CHAPTER - I
INTRODUCTION

This chapter is concerned with the background of study, historical background of VAT, statement of problem, objectives, limitation and significance.

1.1 Background of the Study

The primary goal of every nation is the rapid economic development, so the government of any country requires sufficient revenue to carry out development plans, handle day to day administration, maintain peace and security and launch public welfare activities.

Government expenditure is increasing because of the increase in population, infrastructure development, social progress etc. To meet the growing public expenditure, the country has to manage its funds. Revenue mobilization is one of the most important factors, so the government collects revenue from internal as well as external sources such as revenue from public enterprises, special assessment fees, fines, grants assistance and tax. Availability of external funds is uncertain. In addition to this dependency on external fund; it's not good for healthy development also. It is better to mobilize internal sources rather than expecting from the donors.

To achieve the national objective through the mobilization of internal sources, the government is required to make and implement the policies, acts and procedures in an effective ways. One of the best options regarding the revenue collection through internal sources is tax. Taxes are emphasized in all countries, developed as well as developing countries cause they have the potential for the yield of the tax system and achieving a system of taxation that satisfy the demand for equity and social justice.

Tax in a simple terminology is financial charges imposed on individual or legal entity by government so in other words, it's a liability to pay to the government. Tax consists of direct and indirect taxes. Direct taxes refer to those taxes that are collected from the people and organization that are responsible for it, whereas indirect taxes are collected from those who are not directly responsible for paying taxes.

The government receives the tax revenue as a compulsory payment whereas non-tax revenue is conditional one. As tax being the major source for revenue collection, is the most effective and powerful tool reserved in the hands of the Government of a country for collecting revenue. The major objective of the taxation is to make fund available for the economic development and economic stability.

Nepal being one of the least developed countries has been trying to embark upon the path of economic development by economic growth rate and developing all sectors of economy. The Inland Revenue Department of the Ministry Of Finance has a central administration responsible for the operation and policy direction for total tax revenues in Nepal. Nepal's tax revenue has been increasing rapidly. Government has invested time and money for tax administration to improve the efficiency of its tax system. Since its imposition in 1959, there have been several changes made.

Recently, the computer information system has been introduced which will allow Revenue Department to achieve its: targets for improved management capacity and operational: efficiency as well equity and effectiveness in the overall tax administration.

The role of Indirect Tax is high in the developing countries because of poor Tax administration to collect direct taxes. Generally, Indirect Tax affects many economic activities such as savings, investments, consumption, production and distribution of material income. Indirect Taxes include Custom Duties, VAT, and Excise Duties. VAT is therefore enacted which is broad based transparent and economical.

To Conclude, VAT has been the most essential choice for the most developing countries as ingredients of their tax reforms because it is the most important form of sales tax.

1.2 Historical Background of Evolution of VAT in Nepal

The concept of value added tax is originated from Germany in 1919. At the mean time, Dr. Wilhem Von Simens developed the philosophy and principle of value added

tax by recommending it for Germany to replace turnover tax (multi-stage sales tax) to avoid the problems of cascading effect. Professor Thomas S. Adams recommended value added tax for the USA in 1921. A detailed structure of value added tax was designed for Japan in 1949 to replace existing enterprise and turnover taxes. Due to the new concept and fear of its complicated nature, these countries could not introduce value added tax immediately. France introduced value added tax for the first time in 1954. Ivory Coast introduced value added tax in 1960, while Senegal adopted it in 1961. Denmark and Brazil implemented it in 1967.

Among the SAARC countries, India introduced MOD VAT (Modified Value Added Tax) in 1986 for manufacturing products in order correct excise duty. Pakistan, Bangladesh and Sri Lanka adopted value added tax in 1990, 1991 and 1998 respectively. Now a days more than 115 countries implemented value added tax as indirect taxation in the world.

The concept of introducing value added tax was developed along with the eighth plan (1992-1997) when the government indicated its intention to convert the import/manufacturing level sales tax into value added tax in that document of plan. Preparation of VAT was initiated in September 1993 when VAT Task Force was created in the Sales Tax and Excise Department in order to make the necessary preparation for the interlocution of value added tax. A VAT Steering Committee was also formed to evaluate and monitor VAT preparatory activities. After the depth study on various aspects relating to the structure and operation of VAT, the taskforce prepared the draft of VAT law in 1994. It was discussed in depth at several stages within the taskforce with concerned parties. After reviewed by the Steering Committee, the draft was sent to various business groups for their comments. Although the business community did not provide any written comment on the draft VAT law, the private sector opposed to the implementation of value added tax.

Due to the disagreement of private sector and political instability in these days, the government did not indicate its commitment to introduce value added tax. They expressed the argument that the infrastructures and preparation were insufficient to implement the value added tax effectively. In September 1995, along with the formation of coalition government, it committed to introduce value added tax in the

same fiscal year 1995/96. The VAT bill was presented to the parliament on December 1995. As per parliamentary process, it was referred to the Finance Committee (a parliamentary committee) and the committee returns the bill to the parliament on same month together with its report for amendments to a few provisions. The lower house of parliament passed the VAT bill on same month while upper house of parliament passed it on January 1996. The royal seal was provided to 'Value Added Tax Act, 1995 (2052)' on 21 March 1996. For the effective implementation and administration of VAT, the government established one VAT department in centre and 17 VAT Offices in different districts by changing the name of Sales Tax and Excise Department and its offices as Value Added Tax Department and Value Added Tax Office respectively in 16th July 1996 (1st Shrawan, 2053). The government has issued Value Added Tax Rules, 1997 (2053) in 24th march 1997.

Since the strong opposition from the business community and from the opposition political parties, the government could not enacted VAT laws immediately and has made a provision in section 1.2 of Act and section 1.2 of the Rules that the VAT laws shall come into force on such date as HMG may specify by notification published in the Nepal Gazette. In this way the implementation of value added tax has been postponed for some time although the act has already been provided royal seal. The Act, finally, has come to force as the government specified the date of implementation of VAT by publishing in the Nepal Gazette on 16 Nov. 1997 (1st Marga, 2054). However, it could not be implemented in full phase until the fiscal year 1998/99 due to political instability and strong opposition from the business community. After the compromise with business community, the government has implemented value added tax in full phase since 17th July 1998 (1st Shrawan, 2055). It has been introduced as an improved indirect tax for the replacement of the sales tax. It also replaces hotel tax, entertainment tax and contract tax and has been supposed to collect the same revenue as the four taxes it replaced. Now days, value added tax is administered through Inland Revenue Department and Inland Revenue Offices as Department of Value Added Tax and Department of Taxation are merged as Inland Revenue Department since 17th July 2001 (2058/04/ 01).

Nepal has adopted broad based consumption type value added tax with credit method. This means the tax base is domestic consumption only. Some social or political

grounds including exports goods or services are zero-rated (Amatya and *et.al*, 2004). Some goods and services like goods or services of basic needs, agricultural products, social welfare service, educational goods and services, cultural goods and services etc. are exempted from tax. Otherwise the tax is levied with a single rate of 10% at each stage of selling and distribution activities since the very beginning of introduction of VAT.

It has replaced sales tax, hotel tax, contract tax and entertainment tax. It has been designed to collect same revenue as the four taxes it replaced. VAT is a new tax system for Nepal. VAT has been justified in the light of government fiscal imbalances and need for extra revenue mobilization through an efficient tax system (Bhattarai & Koirala, 2067). The Government of Neal has increased VAT to 13% with effect from Magh 1, 2061.

1.3 Statement of the Problems

The government collects its revenues though different sources. Out of which, taxes contribute a significant amount in the public revenues. The government mobilizes its revenues through budget in development activities for the public welfare and interests. Nepal is an underdeveloped and one of the poorest countries in the world. It has low per capita income and more than one third people of the nation are living under the poverty line. The economic development and prosperity is very low. Foreign dependency and internal leakages have made government think for another option which is expected to increase the revenue. Moreover, fiscal deficit has been increasing due to the continuously growing expenditure and the low revenue performance in Nepal. In addition, the country has also been facing the increasing burden of foreign loan.

Value -added tax (VAT) system replaced sales tax regime and a number of different taxes were eliminated - all replaced by VAT which is a scientific tax and appropriate preparation for it and proper implementation of it will raise the revenue. This is account based tax system that leads to transparency and accountability on the both part of tax payers and tax collectors.

Gradually, VAT had become familiar and was well receipted by the consumers as well as business and industrial communities of Nepal. But, Lack of adequate infrastructure and attitude of businessmen and the tax administration appear hostile to the effective implementation of VAT in Nepal.

There are several research questions which are given below:

a)   Is VAT superior to sales tax?

b)   Is present administration system of VAT sufficient to satisfy the need of the nation?

c)   Is there any significant change being observed in the revenue collection after implementation of VAT? .

d)   How can VAT be made the backbone of Nepalese tax system?

e)   What is the practicing scenario of VAT in Nepal and what are the key problems of VAT implementation and possible correction measures?

1.4 Objectives of the Study

The main objectives of the study are to examine the present contribution of VAT to revenue collection in Nepal. The other specific objectives of the study are as follows:

a)   To analyze the contribution of VAT in GDP, total revenue and tax revenue.

b)   To examine the present situation of VAT.

c)   To evaluate the respondents perception on VAT.

d)   To recommend appropriate suggestions on the basis of major findings.

1.5 Importance of the Study

VAT was introduced approximate decade year ago; many people are unknown about various aspects of it. VAT being itself a complicate and modern tax system. More efforts should be made on actual circumstances. To implement VAT, theoretical and practical knowledge are required. So, this study is expected to ease any difficulty while working in real life setting.

The significance of the study is as follows:

a) This study provides the theoretical knowledge about VAT and its related aspects.

b) This study provides practical awareness to manufacturing / importer, wholesaler, retailer and customer.

c) This study is helpful to the Economists, Planners, Tax Officers, Tax Administration, Government, Students and all who want to know about VAT.

d) It will also provide a clear idea and knowledge to these persons who are interested and confused about the VAT system.

e) This study will give an appropriate suggestion and recommendation to government to implement VAT properly and effectively.

1.6 Limitations of the Study

The study is confined to having reliable and sufficient data and necessary alliterative constraints the limitations of this study are as follows:

1 This study is only focused on VAT of Nepal.

2 The field survey is conducted from 2000/01-2009/10 for 10 year of period.

3 The survey is conduced in the certain places as sample such as Bhaktapur, Lalitpur and Kavrepalanchwok.

4 The time and other resource constraints.

5 This study is a partial fulfillment of MBS degree.

1.7 Chapter Scheme

This research is organized in five chapters which are listed below:

Chapter I: Introduction

This chapter is introductory and deals with subject matter of the study including general background of the study, historical background of evolution of VAT in Nepal, statement of the problem, objectives of the study, significance of the study, limitation of the study, and organization of the study.

Chapter II: Review of Literature

This chapter contains the review of available literature related to this study. It is directed towards the review of conceptual framework and review of major related studies on VAT.

Chapter III: Research Methodology

This chapter is for the research methodology which is used in the study that includes various tools and techniques for the analysis of data. It consists of research method as library research and field research, sources of data, population and sample, research design, methods of data analysis etc.

Chapter IV: Data Presentation and Analysis

This chapter presents the analysis and presentation of data by using various methods of statistical tools. Tables, figures and pie charts, etc. are used as per necessity.

Chapter V: Summary, Conclusion and Recommendations

This chapter is for summary of main findings, conclusion, recommendation and suggestions for further improvement.

Bibliography

Appendix

CHAPTER - II
REVIEW OF LITERATURE

In this chapter, the focus has been made on review of literature relevant to the conceptual framework given by different authors, articles and also reviewed studies performed previously by thesis writers.

2.1 Theoretical and Conceptual Review

2.1.1 Meaning of VAT

2.1.2 Objective of Introduction of VAT

2.1.3 Principle of VAT

2.1.3.1 Origin Principle

2.1.3.2 Destination Principle

2.1.4 Types of VAT

2.1.4.1 Consumption Type

2.1.4.2 Income Type

2.1.4.3 Gross National Product Type

2.1.5 Method of computing VAT

2.1.5.1 Addition Method

2.1.5.2 Tax Credit Method

2.1.19 Electronic System

2.1.20 Offences

2.1.21 Rewards

2.2 Review of Articles

2.3 Reviews of Previous Thesis

2.4 Research Gap

The studies on Value Added Tax are made in different aspects. The studies on Practice of Value Added Tax, Contribution of VAT to GDP, Contribution of VAT to Income Tax, Contribution of VAT to Government Revenue, VAT System, Effectiveness of VAT, Utilization of VAT are made on the basis on primary data collecting form Kathmandu, Chitwan, Palpa but the contribution of VAT in revenue collection of Nepal basing primary data from Kavrepalanchwok, Bhaktapur, Lalitpur are not studied. So, this is research gap for the study.

CHAPTER - III
RESEARCH METHODOLOGY

This chapter refers to the overall approach to the research process, from the theoretical underpin to the collection and analysis of data.

3.1 Introduction

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. In other words, research methodology describes the methods and process applied in the entire subject of the study. Research methodology is a way to systematically solve the research problem (Kothari, 1990).

The main objectives of the study are contribution of VAT in revenue collection of Nepal. This study has been based on secondary as well as primary data. In the course of this study the following process has been considered.

3.2 Research Design

A research design is a plan for the collection and analysis of data. It presents a series of guide posts to enable the researcher to progress in the right direction in order to achieve the specific goal. The design may a specific presentation of the various steps in the research process. These steps include the selection of a research problem, presentation of the problem, formulation of hypothesis, conceptual clarity, methodology, survey of literature and documentation, bibliography, data collection, testing of the hypothesis, interpretation, presentation and report writing (Joshi, 2010).

Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance. The plan is the over all scheme or program of research. It includes an outline of what the investigator will do from writing the hypothesis and their operational implications to the final analysis of data (Kerlinger, 1983).

A research design is the arrangement of conditions and analysis of data that aims to combine relevance to the research purpose with economy in procedure (Claire S. and *et. al.*, 1962).

3.3 Population and Sample

This study is based on VAT collected by Inland Revenue department (IRD). Population is all listed organization and VAT payer. Only 41 respondents of Bhaktapur, Kavrepalanchowk and Lalitpur are taken as sample for study.

3.4 Data Collection Procedure

In order to conduct the research work successfully and efficiently. Various data are collected and analyzed. For collection of required data, questionnaires and schedule was prepared according to the data requirement. This study is used the secondary as well as primary data.

The secondary data is collected through published journals newspapers and annual reports of IRD. For primary data questionnaires are distributed to the different personality such as concerned teacher, Auditor, fax officer, Tread and businessman.

During primary data collection, 55 questionnaires are distributed to the tax officer, auditor, trader, businessman, experts etc, the primary data and information are based on interview and field questionnaires from the respondents at Bhaktapur, kavrepalanchowk and Lalitpur. 55 questionnaires here sent to the respondents but 43 filled questionnaires (78.18%) are collected. Out of the total received forty three, 2 questionnaires are rejected. So this study has used 41 (74.54%) filled questionnaires act of total distributed questionnaires. Both open ended and closed ended questions are used in the questionnaires.

3.5 Period Covered

The study period is from 2000/01 to 2009/2010 and the purpose of sending questionnaire to different respondent to know about VAT and their arguments on it.

3.6 Tools / Methods of Analysis and Presentation

The collected secondary and primary data are classified tabulated, processed and analyzed for the study. To analyze the data, following simple statistical tools are used.

i)   Simple percentage

ii)   Graph charts and diagrams

iii)   Correlation analysis

Correlation analysis

Correlation is defined as the "relationship" (or association) between (among) the one dependent variable (or factor) and one (or more than one) independent variable (s) or factor (s). In other words, correlation is the relationship between (or among) two or more variables (i.e. only one variable dependent and one or more variable (s) independent).

There may be relationship between price of a commodity and quantity demanded, age of husband and age of wife, fertilizer used and agricultural production, family income and level of expenditure, advertising and sales. Similarly the agricultural production (i.e. dependent variable) is dependent on the quality of seed, soil fertility, amount of rain fall and fertilizer used.

If the two (or more) variables are so related that the change in the value (s) of one (or more) independent variable (s) results the change in the value of dependent variable then they are said to have "correlation" (Shrestha and Silwal, 2060). For example the following relationship may occur between (among) the variables.

(i)   As the expenditure depends on the income, an increase in the monthly income results in increase in monthly expenditure. Hence the two variables, income (independent) and expenditure (dependent) are said to be positively correlated.

(ii)   As the demand for any commodity depends on the price of that commodity, an increase in the price of the commodity results in decrease of the quantity demanded. Hence, the two variables, price (independent) and demand (dependent) are said to be negatively correlated.

(iii) Similarly, an increase in the amount of fertilizer used, irrigation, insecticide etc. results in increase of agricultural production and so on.

Thus correlation is a statistical tool, with the help of which, we can determine whether or not two or more variables are correlated and if they are correlated the degree (extent) and direction of correlation is determined.

Correlation analysis is defined as the statistical technique which measures the degree and direction of relationship (or association) between/among the variables. In other words, it helps in studying the covariance of two or more variables. Correlation analysis does not tell any thing about cause and effect relationship i.e. if there is a high degree of correlation between the variables, we cannot say which is the cause and which is the effect.

The coefficient of correlation can range between -1 and +1. And unless the r is exactly or very near to +1, -1 or 0, its meaning remain more or less unclear. A positive r indicates that the two variables move in same direction whereas a negative r value indicates that the two variables move in opposite directions (Munankarmi , 2010). When all observed values lie close to the regression line, the unexplained variation is small and the correlation coefficient is close to 1 (either positive or negative).A larger deviation of observed values from the regression line will have the larger variation and the r approaches to zero.

Correlation coefficient can be obtained using following formula:

$$\text{Correlation coefficient (r)} = \frac{n\Sigma xy - \Sigma x\ \Sigma y}{\sqrt{[n\Sigma x^2 - [\Sigma x]^2[n\Sigma y^2 - [\Sigma y]^2]}}$$

Coefficient of determination

One very convenient and useful way of interpreting the value of coefficient of correlation between two variables is to use square of coefficient of correlation, which is called coefficient of determination.

Coefficient of determination can be obtained using following formula:

$$\text{Coefficient of determination } (r^2) = r \times r$$

CHAPTER - IV
PRESENTATION AND ANALYSIS OF DATA

This chapter deals with analysis and presentation of available data as express in the research methodology. Necessary figure, tables, various tools & techniques are also presented in this chapter to describe and analysis of the study. The researcher has analyzed and interpreted the relevant data relating to VAT by applying different tools.

4.1 Analysis of Secondary Data

4.2 Analysis of Primary Data

4.3 Major Findings

4.3.1 Major Findings from Secondary Data

The year wise revenue collection from VAT is increasing trend. Revenue from VAT in fiscal year 2000/01 is Rs.12047.8 million. The revenue from VAT after 2000/01 is decreased in 2001/02. Then the revenue collection from VAT is increasing up to 2009/10. The revenue from VAT in fiscal year 2001/02, 2002/03, 2003/04, 2004/05 is Rs.11964.0, 13459.7, 14478.9, 18885.4 million respectively. The revenue from VAT in fiscal year 2005/06, 2006/07, 2007/08, 2008/09, 2009/10 is Rs.21610.7, 26095.6, 29815.7, 39700.9, 54920.8 million respectively. The percentage increment of revenue collection from VAT is fluctuating trend.

Out of total VAT payers the portion of compulsory VAT payers is more than Voluntary VAT payers. The compulsory VAT payers in fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05 are 11604, 15131, 18406, 19953, and 21613 respectively. Likewise, the compulsory VAT payers in fiscal year 2005/06, 2006/07, 2007/08, 2008/09, 2009/10 are 23733, 25537, 28984, 31504, and 38391 respectively.

The voluntary VAT payers in fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05 are 6024, 6627, 9987, 12477, and 15463 respectively. Likewise, the voluntary VAT payers in fiscal year 2005/06, 2006/07, 2007/08, 2008/09, 2009/10 are 19795, 23212, 24088, 28203, and 31262 respectively.

The percentage increment of registered VAT payers is in fluctuating trend. The registered VAT payer's percentage increment in total in fiscal year 2001/02, 2002/03, 2003/04, 2004/05 is 23.40, 30.49, 14.22, and 14.33 % respectively. The registered VAT payer's percentage increment in total in fiscal year 2005/06, 2006/07, 2007/08, 2008/09, 2009/10 is 17.40, 11.99, 8.86, 12.50, and 16.65 % respectively.

The non filers VAT payers in fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05 are 2083, 5402, 3661, 4984, and 6876 respectively. Likewise, the non filer tax payers in fiscal year 2005/06, 2006/07, 2007/08, 2008/09, 2009/10 are 9400, 8440, 4879, 5841, and 13040 respectively. The filers VAT payers in fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05 are 15545, 16356, 24731, 27446, and 30200 respectively. Likewise, the filer tax payers in fiscal year 2005/06, 2006/07, 2007/08, 2008/09, 2009/10 are 38128, 40309, 48193, 56516, and 56613 respectively. The portion of filer VAT payers is more than non filer in total registered VAT payers.

VAT is mainly collected from import and domestic transactions. The amount of VAT collection from import of goods in fiscal year Rs.2000/01, 2001/02, 2002/03, 2003/04, 2004/05 is 7303.1, 7355.6, 8640.1, 8874.8, and 12261.1 million respectively. Likewise, the amount of VAT collection from import of goods in fiscal year 2005/06, 2006/07, 2007/08, 2008/09, 2009/10 is Rs.13460.2, 16464.3, 19007.5, 25782.4, and 34541.0 million respectively. The amount of VAT collection from domestic goods and services in fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05 is Rs.4744.7, 4608.4, 4819.6, 5604.1, and 6624.3.1 million respectively. Likewise, the amount of VAT collection from domestic goods and services in fiscal year 2005/06, 2006/07, 2007/08, 2008/09, 2009/10 is Rs.8150.5, 9631.3, 10808.2, 13918.5, and 20379.8 million respectively. It shows that the amount of VAT collection from import and domestic goods and services is fluctuating trend.

The contribution of VAT revenue in total revenue in fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05 is 24.64, 23.72, 23.94, 23.23 and 26.93 % respectively. Likewise, the contribution of VAT revenue in total revenue in fiscal year 2005/06, 2006/07, 2007/08, 2008/09, 2009/10 is 29.90, 29.93, 27.70, 27.67, and 30.52 % respectively. It shows that the contribution of VAT revenue in total revenue is fluctuating trend.

The contribution of VAT revenue in GDP in fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05 is 3.06, 2.95, 3.08, 3.05, and 3.71 % respectively. Likewise, the contribution of VAT revenue in GDP in fiscal year 2005/06, 2006/07, 2007/08, 2008/09, 2009/10 is 3.71, 3.89, 3.63, 4.00, and 4.64 % respectively. It shows that the contribution of VAT revenue in GDP is fluctuating trend.

The contribution of VAT revenue in total tax revenue in fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05 is 31.00, 30.42, 31.61, 30.06, and 34.91% respectively. Likewise, the contribution of VAT revenue in total tax revenue in fiscal year 2005/06, 2006/07, 2007/08, 2008/09, 2009/10 is 37.63, 36.26, 35.01, 35.74, and 35.14% respectively. It shows that the contribution of VAT revenue in total tax revenue is fluctuating trend.

The association of VAT revenue with GDP is very high i.e. the VAT revenue is perfectly correlated with GDP (i.e. r = 0.99). The coefficient of determination (r^2) is 0.98 which means 98% total variation in VAT revenue is explained by gross domestic product. The association of VAT revenue with total revenue is also very high i.e. coefficient correlation (r) = 0.99 shows that VAT revenue is perfectly correlated with total revenue. The coefficient of determination (r^2) is 0.99 which means 99% total variation in VAT revenue is explained by total revenue. The VAT revenue and total tax revenue is also highly correlated i.e. coefficient correlation (r) = 0.99. It shows that VAT revenue is perfectly correlated with total tax revenue. The coefficient of determination (r^2) is 0.99 which means 99% total variation in VAT revenue is explained by total tax revenue.

4.3.2 Major Findings from Primary Data

Among the 41 respondents 78.6% are male and 21.4% are female. This result shows that the male are mainly interacted with VAT of Nepal.

People of age group below 30 are found 26.8%, age group of 30-40 are 34.1%, age group of 40-50 are 29.3% and above 50 are found 9.8%. Respondents of age group 30-40 are found more than other age groups. Whereas the age group above 50 are lesser in percentage.

The educational background of respondents, in which respondents having level of below SLC are 9.8%, SLC are 22.0%, intermediate are19.5%, graduate are 36.6% and postgraduate are 12.2%. Most of the respondents are found graduate.

Among respondents, most of the respondents are married. Married are found 73.2% and single or unmarried are 26.8%.

The respondents having no child are 22.0%, having one child are 19.5%, having two children are 26.8% and more than two children are 31.7%. Most of the respondents have more than two children.

Among the occupation of respondents, 17.1% are farmer, 34.1% are businessman, 43.9% are service holder and 4.9% are other. On this research it is found that majority of respondents are service holders.

The maximum of the respondents are joint which is 56.1% and 43.9% of the respondent are staying as single family structure.

Out of 41 respondents 9 are tax experts, 6 are tax officers and 20 respondents are of consumer and 6 are from business persons or traders. The majority of respondents are from consumers.

Out of 41 respondents 6 respondents have knowledge about VAT, 9 respondents haven't knowledge about VAT, 24 respondents have some knowledge about VAT and 2 of the respondents has not any idea about VAT

About the rate of VAT in Nepal, among the respondents 10 respondents have given the idea as high the rate of VAT, 2 respondents as low, twenty six respondents are normal or moderate and 3 respondents haven't idea about the current VAT rate of Nepal.

Out of 41 respondents, 22.0% respondents have sufficient information on VAT of IRD, 12.2% respondents have insufficient information, 56.1% respondents have suggest to improve the VAT information of IRD and 9.8% respondents have no idea about it.

Out of 41 respondents, 15 respondents takes the VAT bill on every purchase, 8 respondents takes the VAT bill on most of the purchases, 16 respondents takes the VAT bill but not regularly and 2 respondents never take any VAT bills.

Out of 41 respondents, 18 respondents argued the method of educating people about VAT is radio or T.V., 10 respondents newspapers and banners, 4 respondents booklets & pamphlets and 9 respondents seminars. It shows that the radio or T.V. are the best way of educating people about VAT.

Respondents have different opinion on the behavior of VAT administrator. Among the 41 respondents, 2 respondents argued very helpful, 25 respondents argued helpful, 3 respondents argued disrespectful and 11 respondents argued troublesome and slow in their work.

Among the 41 respondents, 26 respondents argued positive effect of VAT on investment, 2 respondents argued negative effect, 12 respondents argued no effect and 1 respondent has no idea about it.

Among the 41 respondents, 35 respondents argued positive effect of VAT on economic growth, 1 respondents argued negative effect, 3 respondents argued no effect or normal and 2 respondent has no idea about it.

Among the total respondents, 31.7% respondents argued with reduce threshold limit methods to increase the base of VAT, 34.1% respondents argued with include all

service sector with VAT boundary, 22.0% respondents argued with incorporate all sectors into VAT and 12.2% respondent has no idea about it.

Among the total respondents, 4 respondents argued with lack of experts the weakness to implement of VAT, 7 respondents argued with lack of trained manpower, 3 respondents argued with weak economy and 27 respondents argued with lack of people's consciousness on VAT.

Among the total respondents, 12.2% respondents argued with lack of skilled administrator for the reasons of non collection of VAT., 48.8% respondents argued with corrupted government system, 9.8% respondents argued with tax evasion by importers and 29.3% respondent argued with not issuing complete sales bills..

14 respondents argued with smuggling and undervaluation on the challenging problems of VAT, 10 respondents argued with lack of proper accounting, 5 respondents argued with lack of proper billing and 12 respondents argued with weak manpower.

Among the 41 respondents, 1 respondent argued with increase the rate of VAT to increase the revenue form VAT, 31 respondents argued with increase the boundary of VAT, 6 respondents argued with decrease the threshold amount and 3 respondents no idea about it.

CHAPTER - V
SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter have discussed and explored the facts and matters required for the various parts of the study. This part is a complete suggestive package, which contains summary, conclusion and actionable plans. Summary gives the brief introduction of all the chapters of the study and shows the actual facts that have been taken from the analytical part. Findings are based on the consequences of the analysis of relevant data. Actionable plans are presented in terms of suggestions which are prepared on the basis of the findings.

5.1 Summary

Government expenditure is increasing because of the increase in population, infrastructure development, social progress, economic activities etc. To meet the growing public expenditure, the country has to manage its funds. Revenue mobilization is one of the most important factors and Government expenditure is increasing because of the increase in population, infrastructure development, social progress etc. To meet the growing public expenditure, the country has to manage its funds. Revenue mobilization is one of the most important factors and VAT is the major source of government revenue.

VAT is a new tax system for Nepal. VAT has been justified in the light of government fiscal imbalances and need for extra revenue mobilization through an efficient tax system. The Government of Neal has increased VAT to 13% with effect from Magh 1, 2061.

VAT had become familiar and was well receipted by the consumers as well as business and industrial communities of Nepal. But, Lack of adequate infrastructure and attitude of businessmen and the tax administration appear hostile to the effective implementation of VAT in Nepal.

The main objectives of the study are to examine the present contribution of VAT to revenue collection in Nepal. To fulfill main objectives of the study various figure,

tables, tools & techniques are used. The researcher has analyzed and interpreted the relevant data relating to VAT by applying different tools.

This research work has been designed by the student of MBS in partial fulfillment of the requirements for degree of Master of Business Studies. So, the work may not be out of some limitations. First, limitation of the study is that it bases its outcome only on NEA over a period of 2000/01 to 2009/10. Secondly, the Primary data are collected from Bhaktapur, Lalitpur and Kavrepalanchwok. The time dimension and money constraints are also considered as the limitations of the study. From the analysis following findings are concluded.

5.2 Conclusion

After the analysis of primary and secondary data following major findings are taken as conclusion:

From Secondary Data

The percentage increment of registered VAT payers is in fluctuating trend. The registered VAT payer's percentage increment in total in fiscal year 2001/02, 2002/03, 2003/04, 2004/05 is 23.40, 30.49, 14.22, and 14.33 % respectively. The registered VAT payer's percentage increment in total in fiscal year 2005/06, 2006/07, 2007/08, 2008/09, 2009/10 is 17.40, 11.99, 8.86, 12.50, and 16.65 % respectively.

VAT is mainly collected from import and domestic transactions. The amount of VAT collection from import of goods in fiscal year Rs.2000/01, 2001/02, 2002/03, 2003/04, 2004/05 is 7303.1, 7355.6, 8640.1, 8874.8, and 12261.1 million respectively. Likewise, the amount of VAT collection from import of goods in fiscal year 2005/06, 2006/07, 2007/08, 2008/09, 2009/10 is Rs.13460.2, 16464.3, 19007.5, 25782.4, and 34541.0 million respectively. The amount of VAT collection from domestic goods and services in fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05 is Rs.4744.7, 4608.4, 4819.6, 5604.1, and 6624.3.1 million respectively. Likewise, the amount of VAT collection from domestic goods and services in fiscal year 2005/06, 2006/07, 2007/08, 2008/09, 2009/10 is Rs.8150.5, 9631.3, 10808.2, 13918.5, and 20379.8 million respectively. It shows that the amount of VAT collection from import and domestic goods and services is fluctuating trend.

The contribution of VAT revenue in total revenue in fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05 is 24.64, 23.72, 23.94, 23.23 and 26.93 % respectively. Likewise, the contribution of VAT revenue in total revenue in fiscal year 2005/06, 2006/07, 2007/08, 2008/09, 2009/10 is 29.90, 29.93, 27.70, 27.67, and 30.52 % respectively. It shows that the contribution of VAT revenue in total revenue is fluctuating trend.

The contribution of VAT revenue in GDP in fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05 is 3.06, 2.95, 3.08, 3.05, and 3.71 % respectively. Likewise, the contribution of VAT revenue in GDP in fiscal year 2005/06, 2006/07, 2007/08, 2008/09, 2009/10 is 3.71, 3.89, 3.63, 4.00, and 4.64 % respectively. It shows that the contribution of VAT revenue in GDP is fluctuating trend.

The contribution of VAT revenue in total tax revenue in fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05 is 31.00, 30.42, 31.61, 30.06, and 34.91% respectively. Likewise, the contribution of VAT revenue in total tax revenue in fiscal year 2005/06, 2006/07, 2007/08, 2008/09, 2009/10 is 37.63, 36.26, 35.01, 35.74, and 35.14% respectively. It shows that the contribution of VAT revenue in total tax revenue is fluctuating trend.

The association of VAT revenue with GDP is very high i.e. the VAT revenue is perfectly correlated with GDP (i.e. $r = 0.99$). The coefficient of determination (r^2) is 0.98 which means 98% total variation in VAT revenue is explained by gross domestic product. The association of VAT revenue with total revenue is also very high i.e. coefficient correlation (r) = 0.99 shows that VAT revenue is perfectly correlated with total revenue. The coefficient of determination (r^2) is 0.99 which means 99% total variation in VAT revenue is explained by total revenue. The VAT revenue and total tax revenue is also highly correlated i.e. coefficient correlation (r) = 0.99. It shows that VAT revenue is perfectly correlated with total tax revenue. The coefficient of determination (r^2) is 0.99 which means 99% total variation in VAT revenue is explained by total tax revenue.

From Primary Data

Among the 41 respondents 78.6% are male and 21.4% are female. People of age group below 30 are found 26.8%, age group of 30-40 is 34.1%, age group of 40-50 is 29.3% and above 50 is found 9.8%. Respondents of age group 30-40 are found more than other age groups. Whereas the age group above 50 are lesser in percentage.

The below SLC are 9.8%, SLC are 22.0%, intermediate are19.5%, graduate are 36.6% and postgraduate are 12.2%. Most of the respondents are found graduate. Among respondents, most of the respondents are married. Married are found 73.2% and single or unmarried are 26.8%.

The respondents having no child are 22.0%, having one child are 19.5%, having two children are 26.8% and more than two children are 31.7%. Most of the respondents have more than two children. 17.1% are farmer, 34.1% are businessman, 43.9% are service holder and 4.9% are other. On this research it is found that majority of respondents are service holders.

The maximum of the respondents are joint which is 56.1% and 43.9% of the respondent are staying as single family structure. Out of 41 respondents 9 are tax experts, 6 are tax officers and 20 respondents are of consumer and 6 are from business persons or traders. The majority of respondents are from consumers.

Out of 41 respondents 6 respondents have knowledge about VAT, 9 respondents haven't knowledge about VAT, 24 respondents have some knowledge about VAT and 2 of the respondents has not any idea about VAT About the rate of VAT in Nepal, among the respondents 10 respondents have given the idea as high the rate of VAT, 2 respondents as low, twenty six respondents are normal or moderate and 3 respondents haven't idea about the current VAT rate of Nepal.

Out of 41 respondents, 22.0% respondents have sufficient information on VAT of IRD, 12.2% respondents have insufficient information, 56.1% respondents have suggest to improve the VAT information of IRD and 9.8% respondents have no idea about it. 15 respondents takes the VAT bill on every purchase, 8 respondents takes the VAT bill on most of the purchases, 16 respondents takes the VAT bill but not regularly and 2 respondents never take any VAT bills.

Out of 41 respondents, 18 respondents argued the method of educating people about VAT is radio or T.V., 10 respondents' newspapers and banners, 4 respondents booklets & pamphlets and 9 respondents seminars. It shows that the radio or T.V. are the best way of educating people about VAT. Among the 41 respondents, 2 respondents argued very helpful, 25 respondents argued helpful on the behavior of VAT administrator, 3 respondents argued disrespectful and 11 respondents argued troublesome and slow in their work.

Among the 41 respondents, 26 respondents argued positive effect of VAT on investment, 2 respondents argued negative effect, 12 respondents argued no effect and 1 respondent has no idea about it. 35 respondents argued positive effect of VAT on economic growth, 1 respondents argued negative effect, 3 respondents argued no effect or normal and 2 respondent has no idea about it.

Among the total respondents, 31.7% respondents argued with reduce threshold limit methods to increase the base of VAT, 34.1% respondents argued with include all service sector with VAT boundary, 22.0% respondents argued with incorporate all sectors into VAT and 12.2% respondent has no idea about it. 4 respondents argued with lack of experts the weakness to implement of VAT, 7 respondents argued with lack of trained manpower, 3 respondents argued with weak economy and 27 respondents argued with lack of people's consciousness on VAT.

12.2% respondents argued with lack of skilled administrator for the reasons of non collection of VAT., 48.8% respondents argued with corrupted government system, 9.8% respondents argued with tax evasion by importers and 29.3% respondent argued with not issuing complete sales bills. 14 respondents argued with smuggling and undervaluation on the challenging problems of VAT, 10 respondents argued with lack of proper accounting, 5 respondents argued with lack of proper billing and 12 respondents argued with weak manpower. 1 respondent argued with increase the rate of VAT to increase the revenue form VAT, 31 respondents argued with increase the boundary of VAT, 6 respondents argued with decrease the threshold amount and 3 respondents no idea about increase the rate of VAT to increase the revenue form VAT.

5.3 Recommendations

On the basis of the study, following suggestions may be recommended for consideration to improve the existing situations:

- The contribution of VAT with GDP, total revenue and total tax revenue is significant show the concern authority should improve the collection system of VAT.

- People awareness should be increase about the taking VAT bill while they purchase the goods and services.

- Skilled and trained man power should be associated with the activities on VAT collection.

- And effective computer program for invoicing and record keeping according to needs of VAT should be developed by IRD.

- Tax evasion and corruption must be checked by regular monitoring.

- Reward and punishment system strictly followed to encourage people for paying VAT.

- The boundary of VAT should be increase reducing the threshold amount and including all service sectors.

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Correlation between GDP and VAT

Year	GDP (x)	VAT Revenue (y)	xy	x2	y2
2000/01	394052.00	12047.80	4747459685.60	155276978704.00	145149484.84
2001/02	406138.00	11964.00	4859035032.00	164948075044.00	143137296.00
2002/03	437546.00	13459.70	5889237896.20	191446502116.00	181163524.09
2003/04	474919.00	14478.90	6876304709.10	225548056561.00	209638545.21
2004/05	508651.00	18885.40	9606077595.40	258725839801.00	356658333.16
2005/06	582950.00	21610.70	12597957565.00	339830702500.00	467022354.49
2006/07	670588.70	26095.60	17499414479.72	449689204567.69	680980339.36
2007/08	820814.00	29815.70	24473143979.80	673735622596.00	888975966.49
2008/09	992012.00	39700.90	39383769210.80	984087808144.00	1576161460.81
2009/10	1182680.10	54920.80	64953737236.08	1398732218936.01	3016294272.64
Total	**6470350.80**	**242979.50**	**190886137389.70**	**4842021008969.70**	**7665181577.09**

Correlation coefficient (r) $= \dfrac{n\Sigma xy - \Sigma x\ \Sigma y}{\sqrt{[n\Sigma x^2 - [\Sigma x]^2[n\Sigma y^2 - \ [\Sigma y]^2]}}$

$= \dfrac{10 \times 190886137389.70 - (6470350.80 \times 242979.50)}{\sqrt{[10 \times 4842021008969.70 - (6470350.80)^2][10 \times 7665181577.09 - (242979.50)^2]}}$

$= 0.990943397 = 0.99$

Coefficient of determination $(r^2) = (0.99)^2 = 0.98$

Correlation between Total Revenue and VAT

Year	Total Revenue (x)	VAT Revenue (y)	xy	x2	y2
2000/01	48893.90	12047.80	589063928.42	2390613457.21	145149484.84
2001/02	50445.60	11964.00	603531158.40	2544758559.36	143137296.00
2002/03	56229.70	13459.70	756834893.09	3161779162.09	181163524.09
2003/04	62331.00	14478.90	902484315.90	3885153561.00	209638545.21
2004/05	70122.70	18885.40	1324295238.58	4917193055.29	356658333.16
2005/06	72282.10	21610.70	1562066778.47	5224701980.41	467022354.49
2006/07	87199.70	26095.60	2275528491.32	7603787680.09	680980339.36
2007/08	107622.48	29815.70	3208839576.94	11582598201.35	888975966.49
2008/09	143474.49	39700.90	5696066380.04	20584929280.76	1576161460.81
2009/10	179945.82	54920.80	9882768391.06	32380498135.47	3016294272.64
Total	**878547.49**	**242979.50**	**26801479152.21**	**94276013073.03**	**7665181577.09**

Correlation coefficient (r) = $\dfrac{n\Sigma xy - \Sigma x\ \Sigma y}{\sqrt{[n\Sigma x^2 - [\Sigma x]^2[n\Sigma y^2 - [\Sigma y]^2]}}$

= $\dfrac{10 \times 26801479152.21 - (878547.49 \times 242979.50)}{\sqrt{[10 \times 94276013073.03 - (878547.49)^2][10 \times 7665181577.09 - (242979.50)^2]}}$

= 0.994163237 = 0.99

Coefficient of determination $(r^2) = (0.99)^2 = 0.99$

Correlation between Total Tax Revenue and VAT

Year	Total Revenue (x)	VAT Revenue (y)	xy	x2	y2
2000/01	38865.1	12047.80	468238951.78	1510495998.01	145149484.84
2001/02	39330.6	11964.00	470551298.40	1546896096.36	143137296.00
2002/03	42587	13459.70	573208243.90	1813652569.00	181163524.09
2003/04	48173	14478.90	697492049.70	2320637929.00	209638545.21
2004/05	54104.7	18885.40	1021788901.38	2927318562.09	356658333.16
2005/06	57430.4	21610.70	1241111145.28	3298250844.16	467022354.49
2006/07	71973.4	26095.60	1878189057.04	5180170307.56	680980339.36
2007/08	85155.46	29815.70	2538969648.72	7251452367.81	888975966.49
2008/09	111092.37	39700.90	4410467072.13	12341514672.22	1576161460.81
2009/10	156294.92	54920.80	8583842042.34	24428102017.81	3016294272.64
Total	**705006.95**	**242979.50**	**21883858410.67**	**62618491364.01**	**7665181577.09**

Correlation coefficient (r) = $\dfrac{n\Sigma xy - \Sigma x\ \Sigma y}{\sqrt{[n\Sigma x^2 - [\Sigma x]^2[n\Sigma y^2 - [\Sigma y]^2]}}$

$= \dfrac{10 \times 21883858410.67 - (705006.95 \times 242979.50)}{\sqrt{[10 \times 62618491364.01 - (705006.95)^2][10 \times 7665181577.09 - (242979.50)^2]}}$

$= 0.996700052 = 0.99$

Coefficient of determination $(r^2) = (0.99)^2 = 0.99$

Trend of VAT, GDP, Total Revenue and Total Tax Revenue

(*Rs. in million*)

Fiscal Year	VAT	GDP	Total Revenue	Total Tax Revenue
2000/01	12047.8	394052.00	48893.90	38865.10
2001/02	11964.0	406138.00	50445.60	39330.60
2002/03	13459.7	437546.00	56229.70	42587.00
2003/04	14478.9	474919.00	62331.00	48173.00
2004/05	18885.4	508651.00	70122.70	54104.70
2005/06	21610.7	582950.00	72282.10	57430.40
2006/07	26095.6	670588.70	87199.70	71973.40
2007/08	29815.7	820814.00	107622.48	85155.46
2008/09	39700.9	992012.00	143474.49	111092.37
2009/10	54920.8	1182680.10	179945.82	156294.92

Category wise Collection of VAT

(*Rs. in million*)

Fiscal Year	Category wise Collection of VAT		
	Import	Domestic	Total
2000/01	7303.1	4744.7	12047.8
2001/02	7355.6	4608.4	11964.0
2002/03	8640.1	4819.6	13459.7
2003/04	8874.8	5604.1	14478.9
2004/05	12261.1	6624.3	18885.4
2005/06	13460.2	8150.5	21610.7
2006/07	16464.3	9631.3	26095.6
2007/08	19007.5	10808.2	29815.7
2008/09	25782.4	13918.5	39700.9
2009/10	34541.0	20379.8	54920.8

Category wise Collection of VAT

Fiscal Year	Total Registrant	Non-filer	Filer
2000/01	17628	2083	15545
2001/02	21758	5402	16356
2002/03	28392	3661	24731
2003/04	32430	4984	27446
2004/05	37076	6876	30200
2005/06	43528	9400	38128
2006/07	48749	8440	40309
2007/08	53072	4879	48193
2008/09	62357	5841	56516
2009/10	69653	13040	56613

Number of Registered VAT payers

Fiscal Year	Number of Registered VAT payers		
	Compulsory	Voluntary	Total
2000/01	11604	15131	18406
2001/02	19953	21613	23733
2002/03	25537	28984	31504
2003/04	38391	6024	6627
2004/05	9987	12477	15463
2005/06	19795	23212	24088
2006/07	28203	31262	17628
2007/08	21758	28392	32430
2008/09	37076	43528	48749
2009/10	53072	59707	69653