue collection from VAT in different year. It explores the knowledge about VAT of business-men and consumers in Lalitpur District. It shows the problems of VAT collection and implementation system in Lalitpur District. It uses descriptive methodology .Both primary and secondary data has been used. The research shows that part of vat is greater in total revenue. The vat revenue is in increasing trend but not sufficient due to lack of proper billing, training and proper audit system.

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Economic development has been one of the most popular slogans in almost all the developing countries all over the world. Similarly, achievement of high rate of economic growth rate, reduction of income disparities and poverty and improvement of living standard of people are some development strategies towards which most of the government efforts have been directed in developing countries. It is known that government needs more revenue mobilization for overall economic development and state welfare. Besides this, for meeting day-today expenditure, the government also requires some sources of income which is called revenue.

In the developing country like Nepal, there is a necessity for raising a larger volume of funds for the development and administration expenses. The revenue collection is a challenging task in itself which demands increasing necessity of regular expenditure in general and development expenditure in particular. However, resource mobilization is very low compelling the government to rely heavily on foreign assistance. Development expenditure has been dependent almost entirely on the foreign aid. External assistance is uncertain, precarious, inconvenient and not conducive to the healthy and overall development should there be heavy dependence on it. The foreign aids are not bad for economic development of the nation per se. But the experience of the most of the developing countries shows that there are negative effects of increasing international grants and loans to finance the public development activities. Thus the government should depend on its own resources for generating revenue in order to finance these regular and development activities. The government can collect revenue from taxable and nontaxable sources (Adhikari, 2002).

Tax is a key source for revenue generation and mobilization. Different persons have defined taxation in different ways. In this respect, it would be better to take the definition given by Prof. Seligman. In his words, "Tax is the compulsory contribution from a person to the government to defray expenses incurred in the common interest of all without reference to special benefit conferred." From the definition given above,

it can be said that firstly, a tax is a compulsory levy and those who are taxed have to pay it without getting corresponding benefit of services or goods from the government. Secondly, the taxpayer cannot receive any quid pro quo for the payment of tax. Thirdly, the tax is paid to the government for running it. Fourthly, the amount is spent for common interest of the people.

Taxes in developing countries serve as the severe means of raising revenue. Therefore, Taxation may be utilized by the government as an effective tool for giving incentive to the proper growth of saving, investment and gross domestic product. But, in Nepal the tax policy is mostly guided towards the revenue generation. There are so many effects of taxation; no single tax is completely perfect. Consequently, there must be a structure of taxation, combining a number of taxes, which the government can vary from time to time according to changes in emphasis on different objectives. Depending on the methods of payment of taxes, taxes can be classified into two major categories, viz. direct taxes and indirect taxes. Direct tax includes, income tax, corporate tax, capital gain tax, capital transfer tax and other taxes similarly, indirect tax includes value added tax (VAT), custom duty & exercise duty (Howell, 1995).

In the least developed countries like Nepal, the role of indirect tax is seen to be more important. Of the Indirect taxes, VAT is probably the best tax system and the most important innovation of the second half of the twentieth century, which is considered as an effective means to collect revenue as a reformed sales tax of indirect tax system. VAT is a broad based tax as it also covers the value added to each commodity by a firm during all stages of production and distribution. It is a modern tax system which enables to efficient collection system, to increase efficiency and to reduce tax evasion. It is also refereed as the backbone of income tax system in Nepal. VAT plays great role in the revenue mobilization in Nepal. The reason behind VAT system, it makes transparency in all kinds of transaction, helps to make the wide area of tax and discourages tax evasion. So it is needless to say that VAT is the most important sources of the government revenue. VAT is intended to be levied – or charged – whenever there is some value addition to raw material. The taxpayers on the other hand, will get credit for the amount of tax paid off at the stages of procurement. The value added tax system has proven to be effective in avoiding problems that normally might arise out of the double taxation of goods and services. The lesson learnt of tax

reforms in developing countries proves that VAT is the most important choice and ingredient of tax reform. It may be adopted by a developing country with no 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 underdeveloped countries to achieve the goal of economic development (Adhikari, 2003).

1.2 Statement of the Problems

The possibility of increasing revenue substantially through direct tax is limited in the context of Nepal's agricultural based rural economy. In this context, VAT is only one solution to increase the research mobilization capacity of country. It has been already 17 years of implementation of VAT in Nepal. VAT was implemented after several preparation programs such as publicity, Campaign, workshop, training advertisements, publication of articles discussion on radio and television, commenced various booklets and other materials were published. In this process only positive aspect of VAT were discussed. The negative aspects were not taken in to consideration. So that the shortcoming that can enter on the process of VAT implementation couldn't discussed .It seems its right time to make an assessment the VAT by identifying its problems that has been arisen in the process of VAT implementation and prospects of revenue mobilization through VAT in the country. By analyzing the problem of implementation of one district, this study is trying to pinpoint the problem in depth and discussed in meaningful way by which further research work can be carried out in coming future for the purpose of effective VAT implementation in Nepal. The major research questions of the study are as follows.

- What is the structure of government revenue?
- What are the sources and structure of VAT?
- What is the revenue collection from VAT in different year?
- What is the knowledge about VAT of business-men and consumers in Lalitpur District?
- What are the problems of VAT collection and implementation system in Lalitpur District?

1.3 Purpose of the Study

The main objective of this study is to ponder into theoretical knowledge of VAT and to analyze the practical aspects of the implementation of VAT in Lalitpur as context of Nepal. The general objective of the study is to examine the various issues relating to VAT and to provide useful views as well as suggestion. However, specific objectives of the study are as follows.

- To analyze the structure of government revenue.
- To examine out the revenue collection from VAT in different year.
- To explore the knowledge about VAT of business-man and consumers in Lalitpur District.
- To assess the problems of VAT collection and implementation system in Lalitpur District.

1.4 Significance of the Study

The significance of the study are as follows.

- Theoretical and practical knowledge required to implement and evaluate VAT properly. So this study analyses Nepalese VAT system with its practice. This study analyses the amount received from vat different year.
- This study will provide clear idea and knowledge to those persons who are interested to know more about VAT. This study also provides the clear idea about the vat system in Nepal.
- This study will focus on people's awareness towards VAT in Lalitpur District and it also provides the suggestion of different person to make effectiveness technique to collection of VAT.
- This study is to identify the problem of implementation of VAT in Lalitpur district. Lalitpur district is a develop district of Nepal .No doubt, Lalitpur has more transaction of goods and services and IRO of Lalitpur is collecting more VAT among other district.
- This study can help to create awareness of payment of VAT among citizen .This study will helpful for those who want to see the strength and weakness of VAT in Lalitpur district.

- This study is useful for researcher, student, academicians and policy maker to know about the effective implementation of VAT. Accountants, consultant, auditors, manager, teacher and student who are interested in this subject can be benefited from this study.

1.5 Limitations of the study

There are some limitations regarding this study which are as follows.

- This study is covered only five fiscal year data since the fiscal year 2070/071 to 2074/075.
- This study is based on availability of reliable data and sufficient literature.
- Field survey is focused on Lalitpur District only.

1.6 Organization of the Study

This study has been divided in to five separate chapters they are as follows.

CHAPTER I-INTRODUCTION

The first chapter deals with background, statement of problem, focus of the study, objective of study, Significance of the study, limitation of study and organization of the study.

CHAPTER II-LITERATURE REVIEW

The second chapter "Literature Review" presents the review of related literatures and available studies, written and prepared by different experts and researcher.

CHAPTER III-RESEARCH METHODOLOGY

The third chapter "Research Methodology" present the methodology used in this study. It deals with research design, nature and sources of data, collection of data, data processing and method of data analysis.

CHAPTER IV-RESULTS

The fourth chapter fulfills the objectives of the study by presenting the data and analyzing them with the help of various accounting and statistical tools and techniques followed by methodology. Major findings of the study are also included in this chapter.

CHAPTER V-SUMMARY CONCLUSION AND RECOMMENDATION

The fifth chapter summarizes the whole study. Moreover it draws the summary conclusion and forwards the recommendation for the improvement of effective VAT collection system and to increase public conscious about VAT system. Bibliography and appendix have also been incorporated at the end of the study.

CHAPTER – II

REVIEW OF LITERATURE

2.1 Conceptual Review

2.1.1 Meaning of VAT

Different experts and institutions have attempted to give the meaning of VAT according to their own interpretations. Here some of their definitions may be studied. In the words VAT is a general consumption tax assessed on the value added to goods and services. It is a general tax that applies, in principle, to all commercial activities involving the production and distribution of goods and the provision of services. It is a consumption tax because it is borne ultimately by the final consumer. It is not a charge on companies. It is charged as a percentage of prices, which means that the actual tax burden is visible at each stage in the production and distribution chain. It is an indirect tax, in that the tax is collected from someone other than the person who actually bears the cost of the tax (namely the seller rather than the consumer). As VAT is intended as tax on consumption, exports (which are, by definition, consumed abroad) are usually not subject to VAT or VAT is refunded (Bhattarai & Koirala, 2011).

According to economy watch website, Value Added Tax, popularly known as ‘VAT’, is a special type of indirect tax in which a sum of money is levied at a particular stage in the sale of a product or service. According to Wikipedia Website, Value added tax (VAT), or goods and services tax (GST), is tax on exchanges. It is levied on the added value that results from each exchange. It differs from a sales tax because a sales tax is levied on the total value of the exchange. For this reason, a VAT is neutral with respect to the number of passages that there are between the producer and the final consumer. A VAT is an indirect tax, in that the tax is collected from someone who does not bear the entire cost of the tax. To avoid double taxation on final consumption, exports (which by definition, are consumed abroad) are usually not subject to VAT and

VAT charged under such circumstances is usually refundable (www.economywatch.com/business-and-economy/vat.html)

Value Added Tax is not an additional tax, but has replaced taxes such as sales tax, hotel tax, contract tax and entertainment tax that used to be levied on the sale of goods and services. From the above definitions, it is obvious that VAT is an indirect tax which is the newest and significant experiment done on the modern tax system. Like its predecessor, i.e. the sales tax, VAT is also levied on the sale of goods and services (GST). VAT is a broad based tax as it also covers the value added to each commodity by a firm during all stages of production and distribution. It is a modern tax system to improve the collection of taxes, to increase efficiency and to lessen tax evasion (Khadka, 1997).

VAT is a modern and scientific tax system. It is not similar to customs, excise duty or sales taxes that have borne the traditions or historical heritage. It is not a tax that has been improved and amended and accordingly inserted and deleted. It is a tax of the 21st century since it is highly developed and refined. It is a tax that suits the present speed of knowledge, development and skill. Moreover, it confirms with the present context of liberalization, privatization and globalization. It is easily adaptable with the open economy system and matches with the private sector and the market economy of the present day. It is a tax that is transparent and has an in-built system of self-control. There can be no difference of opinion on the above facts. In summary, the value added tax system is designed to address various problems associated with the conventional sales tax system. It is a tax that has developed as an alternative for the traditional sales tax. That's why it is also called improvised version of sales tax (IRD & VAT Project, 2001).

It is also an improved and reformed sales tax in sales tax, there is no provision for input tax credit, which means that the end consumer may pay tax on an input that has already been taxed previously. This is known as cascading and leads to increases consumer tax and price levels, which increases the rate of evasion and can be detrimental to economic growth. In contrast, the VAT that has been levied in the previous level can be deducted while paying taxes on the later levels. It has a special system where a person trying to deceive tax will be caught on either one of the subsequent levels. Therefore, the trend of tax evasion is highly discouraged (Adhikari, 2003).

2.1.2 Types of VAT

There are three possible types or variants of VAT: the product-type (P-VAT), the income-type (I-VAT) and the consumption-type (C-VAT). The meaning of these three variants of VAT can be best understood by comparison of income and expenditure aggregates in the national income accounts. Expenditures on the gross domestic product (GDP) consist of final private consumption expenditure (c), gross investment expenditure (I), final government non-wages expenditure on goods and services (Gc) government expenditure on wages and salaries (Gw), and the trade balance (the values of exported (x) less imported (m) goods and non-factor service) (Howell, 1995).

$$\text{GDP} = C + I + Gc + Gw + (x-m)$$

While gross domestic income (GDI) is the sum of factor income payments (wages, interest, profits, etc) - commonly referred to as the value added (v) of production - and depreciation (D) $\text{GDI} = V + D$ Above equation can be stated in terms of either factor cost (i.e., exclusive of indirect taxes net of subsidies) or market price (i.e., inclusive of indirect taxes net of subsidies)

Product Type VAT (P-VAT): Broadly speaking a P-VAT taxes all expenditure (except government wage expenditure, which is infeasible to tax under any variants of VAT) on GDP if implemented on the origin principle, and on GDP adjusted for the trade balance if implemented on destination principle. This variant does not allow the deduction of depreciation from the tax base in subsequent years either. Assuming for the time being that the origin principle is employed, so that exports, being of domestic origin, are taxed but imports, whose value originated from abroad, are not. Then the base of a P-VAT is simply the sum of all expenditures on GDP (hence its name as a product type VAT) net of government wage expenditure. This base can be expressed as follows (Howell, 1995).

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

Income Type VAT (I-VAT): Gross investment expenditure, which is part of the base of a P-VAT, reflects an economy's actual aggregate expenditure on capital goods (i.e. gross capital formation) in a given period. Part of this expenditure, however, is used to compensate for capital goods that have been consumed or depreciated. While

depreciation as such is merely a book-keeping entry and does not represent an actual economic transaction, it does affect the computation of profitability, and thus the value added, of business. And I-VAT excludes depreciation from its base. It therefore taxes the net, rather than the gross, investment expenditure (Howell, 1995).

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

Consumption Type VAT (C-VAT): If, in addition to depreciation, expenditures on capital goods, which contribute to a net augmentation of the capital stock, are also not taxed, then the entire gross investment expenditure would in effect be excluded from the tax base. The resultant base would be the base of a C-VAT.

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

In this way, the variants of VAT differ in its treatment of capital goods. Among these three types of VAT, the consumption variant is the most superior form of VAT and is universally practiced.

There are three basic methods by which VAT can be calculating they are Tax Credit Method, Subtraction Method and Addition Method. The first two methods are frequently used while the third method, Addition Method, is rarely used under this method; the tax base is obtained by adding the incomes produced by the firm or by adding the payment made by the firm to the factors of production employed in turning out the product, such as wages, interest, rent, royalties and profits. This method is appropriate for the income type of VAT (Howell, 1995).

2.1.3 Principles of VAT

VAT can be implemented under either the origin or the destination principle.

2.1.3.1 Original Principle

Under this method, the tax base is obtained by adding the incomes produced by the firm. This implies that all exports are taxable and all imports are non-taxable. Where there is a border and cross-country trade, this principle gets important to imported goods or services over domestic production. Countries with international boundaries do not prefer to have this principle. But in European community (EC) where there is a

common border this principle of taxation is essential. The main reason behind not following this principle is of revenue loss. It also discourages the export either directly or indirectly (Silwal, 2000).

2.1.3.2 Destination Principle

The most popular form of principle adopted by a large number of countries is destination principle. Under this principle, goods or services are taxed on at the place where they are produced but the place where they are consumed. This means all imports are taxed while all kinds of goods and services are free to taxation. The main advantage of this principle is non-discrimination between import and internal production. This principle is favorable for promoting export. Many countries follow this principle because they are eager to boost export. Nepal's VAT system is also characterized by the Destination Principle (Silwal, 2000).

2.1.4 Reasons for the increasing popularity of VAT

VAT is definitely a new and modern tax as compared with other traditional tax systems. Actually, VAT is thought of being the most important tax reform in the 21st century. Of all the indirect taxes that evolved in the past, VAT is by far the best tax system. By contrast, other tax system had never risen into prominence in such a short span of period. Ever since its introduction in France around 1954, VAT has gradually and promisingly won the heart of people and is currently implemented in about one hundred and thirty countries. Several other countries, which so far have not adopted VAT are trying to make necessary changes in their fiscal policies and laws to assimilate and accommodate this scientific tax system into their economic set up. Although VAT is out and out a new system as compared to other traditional tax system, its popularity is growing fast. It is a precondition that any European countries must have already adopted VAT to become a member of EEC. This precondition plays a vital role in the popularization of VAT. In addition to them, there are some factors that are attributed to its growing popularity (Khadka, 2003).

1. VAT is neutral with respect to the choice of method of production and distribution. Since the tax is levied only on the value. It is efficient too. An efficient tax system is one that does not cause any distortions in production and consumption.

2. Another feature of an ideal tax system is equity. VAT is more equitable in the sense that it falls equally on all goods that gather a different proportion of value added at various stages. One of the desirable features of a good tax system is the revenue productivity. VAT is popular from the revenue point of view.
3. Furthermore, VAT is favorable from the administrative point of view also. VAT is favored on the ground that, as the base of this tax is broad; a relatively low rate can produce the required revenue. Low rate reduce the possibility of tax evasion. Since the tax burden is distributed among a large number of taxpayers under the VAT system, it does not put a heavy burden on a taxpayer and hence avoids the chance of considerable tax evasion.

2.1.5 History and Development of VAT

Tax is collected by government to meet the need of budget. Among the various types of tax, the sales tax is one of the major sources. VAT is the most scientific system of sales tax. In the early days, the tax from the consumption and production is collected as sales tax. But now, it is almost completely replaced by the VAT. The concept of VAT was introduced in 1919 by Dr. Wilhem Von Sieman in Germany. This concept was brought to replace the "Usnatzsterller" (multi stage sales tax) due to its undesirable effects, particularly cascading and vertical integration of the latter tax (MST) for the first time. The Germany knew the administrative complication of the VAT system. So, it has the fear to implement. Therefore, the rate of unsatzsteuer is reduced instead of the implementation of VAT. In 1921, the America was implementing the corporate income tax. Pro. Thomas S Admas suggested the tax for the United State of America to replace the existing tax system. Until early 50s the development of VAT remained limited only in the theory. France was the first implementer of VAT in 1954 covering only in the industrial sector. The VAT was limited to only up to whole level. But these countries limited the VAT only on import and manufacturing stage. In late 60s, VAT started to become popular. Countries like Denmark and Brazil adopted this system of tax in 1967. France, the first implementer of VAT, extended it to the retail level for the first time. And Germany also adopted VAT in the same year. In 1969, the countries like Netherlands and Sweden also adopted VAT in their countries. In 1970, 1971 and 1973, Luxembourg, Belgium and

Ireland introduced the VAT respectively. In Asia, Vietnam was the first country to introduce this most scientific tax system. The country adopted VAT in 1973. The trend being VAT popular was increasing all over the world. In 1977, 1984, 1985, 1986, South Korea, China, Indonesia and Taiwan introduced VAT respectively. Similarly, VAT was introduced by Philippine in 1988, Japan in 1989, Thailand in 1992 and Singapore in 1994. In SAARC region, Pakistan was the first adaptor of VAT. It implemented VAT in 1990. India introduced VAT first as modified value added tax (MOD VAT) in 1996. But actually in India, VAT replaced sales tax on 4 January 2005.

Though some state did not adopts for VAT (for political reasons), majority of the state embraced VAT, states like Andhra Pradesh and Maharastra taking the lead. The Empowered Committee, constituted by Government of India, provided the basic framework for uniform VAT laws in the states but due to the federal nature of Indian constitution, States do have a liberty to set their own valuations for the VAT levied in their own territory. India introduced the full VAT in some prescribed regions of the country on April 1, 2005. Around 130 countries have introduced VAT system across the world.

2.1.6 History and Development of VAT in Nepal

In the eighties, various countries, to maintain a sound macroeconomic policy, adopted various takes of reform programs. This program was in swing in 1990's. As the adoption of reform program was at the heart of worldwide policies. Nepal was no exception. The Nepalese government revealed its intention for the adoption of various reform programs to promote market oriented economy in the Eighth Plan (1990-1995) document. In a process to reform task policy, it has mentioned that sometime in the mid-plan period a VAT will be introduced in the country. Before that VAT was completely unknown word to the general people of Nepal. After a restoration of democracy in 1992/93, a two-tier sales tax system was in function at that period Under this system dealers and distribution of nine-selected items were required to register for sales tax purpose and collect tax on their sales. It was extended further to five more items in 1993/94. Only the amount of tax paid to manufactures was allowed to credit. Further, sole distribution or agents of the foreign firm or companies and their wholesalers were also required to register for the purpose of collection of sales

tax. As a part of its liberal economic policy, the government of Nepal asked donors to study the VAT system. Finally a VAT task force was created in the Sales Tax and Excise Department in 1993. United States Agency for International Development (USAID) and Consultancy Assistance for Economic Reform for International Development (HIID) started the study in order to make the necessary preparation for the introduction of VAT. The task force was fully devoted to accomplishing preparatory work. It prepared the draft for VAT legislation, organization, staffing and exemptions. Due to political instability and frequent changes in the priority for the implementation of VAT, the task force could not continue its job. At the time of creation of task force, the Nepali congress was in absolute majority in the parliament. A mid-term poll changed the political scenario (Amatya, Pokheral & Dahal, 2009).

The United Marxist-Leninist (UML) party created a minority government whereas the Nepali congress became the opposition party. The government led by UML could not reveal its positive attitude towards the implementation of VAT. In the contrary, the two-tier sales tax was declared to be removed in its 1994/95 budget. This negative step hurt the donor agencies and consequently the USAID suspended its support and Harvard Institute for International Development's experts returned. The VAT task force was dismantled. Soon after the verdict of the Supreme Court to re-install the dissolved parliament, a coalition government led by Nepali congress, formed and it showed as earlier, a firm commitment to introduce VAT in its F/Y 1996/97 budget. The USAID resumed its support but the amount allocated for the study of VAT had already been transferred to other projects. Again, scarcity of fund is realized by the government and search of the donor who can provide the necessary fund and technical assistance for the implementation of VAT. After all, the DANIDA supported the VAT project. It is continuously supporting till now. As a part of preparatory work, the VAT Act was passed in 1996 by the parliament. The government in 1997 approved VAT Regulations. In the same year, the department of sales Tax and Excise were renamed as the Department of Value Added Tax (VAT). After a year, the Ministry of Finance approved nine volumes of manuals. Furthermore, VAT Taskforce organized a various discussion and interaction program related to VAT in different parts of the country. Various introductory brochures were published and distributed to the potential taxpayers, businessmen and the administrative staffs. The VAT was initially scheduled to be effective from July 1997 (Khadka, 2003).

On March 1998, the government and the private sector reached an agreement regarding the modalities of the implementation of VAT. Exemption of industrial machinery and tractors, soft behavior towards the retailer, acceptance of the bill value in import point, set up a committee in order to review the VAT law and establishment of permanent revenue board were the main agreement. Since most of the agreed points were not activated the businessmen again began to oppose VAT.

In accordance with the purpose of integrating VAT and Tax department into one department from coming year a provision was made in Finance Act, 1999 that “A PAN (Permanent Account Number) was allocated to the registrant of income tax from the fiscal year 2000”. For this purpose a Taxpayer service center established under the department of Tax. PAN was also similar to TPIN. Those tax payers who have already received the TPIN were converted to PAN with same number. The service of this center was only confined to nine offices of Kathmandu valley. Issuance of PAN was accessed to all tax payers of the country from December 16, 1999 after the establishment of Inland Revenue Department (IRD). For the simplification of management of date, a database computer system has been developed since the inception of VAT in Nepal. With a view to provide all the services from the same window and to make effective mobilization of internal resource, the government decided to integrate the Department of VAT and department of Tax. The department of VAT merged into department of Tax on April, 2000. Through the budget speech for F/Y 2001/02, the government announced to establish “Inland Revenue Department” from July 2000. VAT has been justified in the light of government fiscal imbalances and need for extra revenue mobilization through an efficient tax system. The Government of Nepal has increased VAT to 13% effective from Magh 1, 2061 (Bhattarai & Koirala, 2011).

2.1.7 Basic Features of Nepalese VAT system

The type of VAT adopted by Nepal is conventional similar to that implemented over 130 countries around the world, it has injected some special features into the VAT system to make it uniquely Nepalese. The following are the main features of the Nepalese VAT system.

The adoption of consumption type of VAT because VAT is finally borne by the consumer the consumption of VAT through tax credit method (Kandel, 2004).

- The principle of destination.
- The level of threshold is Rupees 2 million.
- The facility of tax refund 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.

2.1.8 Coverage of VAT in Nepal

VAT is a tax on goods and services consumed in Nepal. The tax is based on the principle that each producer or distributor adds value, in some way, to the materials they have purchased and it is this added value that is taxed at each stage of the production and distribution. The coverage of VAT in Nepal is based on transfer, sales, supply, import and export of goods and services except some special provisions. It is levied on the value added at each stage of the production or distribution. Every persons or firm or company who are involved in such transactions liable to pay and collect tax. The actual coverage is structured by the standard and zero rates as well as tax exempted provisions. In other words, tax coverage is guided by tax invoice system. VAT is administered by invoice method (Adhikari, 2002).

2.1.8.1 Standard Rated Areas

Nepal has adopted “Inclusive Basket System” which means board-based tax coverage. Under this system all transactions regarding transfer, sales, supply, imports and exports of goods and services, where value added exists are taxable, except some special provisions. The Value Added Tax Act 1995 has made provision for exempted goods and services under special law. Unless this provision, all the value added economic transactions are taxable and tax is collected at the rate of 13 percent. This is called standard rated area.

2.1.8.2 Zero Rated Areas

Under the VAT systems some goods and services are, or may be, taxed at zero-rate. The objective of this zero rate is to relieve some goods and services from taxation working under regular VAT system and net for the purpose of promoting and encouraging export and maintaining diplomatic behaviors. Under this, purchaser is allowed to credit the tax paid on inputs or purchase in concern. However, one has to maintain all records regarding VAT. The VAT is meant to apply only to the consumption of goods and services in Nepal. Supplies made in Nepal that are exported are taxable at zero-rate. Exporters are allowed to claim input tax credits for VAT paid or payable on purchases of goods and services relating to their commercial activities. Exports taxed at zero percent (0%) include exports of both goods and services.

2.1.8.3 Exempted Goods and Services under VAT system

All goods and services are divided into two basic categories: taxable and tax-exempt. Goods and services are either taxed at the standard rate of 13 percent or they are taxed at zero percent. Those taxed at the standard tax include all goods and services except those that are specified as taxed at zero percent or tax-exempted. According to VAT Act 1996, the purchaser will not pay VAT on tax-exempt goods and services and the supplier is not allowed input tax credits on purchases related to the following goods and services. The exempt goods and services are as follows (VAT Act, 1996).

Group 1: Basic agricultural products

- Rice, wheat, maize, barley, millet, buckwheat, lentils, flour, semolina, grits, grams, beans, and similar basic, unprocessed agricultural food products and their residues.
- (Green and fresh vegetables, fruits, fresh eggs, and similar unprocessed agricultural products (apart from those consumed by hotels, restaurants, bars, guest houses, cafeteria, and other similar enterprises).
- Unprocessed cash crops (e.g., sugarcane, cotton, cardamom, ginger, dried ginger, jute, unprocessed tobacco sold by farmers, tea leaves, orthodox tea produced by using organic fertilizers, coffee seeds, oil-extractable food items

such as soybeans, peanuts, mustard seeds, sunflower seeds, sesame seeds and their residue.

- Herbs (including their extracts)

Group 2: Goods of Basic Necessity

- Unprocessed mustard oil
- Drinking water supplied openly by tankers and taps
- Fuel wood and charcoal
- Kerosene (apart from aviation fuel)
- Salt

Group 3: Livestock and their products

- Goats, lambs, sheep, yaks, buffaloes, boars, pigs, rabbits and other similar livestock; their fresh milk (including pasteurized milk), yogurt, and other unprocessed, raw varieties.
- Cows, buffaloes, lambs, and their fresh milk (including pasteurized milk) and yogurt.
- Ducks, cocks and hens, turkeys, partridges and similar fowl and their fresh meat, other unprocessed varieties, and eggs.
- Fresh or dried meat (unpacked)

Group 4: Agriculture related products and equipment

- The seeds of crops and plants listed in Group:- Fertilizers, chemical fertilizers, and products used for treating the soil
- General equipment used for agricultural work: - Hand equipment used for digging or cleaning the soil and for cutting wood, twigs, etc (apart from hand saws). Small hand equipment used for separating the grains and cleaning the husk (dehuskers). Hand equipment used for cutting animal fodder and the plough. Chemical pesticides used exclusively or primarily in crops. The items used in agricultural work are Tractor, Cultivator, Hairo, Leveler, Equipment used for cutting animal fodder, Thresher, Fishing net, Readymade cages to keep fish, Fish incubator, Pumping pipe of up to 8 horsepower and its hose pipe of up to 30 meters

- The utensil in which hens are given drinking water, the box in which chick lets are kept.
- Specified ingredients used in animal feed and feed supplement

Group 5: Medicines, medical treatment and other health services

- Surgical and medical services provided by Government owned health organizations
- Human blood, ingredients contained in the human blood, and vaccines
- Human and animal parts and tissues used in medical research
- Medicines used for treating animals and people and family planning products
- Equipment/material made for and solely appropriate for use by the disabled
- X-ray films and oxygen gas used for medical treatment
- Medical raw materials imported or bought by a medicine industry as per the limit specified by the Department of Drug Management

Group 6: Education

- Research work carried out in schools and universities
- Commercial or professional training courses and refresher training courses organized without profit motive
- Educational services provided by schools and universities

Group 7: Books, newspapers, printed material, and printing and publishing

- Books, newspapers, magazines, and periodic publications
- Newsprint paper

Group 8: Culture, arts and craftsmanship related services

- Fine arts, sculpture, architecture and similar handicrafts and related services
- Cultural programs
- Entry fees to libraries, museums, art museums, zoos and botanical gardens (national parks)

Group 9: Passenger transport and goods transportation services

- Air travel, non-tourist transport (apart from cable cars), and goods transportation services (apart from transportation of goods related to supply)

Group 10: Commercial or professional services

- Institutional or personal services provided by artists, sportspersons, writers, designers, translators, and interpreters.

Group 11: Miscellaneous goods and services

- Postal service (only those operated by the Government) Services related to transportation or handing over of letters, money and parcels Various services related to services required for transportation or handing over of letters, money and parcels
- Postal stamp
- Financial and insurance services
- Bank notes and cheque books:- The printing and releasing of Nepalese notes, The supply of bank notes into Nepal from outside Nepal, Cheque book
- Gold and silver:- Gold, gold coins, and gold ornaments, Silver and silver coins (apart from readymade silver goods and ornaments)
- Electricity
- Raw Wool
- Battery-operated three wheeler and its chassis and battery
- All machinery and equipment used for the production of biogas, solar, and wind energy on the recommendation of the Alternative Energy Centre.
- Aero planes, helicopters, fire brigades, and ambulances
- Products made of jute
- Only those industrial machineries on which maximum of 5 % customs duty is levied, as per Part 84 of the Customs Tariff.
- Woolen carpets and their cutting, dying, washing and knitting
- Aluminum, copper, and bronze scrapes, blocks, sheets, and readymade utensils.
- Cottonsaris, *lungi* (wrap around), *dhoti* (for male and female), *petani*, and *gamcha* (small cotton towels)
- Cotton thread
- Woolen thread (apart from artificial and acrylic) used to knit handmade sweaters in the country

- Goods received as donation in any natural calamities or for philanthropic purposes with permission from the Ministry of Finance of Government of Nepal

Group 12: Building and land

- Purchase, sales and renting of houses and land (apart from services provided by commercial enterprises such as hotels, guest houses, etc)

Group 13: Betting, casinos, and lotteries

- Activities related to providing services to enterprises engaged in betting and gambling
- Lotteries

2.1.9 Tax Administration

In general the prime goals of VAT administration are to promote voluntary compliance and to promote the VAT revenue by effective, efficient and economic way. Identification of tax payers, tax registration, processing of returns, tax audit, assessments, collection, credit, refund and control of stop filers are main functional areas of tax administration. In the Nepalese periphery, Ministry of Finance is the main responsible body for collecting financial resources and managing the public expenditure. Department of Customs, Revenue Administration Training Centre, Department of Revenue Investigation and Inland Revenue Department are the wings of Ministry of Finance. Previously the VAT was administered by Department of Value Added Tax. By 2001/2002, the government merged the Department of Taxation and the Department of Value Added Tax and named it “Inland Revenue Department (IRD). IRD is currently responsible for the administration of the taxes like Income Taxes, Corporate Taxes, Value Added Tax, Excises and certain fees and duties like Entertainment fee, Film Development Fee, Tourism Development Fee, Liquor control duty, Smoking liquor duty, special fee, etc. Likewise the department is also responsible for monitoring the non-tax revenue of the Government. This Department is located in the Kathmandu Valley. Under IRD there are 21 Inland Revenue Offices through the country. These offices and department jointly administer the VAT as well as income taxes. The Government of Nepal has the authority to appoint Tax officers

in required numbers. Similarly, the jurisdiction of a Tax officer should also be prescribed by the Government.

2.1.9.1 Registration (VAT Act 2052: sec 10)

For the implementation of VAT it is essential that producers and suppliers liable to taxation register themselves in time. According to VAT Act and VAT related other laws of Nepal, the persons (the suppliers or distributors or producers dealing with taxable goods and services) are required to register in the concerned Inland Revenue Office and obtain the TPIN. In other words, the person who gets involved in commercial activities having the turnover that exceeds the given threshold is required to register for the VAT purpose. A person means an individual, firm, company, association, cooperative, institution, joint business, partnership, trust, government body or religious organization. Similarly those persons who fall below the defined threshold don't necessarily have to register. But if they want, they can register and take TPIN. A non-registrant is not entitled to collect VAT and utilize the facility of tax credit and refund. The TPIN refers to the Taxpayer Identification Number that is to be allocated to each registrant during the registration process. For the registration, first of all the taxpayer should get the prescribed form (in Nepali) from any Inland Revenue Office. The TPIN or PAN is very important regarding the Inland Revenue administration. The taxpayer should include his TPIN in the documents related to VAT office, income tax, customs, imports and exports, and banks. Registration is required for any business with annual taxable sale of more than rs. 1 million.

Regarding the calculation of turnover zero-rated sales if from it is impossible to identify the purchase, sales, stock, the tax officer may treat all these transactions as turnover and may assess the tax. This mean if the zero rated sales exceed the threshold, taxpayer is liable to register. VAT registrants are required to pay VAT on or before the 25th day following the end of each month. Every taxpayer that is involved in taxable sales exceeding the prescribed threshold is liable to register for VAT before starting their business or 30 days after starting their business. They must provide their customers with a tax invoice and should maintain records and keep their VAT records for a period of 6 years. It is required to give notice and advice to the concerned Inland Revenue Office if any changes to the business such as new address, telephone number or a reorganization of the partnership. They post their Certificate of

Registration at their principal place and copies of it at all branches where the customers may easily notice and observe it. They should allow tax officers to enter the business to examine the business records and the stock at hand. (Adhikari, 2003).

2.1.9.2 Deregistration (VAT Act 2052: sec 10-2)

A VAT registration may be cancelled by anyone whose total taxable sales for consecutive calendar quarters is not more than rs. 1000000 and who has been registered for a full fiscal year or by persons who no longer have commercial activities. Regarding the cancellation of registration the VAT Act has mentioned the following conditions.

- If the organization is closed or transferred or collapses in case of corporate body.
- If the business is running under proprietorship with the owner dead.
- If the partnership is dissolved
- If the distributor or producers stops selling or producing taxable goods and services
- If the business was registered by mistake.

Regarding the cancellation, the tax officer collects the tax on the capital and other goods that the tax credit facility has been taken by taxpayer previously. The categories falling under this ground neither are required to collect VAT nor allowed to claim a refund of the VAT that they have in producing their goods and services for sale. (Adhikari, 2003).

2.1.9.3 Accounting (VAT Regulation Act 1996: Annex 8-9)

The effectiveness of VAT depends on the VAT accounting system. It should neither contain unnecessary details nor is inadequate so that it cannot provide appropriate and useful information. The VAT accounting should be information-based as well as less costly. The accounting in VAT consists in the process of maintaining purchase, sales book, VAT account and stock. Thus Purchase and Sales books are the main part of VAT accounting. In order to complete the VAT return, a taxpayer should need to ensure that the amount of VAT paid on purchase, the amount of VAT collected on

sales, a method of distinguishing between taxable and exempt sales, the time of goods and services supplied and proof that goods were exported. (Adhikari, 2003)

2.1.9.4 VAT Invoices (VAT Regulation Act 1996: Annex 8-9)

Every registrant is required to issue a tax invoice to the recipient in supplying any goods and services. The specimen of an invoice has been prescribed in schedule 5 and 6 of VAT regulation 1997. It is necessary to mention seller's PAN, buyer's PAN whether it is registered in VAT or not, address of sellers and buyers, date of transaction, date of invoice issue, description and price of goods and VAT amount on the tax invoice. The invoice must be issued in sequential order for the starting of every fiscal year. A minimum of three copies of each invoice must be raised. First copy must be provided to purchase mentioning tax invoice. Only retailers are facilitating to issue abbreviated invoice with prior approval of tax officer. It is not necessary to mention details in abbreviated invoice as shown in tax invoice. It can't be issued for transaction exceeding rs. 5000 including VAT. It also must be issued in sequential order. It shall be the duty of a registered person to provide a tax invoice who asks for. A recipient who receives an abbreviated tax invoice shall not be allowed to edit the input tax. In an abbreviated tax invoice, tax is calculated by multiplying the sales value by rate of tax divide by adding 100 to rate of tax (Adhikari, 2010).

2.1.9.5 Return Filing (Sec 18)

VAT is based on self-assessment system. Tax payer himself calculates all taxes. Every registered taxpayer required submitting the return to a tax officer within twenty five days after the close of tax period. Such return all have to be submitted whether or not a taxable transaction was carried out in that tax period. Failure to submit return in specified time is penalized; nil return or credit return Rs. 1000 flatly. Debit return 0.05 percent per day of due amount or Rs. 1000 whichever is higher.

2.1.9.6 VAT Collection

The producers and suppliers are the agents for tax collection on behalf of the Department or VAT administration. Usually they collect VAT on sales and deposit the collected amount after crediting the tax (if any amount remains) in prescribed

public treasury account. Tax should be collected in selling price that comprises the costs related to transportation and distribution expenses as well as profit. Excise duty, custom and other tax except income taxes are also included under the selling price. But the trade discount and trade commission are not included. A person who is not registrant is not entitled to collect tax. The collection of VAT is not the responsibility only of the business community but also of the Revenue Offices. In Nepalese context, if the taxpayer fails to deposit collected tax by regular system, the tax officer may implement various methods and measures to collect the tax arrears. These methods they may employ are as follows (Adhikari, 2003).

- Deducting the tax from the refundable tax amount possessing the taxpayer's fixed and current account auctioning the property owned by the taxpayer.
- Deducting from the bank account deducting from the amount payable to taxpayers by Government offices or Government owned enterprises.
- Deducting from the amount payable by the third person with the prior approval of the taxpayer.
- Blocking the taxpayers' export-import business.

2.1.9.7 Tax Credit

VAT is grounded on tax credit method. All the tax paid on purchase of goods and services, including assets, stationery and other expenses, related to business are allowed to credit full amount from the output tax collected on sales. There are some good, which is very difficult to ascertain whether stated in rule 41(1), tax may not be deducted in respect to the following goods and services.

- Beverages
- Alcohol or alcohol mixed beverages such as liquors and beers
- Petrol
- Entertainment expenses.

Some goods are used for the both purposes of the business and personal use. Tax paid to the following goods may be deducted on the following proportions.

- On all aircraft, 40 percent of purchase value
- On automobiles (any motor vehicle with three or more wheels used on a road for carriage of passenger, 40 percent of purchase value)

- On computer, 60 percent of purchase value

2.1.9.8 Assessment

VAT is self-assessed tax. A taxpayer assesses their liability themselves. They are self-allowed to get credit tax paid on purchase. Self-assessment system is developed in the assumption does not satisfy. Taxpayer may assess wrongly or may fail to pay correct tax. To correct this situation there is a provision of management tax assessment, which is done by the tax officials. Following criteria has been fixed for management tax assessment.

- It tax is not field
- If tax return is filed lately
- If tax return contains incomplete information or
- If tax official has reason to believe the tax is not genuine.

2.1.9.9 Refund Excess of input tax over output tax

In any tax period can be adjusted in the following tax period by carrying forward to next period or can claim for refund to the tax office. Two major criteria have been fixed in VAT law for the claim of refund by taxpayer. IT is allowed to claim either by regular export basis or by regular six months credit basis. Exporter having more than fifty percent export to total sales is treated as regular exporters. There is also a separate provision of refund for the diplomat and foreign aided projects. They are allowed to claim refund immediately.

2.1.9.10 MIS (Management Information System)

The tax system should be backed by good and effective information technology which must be taxpayers friendly and conducive to the tax administration as well. A scientific information system provides highly sophisticated and standardized services to the tax payers, providing them with needed and adequate information at the right time and also to the management and the decision makers. To meet this very purpose, a separate department called “Information Technology Section (IT Section), is separately installed. Management Information System (MIS) does the following functions.

- Processing of tax application form and related information.

- Updating the taxpayers' individual accounts.
- Entering, Processing and preservation of the central data.
- Preparing of master record in database format regarding tax collection, refund, tax credit, registration, de-registration and the business closure.
- Managing of integrated information between department and field offices.
- Managing and preservation of data and information for a long period.

The IRD posts the data in taxpayers' account and sends the result to the related Revenue offices. The information of taxpayer is kept confidential according to VAT Act. DANIDA VAT Project has contributed a lot to systematization of the MIS in Nepal (Adhikari, 2010).

2.1.9.11 Appeal

A taxpayer may file an appeal to the Revenue Tribunal within 35 days against tax assessment or penalty charged by a tax officer of an order by the Director General relating to the suspension of this place of transaction. A provision of appeal to director general has also been included in first amendment in VAT act as a choice to taxpayer. Before filling the appeal the taxpayer must deposit the disputed amount of the assessed tax due the rest of the amount of the tax due plus the whole amount of the fine shall have to be deposited or a bank guarantee of the same has to be provided.

2.1.9.12 Offences and Penalties

In the VAT Act, there is a special provision for the offences and penalties too. The registrant is liable to fine or a penalty if he fails to use the registration number or does not clearly display his registration certificate, fails to file a return, does not issue invoices, fails to keep an up-to-date account of transaction, obstruct the visit by tax officer, prepare false accounts and invoices or attempts to evade tax. According to VAT Act, action is taken in case of the following

- Non-registration (those falling under taxable criteria)
- Non filers or stop filers who has tax due/arrears who has no VAT accounts and records as prescribed by the Law.

The Act also has the provision of punishment to tax officers. If the tax officer is found to have made the assessment quite negligently or maliciously, the Director General has a full authority to take action against such a culprit.

2.1.9.13 Rewards According to VAT Act

If a person provides information with solid evidence showing that a tax payer has evaded or attempted to evade all or some portions of tax, he will be rewarded with the amount equal to 20% of the amount of tax collected on that basis of such information. The DG himself is responsible for rewarding the informants.

2.2 Review of Related Studies

Since the period of introduction of income tax in Nepal, many individuals as well as some institutions have made efforts on study of taxation for finding the ways for the improvement of income taxation. Many books, research reports and articles have been written and published in this respect. The researcher had consulted books, theses and some articles concerning with income taxation during the thesis writing. Some of them are presented in brief below.

2.2.1 Review of Books

The Value Added Tax does not have a long history even in the global context; admittedly, there are not as much literatures available on this topic as other forms of tax system. So in other words, very few studies have been done on this particular topic with special reference to Nepal. An attempt, thereby, has been made to review the theory of tax reform as well as the recent literature on VAT.

Pandit (1996) has written a book *“KarDataKo Guide”* Mr. Pandit gives the glimpses of different forms of taxes and their provision. He tries to make aware about the general terminology of Vat and its application in Nepal. He clearly defines the every term of Vat that is associated with VAT system and the procedure that business community has to follow if falls under the threshold.

Adhikari (2003) has presented a book on *“Value Added Tax in Nepal: Theory and Practice”* which comprises of three chapters the first chapter deals with theoretical concept of VAT which includes historical background, objectives, merit and demerit

of VAT. The second chapter comprises practice of Nepalese VAT which deals with introduction of VAT system in Nepal, different terminologies associated with VAT, Tax administration system and legal provision made for the VAT implementation in Nepal. The third chapter consists of different model question of TU on VAT, specimen of VAT related forms and Accounts and Value Added Tax Rule 1997 and Value Added Tax Act 1996.

Kandel (2004) has written a book on “*Tax Laws & Tax Planning in Nepal*” The book was designed to fulfill the needs of MBS and BBS levels under T.U. This book was very useful to the students and teachers to know the legal provisions of Income Tax Act 2058. The book has attached unofficial translation of the tax laws –both Acts and Rules – related to value added tax and income tax. This book was more informative rather than analytical.

Amatya, Pokharel and Dahal (2009) in their book “*Taxation in Nepal (Income Tax, Property Tax & Value Added Tax)*” the book has exclusively been designed for the subject “Taxation in Nepal” as per the syllabus prescribed by the Faculty of Management, Tribhuvan University for 3rd year of Bachelor of Business Studies (BBS). Unlike other books available on this subject, this book makes an in-depth approach to the study of income tax, property tax and value added tax in Nepal in order to meet the specific requirements of those students who are studying taxation as a concentration/elective subject at BBS 3rd year.

Bhattarai and Koirala (2011) in their book “*Taxation in Nepal with Taxation & VAT*” have described the income tax system in depth. This book includes the separate chapter on Value Added Tax. It describes VAT practices in Nepal with several theoretical aspects and numerical examples. This book was specifically designed for the students of MBS 2nd years under Tribhuvan University. However, the book was failed to mention legal provisions with examples regarding taxation of income from insurance business in detail.

2.2.2 Review of Journals/Articles

Jyoti (2002) has published an article “*VAT: Analysis and Suggestion*” has explained that the VAT was introduced in Nepal in response to realization that a fundamental change was necessary in the country’s revenue policy. The business community was

strongly against the VAT in the beginning but the gradually withdrew the opposition as they went on being clearer about positive aspects of the VAT and also its simplicity. Government went through many negotiations with business communities before implementing VAT in the Kingdom of Nepal. Taxpayers were opposed to VAT not because of any defect in VAT as a system. Rather they were afraid of frequent contacts with revenue officials who were historically notorious for a behavior that exploited the taxpayers. The success of the VAT is dependent on some prerequisites, such as: Acceptance of the correct in voice. Self-assessment of taxes Refund of the tax amount in a speedy and simple manner when the conditions for a tax refund are met.

VAT is useful in the context of Nepal too because of these reasons: Limited scope for revenue officials to use discretion honest taxpayers have practically no need to have contacts with the tax officials Due to the self-enforcing mechanism of VAT, the tax payers are forced to become honest. According to him VAT system will fail not because of any defect in it but because of these reasons: Inadequate and incorrect step taken to ensure billing and /or billing at the correct prices.

The Kathmandu Post (2002) published an article “*VAT Refund System*” the article published in the November 15, 2002 issue made a point that Nepalese industrialist and business did not have any faith in the VAT refund system before four or five years. Most of them used to say that it would be impossible to institutionalize a refund system in Nepal. While refund is one of the important features of Vat system, it was a big challenge for those who were involved in designing the Nepalese VAT system to create a refund mechanism that can be implemented smoothly under the Nepalese circumstances. In the first year of introduction of VAT, no one claimed for the refund. After publicity regarding the tax refund system the trust of taxpayers gradually increased and claimed for refund. VAT refund figure indicated that the refund system is becoming increasingly effective in real life but there is still long way to go.

Dhungana, (2007) has published an article “*Value Added Tax and Its Legal Scrutiny*” he had explained the legal aspects of VAT and Its legal scrutiny. He concludes that as other areas of economy that are heavily influenced by political instability, corruption, bad governance, frequent change in government and Moist revolution. VAT also witnesses weak implementation owing to these hurdles.

2.3 Review of Previous Researches and Dissertations

There are quite a few dissertations relating to Value Added Tax Nepal undertaken by various individuals and some institutions. Some of them are review below.

Chaudhari (2010) in his dissertation “*VAT in Nepal: An Analysis of its problems and prospects*” having the objectives of this study were as follows.

- To review historical background of VAT,
- To examine the structure of VAT in Nepal,
- To observe the contribution of VAT to resource mobilization and
- To analyze the existing problems of VAT in Nepal

The major findings of the study are as follows.

- The main problems for business houses are account keeping and billing.
- The weaknesses of VAT administration are lack of motivation and service minded attitude among tax officials lack of honesty in VAT officers.
- Lack of strong coordination between tax collectors and tax payers
- Lack of strong political commitment and weak public consciousness.

Neupane (2011) the unpublished dissertation entitled “*Resource Mobilization through Value Added Tax in Nepal*” has the basic objectives;

- To examine historical background of Value Added Tax and
- To analyze mobilization of revenue through VAT.

The major findings of the study are as follows.

- The VAT administration has to begin its program package very strictly and immediately to register the traders, who are supposed to get registered in the VAT.
- In order to control the leakage of revenue and to control tax evasion so that the number of the taxpayers would increase and hence the revenue collection would also increase exponentially.
- The government, he observed, could neither reduce the price nor punish those businessmen against such act. Instead, the government compromised with those businessmen.

Basnet (2012), in his dissertation “*VAT present status and future prospects in Nepal*” that the objective of to assess the present status and future prospect of VAT and its effects on various aspects of economy.

The major findings of the study are as follows.

- The implementation of VAT in Nepal would have very poor results than expected due to poor planning and poor implementation.
- VAT implementation has been becoming more and more effective and VAT net has been spreading and revenue collection is on the constant rise establishing it firmly in Nepal.
- It is expected that positive impact can be seen in tax collection as code of conduct announced recently includes all the required ingredients, such as, utilization of tax revenue, respecting the taxpayers, simplification in the service and improvement in the behavior of the tax administrators.

Joshi (2016), in his dissertation “*A Study on VAT: Implementation, Problems and its Effectiveness in the Nepalese Economy*” by using the analytical and explanatory research design and having the objective of;

- To examine the historical background of VAT in general,
- To examine the implementation, problems, effectiveness of the VAT in Nepal.

The major findings of the study are as follows.

- Nepalese VAT law is inappropriate and the administration is worse.
- There is shortcoming in the implementation.
- Problems relating to VAT system in Nepal cannot be solved and resources are not fully and effectively utilized.

Adhikari (2018) conducted a thesis on “*A Study on Practices of Value Added Tax in Nepal*” in his thesis was guided by the primary objectives of;

- To examining the theoretical background of VAT,
- To analyze the existing VAT system of Nepal with special emphasis on revenue mobilization
- To identify the major problems of VAT in Nepal.

The major findings of the study are as follows.

- The implementation of VAT system has a greater significance in Nepal.
- VAT system in Nepal from its inception has been facing innumerable problems, which curtail its merits and effectiveness.
- There do exist the immense administrative problems. Even after its full-fledged implementation in 1999, the system has not been taking a considerable place due to administrative inefficiency.
- VAT regime is extremely challenging in a burgeoning economy like Nepal where, with long open border, a large segment of the economy is yet to be monetized.

2.4 Research Gap

Research gap means the difference between present research and previous research. There is a gap between the present research and the before researchers. The previous researches were based on secondary data, generally. The previous researches were based on indirect tax but this study is only concern on VAT. The current research is conducted to address the weakness of previous research. The current research is based on both secondary data and primary data, respectively. This research is survey types of research. This research study is based on using current data from the fiscal year 2017/018 to 2013/2014. The current research was not incorporated in previous studies. Many sectors likewise, civil society, general people, businessman, students and government policy prospective would be productive.

Previous researcher found the sources of revenue, nature of revenue only but this research shows the ratio of vat in total revenue. It also shows the trend of vat collection in Lalitpur district.

CHAPTER – III

RESEARCH METHODOLOGY

Research methodology is a research method used to meet the specified objectives. It is a systematic way to find out the probable solution. It refers to the various sequential steps (along with rationale of each step) to be adopted by a researcher in studying the problem with certain objectives in view. Thus the research method designed to achieve the objectives of this thesis contains research design, population and sample, data collection procedure, tools for analysis and methods of analysis and presentations.

3.1 Research Design

The research design is a plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance. The plan is the overall scheme or program of the research. It includes an outline of what the investigator will do from writing the hypothesis and their operational implications to the final analysis of the data. The purpose of the research design is to provide a maximum amount of information relevant to the problem under investigation at a minimum cost. This research study is concerned with past phenomena both numerical as well as opinions. This study is used both descriptive and analytical research design.

3.2 Population and Sample

The population for this study was comprised of the entire person belonging to or associated with Value Added Tax in Lalitpur district. In order to fulfill the objectives of the study 150 persons have been considered as total sample, taxpayer, tax administrations and tax experts are considered as the total population. Out of 150 persons, 90 taxpayers, 30 tax administrator and 30 tax experts have been considered as the target sample for the study. 150 sample sizes are selected from three different groups of respondents. Samples from the population are selected from Lalitpur District by best judgment of the researcher. The following table presents the group of respondents and sample size.

Table: 3.1
Group of Respondent and size of sample

Code	Group of Respondents	Sample size
TE	Tax Experts	30
TA	Tax Administrators	30
TP	Tax payers	90
	Total	150

3.3.2 Sources

The secondary data of this research were collected from the following sources.

- Published and unpublished reports,
- Articles and dissertations on the concerned subject.
- Annual report of Inland Revenue Department (IRD)
- Publications of Nepal Rastra Bank
- Various books written by tax officers and scholars Publications, Budget Speeches and Economic Survey of various fiscal year of Ministry of Finance, the Government of Nepal.
- Newspapers, such as, Gorkhapatra, The Rising Nepal, Kantipur Daily, and so on.
- Publications of various VAT Department.
- Websites The collected data through secondary sources have been tabulated in different ways according to the requirements of the study.

3.4 Processing and Analysis of Data

The analysis of data was done according to the pattern of available data. The information received from primary and secondary sources were firstly tabulated in two separate suitable formats systematically. The data were tabulated in to various tables according to the subject matter in order. For the purpose of analysis, generally simple statistical tools were used.

3.5 Data Analysis Tools

Various tools to be used in this for the study. The analysis of data was done according to pattern of data available. Mainly the analysis will be done by using simple statistical analysis.

3.5.1 Percentage Change

To find out the changing positions of different amount this ratio is used. This ratio is calculated to measure the acceleration or retardation of any variables to the company is to take the suitable direction. It is calculated in following way.

$$\text{Annual percentage change} = \frac{\text{Amount of This Year} - \text{Amount of Last Year}}{\text{Amount of Last Year}}$$

3.5.2 Arithmetic Mean or Average

The mean or average value is a single value within the range of the data that is used to represent all the values in the series. Since an average is somewhere within the range of the data, it is also called a measure of central value. It is calculated by;

$$\text{Mean}(\bar{X}) = \frac{\sum X}{N}$$

Where,

$$\begin{aligned}\bar{X} &= \text{Arithmetic Mean} \\ \sum X &= \text{Sum of values of all items, and,} \\ N &= \text{Number of items}\end{aligned}$$

3.5.3 Standard Deviation

The standard deviation is the measure that is most often used to describe variability in data distributions. It can be thought of as a rough measure of the average amount by which observations deviate on either side of the mean. Denoted by Greek letter's (read as sigma), standard deviation is extremely useful for judging the representatives of the mean. Standard deviation is calculated as;

$$\text{Standard deviation}(\sigma) = \sqrt{\frac{\sum(X - \bar{X})^2}{N}}$$

Where,

σ = Standard deviation

$\sum(X - \bar{X})^2$ = Sum of squares of the deviations measured from arithmetic average.

N = Number of items

3.5.4 Coefficient of Variation

The coefficient of variation is the ratio of standard deviation to the mean for a given sample used to measure spread. It can also be thought of as the measure of relative risk.

$$CV = \frac{\sigma}{\bar{X}} \times 100$$

Where,

CV = Coefficient of Variation

σ = Standard Deviation

\bar{X} = Arithmetic Mean

CHAPTER IV

RESULTS

4.1 Revenue Structure of Government

Every government is responsible to perform numerous functions for the betterment of the people in the country. A government needs huge volume of categories namely tax revenue and non-tax revenue. These both sources are subject to non-repayment and their sum constituted the government revenue. Besides these sources, government has other sources that are subject to repayment such as loans, grants however grants are not compulsorily repaid. These sources are desirable only to meet the fiscal deficits. Taxes are not a voluntary contribution by the taxpayer but it is compulsory in nature.

The major component, of indirect tax in Nepalese tax structure constitutes ' custom duty, excise duty, sales tax/ VAT and contract tax. Custom duties are composed of mainly import duties and export duties. Other component of indirect tax like entertainment tax, hotel tax and other tax contribute very nominal share because they are included in VAT since 1997, Others form of indirect taxes includes remission of Indian excise duties, road bridge tax and other taxes. Fees, fines, penalties, dividend, interest, sales of goods and service etc are the bases of non-tax revenue. The composition of non-tax revenue in Nepalese receipts from sales of commodities and services, dividends, royalty, sales of fixed assets, principle and interest payment etc. "While there is some scope of generating more revenue through the rationalization of non-tax sources, particularly improvement in pricing policies-and operational performances, these sources can for revenue purposes" (Khadka, 2010).

Table: 4.1
Revenue Structure of Government of Nepal

Rs. In 'Ten Million'

Fiscal Year	Total Revenue	Tax Revenue	% of Tax Revenue	Non-Tax Revenue	% of Non-Tax Revenue
2070/071	14347.45	11705.19	81.58	2642.26	18.42
2071/072	17799.19	15978.53	89.77	1820.56	10.23
2072/073	19837.63	17722.72	89.34	2114.87	10.66
2073/074	24437.41	21172.18	86.64	3265.12	13.36
2074/075	28960.50	25257.19	87.21	3703.2	12.79
Average			86.91	Average	13.09
SD			3.26	SD	3.26
CV			3.76	CV	24.94

Source: Ministry of Finance, Economic Survey Fiscal Year 2074/075

Figure: 4.1
Total Revenue, Tax Revenue & Non-Tax Revenue

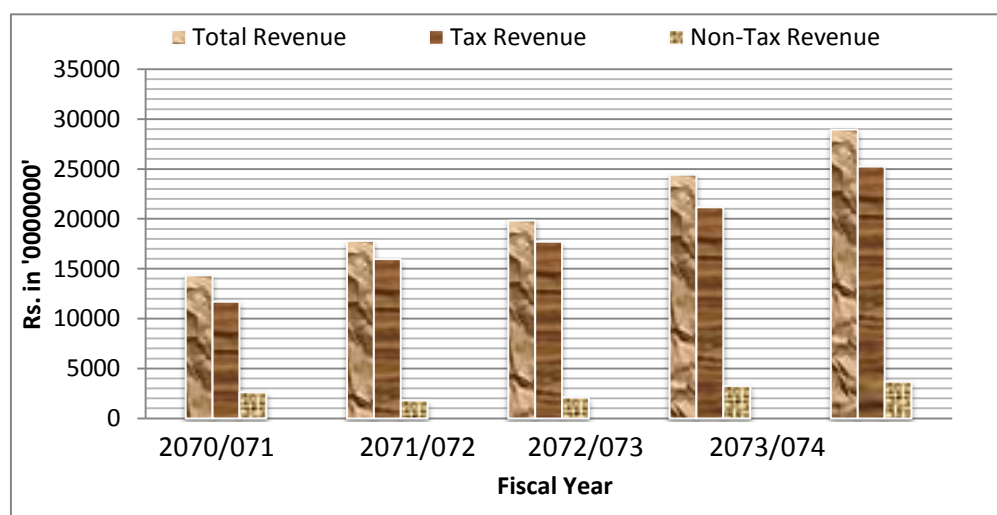


Table 4.1 and Figure 4.1 show that the revenue structure of government of Nepal it includes tax revenue, non-tax revenue and total government revenue the total revenue and tax revenue are increases each year than previous year during the study period but the non-tax revenue is decrease in the fiscal year 2074/075 after that it is increase each year during the study period. At the beginning of the study period i.e. in the fiscal year 2070/071 the total revenue is rs. 14347.45 and it is increase up to rs.28960

at the end of the study period i.e. in the fiscal year 2073/074 similarly, the tax revenue is rs.11705.19 in the fiscal year 2070/071 and it is increase up to rs.25257 in the fiscal year 2073/074 but the non-tax revenue is rs.2642.26 in the fiscal year 2070/071 and it is decrease to rs.1820.56 in the fiscal year 2071/072 after that it is increases and get to rs.3703.2 in the fiscal year 2074/075.

Figure: 4.2
Trend of Proportion of Tax Revenue & Non-Tax Revenue

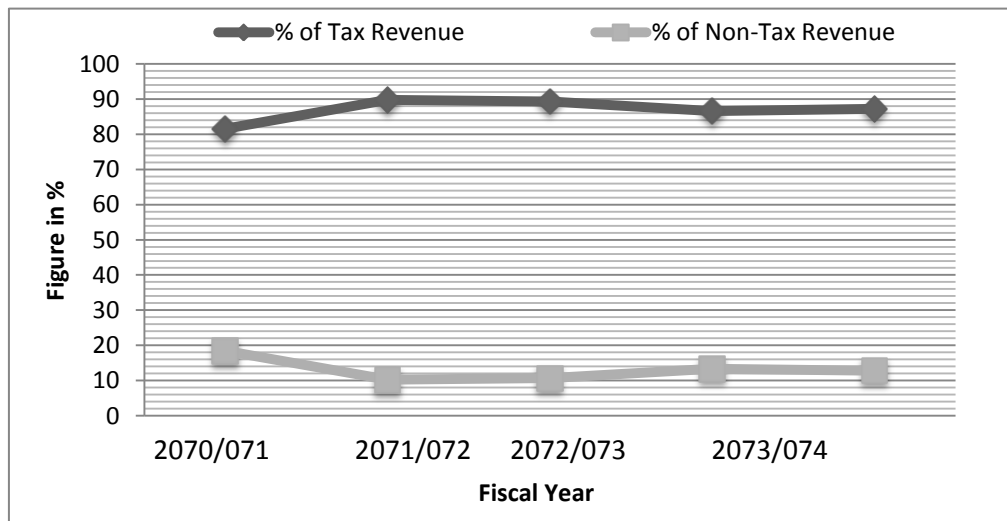


Table 4.1 & Figure 4.2 show the proportion of tax revenue and non-tax revenue on total revenue, the proportion of tax revenue and non-tax revenue is fluctuating each year during the study period the highest proportion of tax revenue on total revenue is 89.77% in the fiscal year 2071/072 and that of lowest is 81.58% in the fiscal year 2070/071 similarly, the highest proportion of non-tax revenue is 18.42% in the fiscal year 2070/071 and that of lowest is 10.23% in the fiscal year 2071/072 . During the study period of five year, the average proportion of tax revenue on total revenue is 86.91% and standard deviation& coefficient of variation are 3.26%& 3.76% respectively similarly, the average proportion of grant is 13.09% and standard deviation& coefficient of variation are 3.26%& 24.94% respectively. It's clear that the fluctuation on proportion of tax revenue in different fiscal year is more stable than the fluctuation in non-tax revenue ortaxrevenue in each year is more stable than nontax revenue.

4.2 Analysis of VAT Revenue

A value added tax (VAT) is a form of [consumption tax](#). From the perspective of the buyer, it is a tax on the purchase price. From that of the seller, it is a tax only on the [value added](#) to a product, material, or service, from an accounting point of view, by this stage of its manufacture or distribution. The manufacturer remits to the government the difference between these two amounts, and retains the rest for themselves to offset the taxes they had previously paid on the inputs. The purpose of VAT is to generate tax revenues to the government similar to the corporate income tax or the personal income tax.

Table: 4.2
Revenue Collection from VAT

Rs. In 'Million'		
Fiscal Year	Vat Collection	Increments %
2070/071	39700.92	33.15
2071/072	54920.85	38.34
2072/073	61692.84	12.33
2073/074	72188.14	17.01
2074/075	83505.83	15.68
Average	62401.72	23.30
SD	16680.45	11.63
CV	26.73	49.92

Source: Inland Revenue Department, Annual Report Fiscal year 2074/075

Figure: 4.3
Trend of Increments in VAT Revenue

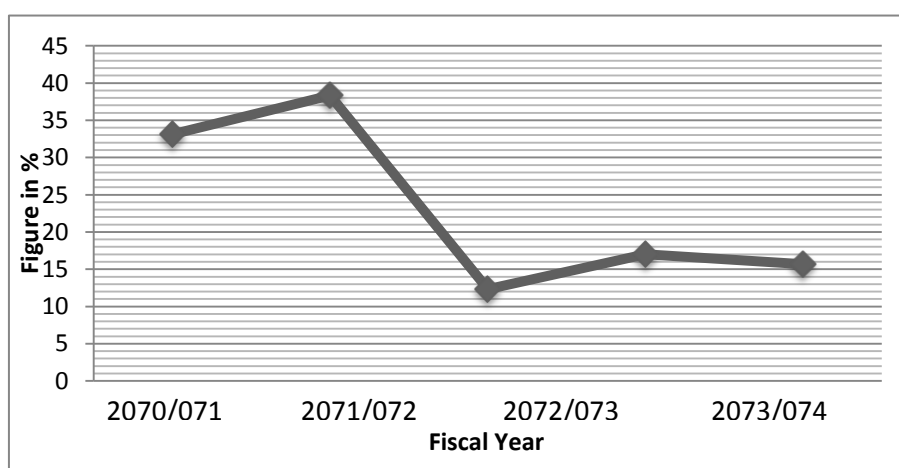


Table 4.2 and figure 4.3 shows that the total VAT collection and the increments of VAT collection each year during the study period. Total VAT collection is increases each year than previous year during the study period at the beginning of the study period the amount of VAT is rs.39700.92 and increase to rs. 83505.83 at the end of the study period i.e. in the fiscal year 2070/071. Similarly, the increments rate of VAT collection is fluctuating each year than previous year during the study period. The average increments rate is 23.30 % during the study period of five years similarly, standard deviation and coefficient of variation are 11.63% & 49.92%.

Table: 4.3
Composition of VAT Revenue

Rs. In 'Million'

Fiscal Year	Total Vat Revenue	Domestic Vat Revenue	Imports Vat Revenue
2013/014	39700.92	13918.49	25782.42
2014/015	54920.85	20379.83	34541.02
2015/016	61692.84	22386.27	39306.57
2016/017	72188.14	25650.83	46537.31
2017/018	83505.83	28493.85	55011.971
Average	62401.72	22165.85	40235.86
SD	16680.45	5555.31	11183.01
CV	26.73	25.06	27.79

Source: Inland Revenue Department, Annual Report Fiscal year 2074/075

Figure: 4.4
Proportion of Internal VAT Revenue & Imports VAT Revenue

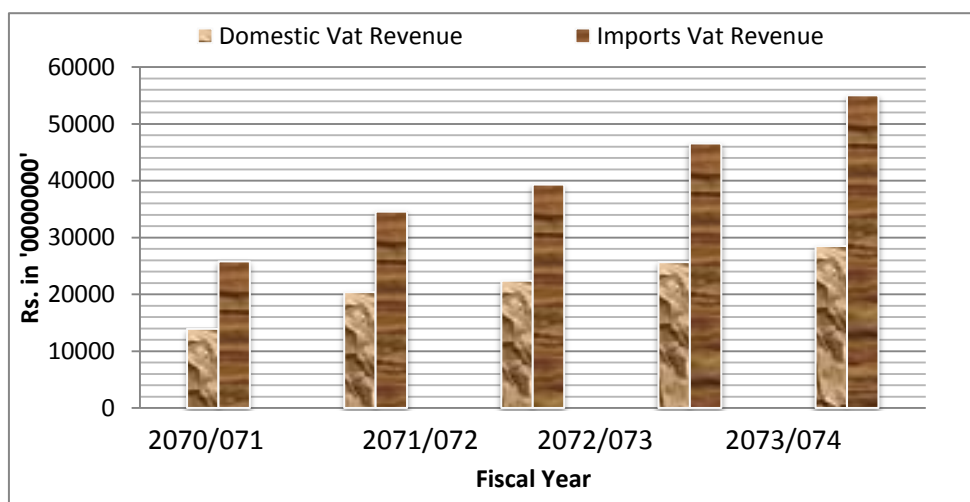


Table: 4.4
Proportion of Domestic VAT Revenue & Import VAT Revenue on Total VAT Revenue

Rs. In 'Million'

Fiscal Year	Vat Revenue	% of Internal Vat Revenue	% of Import Vat Revenue
2070/071	39700.92	35.06	64.94
2071/072	54920.85	37.11	62.89
2072/073	61692.84	36.29	63.71
2073/074	72188.14	35.53	64.47
2074/075	83505.83	34.12	65.88
Average		35.62	64.38
SD		1.14	1.14
CV		3.21	1.78

Source: Inland Revenue Department, Annual Report Fiscal year 2074/075

Figure: 4.5
Proportion of Internal VAT Revenue & Imports VAT Revenue

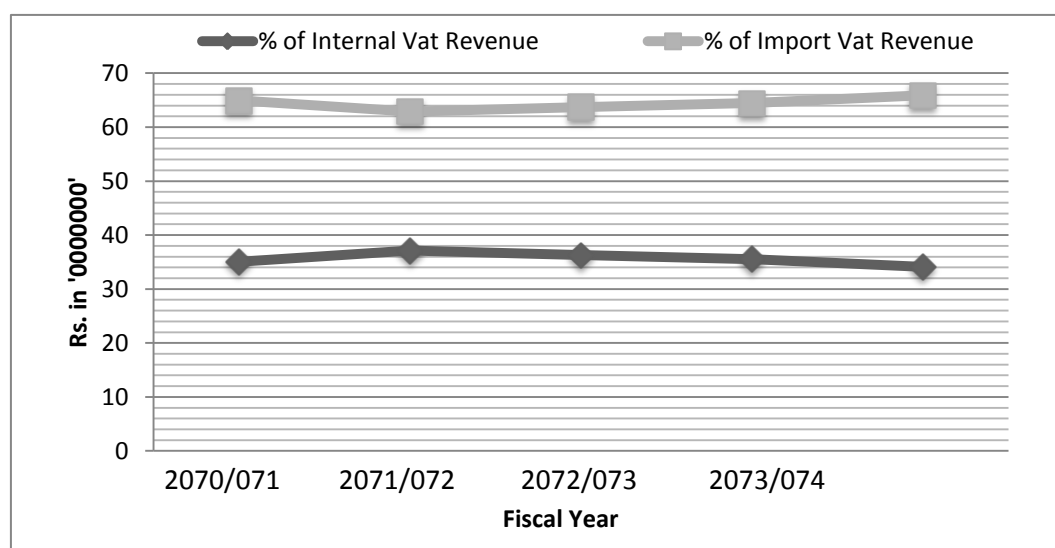


Table 4.4 & Figure 4.5 show that the proportion of internal VAT revenue & imports VAT revenue on total vat revenue the proportion of imports VAT revenue is higher than the proportion of internal VAT revenue each year during the study period. The proportion of internal VAT revenue and imports VT revenue are fluctuating each year the proportion of highest internal VAT revenue is 37.11% in the fiscal year 2071/072

and that of lowest is 34.12 in the fiscal year 2074/075 and the average proportion is 35.62%. Similarly, the highest proportion of imports VAT revenue is 64.94% in the fiscal year 2070/071 and that of lowest is 62.89% in the fiscal year 2074/075 and the average increments is 64.38%.

Table: 4.5
Composition of Domestic VAT Collection

Rs. In 'Billion'

Particular		2070/71	2071/072	2072/073	2073/074	2074/075	Average
Reverse Charge	Rs.	0.00	0.00	0.00	0.73	1.32	0.41
	%	0.00	0.00	0.00	2.85	4.63	1.50
Tourism	Rs.	0.84	0.94	1.12	1.05	1.20	1.03
	%	6.03	4.92	5.00	4.09	4.21	4.85
Contract	Rs.	1.60	2.19	3.12	4.80	5.48	3.44
	%	11.49	11.47	13.93	18.71	19.23	14.97
Sales & Distribution	Rs.	2.37	3.30	4.25	5.56	6.37	4.37
	%	17.03	17.28	18.98	21.68	22.36	19.46
Production	Rs.	4.06	6.02	6.77	8.40	9.77	7.00
	%	29.17	31.52	30.24	32.75	34.29	31.59
Other Service	Rs.	5.05	6.65	7.13	5.10	4.34	5.65
	%	36.28	34.82	31.84	19.88	15.23	27.61
Total	Rs.	13.92	19.10	22.39	25.65	28.49	21.91
	%	100	100	100	100	100	100

Source: Inland Revenue Department, Annual Report Fiscal year 2074/075

Figure: 4.6

Composition of Domestic VAT Collection & Their Average Contribution

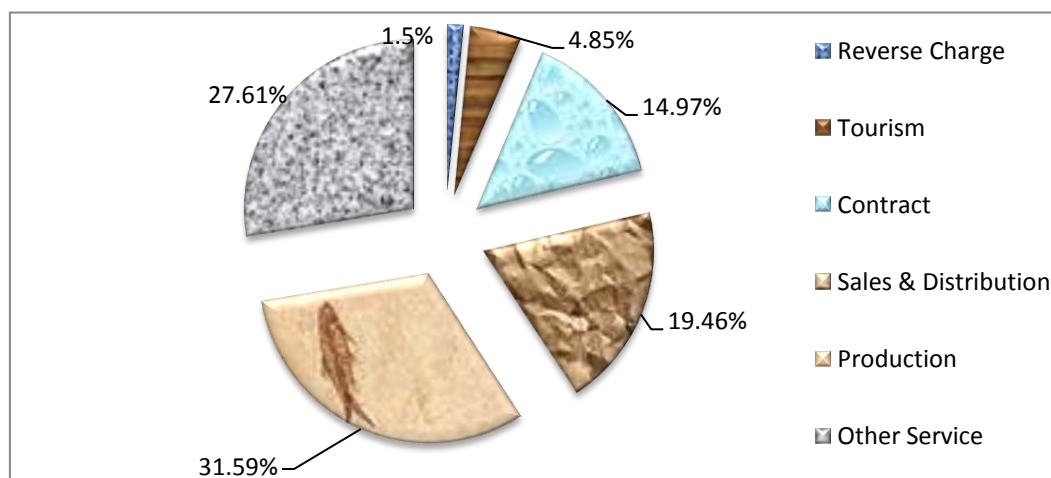


Table 4.5 & Figure 4.6 show the average contribution of each item of VAT revenue on total domestic VAT collection. During the five year study period since the fiscal year 2070/071 to 2074/075, the average contribution of reversecharge is 1.5%, tourism is 4.85%, contract is 14.97%, selling & distribution is 19.46%, production is 31.59% and other service is 27.61%. The highest contribution is 31.59% of production sector and lowest contribution is 1.5% of reverse charge.

Table: 4.6

VAT Revenue on Total Tax Revenues

Rs. In 'Ten Million'

Fiscal Year	Tax Revenue	Vat Revenue	% of VAT Revenue
2070/071	11705.19	3970.09	33.92
2071/072	15978.53	5492.08	34.37
2072/073	17722.72	6169.28	34.81
2073/074	21172.18	7218.81	34.10
2074/075	25257.19	8350.58	33.06
Average			34.05
SD			0.65
CV			1.90

Source: Inland Revenue Department, Annual Report Fiscal year 2074/075

Figure: 4.7

Proportion of VAT Revenue on Total Tax Revenue

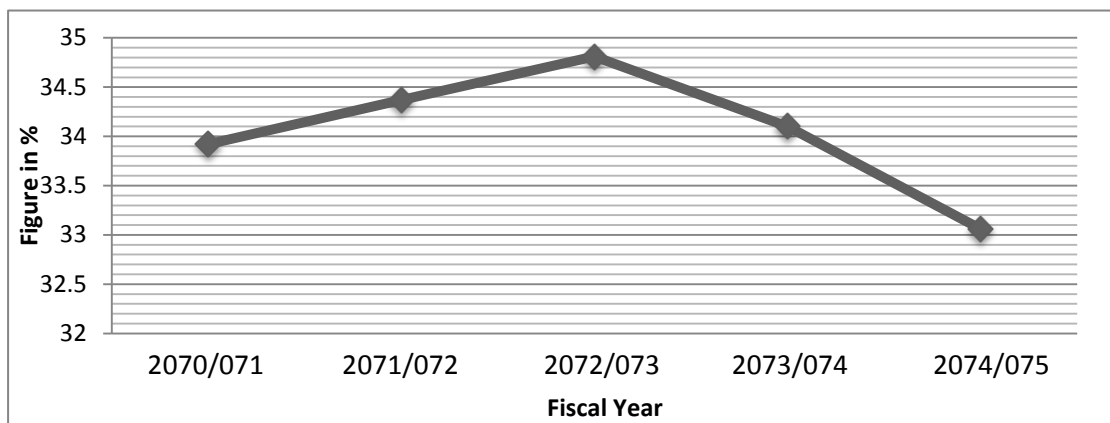


Table 4.6 & figure 4.7 show the proportion of VAT revenue on total tax revenue is increased up to the fiscal year 2072/073 after that it is decreases the highest proportion is 34.81% in the fiscal year 2073/074 and that of lowest is 33.06% in the fiscal year 2074/075. The average proportion of VAT revenue on total tax revenue is 34.05% during the five year study period and the standard deviation & coefficient of variation are 1.14% & 1.78% respectively.

4.3 Empirical Analysis

There have been various empirical studies after implementation of VAT system in Nepal. It is viewed that this system has not been implemented effectively as expected. There was a strong opposition from the business community during the earlier period of VAT implementation. In that time there was a negotiation between private sector and government on the different aspects and provision of VAT. After that VAT was expected through the real level and thus implemented in its Full-Pledged form. In the beginning period of VAT implementation, there was lack of skilled and trained manpower and officers administrative officer was not set up properly. But currently different informative programs seminars and meeting were held to make the business man consumers and people known to the VAT.

Currently business community is also in favor of VAT and further demanding to identify all the traders having taxable capacity and include in to the tax net. In such situation an empirical study is done in Lalitpur District to know the view of person of different field on different aspects of VAT. For the purpose of survey different

questionnaire are prepared to know the opinion of the various persons of different field including tax experts, tax officers and tax payers about all sides of VAT such as issues policies. Its effects and other relevance. The sample for this survey is taken only from different fields as given in the table below.

Table: 4.7
Sample Size of the Field Survey

Code	Respondents	Sample size	Percentage
TE	Tax Experts	30	20
TA	Tax Administrators	30	20
TP	Tax payers	30	60
	Total	90	100

Source: Estimated Figures

4.3.1 VAT Rate

The VAT rate was 10% at first but from 2061 VAT rate is increased 13%. Due to broader base and coverage. In such situation, field survey is conducted to identify the rate structure of VAT. The following table shows the views on this matter.

Table: 4.8
Views on Rate of VAT

Respondents	TE		TA		TP		Total	Total
	No.	%	No.	%	No.	%		
Low Rate	1	10	2	20	2	6.67	5	10
High Rate	2	20	1	10	15	50	18	36
Moderate	7	70	7	70	10	33.33	24	48
Don't Know	-	-	-	-	3	10	3	6
Total	10	100	10	100	30	100	50	100

Source: Field Survey 2018

Figure: 4.8
Pie Chart of Views on Rate of VAT

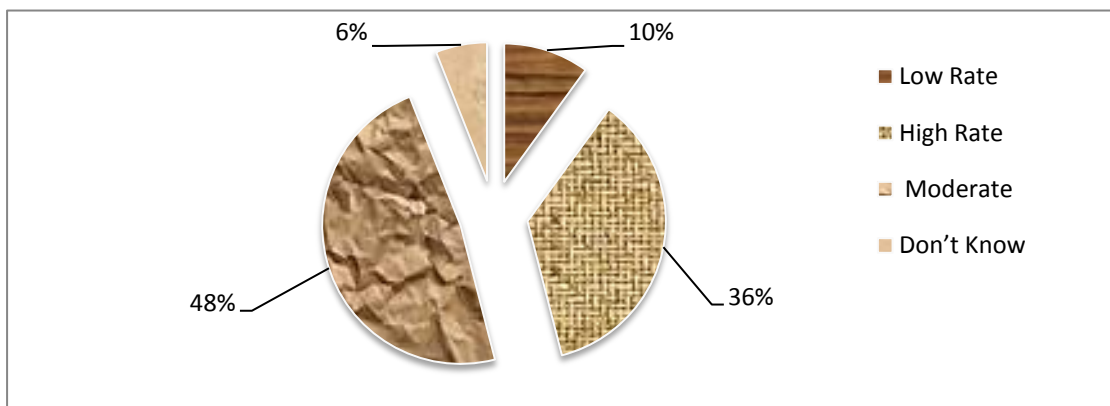


Table 4.8 & Figure 4.8 shows that the out of total 50 respondents of Tax Experts, Tax Administrators & Tax Payers 48% of them replied that the VAT rate is moderate, 36% of them replied that the rate is high. Similarly 10% of them replied that the rate is low and only 6% of them replied that they do not know about the vat rate and all of them are taxpayers. The majority of respondents replied that the VAT rate is moderate.

4.3.2 Superiority of VAT over sales tax

Without comparison it can't say VAT is superior over sales tax with base to effective revenue mobilization, the tackle to all tax evasion, wide taxbase, transparent VAT is concerned as superior than sales tax. The survey result on this aspect is summarized in the table below.

Table: 4.9
Views on Superiority of VAT over sales tax

Respondents Response	TE		TA		TP		Total No.	Total %
	No.	%	No.	%	No.	%		
Yes	10	100	10	100	20	66.67	40	80
No	-	-	-	-	7	23.33	7	14
Don't Know	-	-	-	-	3	10	3	6
Total	10	100	10	100	30	100	50	100

Source: Field Survey 2018

Figure: 4.9
Pie Chart of Superiority of VAT over sales tax

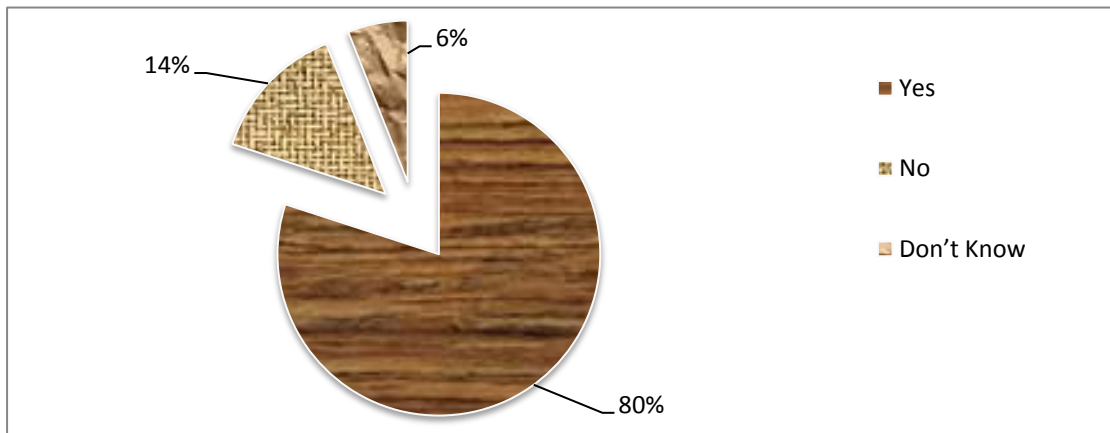


Table 4.9 & Figure 4.9 shows that the out of total 50 respondents of Tax Experts, Tax Administrators & Tax Payers 80% of them replied that the VAT is superior than sales tax. Similarly 14% of them replied that the sales tax is superior to VAT and only 6% of them replied that they do not know about the superiority of vat over sales tax and all of them are taxpayers. The majority of respondents replied that the VAT is superior to sales tax.

4.3.3 Views on VAT structure

The field survey has been conducted to find out whether the existing tax structure is appropriate or not. The findings of this survey can be presented in the following table.

Table: 4.10
Views on VAT structure

Respondents Response	TE		TA		TP		Total	Total
	No.	%	No.	%	No.	%	No.	%
It is Ok	6	60	8	80	15	50	29	58
It has to be Improved	4	40	2	20	8	26.67	14	28
Don't Know	-		-		7	23.33	7	14
Total	10	100	10	100	30	100	50	100

Source: Field Survey 2018

Figure: 4.10

Pie Chart of Views on VAT structure

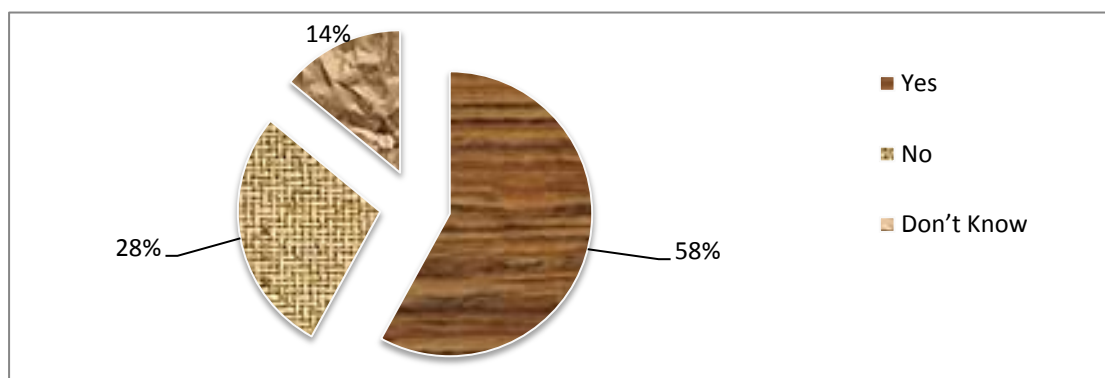


Table 4.10 & Figure 4.10 shows that the out of total 50 respondents of Tax Experts, Tax Administrators & Tax Payers 58% of them replied that the VAT structure is ok. Similarly, 28% of them replied that the VAT structure has to be improved and only 14% of them replied that they do not know about the VAT structure and all of them are taxpayers. The majority of respondents replied that the VAT structure is perfect.

4.3.4 Views on expanding the base of VAT

The opinionsurvey about the views on expanding base of VAT of different respondents can be presented on the following table.

Table: 4.11

Views on expanding the base of VAT

Respondents Response	TE		TA		TP		Total	Total
	No.	%	No.	%	No.	%	No.	%
Reduce Threshold	7	70	5	50	10	33.33	22	44
Include all Service Sector	2	20	3	30	5	16.67	10	20
Incorporatingagriculture sector	-	-	1	10	5	16.67	6	12
All above	1	10	1	10	7	23.33	9	18
Don't know	-	-	-	-	3	10	3	6
Total	10	100	10	100	30	100	50	100

Source: Field Survey 2018

Figure: 4.11

Pie Chart of Views on VAT structure

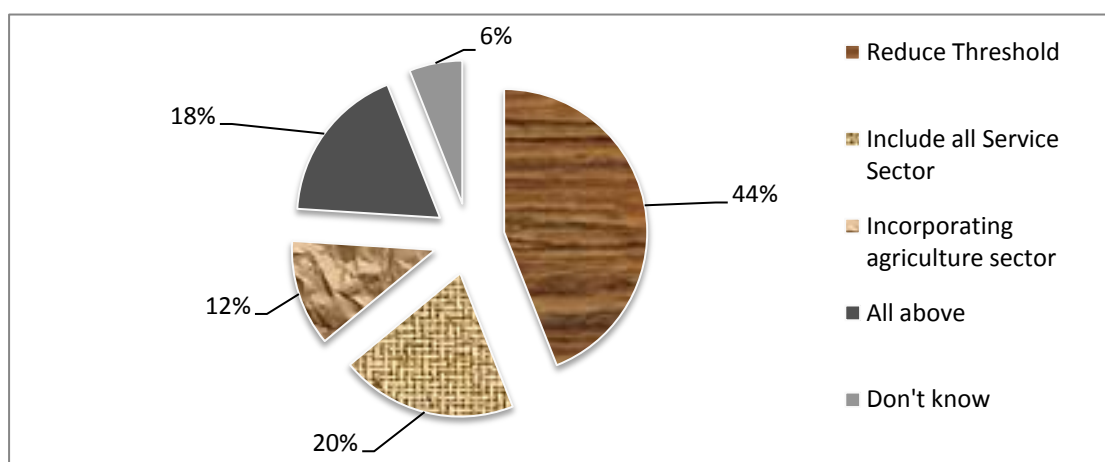


Table 4.11 & Figure 4.11 shows that the out of total 50 respondents of Tax Experts, Tax Administrators & Tax Payers 44% of them replied that reduce threshold to expend base of VAT, 20% of them replied that include all service sectors to expend base of VAT, 12% of them replied that Incorporating agriculture sector, 18% of them replied that all options should be adopt to increase base of VAT and only 6% reply that they do not know about the expending of base of VAT. The majority of respondents replied that to increase base of VAT, threshold should be increased.

4.3.5 Views on extent of threshold

The current threshold for VAT registration is rs.2 million. Those vendors whose annual turnover is below the threshold can however, register voluntarily. For increasing revenue mobilization by making effective the process of collecting revenues required for the economic development of the country, it is expedient to impose a value added tax on all transactions including the sale, distribution, delivery, importation, exportation of goods or services. The VAT rate is 13%. VAT threshold for service sector has been halved to rs1 million, whereas threshold for goods traders has been kept intact at rs2 million. What this means is, service sector firms and also the firms dealing with both services and goods will now need to register with and pay VAT compulsorily if their transactions stood at or crossed over rs1 million.

In earlier period of implementation of VAT there is a great dispute between the government and the business community as to the threshold, although there is a

problem generated by the shortage of statistical figure. It is due to lack of information to fix the threshold. Further, how much the present threshold can secure specially to the small vendors by giving a facility of tax exemption has been a confusion and doubt because of shortage of statistical figure according to the small vendors. The following table shows the views of the respondents from different fields.

Table: 4.12
Views on extent of threshold

Respondents Response	TE		TA		TP		Total No.	Total %
	No.	%	No.	%	No.	%		
Yes	6	60	7	70	10	33.33	23	46
No	4	40	3	30	15	50	22	44
Don't Know	-	0	-	-	5	16.67	5	10
Total	10	100	10	100	30	100	50	100

Source: Field Survey

Figure: 4.12
Pie Chart of Views on extent of threshold

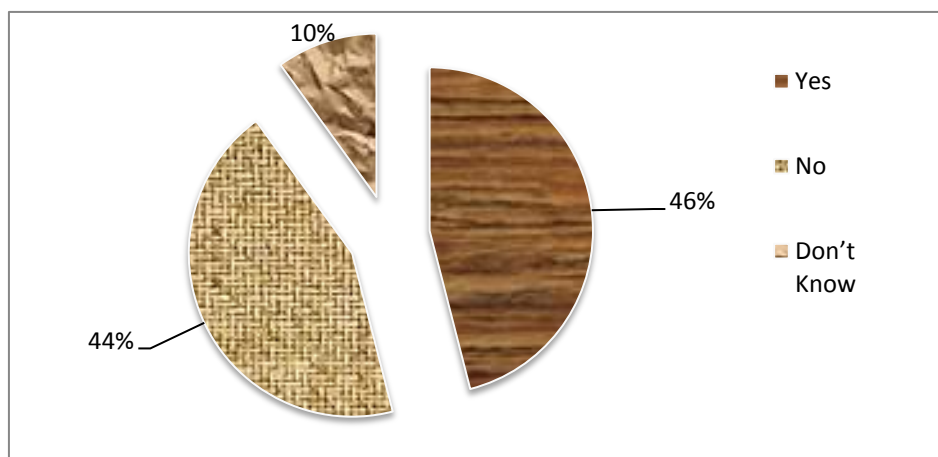


Table 4.12 & Figure 4.12 shows that the out of total 50 respondents of Tax Experts, Tax Administrators & Tax Payers 46% of them replied that the present threshold is enough for Nepal. Similarly, 44% of them replied that the present threshold is not enough for Nepal and only 10% of them replied that they do not know about the present threshold is enough or not and all of them are taxpayers. The majority of respondents replied that the present threshold is enough for Nepal.

4.3.6 Views on Effectiveness of single VAT rate

Nepal has preferred a single VAT rate which is 10% at beginning and increased to 13% according to vat enactment. Here the field survey has been conducted to find out the single vat rate is effective. The outcome is presented in the table below.

Table: 4.13
Views on Effectiveness of single VAT rate

Respondents Response	TE		TA		TP		Total	Total
	No.	%	No.	%	No.	%	No.	%
Yes	7	70	9	90	14	46.67	30	60
No	3	30	1	10	16	53.33	20	40
Total	10	100	10	100	30	100	50	100

Source: Field Survey 2018

Figure: 4.13
Pie Chart of Views on Effectiveness of single VAT rate



Table 4.13 & Figure 4.13 shows that the out of total 50 respondents of Tax Experts, Tax Administrators & Tax Payers 60% of them replied that the single VAT rate is effective. Similarly, 44% of them replied that the single VAT rate is not effective. The majority of respondents replied that the single VAT rate is effective.

4.3.7 Views on Securing small vendors by VAT

There is no any statistical figure of small vendors have tax exemption through the threshold. The opinion survey on this view is presented in the following table.

Table: 4.14

Views on Securing small vendors by VAT

Respondents Response	TE		TA		TP		Total	Total
	No.	%	No.	%	No.	%	No.	%
Yes	8	80	10	100	6	20	24	48
No	1	10	-	-	15	50	16	32
Possible	1	10	-	-	4	13.33	5	10
Don't know	-	-	-	-	5	16.67	5	10
Total	10	100	10	100	30	100	50	100

Source: Field Survey, 2018

Figure: 4.14

Pie Chart of securing small vendors by VAT

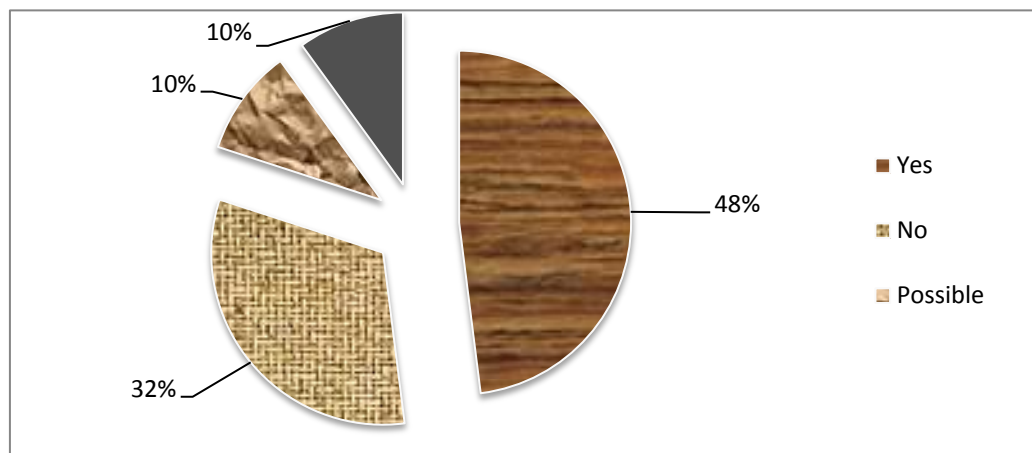


Table 4.14 & Figure 4.14 shows that the out of total 50 respondents of Tax Experts, Tax Administrators & Tax Payers 48% of them replied that the VAT can secure properly to the small vendor, 32% of them replied that the VAT cannot secure properly to the small vendor, 10% of them replied that it is possible and rest of the 10% of them replied that they do not know about the VAT can secure properly to the small vendor or not. The majority of respondents replied that the VAT can secure properly to the small vendors.

4.3.8 Views on Tax Burden of VAT to the tax payers

The fieldsurvey has been conducted to find out views of different respondent on burden ofVAT to the tax payers. The outcomes are presented in table below.

Table: 4.15

Views on Tax Burden of VAT to the tax payers

Respondents Response	TE		TA		TP		Total No.	Total %
	No.	%	No.	%	No.	%		
Higher	5	50	2	20	15	50	22	44
Lower	1	10	1	10	3	10	5	10
Normal	4	40	7	70	12	40	23	46
Total	10	100	10	100	30	100	50	100

Source: Field Survey 2018

Figure: 4.15

Pie Chart of Tax Burden of VAT to the tax payers



Table 4.15 & Figure 4.15 shows that the out of total 50 respondents of Tax Experts, Tax Administrators & Tax Payers 46% of them replied that the tax burden of VAT to the tax payer is higher. Similarly, 44% of them replied that the tax burden of VAT to the tax payer is normal and only 10% of them replied that the tax burden of VAT to the tax payer is lower. The majority of respondents replied that the tax burden of VAT is normal to the tax payer.

4.3.9 View on sufficiency of legal provisions and rules of VAT

The field survey has been conducted to find out whether the present act and regulations are sufficient or not with reference to current system of VAT. The attitude of the respondents on this aspect is present in the table below.

Table: 4.16

Views on sufficiency of legal provisions and rules of VAT

Respondents Response	TE		TA		TP		Total	Total
	No.	%	No.	%	No.	%	No.	%
Sufficient	4	40	6	60	10	33.33	22	44
Insufficient	6	60	4	40	15	50	23	46
Don't Know	-	-	-	-	5	16.67	5	10
Total	10	100	10	100	30	100	50	100

Source: Field Survey, 2018

Figure: 4.16

Pie Chart of Views on sufficiency of legal provisions and rules of VAT

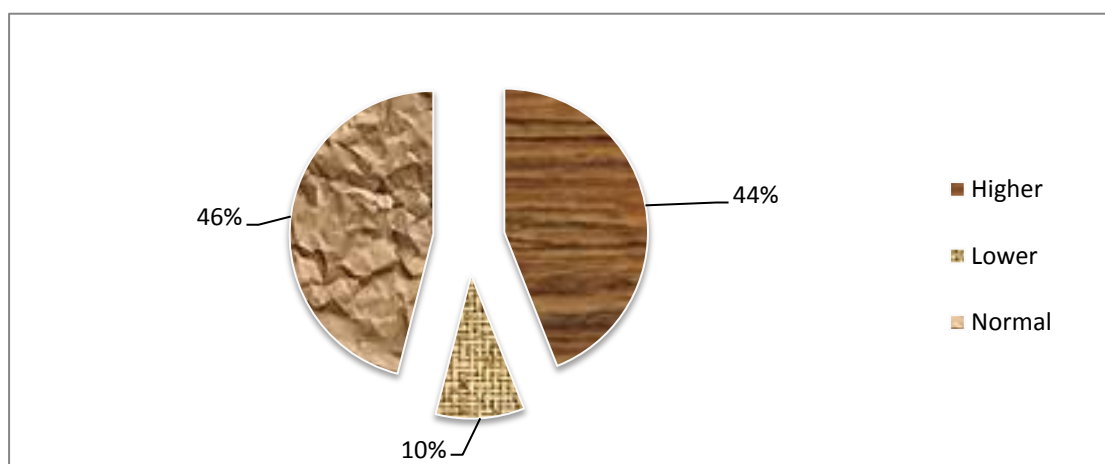


Table 4.16 & Figure 4.16 shows that the out of total 50 respondents of Tax Experts, Tax Administrators & Tax Payers 46% of them replied that the current legal provision and rules of VAT are insufficient in Nepal. Similarly, 44% of them replied that the current legal provision and rules of VAT are sufficient in Nepal and only 10% of them replied that they don't know about the sufficiency of legal provision and rules of

VAT. The majority of respondents replied that the legal provision and rules of VAT are insufficient in Nepal.

4.3.10 Views on problems in the process of VAT implementation

The field survey has been conducted to know the views of different respondents about to explore the problems on process of VAT records. The study shows registration, collection, tax refunds and miscellaneous is the main problems for the implementation. The attitude of different respondents are presented in the table below.

Table: 4.17

Views on problems in the process of VAT implementation

Respondents Response	TE		TA		TP		Total	Total
	No.	%	No.	%	No.	%	No.	%
Registration	2	20	1	10	8	26.67	11	22
Collection	3	30	3	30	10	33.33	16	32
Tax refund	4	40	2	20	10	33.33	16	32
Billing system	1	10	4	40	2	6.67	7	14
Total	10	100	10	100	30	100	50	100

Source: Field Survey 2018

Figure: 4.17

Pie Chart of Views on problems in the process of VAT implementation

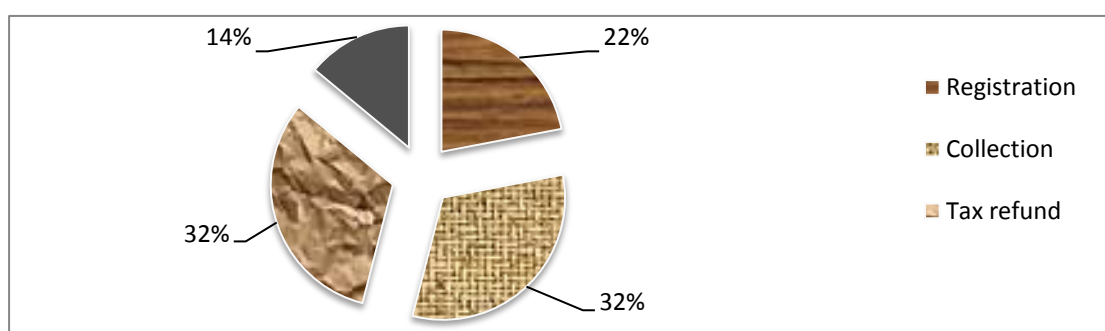


Table 4.17 & Figure 4.17 shows that the out of total 50 respondents of Tax Experts, Tax Administrators & Tax Payers 32% of them replied that the main problem in the present VAT implementation is collection, 32% replied that the main problem in the present VAT implementation is tax refund. Similarly, 22% of them replied that the main problem in the present VAT implementation is registration and only 14% replied

that the main problem in the present VAT implementation is billing system. The majority of respondents replied that the the main problems in the present VAT implementation are collection & tax refund.

4.3.11 Views on improvement of revenue collection through VAT

To find out whether the previous sales tax or VAT system will help to improve the government revenue the respondent's views are presented in the table below.

Table: 4.18

Views on improvement of revenue collection through VAT

Respondents Response	TE		TA		TP		Total No.	Total %
	No.	%	No.	%	No.	%		
Yes	10	100	10	100	20	66.67	40	80
No	-	-	-	-	5	16.67	5	10
Don't Know	-	-	-	-	5	16.67	5	10
Total	10	100	10	100	30	100	50	100

Source: Field Survey 2018

Figure: 4.18

Pie Chart of Views on improvement of revenue collection through VAT

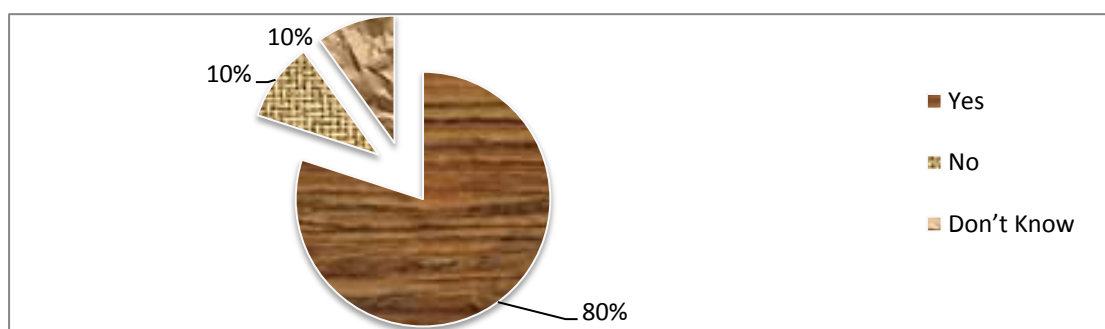


Table 4.18 & Figure 4.18 shows that the out of total 50 respondents of Tax Experts, Tax Administrators & Tax Payers 80% of them replied that the VAT system in Nepal is improve revenue collection. Similarly, 10% replied that the VAT system in Nepal is not improving revenue collection and only 10% replied that they don't know about the improvements in revenue by VAT collection. The majority of respondents replied that the VAT system in Nepal is improving revenue collection.

4.3.12 Views on major weakness of VAT administration

It is found that major weakness of Vat administration in Nepal are lack of expertise, lack of trained man power, weak financial resources, lack of physical infrastructure and others miscellaneous. The field survey was concluded in this aspect to know the major weakness in Vat administration. The outcome on this view is shown in the following table.

Table: 4.19

Views on major weakness of VAT administration

Respondents Response	TE		TA		TP		Total No.	Total %
	No.	%	No.	%	No.	%		
Lack of Experts	1	10	-	-	5	16.67	6	12
Lack of Trained Manpower	3	30	3	30	10	33.33	16	32
Lack of Infrastructures	4	40	5	50	8	26.67	17	34
Weak Economy	2	20	2	20	7	23.33	11	22
Total	10	100	10	100	30	100	50	100

Source: Field Survey, 2018

Figure: 4.19

Pie Chart of Views on major weakness of VAT administration

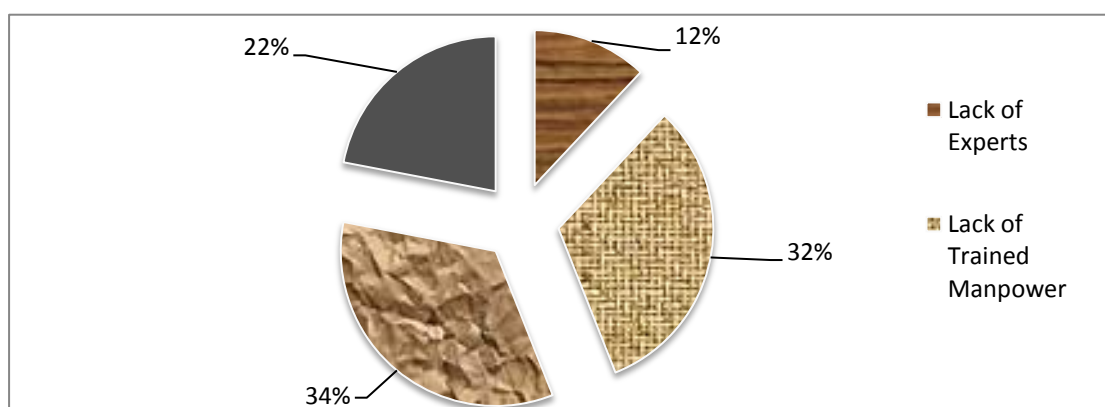


Table 4.19 & Figure 4.19 shows that the out of total 50 respondents of Tax Experts, Tax Administrators & Tax Payers 34% of them replied that the the major weakness of VAT administration is lack of infrastructure, 32% of them replied that the the major weakness of VAT administration is lack of trained manpower, Similarly, 22% of them

replied that the the major weakness of VAT administration is lack weak economy and only 22% of them replied that the the major weakness of VAT administration is lack of experts. The majority of respondents replied that the major weakness of VAT administration is lack of infrastructure.

4.3.13 Views on making VAT effective

VAT has already been in Nepalese environment however it has not yearsecured the expected results and many problems are still exist in the real field. It isnecessary to identify the existing problems and solve them successively to makethe VAT more successful in future. There are so many options to make VAT moresuccessful. There are strengthen and improve VAT administration, trained andeducated officers public awareness programme about VAT etc. The views ofvarious respondents on this aspect is presented in the table below.

Table: 4.20
Views onmaking VAT effective

Respondents Response	TE		TA		TP		Total	Total
	No.	%	No.	%	No.	%	No.	%
Strengthen and improved VAT administration	3	30	2	20	12	40	17	34
Trained and educated officers	2	20	1	10	3	10	6	12
Improved VAT laws and regulation	1	10	2	20	5	16.67	8	16
Public awareness programme	4	40	5	50	10	33.33	19	38
Total	10	100	10	100	30	100	50	100

Source: Field Survey, 2018

Figure: 4.20

Pie Chart of Views on making VAT effective

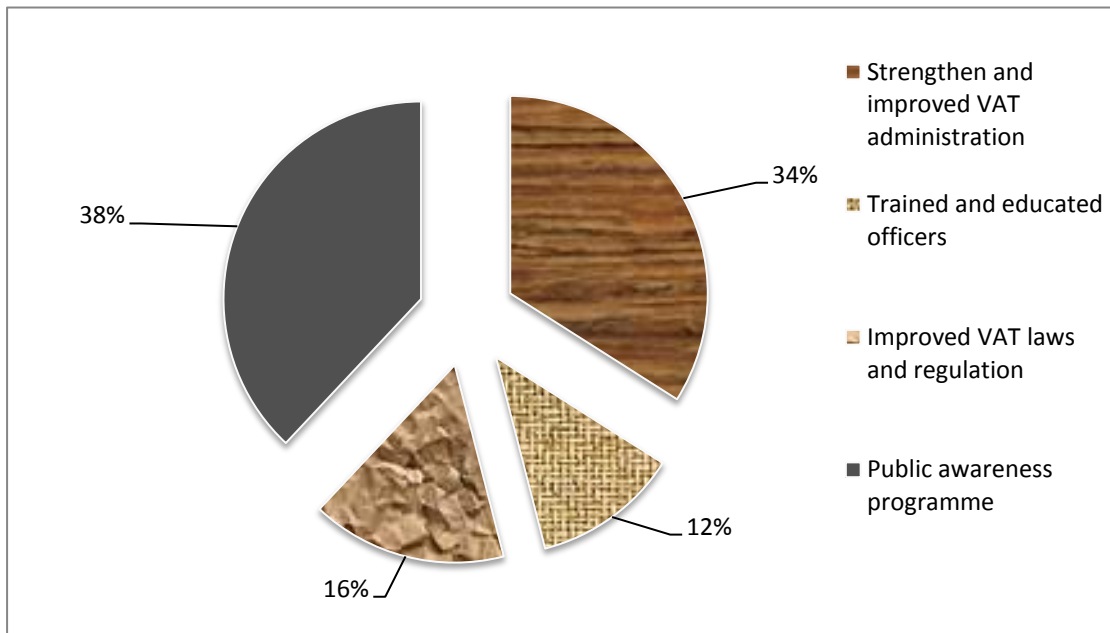


Table 4.20 & Figure 4.20 shows that the out of total 50 respondents of Tax Experts, Tax Administrators & Tax Payers 38% of them replied that Public awareness programme is needed to make VAT effective, 34% replied that the Strengthen and improved VAT administration is needed to make VAT effective .Similarly, 16% of them replied that Improved VAT laws and regulation to make VAT effective and only 12% replied that the trained and educated officer is needed to make VAT effective. The majority of respondents replied that to make VAT effective people awareness should be increased.

4.3.14 Views on current challenging problems of VAT

The field survey has been conducted to identify the most challenging problem among smuggling and under valuation lack of proper billing, lack of proper accounting and weak tax administration the outcomes of different respondents on this aspect are presented below.

Table: 4.21

Views on current challenging problems of VAT

Respondents Response	TE		TA		TP		Total No.	Total %
	No.	%	No.	%	No.	%		
Smuggling and under Valuation	4	40	5	50	5	16.67	13	26
Lack of proper billing system	2	20	2	20	4	13.33	8	16
Lack of proper accounting system	1	10	2	20	6	20	9	18
Weak tax administration	3	30	1	10	15	50	20	40
Total	10	100	10	100	30	100	50	100

Source: Field Survey, 2018

Figure: 4.21

Pie Chart of Views on current challenging problems of VAT

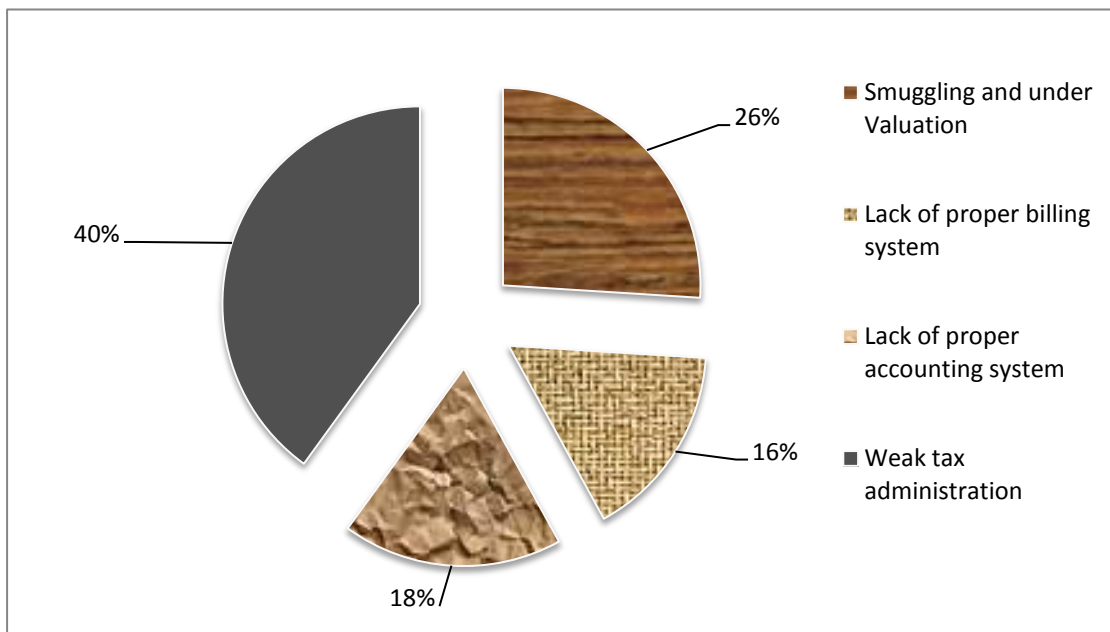


Table 4.21 & Figure 4.21 shows that the out of total 50 respondents of Tax Experts, Tax Administrators & Tax Payers 40% of them replied that the current challenging problem of VAT is weak tax administration, 26% replied that the current challenging problem of VAT is Smuggling and under Valuation. Similarly, 18% of them replied that the current challenging problem of VAT is lack of proper accounting system and only 16% replied that the current challenging problem of VAT is lack of proper

billing system. The majority of respondents replied that the current challenging problem of VAT is weak tax administration,

4.3.15 Views on effectiveness of VAT in future

In Nepalese context, the smuggling trade level is at peak point, tax leakage is at higher magnitude and the revenue collection is at the lower level, the effectiveness and administration is weak. So without proper implementation there is big doubt whether VAT will be effective in future or not. The views of various respondents on this aspect is presented in table below.

Table: 4.22
Views on making VAT effective

Respondents Response	TE		TA		TP		Total	Total
	No.	%	No.	%	No.	%	No.	%
Yes	8	80	10	100	18	60	36	72
No	2	20	-	-	5	16.67	7	14
Don't Know	-	-	-	-	7	23.33	7	14
Total	10	100	10	100	30	100	50	100

Source: Field Survey, 2018

Figure: 4.22
Pie Chart of Views on making VAT effective

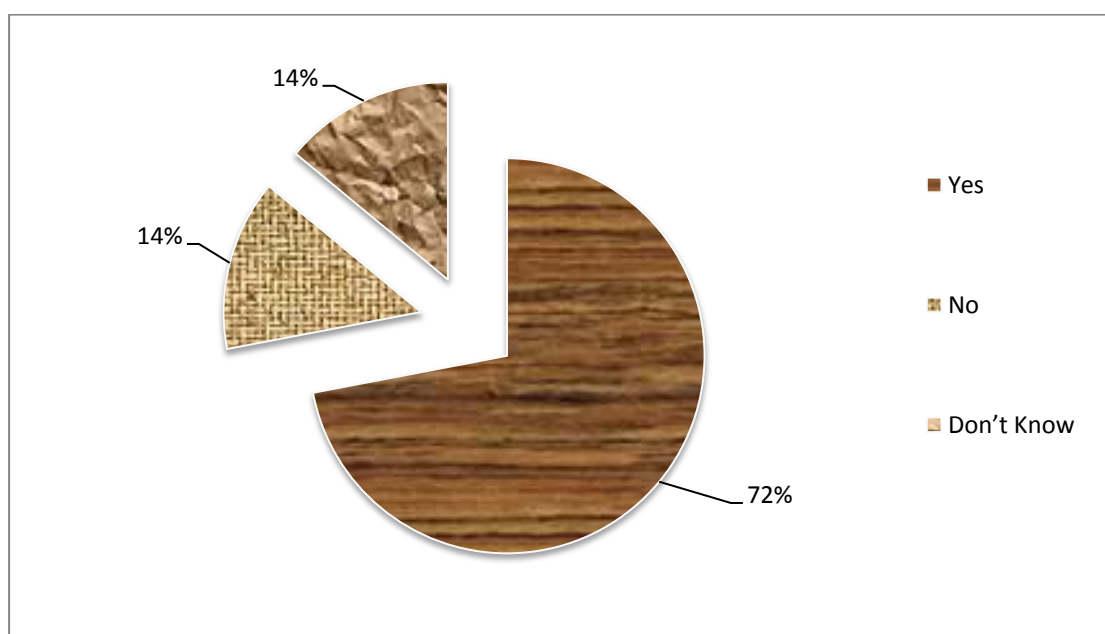


Table 4.22 & Figure 4.22 shows that the out of total 50 respondents of Tax Experts, Tax Administrators & Tax Payers 72% of them replied that the VAT will be more effective in future. Similarly, 14% of them replied that the VAT will be not effective in future and 14% replied that they don't know about will be effective or not in future.

4.4 Major Findings

- The average proportion of tax revenue on total revenue is 86.91% and standard deviation & coefficient of variation are 3.26% & 3.76% respectively similarly, the average proportion of grant is 13.09% and standard deviation & coefficient of variation are 3.26% & 24.94% respectively.
- The average increments rate of VAT is 23.30 % during the study period of five years similarly, standard deviation and coefficient of variation are 11.63% & 49.92% respectively.
- The average proportion internal VAT revenue on total VAT revenue is 35.62%. Similarly, the average proportion of imports VAT revenue on total VAT revenue is 64.38%.
- During the five year study period since the fiscal year 2070/071 to 2074/075, the average contribution on of reverse charge is 1.5%, tourism is 4.85%, contract is 14.97%, selling & distribution is 19.46%, production is 31.59% and other service is 27.61%.
- The average proportion of VAT revenue on total tax revenue is 34.05% during the five year study period and the standard deviation & coefficient of variation are 1.14% & 1.78% respectively.
- The majority of respondents i.e. 48% replied that the VAT rate is moderate.
- Out of total 50 respondents of Tax Experts, Tax Administrators & Tax Payers 80% of them replied that the VAT is superior to sales tax.
- The majority of respondents i.e. 58% replied that the VAT structure is perfect and 14% of them replied that they do not know about the VAT structure.
- The majority of respondents i.e. 44% replied that to increase base of VAT, threshold should be reduce and 6% reply that they do not know about the expending of base of VAT.
- Out of total 50 respondents of Tax Experts, Tax Administrators & Tax Payers 46% of them replied that the present threshold is enough for Nepal.

- In the context of single VAT rate, 60% respondents replied that the single VAT rate is effective. Similarly, 44% of them replied that the single VAT rate is not effective.
- The majority of respondents i.e. 48% replied that the VAT can secure properly to the small vendors.
- Out of total 50 respondents of Tax Experts, Tax Administrators & Tax Payers 46% of them replied that the tax burden of VAT to the tax payer is higher and only 10% of them replied that the tax burden of VAT to the tax payer is lower.
- The majority of respondents i.e. 46% replied that the legal provision and rules of VAT are insufficient in Nepal and 10% of them replied that they don't know about the sufficiency of legal provision and rules of VAT.
- In the context of VAT Implementation, 22% of them replied that the main problem in the present VAT implementation is registration and only 14% replied that the main problem in the present VAT implementation is billing system.
- The majority of respondents i.e. 80% replied that the VAT system in Nepal is improving revenue collection and 10% replied that they don't know about the improvements in revenue by VAT collection.
- The major weaknesses of VAT administration are lack of infrastructure, lack of trained manpower, weak economy & lack of experts respectively.
- The majority of respondents i.e. 38% replied that to make VAT effective people awareness should be increased.
- Current challenging problems of VAT are weak tax administration, Smuggling and under Valuation, Lack of proper accounting and Lack of proper billing system respectively.

The major finding of the study is VAT; internal vat revenue is lower than external vat revenue, Part of vat revenue is large in total revenue, tax administration is weak, there is problem of undervaluation, under billing and proper accounting.

CHAPTER V

CONCLUSION

5.1 Summary

Value added tax is a modern innovation indirect tax in the field of taxation. Value added tax is the improved and modified form of traditional sales tax. VAT is implemented more than 125 countries in the world. VAT is multi stage commodity and service based tax that is levied on the value added of business enterprises at different stages of production and distribution value added tax affects the only added portion of price. It has nothing to do with the rest of the prices. Purchasers pay VAT to the sellers and seller transfer to government deducting VAT paid on their business purchases by the amount collected from the consumers on their sales. The ultimate burden of VAT shifted to the customers.

Value added tax is first implemented by France in 1954. After then almost all countries of the world began to implement VAT system. In Nepalese context VAT was implemented in 1996 AD. The revenue collection from tax is the major parts. About 1/3 portion of revenue is collected from tax. The share of direct tax in total tax revenue is reducing continuously. In this way indirect tax plays the vital role in the revenue generation.

The structure of Nepalese VAT is designed in the VAT Act, 1996 AD. Its coverage is defined with reference to both taxable transaction and taxable persons. According to the VAT Act 1996 the tax rate is 13% and exports are subject to a rate of zero percent. There are certain cases such as exemption and zero rating, under which commodities are tax free. A tax payer can deduct all tax paid on purchase. This deduction is known as input tax credit. Nepalese VAT Act also provided tax refund facilities. It also defined the threshold limit. Business men below the threshold limit is not compulsory to register in VAT. This threshold limit in Nepalese context is Rs. 2 million. This act also provided the self assessment system of tax.

The first step of VAT administration is registration. The business men who registered in VAT is the legal tax payer. All registered person should be receive and give the bills while purchasing and selling of commodities. All registered person should maintain

the sales book, purchase book, VAT account, tax invoices and debit and credit note. Every business men above the threshold should compulsory registered in VAT office. The registered person get credit facility tax paid on their purchases. Small vendors below the threshold limit is not compulsory to register in VAT office. Below the threshold could be registered voluntarily.

In this context, to find out the problem of implementation of VAT in Lalitpur district this study is conducted taking sample of 50 respondents including tax administrator, tax experts and tax payers using primary as well as secondary data. This study is divided into five separate chapters. The first chapter deals with background, statement of problem, focus of the study, objective of study, Significance of the study, limitation of study and organization of the study. The second chapter "Literature review" presents the review of related literatures and available studies, written and prepared by different experts and researcher. The third chapter "Research Methodology" present the methodology used in this study. It deals with research design, nature and sources of data, collection of data, data processing and method of data analysis. The fourth chapter fulfills the objectives of the study by presenting the data and analyzing them with the help of various accounting and statistical tools and techniques followed by methodology. The fifth chapter summarizes the whole study. Moreover it draws the summary conclusion and forwards the recommendation for the improvement of effective VAT collection system and to increase public conscious about VAT system.

5.2 Conclusions

Nepal is a developing country the main sources of revenue in Nepalese economy is tax and foreign Grant's & loans. There are many disadvantages of foreign sources. Nobody provides grants and loans without terms and conditions. So to develop the Nepalese economy the government should emphasis to collect the revenue from internal courses. In Nepalese context the revenue collection from VAT is in increasing trends. In an aggregate 2/3 of tax collects from VAT.

Adopting of VAT for Nepal is both a compulsion and necessity. It can't curtail its development projects for which more revenue is required. The narrow tax base of previous sales tax failed to generate the minimum required amount of revenue because it include only imports and manufacturing units. Similarly, most of the goods and

services were exempt from tax income tax however some potential was for revenue generation in Nepal. The income tax is decreasing slowly because government can not put more burdens on people to pay income tax.

The culture of doing business without maintaining proper books of accounts or maintaining multiple sets of books of accounts has made implementation of vat difficult. The problem is further intensified due to lack of culture of issuing and receiving bills at the point of sale and purchase, 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 results unless these problems are addressed seriously.

Theoretically, the Nepalese VAT system has no weak provisions. It is one of the best models in the world. In practice, however, the system is not effective even today. Most of the problems concerning the operation of vat in Nepal have been identified. The government needs to take necessary steps to sort out emerging problems in implementation of vat. The government needs full co-operation from the tax administration, the taxpayers and business-men as well as consumers in its efforts to generate more revenue. Vat must be made successful and this largely depends upon honesty, faith and morality of tax officials and business people.

- Responsibility and accountability in every section of the economy is the basic requirements as well as honesty and confidence between the business people and tax administration. There is need for will power and action. The government must be curative. Unnecessary hindrance to economic activities must be avoided. In the absence of growth in economic activities, revenue generation cannot be increased. Thus, it is time for action and improvements for effective and successful operation of VAT in Nepal for further perspective as well as present needs of economic development. This Research shows that portion of VAT is greater in total revenue. There is problem of under billing for Vat purpose. There is lack of ethics in businessmen and tax administrators. Audit and investigation system is not improved and effective, and lack of penalize those who do not follow the rules.

5.3 Implications

Nepal has introduced VAT system since 1997, after a long preparation and planning despite the existing constraints and opposition. Since, the implementation of vat is a great jump from the traditional tax system to a modern system, several things are still lacking to be done for the successful implementation of vat in Nepal. In such circumstances, on the basis of major findings and conclusions, following recommendations have been made to make vat effective and more effective, which could be fruitful to concerned authorities while reforming Nepal's VAT system.

- Most of the taxpayers as well as public are still unknown about vat and its effects on various aspects. So, proper publicity for all relate a person is the fundamental tool for success of vat. Tax related information should be published regularly through journals, magazines, newspaper, pamphlets, radio, television etc.
- Many rules and regulations of VAT are only limited in papers and they are not seen in practice. All the rules and regulations should be in practice.
- Government should make effort to discourage under valuation, including purchases of some consignments, which are imported at an unrealistically low value.
- Audit and investigation system need to be improved and make effective, and strictly penalize those who do not follow the rules.
- Lack of proper billing system, is being the most challenging problem in Nepalese context. So consumers should be well informed to take the real bills which they have to pay and strict warning should be given to business that use to issue false bills/ invoice. So issuing invoices for every taxable sells must be made compulsory.
- VAT laws should be effectively implemented. Timely revision should be made on unpractical acts, rules and regulation on the basis of experience gained.
- There should be effective awareness programs through advertising media for taking invoice for every taxable purchases by consumers, Beside this, every business firm should come to patch a notice for consumers in front of counter informing about not forget to take bill.

- Monitoring, system of the vat administration is not so effective. Because of this, taxpayers are still encouraged for tax evading practices. Many businessmen do not issue invoice for their selling and even do follow the other improper invoices. So, an effective and efficient auditing, investigation and monitoring system should be developed.
- Existing threshold and tax refund are two possible gates for tax evasion. It seems that existing exemption has a broad coverage however some exemptions are unavoidable due to administrative complexity and equity aspect. So exemption should be minimized gradually/successively.
- Taxpayers should have provided better honor for their regular contribution of paying tax to the government, and be provided better services.
- Recommended for future research.

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IMPLEMENTATION OF VAT IN LALITPUR DISTRICT

(A Case Study of Lalitpur District)

A Thesis Proposal

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CHAPTER- I

INTRODUCTION

1. Background of the study

Economic development has been one of the most popular slogans in almost all the developing countries all over the world. Similarly, achievement of high rate of economic growth rate, reduction of income disparities and poverty and improvement of living standard of people are some development strategies towards which most of the government efforts have been directed in developing countries. It is known that government needs more revenue mobilization for overall economic development and state welfare. Besides this, for meeting day-today expenditure, the government also requires some sources of income which is called revenue.

In the developing country like Nepal, there is a necessity for raising a larger volume of funds for the development and administration expenses. The revenue collection is a challenging task in itself which demands increasing necessity of regular expenditure in general and development expenditure in particular. However, resource mobilization is very low compelling the government to rely heavily on foreign assistance. Development expenditure has been dependent almost entirely on the foreign aid. External assistance is uncertain, precarious, inconvenient and not conducive to the healthy and overall development should there be heavy dependence on it. The foreign aids are not bad for economic development of the nation per se. But the experience of the most of the developing countries shows that there are negative effects of increasing international grants and loans to finance the public development activities. Thus the government should depend on its own resources for generating revenue in order to finance these regular and development activities. The government can collect revenue from taxable and non-taxable sources (Adhikari, 2002).

Tax is a key source for revenue generation and mobilization. Different persons have defined taxation in different ways. In this respect, it would be better to take the definition given by Prof. Seligman. In his words, "Tax is the compulsory contribution from a person to the government to defray expenses incurred in the common interest of all without reference to special benefit conferred." From the definition given above, it can be said that firstly, a tax is a compulsory levy and those who are taxed have to pay it without

getting corresponding benefit of services or goods from the government. Secondly, the taxpayer cannot receive any quid pro quo for the payment of tax. Thirdly, the tax is paid to the government for running it. Fourthly, the amount is spent for common interest of the people.

Taxes in developing countries serve as the severe means of raising revenue. Therefore, Taxation may be utilized by the government as an effective tool for giving incentive to the proper growth of saving, investment and gross domestic product. But, in Nepal the tax policy is mostly guided towards the revenue generation. There are so many effects of taxation; no single tax is completely perfect. Consequently, there must be a structure of taxation, combining a number of taxes, which the government can vary from time to time according to changes in emphasis on different objectives. Depending on the methods of payment of taxes, taxes can be classified into two major categories, viz. direct taxes and indirect taxes. Direct tax includes, income tax, corporate tax, capital gain tax, capital transfer tax and other taxes similarly, indirect tax includes value added tax (VAT), custom duty & exercise duty (Howell, 1995).

In the least developed countries like Nepal, the role of indirect tax is seen to be more important. Of the Indirect taxes, VAT is probably the best tax system and the most important innovation of the second half of the twentieth century, which is considered as an effective means to collect revenue as a reformed sales tax of indirect tax system. VAT is a broad based tax as it also covers the value added to each commodity by a firm during all stages of production and distribution. It is a modern tax system which enables to efficient collection system, to increase efficiency and to reduce tax evasion. It is also refereed as the backbone of income tax system in Nepal. VAT plays great role in the revenue mobilization in Nepal. The reason behind VAT system, it makes transparency in all kinds of transaction, helps to make the wide area of tax and discourages tax evasion. So it is needless to say that VAT is the most important sources of the government revenue. VAT is intended to be levied – or charged – whenever there is some value addition to raw material. The taxpayers on the other hand, will get credit for the amount of tax paid off at the stages of procurement. The value added tax system has proven to be effective in avoiding problems that normally might arise out of the double taxation of goods and services. The lesson learnt of tax reforms in developing countries proves that VAT is the most important choice and ingredient of tax reform. It may be adopted by a

developing country with no 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 underdeveloped countries to achieve the goal of economic development (Adhikari, 2003).

2. Statement of the Problem

The possibility of increasing revenue substantially through direct tax is limited in the context of Nepal's agricultural based rural economy. In this context, VAT is only one solution to increase the research mobilization capacity of country. It has been already 17 years of implementation of VAT in Nepal. VAT was implemented after several preparation programs such as publicity, Campaign, workshop, training advertisements, publication of articles discussion on radio and television, commenced various booklets and other materials were published. In this process only positive aspect of VAT were discussed. The negative aspects were not taken in to consideration. So that the shortcoming that can enter on the process of VAT implementation couldn't discussed .It seems its right time to make an assessment the VAT by identifying its problems that has been arisen in the process of VAT implementation and prospects of revenue mobilization through VAT in the country. By analyzing the problem of implementation of one district, this study is trying to pinpoint the problem in depth and discussed in meaningful way by which further research work can be carried out in coming future for the purpose of effective VAT implementation in Nepal. The major problems of the study are as follows.

- What is the structure of government income & expenditure?
- What are the sources and structure of VAT?
- What is the revenue collection from VAT in different year?
- What is the knowledge about VAT of business-men and consumers in Lalitpur District?
- What are the problems of VAT collection and implementation system in Lalitpur District?

3. Purpose of the Study

The main purpose of this study is to ponder into theoretical knowledge of VAT and to analyze the practical aspects of the implementation of VAT in Lalitpur as context of Nepal. The general objective of the study is to examine the various issues relating to VAT and to provide useful views as well as suggestion. However, specific objectives of the study are as follows.

- To analyze the structure of government revenue.
- To find out the sources and structure of VAT.
- To find out the revenue collection from VAT in different year.
- To explore the knowledge about VAT of business-men and consumers in Lalitpur District.
- To assess the problems of VAT collection and implementation system in Lalitpur District.

4. Significance of the Study

The significances of the study are as follows.

- Theoretical and practical knowledge required to implement and evaluate VAT properly. So this study analyses Nepalese VAT system with its practice. This study analyses the amount received from vat different year.
- This study will provide clear idea and knowledge to those persons who are interested to know more about VAT. This study also provides the clear idea about the vat system in Nepal.
- This study will focus on people's awareness towards VAT in Lalitpur District and it also provides the suggestion of different person to make effectiveness technique to collection of VAT.
- This study is to identify the problem of implementation of VAT in Lalitpur district. Lalitpur district is a develop district of Nepal .No doubt, Lalitpur has more transaction of goods and services and IRO of Lalitpur is collecting more VAT among other district.

5. Limitation of the Study

There are some limitations regarding this study which are as follows.

- a. This study is covered only five fiscal year data since the fiscal year 2066/067 to 2070/071.
- b. This study is based on availability of reliable data and sufficient literature.
- c. .Field survey is focused on Lalitpur District only.
- d. Limited business-men, tax experts, tax officers and consumers are consulted to collect primary data.

6. Literature Review

"VAT" - value added tax - has spread throughout the world since its introduction in 1955. Its format has changed and now incorporates what was once an offshoot - "GST" (goods and services tax). France was the first country to introduce VAT effective from April 10, 1954. By 1969, only eight nations had adopted VAT, out of this Cote-Devoir was the first country in Africa to introduce VAT in 1960. Since 1979 VAT has been adopted as the main form of an indirect tax by many countries in different parts of the world. (Misrak, 2008)

Abay (2013) conducted a study on ' Assessment on the Implementation of Value-Added Tax (VAT) in Mekelle City Administration'. This study tried to explore the major problems and prospects of Value-Added Tax (VAT) implementation in Mekelle City Administration. By considering the population size and availability of large numbers of VAT registered business firms, a total of 150 respondents from VAT collectors (registered business firms) and 50 respondents from VAT payers (consumers) were considered. The result of the study indicated that significant number of business community felt that the government is the sole beneficiary of VAT, the willful registration of the businesses has not yet come to the desired level, there is negative perception about the fairness of the payment across the businesses, significant decline in the number of the customers following the implementation of VAT has been observed, many consumers believe that VAT has been the very reason for business firms to impose higher price on products or services delivered and failure to give VAT & to tear down receipts.

Temesgen (2013) conducted a study on 'Problems and Prospects of Value Added Tax (VAT) Implementation in Tigray Regional State.' This study tried to explore the major

problems and prospects of VAT implementation in Tigray Regional State. By considering the population size and availability of large numbers of VAT registered business firms, a total of 340 respondents from VAT collectors (registered business firms) and 530 respondents from VAT payers (consumers) were considered. The results of the study indicated that the willful registration of the businesses has not yet come to the desired level, there is negative perception about the fairness of the payment across the businesses, significant decline in the number of the customers following the implementation of VAT has been observed, many consumers believe that VAT has been the very reason for business firms to impose higher price on products or services delivered.

Dheressa, et al (2015) conducted a study on 'Challenges of Value Added Tax Administration: The Case of East Wollega Zone.' The study was particularly focused on challenges of Value Added Tax Administration regarding the Value Added Tax assessment, collection and implementation of Value Added Tax and to assess the main problems related to the Value Added Tax administration activities performance tax office, service delivery of tax office and voluntary compliance of tax payers in the case of East Wollega Zone. The main problems that encountered are the following such as: Lack of Awareness of Taxpayers, resistance against registrations for Value Added Tax by some traders, weak culture of taxpayers, poor Value Added Tax administration system. All these problems hinder the Administration of Value Added Tax of the Zone.

Koirala (2010) conducted a study on 'Value Added Tax (VAT) in Nepal: A Critical Assessment of Its Performance.' This paper aims to assess critically the performance of VAT in Nepal since its inception to date, focusing basically on three aspects of it, viz, (i) Current scenario of VAT administration (ii) Major issues, and (iii) Urgent corrective actions required. This study finds that, the most challenging aspect of VAT is to address no-billing and under-billing Malpractices of the vendors head-on.

Gurumurthi (2017) conducted a study on 'Fiscal Federalism towards an Appropriate VAT System for a Federal.' The paper analyses the current division of responsibility between the centre and the states with regard to commodity taxation in its historical perspective and the efforts initiated during the last 15 years to introduce the VAT in place of union excise duties at the central and the sales taxes at the state levels. It offers an alternative VAT model for India based on certain principles applicable also to other federal economies planning to introduce the VAT.

Roa (2017) conducted a study on 'Taxing Services: Issues and Strategy.' This paper attempts to analyze the issues involved in extending consumption taxes to the services

sector. This study find that to evolve a destination based retail stage value added tax, it is necessary to give concurrent powers to tax all services subject to certain safeguards to ensure orderly development of the consumption tax system.

7. Research methodology

Research methodology is a research method used to meet the specified objectives. It is a systematic way to find out the probable solution. It refers to the various sequential steps (along with rational of each steps) to be adopted by a researcher in studying the problem with certain objectives in view. Thus the research method designed to achieve the objectives of this thesis contains research design, population and sample, data collection procedure, tools for analysis and methods of analysis and presentations.

8.1. Research Design

The research design is a plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance. The plan is the overall scheme or program of the research. It includes an outline of what the investigator will do from writing the hypothesis and their operational implications to the final analysis of the data. The purpose of the research design is to provide a maximum amount of information relevant to the problem under investigation at a minimum cost. This research study is concerned with past phenomena both numerical as well as opinions. This study is used both descriptive and analytical research design.

8.2. Population and Sample

The population for this study was comprised of the entire person belonging to or associated with Value Added Tax in Nepal. In order to fulfill the objectives of the study 50 persons have been considered as total sample, taxpayer, tax administrations and tax experts are considered as the total population. Out of 50 persons, 30 taxpayers, 10 tax administrator and 10 tax experts have been considered as the target sample for the study. 50 sample sizes are selected from three different groups of respondents. Samples from the population are selected from Lalitpur District by best judgment of the researcher. The following table presents the group of respondents and sample size.

Table: 3.1

Group of Respondent and size of sample

Code	Group of Respondents	Sample size
TE	Tax Experts	30
TA	Tax Administrators	30
TP	Tax payers	90
	Total	150

8.3 Sources of Data

Both primary as well as secondary data will collect in order to achieve the real and factual result out of this research. Since the nature of these primary and secondary data is different, collection procedure also tend to vary. A set of questionnaires was designed and distributed to the selected respondents well-learned in and at least familiar to VAT and its implications. Information and data were also collected from respondent through field visit by the researcher. The secondary data were collected through annual reports, different books and publications. The sources and data collection procedure is explained below.

8.4 Data Collection Procedure

Most of the information will be collected through secondary sources and some primary data were also be used. The secondary data will be obtained from internet sources, economic report, monetary policy and primary data will collected through standard questionnaire containing a five point lekert scale test items which will directly delivered to respondents.

8.5 Data Analysis Tools and Techniques

Various tools to be used in this for the study. The analysis of data will be done according to pattern of data available. Mainly the analysis will be done by using simple statistical analysis.

8.5.1 Percentage Change

To find out the changing positions of different amount this ratio is used. This ratio is calculated to measure the acceleration or retardation of any variables to the company is to take the suitable direction. It is calculated in following way.

$$\text{Annual percentage change} = \frac{\text{Amount of This Year} - \text{Amount of Last Year}}{\text{Amount of Last Year}}$$

8.5.2 Arithmetic Mean or Average

The mean or average value is a single value within the range of the data that is used to represent all the values in the series. Since an average is somewhere within the range of the data, it is also called a measure of central value. It is calculated by;

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N}$$

Where,

$$\begin{aligned}\bar{X} &= \text{Arithmetic Mean} \\ \sum X &= \text{Sum of values of all items, and,} \\ N &= \text{Number of items}\end{aligned}$$

8.5.3 Standard Deviation

The standard deviation is the measure that is most often used to describe variability in data distributions. It can be thought of as a rough measure of the average amount by which observations deviate on either side of the mean. Denoted by Greek letter's (read as sigma), standard deviation is extremely useful for judging the representatives of the mean. Standard deviation is calculated as;

$$\text{Standard deviation } (\sigma) = \sqrt{\frac{\sum (X - \bar{x})^2}{N}}$$

Where,

$$\begin{aligned}\sigma &= \text{Standard deviation} \\ \sum (X - \bar{x})^2 &= \text{Sum of squares of the deviations} \\ &\text{measured from arithmetic average.} \\ N &= \text{Number of items}\end{aligned}$$

8.5.4 Coefficient of Variation

The coefficient of variation is the ratio of standard deviation to the mean for a given sample used to measure spread. It can also be thought of as the measure of relative risk.

$$CV = \frac{\sigma}{\bar{X}} \times 100$$

Where,

CV	=	Coefficient of Variation
σ	=	Standard Deviation
\bar{X}	=	Arithmetic Mean

Chapter Plan

Chapter I – Introduction: This chapter gives an overview of the background of the study, focus of the study, problem statement, and research objectives, conceptual framework, significance of the study, limitation of the study.

Chapter II – Literature Review: This chapter reviews the theoretical base of the study as well as the previous studies on problems on implementation of VAT.

Chapter III – Research Methodology: This chapter covers the method used in the conduct of this study from the process of data collection to data analysis.

Chapter IV – Results: This chapter discusses the result of data analysis. Here we analyze the impact of interest rate on share price.

Chapter V – Conclusion: This chapter summarized the overall study and discusses the conclusion drawn from the findings of the study. Finally some recommendations provide to all stakeholders about the relationship between interest rate and share price. Also find out the impact of interest rate on share price.

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