

CHAPTER - I

INTRODUCTION

1.1 General Background

Government has spent a huge amount of money to fulfill its responsibility toward the country people. It takes required funds available and National Revenue. The past developmental efforts and performances within the country have taught us only lesson to realize that one should have utmost concern and expedite our efforts further and also try to improve the performances as much as possible for collection of revenue for a country like Nepal the constraints are immense and complex in nature. There is a strong cause to be alarmed and gear our endeavors likewise, but there is no cause to be disheartened. The aspiration and the goal of the society being the economic betterments so that the inhabitants of the country can live with certain level of dignity and respect. The policy maker in the country tends to think that the financial side of the overall development process as a mere secondary matter and not as an essential instrument of the development policy. The efforts towards increased resource mobilization have been basically on the easy fronts like rate increases taxes.

The government of a particular country requires sufficient funds and revenue to handles its daily administrative and operational activities. Which is direct concerning to general public of a nation. These kinds of fund are received from two sources i.e. internal and external (Bhattarai and Koirala, 2004).

External sources are those funds which are received from foreign grants and loans but internal sources are sound and very importance to the economic development these are public revenue and taxes. It is better to mobilize internal sources for developing the nations as an independently because internal sources are better rather than working with beggars eye to the donor (Pant, 1996). The external sources of financing is depends upon the interest and the conditions of funding countries and no discretion spend the fund available. Continues uses of external

sources of funds are not good because it reduced liquidity position of the government, increases inflation and make over dependency upon the country.

Internal sources of fund is own sources within the nation and it includes both tax and non – tax revenue.

In developing countries like Nepal, Larger volume of resources are essential to overcome the different problem and for financing a sustainable growth of public investment. The prospect of mobilizing resources through sources other than taxation has not been encouraged. It is not possible in these countries to mobilized resources by limiting existing consumption level because it is very low.

1.2 Concept and definition of VAT

Tax is a simple terminology, a liability to pay an amount to the government; it is a compulsory contribution to the national revenue from the tax payers. According to law professor 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 special benefits conferred. In other words tax is a compulsory levy composed by the government and tax payers can not get directly common paying from the government.

Taxation and economic development are too closely interrelated concept since taxation has an important role in economic development. In recent decade, many developing countries around the world have begun to focus their attention on reforming their poorly designed defective tax structure as an integral part of their developments efforts. Tax is major fiscal policy instrument and important government policy tool has an important role in capital formation and thereby achieving a high rate of economic growth. The role of taxation is economic development lies in its function of raising a maximum volume of resources and directs the flow of resources and directs the flow of into the useful and productive channel of investment so productive capacity can be enhanced. Increased in taxes, may be directed to increase saving through the postponement of consumption. The increase in saving means a higher volume of resource is available for making useful and productive investment. Therefore taxation can be designed as such that it can play a major role in economic development of a country.

Taxation has become one of important sources of resource mobilization to meet the financial requirement of the government. The tax system should be helpful in income redistribution and economic stability. The taxation is the function of economic development to combat inflation, alleviate, poverty, reduce the gap between rich and poor, narrow the size of revenue expenditure promote the national economy, mobilize the domestic resources for economic development and save the domestic economy.

Encyclopedia of taxation and tax policy says, value Added Tax is a board based tax on business designed to measure net value generated in a country. (MOF, 1998)

Being a board based tax; it is imposed on producer, wholesaler, retailer and consumer also. It is related to both the goods and services. It is levied on industry as well commerce. Accordingly it measures not value generated in a country i.e.GDP. Indian Tax Institute defines VAT as a tax imposed on the seller of goods and services based on value added by their respective units. (MOF, 1998) Value added tax is also known as goods and services tax or added value tax. It is a tax system that aims to minimize tax evasion and increase resource mobilization. It is imposed on value added amount in each stage and therefore, is equivalent to multistage sales tax. In contrast to sales tax. VAT is imposed on added value of production and distribution. The value is added in the form of profit, rent wages, salary etc.

VAT is imposed on different stages. It is the tax imposed on added value or goods and services. Value added tax is one of the firms of indirect tax too.

Wilhelm Von Siemens of Germany, in 1919 AD Introduced VAT to replace multistage sales tax in order to avoid the undesirable effects, particularly cascading and Pyramiding. Carl S. Shoup, an American Professor suggested this tax in 1949 to use in Japan. However, the credit of using VAT at first goes to France. This country introduced VAT in 1954. (Shoup, 1969).

The years of the use of VAT in other countries of the world can be shown as follows.

Country	Year of adoption	Country	Year of adoption
France	1954	Netherlands, Sweden	1969
Ivorycoost, Senegal,	1961	Luxemburg	1970
Brazil Denmark,	1967	Belgium	1971
European Community	1968	Ireland	1972
Germany	1968	England, Italy	1973

Source: (Kandel, 2008), Tax laws and tax planning in Nepal.

Within twenty OECD Countries, only three Australia, Switzerland and the United States of America have not full fledged VAT right now.

In Asia, Vietnam introduced VAT in 1973 but avoided in the same year and again used in 1999. The dates of introducing VAT in other countries of Asia are.

Country	Year of adoption	Country	Year of adoption
Israel	1976	Japan	1989
South Korea,	1977	Pakistan	1990
China	1984	Bangladesh	1991
Indonesia	1985	Thailand	1992
Taiwan	1986	Singapore	1994
Philippines	1988	Sri lanka	1998

Source: (Kandel, 2008), Tax laws and tax planning in Nepal.

India also has used full VAT from 2003. Earlier there was MODVAT and CENVAT System.

In Nepal, Value Added Tax (VAT) was introduced on 16th November, 1997. This tax was levied in place of the sales tax, contract tax and entertainment tax.

However, it could not be implemented fully until the fiscal year 1998/99 due to political instability and strong opposition from the business community. VAT replaces the old four taxes. It has been designed to collect the same revenue as the taxes it replaced. Since the collection of both customs duties and income tax depends to a great extent, upon the effectiveness of VAT, it is expected to help enhance revenue collection.

The current threshold for VAT registration is 2 million those vendors whose annual turnover is below the threshold can however, register voluntarily.

In the VAT system, producers, distributors and people providing services raise VAT on the product or services sold or provided, the difference between the VAT collected on sales and the VAT charged on purchase determines the amount a registrant must remit or the amount that may be claimed as refund.(Kandel , 2008). In other words, if the tax on sales is more than the tax on purchase, the dealer businessman remits difference.

If the tax on sales is less than the tax on purchase the dealer may carry forward this credit to next month.

Basically, there are three types of VAT, namely consumption type, income type and gross domestic product type. Consumption type VAT excluded all capital goods purchased from other firms while depreciation is not deducted from the tax base in the subsequent years.

Consumption type VAT=Gross Domestic product- cost of intermediate goods- cost of capital goods.

Income type VAT included all capital goods purchase from other firms in the year of purchase from other firms in the year of purchase while depreciation is excluded from the tax base. The tax falls both on consumption and net investment

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

Gross Domestic product type VAT neither excluded the purchase of capital goods nor the depreciation from the tax base. It means the tax is levied both the consumption and gross investment

GDP type VAT- Gross Receipt – Cost of intermediate goods.

1.3 Evolution of VAT

It is the bare fact that a state can't run without revenue. Whether it is to pay salary to government employees, security person and constitutional heads or pay loan or run development activities, the government needs money without adequate money, it becomes liability not a nation ²¹.

The main source of collecting the money by the government is the tax. It is the sources of revenue which is designed to collect revenue. Among indirect taxes too, Value Added Tax has the sole objective of collecting the money needed to run the government that's why the preamble itself of value added tax act. 2052 emphasizes an increasing revenue mobilization by making effective the process of collecting revenue required for the economic development of the country. The document plan of Nepal also emphasizes in developing value added tax as the main sources of revenue.

As its objective, value added tax is contributing the purse of the nation sufficient revenue from its very beginning. It is the second largest sources of revenue of Nepal. At the Eve of the entrance of entering of Nepal to WTO system, there is possibility of decreasing the revenue from customs which is the largest sources of revenue right now. If it happens, the value added tax will be the largest sources of revenue bearing the burden of around $\frac{1}{4}$ th of the total revenue. The revenue contributed by value added tax right now is around 3% of GDP, 28 %of total revenue and around 35% of total tax revenue.

Following table shows the importance of value added tax in the revenue structure of Nepal.

Table 1.1
Role of Value Added Tax

(Rupees in Millions)

Years	GDP	Revenue	Total tax revenue	Total indirect tax	VAT collection	% of Total GDP	% of total Revenue	% of total tax revenue	% of total indirect tax	Increase rate of VAT
1998/99	330.02	37.25	28.75	21.24	7.88	2.38	21	27	37	11
1999/2000	366.25	42.89	33.15	24.20	9.85	2.69	23	30	41	25
2000/2001	393.57	48.89	38.87	28.71	12.05	3.06	25	31	42	22
2001/2002	406.14	50.45	39.33	28.73	11.96	2.950	24	30	42	-1
2002/2003	437.55	56.23	42.59	32.48	13.46	3.08	24	32	41	13
2003/2004	474.13	62.31	48.17	36.36	14.48	3.05	23	30	40	8
2004/2005	488.17	65.25	52.19	42.15	18.36	3.68	28	35	43	26
2005/2006	495.25	72.72	56.39	45.11	19.37	3.9	27	34	43	6
2006/2007	502.21	77.25	59.37	48.13	21.33	4.24	28	35	44	10

Source: Economic survey, MOF, GON.

1.3.1 Methods of calculating Value Added Tax

The net tax base under VAT system is the “Value Added” by the business entities. In practical sense value added is the difference between sales and purchase by business firms. “The specific modalities on how the tax basis established and the liability computed will influence the administration of the VAT”.

There are principally three methods of calculating to ensure VAT base:

1.3.2 Addition Method

Under this method “Value Added” is computed by adding the factor payments made by the business firms. In other words, all factor payments made by a firm are summed up to determined. “Value Added “for the VAT purpose during the taxable period. These factor payments made by the firm is equivalent to the gross income received by the factor of production, which includes in its base the rewards to all factors. Including interest and profits. Thus, " The tax base is computed by adding the payments made by the firms to factors for production employed in turning out the

product such as wages, interest, rent, royalties and profits". In other sense, the tax base is obtained by adding those incomes produced by the firm.

1.3.3 Subtraction Method

The taxable base is computed by deducting the purchases of capital goods means value added equals to sales minus purchase by a business entity during taxable period. i.e.(Value Added = sales- purchase). This difference is the value that a firm adds by its own activity. Under this method, the value added is determined as net turnover. Which is obtained by subtracting the cost of materials from sales proceeds.

In Proper sense, the working of subtraction method can be visualized in following table.

Table 1.2
Working of Subtraction Method

Phases of production and distribution	Net Purchase price	Net sales price	Value Added	VAT
Primary producer	-	2000.00	2000.00	260
Producer	2000.00	4000.00	2000.00	260
Wholesaler	4000.00	50000.00	1000.00	113
Retailer	5000.00	6500	1500	195
Total Rs.	6,500.00	17,500.00	6,500.00	828

Source: Arbitrary figure estimated.

Table 2.2 shows that subtraction method is easier to compare the tax base and VAT liability. This is because net sales minus net purchase by a firm is every stages of production or distribution is the VAT base, to which multiplication by the given tax rate (assuming 13%). Rate in made to identify the tax liability. The primary producer like farmer, butcher, miners etc. produce and sells goods for Rs. 2,000.00 without any purchases which is his net value added, liable to 13% VAT rate making 260 rupees of tax liability for him. Similarly the sales value of purchase like millers, tanners, manufacturers etc. Wholesaler and retailer being Rs. 4,000, 5,000 and 6500 respectively against their net purchase value of Rs. 2,000, 4,000 and 5,000 respectively, making the respective amount of value added Rs. 2,000, 1,000 and

1,500. The total sales and purchase value made by all stages of production and distribution is Rs. 17,500.00 and 11,000.00. The aggregate Value Added at all stages of production and distribution is Rs. 6,500, which is equivalent to the total value added i.e. (Rs. 17500-11,000= Rs 6500). And the net VAT revenue received from each stage is Rs. 828 which is the net value added tax.

1.3.4 Tax Credit Method

Credit approach is also known as the indirect subtraction techniques or invoice method. Tax liability of a firm is determined based upon its sales value, after deducting its VAT paid in its purchases more obviously, to the firms total sales without any deduction, whether there is applied the tax rate from which tax paid on its inputs is deducted. For this, since the tax on sale must be stated on invoices to provide documents evidence for the credit claims by the registered buyers, more clearly, the VAT liability is calculated by deducting tax on inputs from the tax on output during a taxable period. Under this method or net VAT liability = Tax on sales- Tax paid on purchases, under this method excess of input tax over the output. Tax is refundable or can be claimed as a tax credit, generally, value added tax is not to be included in the base.

The method of calculation under the tax credit method is elaborated in table 2.3.

Table 1.3
Tax Credit Method
At 13% VAT Rate

Net sales	Net purchase	Tax levied on sales	Tax paid on Purchase	Value Added	Net VAT Liability
1000	800	113	104	200	113-108=9
Total				200	9

Source: Arbitrary figure estimated.

The above table clearly shows the functioning of Tax credit method of computing VAT net of a firm. Tax paid on purchase (Rs. 104) is deducted from tax

levied on sales (Rs. 113) to identify the firm's net VAT liability (Rs. 9). Which 13% is of to net value added (Rs. 200) by the firm.

Similarly the table 2.4 illustrates the working of tax credit method in various stages of production and distribution process.

Table 1.4
Working of Tax credit Method

Stages of prodn. & distribution	Net Purchase price	Net sales value	Value Added	Gross VAT on purchase	Gross VAT on sales	Net Value	
Cotton producers	—	300	300		39	39-0	39
Spinner	300	350	50	39	46	46-39	7
Textile producer	350	500	150	46	65	65-46	19
Wholesaler	500	700	200	65	91	91-65	26
Retailer	700	750	50	91	98	98-91	7
Total	1850	2600	750	241	339	---	98

Source: Arbitrary figure estimated.

As of a single firm, stage wise net VAT liability (Rs. 98) in a economy equals to the sum total of VAT levied on sales proceeds (Rs.339) Minus VAT paid on purchased inputs (Rs. 185) under a tax credit method. This method is applicable to our daily transaction.

1.4 Statement of the problem

Nepal is one of the least developed countries with low per capita income. People of Nepal depend on agriculture for their livelihood. There is huge difference between public expenditure and public receipt.

A sound tax system is one of the essential requisites for an economic development. Thus, different between taxation policies have been introduced and renewed on timely basis with the view to mobilize internal resources. It contributes to economic growth and reduces dependency on foreign loan. In Nepal, the coverage of VAT is not sufficient to every sector. There are also insufficient and ineffective enforcement in tax authorities. There are no integrated programs for tax payers, Education, Assistance

Contribution of VAT to the national revenue be increased, this goal can be achieved whether the government of Nepal takes steps for making VAT dynamic and implementing through simplicity manner and VAT policy should be adopted as a target oriented.

Nepal has been facing development challenges to promote the life standards of its around 38% citizens living below the poverty line. Under such condition, Nepal encounters the serious problem of resource gap and depending independency of foreign aid and loan, which is easily be realized in our daily life. The widening resource gap of the country has further affected the level of macro- economic stability of the country (Dahal, 1993).

According to economic survey of Nepal, in total revenue tax revenue occupies around 80% share. The percentage of VAT on total tax revenue nearly 35-40%.

The information of VAT planned in Nepal has practiced o hot debate among the business man, government and academic regarding its good and bad effect in Nepalese economy, various issues have been raised and practical regarding a VAT in Nepal. The issues which were preliminary rose and most of them are solved before implementing a VAT.

The government at first applied VAT without any formal agreement hoping positive result, but various problems have been appeared on the process of implementation of VAT. Almost all people, consumers, industry owners and traders have not got required and important information as a result the outcome of implementation and experimentation of VAT is not as prosperous as it was at first expected. It is problematic issues on the other hand the people of concerned field are not aware if and informed of its positive and negative aspect, As a result whether the government had targeted is not fulfilled. The majority of people knowingly and unknowingly opposing it though few numbers of people who have knowledge about VAT have accepted it. This is major issues in the implementation of VAT to approach on it targeted aim.

It is necessary to reform all above prevailing problems in the implementation of VAT and government should make almost all the people aware and well informed about it. It is pervasive problem to research its historical background and contribution ratios to total tax revenue. It is a big problem to take and promote VAT as an alternative way of sales tax. Above raised issues are at the centre of this study.

1.5 Objectives of the Study

The general framework of the study is to examine the various problems and scanning the practices of a VAT in Nepal and to suggest the useful alternative solution against the major issues. The basic objective of the study is to explore the contribution of VAT in national revenue and its collection from different business sector of economy. However, the others specific objectives of the study are as follows.

1. To access the provisions made for VAT under the VAT act 2052.
2. To analyze the composition of the government revenue through the VAT and other sources.
3. To analyze the sector wise VAT collection by the government of Nepal Preceding five fiscal year.
4. To assess the position of VAT in experience through empirical investigation of market.
5. To provide suggestions for making VAT effective and wide area coverage in Nepal.

1.6 Limitation of the study

To examine the various issues of VAT among the tax based revenue of the government, there is limited boundary. This study is specially based on sales tax or tax with business aspects and not a complete study of tax act. So the study is not far from some limitation.

The limitations of the study are as follows.

1. The study has been performed in limited time and resources.
2. The study covers basically analytical aspects on the sector wise revenue collection at VAT contribution.
3. The reliability of the study depends on the reliability and validity of secondary data while setting some primary views, taxpayers surrounding pokhara region.
4. The study is related with only the trends of contribution as a period wise by 5 year i. e. from fiscal year 2061/62 to 2065/66.
5. Tax is a complicated and vague subject matter. Due to the limitation of time, each and every aspects of chosen topic is not covered.

1.7 Importance of the study

Nepal is heavily dependent in the foreign assistance and grants to undertake development activities. The resource collected internally is sufficient to run day to day administration of the country but revenue surplus is not adequate for development activities. Out of various sources of income, VAT is an important source if tax income to our government. It has been contributing higher position as tax base revenue of the nation being regular source of income. As This study have been analyzed the direct tax system with sales and its Contribution to revenue collection. The findings conclusions and recommendation is useful to the taxpayers, students, government and research scholars who are interested about the VAT as a reference material.

Since there exist an acute resource gap in Nepal. Resources mobilization is a challenging function in different condition of a nation. Actually, VAT is scientific system in the field of taxation. VAT may the tools of mobilizing resources more

efficiently. The main focus of the study is related with current status and effective practice of VAT in Nepal. This study is also concentrate to make awareness of general people toward the VAT because most of the general

People are unconscious about VAT even today. The main reason of selection of this topic is compare VAT with total tax revenue contributed of the nation.

1.8 Scheme of the study

The thesis has been organized into five chapters. Chapter I is an introduction Part of the study which includes general background, concept and definition of VAT, statement of the problem, Objectives of the study, limitation of the study and so on. Chapter II devotes to review of literature of VAT Conceptual framework, past data figure about tax and non tax revenue, VAT computing methods, chapter III deals with research methodology including research design and method of analysis. Chapter IV includes the revenue collection, contribution a VAT to National revenue collection in Nepal, Presentation and analysis of data findings. Chapter V includes the summary, Conclusions and recommendation of the study.

CHAPTER - II

REVIEW OF LITERATURE

2.1 Conceptual Review

In the history of taxation, Value added tax is the least and emerging tax Value added approach was discourage as early as 1918, however, this Tax was firstly recommended by William Von Siemens in 1919 in Germany the multistage turnover. In order to avoid the undesirable Effects particularly cascading and vertical integration of the later tax. The VAT proposal was seriously considered by them German government but as the tax was new and thought to be complicated it decided to reduce the rate of a improved from of turnover tax in the literature (Regmi, 1991).

Most of the developing countries have undertaken many tax reform programs as an integral part of their development efforts in last four-five decades. A distinguished and essential feature of tax reform in almost all developing countries around the world is the adoption of VAT. These have, thus, become two inseparable events in many countries during last few decades (Khandka, 1996).

In 1921 VAT was suggested by Professor Thomas Adam for the United States of America (Prest and Barry, 1968). Similarly proposals are periodically made to have the federal government to adopt a VAT either as supplementary revenue source or as replacement of same taxes. i.e payroll and corporate income tax in America. In 1953, the states of Michigan enacted a form of VAT as a compromise between groups seeking and opposing a state corporation income tax. The firms were required to calculate value added and apply the rate to this figure, rather than using the credit method regarding the tax as a charge for privilege of business and, it was replaced by corporate income tax.

A mission led by Professor Carl S. Shoup proposed Value Added Tax for Japan in 1989 and developed its board structure. This mission suggested the fuka

kachi zei (VAT) for Japan in order to avoid the undesirable and unintended effects of then Japanese enterprises and turnover taxes.

However, the tax was considered very seriously. It was decided by the Japanese government not to introduce it promptly, showing the cause of further study, Although the Michigan states of America introduced a limited feature of VAT but the tax was not introduced by any country till 1953 (Shoup, 1969).

In real practice, France launched the Value Added Tax the term value added tax on its origin to French phase tax *Aur la Valur ajontee*. The father of the modern VAT is MC Maurica lawyer who in his capacity as an official of French ministry of finance developed the French levy. The

VAT adopted in France was the result of the modification of the French production tax. The change involved two elements a) Extension of the tax through wholesale level (Vatil 1968). Before jumping to retail level b) exclusion of capital equipment on a current basis instead of materials and parts alone. Thus, The French levy of this tax initially replaced the turnover tax, covering industrial sector and limited up to the wholesale level. Despite this pioneer work, VAT could not cross the boundary of France until 1959.

The speed of introducing VAT was generated up in early sixties. While Ivory Coast followed France by adopting it in 1960, and Senegal in 1961. "The success of French levy and the realization that the cascade type multiple stage taxes (Turnover Taxes) were incompatible with the European common market lead the financial and fiscal committee of the European economic community to recommend in 1962 that all member countries shift to VAT" (Goode, 1986). And it was approved by EC council of ministers. They considered VAT as a standard form of sales tax. Brazil and Denmark introduced VAT in 1967 and France extended it through retail in the same year by adopting VAT through retail level and Luxembourg and Sweden in 1969.

The Pace of VAT, Further accelerated in 1970 and after while its adoption as requirements of membership in EC has given in great prestige and has Estimated in other countries. Rapid spread in subsequent years was primarily the product of the evils of the turnover tax, which the EC countries previously used. Belgium and

Ireland coincide the flow of adopting VAT in 1971 and 1972 respectively. Australia, Bolivia Italy, UK and Vietnam introduced VAT in 1973. In this concern Vietnam pioneered, in the move, being the first country in the Asian region and United Kingdom imposed the tax as it becomes a member of EU. Despite a stagnant in 1974, the tax remained explaining Chile, Argentina, Costa Rica, Nicaragua and Columbia introduced VAT in 1975. Honduran Israel and Peru in 1976, and followed the line by South Korea and Panama in 1977. Meanwhile, The sixth EEC VAT directive of 1971 steps up a common VAT structure (Chossen, 1992).

The continuous flow of adopting VAT stopped in 1978 and 1979 and started to move slowly from 1980 while Mexico Culminated it at the same year and Haiti in 1982. Dominican Republic and Guatemala accompanied it in 1983 and by people' Republic of China in 1984, while Indonesia and Turkey adopted VAT in 1985.

In Nepal, the eighth plan announced to apply VAT at the end of the plan. The budget speech F/Y 1993/94 extended its complement toward VAT saying that "to make sales tax as a principle source of revenue mobilization, government attempts will be directed to change sales tax into VAT gradually" (Due and Lander, 1997). A task force was set up in the sales tax and excise duty department to make necessary preparation for an early introduction of VAT. The task force prepared a draft of VAT law and make other few studies during a period of one year, After a political change of 1994, the ordinance budget of 1994/95 repeated its complements to make VAT preparation complete within 1995 giving conflictly in preparation. But the budget speech of 1994/95 presented by the government of CPN (UML) lengthened the move toward VAT showing the need for more study. The task force comes to an automatic stop. But the government formed a task force on re observation of Nepalese tax system, headed by Professor Dr. Madan kumar Dahal and assistant by Dr. Rup Bahadur khadka. A Study was conducted which reached a conclusion that there is not any other reliable measure without changing the existing sales tax to VAT.

The Budget speech of 1995/96 announced that VAT will be introduced from next fiscal year in apparent to make sales tax opportune in Nepal.

Now, the value added tax act 1996 and value added a rule 1997 has been approved. Ultimately HMG has decided to adopt VAT form November 16, 1997 somewhat hurriedly in the light of its preparation. It is facing transitional problems as

well as sharp appose from business community. So, it will be implemented from February 1998 in Nepal.

This chapter is devoted to the review of various contemporary literatures of tax reform on VAT. In this section it is tried to review the existing empirical literature briefly on the subject in various developing countries including Nepal.

2.2 Review of empirical Literature

Tax reform to strength the country's fiscal system has become one of the seriously raised concerns in many developing countries have made tax reform programs as a integral part of their development efforts for last three four decades, VAT as individual and essential features for tax reform has been adopted in most of the countries.

Value Added Tax is the recent innovating in the field of taxations. Many more studies have been conducted in the world about problem and prospects. Issues and option fund mobilization through VAT and practices of VAT. But few studies have been made in Nepal. However, reports of the study are presented in the various books and journal

This part includes the review of existing empirical literatures and some related books which are to be treated as a reference for review to the study.

A high level task force led by Dahal (HMG, 1995) to review Nepal's tax system has made some recommendations for VAT in Nepal. In its report, the task force recommends VAT in the place of existing sales tax and small service based taxes as a long-term tax reform measure. The report has emphasized the introduction of VAT in Nepal to (a) broaden tax base and increase the tax revenue, (b) make the tax system efficient, (c) prevent tax evasion, (d) make the tax system transparent and elastic and (e) encourage exports. The report has also emphasized that there are some other factors to be considered seriously before implementing a VAT. They are (a) price level (b) nature of taxpayer, (c) small taxpayer etc. The report has recommended some necessary preparations to be undertaken before implementing a VAT such as

drafting a law, developing an efficient and capable administration etc. A functional organizational pattern is recommended. The other recommendations of the task force are development of an effective tax refund system, measures to increase self-compliance, taxpayer's services, computerization of the administration, research and development, a different type of personnel system, extensive taxpayer's education program etc.

(Duwadi, 1995). He has focused its effort to explain the evolution of sales tax, its kinds, structural and functional characteristics of the Nepalese sales tax system with its contribution to revenue. In his own word, the conclusion of this study is "The indirect taxes has larger share on total revenue than direct taxes and the share of indirect taxes and direct taxes on total revenue is 63.4 percent and 15.3 percent respectively. Sales tax occupies 1.9 percent of GDP, 20.2 percent of revenue, and 26.2 percent of tax revenue and 31.8 of indirect tax revenue. The growth of the sales tax collection from goods in the study period is 24.3 percent and the growth rate of the sales tax collection from services in the study period is 144.1 percent". He has made recommendation as

-) Long-term policy with clear vision,
-) Updating taxpayer's profile,
-) Starting of VAT instead of sales tax,
-) Simplification of tax refund system,
-) Transparency and uniformity in the tax rules, regulations and circulars,
-) Unification of various similar natures of indirect taxes,
-) Computerized information system connected to interoffice and interdepartmental.
-) Comprehensive education programme for the taxpayer,
-) Establishment of Research and Development Wing with in the Revenue Board.

(Rup Khadka, 1996). He has focused on the purposed structure, operation and administrative set up of a VAT for Nepal and necessary steps to be taken for its early introduction. In its purposed structure the coverage of VAT should be made as broad as possible coverage all business transactions. Exemption should not be granted

unless there is the specific reason to do so, such as administration and equity. Zero rating should be limited to export and tax rate should be single in order to avoid complications and inefficiencies in collections.

Tax purposed operation of VAT requires that the tax payers above threshold limit should be registers. The vender should issue an invoice for each sale, keep a clear account of his purchased and sales (Separate accounts for zero rate, exempted and positive rate of goods) and VAT liability should be calculated of its taxable sales. Tax credit method should be used as a method of computation if the tax, and tax payment and refund period should be written within one month. Then sales tax and excise department should be provided including the operation of the computer system. A VAT implementation team including experts and person from every filed should be set up. A detailed preparation should be considered as a perquisite for the introduction of VAT. A comprehensive VAT education program must be launched to educate the tax payers.

(Subedi, 1997). He has found that the value added tax, theoretically is the best form if sales tax, especially because it is neutral regarding the methods production and generation of more revenue. The self enforcing features of VAT would make the administrative works easier.

The existing sales tax seems to be in efficient and less productive that has created cascading and pyramiding effects, Empirically, VAT is found to be the best alternative for reducing such inefficiencies. Because of its broad coverage, VAT would generate more revenue with less distortion and will unify the number of taxes producing very low amount of revenue. VAT is applicable in Nepal in the sense of tax performance. Neutrally, revenue productivity, fairness and transparency are the desired goal to be achieved from VAT in Nepal.

According to the study, the most important problem for implementation of VAT is administrative inefficiency. The present sales tax administration is not capable of handing VAT other problems associated with the application of VAT are; lack of account keeping system, lack of knowledge about VAT, lack of co – operation between the government and the private sector, illiteracy and low public awareness.

The existing tax evading practices also pose a serious problem. The full advantage of VAT can't be achieved without extending it to the retail level but the extension of VAT. The retail level is impossible and impracticable in Nepalese context.

He recommends that a moderate single rated VAT is desirable, if the VAT is implemented well, it will generate 1.5 to 2.5 folds more revenue than existing sales tax. But, however "VAT in Nepal may not be" A hen with golden eggs" and it is not a "panacea" for curing all ills, it requires active efforts and commitment for all sides. He further suggests that, on the one hand, VAT itself is the complex tax system and on the other hand, taxation system is a part of economic ocean. Thus, we have to know out capacity of swimming and realize depth of ocean before diving in to it.

(Poudyal, 1998). He has defined tax base as the base which forms basis for determining tax. He has concluded some of the alternative tax base on gross assets, business expenditure, and value added, cash flows and books profit of these he has taken value added as a tax base adding that it will include profits, wages, salaries, interest and rent. He has further added that the justification for VAT rests primarily on favorable effects that it is likely to have on the efficiency of firms. He has also emphasized on imposition of tax would act as competitors to the retail sales tax imposed by the local government.

In his summary of findings, he has explained on "Corporate tax structure and given its important constituents on tax base tax rate and tax incentive of VAT. He has not explained the effect, usefulness, successful implementations, procedures in Nepal.

(Sharma, 1998). In his dissertation, found the followings.

The serious defect of present sales tax is very narrow tax base so the sales tax is not productive and elastic adoption of a full – fledged VAT replacing the sales tax would largely broaden the tax base. In the case of imported goods. The tax base in VAT would increase about three folds of the present sales tax base. The implementation of VAT would make the tax system more productive and elastic removing the unfairness of the Nepalese tax system, increasing the competitiveness of the Nepalese products and removing the production distortions and other under pressures an economic activities caused by the inherent defects of sales tax.

Adoption of general type of VAT, entering the retail sales with certain exemption would increase the tax base more than two folds. It means that VAT has very high revenue potentiality.

There are several issues in the applicability of VAT in Nepal. The first and most important issue is the administrative issue. Lack of administrative capacity is the greatest problem of implementation VAT in Nepal. The second biggest problem for a applicability of a VAT is posed by country's under developed business structure practices and distribution system, the third problem is the existence of small traders in large proportion other problems are existence of open boarder and a large amount of unauthorized trade from Indian to Nepal, existing under valuation of imports, existing tax evading practices and corruptions nature of tax administrators and lack of co –operation between the government and private sectors.

In effect of VAT as various area can not easily be forecasts some effects of VAT are: VAT would have a negative impact i.e. rise on prices, regressive impact on income distribution, favorable impact on saving investment and production activities of the countries, promotes country's exports but import would decline due to the rise in the prices of imported goods positive impact on the collection of income tax and imports duties. VAT would put revenue at risk; broaden the base for corruption illegal trade and tax evasion.

(Upadhyay, 2002). He has concluded as value added tax is an advance form of sales tax. It has been spread all over the world within a short span of time. It has gained huge popularity that any tax had not gained earlier in the history of taxation in such a short period. The percentage of tax on goods and services that were replaced by the VAT to indirect tax in F/Y 1990/91 was 34.59. It increased to 42.39 percent in F/Y 1999/2000. Average growth rate of indirect tax recorded 15 percent per annum. Similarly, compulsorily registered taxpayers were 87.6 percent and voluntarily registered taxpayers were 12.4 percent at the end of fiscal year 1998/99. Out of total registered taxpayers compulsorily registered were 69.5 percent and voluntarily registered taxpayers were 30.5 percent at the end of fiscal year 2000/01.

Undervaluation of imported goods in custom points has been main obstacle for the effective performance of VAT. In custom point goods are not properly valued. Even after adoption of transaction value instead of set or reference value for the base of valuation, the problem of undervaluation is continued. No progress has been realized in the field of valuation even after adoption of transaction value and VAT.

The study recommended that the vigorous attempt should be done to exercise the provision provided by the law for the correction of under invoicing. A compulsory price tag system must be developed and maintained so that consumer became aware of price of goods and services.

Homogeneous version is found among the Nepalese scholars and tax experts about VAT and its implementation in Nepal. Likewise, there is no heterogeneity among the foreign writers in general.

(Parajuli, 2007). His study has based on implementation, status, trend of VAT registration and VAT collected charges and he also focused his study about the attitude of Nepalese supermarkets and department stores toward the implementation of VAT system in Nepal.

He has recommended the supervision and monitoring for VAT registration to every business is necessary even today. Beside this, he has concluded for the consumer awareness and tax education must be implemented.

(Subedi, 2007). In his study, he has set the objective to gain insight into provisions made in the present taxation policy and suggestion to improve the system so that the government can collect more revenue. He has explained that we are quote unsuccessful to bring most of the prospective taxpayers under tax net. Similarly he has focused his study toward the analysis of composition of government revenue. Lastly he has concluded that the revenue structure of Nepal has made by the tax revenue and non tax revenue.

CHAPTER - III

RESEARCH MEHODOLOGY

This study is undertaken to examine the role and contribution of VAT to be the total tax revenue of Nepal with best suggestion to be applied in the exception of VAT system in Nepal. VAT is being applied instead of import, manufacturing level of sales tax, entertainment tax, Hotel tax and contract tax. So it should be sound and effective. Value Added Tax systems results the increasing role of indirect tax in tax structure as well as national revenue at satisfactory and reasonable level. Therefore, the main concentration of this study is on role of value added tax. The problem of delaying tax assessment, tax evasion etc. may be solved through efficient administration. After performing analytical study on these matters, it tries to recommend for tax administrates to solve the problem of VAT effectively to achieve these objectives of research methodology has been designed in this chapter.

3.1 Types of Research

This study includes three types of research as descriptive, analytical as well as empirical.

- a) Descriptive research includes surveys and fact findings inquiries of different kinds. The major purpose if descriptive research is description of the state of affairs, as it exists at present.
- b) In analytical research has to use facts or information already available and analyze these to make a critical evolution and analyze these make a critical evolution of the material.

The empirical research relies on observation alone often without due regards for system and theory. It is data based on research coming up with conclusion, which is capable of being verified by observation.

3.2 Research Design

Most of the studies are concerned with past phenomena performance either numerical or theoretical, basically it will be theoretical study on VAT problems and practices. The research design in this sense can be regarded theoretical research design. After collection the opinions and views and some relevant data, this study has tried to analyze and describe the system by its own procedures. It follows analytical and descriptive research design but basically, descriptive analysis has been followed this research includes:

- 1) Descriptive Analysis, Tabulation
- 2) Primary Data
- 3) Interaction with resource person

3.3 Population and sample

In order to benefit this study 50 sample size from Pokhara region is selected. Person included in the sample are carefully selected by consultations with tax experts, tax officers, professors, lectures. The respondents have been dividing into three groups. The following table shows the group of respondents and the size of samples.

Table 3.1
Group of respondent and size of sample from each group.

S.No.	Groups of respondents	Sample size
1.	Administrators/ Experts	10
2.	Businessman	25
3.	Customers	15
	Total	50

3.4 Nature and sources of data

Both primary as well secondary data have been collected in order to achieve the real and factual result out of this research. All the possible and useful data as far available have been collected. The major sources of data are as follows.

3.4.1 Primary sources of data

The major tools used for the collection of primary data are the questionnaire to responsible of persons. A set of questionnaire was developed and distributed to the selected respondents in order to get the selected respondents in order to get accurate and actual information. Personal as well as telephone interviews were also conducted to collect more information on the objective.

3.4.2 Secondary sources of data

The secondary sources of descriptive have mostly been collected through books, articles, magazines, newspapers and reports. The major sources of secondary descriptive analysis are;

- I) Published reports, article and research studies.
- II) Published documents of Nepal Rastra Bank
- III) Publication of Inland Revenue Department
- IV) Budget speeches and economic surveys.
- V) Newspapers such as Gurkhaptra, The Rising Nepal, Kantipur daily etc.
- VI) Magazines and journals of accountancy
- VII) International Bureau of Fiscal documents
- VIII) Dissertation related to VAT available at central library TU.
- IX) Dissertation related to tax and VAT available at department of mgmt research PN campus, Pokhara
- X) Publications of Previous VAT Department.

3.5 Data Collection procedures

A total 50 sets of questionnaire were distributed to three distinct type of 50 respondents. Distribution was done personally through field rather than sending by any means to get accurate and actual information in time.

3.6 Data Processing and Analysis procedures

The information received in different aspect of VAT from primary and secondary sources was first processed for tabulating and analysis for the purpose of analysis generally simple statistical tools have been used which are as follows;

1. Simple percentage
2. Simple Average
3. Graphs, Charts and diagrams
4. Other statistical tools;
 - Trend Analysis
 - Percentage Analysis

CHAPTER -IV

ANALYSIS AND PRESENTATIO OF DATA

4.1 Major provision of VAT under VAT Act.

4.1.1 The Nature of VAT

The value added Tax is the most important tax innovation of the second half of the twentieth century. And the speed with which the VAT has spread around to world is unmatched by that of any other tax in the modern time. The VAT being a tax on value added, created by a business entity and imposed at every stages of business process, is different then other kinds of tax. In this sense, the same value added is never taxed twice. That is cumulative effects do not occur in practice, the VAT is collected from producers and distributors at many points and trended as multiple stages

Commodity tax, the tax base for VAT is the value added in production and distribution rather than the value of sales only. So, It is different from turnover tax which is also levied at every stage of production and distribution on the total sales value not only on value added.

VAT as an indirect tax, imposed upon production or sales, collection from seller and presumably passed forward to the consumers (in its consumption form) and designed to avoid taxation in intermediate inputs i.e. raw materials and producers goods, it is regarded as a consumption related tax or as form of sales tax, because , a VAT is regarded as comprehensive one. Since, it covers all economic activities right through to retail level. In this sense VAT level. In this sense VAT may be extended through the retail level. In this situation, it is similar to retail level sales tax on goods and service cover with the important difference that VAT collected at each stages rather than being concentrated at the final stage of distribution. John f. Due 17 had

already supported this point saying that the burden is distributed in related to consumer spending.

4.1.2 Output and input tax

Output tax is the tax charged on supplies made by a taxable person. In the opposite, input tax is the VAT paid by a taxable person on goods and services supplied to him and on goods which he/ she imports. Input tax is recoverable from the Inland Revenue department provided certain conditions are met.

4.1.3 Taxable Supply

Supply is the term given to the infinite variety of transactions carried out in the commercial world. In board term, it can be said as the passing of possession of goods as per agreement for being a taxable supply for the purpose of VAT. Following conditions should be fulfilled;

-) It must be made by taxable person.
-) It must be made for a consideration
-) It must be made in Nepal.
-) It must be made in the course of furtherance of business.

4.1.4 Taxable Transactions

Taxable transaction means the transaction which comes within the jurisdiction of value added tax as per sec of 5 of the act 18, following transaction are taxable transactions;

-) Goods or services supplied into republic of Nepal;
-) Goods or services exported in to the republic of Nepal;
-) Goods or services imported into republic of Nepal;

On every value of the transaction of above types except those stated in schedule 1, the tax should be imposed. However, if a registered person sells the business to other registered person, tax is not be levied on such transfer of ownership according to sec 5 a. The registered person purchasing such business has to better the tax responsibility of the former owner.

4.1.5 Taxable Person

A Taxable person is that person who is required to be registered for the purpose of VAT. A person is liable to be registered if the value of his taxable supplies exceeds the threshold but he may be voluntary registered in other circumstances if he so requests. A person or sole proprietorship or corporate body or an unincorporated association.

Taxable person play the important role in the administration of VAT because it is the person who collects outputs tax on behalf of the government.

4.1.6 Taxable Value

The value on which the tax is imposed. It can also be said as the value which the recipient of goods and services should pay and the supplier receives. As per sec.12 of the Act. It includes:

-) The amount of all expenditure related to transportation and distribution which was borne by a supplier in connection with the transactions, and the amount of profit; and
-) Excise taxes and duty, charges and fees as specified by the annual finance act but excluding the tax imposed under this act.
-) Taxable value does not include discount, commission or other similar commercial rebate granted. In case of barter exchange, such value is equal to market value.
-) In case of imported goods, it is the customs value including transportation, insurance, freight, commissions of agents and other persons, plus customs duties, countervailing duties plus any other taxes if levied on imports, but excluding VAT.
-) If the value of any goods or services is much lower than the prevailing duties plus any other taxes if levied on imports, but excluding VAT.
-) If the value of any goods or services is much lower than the prevailing market value, the taxable value of such goods or services uses to be the market value
-) In case of transaction of wood, the taxable value will be the royalty amount or actual amount whichever is higher.

4.1.7 Threshold

In most of the VAT system small suppliers having transaction of up to certain limit are not required to register. The amount determined for that purpose is known as threshold. The main objective of threshold is to make easy to tax administrator to administer and to make easy to small supplier in during his business. In our country Nepal, The present threshold level is Rs. 20 lakhs for one year or Rs2 lakhs per month. Similarly importers who have commercial import of less than 2 lakh annually or less than 10,000 at once time are not required to register.

4.1.8 Standard Rate

The standard rate of VAT is determined by finance act. of each year. Right now, this rate is 13% based on the tax exclusive value of the goods or services supplied.

Any taxable supply which is not charged to tax at zero rate is charged to tax at the standard rate.

4.1.9 Tax Exempt

The supply where the VAT is not imposed is exempt supply. This is not taken into account in determining whether a trader is a taxable person or not. Accordingly, input tax attributable to it is not normally available for credit. The list of goods and services which are to exempt are given in schedule 1 of the act. A mended by fiancé act 2063 are as follows.

-) Basic agriculture products
-) Goods of basic needs like water, fuel, wood and coal, kerosene and salt.
-) Live animals and animal products.
-) Agriculture inputs such as seeds, fertilizer, pesticides, agriculture equipment, pots to be used for poultry purpose, birds and animal feeds etc.
-) Education including the provison of research in a school or university the provision of professional or vocational training or refresher trainings.
-) Artistic and cultural goods and services, carving services, painting etc. Cultural programmes admission to libraries, museums etc.

-) Personal and professional services including personal services rendered by artists, Sportsman, authors, writers, designers, translators and interpreters institutionally or individually
-) Land & building
-) Betting, casinos and lotteries.

4.1.10 Administration of VAT

For the efficient functioning of VAT, timely registration of all the taxable persons is essential. All persons who deal with taxable goods and do the transaction above threshold level are required to register and the VAT administrator must be issued tax invoice and prescribed certain accounting formats to the VAT payers.

VAT act 2052 has made the provision regarding the use of bill during business transaction. Rule 17 of the act has stated that the specimen of the book uses to be as specified in schedule 5. Such bill is known as invoice the invoice is the crucial control document of the usual VAT which is based on sales book and purchase book. Similarly persons whose annual sales do not cross the relevant limits should be allowed to apply for the registration on voluntary by the VAT administrator. VAT administrator means the person who is appointed by the IRD as an officer to do the daily administrative activities by performing responsibility and duties toward VAT affairs. He/.She will be tax officer, section officer, and chief or deputy director of the departments.

A TPIN (Tax payer Identity Number) is a code to identify a taxpayer. Each Taxpayer who is registered should be given the single unique number the TPIN has two objectives

-) To facilitate computer applications, such as detecting stop. Filers and delinquent accounts; and
-) To help cross check information on tax payers compliance. Sec. 10 of the VAT act, 2052 has given provisions as regards to registration. As per that seeing each tax payers who is not doing business of tax exempt goods should apply for registration. Within 90 days of the commencement of the business in the prescribed form. The Tax Officer registers the businessman and gives registration number. The tax payers should be display the registration certificate in a conspicuous

place at his principal place of transactions. Accordingly, the tax payers should use his registration number for all transition related to VAT, excise and customs duty. The registered person should inform to tax officer if certain information given in TPIN is changed.

4.1.11 Assessment

Assessment is the process of determining the amount of Tax. It is either by the tax administration itself or tax payer himself. It includes fees and fines also.

In our country, there exists self assessment basis. Self assessment means tax assessment made by the tax payer himself in relation to assessment of tax. His transaction, tax collection and tax payment tax payer should submit each month the amount to be paid by himself within 25 days of the end of the months in scheduled 10 given in VAT act sec 19 of the act has given this provision along with 40% of yearly expected VAT amount should be paid at the end of the paush, 70% of yearly expected VAT amount at the end of baisakh and remaining 30% of yearly VAT should be paid at the end of ashad.

4.1.12 VAT Refund

By offsetting the amount if any, to be refunded to the tax payer. If the amount paid by the tax payer is more than the amount to be collected from taxpayer, the excess amount is refunded to taxpayers. This amount so refunded is known as refund of VAT. Refunding excess amount is one of the major features of the VAT system sec. 24 and 25 of VAT act and rule 39 and 45 of VAT Rules has made this provision.

4.1.13 Fines, Penalties and Appeal

There are some legally precautions and provisions which are not followed by the tax payers, some legally punishments have to be made by the authority under sec. 29 of VAT act 2052. Which are as given below.

) If anybody does not register or conducts business without having tax payer registration certificate, then the tax amount due in each tax period and rupees ten thousand.

-) If anybody does not display the PAN No. in the conspicuous place on places where the main business is run or does not use that number for all transactions related to value added tax, excise, customs and others prescribed transactions or does not give information as regards to the change, then rupees one thousand each time.
-) If invoice is not issued in supplying goods and services, then the due tax amount and rupees five thousand.
-) If the tax payer does not submit return in each month within 25 days to tax offices, then either 0.25% per day of the due tax amount or rupees ten thousand for each tax period, depending upon which is higher.
-) If a person prepares false accounts, invoices or other documents computes a fraud or an evasion of tax, carries out a transactions and purchases low invoice goods, a tax officer may impose a fine not exceeding 100% of the amount of tax or an imprisonment up to 6 month or penalize with both the fine and imprisonment.

A person who is not satisfied from the fines and penalties as given above can appeal to revenue tribunal as per Revenue Tribunal Act. 2031. Sec. 32 of the Act gives the right to appeal.

4.2 Revenue Structure of Nepal

The income of the government through all sources like taxes, fees, fines, penalties and donations are called public revenue.

Public revenue may be divided into two main headings a) Tax revenue and b) Non tax revenue. Tax revenue contributes about three quarters of total revenue. While non tax revenue represents about one quarters of total revenue at the centre level. The trend and composition of tax revenue and non tax revenue in the recent years are given in table 4.1

4.2.1 Tax and Non Tax Revenue in Nepal

Table shows the composition of Nepal's total revenue, which contributes tax, and non tax revenue from the fiscal year 2003/2004 to 2007/2008. The share of tax revenue has always been greater than the share of non tax revenue for the period was 82.45 percent and average share of non tax revenue was 17.53 percent. This indicates that the role of tax revenue is very much important in revenue contribution and mobilization of Nepal and to meet the increasing government expenditure. Tax revenue has been placed as major source of government revenue in Nepal.

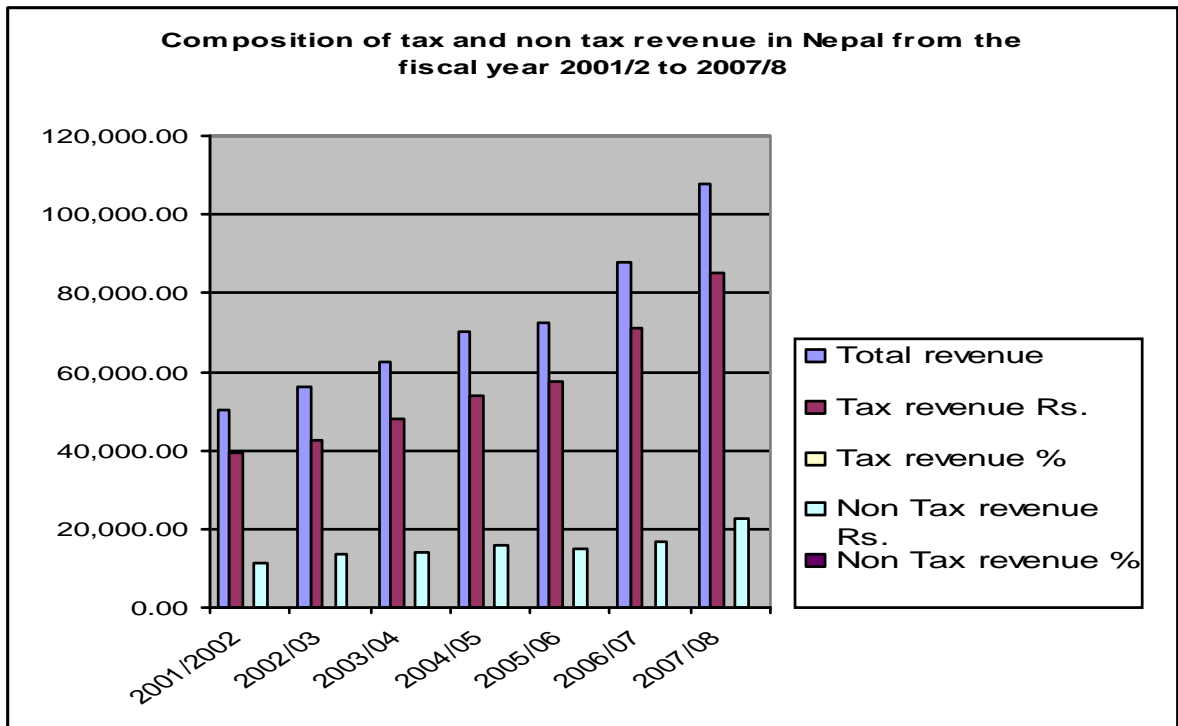
Table 4.1
Composition of Tax and non – Tax revenue in Nepal
From the fiscal year 2000/2001 to 2007/2008

Rs. in Millions

Fiscal Year	Total revenue	Tax revenue		Non Tax revenue	
		Rs.	%	Rs.	%
2001/2002	50,445.5	39,330.64	77.97	11115.0	22.03
2002/03	56,229.8	42,586.92	75.7	13643.00	24.3
2003/04	62,331.00	48,173.00	76.63	14158	21.37
2004/05	70,112.70	54,107.70	77.20	16005.00	22.8
2005/06	72,282.10	57,430.40	79.50	14851.70	20.5
2006/07	87,712.10	71,126.70	81.1	16585.4	18.9
2007/08	107,621.5	85,155.54	79.12	22465.96	20.88
		Average	78.46		21.54

Source: Economic Survey, 2008/09 MOF

Figure 4.1



4.2.2 Tax Revenue and its magnitude

Total tax revenue is composed of direct and indirect tax revenue. The tax on consumption is known as indirect tax whereas tax on income and capital is known as direct tax. In the below table and graph, we can see a clear picture of describing the size of total revenue collected by the government as the direct and indirect title wise. VAT belongs to the direct tax bracket. The following table and graph bar shows us that the indirect tax can contribute the highest share of collection revenue rather than direct tax. Contribution in national tax revenue, the indirect tax has taken around 75% of share on it.

Table 4.2

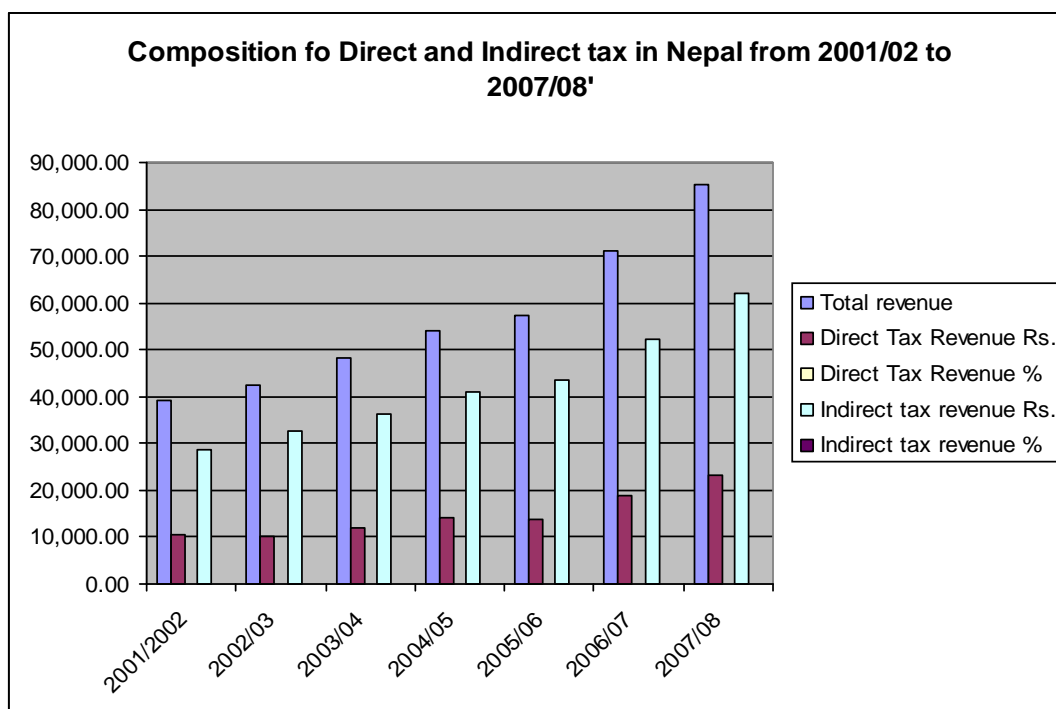
**Composition of direct and indirect tax into the total tax revenue in Nepal
From the fiscal year 2001/2002 to 2007/2008**

Rs. in Millions

Fiscal Year	Total revenue	Direct Tax Revenue		Indirect tax revenue	
		Rs.	%	Rs.	%
2001/2002	39,330.64	10597.55	27	28733.1	73
2002/03	42,586.92	10105.66	23.7	32481.25	76.3
2003/04	48,173.00	11912.6	24.7	36260.4	75.3
2004/05	54,107.70	14071.8	26	41032.90	74
2005/06	57,430.40	13968.1	24.3	43462.30	75.7
2006/07	71,126.70	18980.3	26.7	52146.4	73.3
2007/08	85,155.54	23087.76	27.10	62067.82	72.9

Source: Economic Survey, 2008/09 MOF

Figure 4.2



4.2.3 Value Added tax at the different sector of economy

In this title, we can get the theoretical and analytical aspects of VAT at different sector of economy like trading, entertainment, manufacturing contract and consultancies etc. following table shows the most VAT generated sector is production and manufacturing sector it should be considered by the policy makers. And following table gives us the clear vision to understand which activity or what types of business unit is higher contributing revenue through amount of VAT. This table also the representative picture of overall Nepalese economy through the study of IRD Office Pokhara.

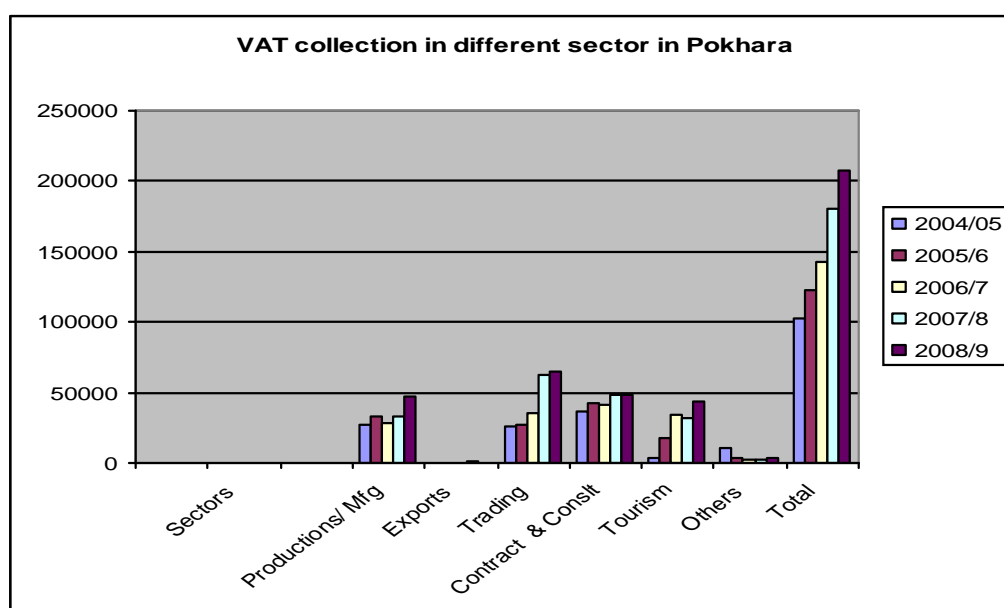
Table 4.3
Collection of VAT at the different sector of economy

Rs. In Thousand

Fiscal Year \ Sectors	2004/05	2005/6	2006/7	2007/8	2008/9
Productions/ Mfg	27238	32505	28441	32840	46752
Exports	73	154	6	782	176
Trading	25657	26935	35444	62705	65443
Contract & Conslt	36047	42016	41491	48717	48696
Tourism	3168	17263	34737	32351	43216
Others	10738	3295	2621	2788	3007
Total	102921	122168	142740	180183	207290

Source: Sample survey from IRD Office Pokhara

Figure 4.3



4.2.4 Magnitude of indirect tax

The indirect tax has two parts as mentioned in table 4.4 they are: a. Custom duty and b. Value added TAX. This tax provides 2/3 of contribution to tax revenue in Nepal. In fiscal year 2001/02 the share of both components to indirect tax was Rs. 24,906.05 Millions which was 50.7% of customs and 49.3% of VAT in total respectively. The share of both components has remained 41% customs and 59% of VAT in the year 2007/08. That's why the ratio of VAT to total indirect tax has been shifting toward in the last year as an increasing way.

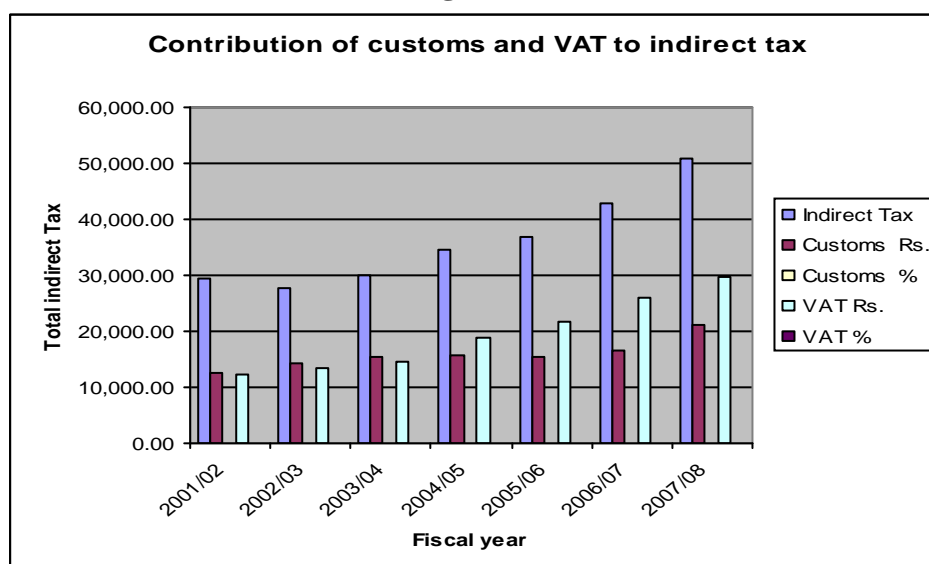
Table 4.4
Contribution of customs and Value added tax to indirect tax.

Rs. In Millions

Fiscal year	Indirect Tax	Customs		VAT	
		Rs.	%	Rs.	%
2001/02	29,426.05	12658.75	50.78	12267.30	49.22
2002/03	27,696.13	14236.43	51.4	13459.70	48.6
2003/04	30,032.9	15554.80	51.8	14478.90	48.2
2004/05	34,587	15701.6	45.4	18885.40	54.6
2005/06	36,954	15344	41.5	21610.70	58.47
2006/07	42,803.2	16707.6	39.03	26095.6	60.97
2007/08	50,878.2	21062.5	41.0	29815.70	59.00

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

Figure 4.4



According to the above graph and tabulation percentage we move toward the conclude that, Now a days the VAT shares the more spaces then customs. In such a way that VAT becomes popular and effective approach in collecting huge amount of government money. It should be considered to move smoothly incoming days also. We can say that around 60% indirect taxes is covering by VAT in our present economy.

4.2.5 Relation of VAT to other relevant Taxes

In Nepalese Economy there are various types of tax. They are important & they has played vital role in national economy by contributing higher revenue through tax bracket. These are custom duty, income tax, excise duty, interest tax, house and property tax etc.

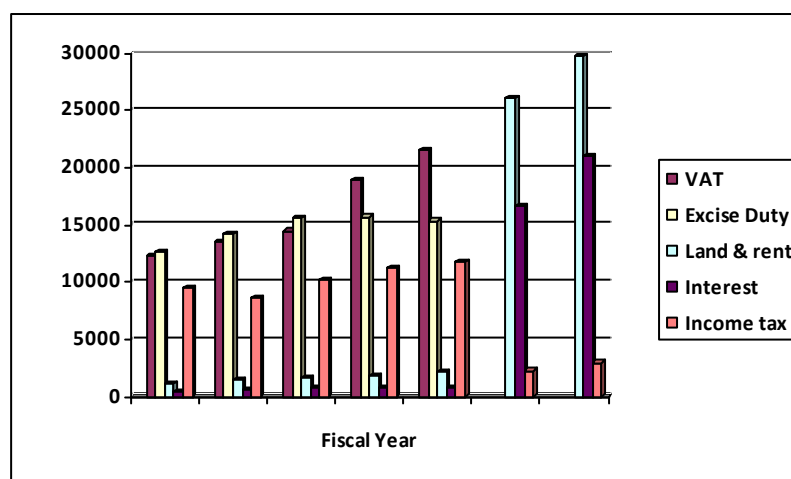
The position of VAT among with these taxes are described analytically as follows.

Table 4.5
Position of VAT with other taxes Rs. In Million

Fiscal Year \ Taxes	2001/2	2002/3	2003/4	2004/5	2005/6	2006/7	2007/8
VAT	12267.30	13459.70	14478.90	18885.40	21610.70	26095.6	29815.70
Excise Duty	12658.75	14236.43	15554.80	15701.6	15344.0	16707.60	21062.5
Land & rent	1131.82	1414.30	1697.50	1799.20	2181.10	2253.5	2940.74
Interest	467.70	664.40	733.40	757.00	774.9	1054.9	1087.93
Income tax	9465.73	8691.36	10215.10	11272.6	11787.0	16726.80	20147.02

Source: Economic Survey 2008/9, MOF, GON

Figure 4.5
Relation of VAT to other tax sources



In above table & graphs show the contribution shared by VAT among with other relevant taxes like wise, excise duty, land & rent, income tax & interest tax etc. Where as VAT occupies highest and remarkable position then the other relevant tax. Above figure explains the current status and position of value added tax in Nepal.

4.3 Statistical Analysis

The analysis with the help of statistical tools is performed in this chapter taking seven years data (2001/2002 to 2007/ 2008) includes following statistical tool:

4.3.1 Analysis of trend value of VAT and GDP

Under this topic, effort has been made to analyze the VAT and GDP for five years i.e. from 2001 to 2008 and forecast of the same for next four year till 2012 A.D.

The following table shows that trend value of VAT and GDP for eleven years i.e. 2001 to 2011 (for detail see appendix 2 and 3.

Table 4.6
Trend Value of VAT and GDP

Rs. in Million

Year	Trend Value of VAT	Trend Value of GDP
2001	13926.65	296281.55
2002	15022.13	410016.74
2003	16117.61	523751.93
2004	17213.09	637487.12
2005	18308.57	751222.31
2006	19404.05	864957.50
2007	20499.53	978692.69
2008	21595.01	1092427.95
2009	22690.49	1206163.07
2010	23785.95	1319898.26
2011	24881.45	1433633.45
2012	25976.93	1547368.64

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

From the above cooperative table of VAT and DGP, it is clear that VAT is n increasing trend. Other things remaining the same, the VAT in 2008 will be the

beigest to Rs. 29825.70 million only. In case of GDP, other things remaining the same, the GDP will be Rs. 963762.32 million which the highest under the review period.

However, we can drawn a consuls ion that VAT is succeed to provide handsome amount. Revenue similar to the trend to GDP. The above given trend values of taxable have been fitted in trend lines gives s the page.

4.4 Empirical investigation of VAT in Nepal

4.4.1 An empirical investigation has been conducted in order to find out

Various aspects of VAT from the experience of real life situations. The major tools used for this purpose is an opinion questionnaire. A total of 50 sets of questionnaire were distributed to the tax administrators, businessman and consumers. The responses received from various respondents have been arranged, tabulation and analyzed on order to facilitate the descriptive analysis of the study.

The questionnaires were asked either for a yes/no response or for ranking of choice according to number of alternatives, where first choice was most important and last choice was least important. For analysis purpose choices were assigned weights according to number of alternatives. If the number of alternatives were seven, then the first preferred choice got seven points and last preferred choice got one point. Any alternatives, which were not ranked, did not get any point. The total points available to each choice were converted into percentage in reference to the total points available for all choices. The choice with the highest score of percentage was ranked as the most important choice and with the lowest percentage being ranked as last choice.

The following table shows the group of respondents and code used to represent then.

Table 4.7
Groups of respondents and code used

S.No.	Groups of respondent	Sample Size	Code Used
1.	Tax administrator/ experts	25	A
2.	Businessman	15	B
3.	Consumers	10	C
	Total	50	

4.4.2 View on rising in price due to VAT system

In the begging years, there was a bitter protest against the VAT system. One of the reasons was that the businessmen thought that there would be rise in price in goods and services because of VAT. In recent years, the consumers have complained that the businessmen charge more prices without following the act of VAT. Here, an endeavor has been made to get the information from the respondents to finds out whether there will be raise in price due to VAT system.

The study shows 60% administrator/experts, 66% businessmen, and 70% consumers claiming that there is a raise in price because of VAT system, while 32% administrator/ experts, 33% businessmen, 20% consumers say that there is no raise in price. Out of the total respondents 64% response is ‘yes’ 30% no and 6% ‘ no idea’ at all. The outcome of field survey in this aspect is given below.

Table No. 4.8
Views on raise in price due to VAT system

nt Responde	Yes		No		I don't know		Total	
	No.	%	No.	%	No.	%	No	%
A	15	60	8	32	2	8	25	100
B	10	66	5	33	-	1	15	100
C	17	70	2	20	1	10	10	100
Total	32	64	15	30	3	6	50	100

Source: Opinion survey

When they were asked for the reason of the raise in price, they put their views as: there is certain raise in price because of compliance cost, or their production cost, or high profit or all these. For 32% administrator/ experts 67% businessmen and 50% consumer or 46% in total, compliance cost is the reason, which causes the raise in price. Similarly, for 20% administrator/ experts 13% businessmen and 14% in total high profit, is the reason, while for 48% administrator/ experts, 20% businessmen, 50% consumers 40% in total, all of the reasons for these reasons when the VAT is implemented in a new field, the raise in price is automatic. The outcome of the opinion survey is given below.

Table 4.9
Reason of price rising

Respondent	Compliance Cost		High profit		All		Total	
	No.	%	No.	%	No.	%	No.	%
A	8	32	5	20	12	48	25	100
B	10	67	2	13	3	20	15	100
C	5	50	-	-	5	50	10	100
Total	23	46	7	14	20	40	50	100

Source: Opinion survey.

4.4.3 View on billing system

View on billing system is one of the most important aspects of the VAT system. All businessmen have to receive the bill of actual transaction. While importing or buying the goods. In this bill. The price of the goods with and without VAT has to be mentioned explicitly. While selling the goods purchaser should compulsory be given the same type of bill. The businessmen have to pay the difference between tax collected in sale and paid in purchase to the office. In other words, they get back the tax paid in purchase. The profit is determined on the basic of sale and purchase bill and has to pay income tax in term of that profit. At the same time the tax department also has to collect the tax on basis of the profit. Thus, The billing system plays crucial role in the field of VAT system, Therefore, it should be

compulsory implemented through it is different fields have given their views on billing system on the basis of thirteen years experiences in the country as well as the experience from different countries.

All the VAT officers advocate for the possibility of billing system in VAT system 48% administrator/ experts claim the billing system is possible while at the same time 24% view that it is costly in the context of Nepal. Similarly 66% businessmen say it is possible and 20% suspect about the possibility of implementation while 13% claim that is costly. Like wise 60% consumers claim that it is possible 20% impossible and 20% claim costly. Out of the total respondents 56% say possible 24% say impossible and 20% say costly. The outcome of the empirical study is given below.

Table 4.10
Views on billing system

Respondent	Possible		Impossible		Costly		I don't know		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
A	12	48	7	28	6	24	-	-	25	100
B	10	66	3	20	2	13	-	-	15	100
C	6	60	2	20	2	20	-	-	10	100
Total: average	28	56	12	24	10	20			50	100

Source: Opinion survey.

On the basic of the above table it can be concluded that the VAT billing system is possible in Nepal.

4.4.4 Problems of the VAT in Nepal

The questions of problem of VAT in Nepal was asked and given to rank from 1 to 7. The response has been received out of 50 respondents. Actually the nature of this question is existing as well as prevailing in nature. The views of respondent's knowledge breakdown as follows.

Table 4.11
View on problem of VAT in Nepal

S.No.	Problems of VAT	No. of questionnaire distribution	No. of respondents	Percentage	Rank
1.	Geographical issues	50	6	12	5
2.	Inadequate manpower with little knowledge	50	12	24	1
3.	Political issues	50	3	6	7
4.	Ineffective administration	50	8	16	3
5.	Tax unconscious of people	50	9	18	2
6.	Open border and unauthorized trade	50	7	14	4
7.	Improper billing system	50	5	10	6

Source: Opinion survey.

It is clear that the above table inadequate manpower with little knowledge about VAT is the most important problem and least important problem is political issues. Other problems also ranked as the important given by the various respondents.

4.4.5 Problems in the process of VAT implementation

The tax payers and tax collectors both have to be conscious because VAT is new and advanced tax system. Through thirteen years have been already experienced but it is still a matter of challenge especially in the case of implementation. The respondents were asked for their views to explore the problems that the implementation aspect is facing. The study shows registration, collection tax refund and miscellaneous are the problem for the implementation.

48% administrator/ experts, 13.3% businessmen, 40% consumers 36% in total showed registration as the problem while for 32% administrators/ experts, 6.67% 30% consumers and 24% in total collection is the problem. Similarly for 8% experts 60% businessmen, 20% consumers and 26% in total, tax refund is the problem. Besides

these, the respondents have reported a number of miscellaneous problems which are as: billing in the spot, dishonest in sides (tax payer and tax collector), weaker regulation, lack of original bill, inefficiency of VAT administration in tax auditing. The above mentioned problems and the attitude of the respondents are presented in the table below.

Table No. 4.12

Views on problem in the process of VAT implementation

Respondent	Registration		Collection		Tax refund		Miscellaneous		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
A	12	48	8	32	2	8	3	12	25	100
B	2	13.33	1	6.67	9	60	3	20	15	100
C	4	40	3	30	2	20	01	10	10	100
Total	18	36	12	24	13	26	07	14	50	100

Source: Opinion survey.

4.4.6 Most important factor for effectiveness of VAT in Nepal

In order to know the most important factor for effectiveness of VAT in Nepal, Respondents were requested to rank their responsibility on the given choice. The question was “what is the most important factor for effectiveness of VAT in Nepal”? Table 4.13 gives a breakdown of the response.

Table 4.13

Important factors for effectiveness of VAT in Nepal

S.No.	Factor	No. of questionnaire distribution	No. of respondents	Percentage	Rank
1.	Honest tax officers	50	14	28	2
2.	Honest tax payers	50	10	20	3
3.	Clear act rules and regulation	50	18	36	1
4.	Effective VAT administration	50	8	16	4

Source: Opinion survey

The important factors for effectiveness of VAT ranked in the order of preference of the respondents are as follows (see table 4.13 for details)

1. Clear act, rules and regulation
2. Honest tax officers
3. honest tax payers
4. Effective income administration

Other important factors for effective of VAT specified by some of the respondents are as follows:

- a) Most professional people are requested in tax department as well as in tax officers
- b) Reduction in the discretionary power of tax officers

It can be concluded that clear act, rules and regulations are the most important factors for the effectiveness of VAT in Nepal.

4.4.7 Contribution of VAT in the nation's economic growth

For the sake of economic development, the government has to invest in various sectors of the country. To fulfill the aim of economic development, the government is also in search of the various income sources. It is obvious that the more revenue the higher will be the growth of national development. It is expected that the VAT system helps the government to collect more revenue than previous sales tax. This expectation has led the government to implant VAT system. How is the effect of VAT on national economic growth? To answer the following result as: the view of respondents is positive, negative normal and some have to idea about its.

60% administrator/ experts, 33.33% businessmen, 60% consumers, 52% in total claim that the effect is very positive, while 46.67% businessmen, 14% in total claim that the effect is negative for 40% administrator/expert, 20% businessmen, 20% consumers and 30% in total claim the effect neither positive nor negative but normal, 2% consumer have no idea about the effect of VAT in nation's economic growth. Some of the respondents have expressed their view that the effect of VAT on nation's

economic growth depends upon impact on investment sector. The outcome of the survey in this aspect is summarized in following table:

Table 4.14
View on effect of VAT in the nation's economic growth.

Respondent	Positive		Negative		Normal		I don't know		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
A	15	60	-	-	10	40	-	-	25	100
B	5	33.3	7	46.67	3	20	-	-	15	100
C	6	60	-	-	2	20	2	20	10	100
Total	26	52	7	14	15	30	2	4	50	100

Source: Opinion survey.

VAT is been imposed in Nepal despite of the objection from different sector such as customers, businessmen and political leaders. There are a lot of problems of VAT in Nepal either existing problems or current problem. It is said that problem creates solution and the VAT has been imposed in Nepal despite of various problem. The question was asked to the 50 respondents "is the VAT effective at present?". The result has been given below.

Table 4.15
Views on effect of VAT at present

Respondent	Yes		No		Total	
	No.	%	No.	%	No.	%
A	22	100	-	-	25	100
B	10	66.67	5	33.33	15	100
C	4	40	6	60	10	100
Total	39	78	11	22	50	100

Source: Opinion survey.

From the above table 100% administrators/ experts claimed that the VAT is effective now but only 40% of customers are in support with the question and 22% are not in favor of the question.

4.4.8 Effectiveness of VAT in Future

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

The smuggling trade level is at peak point, which is creating the parallel economy as a challenges to the national economy, the tax leakage is the higher magnitude, the tax base of sales tax system is narrow and revenue collection is at the lower advantageous. However without proper implementation, there is a doubt whether VAT will be advantageous in future or not.

Table 4.16
Effectiveness of VAT

Respondent	Total		Yes		No	
	No.	%	No.	%	No.	%
A	25	100	25	100	-	-
B	15	100	10	66.67	5	33.33
C	10	100	5	50	5	50
Total	50	100	40	80	10	20

Source: Opinion survey.

Among 50 respondents, 80% respondents (100% tax administrator/ experts, 66.67% businessmen and 50% consumers) accepted this question. This table shows that most of respondents' support of VAT is effectiveness in future.

4.5 Existing problems in the implementation of VAT

4.5.1 Inadequate manpower with little knowledge about VAT

Nepal at present lacks adequate number of efficient manpower. There are still many personnel of previous department of sales tax. Most of them are assistant and helping level staff. VAT is complex in nature to cover a large number of taxpayers. It needs an officer oriented organization to handle taxpayers' registration, filling tax disclosure, assessment and declaration tax collection tax credits, filling returns exceptions and self assessment procedures. It needs more tax officials, However, the number of staffs depends upon various factors i.e., number of tax payers, level of extension, threshold, scale of computerization and geographical position. The present manpower is made inefficient for handling VAT in Nepal.

Table 4.17
Staff Tax Payers' ratio

Country	Staff/ Taxpayers ratio
Italy	1:360
Neither land	1:726
New Zealand	1:280
Sweden	1:350
Portugal	1:250
Cyprus	1:215
United Kingdom	1:160
Ireland	1:149
Pakistan	1:125
Belgium	1:123

Source: (Rahm Holland, 1991), IMF.

Existing number (600) of personnel however is not a small number in Nepal. If we estimate 12000 taxpayers initially, it will be the staff/tax payer's ratio of 1:120 in Nepal. This number mostly relates to the helping level of personnel. The tax

officers, most of them are recruited before 1992 are general civil servant without minimum knowledge of taxation.

4.5.2 Geographical issue

The existing geographical condition of the country creates several problems for the applicability of VAT. There arise mainly three set of problem due to geographical condition.

- a) Many districts of Nepal are not within the access of transport, some of the districts are connected by very poor means of transport and some others are not connected by transport at all. Porter, animals and air transport make supplies to these areas. But the cost of manual or air transport is very high. Due to high transportation cost, value added of the goods supplied to these areas, like other easily accessible areas, it means that the consumers of the remote areas bear much higher burden of VAT than the consumers of other accessible areas. This is clearly inequitable and not justifiable to the consumer
- b) There is a small scale of business activities in those remote hilly and mountain areas. For the collection of the VAT in those areas, it is necessary to incur some essential expenses like a building certain staff, computers etc. The revenue collection in such area would be a negligible amount as compared to the collection cost. Moreover, the business activities scattered throughout the hilly and mountain areas, such as small markets, towns, seasonal markets, rural shops, mobile shops etc. Which pose a great difficulty in identifying taxpayer and to control. Some areas are such that it is not worthwhile to set even tax office in a district. Therefore, the high collection cost does not allowed VAT to be applicable in some of the districts in Nepal.³³
- c) Controlling VAT in far and remote areas is not easy. In VAT system the function of collection, taxpayer assistance and other small functions are done by local offices. Whereas inspection, audit, appeal, tax refund and penalty are the functions of higher level office. It is not possible for high level offices to perform these functions. It is not impossible but difficult for the taxpayers to come to the center for setting tax refund, appealing etc.

4.5.3 Political Issues

Any government policy, especially when it is related with the effects on general public, is very much likely to be a political issue. VAT in Nepal is likely to be a political issue since it is connected with loss or gain of the entire people including the consumers, traders, and businessmen, while implementing such a large project, the government, political parties and their leaders like to secure their political interest and nobody like to take a risk on immediate change.

There are some factors, which can make VAT political issue in Nepal. The most important argument is that the tax can be the cause of increased price level. Since VAT is perceived to have a direct link with increased price level. The introduction of VAT could be unpopular among people and thus, in turn, can make the government unpopular. Political parties always seek to secure their Vote Bank, would be directly provoke people's reaction. However it holds sooner or later leave a hostile feeling among the people in politically front also such is use would be raised to attract people's attention.

So, VAT would make people feel that they are paying money to government in their every, purchase and people are politically more conscious than before. People like to set whether the government is spending money for their best interest. When people are antagonistic to the government, they feel that, it is wasting their money. Taxes are likely to be even more unpopular than usual. The failure of government despite in making useful law as it is a usual case in Nepal, people are hostility towards the government and the political system, this would have further undesired implication.

4.5.4 Defective Organizational Structure

The present organizational structure of the department of Value added tax has become mostly assistant oriented. There are a huge number of assistants in every office. The sales tax and excise duty mostly transferred automatically from the previous administration. Under the complex VAT system such a mechanism will not be fit for an effective implementation of VAT. However, more district office for the VAT has been extended from the existing 17 district to 22 districts offices because the

taxpayers pressed much. Organizational framework of such offices and the department of value added tax should be drastically changed. There remain new and improved organizational units, such as registration services, operation services, administration, policy and research, Tax auditing may be the board design of the organizational structure, for this it takes some to maintain such organizational structure and induce costs.

But the tax administration is weak, traditional and corrupted. While revenue groups are existed in Nepal administration services, this group has not yet been developed as a professional group. Tax officials are not given specialized training on various aspects of taxation. The new entrance to the tax administration is directly posted to field officers without being given any basic training for their jobs. There is lack of author, negotiators and trained personnel on various aspects of taxation. Due to the weak tax administration there is a gap between the legal system and its actual operation.

Transfer policy is not transparent; some personnel are transferred on the basis of their interest rather than the interest and requirements of the tax administration. For example, those who are connection with influential person are generally posted either in the customs or income tax offices. Where there are posted in the VAT administration or revenue administration training center where there is less or zero scope to make private money.

4.5.5 Tax Unconsciousness of the People

VAT is a transparent tax in which every consumer can see his own tax liability in his each taxable purchase. The consumers know how much money they are paying to the government as tax this kind of transparency, in some respects, is helpful of increasing public awareness making people more conscious about their rights and duties. People have low consciousness and they do not feel that they should pay to the government. This may develop a hostile attitude of the people towards the tax.

The working of VAT lies on the assumption that each consumer takes an invoice of this purchase. Before the purchase stage by consumers, the purchaser may

have an interest of obtaining an invoice of his purchase ensuring that all tax has been paid, so that he could claim tax credit to be subtracted from the tax on his sales. But consumers do not have such an interest cross checking of sales against purchases. It is also not possible at the retail stage. A possible case after the adoption of the VAT in Nepal may be that low conscious people do not demand any bill of their purchases facilitating to tax evasion by the traders.

Some of the consumers may have a hostile attitude towards the tax and also to the government. They would not want to pay even a penny to the government. Such consumers do not prefer to go to the VAT registered shops although they have to pay even a large price than the tax inclusive price. The VAT would cause several frequent quarrels between the sellers and purchasers on tax matters.

4.5.6 Open Boarder Situation

Open boarder issue assumes greater importance for the success of VAT in Nepal. The long open boarder of Nepal with neighboring countries creates many problem of the tax system of Nepal due to the free movement of people and a large amount of unauthorized trade through the boarder.

Nepal has long open boarder with its both giant neighboring nations India and China. The open boarder is not a serious problem due to geographical inconvenience and mountain areas with China. There are no easy passes through the boarder and level of illegal trades negligible. However, the problem is alarming between India and Nepal as there is no legal ban of transport system. People of India and Nepal freely enter into each other's boarders. People of both countries often go the boarders of other country to pay their equipment. There is relax on customs duty. If the goods are of nominal value, and brought for personal use.

Since the goods from India or imported from India have to pay import duty and sales tax, so the Indian products become dearer in Nepal as compared to Indian market.

This gives two kinds of incentives: one Nepalese consumers living in boarder town often go directly to Indian boarder to purchase cheaper goods and second the products from India are bought for trading purposes through smuggling giving rise to a large amount of unauthorized trade.

4.5.7 Unauthorized Trade

The existence of open boarder and unauthorized trade is a great threat to a VAT in Nepal. It has many bad implications for the business activities as well as tax system in Nepal. Mainly there are two kinds of implications of the open boarder and illegal trade. First there is possibility that the level of illegal imports decrease after the adoption of a VAT in Nepal. It is because there is a danger of being discovered when the goods imported illegally are sold through taxable channel. AT registered vender do not dare to sale goods without tax. To some extent VAT prevents illegal trade. Indian goods would be dearer in Nepalese market due to the full imposition of import duty and VAT. Nepalese consumers living near to the boarder area would prefer to go across the boarder than to buy in local markets. This tendency would indicate the Nepalese trade and revenue collection may not increase.²⁶

4.5.8 Under Valuation of import

Under valuation system, there has been the greatest problem of VAT implementation. It is said that many venders do not issue invoice or proper invoices. Retailers say that they can not issue invoice or proper invoices from their suppliers. Importers declare low value for customs purpose. They produce fake invoices for custom purpose showing value much lower than the price they have paid. By doing this, they pay less import duty, VAT and local development fee at the customs point. Since this record is the basis for income tax assessment purpose. They also pay low income tax due to low valuation at the import point.

The Importer has a document showing artificial price, It creates problems to maintain proper records all the way to retail level. This is because, since the importer has document showing a much lower value than the actual one. He has to record in the purchase book value indicated on the document not the price he has paid. This

problem has been further aggravated due to large scale smuggling; goods are smuggled through India and Tibet to Nepal. Similarly, traders also manage to import goods through the Tribhuvan International Airport without paying taxes or paying a lower tax amount than would have to pay at the customs point. These goods also enter into the market and reach the final consumers unrecorded.

4.5.9 Others

There are some problems on the part of tax collectors too. Most of the officials are engaged in the AT administration not motivated. They want to be transferred either to the income tax or custom administration where there are more possibilities to earn private money. Officials working in other branches of revenue administration. Due to the lack of motivation, many officials are not actively engaged in the implementation of VAT. Furthermore, many positions including some high levels have not been fulfilled even after almost 13 years of VAT implementation. In the absence of staff, it is not possible to carry out all functions in time and in an effective way.

The tax refund system has been running well due to the traditional working style of tax officials. According to the guideline developed in connection with the refund of tax, it is necessary to submit export declaration forms, bill of entry and proof of payment with refund applications in the case of exports to India and export declaration forms letter of credit proof of payment in the case of export to other country. In order to verify the payment in the case of input tax, they are required to check input declaration forms or purchase invoices.

Tax officials are required verifying these documents and sanctioning refunds. But in practice tax officials go beyond this and make the refund process unnecessarily complicated. As a result, very few refund claims have been made compared with the amount available for refund. It is also said that some taxpayers do not claim a refund because they think that their account will be audited, if they do so. Since the refund is one of the basic elements of the system where genuine exporters get a refund without hassle and do not take undue advantage of the system with or without collusion with the tax officials.

There is also a lack of positive attitude among the tax officials. It has been common in many countries to rank in lenient approach to the taxpayers in the initial stages of VAT implementation. Since it is desirable to consider such a period to teach taxpayers the basic of VAT and to handle traditional problems positively and swiftly. These things were occurred to the Nepalese tax collectors also, but were not followed largely in practices, which only creating a negative attitude towards the VAT administration. Some actions are quite arbitrary which is disappointing. It only creates a bad image of tax administration and government in the eye of public.

Since most of the official are influenced by the traditional physical control based excise mentality or income tax assessment system or both. VAT sometime is not handled as per the VAT principles. Some VAT decisions have been influenced due to the traditional income tax assessment procedures. Under the income tax system, tax officials disallow deductions, when a taxpayer does not full fill some tax formalities. A similar approach has been adopted under VAT also, where taxpayers are not allowed to take an input tax credit when they make some mistake.

4.6 Findings of the study

On the basis of preceding chapters and data presentation and analysis, some important findings can be drawn; the major findings of this research of this study are summarized below:

1. Legal frame work for VAT reform was formulated timely and it was amended gradually as per the requirement of the reform.
2. Tax has an important role in country's economic development. In recent decades, many developing countries around the world have begun to focus their attention on reforming their poorly designed defective tax structures as an integral part of their development efforts. Such reforms have been established as a new trend. One of t such trend is the increased acceptance of a VAT as an important part of their tax reform programs in the world.
3. The ultimate objective of the under developed countries is t to achieve the economic development and follow a rapid rate of economic growth. It demands huge amount of investment in economic overheads and other development activities for which taxation is the primary sources of revenue to the government. While analyzing the resource gap of Nepal there is trend of persisting resource gap among with the huge amount of receipt and expenditure.
4. Regarding, the current status of revenue structure, non tax revenue is only meeting about 20% of the total revenue. Out of the contribution of tax more

then 70% is contribution form indirect tax in which VAT takes a leading place with 49% to 62% in review years.

5. VAT is the modern and it is the contribution of four different taxes the contribution shared ratio should be known to every general people so that it will be effective way of collecting revenue as the a national builder. It should be effectively implemented.
6. Analytically in VAT & customs duty 59 % of indirect taxes are covered by VAT where as customs occupies 41% indirect tax as a revenue. Which indicate that the shared position of customs is gradually decreasing but the pace of positioning in growth of VAT is increasing day by day.
7. The effectiveness of VAT is not satisfactory in Nepal due to the problem of registration, collection, tax refund and miscellaneous.
8. 78 percent of respondents argued that the VAT is effective and 80% percent claimed that, it will be effective in future
9. Most of the tax payers are not conscious about VAT. Taxpayers are unknown about their threshold, tax exemption, zero rating and other issues, which is related with VAT registration. It shows that government has no proper homework before it implementation.
10. Non registration of business is no more problems. Most businessmen above the threshold level have by now registered. The problem lies in billing system, right valuation of goods at the boarder will ensure a proper billing system, whereas 56 percent respondents out of 50 were agreed of its possibility, but 24 percent claimed impossible and 20% claimed it is costly.
11. Statistical analysis reveals that, the relationship of VAT with GDP.
12. The trend value of VAT and GDP, which shows in increasing trends. So it can be concluded that VAT will be higher in 2012.
13. The comparative study among four taxes such as income tax, land & rent tax, interest tax custom duty has focused that the position of VAT is highest in revenue collection and contributing to the nation in the sight of the revenue collection.
14. Trading sector is maximum contributor of VAT in recent years, other then that contract and consultant sector, manufacturing sector and tourism sector also contributing significantly them self the efforts of the IRD concerned accordingly revenue collection from VAT obviously plays a major role in economic devolvement of Nepal.

CHAPTER -V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Value Added Tax is a tax imposed on value added by business firms on goods and services at the successive stages of production and distribution. Value added in the commodity or services is simply the excess of sales value over purchase by a business entity. A VAT is the multi stage, commodity and service based one of the firms of sales tax.

The VAT has been considered as an attractive alternative to existing tax system. Spreading around the world at a speed which is unmatched by any of the other tax in the second half of the twentieth century. It has been emerging as a main element of the world tax reforms. Nepal has decided to implement VAT since Nepal is relying defeated by the problems of fiscal deficits, resource gap and foreign debt servicing. VAT is considered as an ineffective neutral and more productive tool for mobilizing domestic resource.

Sales taxation which was introduced first in 1965/ 1966 through retail level in Nepal is now limited to the import/ manufacturing level. Effective rates of sales tax are 10% and 20%. Recently it is converted to a single rate of 10 percent as a response to introduce VAT very narrow tax base, creating cascading effects, high burden on domestic products and inefficiency are its principle features needing prompt rationalization.

The VAT is collecting from sellers on the basis of their value added at each of the stages of business process, thus, the same value is never taxed twice and never product is cumulative effects. Burden of the VAT is presumably shifted forward to the consumer. The optimum base of the VAT is the gross national product. The VAT

firstly lunched in France 1954 on the contribution of MC Maurice Lure in real practice. VAT harmonization has been completed in EU countries in 1993. About 130 economies in the world have adopted VAT in some forms and almost 90 countries have the full fledged VAT system.

Among various types of VAT, i.e. gross national product type, income type and consumption type, the later variant exclude capital goods from its base, thus it does not penalize investment and growth. It is considered to be natural with respect to the methods of production and for its being administratively feasible. Three principle methods ensuring the VAT base are: addition methods, subtraction method and invoice or tax credit method. The invoice method is more popular in the world. VAT collected total sales minus VAT paid in total purchase by a firm is the net VAT liability under this method. While addition method emphasizes factor products and sales value minus purchase value under the subtraction method. The tax credit method is considered as a tool for cross checking measure under a VAT system, in this sense, VAT is said to be a 'self' policy' in nature. To adjust international trade, VAT uses one of the two principles i.e origin and destination principles.

Empirical as well as theoretical analysis show that VAT is superior to other types of sales tax, comparison of VAT with the other forms of sales tax on the group of: a) Economic efficiency or neutrality b) revenue productivity c)P supporting economic growth d) excess burden r) equity norms h) price stability, VAT proves far more superior to turnover tax, import/ manufacturing level sales tax n(MST). Wholesales level sales tax (WST) and retail level sales tax (RST). Although the base of the RST and consumption type, VAT extended capability. The check –ups effects also can not be enforced automatically, it depends administrative efforts (Jyoti, 2001).

The various effects of VAT on the Nepalese economy are considered largely anticipatory in nature. A general consideration or forecast is made by using whatever evidences are available at present, it is tried to show what is "likely" to happen and what would be the "trend" of effects in different area. Quantification of such effect is generally impossible effectiveness of VAT on pricing level, revenue compliance cost announcement, supply on money, aggregate demand price rigidity evolution, equity, saving investment and production, business and trade activities import and export

sales tax and other tax, collection of revenue corruption, illegal and tax evasion are considered broadly.

The existing Nepalese sales tax is not efficient it generates less of the potential amount of revenue and it is far from equity norms. Focusing on the ever increasing resources gap, inefficiency of works considered that, VAT should be implemented in Nepal. VAT is applicable in Nepal which will be more useful than existing tax system. This is necessary for making the tax system broad based neutral stable and more revenue generating transparent, and to eliminate growing fiscal deficits as well as to eliminate dependency on foreign loan in Nepal.

VAT is the best form the sale tax which simply of the above requirement. Low public awareness as well as taxpayer's ignorance may create problems for the implementation of VAT in Nepal. As VAT covers a large number of goods and services, will be neutral creating positive impacts on production and distribution. The most serious problem for implementation VAT in Nepal is the administrative inefficiency. Qualified, intelligent, competent knowledge and well trained manpower is necessary to implementation and audit of the business transaction for VAT purpose. The present tax administrative system of Nepal is inefficient and corrupt in nature; non standard accounting system is the next serious problem for it. Due to the lack of information and knowledge of tax payers about VAT and rampant illiteracy.

Lack of co – operation and with people, public awareness is very low about VAT in Nepal. More qualified intelligent and skilled manpower need to be recruited and to be trained well to make it efficient, Revenue administration training center is totally incapable to handle VAT training in its present condition. There is a need for construction a training group of expert of VAT training to encompass distinctive and comprehensive knowledge on them to handle the VAT training properly.

In the implementation of VAT in Nepal, there have arisen many problems, which are challenges in the application of VAT, Narrow tax base, Weak public consciousness level, defective organization structure; improper tax administration, geographical barrier, open boarder and unauthorized trade are existing problems in the implementation of VAT in Nepal. Billing system is also the greatest problem in the

implementation. Retailers say that they can not issue proper invoice because they themselves do not get proper invoice from their supplies, importers produce fake invoices for custom purpose showing value much lower the price they have paid.

The importer has a document showing price. It creates problems to maintain proper record all the way to the retail level. On the other hand, most of the officials engaged in the VAT administration are not motivated. They want to be transferred either to the income tax or customs administration where there are more possibilities to earn private money.

In the empirical study, the analysis has been done about VAT on the basis of information collected from administrator/ experts, businessmen and consumers. The tool that is basically used is the questionnaire, the questions are asked to 50 respondents (different individuals) related to the field. Out of total respondents 25 are administrator/ expert 15 are businessmen and 10 are consumers. Their responses in various questions are tabularized in chapter four.

5.2 Conclusion

VAT has become a popular tax in recent years. About one hundred & ten countries and many others, including Nepal has already adopted this tax. VAT indicated the challenges and strategy to be adopted for successful implementation of VAT in Nepal. Nepal has adopted a board- based consumption type of VAT using the tax- credit method. Under this system, the tax is levied on all types of goods and services, both imported goods and domestically produced except specifically exempted by the law. Tax exempted goods and services may broadly be classified as goods and services basic needs, basis agricultural products, agricultural imputes, as social welfare services, goods made for the use of disabled persons most passenger transport services, educational and cultural goods and services, financial and insurance services postage and revenue stamps.

Nepal is one of the least developed countries. It is suffering from chronic social economic diseases. It is not being able to collect necessary government revenue to cure such disease. Due to poor performance on internal revenue collection and

mobilization, it has still depended on foreign grants and loans. Unless remedy should be made in due time, the country can not run in the path of economic development. After the implementation of VAT system in 1997, contract tax, hotel tax, Sales tax and entertainment tax have been replaced by it. Looking at the contribution of these replaced tax in tax revenue and gross domestic products, the contribution was generally increasing before the implementation of VAT, whereas, at present there contribution is gradually decreasing. However, during 2008/2009, the contribution of these replaced tax (mainly VAT) is again being increased.

Revenue collection from VAT is lower in Nepal than expected due to the various problems related to VAT. It is said that Nepalese VAT law is inappropriate and the administration is worse but if we analyze the data relating to it, then we can find out that it is neither bad nor worse but it is continuously improving.

However, VAT laws and administration in Nepal are to be deeply scrutinized but not properly implemented, Act itself is not bad; some provisions are to be mention clearly. Strong commitment, far and informal imposition is to be stored to revitalize manpower development planning within the administration is desired for the efficiency of tax personnel side by side. Tax education packages are to be made and initiated hence, tax administration and tax compliance could be improved.

If the problems relating to VAT system in Nepal can be solved and resources are effectively utilized then only the prospects or revenue collection from VAT will be bright.

5.3 Recommendation

Being VAT as a important means of colleting national revenue. A Value Added Tax should be adopted in Nepal as an important measure of reforming tax system. For its proper implementation, the various problem pertaining to VAT should be considered seriously and be resolved. Since there is low level of administrative capability and unfavorable economic and business environment in Nepal. The VAT in Nepal should be designed and implemented in such a way that is called fully work with the available administration under the present business and economics and environments.

- a. Tax related information should be published regularly through journals, Magazine, Newspaper pamphlets, radios, television, and cinema, interview programs with professors, researchers, tax experts and economists should be conducted and published through media. Similarly, the student at school as well as campus level should be given the knowledge about VAT. The school as well as campus level curriculum should include tax education and social obligation of paying tax.
- b. Efficiencies of Nepalese VAT system mainly depends upon its three major subsystems i.e. VAT policies, VAT laws and VAT administration so, for the success of Nepalese VAT system, should be given highly to these tree subsystems.
- c. Timely revision should be made in the matter VAT policy. The system of changing VAT policy with the change of government should better be avoided.
- d. The members involved in formulating VAT policies must have deep knowledge about VAT. The policy makers have to see the VAT policies of other developing countries as well as other related developing countries for the improvement of policies.
- e. Following suggestions are made for the implement of tax administration:-
 -) Effective data base system should be created
 -) Computerized and effective exchange of information is necessary to keep up to date records of VAT.
 -) Provision of simplified forms and formats to be used by taxpayers.
 -) Tax education should be provided to tax payers as well as tax inspectors and officials regularly though publication of journals, magazines and newspapers by tax authority, and
 -) Personnel management system should be made more effective.
- f. Often escape a way from actual customs duty, as under valuation of the goods has been a tradition. They always prepare the bills of these goods according to the price shown in customs office. Thus, the government gets low revenue from VAT as well as from income tax, in this way there we can see two ways loss to the government either has to collect the custom duty of the actual price of the goods or it has to fix the actual price of the goods in the market.

- g. Tax payers should be provided better services with due regard and honor to them. Tax officials should have with the taxpayers on equal footing. Many discretionary powers of the tax officials should be limited making them rational
- h. Import tariff should be reduced along with the actual calculation imports. Borders should effectively be controlled to prevent the illegal trade.
- i. The administration should be very watchful to prevent any kinds of formal practice. Fraud tax evasion. Almost care should be taken to prevent any kinds of bribing and corruption. Tax officials should effectively be monitored.
- j. To avoid the billing problems, which are realized now, consumers should be well informed to take the real of that amount which they have paid and strict warning should be given to businessmen, also note to issue false bill.
- k. There should be a close co- operation between the private sector and government in the VAT implementation process. The various issue pertinent to VAT should be resolved through board discussions and consultations with the private sector. The private sector should always be persuaded to actively participate in the VAT implementation process. Any contradictory situation and direct confrontation should careful be avoided. The private sector should be taken into confidence. There should be a well communication and exchange of ideas between the two sides.
- l. Strong political commitment is necessary for the modernization and effective implementation of the VAT system.
- m. Separate VAT, department should be established so that the specialization should be achieved in the matter of VAT and the burden of tax official could be reduced.
- n. Government should be accomplished tax payer oriented rewarding system as well as prizes, incentives and lucky draws.
- o. Tax authority should do continuous effort in order to develop the taxpayer positive attitude towards taxation.

Lastly, until and unless the present government brings package programs related with VAT payers, people will not be ready and encouraged to pay VAT regularly and responsibly.

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Appendix – 2
Trend Value of VAT (1999-2003)

Year (t)	VAT (in million) Y	X (t-2001)	X ²	XY	Y=a+bx Y=18308.57+1095.48x
2001	12267.30	-4	16	-49069.2	13926.65
2002	13459.70	-3	9	-40379.1	15022.13
2003	14478.90	-2	4	-28957.8	16117.61
2004	18885.40	-1	1	-18885.40	17213.09
2005	21610.70	0	0	0	18308.57
2006	26095.60	1	1	26095.60	19404.05
2007	29815.70	2	4	59631.47	20499.53
2008	33255.27	3	9	99765.81	21595.01
N=8	146468.57		44	48201.31	

$$a = \frac{Y}{N}$$

$$b = \frac{XY}{X^2}$$

$$= \frac{146468.57}{8}$$

$$= 18308.57$$

$$= \frac{48201.31}{44}$$

$$= 1095.48$$

Trend Value of VAT (2009-20012)

Year (t)	X(t-2005)	Trend Values Y = a +bx
2009	4	22690.49
2010	5	23785.95
2011	6	24881.45
2012	7	25976.93

Appendix – 3
Trend Value of GDP (1999-2003)

Year (t)	GDP (in million) Y	X (t-2004)	X ²	XY	Y=a+bx Y=637487.12+113735.19x
2001	457333.02	-3	9	-1371999.06	296281.55
2002	489504.82	-2	4	-979009.64	410016.74
2003	535255.55	-1	1	-535255.55	523751.93
2004	588094.56	0	0	0	637487.12
2005	652618.18	1	1	652618.18	751222.31
2006	725782.65	2	4	1451565.30	864957.50
2007	818803.27	3	9	2456409.81	978692.69
2008	832504.89	4	16	3330019.56	1092427.95
N=8	5099896.94			5004348.6	

$$a = \frac{Y}{N} \qquad b = \frac{XY}{X^2}$$

$$= \frac{5099896.94}{8} \qquad = \frac{5004348.6}{44}$$

$$= 637487.12 \qquad = 113735.19$$

Trend Value of VAT (2004/2008)

Year (t)	X(t-2004)	Trend Values Y = a +bx
2009	5	1206163.07
2010	6	1319898.26
2011	7	1433633.45
2012	8	1547368.64

Appendix – 4

Questionnaire to Tax Administrators, Experts, Businessmen, Consumers

Name:

Designation:

Office/Organization:

Occupation:

Please tick () the answer of your choice or wherever appropriate put in order of preference from 1 to last number on the basis of alternatives. Number 1 stands for the most important and the last number for the least. (The information collected for only thesis purpose, not for others)

1. Do you know about VAT?
 - a) Yes
 - b) Partially Yes
 - c) No
2. Do you consider that the VAT as a suitable means of raising government revenue?
 - a) Yes
 - b) No
3. What is your view about billing system?
 - a) Possible
 - b) Impossible
 - c) Costly
4. Will price rise due to VAT system?
 - a) Yes
 - b) No
 - c) I don't know

If yes why?

 - a) Compliance cost
 - b) Production cost
 - c) High profit
 - d) all
5. What are the problems of VAT in Nepal (Please rank)
 - a) Inadequate man power with little knowledge about VAT
 - b) Geographical issues
 - c) Political issues
 - d) Inefficient tax administration
 - e) Tax unconsciousness of the people

- f) Open boarder and unauthorized trade
- g) Improper billings system
6. What kind of problems have arisen in the process of VAT implementation in Nepal?
- a) Registration b) Collection
- c) Tax refund d) Other (please specify)
7. What is the most important factors for effectiveness of VAT in Nepal (Please Rank)
- a) Honest tax officers
- b) Honest tax payers
- c) Clear act, rules and regulations
- d) Effective VAT administration
- e) Others please specify
8. What effect will have VAT in the nations economic growth?
- a) Positive b) Negative
- c) Normal d) I don't know
9. Is the VAT effective now?
- a) Yes b) No
10. Will the VAT be effective in future ?
- a) Yes b) No
11. Is VAT superior that sales tax ?
- a) Yes b) No
12. Do you have any other suggestion for achieving effectiveness of VAT in Nepal ? if yes please specify.
-
-
13. Do you agree that the VAT may be achieve 1st Position in Nepalese economy in the light of revenue contribution.
- a) Yes b) No

Appendix – 5

List of VAT Exempted Goods and Services

1. Basic Agriculture Products
 - a) Paddy, rice, wheat, maize, barley, millet, pulses, flour and similar unprocessed food materials.
 - b) Green and fresh vegetable, fresh eggs fresh fruits and similar products (except used in hotels, restaurants, bares, guest houses, cafeteria and other similar organization)
 - c) Unprocessed cereals (such as sugarcane, tea, leaf, tobacco, cotton, cardamom, jute, oil, seeds, soybean.
 - d) Herbs
2. Goods of basic needs
 - a) Unprocessed edible oil
 - b) Piped water, including water supplied by tankers
 - c) Fuel wood and coal
 - d) Kerosene
 - e) Salt
3. Live animals and animals products
 - a) He goat, sheep, yak, he buffalo, bore, pigs, rabbit and similar other animals, their fresh, milk and uncooked/unprocessed varieties.
 - b) Cows, she buffalo and she goat
 - c) Ducks, hens, cocks, turkey and similar other birds and other fresh meat, eggs and similar uncooked varieties.
 - d) Fresh or dried fish (other than packed)
4. Agricultural inputs
 - a) seeds of any plants listed in group – 1
 - b) Manure, fertilizer and soil conditioners.
 - c) Agriculture hand implements
 - d) Pesticides, made mainly for use of crops
 - e) Agriculture equipment, including tractors
 - f) Birds and animals feed
5. Medicine, Medical and similar health services
 - a) Medical or surgical services provide by government institutions.
 - b) Human bloods and products derived from human blood

- c) Human or animals organs or tissue for medical research
 - d) The supply of services by persons on the register of veterinary surge veterinary doctors
 - e) The supply of goods made for and suitable only for the use of daubed persons
 - f) X-ray films and oxygen gas to be used for treatment
 - g) Raw materials purchased or imported by the drug industries to the extent approved by the department of drug management.
6. Education
- a) The provision of research in a school or university
 - b) The provision otherwise than for profit of professional or vacating training or refresher training.
 - c) The provision of education in a school or university and supply of goods made in connection with such services
7. Books Newspaper etc
- a) Books newspapers newsletters and periodicals
 - b) Newsprint
8. Artistic and cultural goods and services, carving services
- a) Painting, handicrafts carving and related services
 - b) Cultural program
 - c) Administration to libraries, are hierology, museum zoos and botanical gardens.
9. Personal of professional services – Air transport, non-tourist passenger transportation (except cabal car) and goods carrier (except transportation related to supply)
10. Personal or professional services – Personal services rendered by interpreters institutionally or individually)
11. Other goods or services
- 1. Postal services (provided by HMG only)
 - a) The services or conveyance of letters, money and postal packets by post office.
 - b) The supply by the post office of any services in connection with the conveyance of letters, money and packets.
 - c) Postage stamps

2. Financial and insurance services
3. Bank notes, and cheque books
 - a) The printing and issue of bank notes
 - b) The supply of bank notes from outside the kingdom of Nepal to the kingdom of Nepal.
 - c) Cheque book
4. Gold and silver
 - a) Gold, gold coins and gold ornaments
 - b) Silver and silver coins (other than ornaments and goods made or silver)
5. Electricity
6. Raw wool
7. Battery operated tempo, their chassis and battery
8. Bio-gas, solar power and wind power operated power generation plan and their main parts on the recommendation of the alternative energy center.
9. Airplane, Helicopter, Fire Brigade and Ambulance
10. Jute goods
11. Industrial machinery included in section 84 of customs tariff and subject to 5 % tariff.
12. Woolen carpet and woolen carpet weaving dying washing knitting.
13. Aluminum, copper, scrape, circle, plate and utensils
14. Cotton sadi, Lungi Dhoti Gamch
15. Cotton yarn
16. Woolen yarn to be used in hand knitting sweater (except artificial & acrylic domestically)
17. Donated goods received for calamities or philanthropic purpose approved by ministry of finance.
12. Land and building – Purchase and rent of land and building (except the rental services provided by hotels, guest houses or similar organization)
13. Betting, casinos, lotteries
 - a) The provision of any facilities for the placing of bets or the playing games of chance.
 - b) Lottery

Source : Inland Revenue Department "VAT Act 1996".

Appendix – 6
Zero rated goods or services

1. Goods or services purchased or imported by His Majesty King, Her Majesty Queen, His Majesty Crown Prince and other members of the Royal Family.
2. Export of goods
 - a) Goods or services purchased outside the kingdom of Nepal, or
 - b) Goods shipped for use as stores on a aircraft to an eventual destination outside the kingdom of Nepal or
 - c) Goods loaded for use as stores on aircraft to a destination outside the kingdom of Nepal or as merchandise for sale by retail or supplied to persons in the course of such a flight.
3. Export of services
 - a) A supply of services by a person resident in the kingdom of Nepal to a person outside the kingdom of Nepal and having no business establishment or legal legal representative acting on his behalf in the kingdom of Nepal
 - b) Where goods are supplied on a hire or loan basis by a registered person resident in Nepal to person resident outside the kingdom of Nepal.
4. Important of goods and services by accredited diplomats.

Source: Inland Revenue Department. "VAT Act 1996"

Appendix — 7
Name of list of Respondents

A. Tax Administrators /Experts

S.No.	Name	Position
1.	Khum Aryal	Chartered Accountant
2.	Nabin K Joshi	Chartered Accountant
3.	Bhavanath Dahal	Chartered Accountant
4.	Bamdev Adhikari	Audit Officer OAG, Kathmandu
5.	Ram Krishna Adhikari	Audit Officer OAG, Kathmandu
6.	H.R. Subedi	Tax Officer, Inland Revenue Office, Rupandehi Butwal
7.	Bhawa Raj Koirala	A/C Officer Higher Sec. Edu. Board
8.	Ram Babu Adhikari	Account Officer, CTEVT
9.	Rajendra Karki	Financial Advisor, CTEVT
10.	Harihar Adhikari	Account Officer Education dept. Bhaktapur
11.	K. Bartaula	Tax Officer, Inland Revenue Office, Nepalgunj
12.	C.N. Dahal	Tax Officer, Inland Revenue Office, Pokhara
13.	R.B. Dhakal	Tax Officer, Inland Revenue Office, Chitawan
14.	A. Paudel	Tax Officer, Inland Revenue Office, Morang, Biratnagar
15.	J.K. Ghimire	Tax Officer, Inland Revenue Office, Dhangadi
16.	G. Koirala	Tax Officer, Inland Revenue Office, Pokhara
17.	Jeevan Ghimire	Tax Officer, Inland Revenue Office, Pokhara
18.	Prakash Sharma Dhakal	Tax Officer, Inland Revenue Office, Pokhara
19.	Sita Adhikari	Deputy Tax Officer, Pokhara
20.	Hari Bdr. Pun	Section Officer, Regional Agriculture Directive, Pokhara
21.	Ram Budathoki	Account Officer, Civil Aviation Office, Pokhara
22.	Indra Sharma Poudel	Account Officer, Civil Aviation Office, Pokhara
23.	Srijana Chhetri	Account Officer, District Devolvment Committee, Kaski
24.	Ratna Jung Kunwar	Deputy Tax Officer, Inland Revenue Office, Chitwan
25.	Parbati Ghimire	Tax Officer, Inland Revenue Office, Morang, Biratnagar

B. Businessmen

S.No.	Name of Business	Name of Respondent	Position
1.	Mercantile Solution, KTM	Sanjiv Raj Bhandari	Managing Director
2.	Sagar Intl. Technosys, KTM	Sagar Dev Lakhe	CEO, MD
3.	International Electronic Concern, KTM	Arun Shrestha	MD
4.	Goshali Print Pack Pvt.Ltd., PKR	Sunil Goshali	General Manager
5.	Sujal Foods Pvt. Ltd., PKR	Ganesh Shresta	MD
6.	Jagadamba Oil Stores, PKR	Kamal Khanal	Manager
7.	Ranipauwa Oil Stores, PKR	Rajan Jojju	Accountant
8.	Karmacharya Oil Company, PKR	Michel Karmacharya	Proprietor
9.	Skill Net Pvt. Ltd., PKR	Gunanidi Pandey	Proprietor
10.	Gandaki Noodles Pvt. Lt.d. PKR	Hari Pandey	Proprietor
11.	City Development Bank, PKR	Madhab Adhikari	Operation Manager
12.	Om Finance Limited, PKR	Kesher Shrestha	CEO
13.	Api Finance Limited, PKR	Dhruba Raj Tiwari	CEO
14.	National Life Insurance Company, PKR	Pashupati Shrestha	Manager
15.	United Insurance Company, PKR	Bhanu Bhakta Poudel	Account Officer

C. Customer

S.No.	Name of Respondent	Address
1.	Roshan Lal Sharma	Pokhara-2, Miruwa
2.	Ishwari Ghimire	Hemja-4, Pokhara, Kaski
3.	Indra Sharma	Pokhara-8
4.	Saroj Rana	Pokhara-15, Nayagaun
5.	Hema Kunwar	Pokhara-10, Rambazr
6.	Ismita Amatya	Pokhara-1, Bagar
7.	Samundra Sapkota	Pokhara-11, Phoolbari
8.	Hishila Shrestha	Pokhara-9, Newroad
9.	Rupa Rana	Pokhara-16, Deep
10.	Babu Ram Subedi	Pokhara-18, Kajipokhari

S.No.	Objectives	Data Required	Sources of Data	D
1.	Provision Made for VAT	Facility/Discount, Rebate and to tax payers and responsibilities and duties between tax payers, Authorities, VAT barriers, Tax evasion etc	Major Dissertations related to Tax, VAT directories, Act 2052, Secondary data and also questionnaire and direct survey as a primary data from tax parties as possible VAT Acts, VAT rules Fiscal ordinance & Acts	Some tab appendix of respon Analysis read.
2.	Composition of Govt. Revenue through different tax item wise	5 year earlier data from this fiscal year about different tax with in Pokhara region.	Records from IRD Office Pokhara and some related internet sites through MOF	Tabulatio correlati Percenta
3.	VAT contribution through Business sector wise	Some Potential Business sectors contributing VAT as a national revenue basically a sector wise	Either primary not published data or records keepings by IRD Pokhara analytically showing high VAT contributing opinion pooling & questionnaire if possible	Tabulatio percenta sectors
4.	VAT as a business Activity wise	Some wholesale, retail, exports and import, Mfg, service etc related to activities	Records and VAT directory	Tabulatio some cor
5.	Tax base-Making wide area coverage	The area which are not coverage under VAT net	High level tax officers feelings, Survey to VAT payers and professors relating to Tax System and opinion pooling from business houses & individual people	Tabulatio Appendi
6.	Assess the position of VAT	Primary by Direct opinion survey	Individually opinion pooling	Charts, t