

# **TAXPAYERS EDUCATION REGARDING VAT COLLECTION IN NEPAL**

**BY:**

**TIRTHA BAHADUR PRADHAN**

**Shanker Dev Campus**

**Campus Roll No. 1460/063**

**T.U. Regd. No.7-2-215-47-2033**

**Second Year Symbol No.: 2553**

**A Thesis Submitted to:**

**Office of the Dean**

**Faculty of Management**

**Tribhuvan University**

**In Partial Fulfillment of the requirement for the Degree of Master  
Of Business Studies(MBS)**

**Kathmandu, Nepal**

**April, 2010**

# RECOMMENDATION

This is to certify that the Thesis

Submitted by:

**TIRTHA BAHADUR PRADHAN**

Entitled:

**TAXPAYERS EDUCATION REGARDING VAT COLLECTION IN NEPAL**

has been prepared as approved by this department in the prescribed format of the Faculty of Management. This thesis is forwarded for examination.

.....

Lect. Joginder Goet

Thesis Supervisor

.....

Prof. Dr. Bishweshor Man Shrestha

Head of Research Department

.....

Prof. Dr. Kamal Deep Dhakal

Campus Chief

# VIVA-VOCE SHEET

We have conducted the Viva-Voce of the thesis presented

By:

**TIRTHA BAHADUR PRADHAN**

Entitled:

**TAXPAYERS EDUCATION REGARDING VAT COLLECTION IN NEPAL**

and found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for the degree of Master of Business Studies(MBS)

## Viva-Voce Committee

Head, Research Department .....

Member (Thesis Supervisor) .....

Member (External Expert) .....

TRIBHUVAN UNIVERSITY

Faculty of Management

Shanker Dev Campus

## DECLARATION

I hereby declare that the work reported in this thesis entitled “ TAXPAYERS EDUCATIONREGARDING VAT COLLECTION IN NEPAL” submitted to office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Master of Business Studies(MBS) under the supervision of **Lecturer Joginder Goet** of Shanker Dev Campus.

.....

Tirtha Bahadur Pradhan

Researcher

Campus Roll No. 1460/063

T.U. Regd. No.7-2-215-47-2033

Second Year Symbol No.: 2553

## ACKNOWLEDGEMENT

First of all, I deeply acknowledge my cordial gratefulness to my academic supervisor Mr. Joginder Goet & Mr. Pritiraj Adhikari, Lecturer of Shanker Dev Campus, for their valuable suggestion and continuous guidance.

I gratefully acknowledge Pro. Dr. Bishweshor Man Shrestha, Head of Research Department, Shanker Dev Campus, for being incessant source of inspiration, guidance and co-operation for preparation of research work.

My special thanks goes towards my friends Mr. Netra Dahal and Mr. Nilam Bhattarai for supporting me during field survey and research writing purpose.

At last but the not the least, I'm very thankful to all social respondents for their valuable support during field visit.

At last, I'm also grateful to all those who directly and indirectly contributed in completing this research work.

Tirtha Bahadur Pradhan

April, 2010

# Table of Content

	Pages
<b>CHAPTER-I INTRODUCTION</b>	<b>1-7</b>
1.1 Background of the Study	1
1.2 Statement of Problems	3
1.3 Objectives of the Study	5
1.4 Limitation of the Study	6
1.5 Organization of the Study	6
<b>CHAPTER-II REVIEW OF LITERATURE</b>	<b>8-29</b>
2.1 Concept of Tax	8
2.2 Theoretical Background of VAT	9
2.3 Historical Background of VAT	13
2.4 Evolution of VAT	20
2.5 Principle of VAT	21
2.6 Types of VAT	22
2.7 Methods of Computation of VAT	23
2.8 Review of Related Studies	23
2.8.1 Previous Research Review	24
2.8.2 Journal Review	28
2.9 Research Gap	29
<b>CHAPTER – III RESEARCH METHODOLOGY</b>	<b>30-32</b>
3.1 Research design	30
3.2 Population and sample	30
3.3 Sources of Data	31
3.4 Data Collection Techniques	31
<b>CHAPTER-IV DATA PRESENTATION AND ANALYSIS</b>	<b>33-57</b>
4.1 Contribution of VAT to Government Revenue (GDP)	33
4.2 Revenue Structure of Nepal	35
4.3 Tax Revenue Structure of Nepal	37

4.4 Analysis of Primary Data	40
4.5 Major Findings	55
<b>CHAPTER-IV SUMMARY, CONCLUSION AND RECOMMENDATION</b>	<b>58-64</b>
5.1 Summary	58
5.2 Conclusion:	60
5.3 Recommendations	61
<b>BIBLIOGRAGRAPHY</b>	

## List of Table

<b>Table No.</b>	<b>Title</b>	<b>Pages</b>
3.1	Profile of Respondents	31
4.1	Contribution of VAT to Government Revenue(GDP)	34
4.2	Composition of Total Revenue Collection of Nepal	36
4.3	Trend and composition of Tax Revenue of Nepal	38
4.4	Income Tax Revenue Contributing Significantly to the Tax Revenue of Nepal	41
4.5	Shows the Respondents Familiar with the Nepalese Income Tax	41
4.6	Shows the current Income Tax Exemption Limit is appropriate or not	42
4.7	Shows the Good Knowledge about Income Tax to Taxpayer Discouraging Illegal Business	43
4.8	Shows the Nepalese Income Tax System is Effective	44
4.9	Shows the problem faced by Businessman while paying business Tax	45
4.10	Shows that Education about Taxpayer is needed or not	46
4.11	Steps to be taken to make Taxpaying Effective	47
4.12	Shows Knowledge about Custom Duty	47
4.13	Represents Knowledge about the procedure of Paying Custom Duty	48
4.14	Needed Taxpayer Knowledge about Custom Duty	49
4.15	Show the Goods Valuation System in Custom Duty	50
4.16	Familiarity about VAT	51
4.17	Shows the Register of VAT	51
4.18	Applicability of Current VAT Rate	52
4.19	Shows the Effectiveness of VAT System in Nepal	53
4.20	Shows the Major Problems in VAT System in Nepal	53
4.21	Steps to be taken to make VAT Effective	54



## List of Figure

<b>Figure No.</b>	<b>Title</b>	<b>Pages</b>
4.1	Contribution of VAT to Government Revenue(GDP)	35
4.2	Trend and Composition of Total Revenue in Nepal for FY1999/000 to 2008/09	37
4.3	Trend of Direct and Indirect Tax Revenue	39

# CHAPTER-I

## INTRODUCTION

### 1.1 Background of the Study

Government has to spend a lot of money to fulfill its responsibilities towards the people. The government of a country requires sufficient revenue to handle day-to-day administration, carry out development plans, maintain, peace & security and to lunch other public welfare activities. Government collects revenue from various internal and external sources. External source of fund is foreign grants and loans. This kind of fund is received from foreign countries and international organizations. External sources of fund is important for undeveloped and underdevelopment countries. It is used for economic development, reconstruction, foreign exchange, to recover from crisis condition for productive use etc. However, the external sources are uncertain, inconvenient and not good for healthy development of the nation. It is better to mobilize internal sources rather than working with beggars eye to the donors (Pant, 1996).

The external sources of financing is depends upon the interest and the condition of funding countries and no discretion to spend the fund available. Continuous use of external source of fund is not good because it reduces liquidity position of the government, increases inflation and make over-dependence upon other countries.

Tax is, in simple terminology, a liability to pay an amount to the government. It is a compulsory contribution to the national revenue from the taxpayers according to the nation's law. Professor Seligman has defined tax as a compulsory contribution from a person to the government to clear the expenses incurred in the common interest of all without special benefits conferred. In other words, tax is a compulsory levy imposed by the government and the taxpayers cannot get direct corresponding benefits from the government. Tax is classified in to two categories i.e. direct and indirect. The person paying and bearing tax is same in

direct tax. It is legally imposed. Income tax, property tax, land tax, interest tax, gift tax etc are the examples of direct tax. Indirect tax is a tax, which imposed on one person but partly or wholly paid by another. Value added tax, import/export/excise duties, hotel tax etc are the examples of indirect taxes where the person paying and bearing tax is different.

Income tax is essential not only for collecting government revenue but also to control over consumption, to reduce in-equality of income & wealth, to promote saving and investment and to accelerate economic development (Joshi, 1998).

It is not doubt that income tax is main source of government revenue. Income tax is collected from various sources of profits and incomes. It is collected from public enterprises, semi-public enterprises, private corporate bodies, individuals, remuneration and interest.

Nepal has been adopting the income tax system for last four decades and is assessed on yearly basis. Although the legal provision has been made and updated timely, there are many problems about income tax such as leakage in tax, feeling of people about tax as a penalty, lack of consciousness of people, inability of tax administration to cover new tax payers, delays in computation & collection, lack of accuracy and unity in accounting system etc (Khadka, 2001).

In recent decades, many developing countries around the world have begun to focus their attention on reforming poorly designed defective tax structure as an integral part of the development efforts. Such reforms have broken some older, practices and established some new trends and axioms. One of such trends is the increasing acceptance of a VAT as an important part of their tax reform programs. (Bhatta, 2005)

Though VAT itself is a very scientific, transparent, broad based and investment friendly tax system many obstacles are there on the way of VAT. One of the challenges in implementing the VAT is taxpayers' behavior. Tax administration found some taxpayers keeping dual accounting, issuing dual bills, taking VAT from the customer but not submitting to the government and charging VAT without registration into the VAT. So there is a need for

discouraging such taxpayers. In addition to this lack of billing habit is another serious problem as there is a little or no practice of issuing the correct bill. Use of bills during sale of goods and consumables are still regarded as a waste of time and useless things by many consumers in the country. Some sellers use to compel the buyers to pay extra 13 percent amount, who will demand the bill. All these are anti VAT activities. (NRB, 2064)

Hence low public awareness as well as taxpayers' ignorance creates problems for the implementation of VAT in Nepal. There is need of the government awareness for the collection of tax and extended attention towards taxpayers' education and better taxpayer obligation and coercive enforcement of the tax laws and regulations for the default and tax evading taxpayers. Taxpayer education and assistance tells them what they need to know to comply and when they need to know it.

### **1.2 Statement of Problems:**

Nepal is one of the least developed countries in the world. Its position in terms of GNP per capita is the lowest in SAARC region. This shows Nepal has remained one of the poorest countries in the world. Sound tax system is one of the essential requirements for an economic development of the country. It has been felt that revenue collection from VAT is lower in Nepal than expected due to the various related problems. It is said that Nepalese VAT law is inappropriate and the administration is worse. Tax system should be such that it raises adequate revenue to the government, without discouraging private businesses.

Another problem is the lack of awareness among the taxpayers regarding VAT. There is a need of public awareness in VAT collection. Next problem is related to the coordination between the government and taxpayers.

In Nepalese economy where public expenditures are greater than public receipts. The resource gap has been widening in the recent years. In order to meet the public expenditures, the government has to raise funds through external and internal sources.

A sound tax system is one of the essential requisites for an economic development. Thus, different taxation policies have been introduced and renewed on a timely basis with a view to mobilize internal resources. It contributes to economic growth and reduces dependency on foreign loans. In Nepal, the coverage of income tax is very low. One research found that only about 0.5 percent of the total population pays income tax. There is a poor taxpaying habit of Nepalese people. The tax authorities are also insufficient and ineffective in enforcement. There are no integrated programs for taxpayers' education, assistance, guidance & counseling. Tax officers are looked upon as a heaven for corruption, harassment and incompetent personnel. The assessment procedure of income tax is not effective, undue delay in tax assessment not only reduces the total revenue but also brings harassment to the taxpayers (Agrawal, 1973).

On the basis of the above mentioned factors, the following research questions have been sought to be answered in this study:

- ) What is the status of taxpayer's education and awareness regarding VAT?
- ) Is the present management system of VAT effective?
- ) What is the relationship between VAT collection and taxpayers' education?
- ) What steps can be taken for improving taxpayer's awareness in Nepal?

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

The general framework of the study is to examine the education and awareness with regard to VAT collection and suggest to the policy maker to improve the knowledge of people with collection of VAT. The basic objective of this study is to gain an insight into the provision made in the present taxation policy regarding income from employment and give appropriate suggestions to improve the system so that the government can collect more revenue. The study is quite unsuccessful to bring most of the prospective taxpayers under the

tax. If it classify the tax exemption limit according to the income of an individual and make it proportional to the size of family; it can encourage more people to pay the tax. Taxpaying habit can also be increased by providing appropriate incentives to the taxpayers.

However, specified objectives of this study are:

- ) To assess the current status of taxpayers education and awareness regarding VAT.
- ) To find the relationship between VAT collection and taxpayers' education.
- ) To examine the effectiveness of present management system of VAT.
- ) To provide suggestions for improving taxpayer's awareness in Nepal.

#### **1.4 Limitations of the Study**

This study is specially based on remuneration aspect and not a complete study of tax payer's education. So, the study is not far from some limitations. The limitations of the study are as follows:

- ) The study focus basically taxpayer's education and awareness but it does not focus the whole taxation.
- ) The reliability of the study is depended on the reliability and validity of the secondary data. While getting some primary views, the taxpayers of eastern region only considered.
- ) The secondary data is obtained from the economic review and website for total government revenue as well as direct and indirect tax.

- J The study has covered the period of ten years only i.e. from fiscal year 1999/2000 to fiscal year 2008/2009.
- J Tax is a complicated and vague subject matter. Due to the limitation of time, each and every aspect of the chosen topic may not be covered.

### **1.5 Organization of the Study**

This study is organized in five chapters: Introduction, Review of Literature, Research Methodology, Presentation and Analysis of Data and Summary, Conclusion and Recommendations.

Introduction chapter includes the general background, focus of the study, statement of problem, objectives of the study, limitations and organization of the study. Similarly, the second chapter includes the theoretical review, review of dissertations, reports, articles and journals. Research methodology chapter is concerned with the methodology adopted in the research work. Furthermore, presentation and analysis of data is included in chapter four. Finally, the summary of research work, conclusion and recommendations are given in chapter five.

## **CHAPTER-II**

### **REVIEW OF LITERATURE**

Very few studies have been done on the topic taxpayer and their awareness towards VAT collection. It is a way to discover what the other researcher have covered and left in the area. A critical review of the literature helps the researcher to develop through understanding and insight in to previous researches works that relates to the present study .It is also way to avoid investigation on problem that has already been definitely answered. Thus a literature review is the process of locating, obtaining, reading and evaluating the resource literature in thereof the students interest. The purpose of the literature review is to find out what research studies have been conducted in that chosen field and what remains to do.

#### **2.1 Concept of Tax**

Tax is a compulsory monetary contribution to a state by its residents without getting corresponding benefits of service or goods from the government. The government of any country needs adequate budget to run administrative or development activities. The government through various sources collects the revenue. Tax is the major sources of government revenue.

Seligman has defined tax as a compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefit conferred (Dhakal, 2057).

Plehn stressed that taxes are general contribution of wealth levied upon persons, natural or corporate to defray expenses incurred in conferring common benefits upon the resident of the states (Dhakal, 2057).



A tax is a compulsory contribution imposed by a public authority irrespective of the exact amount of service rendered to the tax payer in return and not imposed as penalty for any legal offence.

Tax is a compulsory payment to the government without expectation of direct expenses of direct return as benefit to the tax payers.

A tax is a compulsory contribution of wealth of a person or body of persons for the service of public powers.

From the above definitions; it is clear that tax is imposed on the person by the government according to the laws of the country. If the person on whom tax is imposed does not pay, law will punish him. The government does not provide any corresponding benefits to the taxpayers for tax paid. In other words, the government does not provide special benefits in return of tax paid. Tax is considered a compulsory monetary contribution to a state by its residents for which the state provides security to them. Citizens are supposed to earmark a certain portion of their income for the state in turn of justice given by the king. In ancient time when coin and paper money were not in use, various corns, metals, cattle and the like commodities were used to be given to the king as a tax. The king in turn, would provide peace, security and justice to the people.

Tax is classified into two categories i.e. Direct and Indirect. A direct tax is really paid by the person on whom it is legally imposed.

The person paying and bearing tax is same in direct tax. Income tax, property tax, land tax, interest tax, gift tax etc are the examples of direct tax.

An Indirect tax is imposed on one person but paid partly or wholly by another.

Value added tax, import/export/excise duties, hotel tax etc are the examples of indirect taxes where the person paying and bearing tax is different.

## **2.2 Theoretical Background of VAT:**

VAT is broad based indirect tax. It is a modern tax system intended, when fully operational, to improve the collection of taxes, to increase efficiency and to lessen tax evasion. The VAT is not perfectly new form of taxation. It is a commodity based refined form of sales tax. In other words, it is improved and modified form of sales tax that is escaped from cascading effect. Except few exceptions it is levied on value added at each stage in the process of production as well as distribution. These stages may be as import, manufacturing, wholesale and retail the value added by a business firm is the difference between the receipts from the sale of the firms' product and sum of the amount paid by the firm for goods and services purchased during the period from business firm; it is equal to the sum of factor payment made by a firm (Due and Friedlander, 1997). From economic point of view, a properly implemented value added tax is equivalent to a corresponding single stage tax. The unique nature of VAT is its potential scope in identifying and taxing the economic contribution or added value identifying and taxing the economic operation in connection with any activity of a business or any commercial nature.

Unlike a traditional sales tax that is imposed at the point of sale, a VAT is imposed in goods and service at each stage of production and distribution. It is imposed only on value added amount. Deducing the material, labor, transportation, and insurance, packing cost and profit etc from sales value can calculate the value added. It has no any cascading effect. It provides the facilities of tax credit and refund. Under this system, comparatively, consumers have to pay less tax than sales tax. Because sales tax is based on sales or turnover amount in every stage and VAT is based on value added amount.

Usually VAT is based on consumption. The consumption tax has two modes, one is sales tax and another is VAT. Each of these is different from income tax. It only taxes on money when it is spent. It is administered by registering the vendors whose annual turnover is more than threshold. The threshold is a limit within which the taxpayers are not compelled to come under the preview of value added taxation. The threshold is determined by adding the total

turnover of the taxable goods and services. Although VAT is supposed to be regressive tax, and is levied on almost all goods and services, yet the especially exempt certain basic and necessity goods and services, it is levied at the time of sales transaction made by the registered taxpayer. The registered taxpayer is entitled to credit the input tax paid from the output tax collected from the sale transaction. No taxpayer collect VAT. Much of the rule of tax liability and files the periodic returns himself (Silwal, 2000).

So, whatever name we call, VAT is a newly entrant family member of indirect tax and it is imposed on the value added.

Vat is the most recent innovation in the field of taxation. It is levied on the value added of goods and services. The tax is broad based as it covers the value added to each commodity by a firm during all stages of production and distribution.

This book has covered all aspects of VAT including the nature of VAT, reasons for the growing popularity of VAT, development of VAT etc. This apart, the report examines the structure and operation of VAT in the Asian Pacific Countries, which also explores the possibility of introducing VAT in Nepal. Probably he is the person of observer of VAT aboard and the firstly proposed VAT for Nepal with micro studied of Nepalese economy and system (Khadka, 1989).

The development of Nepalese tax system, analyzed its existing problems and studied the feasibility and possibility of tax reform. He lights on the domestic and international economic scenario. Then, he states that in Nepal, tax reform has become necessary and possible due to both internal and external factors. Further, economic reforms, including tax reforms, have been taking place very rapidly in South Asian Countries including Nepal. In context of Nepal, he states, “the forgoing clearly indicates that the Nepalese tax system does not satisfy the criteria of a good tax system. Moreover, poor enforcement has only served the distort the Nepalese tax system does not satisfy the criteria of a good tax system to an even greater extent. It is therefore, necessary to rationalize the structure and operation of the Nepalese taxes and strengthen the tax administration (Khadka, 1994).

Khadka in his latest book “The Nepalese tax system” points out the need to introduce VAT in Nepal. In his book, there are several reasons to introduce VAT in Nepal. One of the important reasons was to develop a stable source of revenue by broadening the tax base. Moreover, Nepal will help to become less dependent on international trade taxes for its revenue in the future. Since it will not be in a position to levy import duties on trade that take place within the SAARC region after the implementation of the South Asian Free Trade Arrangement (SAFTA). Nepal has applied for the membership of the world WTO, which will also have to be considered in this context.

Value added tax as the latest and probably the final stage in a historical development of general sales tax, which is imposed on the “value added” by the business firms. VAT is the difference between sales proceeds and the cost of materials etc, purchased from other firms, which is the tax base of a VAT. A firm adds value added by processing or handling these purchased items with its labor force and its own machinery building or other capital goods (Shop, 1969).

The VAT is simply multi- stage sales tax which exempts the purchase of capital goods and service from the tax base. By exempting capital outlays at the time of purchase consumption types of VAT provides a kind of investment tax credit incentive (Hyman, 1972).

A value added tax is a tax assessed at each step of the production and distribution process, levied on the difference between purchase cost of an asset and the price at which it can be sold (the amount of value added on it). Tax is added to the product's price each time it changes hands until delivery to the consumer takes place when the final tax is paid.

VAT is the most important tax innovation of the second half of the 20<sup>th</sup> century and it is classified as a form of sales tax on consumption. The tax applies to the value added at

production and distribution that is to sales precedes less purchase of material input and certain service.

### **2.3 Historical Background of VAT:**

Income tax was first introduced in Great Britain in 1799 in order to finance wars with France. Only after 1980, it was accepted as a permanent tax. In United State of America, first federal income tax was imposed in 1862 to finance civil war expenditure. However it became a permanent feature only in 1913 after 16th amendment to U.S. constitution. In neighbor country India, at first income tax was introduced in 1860. After introducing 'Income Tax Act 1886', it was imposed as a permanent. Italy adopted income tax in 1864, Newzeland in 1891, Australia in 1915 and Canada in 1917. After First World War, the income tax became an important source of tax revenue in many developed countries. By 1939, it has become the most important source of revenue in most developed countries and had made appearance in a number of developing nations.

In the beginning of introducing time, it was generally levied at a flat rate. Only after 1909, the principle of flexibility was introduced from UK and Newzeland.

In Nepal, taxes on agriculture and business incomes were introduced as direct tax for first time in the Lichavis regime. During that time, land revenue was the main source of public revenue. Tax on business income was called 'Kara' and tax on agriculture income was 'Bhaga'. In the time of King Ansubarma, religious movements and irrigation taxes were also existed. Different types of taxes were levied to generate government revenue during 1768-1846 A.D. The major sources of revenue were 'Birta' & 'Kipat'. Taxes on land, customs, transit & market duties, mints & mines, export of forest products, birds, animals and various fines were the sources of tax revenue. Royal Palace, Government and Local levies were the levels of taxes collected. At that time, the taxes were basically imposed on occupations and economic activities, not in income and property.

There were not any formal provisions for imposing taxes during the period of Rana regime. Taxes were imposed according to the needs, objectives and the ruling decision of Prime Minister. There were not provisions of separating the personal income of the Prime Minister and the state and the system of preparing government budget. If there is surplus revenue over expenditures, it was taken as the personal income of the Rana Prime Minister. At that time, the employees should have to transfer a certain amount to the government as taxes.

Till 1951, the major sources of revenue of Nepal were land, custom, exercise duties in lump sum contracts, royalties from forest, royalties on the supply of porters & soldiers, entertainments and other minor taxes. The taxes were not imposed for raising regular revenue of the state but for meeting specific expenditures and emergencies. The taxes were collected in the form of cash, kinds and labors. Land tax on a contractual basis and the salary tax were the direct taxes in the country. The salary tax paid by government employee i.e. 'Salami' was bringing to an end in 1951. There was not effective revenue administration in the time of Rana rulers. After the democratic government in 1951, taxes are not collected except in accordance to law.

After the independence in the country in 1951, the role of government has changed. The government was enforced to operate development activities, besides governing the regular function of maintaining law & order.

The government of Nepal enacted "Business Profits and Remuneration Tax" in 1960 (2017 B.S.) for the assessment and collection of taxes. That was the first Income Tax Act of the kingdom of Nepal. There were only 22 sections and it was not broad and detail. The provision of taxation of business incomes and remuneration incomes were only introduced in the act. The tax on remuneration was to be deducted at source and basis of calculation of the tax liability from remunerations was the income of the current year. The act defined remuneration as the salary, allowances, special allowances, fee, house rent allowance, vehicle received in cash or kind. The rates of remuneration tax were differed from 5% to

25% and there were no provisions of deductions from the total income of the employee. The exemption limit was Rs. 7000. The tax officers were empowered to assess tax on best judgment and in case of false statement, there was a provision of fines ranged from Rs. 500 to 5000.

In 1962 A.D. (2019 B.S.), the 'Business Profits and Remuneration Tax Act 1960' was replaced by 'Income Tax Act 1962'. There were 29 sections in the act and for the effective implementation of the act; the government enforced 'Income Tax Rules, 1963.' Provisions of taxes were made on incomes from any professions, rent from house or land, investment in cash or kind, agriculture, insurance agencies and any other sources of income in addition to business profits and remuneration income. There were provisions of reassessment of tax as well as rectification of arithmetic errors.

The personal income tax was categorized under three different heads for the first time namely individual, couple and family. The finance act defined couple as the married husband and wife. For the purpose of income tax, an individual with a spouse and dependent children was treated as the family. According to the act the exemption for an individual, couple and family were Rs. 3000, Rs. 4500 and Rs. 6000 respectively. The tax rate was varied from 5% to 50% with 12 different categories of income. The act slightly revised in 1972 and defined different terms of income tax in way that is more comprehensive. The taxpayer (married or unmarried) who have spouse, dependent children, sisters brothers and parents and had no income source were treated in the family.

'The Income Tax Act 1962' was replaced by another act i.e. 'Income Tax Act 1974' considering the needs of the time. The act was in practice from October, 1974. It had 66 sections and was amended many times in its implementation. The act had clarified some terminology used in the act i.e. Income Tax, Tax Payer, Income Year, Resident, Non-resident, Tax Assessment, Agriculture Income, Remuneration Income, Gross Income, Net Income, Loss etc. The act was classified income heads in to five categories: a) Industry,

trade, profession or occupation, b) Remuneration, c) Agriculture, d) House rent & compound rent and e) Others.

In the act, there were several provisions for personal income tax. The treatment of income as earlier in to three categories was revised in to two category: Individual & couple or family. The exemption limit was raised to Rs. 4,500 and Rs. 6,000 for individual and couple or family respectively and the tax rates varied from 7% to 55% in different income levels. The act made exemption of house rent of Rs. 2,000 with the income tax exemption. In 1975, the income tax exemption limit was raised to Rs. 5,500 for an individual, Rs. 6,000 for couple and Rs. 7,500 to family and Rs. 3,000 were taken as house rent exempt in the overall exemption. The tax rates varied from 7% to 60% and income levels subject in 7 different groups.

In 1976, income tax exemption was revised to Rs. 6,500, 7,500 and 8,500 for individual, couple and family respectively. Under six different income levels, the rates of tax were differed from 5% to 51%. In 1977, the interest tax was introduced. The interest from saving accounts, employees provident fund and the deposits of social organizations and religious firms were all tax exempted. It included the provision of deduction amounted to 5% of the remuneration or Rs. 50 per month whichever less as stationary expenses. That provision was made for the first time in the Income Tax Act. In 1978, the exemption limit was revised to Rs. 7,500 for married couple and 10,000 for family. The tax rate was from 5% to 50% under seven income groups.

The third amendment of the Income Tax Act 1974 in 1980, it had included the provision for deduction of tax on the amount contributed by the employee from his/her remuneration to the Provident Fund. The revised act included the provision for deduction of educational expenses for a maximum of two minor children at the rate of 2.5% for each child. The act also provided the provision of deduction of life insurance premium paid. Maximum of 7% of



insured amount or actual premium paid whichever is less deductible from taxable remuneration.

In 1981, the exemptions limit for individual and family was increased to 10,000 and 15,000 respectively. Under the seven different income brackets, the tax rates were from 5% to 50 % and it was revised in 1982 from 5% to 55% under eight different income levels. Similarly, the exemption limit for an individual and family was raised to Rs. 15,000 to Rs. 20,000 respectively. The income tax on remuneration was from 10% to 55% under eight different levels of income.

Fourth amendment of Income Tax Act had made in 1984. The revised act had a provision of deduction on educational expenses from 2.5% to 5% for each minor child. It was restricted to deduct educational allowances from both parents' income if both are earning parents. But in 1986, the provision of deduction on the stationary and education allowances was withdrawn. There was made the provision of deduction of Rs. 3,000 or 15% of income as standard deduction instead of these item wise deductions. The concept of standard deduction was first time in the act. The exemption limit of the taxpayer was increased to Rs. 20,000 for the individual and Rs. 30,000 for the couple or family and the rate of tax varied from 15% to 50% in six different categories of income.

The standard deduction would also revise to Rs. 5,000 or 15 % of net income whichever less. The finance act had the provision of exempting investment on the Citizen Investment Fund and the gain and interest earned from Citizen Investment Fund was made tax-free. Furthermore, there was the provision of tax exempt for less than Rs. 5,000 earned from fixed deposit account.

The standard deduction had fixed to Rs. 5,000 reducing 15% of the income clause and the exemption limit was made to Rs. 25,000 and 35,000 for the individual and couple or family respectively in 1992. The minimum rate of taxes was 15% and maximum of 40% at that time. The finance act 1992 was made the provision of self-assessment to the taxpayers and

provision of auditing their accounts from the certified auditor. The Finance Act 1993 revised the interest tax and made levied the tax of 5% on all the interest gained. But the interest earned from Employee Provident Fund and other special cases were still tax-free. According to the act, the earning for the agriculture sector was also tax-free.

In 1994, there was the provision to exempt interest tax on the interest earned from saving deposits accounts. First, it was made exemption limit on interest gained less than Rs. 700 and the finance act 1994 revised the exemption limit on the interest from Rs. 700 to Rs. 1,000. There were 10% to 35% tax rates on remuneration at three different levels. The act had also provision to deduct 5% of remuneration on Citizen Investment Fund while assessing the taxable income. The rate of taxes on remuneration was revised to 10% to 30% in Finance Act 1995 but the exemption limit did not changed. Rs. 7,500 or 15% of income whichever fewer clauses were made for standard deduction in the act. The investment on Citizen Investment Fund was increased to 10% from previous provision and the interest gained from such investment was taken tax-free.

The exemption limit was increased to Rs. 30,000 for individual and for couple or family to Rs. 40,000 in 1997. The income tax was imposed on two categories of remuneration income with the rate of 15% and 25%. Income up to 45,000 above the exemption limit was levied at 15% and the higher rate was applicable to the income above the previous income level. Standard deduction on the income tax was increased to 10,000 or 15% of net income whichever is less and the foreigners were on the surcharge of 20% on the above maintained tax rate.

Furthermore, the remuneration income tax exemption limit was raised to Rs. 40,000 and Rs. 50,000 for an individual and the couple or family respectively in 1998. The rate of taxes was the same but the first earning above the exemption limit made up to Rs. 75,000. In another word, the rate of tax of 15% was applicable on the earning of Rs. 75,000 above the exemption limit.

The exemption limit was raised to Rs. 50,000 for an individual and Rs. 60,000 for the couple or family in 1999. The tax rates, standard deductions and other provisions were made same. The finance act permitted to deduct premium of life insurance, provident fund equivalent to 10% of the remuneration and 10% as citizen Investment Fund of early remuneration not exceed of Rs. 100,000. No exemption limit was made for the temporary residents.

In 2000, the finance act raised the exemption limit of Rs. 55,000 and Rs. 75,000 for an individual and the couple or family. The finance act defined the deductible expenses are: Deduction on the chargeable contributions; deduction on premium of life insurance, provident fund equivalent or 10% of the remuneration, investment on the citizen investment fund equivalent to 10% of the remuneration. The rate of income tax was 15% to the income of Rs. 75,000 above the exemption limit and 25% above the earning of previous category.

In 2002, 'Income Tax Act, 2002 (2058 B.S.)' was enacted by the parliament by replacing existing Income Tax Act 1974. The new act is taken as broad and in accordance with the global standard. Similarly, 'Income Tax Rule, 2003 (2059 B.S.)' was form by the government to clarify some provisions of the act. Finance ordinances have been making slight amendment in the act every year.

## **2.4 Evolution of VAT**

In the history of taxation, value added tax is the latest and emerging tax. Dr. Wilhelm V. Siemens in Germany first proposed the concept of the VAT in 1919 as a substitute of Umasatzsteuer (multistage sales tax) in order to avoid the cascading and vertical integration of multistage tax. A tax mission to Japan headed by Prof. Carl S. Soup developed the concept of VAT further in 1949. The tax, however, remained as only a topic of academic interest until 1954, France introduced a VAT covering the industrial sector; the tax was, however, limited upto the wholesale level. From 1960 this tax system took speed in "European countries. European countries including Norway, Switzerland, Turkey and former Soviet States that are not the member of EU adopted VAT. Presently more than 120

countries have introduced VAT. It is mandatory for member European Union. It also has been adopted by Japan, china, Vietnam, Canada, South Korea and many other states in Asia, North and South America and Africa and former Soviet Union. In South Asia, India introduced mod. VAT (modified value added tax) in 1986 for manufacturing products. Pakistan adopted it in 1990. Bangladesh and Srilanka started VAT in 1992 and 1995 respectively. Nepal Government introduced VAT system in 1997(2054 B.S.) although, the VAT Act was passed in 1995 and the VAT regulation was approved in 1996. But the VAT could only be introduced from November 16, 1997. VAT replaced the existing sales tax, the contract tax, the hotel tax designed to collect the same revenue as the four taxes it replaces. Thus this tax revenue creates a valuable alternative of tax sources, especially in countries those have a limited income tax base or that must rely on revenue from primary commodities (Khadka, 1996).

## **2.5 Principle of VAT**

There are two principles for levying VAT. They are origin principle and destination principle. Choice between these two principles largely depends on the goals and the policies of nation, accession of international trade, computing methods and types of VAT.

In case of international trade, two serious alternatives appear while implementing VAT in any country. They are taxing all domestically produced goods including exported ones and exempting all imports or taxing all the imports and making exemption for all exported goods and services to the foreign countries (Subedi, 1998).

### **1) Origin Principle:**

Under this principle, all domestically produced goods including exports are taxed whereas all imports are freed. As per this principle all goods and services produced and generated in the country should be taxed whereas those imported from abroad should be relieved from

taxation. This principle affects balance of payment of the country negatively, especially for those who gave a poor performance in the world economy.

## **2) Destination Principle:**

Under this principle, all imports are taxed whereas exports are freed. The VAT is collected at the point of import and the firm would receive a credit for the VAT paid and refund when exported. This principle has favorable effects on the country's balance of payments.

Therefore, destination principle is more appropriate for a country having consumption type of value added tax with the tax credit method of computation. Special benefit by this destination principle can be attained by those countries who have open boarder and cross country trade and less competent in the open market. Nepal too has adopted this destination-based VAT.

## **2.6 Types of VAT:**

There are three types of VAT. Basic difference between all three types lies in how capital equipments are treated in computation of VAT. From these viewpoints, VAT is classified as follows.

### **1. Consumption Type of VAT:**

Under consumption type of VAT, all capital goods purchased from other firms, in the year of purchase, are excluded from the tax base while depreciation is not deduced from the tax base in subsequent years. The base of tax is consumption since investment is relieved from taxation under this type. This is the most popular type of VAT. Most of the countries including Nepal have adopted this type of VAT.

## **2. Income Type of VAT:**

The income type of VAT does not exclude capital goods purchased from other firms from the tax base in the year of purchase. This type, however excludes depreciation from the tax base in subsequent years. The tax base of this type is the net national income. Many countries do not prefer practice of this method because it faces the same problem as we face in calculation of income for a particular period.

## **3. Gross National Product Type of VAT:**

Gross National Product type of VAT neither excludes purchased capital goods nor the depreciation from the tax base. It means the tax is levied both in consumption and gross investment. The tax base of this type is gross domestic product.

### **2.7 Methods of Computation of VAT:**

There are various methods of tax calculation in VAT system. Broadly, VAT can be computed by following three methods:

#### **1. Additional Method:**

Under this method, the tax base is calculated by adding the payments made by the firm regarding factors of production that contributes in product. The factors are wages, interest, rent, royalties and profit. This calculation is appropriate for income type of VAT.

#### **2. Subtraction Method:**

In subtraction method, the cost of production like raw materials, auxiliary raw materials, chemical power etc are deducted from total sales to find out added value of production. This method is appropriate for consumption type of VAT.

### **3. Credit Method:**

This method is also called tax credit or invoice method. It is the universally accepted method. Under this method, tax is imposed on total sales or on total invoice price. Here the tax on purchases is deducted from sales. Taxpayers are entitled to deduct the prepaid tax or tax paid on purchases from gross tax liability. In Nepal, except in used goods business (and reconditioned goods related business) the credit method is in practice.

### **2.8 Review of Related Studies:**

The main objectives of review of literature is to find out what other researchers have covered and left in the related subject matter and it is also way to avoid investigation problems that have already been definitely answered. This chapter focuses on the available in the field of taxation. The available literature can be divided into three sub chapters. In the first sub chapter, it includes previous research review related VAT and tax. In the second sub chapter, it includes book review related with taxation. In third chapter, it includes journal review related with taxation and VAT.

#### **2.8.1 Previous Research work:**

**Suwal (1981)**, presented a research work entitled 'Income tax system in Nepal.' She studied the problem and the important of income tax in solving financial resource gap problem in Nepal. She has also shown the rate and per capital burden of income tax in Nepal. She has shown the trend of income tax and effect of income tax on production in Nepal. Her conclusion was that income tax is an important source of revenue to mobilize additional resource for planned development. Moreover, from the social point of view, income tax is regard as an instrument for equal distribution of income. With a further improvement in tax administration in future years an increase of more than 25% is expected to be collected every year. The major problems in income tax collection as identified by her were: The absence of clear and comprehensive definition of income, low tax paying habit and tax consciousness,

high tax rates, corruptions etc. She has suggested some factors like increasing tax consciousness to the taxpayers, clear and comprehensive definition of the incomes for improvement to the government of Nepal regarding tax and tax administration for the collection of income tax in Nepal.

**Kharel (1996)**, presented a study named, “self Assessment under Income Tax Act in Nepal”. The study had made relevant recommendation to reform laws as well as administration in future. It concluded that self assessment of tax is suitable means of raising domestic resources and it would be effective if taken seriously. He had further expressed that the effectiveness of self assessment of tax depends on appropriate reformation.

**Dhakal (2000)**, in his study analyzed the Nepalese tax structure along with the basic emphasis and historical background and potential revenue of VAT in Nepal. The increasing trend of resource gap of Nepal is forcing the country to debt trap situation. Domestic resource mobilization through the properly designed tax system is the best way to uplift the situation. In this process, Nepal is adopted the destination based, consumption type VAT operated by tax credit method. VAT encourages investment, supports economic growth and keeps price stable. Exemption and zero rating reduced the regressively of VAT, however, it makes the administration complex. The study found that VAT is unable to compete the existing sales tax mainly due to the minimum use of invoice by sellers and as well as having no interest to obtain invoices by purchasers. Elasticity and buoyancy of Nepalese tax system are very low. Further, they are decreasing in recent years. VAT, more attractive from the theoretical as well as empirical aspects, is being, hot milk in mouth from practical viewpoint mainly due to the inefficient tax administration. Hence, the introduction of the VAT is not fulfillment of the requirement and VAT system itself has a great need of reforming in the Nepalese context.

**Shrestha (2001)**, presented a study entitled of “A study on the problems and prospects of VAT in Nepal”. She had mentioned problems in the implementation of VAT in Nepal and



effectiveness of VAT. She had also mentioned sales tax, superior implementation of VAT in Nepal were as follows;

- ) VAT refund mechanism should be simplified, so that the refund can be made without deals and the taxpayers have confidence in the system.
- ) Incentives should be seemed to income registration and tax compliance.
- ) As most of the taxpayers are still ignorant about account keeping under VAT and who get this job by paying other people taxpayer's education should be conduct from time to time familiarize the potential taxpayers and others with various aspects of VAT.

**Chudali(2004)**, presented a research work named “Effectiveness of Nepalese tax policy on various business sectors”. He had described various short coming of the tax system and policies. His main objectives of the study were as follows:

- ) To analyze the nature of the existing Nepalese tax policy.
- ) To know the tax system of the various business organization.
- ) To find out the response of the organization regarding Nepalese tax policy.
- ) To draw specific fining and conclusion of Nepalese tax policy.
- ) To make recommendations for the Nepalese tax policy.
- ) The Income Tax Act 2058 should be revised which simplifies the bulletins of tax policies. The goods should be remarked so that double entries in taxation system will be avoided.
- ) There should be clear and strict rules for reward and punishment. The person who conceals tax should be properly identified. Tax collection system should be properly evaluated and monitored.

**Subedi (2005)**, in his research work entitled “Implementation and Effectiveness of VAT in Nepal” explains monitoring system of the VAT administration is not effective, because of this; taxpayers are still encouraged for tax evading practice. Many businessmen don not issue

invoice for their selling and even to follow the other importer invoice so an effective and efficient auditing, investigation and monitoring system should be developed.

He further explains that the VAT administration should be kept free from any sort of intervention or influences from the outside. Honest and capable person should be selected for key position. Training of the tax personal should be kept at the top most priority. A good working environment should be created inside the administration, reward and punishment system should be strictly followed as a major guideline of conducting administration. Tax officials should closely be monitored for any kind of misdeeds.

**Bhandari (2006)**, submitted a study named “ Taxation knowledge of taxpayers in Nepal”. He had point out the present position of taxation knowledge of taxpayers in Nepal. Tax pay know about rapid change government policy etc. are the main problems of the study. Similarly, he has suggested to government and other sector to improve taxation knowledge in Nepal. His major suggestions were as follows;

- ) To increase income tax knowledge of taxpayer tax related information should be published regularly.
- ) Special taxpayer education program necessary for employees and small taxpayers.
- ) Professor, researcher, taxpayers, tax experts should be taken while making tax policy.
- ) The school as well as campus level curriculum should include tax related education so that taxpayer’s education programs can be more effective.
- ) Highly co- operation between tax officer and tax payer mechanism should be established.

**Shrestha (2008)**, submitted a research work entitled of “Taxpayers Awareness towards business taxation”. He had mentioned the present position of taxpayer’s awareness towards business taxation. He explained most of the taxpayer’s knowledge about tax VAT and custom duty was not satisfied and they feel difficulty to pay tax and the taxpayer education

program in Nepal are ineffective. Majority of respondents were agreed that VAT is superior to sales tax.

### **2.8.2 Journal Review**

**Agrawal (1984)**, has presented a report to ministry of finance entitled as “Direct Tax Reforms in Nepal”. He has described resource gap in Nepal and it is increasing trend in Nepal. He has shown that the growth rate of direct tax had been lower than the growth rate of total revenue. Similarly, total taxes had been lower than the growth rate of total revenue as well as total taxes. He has strongly recommended revenue services, political and other pressure should not be subjected to tax administration. Self-assessment should be encouraged. Assessment of small taxpayer should be on door to door basis. Capital gains should be included in income for income tax purpose. His major recommendation has been adopted in the new Income Tax Act 2058.

In 2004, Nepal tax journals published news about taxation. In this news their include lack of taxpayer education program. Taxpayer should not have fully knowledge about positive aspects of tax laws. The news was stressed that taxpayers are accepting Income Tax Act, 2058 as a compulsory law.

In 2005, Monthly Journal published by Federation of Nepalese Chamber of Commerce and Industries (FNCCI) named as “Byabasaik Aacharan”. In the journal, tax expert Pandey and Bajracharya presented different aspects of Nepalese tax system.

In 2005, the Kantipur Daily published news about income tax and VAT. The news presented the terms used in income tax and VAT are not clear. There is not friendly business environment between taxpayers and government. Similarly, the vocabularies used in tax act is very Ambiguous and difficult.

In 2007, the Kantipur Daily published news about tax paying behaviours in Nepal and European countries. The news presented that 95% of taxpayer in European countries were

willing to pay tax but in Nepal 95% taxpayer want to hide the income and they did not pay tax as per rules and regulations.

## **2.9 Research Gap**

About ten years have already been passed since VAT come into operation but very few studies had been undertaken on the topic of VAT in the Nepaeales context and most of the studies were related with theoretical aspects. They mainly focus on the revenue portion of VAT. However, such special study related to awareness regarding VAT has been limited. In this study, the researcher has attempted to evaluate the contribution of VAT to the government revenue and public awareness regarding VAT as well as taking the major market area of Kathmandu City by conducting field survey, in order to know somehow about the practical experience of VAT. So this study will be fruitful to those interested persons, students, scholars, teachers, businessmen and government for academically as well as policy perspective.

## CHAPTER – III

### RESEARCH METHODOLOGY

Research word can be divided into two parts i.e. re and search, which means search again and again. Previous researcher found some things and further researcher found other things in same subject matters which mean all researches are not covers all the facts and findings.

The study should make different types of research according to subject matter like as descriptive, experimental, exploratory, case study etc. Thus the objective of the study is to find out the awareness of taxpayers towards VAT. So, this study follows descriptive as well as analytical research tools.

#### **3.1 Research design**

This study is concerned with awareness of tax payer towards VAT. s,o it takes primary as well as secondary data. While collecting primary data questionnaires were developed and distribute to different business persons to know their awareness towards Tax. Data obtain from eastern region is main sources of primary data collection.

#### **3.2 Population and sample**

Population is the whole size of related study covering all the population while taking data, the study gives more accurate findings. It is not possible due to various constraints likes as time value of money etc. So this study takes sample from large population. All the business person of Nepal was consider as total population. The study only takes 40 sole proprietors, 30 partnerships and 10 CEO of Pvt. Ltd company. There are eighty sets of questions distributes.

The questionnaire asked for yes/no response or asks for ranking of alternatives where the first choice was the important or not. The following Table 3.1 shows the profile of respondents.

**Table 3.1**

**Profile of Respondents**

<b>S.N</b>	<b>Groups of Respondents</b>	<b>Sample size</b>
1	Sole Proprietor	40
2	Partnerships	30
3	CEO of Pvt. Ltd company	10
	Total	80

**3.3 Sources of Data**

This study mainly based on primary data as well as secondary data. The main objectives of primary data are to find out different business persons view relating to tax and test their awareness towards tax. Questionnaire, interview related to business taxation is the main weapons to test awareness of tax payer. While secondary data is helps to know the contribution of tax revenue to the good government.

**3.4 Data Collection Techniques**

This study is concerned with taxpayer's awareness towards VAT. So, it is necessary to collect data from both primary as well as secondary data. Primary data are collected by making questionnaire, interview and telephone calls. Questionnaire is distributed to different business person to get needed information.

- a) **Primary Data:** To collect primary data, a set of questionnaire was developed and distributed to the selected respondents in order to get accurate and actual information.

In this course opinions were sought from tax authorities, and taxpayers i. e. businessmen, and consumers.

**b) Secondary Data:** Secondary data are collected from following sources:

- ) Published documents from MOF and economic survey
- ) Publication of IRD and NRB
- ) Different relevant websites
- ) Publication of books reports and seminar paper of different institutions, e. g. FNCCI, IMF etc
- ) Publication of VAT projects CBS
- ) Daily, weekly and monthly newspapers and magazines, which are related to the research
- ) Budget speech of Nepal Government of various years
- ) Other related records and data relevant to the study

## **CHAPTER-IV**

### **DATA PRESENTATION AND ANALYSIS**

The presentation of data is the basic organization and classification of the data for analysis. After data collection is completed, the data is in raw form. It is necessary to arrange the data to make some sense to researcher and others. It can later be presented to the reader of the research. Similarly, the purpose of analyzing the data is to change unprocessed form to an understanding presentation. The raw data convey little information as such. These must, therefore be compiled analyzed and interpreted carefully. This process of transforming data is called analysis of data.

This chapter deals with the presentation and analysis of data. The main objective of the study is to find out the awareness towards business taxation so it mainly focuses the primary data. Through the secondary data is only taken from the eastern region to find out the exact number of business established in eastern area. The primary data is taken from 80 businesses persons. Out of them 40 are sole proprietors and 20 are partners and 20 are Chief executive officer (CEO) of LTD Company. The primary data is obtained by making questionnaire about income tax, VAT and custom duty. There are eighty questions are distribute and received about different types of taxes to know the awareness of taxpayers towards business taxation.

#### **4.1 Contribution of VAT to Government Revenue (GDP)**

VAT has been playing a vital role in government revenue (GDP) of Nepal since its implementations. It is the best tax than sales tax. The Nepalese's government revenue is mostly based on VAT revenue so that the government makes the program about taxpayer's awareness for the general people. The contribution of value added tax (VAT) to government revenue (GDP) can be presented below;



**Table 4.1**  
**Contribution of VAT to Government Revenue (GDP)**

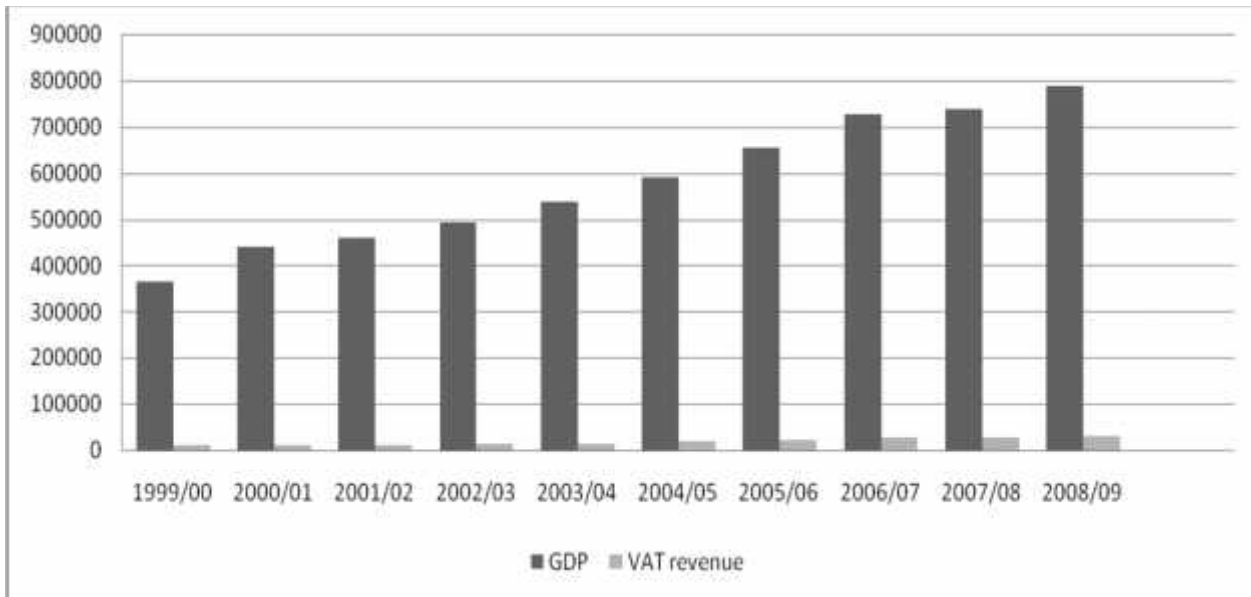
<b>Fiscal Year</b>	<b>GDP</b>	<b>VAT revenue</b>	<b>% of VAT revenue to GDP</b>
1999/00	366251	9850.0	2.69
2000/01	441519	12047.8	2.73
2001/02	459443	11948.0	2.60
2002/03	492231	13449.1	2.73
2003/04	536749	14478.9	2.70
2004/05	589412	18894.6	3.21
2005/06	654055	21946.0	3.36
2006/07	727089	26704.2	3.67
2007/08	738904	27402.3	3.71
2008/09	789651	29908.7	3.79
Total average	579530.4	18662.96	3.119

*Source: Economic Survey 2008/09, Ministry of Finance(MOF)*

According to above Table 4.1 shows that the share of value added tax in GDP in Nepal is very low and it is below 3 percent throughout the period. From the fiscal year 1999/00 to 2004/05, it has increased from 2.69 percent to 3.21 percent. After then, it has increased to 3.79 percent. The highest contribution of VAT revenue in GDP is 3.79 in 2008/2009 and the lowest contribution is 2.69 in 1999/2000. The total average of contribution of VAT revenue to the GDP is 3.119. The share of VAT in GDP of Nepal is shown in figure in fiscal year 1999/2000 to 2008/09 respectively.

**Figure 4.1**

**Contribution of VAT to Government Revenue (GDP)**



The above figure shows the contribution of VAT revenue from national gross domestic product (GDP).

**4.2 Revenue Structure of Nepal**

The total revenue of government of Nepal is collected from tax and non-tax structures. The tax revenue, which is compulsory sacrifice of the people, can be divided into two components, direct and indirect taxes. The composition of total revenue collection of Nepal from the fiscal year 1999/2000 to 2008/09 is shown in the table below:

The Table 4.2 shows the composition of Nepal’s total revenue, which constitutes tax and non-tax revenue from the fiscal year 1999/2000 to 2008/09. The share of tax revenue has always been greater than the share of non-tax revenue. The average share of tax revenue for the period 1999/2000 to 2008/09 was 77.96 percent and the average share of non-tax revenue was 19.97 percent. The total average of total revenue, tax revenue and non-tax revenue are 66701.2, 52805.07 and 13887.77 respectively.

**Table 4.2**  
**Composition of Total Revenue Collection of Nepal**  
**(In Million )**

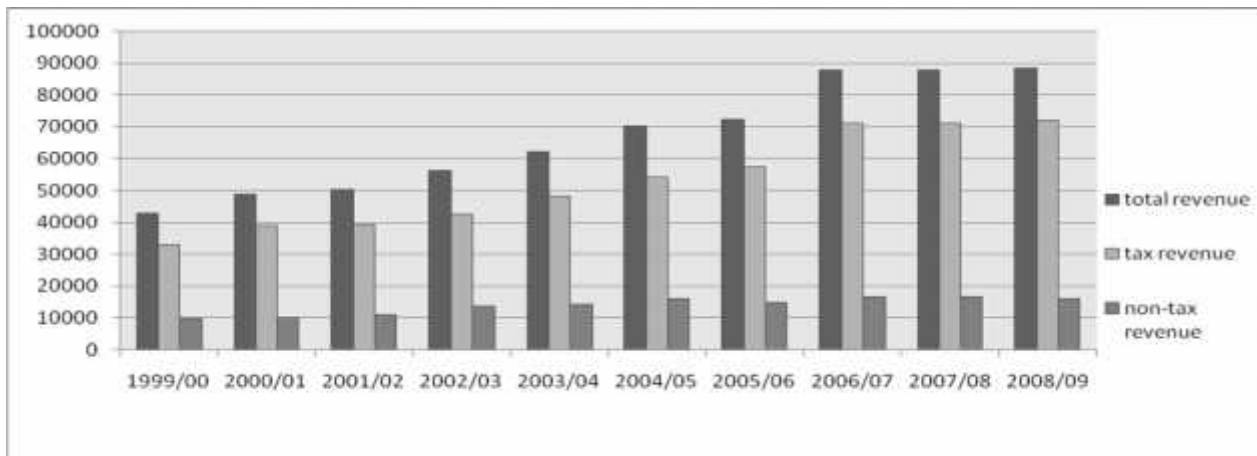
Fiscal Year	Total Revenue	Tax Revenues		Non-Tax Revenues	
	(Rs.)	Amount (Rs.)	%	Amount (Rs.)	%
1999/2000	42893.80	33152.10	77.29	9741.60	22.71
2000/01	48893.60	38865.10	77.97	10028.80	20.51
2001/02	50445.50	39330.60	75.74	11115.00	22.03
2002/03	56229.80	42587.00	74.54	13642.70	24.26
2003/04	62331.00	48173.64	77.29	14158.41	22.71
2004/05	70122.00	54104.70	77.16	16018.00	22.84
2005/06	72282.10	57430.4	79.45	14851.70	20.54
2006/07	87711.20	71126.70	81.09	16585.5	18.91
2007/08	87821.3	71150.3	81.2	16584.5	18.8
2008/09	88281.7	72130.2	82.75	16151.5	17.25
Average	66701.2	52805.07	77.96	13887.77	919.97

*Source: Economic Survey 2008/09, Ministry of Finance(MOF)*

From the fiscal year 1996/97 to 2008/09, the amount of tax revenue is increasing every year with the amount of Rs. 30373.5 million to Rs. 88281.7 million but the figure of in percentage of tax revenue in the total revenue has been found fluctuating in different years. From fiscal year 1996/97 to 2004/05 the percentage contribution of tax revenue to total revenue has been decreased but it has increased from 77.16 percent in fiscal year 2004/05 to 85.88 percent in fiscal year 2008/09.

**Figure- 4.2**

**Trend and Composition of Total Revenue in Nepal**



*Source: Economic Survey, 2008/09, Ministry of Finance (MOF),*

Likewise, the trend of non-tax revenue collection was also increased from Rs. 5949.20 million to Rs. 1658.5 million during the period of 1999/2000 to 2008/09, and then decreases to 11775.77 though percentage wise it has been fluctuating. This indicates that the role to tax revenue is very important of Nepal. Tax revenue has been placed a major source of government revenue in Nepal.

**4.3 Tax Revenue Structure of Nepal**

Tax revenue refers to the total sum of direct and nondirective tax revenue. So, the total tax revenue is composed of direct and indirect tax revenue. The tax composition is known as direct and indirect tax.

Tax revenue is one of the principle sources of the government revenue, is a compulsory contribution imposed by a public authority respective of the exact amount of service rendered to the taxpayers is return. It covers theoretically and practically includes following heads such as persons, organizations business firms and even foreigners who are doing business of consuming goods or using service in Nepal.

The trend and composition of tax revenue for the fiscal years 1999/2000 to 2008/09 are given in the table below:

**Table 4.3**  
**Trend and Composition of Tax Revenue of Nepal**

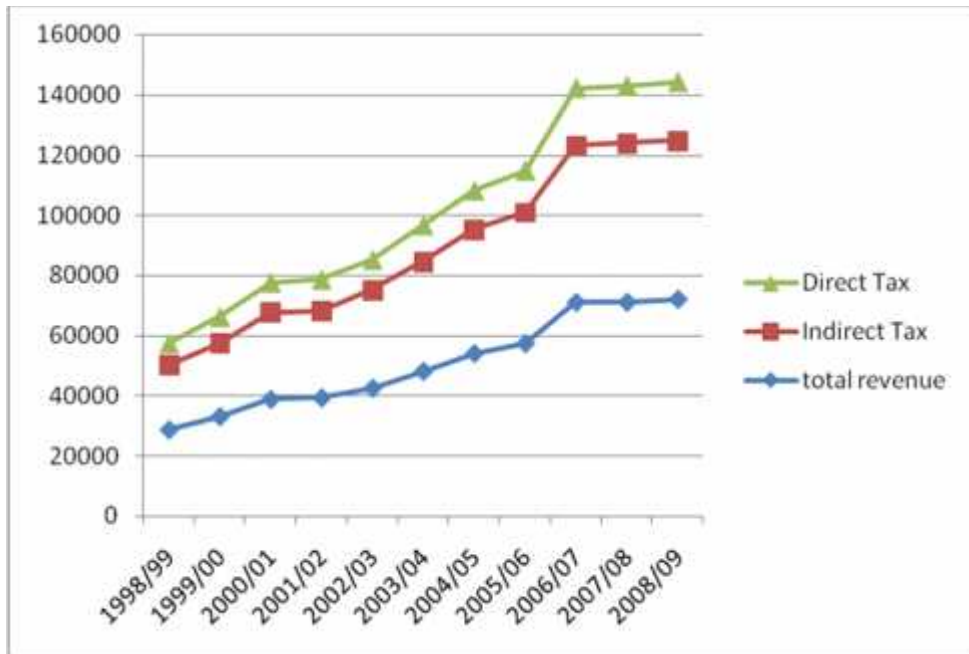
( In Million )

Fiscal Year	Total Tax Revenue	Direct Tax		Indirect Tax	
		Amount (Rs)	% total tax with revenue	Amount (Rs)	% total tax with revenue
1999/00	33152.1	8915.5	27.00	24200.7	73.00
2000/01	38865.1	10159.4	26.14	28705.7	73.86
2001/02	39330.6	10597.4	26.54	28733.1	73.06
2002/03	42587.0	10101.8	23.73	32481.2	76.27
2003/04	48173.67	12213.4	25.35	36260.4	75.27
2004/05	54104.7	13071.8	24.16	41032.9	75.84
2005/06	57430.4	13968.1	24.32	43462.3	75.68
2006/07	71126.7	18980.3	26.69	52146.4	73.31
2007/08	71150.3	19054.70	26.78	52807.6 3	74.22
2008/09	72130.2	19460.7	26.98	5313.11	73.02
Total Average	52805.07	13652.31	25.54	34514.3 4	74.46

*Source: Economic survey 2008/09, Ministry of Finance (MOF)*

**Figure 4.3**

**Trend of Direct and Indirect Tax Revenue**



*Source: Economic survey 2008/09, Ministry of Finance (MOF)*

The above table 4.3 and trend line, it shows that the completely Nepalese tax structure is dominated by indirect tax revenue. However, share of indirect tax as percentage of the total tax revenue is decreasing continuously. In the similar manner, share of direct tax to total tax revenue is increasing in subsequent years. The average share of direct tax revenue in total revenue for the period 1999/2000 to 2008/09 was 25.54 percent and the share of indirect tax revenue was 74.46 percent.

The volume of direct tax and indirect tax was Rs. 7515.4 million and Rs. 21236.8 million e. e. 26.14 percent and 73.86 percent of total income respectively in the fiscal year 1999/2000. The amount of direct tax revenue is increasing every year as it increased from Rs. 7515.4 million to Rs. 19460.7 million in 1999/2000 to 2008/09. The amount of indirect tax revenue is also in increasing trend. It has increased from Rs. 21236.8 million in FY 1999/2000 to Rs. 5313.11 million in 2008/09. The percentage contribution of indirect tax to total tax revenue is fluctuating from year 1999/2000 to 2008/09. The contribution of indirect tax revenue to

total tax revenue was minimum 73 percent, in year 1999/00 and maximum, 76.27 percent in fiscal year 2001/02.

#### **4.4 Analysis of Primary Data**

The main objectives of this study are to find out the awareness of taxpayers about business taxation. Awareness of taxpayer about business taxation means whether they have knowledge about different provision of Income Tax Act, 2058, VAT Act 2052 and other tax related rules and regulation. So in this chapter VAT, Income Tax Act and custom duty related questionnaires was design and distribute to sole proprietor, partners and CEO of Pvt. Ltd. Company.

Income tax is the major source of government revenue. Government collects huge amount of revenue from this tax. So, it is necessary to make aware about the income tax to taxpayer. So to check the income tax knowledge of taxpayer eighty respondents are taken for the study. The responses receive for different questionnaire are present below.

##### **4.4.1 Is Income Tax Revenue Contributing Significant Place to the Government Revenue of Nepal?**

The respondents show the opinion of tax revenue to the total government revenue. The Table 4.4 shows that in aggregate 53.75% respondents agreed that income tax revenue contributing significant revenue to the government revenue of Nepal but 46.25% respondents do not agreed with income tax revenue contributing significant revenue to the government revenue of Nepal. The higher respondents present their view income tax revenue contributing significant place to the government revenue of Nepal i.e. 53.75%. The responses received from respondents are presented below:

**Table 4.4**

**Income Tax Revenue Contributing Significantly to the Tax Revenue of Nepal**

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Sole Proprietor	20	50	20	50	40	100
Partner	18	60	12	40	30	100
CEO of Pvt. Ltd	5	50	5	50	10	100
Total	43	53.75	37	46.25	80	100

*Source: Field survey 2009*

In conclusion, most of the respondents show income tax revenue contributes important part in the government revenue.

**4.4.2 Are Respondents Familiar with the Nepalese Income Tax?**

It clears the respondent's familiarity about the Nepalese income tax. The following table shows the respondents view about the income tax.

**Table 4.5**

**Shows the Respondent View of Nepalese Income Tax**

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Sole Proprietor	30	75	10	25	40	100
Partners	25	83.33	5	16.67	30	100
CEO of Pvt. Ltd	10	100	0	0	10	100
Total	65	81.25	15	18.75	80	100

*Source: Field survey 2009*



The above table 4.5 shows that 81.25% of the respondents have knowledge about Nepalese income tax but 18.75% do not have the knowledge about the Nepalese income tax. It shows that most of the Nepalese people know about the income tax of Nepal, which increases the government revenue of the country.

In conclusion, most of the respondents are familiar about Nepalese income tax.

#### **4.4.3 Do Respondents Consider that Current Income Tax Exemption Limit is Appropriate?**

The question presents the opinion of respondents about current income tax exemption limit. It also shows that they satisfied with this exemption limit of the government or not. The responses received from respondents are tabulated as follows:

**Table 4.6**

**Shows the Current Income Tax Exemption Limit is Appropriate or not.**

Respondents	Yes		No		Total	
	No.	%	No	%	No	%
Sole Proprietor	12	30	28	70	40	100
Partner	10	33.33	20	66.67	30	100
CEO of Pvt. Ltd	10	100	0	0	10	100
Total	32	40	48	60	80	100

*Source: Field Survey 2009*

The above Table 4.4 shows that there are 40% respondents feel appropriate current income tax exemption limit but 60% of respondents do not feel appropriate current income tax.

In conclusion, most of the respondents feel that current income tax exemption limit is not appropriate. So that the government should be made appropriate tax exemption.

#### **4.4.4 Do Respondents Think that the Good Knowledge about Income Tax to Taxpayer is Discouraging Illegal Business?**

The question was developed to know the view of taxpayer about discouraging the illegal business through tax education. The responses received from respondents are tabulated below.

**Table 4.7**

**Shows that Good Knowledge about Income Tax to Taxpayer Discouraging Illegal Business**

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Sole Proprietor	24	60	16	40	40	100
Partner	21	70	9	30	30	100
CEO of Pvt. Ltd	5	50	5	50	10	100
Total	50	62.5	30	37.5	80	100

*Source: Field Survey 2009*

The above Table 4.7 showed that in aggregate 62.5% of respondents were agree with the question but 37.5% were disagree with the question. They still think that only good knowledge is not enough for discouraging illegal business.

In conclusion, most of the respondent responded that good knowledge about income tax to taxpayer been discouraging illegal business.

#### 4.4.5 The Nepalese Income Tax System is Effective?

This question was developed to know the responses about the effectiveness of Nepalese income tax from the respondents. The responses received from respondents are presented below.

**Table 4.8**

**Shows the Nepalese income tax system is effective?**

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Sole Proprietor	0	0	40	100	40	100
Partner	0	0	30	100	30	100
CEO of Pvt. Ltd	5	50	5	50	10	100
Total	5	6.25	75	93.75	80	100

Source: Field Survey 2009

The above Table 4.8 showed that in aggregate 6.25% of the respondents agree with the system of Nepalese tax but 93.75% do not agree with the system of Nepalese tax. It shows that the income tax system of Nepal is not effective.

#### 4.4.6 What Types of Problems that Businessmen Faced while Paying Business Tax?

This question developed to know the view of taxpayer's problem while paying business tax. The responses received from respondents are presented below.

**Table 4.9**

**Show the Problem Faced by Businessmen while Paying Business Tax**

S.N	Problems	No. of respondents	% of respondent	Rank
1	Due to lack of knowledge about taxpaying procedure	20	25	2
2	Complicated procedure	40	50	1
3	Weak and immature feeling of tax administration	12	15	3
4	Others	8	10	4
	Total	80	100	

*Source: Field Survey 2009*

The above Table 4.9 showed that the most important problem faced by businessmen while paying business tax is procedural complication. Similarly, due to lack of knowledge about taxpaying procedure is second prioritized problem, weak and immature feeling of tax administration and other problems are third and fourth priorities problems.

In conclusion, the majority of respondent responded that the most important problem faced by businessmen while paying tax is procedural complication.

#### 4.4.7 Do the Respondents Think that Taxpayer’s Education is Needed?

The survey makes clear about the respondents need taxpayers education or not. The responses received from respondents are tabulated below:

**Table 4.10**

**Show that Education about Taxpayer is Needed or not**

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Sole Proprietor	40	100	0	0	40	100
Partner	30	100	0	0	30	100
CEO of Pvt. Ltd	10	100	0	0	10	100
Others	15	100	0	0	15	100
Total	95	100	0	0	95	100

*Source: Field Survey 2009*

The above Table 4.10 showed that 100% of the respondents agreed with education for taxpayer is necessary. It concluded that current education about taxpayer is not effective so that the government should give effective education of tax to public.

#### 4.4.8 What Steps to be Taken to Make Taxpaying is Effective in Nepal?

The survey clears the steps, which the government takes to make taxpaying effective. The responses received from respondent are tabulated below.

**Table 4.11**  
**Steps to be Taken to Make Taxpaying Effective**

S.N.	Alternative	No. of respondents	% of respondents	Rank
1	Strict in goods valuation	30	37.5	1
2	Nepotism and favoritism should be stopped	15	18.75	3
3	Increase morality of government employee	25	31.25	2
4	System of reward and punishment should be established	10	12.5	4
Total		80	100	

*Source: Field Survey of 2009*

The above Table 4.11 shows that most of respondents suggest the government strict the valuation of goods and second priority is to increase the morality of government employee and third step is to discourage the nepotism and favoritism should be stopped and last but not least the government should established the system of reward and punishment.

#### 4.4.9 Do the Respondents have Knowledge about Custom Duty?

The question was developed to check the knowledge of respondents whether they have any knowledge of custom duty or not. The responses received from respondents are tabulated as follows:

**Table 4.12**  
**Shows Knowledge about Custom Duty**

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Sole Proprietor	20	50	20	50	40	100
Partner	18	60	12	40	30	100
CEO of Pvt. Ltd	8	80	2	20	10	100
Total	46	57.5	34	42.5	80	100

*Sources: Field Survey 2009*

The above Table 4.12 showed that 57.5% of respondents had knowledge about custom duty and 42.5% had not knowledge about custom duty.

In conclusion, most of the business man had knowledge about custom duty.

#### **4.4.10 Do the Respondents have Knowledge about the Procedure of Paying Custom Duty?**

This question was developed to know the knowledge about paying the procedure of paying custom duty to the respondents. The responses received from respondents are tabulated as follows:

**Table 4.13**

**Represents Knowledge about the Procedure of Paying Custom Duty**

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Sole Proprietor	0	0	40	100	40	100
Partner	15	50	15	50	30	100
CEO of Pvt. Ltd	9	90	1	10	10	100
Total	24	30	56	70	80	100

*Sources: Field Survey 2009*

The above Table 4.13 shows that in aggregate 30% of the respondents had knowledge about procedure of paying tax and 70% of the respondents had not knowledge about paying procedure of custom duty.

In conclusion, most of the respondents do not have knowledge about paying procedure of custom duty. It means they hire broker or another way to clear the good from custom.

**4.4.11 Will the Good Knowledge about Custom Duty to Taxpayer help to Increase the Government Revenue?**

The question was developed to check whether good knowledge about custom duty to taxpayers helps to increase government revenue or not.



**Table 4.14**  
**Needed Taxpayer Knowledge about Custom Duty**

<i>Respondents</i>	<i>Yes</i>		<i>No</i>		<i>Total</i>	
	No.	%	No.	%	No.	%
Sole Proprietor	28	70	12	30	40	100
Partner	15	50	15	50	30	100
CEO of Pvt. Ltd	7	70	3	30	10	100
<b>Total</b>	<b>50</b>	<b>62.5</b>	<b>30</b>	<b>37.5</b>	<b>80</b>	<b>100</b>

*Source: Field Survey 2009*

The above Table 4.14 shows that in aggregate 62.5% of the respondent agree with questionnaire and 37.5% were disagreeing with questionnaire.

In conclusion, most of the respondent responded that good knowledge about custom duty increase government.

#### **4.4.12 Do the Respondents Think that Goods Valuation System in Custom Duty is Realistic?**

This question was asked to check whether goods valuation system in custom duty is realistic or not. The responses from respondent are presented as follows:

**Table 4.15**  
**Show the Goods Valuation System in Custom duty**

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Sole Proprietor	36	90	4	10	40	100
Partner	24	80	6	20	30	100
CEO of Pvt. Ltd	7	70	3	30	10	100
Total	67	83.75	13	16.25	80	100

*Source: Field Survey 2009*

The above Table 4.15 shows that the aggregate of 83.75% of the respondent responded that goods valuation system in custom is realistic but 16.5% of the respondent responded that the goods valuation system in custom is no realistic.

In conclusion, most of the responded that goods valuation system in custom is realistic.

#### **4.4.13 Are Respondents Familiar about VAT**

This question was asked to know the awareness about VAT, whether they are familiar about VAT or not. The Table 4.16 shows that the aggregate 60% of the respondent were familiar about VAT but 40% of the respondents were not familiar about VAT. The response received from respondent are presented below:

**Table 4.16**  
**Familiarity about VAT**

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Sole Proprietor	20	50	20	50	40	100
Partner	18	60	14	40	30	100
CEO of Pvt. Ltd	10	100	0	0	10	100
Total	48	60	32	40	80	100

*Source: Field Survey 2009*

In conclusion, the above results showed that most of the responded were familiar about VAT.

#### **4.4.14 Do the Respondents Know Who should Register in VAT?**

The respondents must know who should register in VAT. The respondents profile is presented in the following table:

**Table4.17**  
**Shows the Register of VAT**

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Sole Proprietor	16	40	24	60	40	100
Partner	15	50	15	50	30	100
CEO of Pvt. Ltd	10	100	0	0	10	100
Total	41	51.25	39	48.75	80	100

*Source: Field Survey 2009*

The above table showed in aggregate 15.25% of respondent knowledge about who should register in VAT 48.75% of respondent had not knowledge about who should register in VAT.

#### 4.4.15 Is Current VAT Rate System Applicable?

This question was designed to check whether current VAT rate is applicable or not. The respondents give their views, which are presented in table as follows:

**Table 4.18**  
**Applicability of Current VAT Rate**

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Sole Proprietor	4	10	36	90	40	100
Partner	0	0	30	100	30	100
CEO of Pvt. Ltd	0	0	10	100	10	100
Total	4	5	76	95	80	100

*Source: Field Survey 2009*

The above Table 4.18 shows that the aggregate 5% of the respondents was agreed the applicability of current VAT rate system but 95% of respondents were not agreed the applicability of current VAT rate system. In conclusion, the government should make appropriate VAT rate.

#### 4.4.16 Do Respondents Think that VAT System in Nepal is Sound and Effective?

This question was developed to know the opinion of respondent about VAT system is effective or not. The responses received from respondent are tabulated as follows:

**Table 4.19**  
**Shows the Effectiveness of VAT System in Nepal**

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Sole Proprietor	8	20	32	80	40	100
Partner	9	30	21	70	30	100
CEO of Pvt. Ltd	0	0	10	100	10	100
Total	17	21.25	63	78.75	80	100

*Source: Field Survey 2009*

The above Table 4.19 shows that the aggregate 21.25% of respondent was agreed this VAT system of Nepal but 78.72% of respondents were not agreed with this VAT system of Nepal. Most of the respondents said that VAT system of Nepal is not effective and sound.

#### **4.4.17 What are the Major Problems of VAT System in Nepal?**

This question was asked to find out the rank of the major problems of VAT system in Nepal. The respondents give their views, which are presented in tables as follows:

**Table 4.20**  
**Shows the Major Problems in VAT System in Nepal**

S.N.	Problems	No. of respondents	% of respondents	Rank
1	Lack of consumer awareness	20	25	2
2	Underground economy	12	15	3
3	Unfair and weak administration	40	50	1
4	Others	8	10	4
	Total	80	100	

*Source: Field of Survey 2009*

Table 4.20 shows most important problems faced by businessman is unfair and weak administration. While ranking together, the corresponding prioritized problems are as follows;

- ) Unfair and weak administration
- ) Lack of consumer awareness
- ) Underground economy
- ) Others

#### 4.4.18 In your Opinion, What Steps to be Taken to Make VAT Effective?

This question was prepared to know sequence of priorities from respondents to make VAT effective.

**Table 4.21**  
**Steps to be Taken to Make VAT Effective**

S.N.	Problems	No. of respondents	% of respondents	Rank
1	Increasing public awareness	20	25	2
2	Billing enforcement	15	18.75	3
3	Political stability	30	37.5	1
4	Stop illegal trade	15	18.75	3
	Total	80	100	

*Source: Field Survey 2009*

From the above Table 4.21 the ideas of all groups to make VAT effective are ranked as follows:

- ) Political Stability
- ) Increasing Public Awareness
- ) Billing enforcement & Stop illegal trade

## 4.5 Major Findings

Based on previous chapters and data presentation and analysis, some important findings can be drawn. The major findings are presented below:

- J VAT has been the most essential choice as ingredient of tax reforms of developing countries like Nepal, which leads to revenue enhancement and sustainable economic development. There is tremendous scope for increasing the revenue from VAT and sound implementation of VAT will obviously increase its contribution in coming days.
- J The contribution of VAT to government revenue (GDP) on Nepal is very low with comparison to other developed countries. The contribution of VAT revenue as a percentage of GDP remained 2.69, 2.73, 2.60, 2.73, 2.70, 3.21, 3.36, 3.67, 3.71 and 3.79 from the FY 1999/00 to 2008/09 respectively.
- J The contribution of VAT revenue to the total tax revenue is in increasing trend, though it is fluctuating percentage wise. It is beneficial for sound economic development. Despite the various difficulties on the implementation of VAT, the collection trend of revenue through VAT is not so bad. It is expected to generate more and more revenue in coming days. VAT generated about Rs. 9850 million revenue in FY 1999/00. It has reached up to Rs. 29908.7 million in FY 2008/09, which is 203.64% increased in comparison to FY 1999/00.
- J The contribution of tax revenue to the total revenue is higher than non- tax revenue. The tax revenue is increasing trend i.e. it is 77.29% in 1999/2000 and it reached to the 82.75% in 2008/09 but non- tax revenue is decreasing as 22.71% to 17.25% in 2008/09. It shows that the tax revenue is important revenue for the government so that the government should make program for the awareness for the taxpayers.

- J The total tax revenue is divided into direct tax and indirect tax. The direct tax and indirect tax is increasing from 8915.5 to 19460.7 in 1999/2000 to 2008/09 and 24200.7 to 5313.11 in 1999/2000 to 2008/09 respectively. The contribution of indirect tax is higher than direct tax in total tax revenue.
- J The survey of the contribution of income tax to the government revenue is important i.e. most of the respondents are in favor of income tax revenue is contributing significant place to the government revenue.
- J From the survey most of the respondents are familiar with the Nepalese income tax i.e. the respondents have knowledge about the Nepalese income tax system.
- J Form the view of respondents, it found that present income tax exemption limit is not appropriate it means most of the respondents are not feel appropriate income tax in present situation .
- J The survey shows that the Nepalese income tax is not effective that means most of the respondents show that Nepalese income tax system is ineffective.
- J From the respondents opinion it is clear that the education about tax for taxpayer is necessary i.e. hundred percent respondents shows that the education about tax for taxpayer is needed.
- J From the opinion of the respondents, it is clear that the good knowledge about custom duty to taxpayer help to increase the government revenue i.e. most of the respondents responded that good knowledge about custom duty increase government revenue.
- J From the survey, most of the respondents are familiar about the VAT



- ) Form the opinion of respondents, it is clear that current VAT rate is not applicable it means most of the respondents show their view against the applicability of current VAT rate.
- ) It is found that there are many problems of VAT system in Nepal. From the survey the prioritized problems are unfair and weak administration, lack of consumer awareness, underground economy and others.
- ) From the survey of respondents, it is clear that VAT paying system can be effective as political stability, increasing public awareness, billing enforcement and stop illegal trade.

## CHAPTER-V

### SUMMARY, CONCLUSION AND RECOMMENDATION

#### 5.1 Summary

Nepal is agriculture based least developed country. The economic status of Nepalese people is very poor. The per-capital is near about 350 dollar. This lowest among SAARC countries and almost lowers per-capital income of the world. One of the main objectives of each and every country is to raise the living standard of the people through economic development activities. To launch, these activities government needs various resources; money, man, machine and materials. Nepalese economic is facing serious problems of resource gap. Revenue collection of government is internally sufficient to meet the cost of day to day administration of the county. So, Nepal has been dependent of foreign aids and loans to fulfill the need for developmental activities, which is not beneficial in the long run interest of the country.

A sound tax system is one of the essential requisites for an economic development. Thus, different taxation policies have been introduce and renewed on timely basis with a view to mobilize internal resources. It contributes to economic growth and reduces dependency on foreign loan. In Nepal, the coverage of income tax is very low. One research found that only about 0.5 percent of the total population pays income tax. There is poor taxpaying habit of Nepalese people. The tax authorities are also insufficient and ineffective in enforcement. There are no integrated programs for taxpayers' education, assistance, guidance & counseling. Tax officers are looked upon as heaven for corruption, harassment and incompetent personnel.

The present study on taxpayer's education and awareness regarding VAT collection has some objectives, which are to assess the current status of taxpayers' education and awareness regarding VAT, to find the relationship between VAT collection and taxpayers' education to

examine the present management system of VAT effective and to provide suggestions for improving taxpayer's awareness in Nepal.

The research has discussed about various aspects of research methodology as; research design used for this study, data collection procedure, population and sample, nature and sources of data, selection of the respondents, procedures of processing and analysis of data.

The analysis of secondary as well as primary data gives meaningful results. The major sources to collect secondary data is the annual economic review. To collect primary data opinion survey technique was used in this study. The primary data were collected from three respondent's group i.e. sole proprietor, partners and CEO of Pvt. Ltd. Company of the business.

Lastly, the consumers are the defacto taxpayer. They pay for the government in the name of tax, charges, and donation. To encourage the taxpayers towards VAT, it is very important that the money paid by the consumer to the Government in the name of taxation should be accounted in the exchequer of the nation and collected amount should be utilized appropriately for their benefit. The taxpayer should be made conscious through proper tax education. There is positive relationship between the taxpayer education and VAT collection. There is positive relationship between the taxpayer education and VAT collection. This provides that the government should launch an intensive education and awareness campaign in major economic and commercial centre first and gradually all over the country. The target group could be consumer. The government needs to train its officials about the well functioning of the system. Finally, the benefit of taxpayers should be equally considered while formulating or improving tax law. The convenience of both the administration and taxpayers should be equally considered.

## **5.2 Conclusion:**

Nepal being one of the least developed countries in the world has always suffering from the social and economic problems. Due to poor performance on internal revenue, for developing countries like Nepal, Value Added Tax is a best model of taxation. It puts greater significance on revenue mobilization in such countries where Nepal cannot be an exception. The reason behind this is that VAT system is transparent, broaden tax base and discourage tax evasion. Therefore, it is needless to say that VAT is the most important source of the government revenue. The biggest virtue of VAT is that revenue generation and highly instrumental for resource mobilization especially in an economy with actual shortage of resources. VAT would make it to broaden the tax base, eliminate tax cascading, create and investment friendly tax system, have a simple and modern tax system that exempted export and basic goods from taxation and finally increase revenue. This is a matter of great pride that Nepal has entered into a major global tax system, with the introduction of VAT.

Nepal has adopted VAT since 16 November 1997. Nepal has adopted a policy of developing VAT as the primary source of revenue. VAT has been implemented as a major part of the tax reform programmed. In this course, many reforms oriented activities have taken place. But VAT system from its implementation has been facing innumerable problems, which curtail its merits and effectiveness. Initially, its process slow due to opposition from the business community and subsequently to administrative problems. Despite preliminary resistance, VAT has been largely accepted by the taxpayers as well as business communities and relied upon by the governments an important tool for mobilizing the revenue needed to finance public expenditure.

Theoretically, the Nepalese VAT system has no weak provisions. It is one of the best models in the world. However, practically the system is not effective even today. Most of the problems concerning the operation of VAT in Nepal have been identified. The major problem or reason behind all the problems is lack of taxpayers' awareness regarding VAT.

Empirically, VAT is found to be the best source for reducing economic inefficiencies of the nation and contributes greatly in revenue potential of nation. Hence, the main point to be considered is that there is positive relationship between the taxpayers' awareness and revenue collection of nation i.e. increasing number of taxpayers would of course contribute in increasing revenue potential of the nation. This puts forward the need of encouraging taxpayers for voluntary compliance and any reforms of tax administration should also aimed on motivation taxpayers on it. The government needs to take necessary steps to sort out emerging problems in success of VAT implementation. For this taxpayers awareness programmed and tax education plays prime role.

VAT must be successful and this largely depends upon the public awareness, honesty, faith and morality of tax officials and business community. There is need for willpower and action. Unnecessary hindrance to economic activities must be avoided. The government needs full cooperation from the tax administration, the taxpayers and businesspersons as well as consumers in its effort to generate more revenue. Apart from this government is required to learn from what did earlier need to streamline the working procedures of the system. It is equally important that the government should justify the rationality of its policy and make consumer more assured about the policy that introduced for the benefit for the people not by saying but by its deed.

### **5.3 Recommendations**

While studying on the VAT and its awareness in public, we found that VAT has occupied a vital position in indirect tax revenue in Nepal and there is satisfactory level of public awareness regarding VAT. Further, it can be expected that the trend of public awareness would increase resulting in VAT registrants and hence increasing contribution to GDP of Nepal. Based on such circumstances, major findings and conclusions, following recommendation have been made:

- J Over the study period, we found that most of businesspersons and consumers are still unconscious and unknown about VAT. So it is necessary to make arrangement for training, seminar, report presentation, paper presentation, publication of journals and VAT programme through media for the awareness of general people about VAT.
- J Many businessmen having taxable capacity are still beyond the tax net. So the enforcement should be made more effective and voluntary compliance should be encouraged. Here taxpayer education and taxpayer service is a key function of a modern tax administration to facilitate the voluntary compliance.
- J Since the registered taxpayers both seller as well as buyer of goods and services, they should give and take invoice at the time of transaction in order to make their account fair and transparent. For this, the government and their professional organizations should initiate and campaign the awareness programme to educate the vendors on the part of invoicing system and also to make people more competent, rational, choosy, and able for policing the malpractice of vendor.
- J The vendors are required to have their account transparent by means of proper and actual invoicing system. They should develop their professional competency not only in marketing but also in accounting and reporting system paying due respect to the law. In this respect, government institutions as well as private institutions should arrange for training in respect of accounting and legal matters of taxation.
- J The taxpayers should not bear any obstacles and harassment in paying tax. There must be an easy and encouraging environment for paying tax so that the taxpayer could feel paying taxes.
- J The government should try to increase tax base through bringing the hideout taxpayers into the tax net. All VAT registrants should be required to display their

registration certificate prominently which has been found in increasing trend at present. However, this needs to be monitored regularly by the tax officials.

- J In Nepalese VAT administration, monitoring system is not effective. This has encouraged tax evasion practice. Hence, it is necessary to develop effective and efficient auditing, investigation and monitoring system, there should be the provision of strictly penalizing those who do not follow the rules.
- J Many rules and regulations that are related to VAT are only limited in papers and not in practice. Therefore, it is necessary for strict practice of all rules for effective revenue creation. Besides this strict rules should be prepared for tax officials also and it is necessary to take action against those who are directly or indirectly in corruption.
- J There should be reward system for voluntary registrants and honest taxpayers.
- J VAT is the most effective way of generating revenue; attempt must be made to raise additional revenue by intensive tax education programme. The principle of taxpayer education and service should be accurate and easy to understand, fair and balanced; timely, minimal cost to taxpayer and accountability.
- J For the better implementation of VAT in Nepal, the different types of awareness programme should be conducted to the real taxpayer (consumers) and businessperson. The different kinds of seminars and lectures to be given to tax officers to check the tax leakage. Government needs to train its officials about the well functioning of the system.
- J Apart from this, the people who are sovereign in taking their decisions and who are ultimate taxpayers should develop an organized civil society to check the domineering and exploitative behavior of the business community and the monopolistic behavior of the state.

## BIBLIOGRAPHY

### Books:

Adhikari, B.D. (2003). *Income Tax Law: Then and Now*. Kathmandu: Bhrikuti Publication.

Agrawal, G. R. (1973). *Resource Mobilization for Development: the reform of tax in Nepal*. A report presented to CEDA, T.U.

Agrawal, G.R. (1984). *Direct Tax Reform in Nepal*. A report submitted to Ministry of Finance.

Ahsan, S. M. (1995). Tax Evasion: The Developing Country Prospective. *Asian Development Review, Vol-1, No.13*.

Aser, Mukul G. (1992). *Lesson from Tax Reform in the Asia-Pacific Region*. Asian Development Review, Vol. 2 Manila.

Baral, S. (1989). Income Tax in Tax Structure in Nepal. Unpublished Master's Thesis, Central Department of Economics, Tribhuvan University.

Bhandari, H.B. (1994). Contribution of Income Tax to Economic Development of Nepal. Unpublished Master's Thesis, Central Department of Management, Tribhuvan University.

Bajracharya, B. C. (2057). *Business Statistics and Mathematics*. Kathmandu: M. K. Publishers and Distributors Bhotahity.

Bird, Richard M. (1970) *Taxation and Development: Lesson from Colombian Experience*. Cambridge: Harvard University Press.



- Bird, Richard M. (1990). *Expenditure, Administration and tax reform in Developing Countries, Bulletin for the International bureau of Fiscal Documentation*. Vol. 44 no. 6, Amsterdam.
- Bista, Ragu Bir (1991). *Applicability and feasibility of VAT in Nepal*, M. A. Dissertation, Central Department of Economic, T.U.
- Bogetic. Zeijko and Hussion, Fareed (1993). *Determination of Value Added Tax revenue: A cross Section Analysis*. Washington: The World Bank.
- Casenegra, De Janstscher Millka. Miche Guerad and George E. Lent (1973). *The Value Added Tax in Developing Countries*. Washington: IMP Staff Papers. Vol. Xx no. 2 (July), International Monetary Fund.
- Casenegra, De Janstscher Millka, carrlos Siilvani (1991). *Guidelines for Administering a VAT, Alan A. Terrait, (Ed) Value Added Tax: Administrative and Policy Issue*. Washington: IMF Occasional Paper 88: International Found D. C.
- Choi, Kwang (1983). *Value Added Taxation in the Republic of Korea*, New York: economic bulletin for Asia and Pacific, Vol. XXXIV.
- Chosen, Sijbren (1981). *The Netherlands*, Henry J. Aaron, (ed) *The Value Added Tax: Lessons from Europe*, The brooking Institution, Washington D. C.
- Dahal, Madan K. (1993). *Future of Nepalese Economy: Economic Nationalism Reconsidered in future of Nepalese Economy*. Kathmandu: (ed) Madan Kumar Dahal. NEFAS.
- Dahal, Madan K. (1984) *Measuring the Burden of Taxation*, Kathmandu: Rajaswa Vol. 4 no. 2, Revenue Administration Training Centre, MOF.

- Gautam, K. R. (2004). Contribution of Income Tax to National Revenue of Nepal. Unpublished Master's Thesis, Central Department of Management, Tribhuvan University.
- Gautam, U. (2005). Income Tax in Nepal: A Study of Deductions And Exemptions. Unpublished Master's Thesis, Central Department of Management, Tribhuvan University.
- Ghimire, B. (1993). Principle of Direct Tax and Provision of Direct Tax. *Rajaswa* Year 13, Vol-2.
- Gupta, S.C. (1990). *Fundamental of Statistics*. Bobay: Himalayan Publishing House.
- Joshi, S. (1998). *Economics for Humanities*. Kathmandu: Telaju Prakashan.
- Kandel, P. R. (2003). *Nepal Ko Bartaman Kar Byabastha*. Kathmandu: Buddha Academic Publishers and Distributers Pvt. Ltd.
- Kayastha, N. L. (1993). Problem and Prospects of Resource Mobilization Through Direct Taxation in Nepal. *Rajsewa*. Vol-1
- Khadka, R. (1992). *Income Tax in Nepal: Retrospect and Prospect*. Kathmandu: Ratna Pustak Bhandar.
- Khadka, R. (2001). *Income Tax in Nepal: Retrospect and Prospect*. Kathmandu: Ratna Pustak Bhandar.
- Mallik, B. (2003). *Nepal Ko Aadhunik Aayakar Parnali*. Kathmandu: Ratna Pustak Bhandar.
- Poudyal, K. B. (1998). *Corporate Tax Planning in Nepal*. Pokhara: Sita Poudyal.
- Poudyal, S.R., & Timilsina, P. (1990). *Income Tax in Nepal*. Kathmandu: Aatharai Enterprises.

Tiwary, Narayan Raj (1990). *Value Added Tax: Its Problems, Prospects and Suggestions in Nepal*. Lalitpur: Rajaswa, Year 10. Vol. I.

Todaro, M. P. (1997). *Economic Development England: (Sixth Edition)*, Additional Wastey Longman Limited.

Wolf, H. K., & Pant, P. R. (2002) *Social Research and Thesis Writing*. Kathmandu: Buddha Academic Publication.

### **Journals:**

Economic Survey of Various Fiscal Years. Ministry of Finance, Government of Nepal.

Finance Acts of Various Fiscal Years. Ministry of Finance, Government of Nepal.

Income Tax Act 2031. Ministry of Law, Justice and Parliamentary Affairs, Government of Nepal.

Income Tax Act 2058. Ministry of Law, Justice and Parliamentary Affairs, Government of Nepal.

Income Tax Rules 2059. Ministry of Law, Justice and Parliamentary Affairs, Government of Nepal.

Tait, Alan A. (1991). *VAT Policy Issues: Structure, Rgressivity Inflation and Exports*, Alan A Tait (ed) *Value Added Tax: Washington: Administrative and Policy Issues*, IMF Occasional Paper 88, Intrenational Monetary Fund.

Value Added Tax Department (1998). *Value Added Tax and Business Community*. Kathmandu: VAT Department.

Value Added Tax Department (2000). *Process Related Tax credit and TAX Refund*. Kathmandu: VAT Department

VAT Project (1996). *Common Questions and Answers on Value Added Tax*. Kathmandu: VAT Project.

VAT Task force (1996). *Value Added Tax: Queries and Solutions*. Kathmandu: VAT department.

World Bank (2000). *World Development Report*. Washington: oxford university Press for the World Bank.

**Previous Research Works:**

Pali Magar, D. B. (2003). *Income Tax in Nepal: A Study of Exemption and Deduction*. Unpublished Master's Thesis, Central Department of Management, Tribhuvan University.

Pant, P. (1996). *A Study on Income Tax Management in Nepal*. Unpublished Master's Thesis, Central Department of Management, Tribhuvan University.

Poudel, J. (2002). *Income Taxation in Nepal: A Study of its Structure and Productivity*. Unpublished Master's Thesis, Central Department of Economics, Tribhuvan University.

Pradhan, M. (2004). *Taxation Policy: Its Problem and Prospects upon Industries in Nepal*. Unpublished Master's Thesis, Central Department of Management, Tribhuvan University.

Subedi, Khubi Ram (2005), *Implementation and Effectiveness of VAT in Nepal*. Central Department of Management, T.U., Kirtipur, Kathmandu.

Suwal, R.S.(1981). *Income Tax Evasion in Nepal*, Unpublished Master's thesis, Central Department of Management, Tribhuwan University.