CONTRIBUTION OF VALUE ADDED TAX IN TAX REVENUE OF NEPAL WITH REFERENCE TO LARGE TAX PAYERS

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Submitted to the Central Department of Economics,
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in Partial Fulfillment of the Requirements for the Degree of
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in
ECONOMICS

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LETTER OF RECOMMENDATION

This thesis entitled **Contribution of Value Added Tax in Tax Revenue of Nepal with Reference to Large Taxpayers** has been prepared by Mr. Ishwor Thapa under my supervision. I hereby recommend this thesis for examination by the Thesis Committee as a partial fulfillment of the requirements for the Degree of Master of Arts in Economics.

I forward it with recommendation for approval.

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APPROVAL SHEET

We certify that this thesis entitled **Contribution of Value Added Tax in Tax Revenue of Nepal with Reference to Large Taxpayers** submitted by Mr. Ishwor Thapa to the Central Department of Economics, Faculty of Humanities and Social Sciences, Tribhuvan University, in partial fulfillment of the requirements for the Degree of MASTER OF ARTS in ECONOMICS has been found satisfactory in scope and quality. Therefore, we accept this thesis as a part of the said degree.

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Mr. Ishwor Thapa

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LIST OF ABBREVIATIONS

CEDA	Center for Economic Development and Administration
FNCCI	Federation of Nepalese Chambers of Commerce and Industry
F/Y	Fiscal Year
GDP	Gross Domestic Product
GNP	Gross National Product
IRD	Inland Revenue Department
IMF	International Monetary Fund
LDCs	Least Developed Countries
LTO	Large Taxpayer's Office
MODVAT	Modified Value Added Tax
MOF	Ministry of Finance
MST	Manufacture Level Sales Tax
NRB	Nepal Rastra Bank
PAN	Permanent Account Number
RST	Retail Level Sales Tax
SAFTA	South Asian Free Trade Area
TU	Tribhuvan University
UNDP	United Nations Development Program
VAT	Value Added Tax
WST	Wholesale Level Sales Tax
WTO	World Trade Organization

CHAPTER - ONE
INTRODUCTION

1.1 General Introduction

Taxation is the most effective and powerful tool reserved in the hands of government. The major objective of taxation is to make fund available for the economic development and economic stability. It has been regarded as the most important resource in national development. An individual needs money to manage his life or his relative's lives, similarly the nation needs revenue to manage several of its functions and the need of the nation is increasing day by day. The state needs monetary resource to run its day to day administrative activities, since the role of the nation has increased and expanded, the role of state fund is also increasing. The state has to carry out several activities to safeguard the interest of the people domicile in its territory. Besides it has to undertake the national security which is under severe threat of atomic lethal weapons and use of mass destructive weapons. The modern state is equally engaged in advancement of science and technology which also needs huge budget. Similarly the emergence of new and challenging diseases has created threat to the human civilization and it needs to carryout medical research which demands huge budget. The nation is solely concerned about the national security, national integrity and prosperity, which need huge monetary resource.

The government manages its economic needs through various tax and non-tax resource. Tax, in fact, is the most common method of collecting public funds, managing the economic resource and leading the country. As the political role of the state is changing in the modern global political scenario, so is the taxation policy of the state. The government collects the required resources mainly from two resources; tax and non-tax. Non-tax resources include different revenues like, gifts, grants, and revenues from the public enterprises, administrative revenues such as registration fees, fines and penalties. The state most occasionally collects the non-tax resource as foreign donations too.

Tax resource includes custom duty, excise duty, VAT, income tax, property tax. The government changes the rate of tax and taxable goods time and again basically the luxury goods are heavily taxed whereas the most basic needs are made nominally charged or they are tax free. Tax is the contribution of its citizens to their nation. It is a compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefit conferred. To meet the government expenses, which have been incurred for the public good and without reference to special benefits, a compulsory contribution of the citizens to the state, so paying tax in many countries is not simply regarded as moral duty but a legal duty and one fails to fulfill this duty, shall have to be punished by the prevalent law.

Tax is also defined as the civil liability that is imposed by the state and whose violation results to civil torts in many countries as well. Whatever is the status of the laws in different countries is, one thing is very common in them is, tax is the policy of the state and it shows the fiscal policy of the state and economic status of the country. Besides the taxation policy of the government, shows that how the government levies the tax and what particular item is regarded in the country and society. Such as the government classifies the goods as essential, semi essential, luxurious and extra luxurious goods and it levies the taxes at different rates.

As time changed the taxation system also got changed and the government adopted newer and newer fiscal policies to collect more and more resource. Basically the countries before the World War-I were mainly depended upon the internal sources. Foreign donations and development of multinational companies were in primitive stage. Besides the corporate culture was not developed duly because of no expansion of market. The market in Asia especially in central and East Asia was very traditional and it was captured by the developed and powerful countries.

Taxation in Nepal does not go long back. It is a small and agricultural country and majority of the people in Nepal still live on agriculture and they are far from taxation. Though they have been paying indirect taxes but direct taxes are not paid by them. There is high rate of poverty in Nepal and rural poverty is far more than the urban poverty. The employment sectors in Nepal are still primitive and they are rather substantive rather than productive and industrious. In such economic system, majority of the people are rather unemployed or semi employed and only minor portion of population are fully employed. The people who are below poverty line, who are semi employed or who are employed but do not earn taxable amount are far from taxation. Agriculture income received by an individual holding land within the ceiling prescribed in Land Act, 2021 is exempt from tax. But income from agriculture business derived from a registered firm, company, partnership and corporate body and through the land holding beyond the limit prescribed in the Land Act, 2021 are not tax exempt, but a survey shows that the agriculture in Nepal is practiced as traditional and substantive farming. Nearly 16 percentage people in Nepal are engaged in modern registered and extended farming.[1]

This history of taxation in Nepal goes to the year 2017 BS, when the income tax was imposed the first time. It was very narrow and primitive law imposed on tax. It had many limitations, too, though it had opened the modern taxation in Nepal. Later, this law was revised and another law called, 'Income Tax Act, 2058' was enforced. Before it, new taxation called value added tax was introduced in Nepal. It was assented in the year 1995 AD, but it was enforced two years later in 1997 AD. Introduction of VAT in Nepal was amid controversy and it raised some questions about the taxation system of Nepal.

The concept of VAT in Nepal was introduced in early 1990s. Nepal government indicated its intention to introduce VAT in the eighth plan subsequently the Finance Minister declared to introduce a two-tier sales tax system to make the base of implementing VAT from the fiscal year 1992/93 AD. A VAT Task Force was created in 1993 under the financial assistance of USAID in order to make necessary preparation for the introduction of VAT. The VAT Task Force prepared the draft of VAT legislation. The parliament of Nepal enacted “Value Added Tax Act 1995(2052)”, subsequently VAT regulation was made in 1996; although the act was passed in 1995, its implementation was delayed due to political instability and strong opposition from business community. VAT with single rate of 10 percentages has been fully implemented with its effect from 16 November 1997. The government of Nepal has been increased VAT to 13 percentage with its effect from 15 February 2004(Magh 1, 2061). In Nepal, VAT was brought to replace the sales tax, contract tax, hotel tax, and entertainment tax.

VAT is more specified taxation which could have replaced the existing tax system and expand the arena of tax but there are several important tasks to be done before its effective implementation and time improvisation of tax administration, enhancement of tax offices and officers, implementation of effective tax laws are the prominent sectors which need timely amendment.

Taxation is purely based on the economic model of the state that the state has adopted as to enrich itself. The state in the past was basically feudal and taxation was imposed against the merchants only. It was mercantile tax and the members of the royal court, royal family, Dukes, Earls, Prince and Crown Prince were tax exempted even in the past.

The government nowadays, employs various types of taxation, such as income tax, VAT, excise, health tax, education tax. For this, Inland Revenue Department has been established and the taxation in Nepal has been made more systematically. But the numbers of tax paying people in Nepal are almost negligible. The data taken on 2009 shows that only 0.9 million out of 28 million people in Nepal are in the tax net. It means they have been registered in regular taxation, which is nearly 3.5 percentage of the total population. It shows majority of people in Nepal are far beyond the tax. The IRD which ultimately merged into the Department of Value Added Tax, in July 2002 was primarily done to increase the arena of the tax in Nepal. A data taken on 2010 shows that there are 541,424 income tax payers, 232,689 PIT payers, whereas VAT payers are 113,919 only. It shows that nearly 3.79 percentages of the people pay VAT. The data does not show any positive sign, because majority of the people are not paying the tax.

The IRD has developed new approaches in taxation, which can be summarized as VRNISIFIECF. The department is initiating to change the voluntary compliance based tax system into obligatory compliance based tax system. Similarly, it has also adopted research based tax policy which in fact, needs a lot of reforms. Need based tax payer's education and awareness is another very important approach to increase tax payers' number and taxation forecasting of revenue estimation and indication analysis of the tax based on risk management and flaws in audit report shall have to be improved. Functional analysis of organizations and outcome analysis of the budget they are using shall be well redefined and managed the information system and intelligent report. An enforcement of tax policy should be corrected to make more effective investigation of the tax payer, the tax evaders should be carried out the lightly for which other branches of the government should be activated. Special attention should be paid to establish tax fraud investigation bureau within Nepal Police.

Tax payers are contributors to the national economy of every country. Their contribution helps to mobilize the economic resources in the country and the national development is affected by the taxation system of the country. But when these tax payers go to the concerned offices to clear the tax, they have to face quite often a very disgusting, rude, and humiliating behavior in those offices from the employees of those offices. It discourages the tax payers. So it is really important to maintain friendly environment to the tax payers in the public offices.

1.2 Statement of the Problem

Economy and social-political structure of the society are deeply interrelated. And the socio political history of Nepal never reflects that the state was to safeguard the interest of the people. The state resource in Nepal was misused by the rulers of Nepal. The political change of 1950 AD was the first door of national development and planned development was initiated after that change. Despite more than five decades of planned development efforts, Nepalese economy is victimized by disparity, corruption, poverty, income inequality and unemployment. The global poverty watch shows that Nepal lies in 152th position (Milner, 2012). The low income leads Nepalese people under vicious circle of poverty. GNP per-capita income is just around 724 US$. The number of population living below the poverty line is 24.8 percentages. The political scenario has changed quite a several times but it has not been reflected in the economic system. The economic system, in Nepal, is traditional, feudal, substantive, and unable to fulfill the needs of needs and aspirations of people have been risen tremendously, but economic growth is poor (3.54 percentage) and unable to support and fulfill the needs of people (MoF, 2010/11).

The flow out of the people in foreign employment from the country is also creating hazards in the country and the trend of foreign employment is simply increasing. The history of VAT is not long enough in comparison to the global contexts, limited studies and experiments have been carried out on VAT. It has been major instrument of tax reform since last four decades. But very few studies have been done on the topic concerning Nepal. An attempt has been made in this chapter to review the theory of tax as well as recent literature relating to Nepal.

1.3. Objectives of the Study

1. To review the Nepalese tax structure.
2. To analyze the contribution of large tax payers
3. To suggest appropriate measures for making VAT effective and efficient.

1.4 Significance of the Study

The economy nowadays signifies the structure of the state. After the invention of welfare state, the role of the state has grown tremendously. VAT can play an important role in the process of development in developing countries like Nepal which needs higher revenue to fulfill various responsibilities. If it is properly implemented, VAT provides various financial needs. For the successful implementation of VAT, co-ordination between government and business community is needed.

VAT is the modern form of sales taxation. It has been implemented since 1997 in Nepal. There is need of deeper and wider study about VAT in Nepal. In this context, many empirical and theoretical studies have been conducted to examine the various problems and prospects of VAT in Nepal. The study will be directly beneficial to policy maker, private sector, researcher and general people. Policy maker will be able to identify the areas needed for improvement. It will help the researcher to carry out their research a step ahead about VAT.

1.5 Research Questions

This research study tries to answer these research questions:

1. What is the structure of Nepalese tax system?
2. What is the contribution of large taxpayers in tax revenue and GDP of Nepal?
3. What can be the appropriate suggestions to make the VAT effective and efficient?

1.6 Limitations of the Study

1. The study is purely based on secondary data. The reliability of such data has not been examined. Rather the examination of such data in specific environment would be possible but the researcher has not been able to examine such date in the practical environment of the aspect related to the topic. The data were found to be real, as the data provided by different authority, institutions and the agencies in the same topic are found to be different.
2. The study covers from F/Y 1997/98 to 2015/16. Since the country saw many political changes, transitions and changes in the government which brought the huge instability in the country, failure of adopting proper policy, lack of people's participation in the local and developmental activities restricted the liberalization of economic policy of country, the study takes that fact into account to select the starting period.

CHAPTER - TWO
REVIEW OF LITERATURE

The state was always very conscious regarding the taxation to its people. It used to raise the taxes in different topics and heading. The great king Prithvi Narayan Shah had raised the 'unification tax' from his people in the advice of 'Bishe Nagarchi' the then public whip. The people had to pay Re. 1 from each house owner. It shows taxation is a common practice. But the history of VAT is not so long in the global contexts and it is same in the national context too. So no several studies and experiments have been undertaken on VAT though it has been the major instrument of tax reform since last four decades. But very few studies have been done on value added taxation in Nepal. An attempt has been made in this chapter to review the theory of tax as well as recent literature relating to Nepal.

2.1 Theoretical Review

VAT is a multi-stage tax levied at each stage of the value addition chain, with a provision to allow input tax credit (ITC) on tax paid at an earlier stage, which can be appropriated against the VAT liability on subsequent sale. VAT is intended to tax every stage of sale where some value is added to raw materials, but taxpayers will receive credit for tax already paid on procurement stages. Thus, VAT will be without the problem of double taxation as prevalent in the earlier Sales tax laws.

Presently VAT is followed in over 162 countries. The proposed Indian model of VAT will be different from VAT, as it exists in most parts of the world. In India, VAT has replaced the earlier State sales tax system. One of the many reasons underlying the shift to VAT is to do away with the distortions in our earlier tax structure that carve up the country into a large number of small markets rather than one big common market. In the earlier sales tax structure, tax is not levied on all the stages of value addition or sales and distribution channel which means the margins of distributors/ dealers/ retailers at large not subject to sales tax earlier.

Thus, the sales tax pricing structure needs to factor only the single-point levy component of sales tax and the margins of manufacturers and dealers/ retailers etc., are worked out accordingly. Internal trade in small scale and narrowed down development of a common market are problems of this taxation system. The common people appraise VAT as the increased prices by an amount higher than what accrues to the exchequer by way of revenues from it. Also, there was the problem of multiplicity of rates. All the states, provided for plethora of rates. These range from 1 to 25 percentages. This multiplicity of rates increases the cost of compliance while not really benefiting revenue.

Heterogeneity prevailed in the structure of tax as well. Apart from general sales tax, most states used to levy an additional sales tax or a surcharge. In addition, the states levied luxury tax as also an entry tax on the sale of imported goods.

All these practices of heterogeneity in structure as well as rates cause diversion of trade as well as shifting of manufacturing activity from one State to another. Further, widespread taxation of inputs relates to vertical integration of firms, i.e., the earlier system of taxes militated against ancillary industries and encourages them to produce more and more of the inputs needed rather than purchase them from ancillary industries.

The earlier system of commodity taxes is non-neutral. It interferes with the producers' choice of inputs as well as with the consumers' choice of consumption, thereby leading to severe economic distortions.

Value Added Tax (VAT) is the most recent innovation in the field of taxation. It is considered as one of the most powerful tools of the fiscal policy. From the experience of VAT in several countries, many economist and policy makers have agreed on VAT is probably the best indirect tax as it gained a remarkable popularity in such a short span of time.

VAT replaces old taxations such as service tax, sales tax, contract tax, hotel tax, luxury tax and entertainment tax. It has been designed to collect the same revenue as all these taxes were 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 in revenue collection.

VAT is broad based tax as it also covers the value added to each commodity by a firm during all stages of production and distribution. It is a modern tax system to improve the collection of taxes, to increase efficiency and to lessen tax evasion. It is also regarded as the backbone of income tax system in Nepal.

VAT is multiple sales, which has grown on a hybrid of turnover tax and retail level sales tax. It is similar to turnover tax in the sense that both these taxes are imposed at each stage in the production and distribution process. VAT is similar to the retails stage sales tax because the tax base of VAT (consumption type VAT) and of the retails level sales tax on consumer goods and services are identical. VAT, however differs from retails level sales tax in the sense that the former is imposed at each stage of production and distribution while the latter is imposed only on one stage, which is the final stage. Theoretically, VAT is broad-based as it covers the value added to each commodity by firm during all stages of production and distribution. There is the presumption that VAT is shifted forward completely to the consumers.

2.2 Types of VAT

Several economists seem much confused to classify the value added taxation and they opine that this as ridiculous to define taxation just to make it theorize it whereas others have put their efforts to do so. The VAT has been classified on several bases and it can be basically classified into three categories namely; income type VAT, consumption type of VAT, and production type of VAT. The capital spent in the purchase of the goods is the basic element that helps us to understand the difference among such types of VAT. It equally deals the treatment of depreciation for the purpose of tax base (value added). So we can conclude, discussion is concentrated within the treatment of these two items for all types of VAT.

2.3 Large Taxpayers

In most of the countries, large taxpayers are classified according to their annual transaction; amount of tax should be paid within a year, tax payers assets etc. In Nepal, large taxpayers are classified by their annual transaction amount.

According to economic law 1997, taxpayers whose annual transaction amount is more than Rs.100 million are termed as large taxpayers. After the establishment of Large Taxpayers Office (LTO) in 2003/04, taxpayers whose annual transaction amount is more than Rs.150 million are started to term as large taxpayers. According to F/Y

2005/06, large taxpayers classifying amount increased again and taxpayers whose annual transaction amount is more than Rs.250 million are classified as large taxpayers.

Now, in F/Y 2012/13, again there is some change and taxpayers whose annual transaction is more than Rs.250 million are classified as large taxpayers in which commercial banks, development banks, insurance companies, cooperatives, financial institutions, investment companies, medical colleges, and tender companies etc. remains. Other taxpayers except bank and financial institutions whose annual transaction is more than Rs.400 million are called large taxpayers.

Those taxpayers, whose annual transaction doesn't meet the tax limit as described above for three consecutive years, will be listed out from large taxpayers. That means, those taxpayers whose annual transaction started to fall below Rs.400 million for other taxpayers and Rs.250 million for banks and financial institutions will not be called large taxpayers and LTO doesn't take account of them. For those, whose annual transaction is below the tax limit, IRD will collect the tax amount.

The tax limits of large taxpayers are shown in the following table:

Table 2.1 Tax Limit of Large Taxpayers

S. No.	Organizational Structure	Transaction Limit	Legal Provision
1	Large Taxpayers Unit under the Inland Revenue Department	Above NPR. 100 Million	Declared In Economic Act of 1997/98
2	Establishment of Large Taxpayers Office (January 15, 2004)	Above NPR. 150 Million	According to ministerial decision of January 1, 2004
3	Large Taxpayers Office(LTO)	Above NPR. 250 Million	According to ministerial decision of June 2, 2005
4	Large Taxpayers Office(LTO)	a) Above NPR. 250 Million (For commercial banks, development banks, insurance companies, cooperatives, financial institutions, investment companies, medical colleges, and tender companies etc.) b) Above NPR. 400 Million (Taxpayers except which are described in point (a))	According to ministerial decision of October 9, 2012

Source: Annual Report of Large Taxpayers Office (LTO), 2014/15

People carry out several types of occupations, professions, business and transactions in their life as means of livelihood. Some people carry out the business in small scale whereas some business houses carry out business in bigger scale. In the context of Nepal, we have Chaudhari Group, Golchha Organization, Khetan Group, Dugar Group, Mittal Group. Subsequently, we can also see nowadays, multinational companies that are operating their business in Nepal are also the large tax payers. After the decade of 1960s, the emergence of multinational companies is very rapid and those multiple national companies which are incorporated with the capital of the developed countries are far more functional. There are several opinions regarding the role of large tax payers in the revenue of Nepal, a small country with which was isolated, agrarian society until the mid-20th century. Nepal entered the modern era in 1951 having the social services like schools, hospitals, roads, telecommunications, electric power, industry, or civil service almost none or negligible. The country has, however, made progress toward sustainable economic growth since the 1950s and is committed to a program of economic liberalization.

Nepal has used a series of five-year plans in an attempt to make progress in economic development. It completed its ninth economic development plan in 2002; its currency has been made convertible, and 17 state enterprises have been privatized. Foreign aid to Nepal accounts for more than half of the development budget. Government priorities over the years have been the development of transportation and communication facilities, agriculture, and industry. Since 1975, improved government administration and rural development efforts have been emphasized. Agriculture remains Nepal's principal economic activity, employing nearly 70 percentage of the population and providing 37 percentage of GDP. Only about 20 percentage of the total area is cultivable; another 33 percentage is forested; most of the rest is mountainous. Rice and wheat are the main food crops. The lowland Terai region produces an agricultural surplus, part of which supplies the food-deficient hill areas.

Foreign employment in Nepal is surging very rapidly and GDP is heavily dependent on remittances sent by the persons working in the foreign land. Subsequently, economic development in social services and infrastructure in Nepal has not made dramatic progress. The country lacks infrastructure and basically the situation of infrastructure in the remote and rural areas is miserable. Road transportation system is the sole means transportation and the topographical structure has made it even more challenging. Still there are three district headquarters which are not connected to the main land of the country and they have to depend up on the carriage service of porters and animal caravan. The people are victim of lack of infrastructure and backwardness.

A countrywide primary education system is under development, and Tribhuvan University has several campuses. Although eradication efforts continue, malaria had been controlled in the fertile but previously uninhabitable Terai region in the south.

Kathmandu is linked to India and nearby hilly regions by road and an expanding highway network. The capital was almost out of fuel and transport of supplies caused by a crippling general strike in southern Nepal on February 17, 2008.

Major towns are connected to the capital by telephone and domestic air services. The export-oriented carpet and garment industries had grown rapidly in 1990 and that used to constitute approximately 70 percentages of merchandise exports of Nepal along with the raw material for soap industry and vegetable ghee. But now it has turned into pages of history. The political changes in 1990s that opened the policy of liberalization in Nepal have drawn back Nepal to bankruptcy of major of these trades.

Life in Nepal is still very hard and it has worsened livelihood chances. The Cost of Living Index in Nepal is comparatively lower than many countries but not the least. The quality of life has declined to much less desirous value in recent years. Nepal was ranked 54th worst of 81 ranked countries on the Global Hunger Index in 2011, between Cambodia and Togo. Nepal's current score of 19.9 is better than in 2010 (20.0) and much improved than its score of 27.5 in 1990. It has all been possible of foreign employment basically to Arabian countries and South Korea.

2.4 Major Areas of Coverage by Large Taxpayers

A nation has many areas of operation and those can be broadly classified into service and goods. The large tax payers of Nepal are involved in both goods and service sectors. Preparation of junk/readymade foods, hydroelectricity, construction business, tourism and hotel business, health research and hospitals, schools and collage, housing and plotting, garment and readymade clothes, import and export of computer and Information Technology, cement and dye, furniture and many more are the sectors including telecommunication and sports where the large tax payers are involved. Large taxpayers are from governmental and private sectors too. It is obvious in almost country where the both the private and public sectors work together for betterment of life. But the government classifies the services and goods as most essential and luxurious goods and services. There is debate in Nepalese society that health and education like most essential sectors shall not be allowed to the private sectors and such services shall not be the commodity for trade, equally there is voice that the state shall minimize its role and let the private sector work freely.

2.4.1 Public Enterprises

- The public enterprises such as Nepal Telecom, Nepal Electricity Authority, Salt Trading Corporation, National Trading Cooperation, Medicine Management Department, Timber Corporation Nepal etc. are majorly renowned public enterprises. There are some other enterprises such as Nepal Television and Radio Nepal, Nepal Administrative Training Academy, Tea and Coffee Development Corporation, Nepal Rehabilitation Corporation, Sajha Yatayat, Nepal Oil Corporation are other major taxpayers of Nepal. They carry out specific trade or business and most of them are owned by the government of Nepal. They are generally established to run non profiteering business or the business with non-profiteering motive. But they have large coverage in the market so that they make transactions of millions of rupees each year as their annual turnover. As the result they become large taxpayers. Nepal telecom comes at number one. Nepal Telecom- the government owned telecom operator says the total revenues is at NRs 36 Billion and 790 million in the 2011 AD, which is 15 percentage up compared to the fiscal year 2010/11 AD. The total profit (before tax) is around 15 Billion and 610 million NRs which after tax come to 11 Billion and 600 Million NRs. Though the total revenue is increased as compared to 2010 AD, the total profit declines as 4 Billion NRs was separated for the License Renewal fee to be paid to NTA (Nepal Telecommunication Authority) for the huge sum NRs 20 Billion, to be paid in 8 Installments. Nepal Telecom gets such revenue mainly from voice telephony which is from various technologies like PSTN landline, GSM (Namaste) Prepaid and Postpaid, CDMA (Sky phone) Pre Paid and Post Paid. The revenue from Internet services is also increasing as the total no. of internet subscription is boosting up quite significantly. Among the total service revenue of 32 Billion, GSM service alone earned NRs 15 Billion. Nepal Telecom believes the revenue and profit to increase hugely in this fiscal year 2012/13 as many of its big projects will be launched within the year and even targets the Internet revenue to increase much heavily with the nationwide addition of WiMAX, EVDO and 3G/Edge.
- National Trading Limited is another public enterprise that is a large taxpayer. Its authorized capital is Rs.100.00 million and paid up capital of Rs.50.00

million. At the start as NTL dealt primarily with Commodity Aid goods it was in a position to import goods in large volume without involving its own finance. Over the recent years NTL has been importing large volume of goods on its own which involves considerable foreign exchange. This certainly has put much pressure on its own financial resources. As NTL has had to undertake heavy imports it had to take resources to bank borrowing on several occasions.

- Nepal Oil Corporation (NOC) is another public large taxpayer enterprise. Established in January 1970 by the Government of Nepal as a state-owned trading company to deal with the import, transportation, storage and distribution of various petroleum products in the country. NOC, headquartered in Kathmandu, has Five Regional Offices and also Branch Offices, Fuel Depots and Aviation Fuel Depots with total storage capacity of 71,622 Kiloliters (KL) and around 600 employees. Nepal is a land locked country bordering three sides by India and the northern part of snow fed Himalayas by Tibet/China. Nepal does not produce any oil and depends totally on imports in the refined form, as it does not have any oil refinery. NOC is the sole organization responsible for the import and distribution of petroleum products through around 1500 Tank Trucks and 1500 retail outlets owned by the private sector around all parts of the country.
- Nepal is becoming more dependent on petroleum products for meeting its energy requirement. The demand of products like MS, HSD, SKO, ATF and LPG is about 1.2 million ton (MT) per annum with annual increase by around 10 percentages. Petroleum products constitute about 15 percentage of total energy consumed in Nepal. The nearest sea port from Nepal is Haldia(Kolkata) which is about 900 km from nearest Indo-Nepal border. The long transportation distance from nearest sea port to Nepal is the main constraint for import of POL from third country. All the petroleum products consumed in Nepal are procured and imported from Government of India (GOI) undertaking national oil company, i.e. Indian Oil Corporation Ltd (IOC) under a 5 years' Contract Agreement signed on 27th April 2012. NOC uplifts petroleum products as per its requirement from IOC's different refineries, terminals and depots situated in eastern and northern part of India. The supply

of LPG is arranged under a PDO (Product Delivery Order) system and IOC is providing Bulk LPG to Nepalese LPG industries from Haldia, Barauni, Mathura & Panipat refineries. Meeting the ever increasing demand of LPG in Nepal has always been a concern to NOC. The transportation from IOC locations to NOC depots and to retail outlets is done by Tank Trucks. To meet the increasing demand, a MOU between IOC and NOC for construction of cross border Petroleum Product Pipeline from IOC's depot (Raxaul) to NOC's depot (Amlekhgunj) has been signed. The Detailed Feasibility Report (DFR) of the proposed pipeline has also been prepared and the construction/investment modalities are under discussion between the companies. Similarly, the scope of laying LPG pipeline across Indo-Nepal border has also come in the discussion between the companies.

- Salt Trading Corporation (STC) Limited is another large taxpayer, which pays nearly 12 billion rupees a year tax. It is the sole corporation that supplies salt to the people in Nepal, besides it trades with sugar and helps to manage the rate of such goods in the market. It is one of the largest business organization in Nepal established as an experiment of the utility of Public Private Partnership (PPP) for a developing country under PPP act of Government of Nepal. It was established in 1963 AD; the corporation was launched with objective to avail iodized common salt since salt is not produced in Nepal and depends on import from India and China, for all citizens throughout the country. In the long run of its dedicated service to the nation, STC has great contribution to ensure proper supply and distribution of essential daily consumable goods (listed in Nepal Government's Gadget, erode black-marketing to regulate market and artificial scarcity and industrial development in Nepal. With the proportion of 79:21 investment from private- public.
- The Timber Corporation of Nepal (TCN) was established in 1960 AD, basically to reinstate the victims of flood and landslide of 1954 AD. It was later changed into public enterprise though a law. It acts in the field of timber, fire-woods, and forest products. It sells those wood products and donates to the needy people too. Basically the freed kamaiya, people who have been shifted to new place for settlement, raw materials in construction works like road, irrigational cannel, electrification, equally it runs forestry management

programs. It has its network in all the 75 districts where there are many local temporary booths and contact offices in all the districts.

From the above mentioned facts and figures we can say the public enterprises whether owned by the state solely or owned by the state in public private ownership, they carry out mass scale business and their annual turnover is very high. Since many of them have their marked extended all over Nepal, their transactions are very vast.

2.4.2 Private Enterprises

Development of private sectors in Nepal started after introduction of democracy in Nepal, 1951. Subsequently the formulation of several laws in Nepal, such as *The Factory Law, 1920*, *Trading Company Law, 1921, Chamber of Commerce Law, 1922, Company Law 1925* are some of them, which paved right path to groom the private sector. Equally the development of public enterprises, corporate houses, and co-operations were also developed during that time. Development of private sectors groomed in the period of post democracy. The political parties such as, Nepali Congress acts on behalf of the capitalists as per the written election memorandum, whereas the communist parties of Nepal act on behalf of the proletariats as per the written election memorandum. Have they really been able to do so? As the country is facing the problems of backwardness the number of large tax payers in Nepal is also very short.

The country is facing unequal distribution of resource, backwardness, poverty, unemployment, and feudal system of production, which was able to solve the problems of the people those are related to livelihood, self-respect, economic progress, and prosperity, which lead the people to wage revolts time and again. But the political changes in Nepal were not able to manage economic problems of the nation. It was just beneficial to the handful opportunist leaders, their relatives and surrounded persons who are the real problems in economic progress of the people.

The large tax payers, in the recent years, have faced many problems, such as perpetual unrest in the country, growing trade unionism, donation terror, and the worst is the market in the surrounding area, such as in the neighboring countries have been enhanced by the state, but there is lack of infrastructure, security, and power crisis in

Nepal, which ultimately kills the strength of the investors to run large scale enterprises and that results to diminutive number of large taxpayers, in Nepal.

- Ncell, a privately owned telecommunication service provider is one of the largest tax payers of Nepal. It has become the biggest taxpayer company in the country, surpassing state-run Nepal Telecom in revenue collection figures for Fiscal Year 2012/13. The Inland Revenue Department (IRD) felicitated Ncell for paying the largest amount of tax to the government. Ncell posted Rs 4 billion tax to the government. It was established in 2004 in Nepal. It has been providing service to the people since then, and now it has been providing services to nearly 280 million people through more than 400 service centers and it has been working with the technical support European telecommunication company Teliasonera.
- Chaudhari Group popularly known as (CG) is another largest business enterprises in Nepal. This group has business in multiple sectors; biotech, telecomm, cement, education, electronics and white goods, energy and hydroelectricity, financial sector, hotel and resort, real state, etc. are the major of them. Readymade foods industry in Nepal is also major sector where CG works. This group pays taxes under different headings and that does not seem to be the largest but if all the tax paid by CG is cumulated it is more than any other group or enterprises. It pays nearly 780 billion rupees as tax in a year.
- Khetan Group is another biggest business group that operates business in Nepal. This group unlike CG, does not have diversified sectors of operation rather it is much engaged in export and import of the goods. It is one of biggest importer of electronic appliance, kitchen appliance, food products, sanitary wares, construction materials etc.
- Murarka Group is also another business house that is another large taxpayer. It carries out business in the field of agricultural products, tea estates, coffee products and milk products, besides it carry out many other businesses like exports of food products. It was established in 1940s, with a small scale business group and it developed into renowned business group in 1980s. It paid nearly 350 million rupees as tax in the fiscal year 2012/13 which was nearly 28 percentage increase of its previous year's tax.

- Golchha Organization is one of the leading Private Sector Enterprise having various Industries under its flag such as machinery spare-parts, steel utensils, steel sheet, tubes, wires, sugar, Rice, paper, Jute etc. It is also a pioneer organization representing various companies such as Daihatsu (Japan), Samsung televisions and home appliances, Nokia Mobiles, Bajaj (India), Ford Motors, Apple computers, etc. The organization has few trading companies which are operating in the Kathmandu valley but basically the operating plants of the organization are outside of the valley. The organization paid Rs. 390 million as tax in the fiscal year 2013/14, which was nearly 22 percentage more than of the previous year.

The private sectors play very important role, in the economic situation of the country. They are key players of national economy. There are several other enterprises in the private sectors such Panchakanya Group, Sakha: Groups, Neupane Group, Joshi Developers, Nepal Construction Group. The private sectors have extended its business all over the country. Some of them are internationally recognized enterprises too. Chaudhary Group, Kalika Construction, etc. are of that quality. Nearly 41 percentage of total revenue comes from private sector and private sector collects such revenue from the consumers through application of VAT.

2.5 Time Stipulation as to Pay Tax and Rules Regarding It

VAT registrants are required to: (1) pay VAT on or before the 25th day following the end of each month. (2) provide their customers with a tax invoice (3) maintain records (4) keep their VAT records for a period of 6 years (5) advise the VAT Office of changes to the business such a new address, telephone number or a reorganization of a partnership (6) post their Certificate of Registration where customers may observe it, and (7) allow tax officers to enter the business to examine the business records and the stock on hand. The tax invoice is important as registered purchasers will require information from the invoice to claim input tax credits. The tax invoice will require the name and address of the seller and the purchaser, the seller's VAT number and invoice number, the date of the transaction and a description of the sale including the number of items purchased, the unit cost of each item and a notation of any discounts. The tax invoice must be prepared in three copies and clearly identified as a tax invoice. The original copy is to be given to the purchaser;

the second copy is to be retained for audit purposes while the bottom copy is for use by the seller in preparing a record of the transaction. Tax Officers may grant permission for a VAT registrant to issue an abbreviated invoice for retail sales below the value of Rs. 500.

Most businesses will require only minor modifications to their record keeping. In order to complete his VAT return a taxpayer will need to ensure that his books and records will provide: (1) the amount of VAT paid on purchases (2) the amount of VAT collected on sales (3) a method of distinguishing between taxable and exempt sales (4) the time the goods and services were supplied, and (5) proof that goods were exported. The VAT account is a monthly summary showing the source of the figures used in the VAT return. This account contains purchases and sales and the VAT spent and collected. A sample VAT Account (Schedule 7) may be obtained from your VAT Office. Businessmen are responsible for collecting VAT on a taxable supply made in Nepal on the earlier of – the day on which payment for the supply is made, or – the day on which the payment for the supply becomes due. Fines will be imposed if the taxpayer fails to file his return within the specified time.

2.6 Execution of VAT and Implementation of It by Large Taxpayers:

Under the VAT regime, due to multi-point levy on the price including value additions at each and every resale, the margins of either the re-seller or the manufacturer would be reduced unless the ultimate price is increased. VAT would not cause cascading, nor would it cause vertical integration of firms. Also, it provides total transparency of the incidence of tax. This is because, VAT is a multistage sales tax levied as a proportion of the value added. It is collected at each stage of the production and distribution process, and in principle, its burden falls on the final consumer.

Another feature of VAT regime is discontinuation of the sales tax based incentives to new industrial units. Until now, all the states were granting such incentives to new industries in the form of exemption from tax on the purchase of inputs as well as on the sale of finished goods, sales tax loans and/or tax deferral. However for the new industrial units to whom the incentive by way of exemption/ or tax deferrals are already sanctioned under the Sales Tax Act are continued in the form of refund.

2.7 Effectiveness of Administration of VAT to Large Taxpayers

Since, the Value Added Tax (VAT) is applied in most of the countries nowadays; it has been regarded as a broad based tax. It is a modern tax system intended, when fully operational, to improve the collection of taxes, to increase efficiency and to lessen tax evasion. VAT will replace the existing Sales Tax, the Contract Tax, the Hotel Tax and the Entertainment Tax. It has been designed to collect the same revenue as the four taxes it replaces. While the price of some goods and services will change, there should not be an overall change in the price structure.

Under VAT the number of taxable goods and services will increase but for the most part this tax will operate in a similar fashion to the existing Sales Tax. The changes that this new system introduces will, however, make local business more competitive and will remove the tax from exports. This brochure outlines the rights and responsibilities of consumers and businessmen under the VAT Act. Other brochures are available to provide detailed information on some of the topics outlined below. VAT is a tax that has been imposed on many goods and services consumed in Nepal. The tax is based on the principle that each producer or distributer adds value, in some way, to the materials they have purchased and it is this added value that is taxed at each stage of the production and distribution chain.

In the VAT system producers, distributers and people providing services charge VAT for the product or the services sold or provided and then claim a refund of VAT paid on the goods or services purchased to make these sales. The difference between the VAT collected on sales and the VAT charged on purchases determines the amount a registrant must remit or the amount that may be claimed as a refund. In other words if the tax on sales is more than the tax on purchases the person remits the difference. If the tax on sales is less than the tax on purchases the person claims a refund for the difference. In the following example we see that VAT is charged on the value added by the manufacturer. He purchases lumber, glue, nails and polishes to make a table. The value added is reflected in the price of the table. It is greater than the total cost of the items used to produce it.

Registered businessmen are obliged to collect and remit VAT on their taxable transactions. These registrants are entitled to recover the tax paid on their purchases.

This recovery or refund is known as an input tax credit. The Input Tax Credit (ITC) is the total of the tax paid or payable on taxable goods and services purchased in Nepal, and the tax paid on taxable goods imported into Nepal. Where VAT is paid or payable by a registrant on a purchase or on imports, the registrant is allowed to claim an input tax credit for those purchases used in the registrant's commercial activity. However, even though the purchase of goods or services may relate in part to a commercial activity, in certain circumstances the purchase may not generate an input tax credit entitlement when he sells goods or services which are tax-exempt.

Most registrants are entitled to claim input tax credits for the tax paid on acquisitions of capital goods for use primarily in commercial activities. Unlike the income tax deduction rules, the input tax credit for any VAT paid on capital goods is not amortized over the life of the asset. It can be claimed in full in the period in which it is acquired. If the capital goods are later put to a non-commercial use, special change-of-use rules will apply. VAT divides all goods and services into two basic categories, taxable and tax-exempt. Goods and services are either taxed at the standard rate of 10 percent or they are taxed at 0 percentage. Those taxed at the standard rate include all goods and services except those which are specified as taxed at 0 percentage or tax-exempt.

The VAT Act, Schedule I lists imports which are tax-exempt. Some of these include: prescription drugs, basic groceries, medical devices and agricultural products. Most imports, however, are fully taxable at the time of importation. Thereafter they are treated on the same basis as domestically produced goods. The VAT on imported goods is collected by Customs. It is calculated on the duty paid value of the goods, in other words, on the value of the goods including transportation, insurance, freight and commissions plus any duty or other taxes (other than VAT) payable on the goods. The value for the duty of the goods is determined in accordance with the valuation provisions contained in the Customs Act. Registrants may claim ITC's for the VAT paid on imported goods used in their commercial activities.

The VAT is meant to apply only to the consumption of goods and services in Nepal. Supplies made in Nepal that are exported are taxable at 0 percentages. Exporters are allowed to claim input tax credits for VAT paid or payable on purchases of goods and services relating to their commercial activities. Exports taxed at 0 percentages include exports of both goods and services. Registration is required for any business:

- With annual taxable sales of more than Rs. 20, 00,000.
- Belonging to an associated group which has aggregate annual taxable sales exceeding Rs. 20, 00,000.
- As soon as annual sales taxed at 0 percentages and the standard VAT rate of 13 percent exceeds Rs. 20, 00,000.
- In addition to consumers, persons involved in commercial activities are affected by VAT.
- A person means an individual, firm, company, association, cooperative, institution, joint business, partnership, trust, government body or religious organization.

A commercial activity is defined in the following table in terms of what it includes and what it excludes. Commercial activity Examples Included; any business carried on by a person, any trading activity, including those carried out infrequently, retail store, manufacturing plant, the bulk purchase of goods only available on rare. There are categories of persons and organizations which are not required to collect VAT nor allowed to claim a refund of the VAT they have paid in producing their goods and services for sale. These would include unregistered small suppliers, that is, persons with annual sales of taxable goods and services of Rs. 20, 00,000 or less, who have chosen not to register.

In assessing the value of taxable supplies a vendor must include the value of the supplies taxed at the standard VAT rate and his sales of supplies sold at 0 percentages (the zero rated supplies). Sales of exempt supplies will not be included. If he has had or expects an abnormally large sale he should contact his VAT Office to determine if this sale should be taken into account when calculating his need to register.

The date that registration is to begin will be announced through gazette notification. There will not be a registration fee and VAT Officers will be available to assist businessmen and consumers with any questions they may have concerning registration and the operation of the tax. Businesses with taxable annual sales of under Rs. 20, 00,000 may apply to register. If a business chooses to register, it must remain registered for a full fiscal year. A VAT registration may be cancelled by anyone whose total taxable sales for four consecutive calendar quarters is not more than Rs. 20,00,000 and who has been registered for a full fiscal year or by persons who no longer have a commercial activity because of bankruptcy, receivership, or cessation of the business.

2.8 Characteristics of VAT

The main characteristics of VAT can be stated as follows:

a. It applies indirect form of taxation
b. It is a broad based tax and it covers the value adds to each commodity by a firm during all stages of production and distribution.
c. It has substituted sales tax, hotel tax, contract tax and entertainment tax etc.
d. It minimizes cascading effect existed in sales tax and contains catch-up effect.
e. It is based on self-assessment system and provides the facility of tax credit and tax refund.

2.9 Literature Review

Since VAT is a new concept in the field of economy in itself, its user are very few. Same is the cases of the persons who have carried out research on it. There are fewer researches being carried out in this topic in comparison to other aspects of economic policies.

According to Wikipedia Website, Value Added Tax (VAT) or goods or services tax (GST) is tax on exchanges. It is levied on the added value that results from each exchange. It differs from a sales tax because a sales tax is levied on the total value of the exchange. For this reason, a VAT is neutral with respect to the number of passages that there are between the producer and the final consumer. A VAT is an indirect tax, in that the tax is collected from someone who does not bear the entire cost of the tax. To avoid double taxation on final consumption, exports (which by definition, are consumed abroad) are usually not subject to VAT and VAT charge under such circumstances is usually refundable.

2.9.1 International Context

Hans-Hermann Hoppe (1958) raised a question about the existing taxation policy of the then states basically in Europe. He stressed the taxation policy was chiefly responsible to create class difference in Europe and social disorder and conflicts, but it was not chiefly about VAT. There are some researchers who have carried out meaningful researches in the field of VAT are:

Shoup (1969), considered Value Added Tax as the latest and probably the final stage in historical development of general sales tax imposed on the value added by the business firm. He explained VAT as the difference between sales proceeds and cost of materials etc. purchased from others firms, which is the tax base of VAT. He further added, a firm adds value added by processing or handling these purchases items with its labor force and its own machinery, bulking or other capital goods.

Due and Friedlaender (1977) evaluated the value added tax, that is addition to avoiding the adverse consequences of turnover tax and greater revenue raiser, a proper cross audit possible. The possibility of cross checking is considered as a beauty of VAY. In their view, tax reported as paid by the firm to its suppliers for which it takes credit against its own tax liability, should appear as the tax paid by the suppliers. This cross checking is not automatic but it can be made by auditors, ultimately by computers. So VAT is the most monotonous one, whose uses have extended rapidly.

Musgrave and Musgrave (1976), while talking about the types of VAT and its practicability i.e. gross national product, income and consumption, had preferred the latest type of VAT as more applicable and reliable one for both efficiency and quality which was similar to the retail sales tax and seemed to be more practical for poor countries. Likewise, the invoice method for calculation was more preferable and has the advantage of the value added approach. They remarked "A sales tax may be imposed on either single or multiple forms. If the later one is implemented in the value added (rather turnover) sense, it turns to be corresponding single tax. At each and every stage the value of product is increased and this price rises according, which is the "Value Added Tax base" regarding the problem of VAT.

Due and Meier (1988), mentioned VAT in Dominican Republic was in effect from November 1983. However, the general reaction towards the tax hostile from the business sector from increased record keeping requirements because the commercial sector of the economy was dominated by small and medium size business. The other main objection due to the belief that VAT was responsible for increased inflation was also due to other reasons. There was a general agreement that the enforcement of the tax had not been adequate mainly because of the lack of personal. Evasion was wide spared mainly firms failed to register. While the tax has brought the additional revenue, the inadequate enforcement and failure to extend it to the commercial sector as planned and the use of makeshift, distorting system in the latter have resulted in serious failure to attain the advantage of a complete VAT. The experience of the country with the tax provides a warning to other developing countries not to attempt to use Value Added Tax extending beyond the import and manufacturing sectors without careful consideration of the ability of the whole-sale and retail sector.

Goode (1986), described VAT as the most important innovation in public finance. VAT applies to the tax imposed on the value added at successive stage of production and distribution. VAT, a sales tax on consumption is fairer than an income tax because the later results double taxation of saving is unconvincing but the former lacks the progressiveness, which serves by later.

He had found several advantages of VAT and pointed out the followings:

a. It is broad based and relatively neutral.
b. It avoids both simple cascading and cumulative taxation of goods of producers that are not physically incorporated in products.
c. Spreading the tax over the several stages of production and distribution is often considered as an administrative advantage compared with collecting it all at one stage because enterprises has less incentive to evade tax.
d. It generates the possibility of issuing information as a cross checks on compliance with other taxes particularly income taxes.

He further has stress the countries having small market and narrow supply system, emerging of the enterprises and lesser accountability, susceptibility and suitability of VAT is questionable for those countries.

In a seminar organized by IMF/UNDP, Tait (1991) presented a paper entitled VAT policy issue structure regressively, information and export in Jakarta of Indonesia and later arrived on. The occasional Paper (88) IMF Washington D.C. edited by same author in 1991. The study concentrates on the policy concerns on the basic illustration of same theoretical as well as empirical proofs.

a. The VAT is the alternative of retailer's sales tax. However both do not can tax the unofficial business but under the reporting of sales will show up under the VAT.
b. The VAT is for the buoyant base of revenue maintaining neutrality efficiency in taxation.
c. It is preferable that it has the capacity of covering the all stages of production to the retail level and services.
d. Overall, VAT may not contribute to promote export but it makes the system easier.
e. Single positive rate VAT and few exemptions prove regressive but it should be evaluated on the basis of proofs relatively less regressive than others. It should be weighted compared to the deficits.
f. VAT, simply changes relative price but not the overall price increase tax should be deflationary.
g. VAT administration affects many components whether all are retail sales and services be taxed or how many rates are to be used, the treatment of capital goods, financial services, foods, small traders will affect the administration of VAT.

Tripathy (1992) said that VAT has distinct advantage as an instrument of resource mobilization. The tax on value represents a new technique for collecting taxes on output of economic enterprises. If a tax on value added is imposed on sales minus the purchase of materials and also of capital expenditure items of an enterprise. According to him, in the developing countries the consumption type of Value Added Tax should be improved in every stage of manufacturing and distribution exempting. Beside its structure should be designed in such a manner that to impose a low rate of tax on food articles. The consumption type of Value Added Tax should be imposed in complete substitute of the tax on undistributed profit of companies because a large scale of evasion of tax revenue takes place in these countries with regard to sales taxation, whereas the taxation of corporate profit is administratively much more convenient.

In Tripathy's words, VAT may have many advantages and some of them are:

a) Administrative advantage
b) Promotion of economic growth
c) Instrument of planning
d) Promotion of economic efficiency and
e) Healthy effect on exports

The most important point about the Value Added Tax for developing countries is that it will constitute a dynamic part of their tax system. Besides the Value Added Tax is the most obvious of tax which vary in response to short run economic fluctuation. It can be raised or lowered as the situation demands more quickly and easily than many other taxes. Thus, the Value Added Tax can constitute an important instrument of development the finance and economic stabilization in developing countries.

2.9.2 National Context

When VAT was to be imposed in Nepal, there were two voices raised equally but in opposite claim. Many people were counseled VAT as imposition of imperialist ideas of the IMF, and World Bank on Nepal and VAT shall further derail the people to worse condition. It was world imperialist to exploit the people of third world countries through such taxation system, but the supporters of VAT were very enthusiast to impose it in Nepal. They were claiming that VAT would strengthen the taxation , it would increase the budget and public finance, whatever the reason VAT has been imposed and it has been implemented in Nepal. So the history of Nepal is not too long and many researches have not been carried out in this field so far. There are just a few research carried out and some of most influential that the researcher found are as follows: Dag Einar Thorsen carried out a research in neo liberalism in Oslo University in 1982, where he has raised many aspects of neo liberalism and he has examined how economic policy of developed countries affects the economic policies of the developing countries and how developed countries formulate the most effective policy to capture the market of developing countries. He, in general, has explained the economic policy, budgetary system, and taxation.

High Level Task Force (1995), a repost prepared by the task force headed by Prof. Madan Kumar Dahal, reviewed Nepalese tax system and made very useful recommendations for implementing VAT in Nepal. The report suggested VAT instead of existing sales tax service based taxes like hotel, entertainment, contract tax as a long-term reform. The recommendations for VAT in Nepal were based on the following facts:

a. In order to increase the revenue by broadening tax base.
b. To make the system more transparent and elastic.
c. To prevent from the tax evasion.
d. To make the tax system more efficient and promoting exports more easily.

Singh (1996), stated that administration of VAT does not require firms to calculate Value Added Tax. VAT is administered by invoice method. He found the merits of VAT as neutral and efficient resource allocation, neutral between different types of production and distribution. Since, neutrality is important, and neutrality in produced goods is possible in VAT system because it does not distort anyone of the above.

Dahal (1995), wrote that VAT is a most scientific, innovative and powerful tax with built in quality of universal application for both developed and developing economies. The biggest virtue of VAT is that it is revenue buoyant and highly instrumental for resource mobilization especially in an economy with an acute shortage of resources. He further added that Nepal has entered into major global tax system with the introduction of VAT.

Bhattarai & Koirala (2007:321) wrote value added tax (VAT) is a general consumption tax assessed on the value added to goods and services. It is a general tax that applies, in principle, to all commercial activities involving the production and distribution of goods and the provision of services. It is a consumption tax because it is borne ultimately by the final consumer. Taxes on consumption, exports (which are by definition, consumed abroad) are usually not subject to VAT or VAT is refunded.

Khadka (1989) analyzed the system of VAT in Asia and Pacific region, first shows the adaptability of VAT in Nepal with greater scope. Perhaps he is the one who firstly proposed value added tax for Nepal observing the experience of VAT abroad and after observing and analyzing the Nepalese tax system, specially the sales tax. He states that VAT is the most recent innovation in the field of taxation, which is levied on the value added of goods and services, and VAT is shifted forward completely to the consumers.

Ghimire (1998), tried to examine the various issues pertinent to VAT in Nepal. His study is based on primary data by administrating question to VAT in Nepal. Data analysis tools used in his dissertation are simple statistical tools such as average percentage, ratio etc. He has followed analytical as well as descriptive research design. He had made conclusion that the existence of small traders in large proportion raised a problem due to their low operation skill, lack of accounting record illiteracy and high compliance cost. Existence of open boarder and large amount of unauthorized trade from India to Nepal passes a great threat to the success of VAT in Nepal. Illegal imports would help to form a channel resulting in a large scale of tax evasion.

He had made some recommendations for the successful implementation of VAT in Nepal. They are strong administration education program to relevant persons, registration extensive training program to VAT personal, technical data base system, combination of various revenue teams, co-ordination of VAT department with other departments, close co-operation between government and private sector etc.

Silwal (1999) had expressed his practical experiences about VAT that it is in all stages not-cascading tax system. It extends to all levels of production and distribution. Similarly, it covers all stages and services or exempting any of them renders VAT ineffective. The book gives main focus on Nepalese tax system. The book clearly analyzed why the government of Nepal introduced VAT. He suggested that factors affecting VAT design. Poorly designed VAT accompanied by weak administration would just brain the treasury. So, almost care is necessary while designing a VAT.

According to him, the following facts were considered while designing a VAT in Nepal: a) Tax base issues b) Rate structure issues c) Exemption issues d) Threshold issues. Finally, he concluded that the introduction of VAT provides an opportunity to sweep the cobwebs, revamp and substantial part of the tax administration. In every country, where it has been implemented properly, the VAT has proved itself as revenue productive tax. However, the benefit from VAT depends upon its coverage.

Bista (1999) examined the importance of VAT with respect to resource mobilization and to identify the problem of VAT and its prospects in developing countries like Nepal. The study basically stands on secondary data. Data analyzing tools are simple statistical tools e.g. percentage, ratio etc. In his study, he found the following facts with respect to his objective.

VAT can mobilize the rest of revenue resources by broadening tax base and tackling all illegal business activities. Tax officers are not specialized or the professionalism is not developed on tax officers. Public awareness is low to make people aware. Paper media commitment towards VAT is weak, open boarder is the main cause of unauthorized trade and unofficial trade. He recommended the following things most necessarily to make the VAT effective. Political parties as well as leaders should show their commitment towards VAT implementation. Government should manage the necessary physical environment so that the VAT administrations can function properly and effectively. There should be good co-operation between government and business community. Talking with India should solve problem arisen by open boarder. VAT officials should be trained. These are the main recommendation made by him.

Khanal (2000) examined and opined that VAT would be an improvement over the sales tax system. Adoption of VAT in the place of sales tax would insure certain, gain though the gain may be of least amount. That is why; a move towards VAT would be 'better' but not an 'ideal' step.

He found that the major hurdles for the applicability of VAT in Nepal are the existence of larger proportion of small traders in trading activities, unfavorable business structure and impracticable administration, existence of open border and large amount of unauthorized trade from India, under valuation of imports and lack of consciousness of Tax Law of Nepal.

Devkota (2000) said that basic objectives of the study were to see the effectiveness of present information and communication networking in imposition of VAT. He has collected primary data to gather opinions and views relevant to study objectives. Statistical tools he used are simple as ratio, percentage, average etc. According to him, main problems in implementation of VAT are lack of VAT education to taxpayers and low public awareness level towards VAT. Value Added Tax system has not created positive thinking to taxpayers. The customers do not have habit to collect invoices while purchasing goods and services, which are the most important part of success and failure of the VAT implementation. He also found the communication gap between government and private sector towards VAT. It seems lack of enough preparation for implementation of VAT in Nepal.

Khadka (2001) wrote that VAT is the most recent innovation in the field of taxation. It is levied on the value added of goods and services. The tax is broad based which covers the value added to each commodity by a firm during all stage of production and distribution.

The book had covered all aspects of VAT including the nature of VAT reasons for the growing popularity of VAT, development of VAT etc. This part examines all structure and operation of VAT in Asia pacific region which also explores the possibility of introducing VAT in Nepal. Probably, he is the observable person of VAT and the firstly proposed VAT for Nepal with a micro studied of economic system of Nepal.

Gautam (2006) talked about the contribution of VAT in government revenue and problem faced by it. He has used different type of questionnaire to various ranks of employees. The researcher used both primary and secondary data and has reached to the following conclusion:

1. VAT is a kind of indirect tax which is found to be superior to any other tax system for collecting the internal revenue, contribution of VAT in total indirect tax is more and higher.
2. The import VAT revenue is higher than internal VAT revenue.
3. Poor management is also cause of ineffective resource mobilization.
4. The growth rate of registrants is increasing. It shows the implementation status is satisfactory but due to the lack of transparency in business activities, weak cross checking mechanism, transition manipulation practices conclude that may potential tax payer are out of VAT.
5. The price change on goods and services may create double problem for tax.

Paudel (2009) analyzed the productivity and responsiveness of VAT. The study followed exploratory and descriptive research design. To come over the conclusion, the researcher used secondary data and information. He had given different recommendations for the consumers, business communities and tax administrators. He had concluded that due to the lack of experts and manpower developed considering it in VAT administration, the auditing system, a major operation tools in VAT is not effective. Refund system is not operating in expectation of business person. That is why the businessmen are feeling harassment and creating negative thought regarding VAT.

As public conscious level is very low, businessmen are cheating consumers charging high prices in the name of VAT. Businessmen are also cheating the government, as they are not issuing proper bills in their sales and hence do not pay real VAT amount.

From the study of previous literature, we came to know that VAT is one of the most powerful tools of the fiscal policy. From the long experience of VAT in several countries, many economists as well as policymakers has reached in the conclusion that VAT is probably one of the best in indirect tax. Large taxpayers are the major contributors in the tax revenue. Realizing the importance and difficulties, more research has to be done with regards to VAT.

2.10 Problem and Prospects of VAT in Nepal

Obviously launching a new policy is always challenging and it was more serious and harsh in the context of Nepal. The problems of implementing VAT in Nepal can be best studied in the topic as mentioned below.

2.10.1 Existing Problems

a) Structural Problems

VAT can be levied on single rate and it can be equally levied in multiple rates too. It shall not be the sole choice of the consumer. It may depend upon economic nature of a country such as revenue requirements, equity consideration and position of foreign trade etc. VAT with a single positive rate is desirable in developing country like Nepal. Because multiple rates make tax administration more complicated since, there is need to classify commodities into different groups according to their rates. Moreover, businessman has to keep separate record and information. In a country like Nepal, many small vendors who may not be literate and able to apply properly the different rates to various goods they sell.

VAT is considered as broad based tax, but all goods and services cannot be bought within tax net, various issues play important role in determining the tax base, so timely revision of different VAT act regarding tax base is necessary, so as to increase the revenue mobilization.

The exclusion of certain goods and services from tax jurisdiction is known as exemption. There are three major areas, which has brought some troubles in administration in adopting the VAT is given as.

i. The goods and services of basic need such as medical and health services, milk, not processed food stuffs, vegetable, etc. are exempted with the equity consideration, but this provision increases their demand and the relative prices and the full impact of such exception will not be felt by the poor.
ii. Some goods and services are exempted because of the administrative complexity, under this provision, the small trades, farmers and special service firms are excluded from VAT. Farmers are exempted for its difficulties of proper records and financial fragility as well as to avoid the negative effects on primary products.
iii. The exemption technique might be used for selected goods and services to encourage their production and consumption such as educational and medical services, cultural activities, public transportation, sports, etc.

Zero percent tax on goods and services is given to relieve some selected goods and services completely from taxation but such items are technically supposed to be remaining within the tax net. Zero rating technique is applied for the purpose of social welfare, to make export promotion and to support economic growth.

b. Administrative Problems

There are several issues related to the administrative structure of the country which ultimately makes the administration function or useless. Effective and efficient tax administration is necessary for the proper mobilization of revenue. The VAT is directly administrated by the Inland Revenue Administration, the Ministry of Finance, Customs Administration, and Revenue Investigation Administration. The Ministry of Finance is the apex body of the tax administration.

Decentralized, qualified intelligent, trained manpower in tax implementation mechanism is necessary to implement the VAT in one hand and effective monitoring is essential on the other hand, but our administration several problems such as centralized office operation, traditional culture of tax administration, corruption, lack of proper training, political intervention. So there is big gap between legal system and its active operation.

c. Problems Related with Tax Laws and Regulation

There is Value Added Tax Rules formulated and enforced in Nepal in 1997. It was enforced to make the transactions more effective and legitimate. Section 3(1) of this Act, clearly states that ' Any person engaged in any transaction at the time of the commencement of the Act shall submit an application for registration to the concerned tax officer, in the format as set forth in Schedule-1 within 90 days of the commencement of the Act.' which clearly makes registration compulsory. There are several provisions in this law such as; Special Conditions on which Transactions are to be Registered, Determination of Amount of Transactions, To Give Notification of the Change of Place, To Notify for the Change of Nature or Object of the Transactions, Transfer of Transaction, Cancellation of Registration Process, Determination of the Place of Supply of Goods etc. But there is no clear provision to take legal action against the person who does transaction without PAN. So the attitude of general public towards tax administration is negative. The tax officials have to work in co-operation, there is no possibility of runaway the defaulter next tax payer provide improper bill to customer and evade tax in a large scale.

d. Problem Related to Geo Politics and Smuggling

Nepal is situated between two giants of Asia; China and India. Nepal has closed boarder with China Tibet, but boarder with India does not have any bar, it is open. It is the important problem as unauthorized trade carries out between the people very easily. People of both countries- Nepal and India are free to enter into each other's boarder, any goods and no paying customs for personal use. Beside that unauthorized trade is very much in the broader area. There are many organized groups active in both sides of the border and these groups are responsible for illegal supplying of goods from India to Nepal and Nepal to India, in fact, they have been running racket of smuggling in the border area. It was seen vividly, as there was undeclared blockade by the government of India against Nepal when new constitution was promulgated in Nepal, there was shortage of petrol and diesel in the Nepalese market. It was available in the black marketing. The goods that passes through customs can't compete with the goods that passes from hand to hand of smuggler as they don't pay tax, such goods are cheaper. It hampers the taxation system of the country.

2.10.2 Prospects of VAT

The new taxation is desired to achieve the goals of neutrality, revenue productivity, fairness and transparency etc. So VAT is applied as it is modern and effective tax system, which checks the loopholes, such as under valuation, non-recording and unauthorized trade. It discourages such issues and problems existing in the sales tax system. That’s why VAT is considered to be the best fiscal tool for revenue mobilization, especially in an economy with acute shortage of resources.

As Nepal is a member of the WTO network, the collection of custom revenue is major sources of revenue is low. Since there is less possibility of collection of huge amount of income tax because of low per-capita income of Nepalese people, therefore VAT is found one alternate. Because of all these factors, Nepal has already adopted broad based consumption type VAT, using tax credit method. Despite the preliminary resistance, VAT is currently well received by customers as well as the business and industrial communities. There has been made a progress in revenue mobilization. The prospects of VAT for the revenue mobilization can be best summarized as below:

a) Prospects of VAT Revenue Mobilization at Various Rates
   The present rate of VAT in Nepal is low, so the revenue mobilization from VAT could not take momentum. The performance of VAT has been criticized by comparing it with sales tax because it could not fulfill the revenue requirement of the government. If multiple VAT rate is

implemented with adequate preparation and study, the revenue collection trend will increase more goods and services come under VAT net.

b) Prospects of Revenue Mobilization by Broadening VAT Base

To meet the growing expenditure of the government, it is necessary to increase the revenue mobilization through broadening the tax base. The base of VAT can be broaden by including the value addition that takes place at all sector and level of economic activities, within the preview of tax. In the present Nepalese context, the base of VAT can be broaden by bringing all goods and services and all sectors within tax preview i.e. taxing all commodities including zerorated goods and taxing agricultural products etc. and the exemption should be limited.

c) Reducing the Threshold Level

VAT is not applicable to all transaction. An annual threshold of Rs. 2 million in transaction has been specified for this purpose. But still there is strong argument that the present threshold is high. Because of high level of threshold only limited business vendors are registered, which is providing scope for the sales of smuggled or undervalued goods. Collection of all vendors will have to bring under VAT net; this is possible at low level. Although, it seems administratively difficult and socially unacceptable, it will be one way of giving the VAT revenue momentum. If the threshold level is too high, a majority of the businessmen may not come under the VAT net and under such circumstances will not possible to implement VAT effectively. Therefore, it is common to keep threshold level as low as possible. The threshold level should be fixed based on the administrative capacity, the capacity to maintain accounts in the industry and commercial sector, the need for revenue etc. Because of fragmented, self-subsistence economic structure and unorganized business sector, it is assumed that the number of business vendor having annual transaction less than Rs.2 million is many times more than the vendors having annual transaction above than Rs. 2 million. So, it is necessary to review the present threshold level.

Behind this, there is a huge prospect of revenue mobilization through improving tax laws and regulation, improving institutional and infrastructure development. Furthermore, tax friendly environment can be created by the government provoking education; information and knowledge to the large taxpayers.

2.11 Research Gap

Thesis related to the contribution of VAT had already done by previous researchers but the contribution of large taxpayers had not been analyzed before. Likewise, the correlation between the different variables used in the study had not been analyzed. That's why; this research study tries to analyze the correlation between different variables using Karl Pearson's correlation coefficient.

2.12 Conclusion

Selection of this topic for research was not just to accomplish a regular duty in the expected way for securing a certificate, researcher was rather committed for evaluating the contribution of large taxpayers and how helped it as VAT is a modern and transparent tax system. It is less distorted and more revenue productive. That is why; this tax has become a popular topic for tax reform and has been spreading all over the world since late 1960s. In the process of economic liberalization and globalization, VAT makes the tax system flexible.

CHAPTER-THREE
RESEARCH METHODOLOGY

Research is a systematic, rigorous, purposeful and organized effort of mankind to investigate a specific problem that needs solution (Shuttleworth M., 2001). Man is always curious about the new inventions, ideas and dimension of knowledge which had developed more efficient and effective methods study to enhance new knowledge, this is research. In the broadest sense of the word, the definition of research includes any gathering of data, information and facts for the advancement of knowledge. A detailed study of a subject, especially in order to discover new information or reach a new understanding is research. Systematic investigative process employed to increase or revise current knowledge by discovering new facts. The research process of investigation involves a series of well throughout activities of gathering, recording, analyzing, and interpreting the data with the purpose of finding answers to the problem (Kumar R., 1989).

3.1 Selection of the Study Area

The researcher had selected this study area to find the contribution of large taxpayers in value added tax which was not done by other researchers in Nepal.

3.2 Research Design

This research is based on secondary data, descriptive and exploratory research design was regarded as the best to find answer of the problem and control the errors over the study. Although there are many types of research design, critical evaluation and logical description have been done in a research topic to evaluate problems and prospects of VAT in Nepalese context. Since collecting primary or firsthand data in the topic selected by the researcher is almost next to impossible, the researcher solely depended on the data available from the concerned authorities and relied on them. The descriptive and exploratory research was preferred by the researcher as it is most flexible one to provide opportunity to concluding different aspects of the problem stipulated under this study.

3.3 Nature and Sources of Data

This study is solely based on the secondary data. The secondary sources of data are the information desired from books, journals, newspapers, reports and dissertations etc. The major sources of secondary data are: budget speeches and economic survey, Fiscal Policy launched by the Ministry of Finance, publication of Center for Economic Development Association (CEDA), Tribhuvan University Department of Economics, and records of Department of Taxation, annual reports provided by the Office of Large Taxpayers, Pulchowk, Lalitpur, dissertations related to VAT submitted to the Department Of Economics via central library of T.U. Besides, the researcher also used different publications on economic issues from the NGOs, INGOs, journals of VAT projects, economic reviews and indicators published by Nepal Rastra Bank etc. and other relevant data related to this study.

3.4 Variables Used in the Analysis Process

GNP	: Gross National Product is the total value of goods and services produced by the residents of a nation during a specified period such as a year.
GDP	: Gross Domestic Product is the total final output of goods and services produced in the country's territory by residents during a year not including the value of income earned in foreign countries.
VAT	: Value Added Tax is broad based tax as it also covers the value added to each commodity by a firm during all stages of production and distribution.
Large Taxpayers	: The taxpayers who annual transaction is more than NPR.400 million.
Indirect Tax	: The tax revenue on customs consumption and production is known as indirect tax.
Direct Tax	: Direct tax is composed on income and capital,
Total Tax	: Total tax is the sum of direct and indirect tax.

3.5 Presentation and Analysis of Data

Quantitative data were collected to fulfill the purpose of this study. Collected data have been categorized on the basis of nature and its different simple and complex tables. Most of the data have been presented in tables and some are in diagram. The researcher personally visited the office of large taxpayers, Pulchowk, Lalitpur, to collect the required data. He personally visited the Ministry of Finance, Department of Taxation, and other concerned offices to collect reliable data. Microsoft-Excel has been used for the analysis purpose. In this study simple average, percentages, correlation, and bar-diagram have been used to present the facts in so far. The quantitative data were processed by relevant tabulations and tables. Similarly, qualitative data were analyzed and interpretation was done in descriptive way.

This is an academic research study carried out by a researcher for partial fulfillment of requirement for Masters' Degree in Economics which has just covered the contribution of Large Taxpayers in Nepalese Economy and effective implementation of VAT, though there could be many other factors they may influence implementation of VAT in Nepal, where this study is not able to shade light. The researcher did not have previous experience of such economic research thus the present research had methodological limitations. No study can be free from some constrains so is this study as it is also not exceptional.

CHAPTER-FOUR

Value Added Tax and Its Contribution in Tax Revenue of Nepal

4.1 Implementation of VAT to Large Taxpayers:

Office of large taxpayers is located in Hariharbhawan, Pulchok, Lalitpur, in Nepal. It is the only office of large taxpayers. Large Taxpayers office is generally only one in almost every country in the world. And since it developed in the European countries, and they exist in small territory, it was practiced as single office for large taxpayers. It has been found very challenging to administer large taxpayers from a single office. Though, there are many challenges in administration of large taxpayers' office.

There are several factors that affect taxation policy of Nepal. Tax and revenue are two different aspects but VAT is simply related to taxation as it is a multi-stage tax levied at each stage of the value addition chain, with a provision to allow input tax credit on tax paid at an earlier stage, which can be appropriated against the VAT liability on subsequent sale. VAT is intended to tax every stage of sale where some value is added to raw materials, but taxpayers will receive credit for tax already paid on procurement stages. Thus, VAT will be without the problem of double taxation as prevalent in the earlier Sales tax laws.

Nepal is an agricultural country but it is facing several challenges in the life of people here. It now imports food products from neighboring countries like India and China. The demand for food and agricultural products is changing in unprecedented ways. Increases in per capita incomes, higher urbanization and the growing numbers of women in the workforce engender greater demand for high-value commodities, processed products and ready-prepared foods. A clear trend exists towards diets that include more animal products such as fish, meat and dairy products, which in turn increases the demand for feed grains. There is also a growing use of agricultural products, particularly grains and oil crops, as bio-energy production feedstock. International trade and communications are accelerating changes in demand, leading to convergence of dietary patterns as well as growing interest in ethnic foods from specific geographical locations. The nature and extent of the changing structure of agro-food demand offer unprecedented opportunities for diversification and value addition in agriculture, particularly in developing countries. As a reflection of changing consumer demand, the 1990s witnessed a diversification of production in developing countries into non-traditional fruits and vegetables.

The share of developing countries in world trade of non-traditional fruits and vegetables has increased rapidly in the recent past. According to Rabobank, global processed foods sales per year are estimated at well over US$ 3 trillion or approximately three-quarters of the total food sales internationally. While most of these sales are in high-income countries, the percentages of global manufacturing value addition for the main agro-industry manufacturing product categories generated by developing countries have nearly doubled in the last 25 years. The prospects for continued growth in demand for value-added food and agricultural products constitute an incentive for increased attention to agro- industries development within the context of economic growth, food security and poverty-fighting strategies. Agro-industries, here understood as a component of the manufacturing sector where value is added to agricultural raw material, annexing the industry with the agricultural sector, creating chances of employment in the country to check out the youth out flow.

VAT is implemented after different procedural formalities are fulfilled. The procedural formalities are legal duties of the tax payers and it shall be duly abided and each and every formality is fulfilled, the business becomes duly legitimate. Here are some of the major formalities which are to be duly fulfilled.

4.1.1 Registration of the Business Transactions

Under Section 10 Value Added Tax Act, 2052, registration of every business transaction compulsory. According to this section, every vendor already engaged in any transactions of the time of commencement of Value Added Tax is required to apply for the registration within 90 days from the commencement of the act. Similarly, every person wishing to engage into transaction after the commencement of the act is leaguered to apply for registration prior to beginning to engage in such transaction. However vendors involving in business of goods and services that are free from Value Added Tax need not register for the purpose of this tax. It means vendors having taxable goods and services are required to register their transaction to IRD. But, small vendors failing below the prescribed transaction are not compulsorily required to register for Value Added Tax. For this purpose, Value Added Tax laws have prescribed the level of registration threshold. The existing level of registration threshold is Rs. 2 million of annual transactions.

4.1.2 Tax invoices

VAT registrant must issue VAT bill while selling for supplying goods or services. Such bill is known as tax invoice. The tax invoice require the name and address of the seller and the purchaser, the seller's PAN number and invoice number, the date of transaction and description of the sale including the number of items and mention of any discounts given. The tax invoices is a crucial document for VAT as it establishes the seller's liability for tax and the purchase entitlement to credit. It is however, not necessary to specify the format and content of the tax invoice, taxpayers may be allowed to prepare format of tax invoice according to their requirement. Tax invoice must be prepared in three copies- the first copy should be clearly identified as tax invoice. The original copy is to be given to the purchaser, the second copy for audit purposes and the last copy is use by the seller while preparing record of the transaction.

Tax officers may grant permission for a VAT registrant to issue abbreviated invoice for retail sales below the value of Rs. 5000. The chief difference between the two taxes invoices are that on abbreviated invoice does not require the name and address of the purchaser. The registrants have the right to request detailed tax invoice, as they will not be able to claim input tax credits with abbreviated invoices. IRD may order tax payer to issue invoices by using cash machine or computer. The procedure in such case shall be as prescribed by the General Director of IRD. It will have anytime access to the database of the tax payer.

4.1.3 Accounting

Value Added Tax is levied on value added at each stage of selling and distribution activities of taxable goods or services. It is taxed on the basis of transaction of taxable goods and services. The effectiveness of VAT depends upon the record and accounting of the transition. So, the VAT registrant requires to keep clear accounts of their transactions of purchase, the registrant person has to maintain records of the following information, document and details: a. Information as per VAT account, b. Records relating to trade accounts cash receipts and payments, c. Tax invoices and abbreviated tax invoices issued by registrants, d. Tax invoices and abbreviated tax invoices received by registrants, e. All document relating to his imports and exports, f. Books of purchase and sales.

The VAT account is a monthly summary showing the course of the figures of viewed in the VAT return. All the registered taxpayers are required to maintain following accounts:

a. Purchase Book,
b. Sales Book,
c. VAT Accounts.

a. Purchase Book

VAT registrants are required to maintain an account of their business purchase to VAT purpose. They have to record of purchase by invoice. At the end of each accounting period, VAT registrant must total the amount of taxable purchase/ imports tax, exempt purchase/ imports and the tax paid on purchase/ imports.

b. Sales Book

Similarly, VAT registrants are required to maintain account of their sales are also to be recorded for invoice basis. At the end of each accounting periods, VAT registrants are required to total the amount of taxable and tax collect on sales. If they make both taxable and exempt purchase and sales, they are then required to calculate the proportion inputs tax, they are entitled to the tax period.

c. VAT Account

It is a monthly summary of taxable purchase and sales and VAT paid on purchase and sales.

4.1.4 Evolution

VAT is a member of sales tax family. In 1997, it replaced existing sales tax, contract tax, entertainment tax and hotel tax. Sales tax was firstly introduced in 1965 and in 1966, sales tax act was imposed at retails level in 1968, the base of sales tax was reduced up to wholesale level in 1994. This tax was converted into VAT in 1997.

Retail Level Sales Tax was introduced in 1965. Under this system, all the retailers were required to register for sales tax purpose. They had to add the value of product by imposing it on sales by billing system was required so that each copy of bill could be verified by the tax office. Retailers had to submit monthly and annual record to the tax office. The tax was introduced without any preparation neither the tax officials nor the taxpayers were familiar with this kind of tax as the number of retailers was very high but illiterate.

Retail Level Sales Tax created many problems, so it was replaced by wholesale level sales tax in 1968. Only the manufacturers and wholesalers were required to register. The tax was levied on the sales of wholesalers to retailers and retailers to consumers. This tax, in average, is more convenient because wholesalers are more organized and the number is manageable. So that tax administration is easy.

Due to problems in the operation of WST the tax base was further reduced in 1974 to the level of import and manufacturing. Under this system, only manufactures and importers were required to register for the tax purpose. Some manufacturers were out of the tax net if they were cottage industrialists.

4.2 Law on VAT and Its Implementation

The VAT Act, 2052 was introduced in Nepal in the year, 2052, which has been amended twenty one times in the due course through various notices published in the Nepal gazettes and by various financial ordinance and financial acts. The Act has defined several terms like, tax, transactions, taxable transactions, taxable price, goods, service, groups of company or departments, supply, return, consideration, debt agreement, import, export, market price , electronic medium, person, registered person, registration number, supplier, receiver and taxpayers, department etc. Section 5 of the do Act has provided that every goods or services supplied within the territory of Nepal, or every goods or services imported into the territory of Nepal or every goods or services exported from Nepal shall be taxable to VAT. The taxable price shall be as per the price ascertained in Section 12. Notwithstanding anywhere, the goods and services listed in Schedule-1, shall be tax exempt.

Similarly the Provision of Section 5(a) of the do Act has provided that where there is transfer of ownership of the transaction of an artificial person to another artificial person or after death of such person, transfer of such property to successor, such transfer of property shall be tax exempt. But Sub Section (2) of the do Section has provided that notwithstanding anywhere, the transfer of business or transaction of the company to another company shall be taxable as per the prevalent laws.

There is provision of rate of tax Under Section 7 of the do Act, where it has been mentioned clearly that the rate of VAT shall be single rate of 13 percentages. It has been provided that the tax in the above mentioned rate is to be recovered from every person. A company which exports more than 80 percentages of its products out of its total sale of last twelve months, the company shall have to export the raw materials after assurance of the bank, the taxable amount. Where the products are ready from the raw materials or inferior raw materials, at least twelve percent of the total value of the goods shall be paid as VAT. The Act, Under Section 10 has made it compulsory to register the transaction or business within 30 days of its commencement and it has clearly provided that the transaction of taxable goods or service like brick clines, liquor, wine shop, software, trekking, rafting, ultra-light flight, paragliding, tourists transportation, crusher, slate, stone industry, are taxable. Equally, hardware, sanitary, furniture, fixture, furnishing, automobiles, motor parts, electronics, marble, palace business, academic consultancy, Discotheque, health club, catering service, party palace, parking service, dry cleaners using the machinery, restaurant with bar, color lab, academic institutions, health associations, dealers supplying uniform, ice cream industry etc. all are taxable transactions.

The law has such provisions of tax on different goods. The timber that is obtained from the forest as forest product is also taxable as royalty in auction sale, release chit, or timber production. Where the persons or companies that provides carriage service, such services are also taxable and they have to carry the receipt along with them while carrying out the goods worth Rupees 10,000.

Similarly, Section 2 (o) of the Income Tax Act, 2058 also has various provisions of taxable amounts. It has provision of taxable person, is the person who receives the salary or allowances after reduction of taxes from employment, return of investment, service charge or at the payment of taxable amount. Whereas the Section 2 (t) of the same Act, has the provision of tax exempt where the organizations like social, religious, academic and welfare organizations shall be tax exempt. Similarly the organizations that are for promotions of sports or social welfare are also tax exempt if they are established for non-profiteering. Similarly Section 4 has the provision of calculation of tax and rate of tax. Similarly Section 5 has taxable amount and classification of taxable particulars the Section 6 has tax ascertainable income. Section 7 has the calculation of tax from business and it is calculated in the form provided under Schedule of page no 325.

Such provisions of laws to enforce taxation are equally applicable for tax administration. The English law on Self-supply of Consumption Service Order UK, 1989, any transaction of commodity worth more than rupees fifty or any construction of any building or apartment or shopping complex or any other transaction shall be taxable. The transaction shall require the bank guarantee and any transactions without bank guarantee shall be abided by the application of VAT.

4.3. Application of VAT in Different Sectors

Every mercantile transaction shall be taxable and as other taxations are replaced and VAT has substituted them, it is really important to apply VAT in the field of tax administration. VAT applies to every economic transaction that is carried out as mercantile transaction. It covers various sectors and has wide application. But the small scale business transaction it is not applicable similarly where property is succeeded, it is also tax tree. Law of succession is applied in different law, it is primarily is the concern of transfer of property laws as ownership is best defined in that law.

In broader sense the application of VAT can be best categorized as:

4.3.1 In The Case Of Manufacturer

Manufactures are the first taxpayers who are applied VAT. In fact every types of manufacturers are not covered under VAT. Basically agricultural producer or manufactures are not applied VAT. They are VAT free. But the other materials manufacturers such manufacturers of chemical fertilizers and agricultural tools are within application of VAT. Input tax rebate is available only on the purchases made in Nepal and on the basis of 'Tax invoice' issued by the dealers selling goods to the manufacturers.

Taxes or duties paid on other types of purchases namely: inter-district or inter-zone purchases, interstate consignment receipt and International imports are not eligible for input tax rebate. Output tax is to be charged and collected on the sales made in Nepal. However, on the interstate sales taxes could be collected separately or it could be included in the sale price also. In both these cases of sales, input tax rebate is available only on the purchases made in Nepal.

On consignment transfer both in Nepal as there is no transaction of sale in either of them. For interstate consignment of manufactured goods and the goods purchased from Nepal and dispatched to outside the State the dealer would be entitled for input rebate paid in excess of 2 percentages on the local purchase. In case of export of the goods the output tax is zero and input tax rebate is available only on the purchases.

In the monthly return prescribed under VAT Rules namely Form VAT 100, the above types of purchases and sales are itemized. The dealer has to extract the details from the books of account and fill the return form. The input tax rebate is taken while filing the VAT monthly return by reducing the output tax. For example: For a given month the input tax paid by a dealer is say Rs.10,000 and the output tax payable is say Rs.20,000, then net-tax payable would be Rs.10,000 (20,000 - 10,000). Please note that in the tax invoice, VAT is charged and collected on the entire output value. And in the bill of sale issued under inter-district or inter-zone sales, could be collected separately or it could be included in the sale price also. In case of direct and indirect exports no taxes are collected but the VAT paid on the locally purchased inputs is fully rebated.

4.3.2 In the Case of Distributors

Distributors are the second most important VAT payers. There are different levels of distributors which can be best classified as Distributors and or wholesalers. In case of distributors or wholesalers the conditions noted in paragraphs above applies with the following modifications: As mentioned above the "For interstate consignment of goods distributors / wholesaler would be entitled for input rebate paid in excess of 2 percentage on the local purchase."

The goods which are VAT free to the manufacturers are also VAT free to the distributors. A special resolution regarding this has been made by the government of

Nepal on 2063/07/23 BS. In fact, there is debate at the policy level that the distributors of such products also carryout very wide level of economic transactions and they should be brought under application of VAT. As such produced and distributed at large level.

4.3.3 In the Case of Retailers

The retailers are the third level of supply of goods in the market who supply the goods to the consumers and they in fact, are the primary collectors of the taxes. The VAT rules 2053 has specific provisions on retailers. Any retailer having annual transaction more than Rs. 20 lakhs shall register the transaction and put under VAT, by applying to the concerned authority for registration. Whereas the transaction cannot be assumed to be more than 20 lakhs but it becomes more than that after the transaction is held out, it should be registered within 30 days of the transactions being held.

In case of retailers the conditions noted in above paragraph applies with the following modifications: Further the retailers within the turnover limit between 20 lakhs could opt for composition tax of 1 percentage on their sales. The condition prescribed to remain under composition scheme is apart from turnover limit, such dealer must not affect in any purchases except a dealer executing works contract with certain conditions, must not claim any input tax rebate and must not collect output tax. Registration and payment of taxes under VAT Act can be of two types. First type is the registration and payment of taxes under full VAT and second type is the registration and payment of taxes under composition. The option should be exercised by a dealer, while applying for registration in the prescribed VAT Form 1. A dealer who is already registered under full VAT could also opt for composition subjected to certain condition mentioned hereunder:

In order to avoid frequent changes from full VAT to composition there is a restriction of a minimum retention of 12 months as a registered dealer under full VAT; before exercising the option to go in for registration under composition scheme.

Category of dealers eligible for composition scheme:

Subject to the condition laid above, only the following dealers are eligible for composition scheme:

1) Dealer whose annual total turnover is between 50 lakhs.
2) Dealer who executes Works of construction of Contract.
3) Dealer who is either a hotelier or restaurateur or a caterer and or a manufacturing dealer running a sweetmeat stall or an ice cream parlor or a bakery industry.
4) Dealer producing granite metal and other than granite metal by using stone crushing machinery.

The applicable rate of tax for the dealers under composition scheme and the ceiling of the turnover prescribed along with periodicity for filing the returns are indicated in the table below.

Features to be noted by composition dealer:

1) Where the Tax Officer carries out an inspection of the goods and the person carrying out the transaction has goods worth more than the amount specified by the concerned department
2) Where a person spends more than Rupees 1 lakhs in telephone bill and house rent in a year.
3) Where a person has his place of operation of business within the street or market area ascertained by the concerned department.
4) Where a person is granted a debt of more than Rs. 10 lakhs annually.

The transactions which are in the list mentioned above are taxable. Such transactions shall be duly registered and they must be brought into operation. Similarly the surgery materials that are imported from India and other countries are also taxable. Where the businessman brings any change in the constitution of the business it shall be informed to the concerned department prior to its operation of business.

The wholesaler or dealer shall also register the business duly under the provision of law. The registered dealer shall have to issue a bill or voucher to business transaction and it must be updated. A VAT bill is compulsory in the place of manual bill and any company not issuing the VAT bill is not entitled to claim any types of refund or claim services. The large tax payers shall have to pay the tax of every month within 25^{th} of the next month

1) The Composition dealer will be provided with a certificate of composition called Form VAT 8. The dealer applying for Composition Scheme shall be collecting regular rate of tax under section 4 till he gets the certificate.
2) After service of 'Certificate of Registration' under composition such a dealer is barred from collecting the tax. This is clearly mentioned in the said certificate.
3) No 'tax invoice' meant for full VAT dealers can be raised by dealer under composition. They should raise sales invoice as prescribed under the VAT Rules.
4) The Composition dealer is barred from taking input tax credit. The input tax credit even on transition stock is also not allowed.
5) Dealer exceeding the turnover limit of Rs. 20 lakhs in a year [except dealers executing in Works Contract, Hotelier, restaurateur or caterers or a dealer running a sweetmeat stall or an ice cream parlor or a bakery and dealer producing granite metal by using stone crushing machinery], shall automatically enter into full VAT from the first day of the month succeeding the month in which he exceeds the threshold.

In such cases, the dealer shall file the final return under composition scheme up to the end of that month and shall start charging regular rate from the first of next month.

1) The dealer coming under the composition scheme becomes ineligible for the Scheme if he purchases goods from outside the state or if he imports the goods from outside the territory except for a dealer executing works contract with certain conditions and he shall start paying at regular rate of tax from the first day of the month in which he has made such purchases.
2) The dealer under Composition Scheme, other than a hotelier, restaurateur or caterer and a dealer producing granite metal by using stone crushing machine, shall be filing his returns in the Form VAT 120 once in a quarter which will have to be filed by 25^{th} of the month following the month in which the tax is to be paid. This filing of return every month is compulsory even if the tax payable is nil.

4.4 A Brief Historical Background of VAT in Nepal

Value Added Tax (VAT) which is a new concept in the field tax administration was originated in Germany in 1919. Dr. Whelm Von Simons, who was working in the field of tax reformation, developed the philosophy and principle of Value Added Tax by recommending it for Germany to replace the turnover tax (multistage sales tax) and 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 the existing enterprise and to 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 Cost introduced the Value Added Tax in 1960. While Senegal adopted it in 1961, Denmark and Brazil implemented in 1967.

Among the SAARC countries, India introduced MODVAT (Modified Value Added Tax) in 1986 for manufacturing products in order to correct excise duty Pakistan, Bangladesh and Sri-Lanka adopted Value Added Tax in 1990, 1991 and 1998 respectively.

Amid huge controversy and debate, the concept of introducing Value Added Tax was developed in Nepal, along formulation and implementation of the Eighth Plan 1992, when the government indicated its intention to convert the import and 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 introduction of Value Added Tax. A VAT steering committee was also formed to evaluate and monitor VAT preparatory activities.

The task force prepared the draft of VAT law in 1994, after the deep study on various aspects relating to the structure an operation of VAT,. 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, 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 infrastructure and preparation where insufficient to implement the Value Added Tax effectively. In September 1995, along with the formation of coalition government, 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 committees, a committee that deals with the state policy on economy in the parliament and the committee returned 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 on 21 March, 1996. For the effective implementation and administration of VAT, the government established one VAT department in center and seventeen 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. The Government has issued VAT, in 24th March, 1997.

The government could not enacted VAT laws immediately and made a provision in section 1.2 act and section 1.2 of the rule that the laws shall come into force on such date as government may specify by notification published in the Nepal Gazette because of strong opposition of the business organizations. In this way, the implementation of Value Added Tax was postponed for some time although the act was already provided Royal Seal. The act, finally came to force as the government specified the date of implementation of VAT by publishing in the Nepal Gazette on 16 November, 1997.

However, VAT 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. 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 supported to collect the same revenue as the four taxes it replaced. Nowadays, 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.

Nepal has adopted broad based consumption type Value Added Tax with credit method. This means, the tax base is domestic consumption only. Some social welfare services, educational goods and services, cultural goods and services etc. are exempted from tax. VAT with single rate of 10 percent has been increase to 13 percent with its effect from 15, Feb., 2004.

VAT administration in Nepal seems to be at the cross road even after almost two decades long practice of this taxations too. It seems that the government is more focused to import the services from other countries

4.5 Essence of Reformation of Tax Policy

The developing and developed countries are facing several challenges and tax policy was one of them. They always face lack of resourcefulness, lack of proper budgeting and it badly hampers the development activities in those countries. The traditional taxation system in Nepal had seen many lapses and it was very ineffective to address the need of the country. Besides, there were several other reasons to introduce VAT in Nepal. The first and foremost reason of implementing VAT was to develop a stable source of revenue by broadening the tax base.

There was political change in Nepal in 1990s and it had increased the need of people. There was need of acceleration of development activities in Nepal as people had expressed their strong dissatisfaction through the mass movement. It had raised immense pressure to the rulers to carry out the development activities rapidly.

Nepal has been generating bulk of its tax revenue from import duties. However, due to the opening of the Indian economy since the early 1990s there has been drastic reduction in the import tariffs quantitative restriction and licensing system in India since 1991. Further, Nepal has reduced its imports tariff in line with the liberal economic policies adopted since 1992/93 and in line with the customs duties reforms taking place around the world. Consequently, import duties will be less important than they were in the past. The process has already begun as the relative position of import duties decrease from 37 percent in 1990/91 to 34 percent in 1996/97. Furthermore, Nepal will not be in position to levy import duties on trade that takes place within the SAARC region after the implantation of the SAFTA. This means that Nepal will have to become less dependent on international trade taxes for its revenue, which is also desirable from economic resource allocation point of view.

The base of the domestic trade taxes has been narrow since the share of the total economy that flows through market channels is relatively small. The potential tax base become even smaller as sales tax used to be collected at the manufacturing point.

The large numbers of exemption granted on socio-political grounds and weak tax administration only aggravated the problem. The narrow tax base has been eroded further due to compliance weaknesses that have tolerated the understatement of import price and smuggling. Since the sales tax was not levied at the stage of manufacturing point, there was no possibility of capturing the evaded tax at a point further down the trade channels. It has also been necessary to transfer some of the national level taxes, as land revenue, house tax, land tax and vehicle tax to the local bodies, in order to make them financially more autonomous. This means that there is no choice but to introduce VAT in Nepal to generate the revenue required to improve its deterioration macro-economic performance.

VAT system is needed for revenue purpose as an attentive tax system to import tariffs. At the same time, the VAT system promotes the interchanges of information between other tax systems, particularly trade taxes, as customs information is required. It determinates the validity of input tax. VAT should not only be an effective instrument to generate substantial revenue at customs points, but also helps streamline tax policy in general. VAT has natural link with the income tax. Currently, the main basis of the income tax assessment in the case of importers is the information supplied by the customs. But only a fraction of such information reaches the tax administration. VAT will provide the information on imports, local sales and input cost that can be used to assist in the effective implementation of the income tax. Besides, it is necessary to introduce VAT for several other reasons.

The manufacturing level sales tax discriminated against the domestic products viz. imports because the profit margins of the manufactures were included under the base of this tax depends upon the final price irrespective of the promotion of value added at different stages in the process of production and distribution. Further, VAT can be applied anywhere in the economic without leading to a cascading because it employs a credit mechanism. It also relives exports completely free from the burden of taxation through the zero-rating of exports and the refund system for excess credit. The implementation of VAT in Nepal is also expected to establish an account- based modern transparent tax system.

Manufacturing level sales tax is not levied on the actual selling price but on the national sales value, which included to ex-factory price import value and the amount of excises/ imports duties. This means that the determination of the sales tax base invaded the problems associated with the determination of the base of the excise of import duties. In the case of domestic product, sales tax registered manufactures were required to get their price approved by the tax officials. In the case of excisable items, manufacturing has not only to get their ex-factory prices but also dealer, wholesale and retail level prices approved by the exercise authorizes . There is a possibility of either collusion or harassment prices negotiated between tax officials and taxpayers. There is general lack of administrative capability to determine the taxable value in realistic way.

Tax administration is not just the act of collecting the tax or revenue, it is equally an important task to generate the new sectors of employment and mobilize the resource of the people in national development. The state has taken the following direct tax policy. Payment to any firm, company or any organization must be through account payee cheque only. Payment above 50 thousand must be made by account payee cheque only. Set off and carry forward of losses up to 7 Years from investment income is also allowed. No windfall gain tax levied up to Rs. 500,000 being received as reward from national and international level in the area of literature, art, culture, sports, journalism, science and technology and public administration, continues. 40 percentage surcharge to natural person in case of income above Rs. 25 Lakh continues. Maximum of 15 percentage tax rate shall be levied on the income where 25 percentage tax is applicable for export income to natural persons. Presumptive taxation limits increased from Rs. 3,500 to Rs. 5,000. Some more Tax Concessions introduced from current Year. Special Industry with capital investment of Rs. 1 billion and direct employment of 500 people during whole year shall enjoy tax holiday for first 5 years from the date of commencement of business and 50 percentage tax exemption for additional 3years.

Further, if existing special industry increases it's installed capacity by 25 percentage and inject new investment so as to reach the capital to Rs. 1 billion and employs 500 persons during the whole year will get full exemption on the profit earned on the increased capacity and 50 percentage exemption on such profit for additional 3 years. 40 percentage tax exemption in income accruing from investment in the construction and operation of infrastructure development sectors like roads, bridges, airports and tunnels. 25 percent rebate in tax payment will be given to people who earn income out of export of goods produced by using local raw materials continues. 50 percent exemption will be given to software development, data processing, cyber-café and digital mapping industries located within technology park, bio-tech park and information technology park.

In order to encourage the merger of banks, finance and insurance companies, changes in the provision of taxing assets and liabilities as disposal after merger will be introduced to make it non-taxable and special arrangement have been made in the context of shareholders, managers and employees. No installment of tax is required to be paid if less than Rs. 5000/-. Tax rebate of 10 percentages in income tax to women having income from remuneration only continues. Corporate income tax remains unchanged.

The Time of payment of tax deducted at source and submission of TDS return is 25 days from the end of the month. Tax Holiday and Tax Rebate to industries in Special Economic Zone (SEZ), continues. Carry Forward of Loss from Business up to 7 years, continues. Rate of interest levied by IRD remain 15 percentages. 5 percentages Dividend Tax imposed on distribution of profit by Partnership Firm, continues.

Tourism Industry or International Airlines Operators with capital investment of Rs. 2 billion shall enjoy Tax Holiday for first 5 years from the date of commencement of business and 50 percentage tax exemptions for additional 3-years. Further, if such industry/airlines operators increases its present capacity by 25 percentages and inject new investment so as to reach the capital to Rs. 2 billion will get full exemption on the profit earned on the increased capacity and 50 percentage exemption on such profit for additional 3 years. Loan loss provision up to 5 percentage of loan outstanding and non-banking assets for banking and financial institutions and loan loss provision up to 5 percentage of loan outstanding for co-operatives has been introduced.

The direct taxation policy surely has the most influential effect in the indirect taxation system in the country. The direct taxation assures the economic activities and it controls over them i.e. any project getting tax exempt can be the source of employment to the people. Recent policy of the government on VAT is; Rate of VAT remains at 13 percentage. 50 percentage VAT refunds to Dairy Industries continue. 25 percentage additional penalties on duties to be paid in case of inability to export goods using raw materials imported through bank guarantee under the bonded warehouse facilities which was reduced to 10 percent last year continues. 70 percentage VAT refunds to Sugar Manufacturing Industries, 50 percentages to vegetable Ghee and mustard oil and 60 percentages to mobile manufacturer and importer if sold to VAT Registered Parties continue.

VAT Refund facility allowed to Textiles Industry which would amount to 50 percentages and Tea Processing Industry if sold to VAT registered parties. 25 percentages VAT Refund facility allowed to Sheet, Circle and Utensils Manufacturing Industry from Brass Copper Scrap (Patru), if sold to VAT registered parties. VAT exemption on kerosene oil, bandage, services of clearing house, lid acid battery. Compulsory VAT Registration introduced on the following business: liquor distribution, wine shop, software, trekking, rafting, ultra-light flight, paragliding, tourist vehicle, and crusher, slate and stone industry.

Compulsory VAT registration for the following business in municipal areas introduced: boutique, tailoring with suiting shirting materials, uniform supplying to education and health institution and ice-cream manufacturing industry. No VAT exemption is available on lift and elevator that is not used for business purpose.

From the above VAT policy of the government of Nepal is very clear that the government is committed to implement the most effective VAT in Nepal. The further policies of government of Nepal such as no VAT Exemption to public transportation, submission of local purchase and sales statements above Rs. 1 Lakh will have to be made when submitting VAT return by electronic means, such provision will be started from large taxpayers office, VAT refund facility availed on wooden match, tyre-tube and dhoop industries, continues. Equally as penalty has been increased from Rs. 5,000 per visit to Rs. 20,000 per visit, if not allowing inspecting the VAT records to the tax officer, sparing parts imported by jute industries on recommendations from DOI has been exempted from VAT. Provision of public circular introduced in the VAT Act, manufacturers, not having bonded warehouse or pass book facility, shall get refund of VAT at flat rate at customs point against export of finished goods. Cheese has been exempted from VAT. Sale to industries operating in special economic zone, established under prevalent Law, shall be taxed at 0 percentages. Cultural program, Entry Fee for Botanical Garden and National Forest has been taxable with effective from 2014/15. In case of service acquiring from the person outside Nepal and not registered in Nepal, VAT should be determined and collected at the time of payment, continues. Compulsory collection of VAT, on the construction of buildings, apartments or shopping complex, for commercial purpose exceeding the value of Rs. 5 million, continues.

CHAPTER-FIVE

An Analysis of Nepalese TAX Structure and Role of VAT in Taxation

The tax is directly related to the fiscal life of the nation. Taxation has been regarded as the backbone of the country as it helps to mobilize the resource of the country. The plans, conducts and day to day administrative works of the government depend upon the budgetary aspects of the government where the taxation directly or indirectly plays role. Taxation is the backbone of the public finance too. A country has several functions to operate and they are equally important to maintain the society smoothly. i.e. where a crime occurs in the society, it needs an investigation to be carried out and captivation of the convict, which needs a team of ten or twenty policemen to carry out the research, investigate the crime and arrest the criminal prosecute him and maintain the system of peace and order in the society, which needs money to be spent and that is managed by public finance and taxation.

The role of government in the modern time is increasing and it is much wider than before as the state has turned to be welfare state. The welfare state is different from the past form of governance where the state used to be tyrannical, autocratic, family, corrupt, one which used to work for the betterment of the monarch and their relatives. But now the role of the state has been changed. The state in the democratic era has been established to do good to the common people. The estate is expected to carry out the best of its activities to best safeguard the interest of the people.

A modern democratic government has to perform various social welfare programs, besides its regular activities. For this purpose, government collects revenue. These are tax revenue and non-tax revenue. These both sources are subjects to non-repayment and their sum constitutes the government or public revenue. For under developed country like Nepal, the role of taxation in the process of economic development is considerably significant. In this way, tax structure stands as a mirror of the government as well as ability of the people to pay the tax, is the major factor of designing the tax structure. For underdeveloped country like Nepal, the role of taxation in the process of economic development is considerably significant. In this respect, the tax structure has vital role in development. Though taxpaying is not regarded as solemn and willful deed of a person but he is abided by the mandatory law which has been accepted by every domicile in the country.

Recently, there has been an unprecedented transition in the country of Nepal in the political structure of the country. The two and half century long monarchy has been abolished and new system called the republic has been introduced. It has been regarded the republic has been strengthened after promulgation of the new constitution. Nepal was practicing centralized political system and the state mechanism was directly controlled by the Narayanhiti Royal Palace. Now the state has adopted federal system of governance which needs new taxation adaptation. Since Nepal has very limited financial center and many of them are located in the Terai region and rest of the few are in the hilly region, the federal structure shall have to face new challenge and that is unequal distribution of resource where the state has adopted seven state political system of governance, and the distribution of the state which is very unequal, unscientific, and unfair.

5.1 Study of Tax on Different Headings

5.1.1 Structure of Total Revenue Collection

This section of this chapter is concerned with the total revenue structure of the government of Nepal. Total revenue is divided into two parts, i.e. tax revenue and non-tax revenue. Both tax revenue and non-tax revenue are equally important for the government. The structure of tax revenue and non-tax revenue is mostly determined by the type of economy that the government adopts. In capitalist economy, amount of tax revenue is generally higher than non-tax revenue and in socialist economy; the amount of non-tax revenue is generally high. In Nepalese economy, amount of tax revenue is generally higher than that of non-tax revenue.

Table 5.1 presents the total revenue structure of the government.

Table 5.1 Structure of Total Revenue Collection

(NPR in millions)

Fiscal Year	Total Revenue	Tax Revenue		Non Tax Revenue	
		Amount	%	Amount	%
1997/98	32,937.90	25,939.80	78.75	6,998.10	21.25
1998/99	37,251.30	28,752.90	77.19	8,498.40	22.81
1999/00	42,893.70	33,152.10	77.29	9,741.60	22.71
2000/01	48,893.90	38,865.10	79.49	10,028.80	20.51
2001/02	50,446.60	39,330.60	77.96	11,116.00	22.04
2002/03	56,229.80	42,586.90	75.74	13,642.90	24.26
2003/04	62,331.00	48,173.00	77.29	14,158.00	22.71
2004/05	70,122.70	54,104.70	77.16	16,018.00	22.84
2005/06	72,281.90	57,430.40	79.45	14,851.50	20.55
2006/07	87,712.10	71,126.70	81.09	16,585.40	18.91
2007/08	107,622.50	85,155.50	79.12	22,467.00	20.88
2008/09	143,474.50	117,051.90	81.58	26,422.60	18.42
2009/10	177,990.90	159,785.30	89.77	18,205.60	10.23
2010/11	198,375.90	177,227.20	89.34	21,148.70	10.66
2011/12	244,372.96	211,721.80	86.64	32,651.16	13.36
2012/13	296,021.10	259,214.90	87.57	36,806.20	12.43
2013/14	356,620.78	312,441.26	87.61	44,179.52	12.39
2014/15	405,866.51	355,955.77	87.70	49,910.74	12.30
2015/16	481,961.65	421,096.58	87.37	60,865.07	12.63

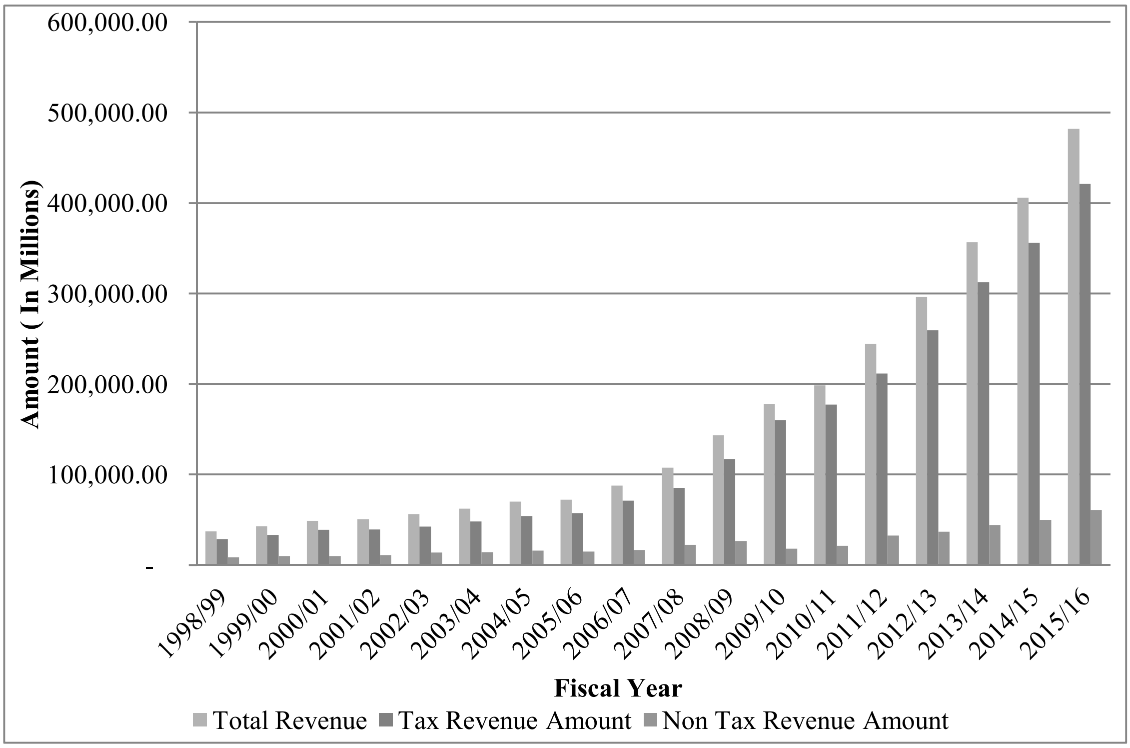
Source: Economic Survey 2016/17, MoF, GoN.

The table 5.1 presents the structure of total revenue of the government. Here the study period was carried out from the F/Y 1997/98 to F/Y 2015/16. The average contribution of tax revenue and non-tax revenue on total revenue is 81.71 percentages & 18.29 percentages respectively. The contribution of tax revenue on total revenue in 1997/98 is 25939.8 million (78.75 percentage) and non-tax revenue on total revenue was 6998.1 million (21.25 percentage). Similarly in the F/Y 1998/99, the contribution of tax revenue and non-tax revenue to total revenue was 28752.9 million (77.19

percentage) and 8498.4 million (22.81 percentage) respectively. As the total revenue is increasing year by year, tax revenue and non-tax revenue both are increasing but in a different proportion. Later in F/Y 2015/16, the share of tax revenue and non-tax revenue to the total revenue was 421,096.58 million (87.37 percentage) and 60865.07 million (12.63 percentage) respectively. Looking at these scenarios some little fluctuations was there but the main contributor of total revenue was the tax revenue. The contribution of non-tax revenue is insignificant and stagnant as compared to the tax revenue.

The above table can be shown in figure as below:

Figure 5.1 Structure of Total Revenue Collection



Based on the table 5.1

The figure 5.1 presents the structure of total revenue of the government. Here the study period was carried out from the F/Y 1997/98 to F/Y 2015/16. In the figure, total revenue, tax revenue and non-tax revenue are increasing year by year. Here tax revenue is increasing significantly but non-tax revenue is increasing slowly which shows the significant contribution of tax revenue in total revenue of Nepal.

5.1.2 Structure of Total Tax Revenue

Tax is the main source of government. Mainly there are two types of tax revenue: direct tax revenue and indirect tax revenue. Direct tax is that type of tax which really paid by the tax payer. Direct tax is the sum of personal and corporate income tax, property tax, vehicle tax, interest tax and others. Likewise, indirect tax is that type of tax, which is levied on one person and paid by another person. Indirect tax is the sum of excise duty, sales tax/VAT, custom duty and others goods and services based tax. Direct tax is more progressive than indirect tax so that social justice can be established by it. On the other hand, both higher income group and lower income group are equally responsible to pay indirect tax so that there is low chance of tax evasion in it.

Table 5.2 Structure of Total Tax Revenue

(NPR in millions)

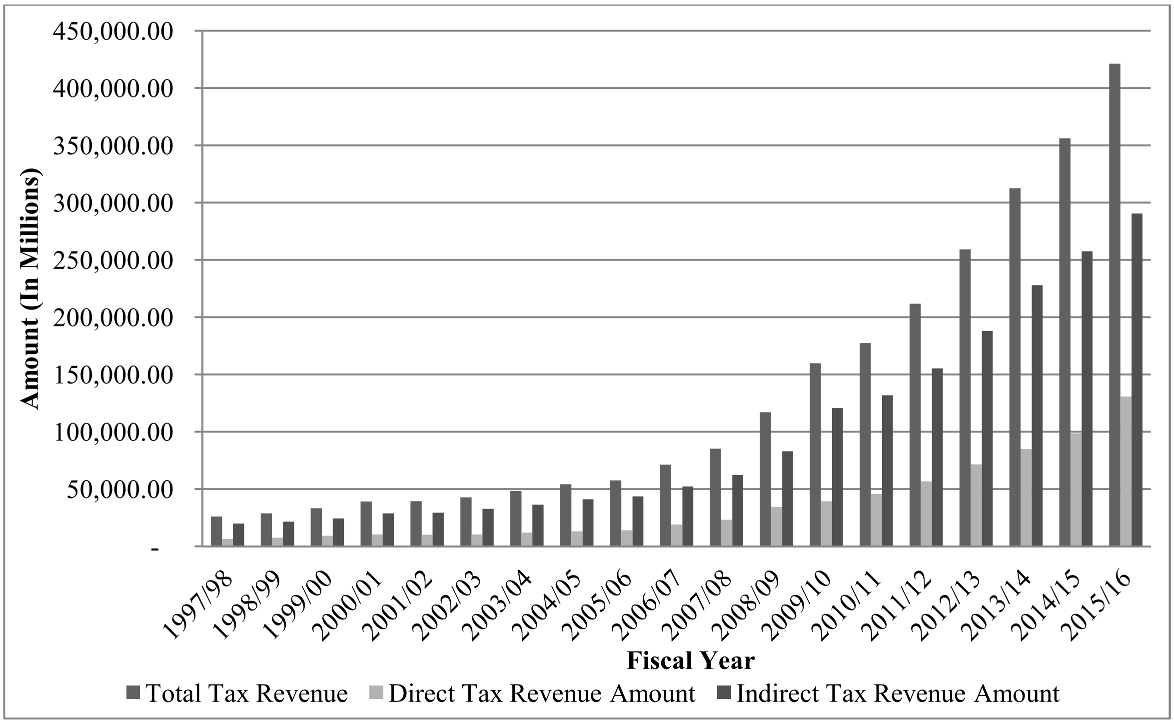
Fiscal Year	Total Tax Revenue	Direct Tax Revenue		Indirect Tax Revenue	
		Amount	%	Amount	%
1997/98	25,939.80	6,187.90	23.9	19,751.90	76.1
1998/99	28,752.90	7,516.10	26.1	21,236.80	73.9
1999/00	33,152.10	8,951.50	27.0	24,200.60	73.0
2000/01	38,865.10	10,159.40	26.1	28,705.70	73.9
2001/02	39,330.60	10,037.82	25.5	29,292.78	74.5
2002/03	42,586.90	10,105.70	23.7	32,481.20	76.3
2003/04	48,173.00	11,912.60	24.7	36,260.40	75.3
2004/05	54,104.70	13,071.80	24.2	41,032.90	75.8
2005/06	57,430.40	13,968.10	24.3	43,462.30	75.7
2006/07	71,126.70	18,980.30	26.7	52,146.40	73.3
2007/08	85,155.50	23,087.70	27.1	62,067.80	72.9
2008/09	117,051.90	34,320.70	29.3	82,731.20	70.7
2009/10	159,785.30	39,332.30	24.6	120,453.00	75.4
2010/11	177,227.20	45,632.60	25.7	131,594.60	74.3
2011/12	211,721.80	56,446.40	26.7	155,275.40	73.3
2012/13	259,214.90	71,407.50	27.5	187,807.40	72.5
2013/14	312,441.26	84,734.66	27.1	227,706.60	72.9
2014/15	355,955.77	98,490.83	27.7	257,464.94	72.3
2015/16	421,096.58	130,557.19	31.0	290,539.39	69.0

Source: Economic Survey 2016/17, MoF, GoN.

The table 5.2 presents the structure of total tax revenue of the government. Here the study period was carried out from the F/Y 1997/98 to F/Y 2015/16. Despite the absolute increment of direct tax during the study period, its share in total tax revenue does not seem satisfactorily increased. Still the share of direct tax is nearly 25 percent, but in F/Y 2015/16 its share was 31 percent which was the highest percentage share among the total study periods and the lowest contribution was 23.7 percent in F/Y 2002/03. But there is the significant role of indirect tax in total tax revenue. The highest percentage of contribution was 76.3 percent in F/Y 2002/03 and the lowest contribution was 70.7 percent in F/Y 2008/09. The trend of the total tax revenue, direct tax and indirect tax shows the confidence with amount collection as direct tax and indirect tax are in increasing order.

The above table can be shown in figure as below:

Figure 5.2 Structure of Total Tax Revenue



Source: Based on table 5.2

The figure 5.2 presents the structure of total tax revenue of the government. Here the study period was carried out from the F/Y 1997/98 to F/Y 2015/16. Here, total tax revenue is increasing year by year because of the increment in direct tax revenue and indirect tax revenue continuously. But the share of indirect tax is significant in total tax revenue as compared to direct tax.

5.1.3 Structure of Direct Tax Revenue

A direct tax is a tax paid by a person on whom the tax is legally imposed. In direct tax, the person paying and bearing tax is the same. Direct tax is a tax on income and property. The characteristics of a direct tax are equitable as per the property or income, certainty as per the process of payment, amount to be paid, time of payment and elastic in nature. The examples of direct tax revenue are income tax, property tax, vehicle tax, interest tax, expenditure tax etc.

Table 5.3 Structure of Direct Tax Revenue

(NPR in millions)

		Land Revenue and Registration				Tax on Property, Profit and Income				
Fiscal Year	Total Direct Tax	Land Revenue	House & Land Registration	Total	% of Direct Tax	Income Tax	Taxation on Property	Others	Total	% of Direct Tax
1997/98	6,187.90	3.60	1,000.60	1,004.20	16.2	4,685.90	285.60	212.20	5,183.70	83.8
1998/99	7,516.10	1.40	1,001.80	1,003.20	13.3	5,850.70	342.70	319.50	6,512.90	86.7
1999/00	8,951.50	4.60	1,011.30	1,015.90	11.3	7,006.20	515.00	414.40	7,935.60	88.7
2000/01	10,159.40	5.10	607.80	612.90	6.0	8,650.10	432.50	463.90	9,546.50	94.0
2001/02	10,037.82	0.80	1,131.00	1,131.80	11.3	7,876.32	562.00	467.70	8,906.02	88.7
2002/03	10,105.70	-	607.80	607.80	6.0	8,035.60	432.50	1,029.80	9,497.90	94.0
2003/04	11,912.60	-	1,697.50	1,697.50	14.2	8,512.50	700.60	1,002.00	10,215.10	85.8
2004/05	13,071.80	-	1,799.20	1,799.20	13.8	9,402.40	806.50	1,063.70	11,272.60	86.2
2005/06	13,968.10	-	2,181.10	2,181.10	15.6	9,598.80	847.60	1,340.60	11,787.00	84.4
2006/07	18,980.30	-	2,253.50	2,253.50	11.9	13,979.10	995.00	1,752.70	16,726.80	88.1
2007/08	23,087.70	-	2,940.70	2,940.70	12.7	16,223.30	1,069.20	2,854.50	20,147.00	87.3
2008/09	34,320.70	-	5,223.30	5,223.30	15.2	23,457.30	1,850.00	3,790.10	29,097.40	84.8
2009/10	39,332.30	-	5,511.00	5,511.00	14.0	29,497.00	4,324.30	-	33,821.30	86.0
2010/11	45,632.60	-	3,572.50	3,572.50	7.8	35,559.80	6,500.30	-	42,060.10	92.2
2011/12	56,446.40	29.40	3,559.00	3,588.40	6.4	44,342.20	8,515.80	-	52,858.00	93.6
2012/13	71,407.50	3.80	5,336.40	5,340.20	7.5	54,489.30	11,578.00	-	66,067.30	92.5
2013/14	84,734.66	28.50	6,642.60	6,671.10	7.9	67,306.90	10,756.60	0.06	78,063.56	92.1
2014/15	98,490.83	21.90	9,377.50	9,399.40	9.5	77,517.30	11,574.10	0.03	89,091.43	90.5
2015/16	130557.20	5.10	13,144.30	13,149.40	10.1	104,203.80	13,204.00	-	117,407.80	89.9

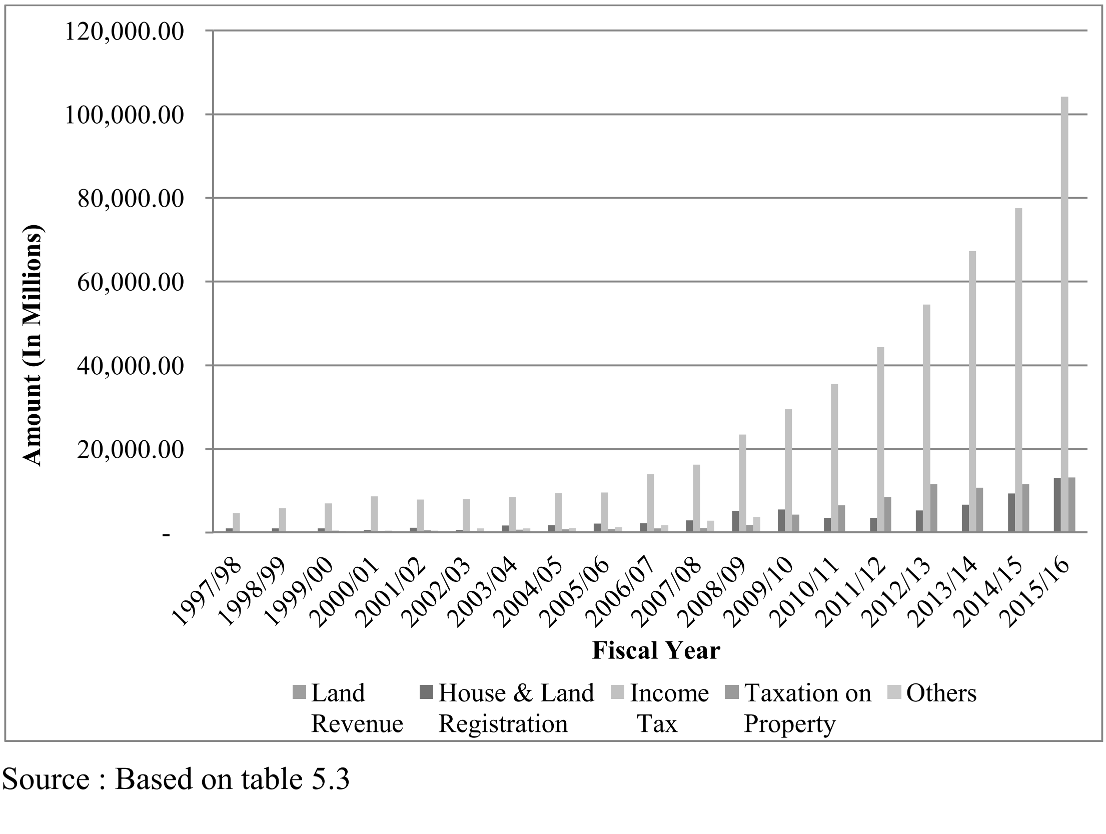
Source: Economic Survey 2016/17, MoF, GoN.

The table 5.3 presents the structure of direct tax revenue which covers the study period between F/Y 1997/98 to F/Y 2015/16. The share of land revenue and registration is significantly lower than tax on property, profit and income in the total direct tax revenue. In F/Y 1997/98, share of land revenue and registration is 1004.2 million (16.2 percentages) in total direct revenue and the share of tax on property, profit and income is 5183.7 million (83.8 percentage). The table shows that share of land revenue and registration is increasing at decreasing rate but the share of tax on property, profit and income is increasing at increasing rate.

Above table shows that land revenue is decreasing and it becomes zero until F/Y 2010/11. House and land registration is increasing slowly but it is decreased in F/Y 2000/01. Its income is 13144.30 million in F/Y 2015/16. On the other hand, contribution of tax on property, profit and income has significant contribution on total direct tax revenue on which income tax had contributed the most. The contribution of tax on property, profit and income is highest on F/Y 2000/01(94 percentage) and the lowest is on F/Y 1997/98(83.8 percentage).

The above table can be shown in figure as below:

Figure 5.3 Structure of Direct Tax Revenue



Source : Based on table 5.3

The figure 5.3 is derived according to the table 5.3. Here the study period was carried out from the F/Y 1997/98 to F/Y 2015/16 which shows the significant contribution of income tax in direct tax revenue. In the figure, contribution of land revenue is negligible but income tax is contributing significantly in direct tax revenue.

5.1.4 Structure of Indirect Tax Revenue

A tax is called indirect if impact and incidence of a tax are not upon the same person and the burden is shifted and real income of someone else is affected. Indirect tax includes 3 categories viz. custom duties, excise duties and sales tax/VAT in Nepal. An indirect tax is a tax on goods and services. The main features of indirect tax are convenient to pay, mass participation, limited evasion, shifting of evidence etc. The consumer pays the tax to the business person, not the government.

Table 5.4 Structure of Indirect Tax Revenue

(NPR in millions)

Fiscal Year	Total Indirect Tax	Custom Duty		Sales Tax/VAT		Excise Duty		Other Tax	
		Amount	%	Amount	%	Amount	%	Amount	%
1997/98	19,751.9	8502.2	43.0	7122.6	36.1	2885.8	14.6	1241.3	6.3
1998/99	21,236.8	9517.7	44.8	8765.9	41.3	2953.2	13.9	0	0.0
1999/00	24,200.6	10,813.3	44.7	10,259.7	42.4	3127.6	12.9	0	0.0
2000/01	28,705.7	12,552.1	43.7	12,382.4	43.1	3771.2	13.1	0	0.0
2001/02	29,292.8	12650	43.2	12,267.3	41.9	4375.48	14.9	0	0.0
2002/03	32,481.2	14236	43.8	13460	41.4	4785	14.7	0.2	0.0
2003/04	36,260.4	15,554.8	42.9	14,478.9	39.9	6226.7	17.2	0	0.0
2004/05	41,032.9	15,701.6	38.3	18,885.4	46.0	6445.9	15.7	0	0.0
2005/06	43,462.3	15344	35.3	21,610.7	49.7	6507.6	15.0	0	0.0
2006/07	52,146.4	16,707.6	32.0	26,095.6	50.0	9343.2	17.9	0	0.0
2007/08	62,067.8	21,062.4	33.9	29,815.7	48.0	11,189.7	18.0	0	0.0
2008/09	82,731.2	26,792.9	32.4	39,700.9	48.0	16,220.9	19.6	16.5	0.0
2009/10	12,0453	35,218.9	29.2	54,920.9	45.6	29,249.5	24.3	1063.7	0.9
2010/11	131,594.6	35,713.5	27.1	61,663.6	46.9	33,129.8	25.2	1087.7	0.8
2011/12	155,275.4	43,390.6	27.9	70,930.4	45.7	39,630.6	25.5	1323.8	0.9
2012/13	187,807.4	56,931.8	30.3	83,418.4	44.4	45,852.1	24.4	1605.1	0.9
2013/14	227,706.6	67,980.5	29.9	101,104.6	44.4	56,613.8	24.9	2007.7	0.9
2014/15	257,464.94	74,841.34	29.1	112,521.8	43.7	67,503.4	26.2	2598.4	1.0
2015/16	290,539.39	82,159.08	28.3	122,411.9	42.1	83,246.8	28.7	2711.61	0.9

Source: Economic Survey 2016/17, MoF, GoN.

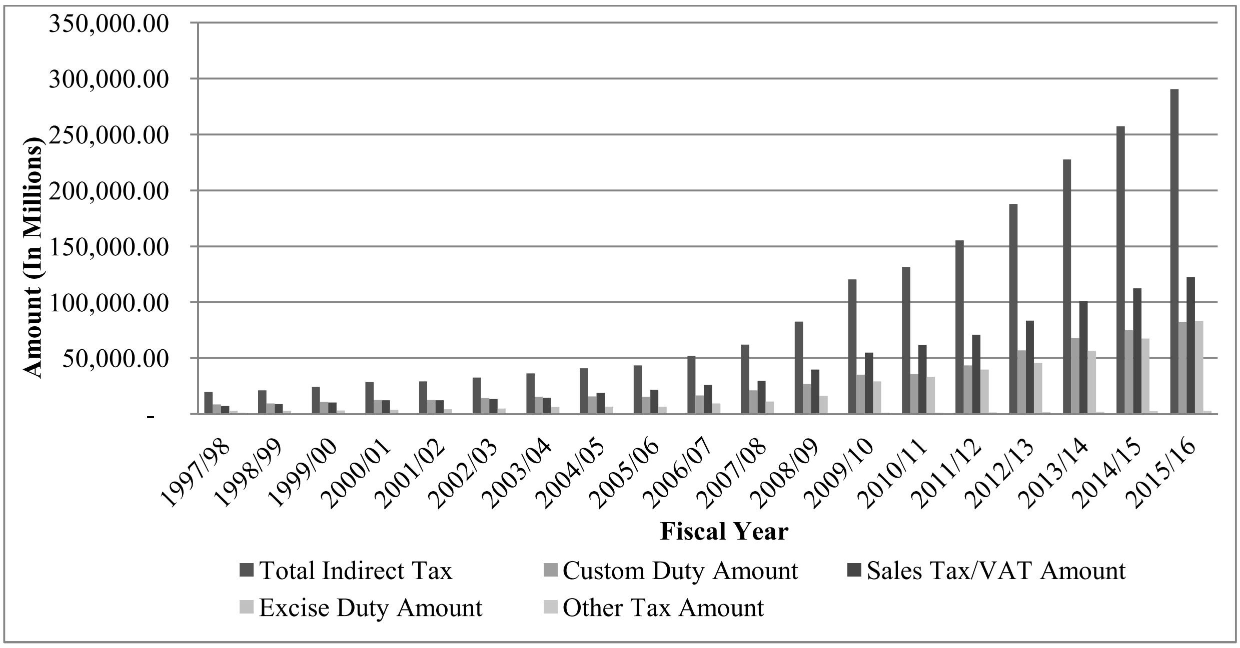
The table 5.4 presents the structure of indirect tax revenue which covers the study period between F/Y 1997/98 to F/Y 2015/16. Tax collection from indirect tax is increasing in every fiscal year. In the beginning, revenue from custom duty is highest among other indirect taxes whose share was 43 percentage (8502.2 million) in F/Y 1997/98. Custom duty has increased in increasing rate for few fiscal years and started to increase in decreasing rate from F/Y 2001/02.

Revenue from Sales tax/VAT remained relatively low for the first 7 fiscal years of VAT implementation because of poor registration, implementation i.e. strong opposition from the side of taxpayers and lack of adequate preparation from the tax authorities. Its share was the highest to total indirect tax among others in F/Y 2006/07. In F/Y 2015/16, its share is 42.1 percentages (122,411.90 million).

Revenue collection from excise duty was also increasing in the absolute term but decreasing in relative term in later years. In F/Y 1997/98, its share was 14.6 percent and it decreased at the rate of 12.9 percent in F/Y 1999/00. Now again in F/Y 2015/16, its share was increased and stay at 28.7 percentages.

The above table can be shown in figure as below:

Figure 5.4 Structure of Indirect Tax Revenue



Source : Based on table 5.4

The figure 5.4 presents the structure of indirect tax revenue which covers the study period between F/Y 1997/98 to F/Y 2015/16. The main contributing components to indirect tax revenues are custom duties, sales tax/VAT, and excise duties. The share of custom duties is goes on decreasing while the share of sales tax/VAT is goes on increasing. Similarly, excise duties is less as compared to custom duties and sales tax/VAT, it is decreasing up to F/Y 1990/00 and then again increasing.

5.2 Share of VAT on Different Headings

As the taxation pity of the nations has been changed in the past two decades the revenue regime had also been changed over the past few years with Inland Revenue, including income tax and Valued Added Tax (VAT), surpassing mobilization of customs duty. Collection of income tax and VAT has improved over the past few years. Statistics show collection of income tax and VAT has surpassed customs revenue for the consecutive years and in the mid-term review of the current fiscal year as well.

5.2.1 Contribution of VAT in Total Revenue

The developing country Nepal has been facing several challenges and some of them are related to financial sector. Lack of economic resourcefulness has hampered almost every aspect of public life. The infrastructure development has been bizarre and public sectors has faced unprecedented crisis in Nepal. Though there are various other sectors which can collect required tax in the country. The tax the state collects from income to profit, transaction to every turn over and trade activities.

As the requirements of the people are increasing day by day, government's role is also increasing continuously. For which government is searching new sources of revenue to cover it's expenditure to fulfill the necessities of welfare state. Value added tax is the latest form of taxation which has helped governments of different nations to generate the revenue. In the initial phases of VAT implementation, there arise lots of problems. As the improvisation continued, VAT has become the most important source of government revenue. In case of Nepal, after the implementation of VAT in 1997/98, its revenue collection was not satisfactory. But later its revenue collection started to increase and exceeds the revenue collected from excise duties. So that it's share in total revenue is also increasing which can be justified by following table and figure:

Table 5.5 Contribution of VAT in Total Revenue

(NPR in Millions)

Fiscal Year	Total Revenue	Vat Revenue	% of Vat Revenue in Total Revenue
1997/98	32,937.9	7,122.6	21.62
1998/99	37,251.3	8,765.9	23.53
1999/00	42,893.7	10,259.7	23.92
2000/01	48,893.9	12,382.4	25.33
2001/02	50,446.6	12,267.3	24.32
2002/03	56,229.8	13,460	23.94
2003/04	62,331	14,478.9	23.23
2004/05	70,122.7	18,885.4	26.93
2005/06	72,281.9	21,610.7	29.90
2006/07	87,712.1	26,095.6	29.75
2007/08	107,622.5	29,815.7	27.70
2008/09	143,474.5	39,700.9	27.67
2009/10	177,990.9	54,920.9	30.86
2010/11	198,375.9	61,663.6	31.08
2011/12	244,372.96	70,930.4	29.03
2012/13	296,021.1	83,418.4	28.18
2013/14	356,620.8	101,104.6	28.35
2014/15	405,866.5	112,521.8	27.72
2015/16	481,961.65	122,411.9	25.40

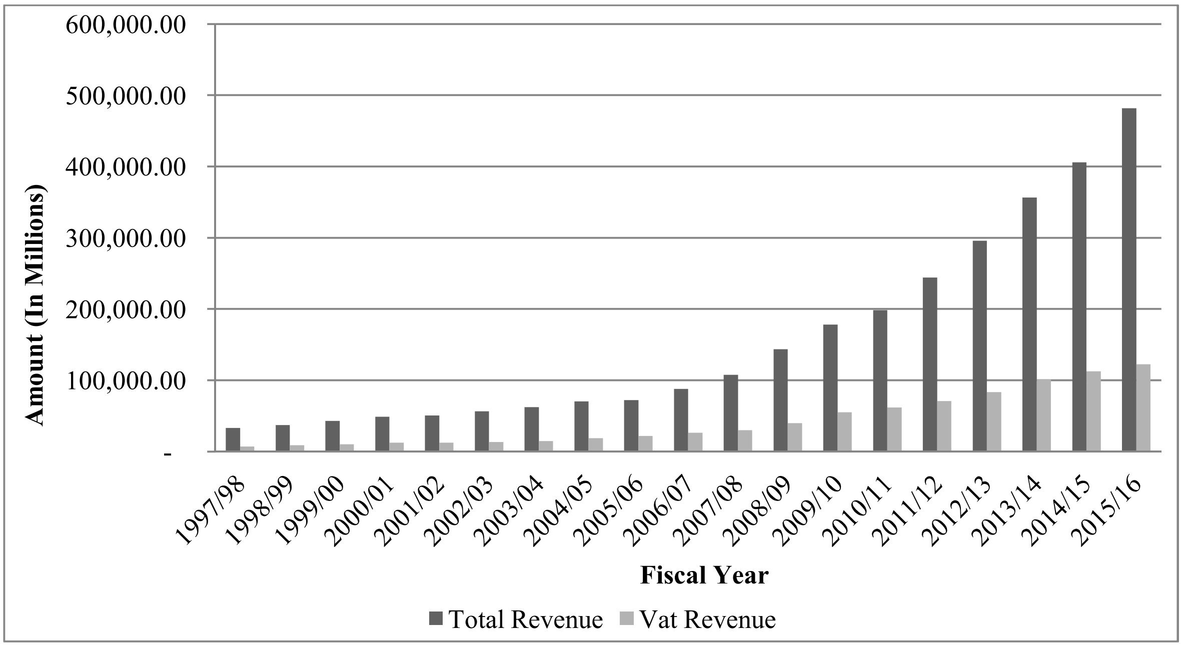
Source: Economic Survey 2016/17, MoF, GoN.

The table 5.5 presents the contribution of VAT revenue in total revenue which covers the study period between F/Y 1997/98 to F/Y 2015/16. As the VAT revenue is increasing, its share on total revenue is also increasing. The average contribution of VAT on total revenue is 26.84 percent in between the study period. In the initial F/Y 1997/98, its contribution on total revenue is 7122.6 million (21.62 percentages) only out of total revenue of 32937.9 million. It's share increased up to 31.08 percentages in

F/Y 2010/11 and started to increase in decreasing rate up to F/Y 2015/16 whose revenue is 122411.9 million(25.40 percentages) out of total revenue of 481,961.65 million.

The above table can be shown in figure as below:

Figure 5.5 Contribution of VAT in Total Revenue



Source : Based on table 5.5

Above figure 5.5 shows the contribution of VAT in total revenue in between the F/Y 1997/98 to F/Y 2014/15. As the total revenue of the nation is increasing, contribution of VAT is also increasing at increasing rate. Among these fiscal years, in F/Y 2010/11, VAT's contribution on total revenue is highest of 31.08 percentages.

5.2.2 Contribution of VAT in Total Tax revenue

To know the contribution of sales tax/VAT in total tax revenue, it would be desirable to examine the sales tax/ VAT revenue in total tax revenue. The following table indicates the share of sales tax/VAT revenue in total tax revenue:

Table 5.6 Share of VAT in Total Tax Revenue

(NPR in Millions)

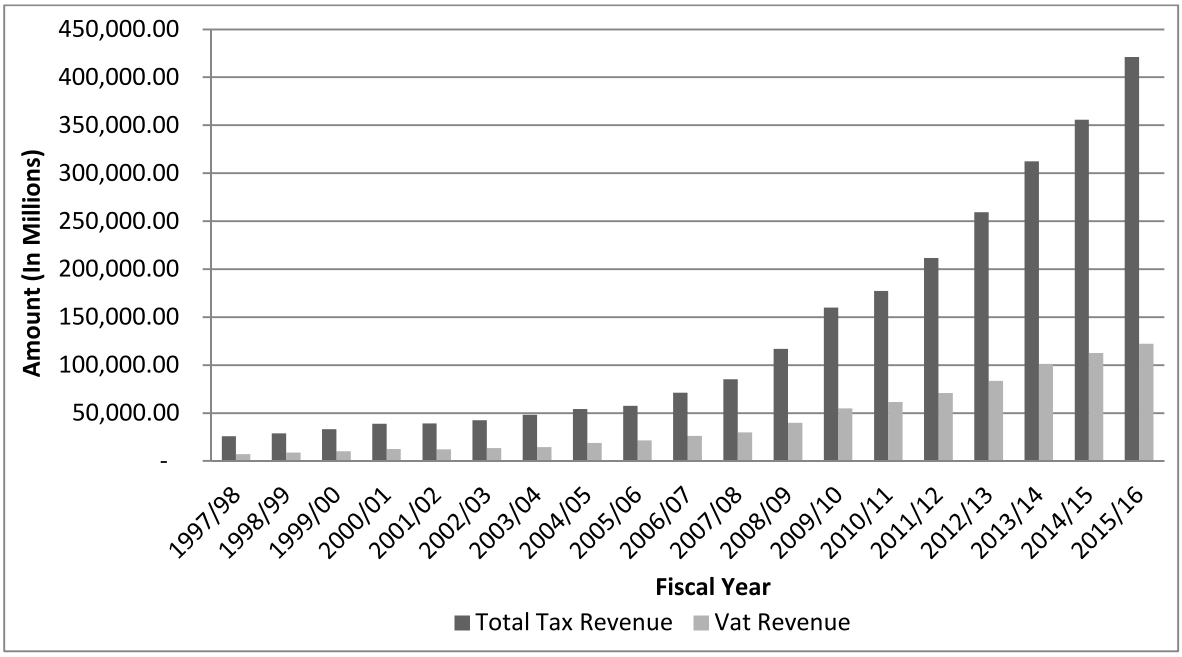
Fiscal Year	Total Tax Revenue	Vat Revenue	% of Vat Revenue in Total Tax Revenue
1997/98	25,939.8	7,122.6	27.46
1998/99	28,752.9	8,765.9	30.49
1999/00	33,152.1	10,259.7	30.95
2000/01	38,865.1	12,382.4	31.86
2001/02	39,330.6	12,267.3	31.19
2002/03	42,586.9	13,460	31.61
2003/04	48,173	14,478.9	30.06
2004/05	54,104.7	18,885.4	34.91
2005/06	57,430.4	21,610.7	37.63
2006/07	71,126.7	26,095.6	36.69
2007/08	85,155.5	29,815.7	35.01
2008/09	117,051.9	39,700.9	33.92
2009/10	159,785.3	54,920.9	34.37
2010/11	177,227.2	61,663.6	34.79
2011/12	211,721.8	70,930.4	33.50
2012/13	259,214.9	83,418.4	32.18
2013/14	312,441.3	101,104.6	32.36
2014/15	355,955.8	112,521.8	31.61
2015/16	421,096.6	122,411.9	29.07

Source: Economic Survey 2016/17, MoF, GoN.

The table 5.6 presents the share of VAT revenue in total tax revenue which covers the study period between F/Y 1997/98 to F/Y 2015/16. The average contribution of VAT on total tax revenue is 32.81 percent in between the study period. The above table shows that the contribution of VAT on total tax revenue is continuously increasing from the starting of study period. In the initial F/Y 1997/98, its contribution on total tax revenue is 7122.6 million (27.46 percentages) only out of total tax revenue of 25,939.8 million. It’s share increased up to 37.63 percentage in F/Y 2005/06 and started to increase in decreasing rate up to F/Y 2015/16 whose revenue is 122,411.9 million(29.07 percentage) out of total tax revenue of 421,096.6 million.

The above table can be shown in figure as below:

Figure 5.6 Share of VAT in Total Tax Revenue



Source : Based on table 5.6

The above figure 5.6 presents the contribution of VAT revenue in total tax revenue which covers the study period between F/Y 1997/98 to F/Y 2015/16. As the tax revenue is increasing year by year, contribution of VAT revenue is also increasing which is shown in above figure.

5.2.3 Contribution of VAT in Total Indirect Tax

To know the contribution of sales tax/VAT on total indirect tax, it would be desirable to examine the share of VAT revenue in total indirect tax revenue.

The following table indicates the share of VAT in total indirect tax:

Table 5.7 Share of VAT in Total Indirect Tax

(NPR in Millions)

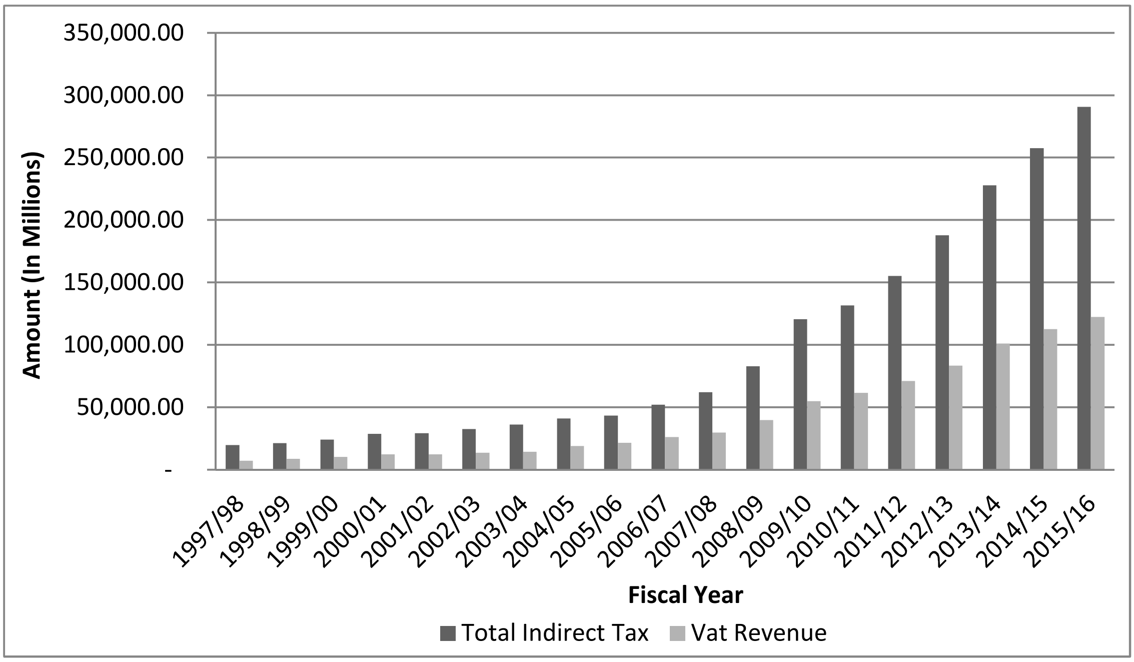
Fiscal Year	Total Indirect Tax	Vat Revenue	% of Vat Revenue in Total Indirect Tax
1997/98	19,751.90	7,122.60	36.06
1998/99	21,236.80	8,765.90	41.28
1999/00	24,200.60	10,259.70	42.39
2000/01	28,705.70	12,382.40	43.14
2001/02	29,292.78	12,267.30	41.88
2002/03	32,481.20	13,460.00	41.44
2003/04	36,260.40	14,478.90	39.93
2004/05	41,032.90	18,885.40	46.03
2005/06	43,462.30	21,610.70	49.72
2006/07	52,146.40	26,095.60	50.04
2007/08	62,067.80	29,815.70	48.04
2008/09	82,731.20	39,700.90	47.99
2009/10	120,453.00	54,920.90	45.60
2010/11	131,594.60	61,663.60	46.86
2011/12	155,275.40	70,930.40	45.68
2012/13	187,807.40	83,418.40	44.42
2013/14	227,706.60	101,104.60	44.40
2014/15	257,564.94	112,521.80	43.69
2015/16	290,539.39	122,411.90	42.13

Source: Economic Survey 2016/17, MoF, GoN.

The table 5.7 presents the contribution of VAT revenue in total indirect tax revenue which covers the study period between F/Y 1997/98 to F/Y 2015/16. In the initial F/Y 1997/98, its contribution on total indirect tax revenue is 7122.6 million (36.06 percentage) only out of total indirect tax revenue of 19751.9 million. It's share increased up to 50.04 percentage in F/Y 2006/07 and started to increase in decreasing rate up to F/Y 2015/16 whose revenue is 122,411.90 million(42.13 percentage) out of total indirect tax revenue of 290,539.39 million.

The above table can be shown in figure as below:

Figure 5.7 Share of VAT in Total Indirect Tax



Source : Based on table 5.7

In the above figure, X-axis & Y-axis represents the Amount (in Millions) and Fiscal Year from 1997/98 to 2015/16 respectively. The above bar graph shows that the contribution of VAT revenue on total indirect tax revenue is continuously increasing in increasing rate from the starting of study period.

5.2.4 Contribution of VAT revenue in GDP of Nepal

To know the contribution of sales tax/VAT revenue in GDP of Nepal, it would be desirable to examine the share of VAT revenue in GDP of Nepal.

The following table indicates the share of VAT in GDP of Nepal:

Table 5.8 Share of VAT Revenue in GDP of Nepal

(NPR in Millions)

Fiscal Year	GDP(X)	Vat Revenue (Y)	% of Vat Revenue in GDP
1997/98	289,798.00	7,122.60	2.46
1998/99	330,018.00	8,765.90	2.66
1999/00	366,251.00	10,259.70	2.80
2000/01	413,428.00	12,382.40	3.00
2001/02	430,396.00	12,267.30	2.85
2002/03	460,325.00	13,460.00	2.92
2003/04	500,699.00	14,478.90	2.89
2004/05	548,485.00	18,885.40	3.44
2005/06	611,118.00	21,610.70	3.54
2006/07	675,859.00	26,095.60	3.86
2007/08	755,257.00	29,815.70	3.95
2008/09	909,528.00	39,700.90	4.37
2009/10	1,083,415.00	54,920.90	5.07
2010/11	1,248,482.00	61,663.60	4.94
2011/12	1,387,482.00	70,930.40	5.11
2012/13	1,525,221.00	83,418.40	5.47
2013/14	1,758,738.00	101,104.60	5.75
2014/15	1,889,410.00	112,521.80	5.96
2015/16	1,987,824.00	122,411.90	6.16

Source: Economic Survey 2016/17, MoF, GoN.

The above table 5.8 presents the contribution of VAT revenue in GDP of Nepal which covers the study period between F/Y 1997/98 to F/Y 2015/16. In the initial F/Y 1997/98, its contribution on GDP is 7122.6 million (2.46 percentage) only out of total GDP of 289798 million. It's share increased up to 3.00 percentage in F/Y 2000/07 and started to increase in decreasing rate up to F/Y 2003/04 whose revenue is 14478.9 million(2.89 percentage) out of total GDP of 500699 million. Then VAT's contribution on GDP started to increase in increasing rate up to F/Y 2016/15 whose revenue is 122,411.90 million(6.16 percentage) out of total GDP of 1,987,824.00 million.

Here, we are calculating the Karl Pearson's correlation coefficient between two variables GDP(X) and Vat Revenue(Y) with using the formula:

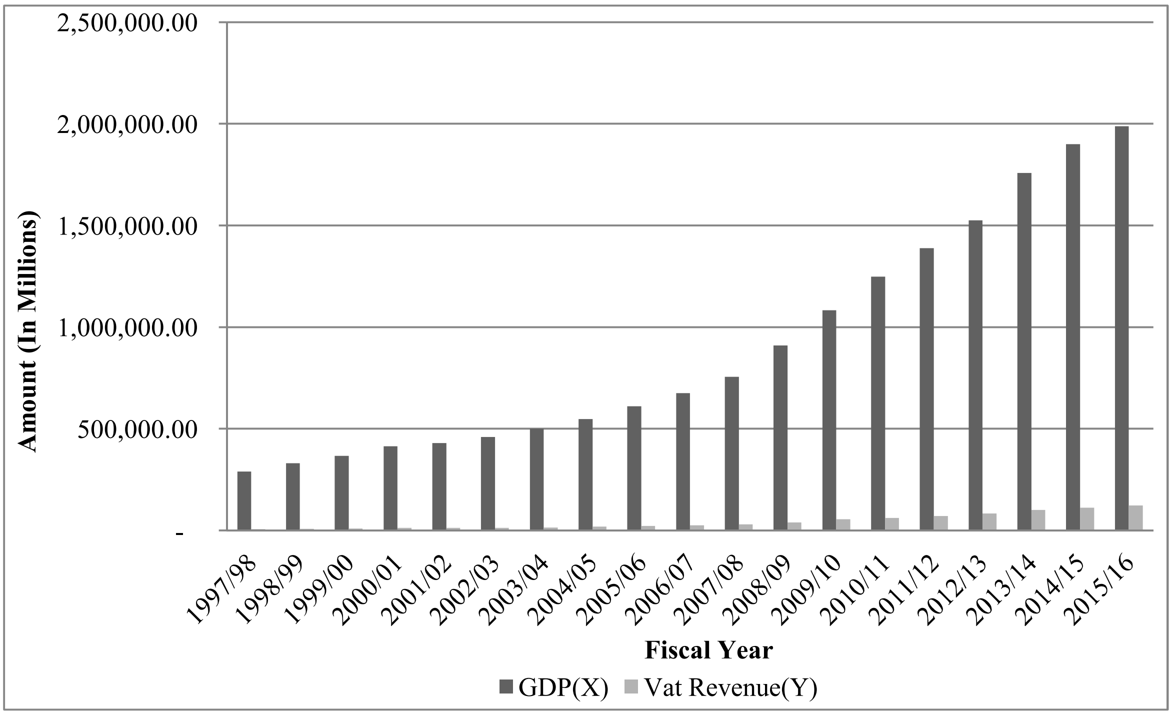
Where n=19, $\sum XY$ = 1129361704775.4, Mean of X = 904284.89, Mean of Y = 43253.51, $\sum X^2$ = 21309580693473.00, $\sum Y^2$= 61573677758.73

Then, $\mathbf{r_{xy} = 0.9963}$

This implies that these two variables: GDP and VAT revenue are significantly correlated with each other.

The above table can be shown in figure as below:

Figure 5.8 Share of VAT Revenue in GDP of Nepal



Source : Based on table 5.8

The above figure 5.8 presents the contribution of VAT revenue in GDP of Nepal which covers the study period between F/Y 1997/98 to F/Y 2014/15. The above figure shows that the contribution of VAT revenue in GDP is continuously increasing from the starting of study period.

5.2.5 Contribution of Large Taxpayers in Tax Revenue

To know the contribution of large taxpayers in tax revenue, it would be desirable to examine the share of large taxpayers in total tax revenue.

The following table indicates the share of large taxpayers in total tax revenue:

Table 5.9 Contribution of Large Taxpayers in Tax Revenue

(NPR in Millions)

Fiscal Year	Total Tax Revenue	Large Taxpayer's Tax Revenue	% of Large Taxpayers in Total Tax Revenue
2005/06	57,430.40	7,873.90	13.71
2006/07	71,126.70	12,142.50	17.07
2007/08	85,155.50	17,207.70	20.21
2008/09	117,051.90	24,425.50	20.87
2009/10	159,785.30	32,874.20	20.57
2010/11	177,227.20	40,513.20	22.86
2011/12	211,721.80	53,835.20	25.43
2012/13	259,214.90	65,645.60	25.32
2013/14	312,441.30	75,391.90	24.13
2014/15	355,955.70	87,976.60	24.72
2015/16	421,096.58	110,763.06	26.30

Source: Economic Survey 2016/17, MoF, GoN. & Annual Report 2016/17, LTO.

The above table 5.9 presents the contribution of large taxpayers in tax revenue of Nepal which covers the study period between F/Y 2005/06 to F/Y 2015/16. As the Large Taxpayers Office (LTO) was established in F/Y 2003/04, the contribution of LTO in tax revenue is calculated from F/Y 2005/06 to F/Y 2015/16. In the initial F/Y 2005/06, its contribution on tax revenue is 7873.9 million (13.71 percentage) only out of total tax revenue of 57430.4 million. It's share increased up to 25.43 percentage in F/Y 2011/12 and started to increase in decreasing rate up to F/Y 2013/14 whose revenue is 75391.9 million(24.13 percentage) out of total tax revenue of 312441.3 million. Then large taxpayers contribution on tax revenue started to increase in increasing rate in F/Y 2015/16 whose revenue is 110,763.06 million(26.30 percentage) out of total tax revenue of 421,096.58 million.

Here, we are calculating the Karl Pearson's correlation coefficient between two variables tax revenue(X) and LTO's tax revenue(Y) with using the formula:

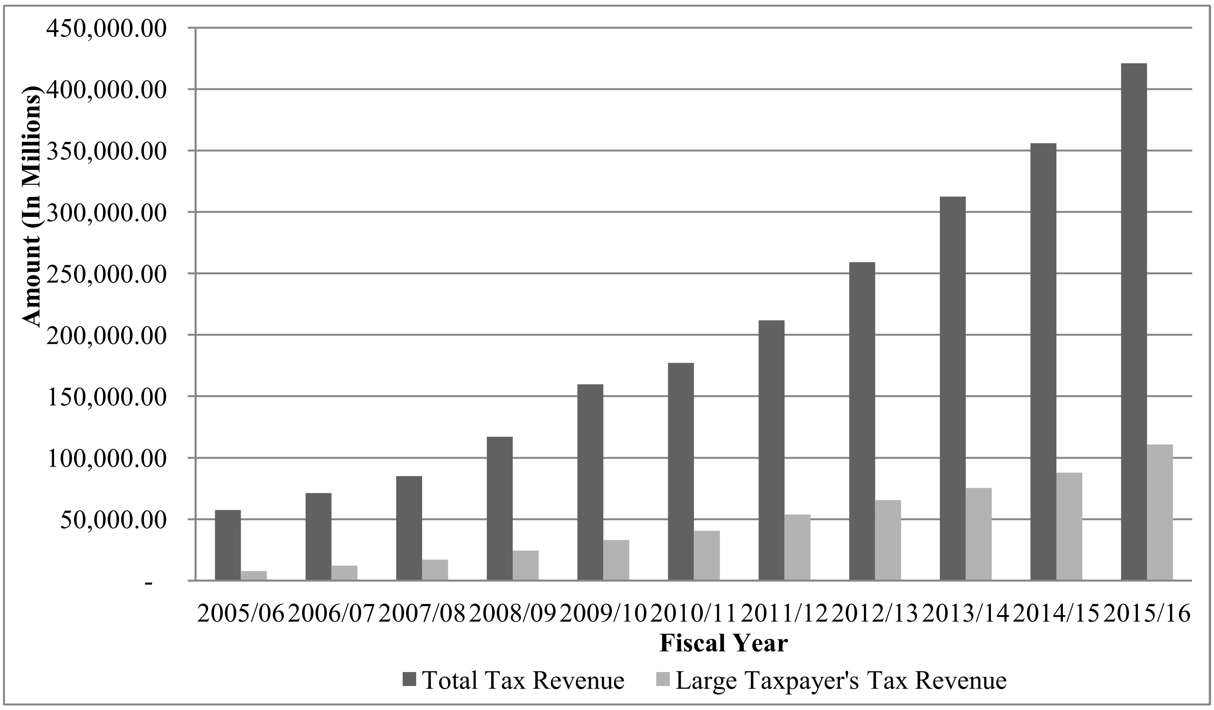
Where n=11, $\sum XY$ = 148000757895.64, Mean of X = 202564.30, Mean of Y = 48059.03, $\sum X^2$ = 599915528259.97, $\sum Y^2$= 36724030749.01

Then, $\mathbf{r_{xy}}$ = **0.9978**

This implies that these two variables: tax revenue and large taxpayer's tax revenue are significantly correlated with each other.

The above table can be shown in figure as below:

Figure 5.9 Contribution of Large Taxpayers in Tax Revenue



Source : Based on table 5.9

The above figure 5.9 presents the contribution of large taxpayers in tax revenue of Nepal which covers the study period between F/Y 2005/06 to F/Y 2015/16. The above figure shows that the contribution of large taxpayers in tax revenue is continuously increasing from the starting of study period.

5.2.6 Share of VAT in Large Taxpayer's Tax Revenue

To know the contribution of VAT in large taxpayer's tax revenue, it would be desirable to examine the share of VAT in large taxpayer's tax revenue.

The following table indicates the share of VAT in large taxpayer's tax revenue:

Table 5.10 Share of VAT in Large Taxpayer's Tax Revenue

(NPR in Millions)

Fiscal Year	Large Taxpayer's Tax Revenue	Large Taxpayer's VAT Revenue	% of VAT in Large Taxpayer's Tax Revenue
2005/06	7,873.90	4,180.80	53.10
2006/07	12,142.50	5,306.70	43.70
2007/08	17,207.70	6,517.70	37.88
2008/09	24,425.50	8,866.40	36.30
2009/10	32,874.20	12,346.00	37.56
2010/11	40,513.20	14,275.20	35.24
2011/12	53,835.20	15,229.40	28.29
2012/13	65,645.60	15,754.40	24.00
2013/14	75,391.90	19,271.80	25.56
2014/15	87,976.60	23,062.10	26.21
2015/16	110,763.06	30,162.81	27.23

Source: Economic Survey 2016/17, MoF, GoN. & Annual Report 2016/17, LTO.

The above table 5.10 presents the contribution of VAT in large taxpayer's tax revenue of Nepal which covers the study period between F/Y 2005/06 to F/Y 2015/16. As the Large Taxpayers Office (LTO) was established in F/Y 2003/04, the contribution of VAT in large taxpayer's tax revenue is calculated from F/Y 2005/06 to F/Y 2015/16. In the initial F/Y 2005/06, its contribution on large taxpayer's tax revenue is 4180.80 million (53.10 percentage) out of total large taxpayer's tax revenue of 7873.9 million. It's share started to increase in decreasing rate up to F/Y 2012/13 whose revenue is 15754.4 million (24.00 percentage) out of total large taxpayer's tax revenue of 65645.6 million. Then contribution of VAT in large taxpayer's tax revenue started to increase in increasing rate up to F/Y 2015/16 whose revenue is 30,162.81 million(27.23 percentage) out of total tax revenue of 110,763.06 million.

Here, we are calculating the Karl Pearson's correlation coefficient between two variables large taxpayer's tax revenue(X) and LTO's VAT revenue(Y) with using the formula:

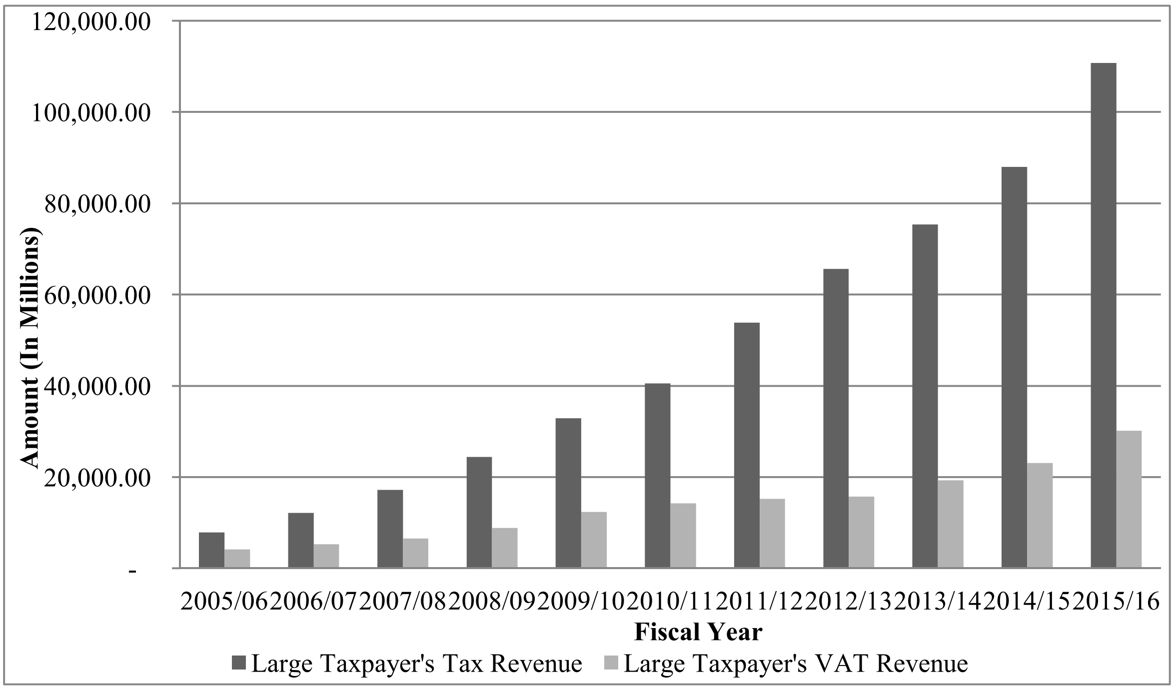
Where n=11, $\sum XY$ = 10087148326.00, Mean of X = 48059.03, Mean of Y = 14088.48, $\sum X^2$ = 36724030749.00, $\sum Y^2$= 2816132249

Then, $\mathbf{r_{xy}}$ = **0.9862**

This implies that these two variables large taxpayer's tax revenue and VAT collection by LTO are significantly correlated with each other.

The above table can be shown in figure as below**:**

Table 5.10 Share of VAT in Large Taxpayer's Tax Revenue



Source : Based on table 5.10

The above figure 5.10 presents the contribution of VAT in large taxpayer's tax revenue of Nepal which covers the study period between F/Y 2005/06 to F/Y 2015/16. The above figure shows that the contribution of VAT in large taxpayer's tax revenue is continuously increasing from the starting of study period.

5.3 VAT Registration

Registration and getting VAT certificate is the first function of both tax administrations and business person. Business community was in opposition in the beginning and they discouraged to register in the VAT. After the commitment of government, the registrants are increasing yearly and the private sectors are also in favor of it.

5.3.1 Trend of VAT Registration

The following table indicates the trend of VAT registration in different years:

Table 5.11 Trend of VAT Registration

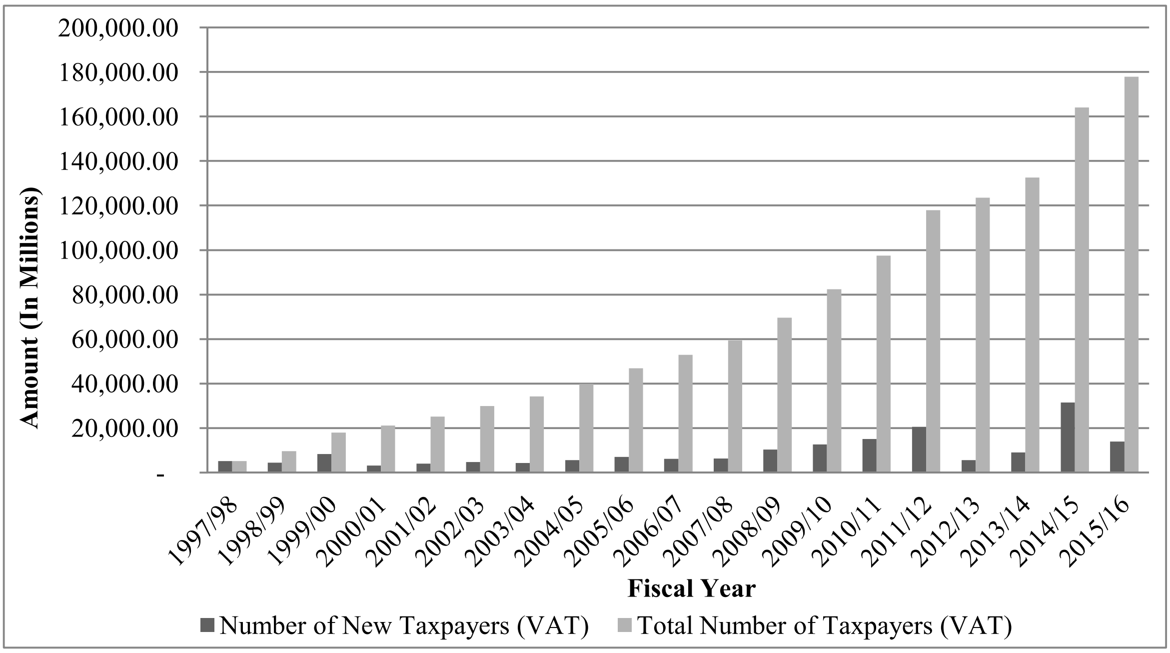
Fiscal Year	Number of New Taxpayers (VAT)	Total Number of Taxpayers (VAT)	% Increment of Taxpayers Registration
1997/98	5,237.00	5,237.00	-
1998/99	4,405.00	9,642.00	84.11
1999/00	8,305.00	17,947.00	86.13
2000/01	3,146.00	21,093.00	17.53
2001/02	4,056.00	25,149.00	19.23
2002/03	4,723.00	29,872.00	18.78
2003/04	4,302.00	34,174.00	14.40
2004/05	5,602.00	39,776.00	16.39
2005/06	7,055.00	46,831.00	17.74
2006/07	6,134.00	52,965.00	13.10
2007/08	6,346.00	59,311.00	11.98
2008/09	10,342.00	69,653.00	17.44
2009/10	12,689.00	82,342.00	18.22
2010/11	15,125.00	97,467.00	18.37
2011/12	20,493.00	117,960.00	21.03
2012/13	5,601.00	123,561.00	4.75
2013/14	9,037.00	132,598.00	7.31
2014/15	31,426.00	164,024.00	23.70
2015/16	13,925.00	177,949.00	8.49

Source: Economic Survey 2016/17, MoF, GoN. & Annual Report 2016/17, LTO.

The above table 5.11 presents the trend of VAT registration which covers the study period between F/Y 1997/98 to F/Y 2015/16. From the above table, researcher can say that the total number of taxpayer is in increasing order. In the initial F/Y 1997/98, the total number of VAT registered taxpayers are only 5237 (i.e. VAT implementation period). The percentage of increment of taxpayers' registration had increased up to F/Y 1999/00 (86.13 percentages) and it had started to decrease. Though the new registration had decreased, the total number of VAT registered producers and businessmen had the increasing trend which is shown in the figure. In F/Y 2015/16, the total number of taxpayers registered in VAT is 177,949 and the new registrants are 13,925 (8.49 percentage increase than 2014/15).

The above table can be shown in figure as below:

Table 5.11 Trend of VAT Registration



Source : Based on table 5.11

The above figure 5.11 presents the trend of VAT registration which covers the study period between F/Y 1997/98 to F/Y 2015/16. The above figure shows that the total number of taxpayer is in increasing order.

5.3.2 Share of Large Taxpayers in Total Taxpayers of VAT

After the establishment of Large Taxpayers Office (LTO) in Nepal in 2003/04, the taxpayers whose annual transaction amount is more than 100 million are termed as large taxpayers. Among the taxpayers, certain producers are only registered as large taxpayers. Large taxpayer's average contribution on total tax revenue is 21.49 percentages. Despite they are in few numbers but the contribution is higher than others. In F/Y 2012/13, the large taxpayer's annual transaction amount was increased to 400 million. Those taxpayers whose annual transaction decreased below 400 million are not counted as large taxpayers and those annual transaction increased above 400 million are included in large taxpayers. So the number of large taxpayers varies from year to year. The following table shows the share of large taxpayers in total taxpayers of VAT:

Table 5.12 Share of Large Taxpayers in Total Taxpayers of VAT

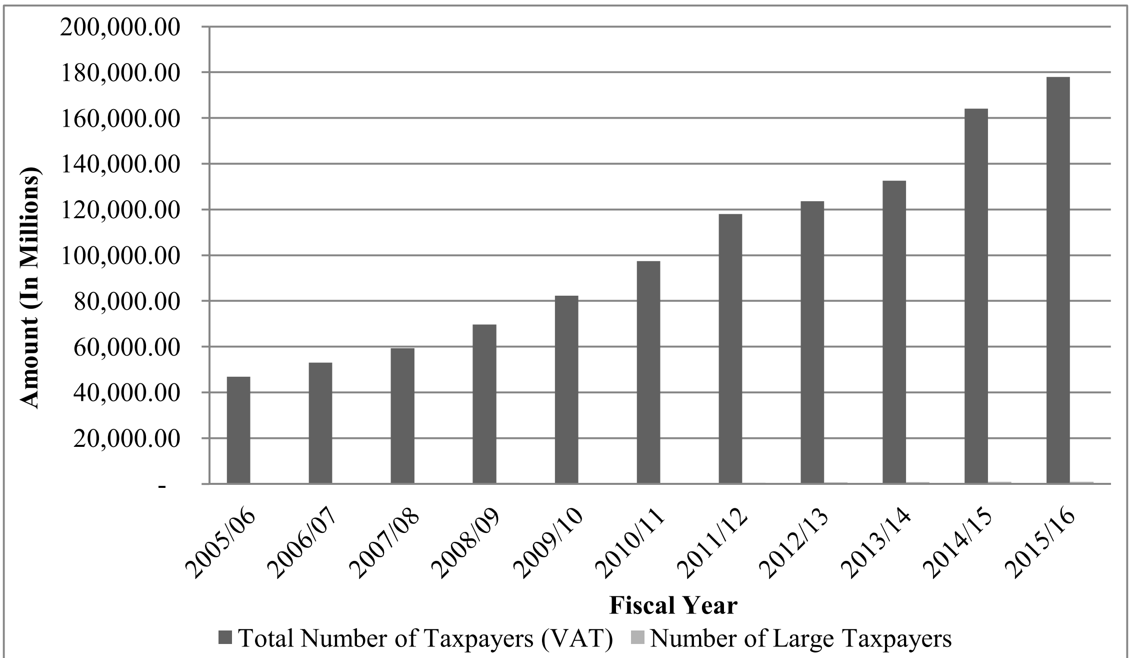
Fiscal Year	Total Number of Taxpayers (VAT)	Number of Large Taxpayers	% of VAT in Large Taxpayer's Tax Revenue
2005/06	46,831.00	327.00	0.70
2006/07	52,965.00	336.00	0.63
2007/08	59,311.00	343.00	0.58
2008/09	69,653.00	435.00	0.62
2009/10	82,342.00	365.00	0.44
2010/11	97,467.00	375.00	0.38
2011/12	117,960.00	445.00	0.38
2012/13	123,561.00	633.00	0.51
2013/14	132,598.00	785.00	0.59
2014/15	164,024.00	882.00	0.54
2015/16	177,949.00	903.00	0.51

Source: Economic Survey 2016/17, MoF, GoN. & Annual Report 2016/17, LTO.

The above table 5.12 presents the share of large taxpayers in total taxpayers of VAT which covers the study period between F/Y 2005/06 to F/Y 2015/16. As the Large Taxpayers Office (LTO) was established in F/Y 2003/04, the share of large taxpayers in total taxpayers of VAT is calculated from F/Y 2005/06 to F/Y 2015/16. The share of large taxpayers 0.70 percent in F/Y 2005/06 and it is decreasing up to F/Y 2011/12. After that it is in increasing trend and reached 0.51 percentages in F/Y 2015/16. Though the share of large taxpayers is less than 1 percentage in each year, their contribution on total tax revenue is around 21 percentages.

This can be represented in figure as below:

Table 5.12 Share of Large Taxpayers in Total Taxpayers of VAT



Source : Based on table 5.12

The figure 5.12 shows that the share of large taxpayers in total number of taxpayers of VAT which covers the study period between F/Y 1997/98 to F/Y 2015/16. Its share is increasing nominally year by year but remains always less than one percent. As the numbers of taxpayers of VAT are increasing tremendously, large taxpayer's number is not increasing at that ratio.

5.4 Tax Evasion: Challenges of Tax Administration

Paying tax is not often sweet to taxpayers. It is international phenomena to avoid this legal duty of the citizens to pay tax but very frequently they prefer disobey it. Though the tax payers have to face several legal punishment and social boycotts in the case of tax avoidance, they frequently do it. Concept of taxation arises not only with the aspects of income and expense. It is also associated with the means that the taxpayer may use in order to reduce his tax liabilities which we have already shed light on the legal duties of the citizen to pay tax. Although one might use the term 'tax avoidance' interchangeably with 'tax evasion' on the basis of that a rupee of lost revenue through evasion is same as a rupee of lost through avoidance, there is a significant difference between these two terms: tax evasion is illegal whereas tax avoidance is legal. Furthermore tax planning relates to acceptable level of tax avoidance. The border line between these two concepts is typically unclear since that vast majority of the countries recognize the principal right of the tax payer to arrange his affairs in way which attracts the minimum tax liabilities.

Tax administration in Nepal was lagging behind in many regards and so was the case of tax evasion as the issues of tax evasion or revenue loss has been a routine practice and a quite normal pattern of life where professional persons and entrepreneurs quite often and frequently practiced it. In the due course of time, it became quite normal to every sectors of social dimension in Nepal.

The unavoidable reason of loss of revenue is minimum excess of the tax authorities to the tax payers for the motive of establishing the better practice of tax habits. Mismanagement of public enterprises such health posts, schools, hospitals, customs offices, post offices, public offices, roads and transportation, bus parks, drinking water supply, electricity, waiting longue etc. makes the taxpayers reluctant to pay tax and it increases tendency of tax avoidance. As the people get poor quality public facilities and services provided by the state and there is high rate of corruption, obviously they like to disdain the civil obedience which ultimately develops into practice of tax disobedience.

The decade long democratic practice was never on the right track and it was always called the baby democracy; the leaders came to state authority but they could not reign the country, they looted the resource of the state and erected the sky rocketing towers and building but the road management was even worse and people had to face corrupted administration which sucked the common people. The taxpayers in the public gathering were to talk about the quality of the public services provided by state which were ultimately provided by the money paid by them as the tax.

Most of all generalization of the concepts of tax planning and tax evasion has been the major factor for the every rupee of revenue loss in the country. The tax planning in Nepal are under severe question that the tax planning in Nepal are never realist, rather they are hypothetical and they are far beyond the ground reality of the country. Many of the so called scholars are the ones who are educated abroad and they simply try to imitate those strategies blindly and enforce them ditto. They never appraise those policies whether they could be applied in Nepal; in the geo-political reality of the country.

Formulation of tax laws has been another prominent reason of poor tax administration and tax evasion in Nepal. The private sectors are well organized and they have developed well influential position in the political parties, in fact they are the donors to the political parties and the private sector causes the policy level corruption as they influence the ruling as well as the opposition parties in the parliament. They don't pay the tax properly but are able to influence the government and they bag the national awards. In the recent years, the influence of the private sectors such Federation of Nepalese Chamber of Commerce and Industries (FNCCI), Nepal Industry Association (NIA), Nepal Trans-Himalaya Trade Organization (NTHTO), and Several organization of entrepreneurs have been the key players in Nepalese politics. Binod Chaudhari, Rajyalaxmi Golchha, Rajendra Khetan, Bikash Rauniya, Dr. Baburam Pokharel, Mr. Umesh Shrestha, Mrs. Geeta Rana, Mr. Ganesh Thapa and many more have been appointed in the parliament. Their presence in the law making body has negatively influenced the law making process on behalf of the people.

The professional persons such as doctors, lawyers, engineers, chartered accountants, academicians, teachers and professors, consultants and many more are also reluctant to pay the tax properly. The persons of middle class have high expectations and they are seemed to be the critique to the state mechanism, its rate of performance and the quality of service provided by the state. They readily practice tax disobedience or tax evasion. Chartered Accountants, who are especially appointed to check the tax evasion and legalize it through their report called audit report, readily manipulate the audit report, for their personal benefit.

The professional ethics or codes of conduct or ethics for professionals are just formal or customary. They are not implemented anymore and none of the governmental agencies which are to check whether the implementation of such professional codes or ethics are properly implemented or not. This is a question that is directly annexed to the concept of good governance which ultimately lacks in this land. The taxpayers should be encouraged to pay the tax and the government can do it, by providing quality, timely, rapid, and accountable service fairly without any prejudice. As they never see it, there is anarchy, corruption, politicization and favoritism, how can the ordinary persons prefer to trust the government?

As a practicing account one has significant influence how the tax of his client has been calculated and how taxable amount is calculated and is paid. It is not only the responsibility of the chartered account to act on favor of his client but also in the favor of the nation in which he was born, he grew, he inculcated, manages his life, needs and aspiration of life, and gets dignity and passes his entire life. The education system in Nepal does not inspire a person to be dutiful and honest.

The fact that code of ethics has guided a professional accountant rendering professional service to put forward the best position in favor of a client, its impact on the general public has been in the negative way as most of the general public thinks auditor as the machine of decreasing the tax liability through any means. Some of the practices of the professional accountants seems to be driven towards the understanding of the general public although it is yet to be decided what actually is. The professional enhancement is possible where a professional can perform his duty without any fear of discrimination on any form, social, economic, ethnical, linguistic, political, color, or social strata. But where lack of free and transparent chances of livelihood and career are hindered by various hurdles, a person is compelled to negotiate or compromise unnecessarily.

The budgetary distribution in the recent years, shows that the government has now prioritized the agro sector in the budget distribution as it should be established as employment opportunity generating sector. The government has focused so in such policy. The government has optimized to create 105,000 jobs every year in the agro sector. The agricultural system in Nepal is very traditional and it needs timely introduction of policy and technology, the government has to establish nearly 20, 000 small industries shall be established. They should be agro based industry and it could have two very good impacts; first, it could make the people economically active at the grass root level and second it would protect the flora and fauna of the country.

5.5 Composition of Large Taxpayers

The office of Company Registrar's Office, Tripureshwor does not have updated figure of number of companies or enterprises registered as large taxpayers not the office of large taxpayers. They have reasons not to have such number and they opine that the enterprises incorporated once as company and many of them come into business whereas some others never operate business. The registered company neither operates business nor legally dissolves it. The files of many companies strand in the chambers of office of company registrar. Neither the board of directors nor promoters of the company nor the office of company registrar carry out any required activities to legally settle such companies into liquidation.

Some other companies operate business for few years and they face several challenges and they are stopped after some years, so it cannot be said the exact number of companies operating business as large tax payers. But an economic survey carried out by NESG, shows that there are nearly 22570 large taxpayers enterprises operating in Nepal and the tax paid by them annually is nearly 16.27 percentage of the total revenue of Nepal. Mr. Gopal Prasad Poudel, Executive Director at Office of Large Taxpayers, Pulchowk Lalitpur, says, "Large taxpayers have two significant role one is the mainstream the national economy, second they mobilize the economic activities in the country. But the most important is the second one".

Tradition of tax evasion in Nepal is as long as the history of modern Nepal. The kings and family members of royal family, during panchayat regime, never paid tax, in fact, the members of the royal family were above the law. They used to capture the most important natural resource; land, riverside, ponds, forest, buffer-zone, national parks, conservation area, hills and hillocks were registered in the name of the king, queen, or other members of the royal family. They never paid tax. As the result the rich businessmen, high profile person, also took advantage the company of the members of the royal family. They never paid the tax or paid nominal tax. As the result, Nepal became a poor country dwelled by rich persons.

Tax evasion should be concern of not only the tax administrators but also of all other stake holders of civic society. The state policy on economy and ranges of taxes the goods and services made to be taxable and tax free are some issues that directly has root in the state policy public finance.

CHAPTER - SIX
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

6.1 Summary

Nepal, developing country where there have been more than five major scale mass movements and seven constitutions have been promulgated to address the desires of the people; taxation is surely a matter of common concern. It is the need of the time to develop the country. As every political change is aimed for economic reform, the economic reform is not possible, it needs a timely reform in taxation. So administration of VAT is the need of time. So the research was focused on this topic and on the basis of preceding chapter data presentation and analysis, some important findings of the research has been presented in summary as follows:

1. Timely reformation in the taxation policy of the country is appraised as need and introduction of VAT system is introduced in Nepal.
2. The VAT system that has been implemented in Nepal has completed almost for two decades but it has not been able to achieve the target due to various complexities and problems.
3. Understanding VAT and its implementation to the utmost capacity needs highly skilled man power and industrious activities which invites need of change in the mode of production, supply and consumption but there is no desirous change in the consumption pattern in the country though there has been several political changes in Nepal.
4. Theoretically, VAT is superior to sales tax in many of its form. As it was abolished already, there is no possibility to compare it with VAT now, so, only theoretical superiority is established.
5. A large amount of government revenue comes from taxation. It covers nearly 82.01 percentage percent of government revenue whereas, the contribution of non-tax revenue is less than 20 percent in Nepalese tax structure. But it has not brought huge increment in the total revenue of the country.
6. The contribution of tax revenue was expected to increase after the implementation of VAT, but implementation of VAT did not increase the contribution of tax revenue on total revenue significantly.

7. Only few numbers of consumers have purchases. Customers have no habit to take bill on their purchase. This implies that there is very low public awareness and consciousness level towards VAT. On the other hand, businessmen do not want to issue bills. The businessmen have the intension of 'Malpractice' on VAT. So they don't provide bills to customers. This indicates that Government should give proper supervision and rational auditing of business account. Administrative incapability, under invoicing, un-billing and lack of public awareness towards VAT are the main problems in the process of VAT implementation in Nepal.
8. VAT system is simply the method of collecting the revenue from the sale activities but it is really important to increase the economic mobility of the people, it is obviously clear that the amount of VAT will increase if the people in the country spend more money.
9. Industrialization based on the agriculture and locally available resource shall be enhanced to increase the amount of revenue.
10. In Nepal, collection of VAT has been classified as imports and domestic sources, out of which collection from imports have significant, share i.e. Rs.34.55 billion in the fiscal year 2009/10 as compared to domestic contribution, amount is just Rs.20.34 billion or 35.06 percent of the total VAT revenue in the same fiscal year. This surely indicates that there is heavy dependence of Government of Nepal on imports rather than domestic products.
11. More revenue can be generated through VAT by widening its coverage. The small traders, which fall on the threshold limit could not have brought into VAT system as yet, they should be registered. The revenue can only increase by discouraging tax evasion. There is wide range of practice of evading tax.
12. The contribution of VAT to GDP is just 4.06 percent in an average of 19 years. The contribution of VAT to GDP reached 6.16 percent in the fiscal year 2015/16. So the VAT/GDP ratio is very low as compared to other developing countries like Nepal.
13. The contribution of VAT in total revenue is not up to the satisfactory level either in an average. It had contributed 25.40 percent to the total revenue in fiscal year 2015/16. It could contribute just about 26.76 percent to the total revenue in an average of 19 years of study period.

14. The contribution of VAT in total tax revenue is not up to the satisfactory level either in an average. It could contribute just about 32.61 percent to the total tax revenue in an average of 19 years of study period.
15. The contribution of VAT in total indirect tax revenue is about 44.25 percent in an average of 19 years of study period.
16. The contribution of large taxpayers in total tax revenue is about 21.93 percent in an average of 19 years of study period.
17. The contribution of VAT in large taxpayer's tax revenue is about 34.10 percent in an average of 19 years of study period.
18. The numbers of new taxpayers are in increasing trend but the number of large taxpayers is significantly lower, as its number is only 903 in F/Y 2015/16.
19. So far as the price to the consumer is concerned, as with the sales tax, the consumer pays the same amount to the retailer. There is no difference in consumer price, which paid for the product or service.
20. The growing tendency of tax evasion is a severe challenge to the Nepalese economy. It should be stopped, controlled and litigating the criminals of tax evasion shall be duly strictly carried out.
21. Recruitment, promotion and placement of the tax administrators, officers and employees shall be done fairly and it should be free from the undue influence politicization, nepotism and favoritism.
22. The entrepreneurs, businessmen, contractors and industry owners have been able to take illicit benefit from their intact relationship with the local and national leaders. They are the donors to political party and they are able to take illicit benefit of tax evasion. In fact they pay the money to leaders lesser amount than the tax amount.
23. Nepal is going to follow new political structure and it is the federal structure. Seven states have been proposed and this might create inequality among the states which might create tussle and unrest in the country that has just been out of the decade long struggle and bloodshed war.

6.2 Conclusions

Development is the common concern of the every citizen; they want social justice, equality and freedom. But developments are of different types and the first one is to achieve the economic development and ensure the rapid rate of economic growth. In fact, the economic growth is the key factor of all other aspect of social life. It needs huge amount of investment in economic overheads and other development activities for which taxation is undoubtedly a primary source of revenue for the government. Taxation may be considered as basic tool in the path of economic development. There are many youths compelled to leave the country for foreign employment and it has been grown as a trend in the recent years. The condition is so worse in the rural areas is that there is no single youth in the village they have gone to Arabian or east Asian countries or to India, this has hampered the economic activity in the country. The productivity has been decreased, many of the productive land are left barren and the worst is that the country has been growing very dependent in the recent years.

The state collects tax in both transactions i.e. export and import. The tax collected from export and import does not have significantly the same meanings. As Nepal is facing severe crisis in every sector, the trade deficiency is also increasing. The trade deficit of Nepal with India is huge and it is increasing.

However, there are several issues in the applicability of VAT in Nepal. One of the key issues is administrative capability and situation which definitely dwells the great importance for the effective implementation of VAT in Nepal. Actually, VAT was introduced in Nepal in the ambitious hope to increase the revenue and particularly stop the leakages made through other forms of taxes. But history has shown that the government has already tried many reforms in the field of taxation, in the absence of alternative effective methods, lack of proper planning and in other words leading to administrative failure. Indeed, this is true in the case of VAT also, Nepalese businessmen are generally found to avoid the frequent contacts with the tax officials because they are widely known for unofficial benefits. Even in the administrative area, there is a widespread corruption as well as red taps prevailing everywhere. So, for that government, administrative capability and transparency are the serious concerns. In order to make resource mobilization though VAT, following things should be considered,

a) Enhancing administrative capacity and credibility,

b) Issuing identification to tax payers

c) Execution of compulsory registration of the business firms

d) Imparting tax education to,

e) Providing incentives to small traders,

f) Co-ordination with private sector,

g) Due execution of refund system,

h) Use of electronic media to increase mass awareness.

It is called corporate culture where a person wants to develop enterprises of his own, which is not developed in Nepal yet. It is a common problem in the developing country where the people seek jobs and they prefer jobs than self-employment. Besides, there is no development of small scale industries at the local level in Nepal. The small scale and cottage industries are the backbone of national economy but people prefer to work in the large scale industries and the multinational companies. Many people live traditional life in Nepal. They carry out subsistent farming to manage their problem of livelihood. It does not help in taxation activities.

Currently, while the numbers of registrants are increasing but the tax collection has not been satisfactory when compared to the number of registrants. Public awareness is very low. The salesmen are not used to issue bills and the consumers to receive them. Undervaluation and smuggling of goods are mostly found. The problem seems to be aggravated by the VAT rate to 13 percent, which immensely discourages the customer in demanding bills on their purchases.

Truly, increment of VAT rate has fairly negative influence on general people. Their viewpoint is to broaden the tax base instead of increasing the tax rate. Tax rate has been increased time and again for nothing, but this does not get reflected in real revenue mobilizations. Rates should be continued for a long time for transparency and must be incorporated in VAT act itself. So, the government has to pay serious in increasing the tax base instead of increasing the tax rates. International experience tells us that the gradual lowering of duties or tax rate is an effective tool in achieving desired goals rather than increasing it.

A bold vision, evolutionary leadership, efficient bureaucrats, honest taxpayers and collectors are the invisible infrastructure required for effective mobilization of resources. All must think from a long-term perspective rather than weighing up immediate pros and cons. The Inland Revenue Department must come up with a forward-moving process, concrete action plan and policies to cope with the global challenges in order to accelerate the reform process.

6.3 Recommendations

In the words of Dakito Alemu, a renowned economist who carried out the implementation of VAT in Ethiopia with respect to social spending of the people, VAT is creating tax cascade effect on the taxpayers in the country. Unlike the traditional taxation system, VAT has been more effective and it covers wider arena but its implementation should be duly carried out.

Implementation of VAT is a leap step taken by the state from the traditional tax system to a modern one, several things are still lacking for the successful implementation of VAT in Nepal. In such situations, following recommendations have been made to make VAT effective and more efficient on the basis of findings and conclusions of the study.

1. Politics is the center of all activities as all the policies are directed by the political system i.e. by the politicians. The political system is run by its leaders. The bureaucrats do whatever their political leaders call for. Most of the politicians are motivated by their own benefits and hence, defective policies are likely to be made. Due to political interference, policies are not so effective to generate VAT revenue as it was expected during the initial implementations. Thus, political interest highly influences economic policies. Lack of foresightedness, analytical skill, and honesty has caused to fluctuate the economic policies. The political instability has been seen as a great challenge in the country. The politics has been dissolved into coalition government where the maintaining the coalition, the persons having no knowledge of economy is appointed as finance minister which creates hue and cry in the country. So the politics should be sensible towards the economic issues, responsible, transparent and reliable.

2. There is no good environment for the investors. The trade union activities have terrorized the investors, similarly the fragmentation in trade union activities have added chaos in the environment. There are innumerable trade unions that are inflicted to the political parties. The trade unions do not work on behalf of the laborers rather they work on the direction of their mother political party. It should be controlled to enhance the commercial environment in the country.
3. Political commitment is one of the most essential phenomenon for the success of government policies. This is true for VAT implementation as well. The leader shows their commitment but intentionally nobody has strong will power to make VAT system successful and more effective. There is a lack of proper cooperation and coordination between government and opposition parties. Hence, government should create favorable political environment for effective and successful implementation of VAT.
4. The bureaucratic structure has not been changed in the country. It was as in the time of Rana rule. It needs a timely change in the bureaucratic structure of the country. One has to come to Kathmandu for registration of a company, similarly there is only one office for large taxpayers at Hariharabhawan, Lalitpur. This creates nuisance in the country. One just for the purpose of registration has to come to Kathmandu from eastern or far western region is a nuisance and it has hampered the corporal environment. Since the country has gone into federal structure the power to register company will be more decentralized and it will help to increase to enhance taxable activities. Expansion of economic activities should be increased.
5. The success of VAT system is not only the success of the IRD, but also the success of nation as whole. The role of general media, radio, TV, newspaper plays an important one. Emphasis should be given on mass media. Awareness towards VAT system should be crated among general public, non-government and government organization.
6. Many businessmen having taxable capacity are beyond tax net. So the enforcement should be made more effective and voluntary compliance should be encouraged. The level of voluntary compliance could be raised through a set of promotion and regulatory measures including positive and service minded attitude of tax officials, rationalization of tax administration

simplification of tax procedures and forms, strengthening tax administration, conducting audit and investigation in an effective manner and panelizing those who break the rules. The procedures regarding registration, collection, interest, penalty, audit and appeal should be simplified and improved.

7. Agriculture is the main occupation of the people of Nepal. It should be commercialized and industrial activities should be linked with agriculture. For this, we can commercialize the agriculture products, change the cultivation system, expand the cultivable land establish cooperatives in at the local level and for the production.
8. The private sector and government sector must work together and collaboratively for the successful implementation of VAT. Both sectors should always be taken into confidence by each other. Business sector participation in policy making is necessary to increase the VAT revenue for government.
9. As most of the retailers are beyond the tax net, the threshold of Nepalese VAT is relatively high but their contribution on total trade is significant. As threshold and tax, refunds are two possible gates of controlling tax evasion, auditing investigation and monitoring systems should be made simple and effective; and the period of refund should be minimized. It is recommended to minimize the threshold limit to NPR. 1 million.
10. Changing the environment at the offer of taxpayers is must. The tax administrators should be made fair, friendly and impartial. There should be the initiative from VAT administrators to win the trust of industrial and trade organizations as well as professional community. The success of VAT depends upon the honesty and transparency of members of tax administration.
11. The Government should launch very effective system to regain the faith of the taxpayers. The market monitoring system should be more effective, immediate legal steps must be taken against those who try to escape from VAT net by using lawful means or methods.
12. The exemption list is very long. The exemptions are mainly due to administrative complexity and equity consideration. Agriculture sector is entirely exempted on administrative grounds while many other exemptions are due to vested interest of the politicians. Some basic needs are out of tax net in order to introduce progressiveness in the tax system. But the long list of exemptions is not desirable under a broad based tax regime. Moreover, they

are the main loopholes to evade tax. Further, they reduce economic efficiency. So, the exemption list should be shortened gradually, so that in the long-run all transactions fall under VAT net.

13. The existing long open border is the main cause of smuggling and under valuation in the border area. Under valuation in custom points not only reduces revenues from both custom duties and VAT, but also creates dissertation in the domestic market. Hence, it helps to develop smuggling economy in the long-run. So, an open border should be regulated to a greater extent. Moreover, customs department and Inland Revenue Department should act in coordinative manner. Actions of revenue investigation department should be strengthened.
14. The VAT refund system must be made more effective in order to refund the tax without delay. The practice of credit refund must be controlled by employing a proper mechanism.
15. Lack of proper billing that is supported, encouraged and forced by the smuggling and under valuation in the border side and lack of public consciousness, is the most challenging problem. Therefore, customs administration should be close cooperation with VAT administration. Moreover, education programs should be initiated to educate consumer about billing system.
16. Computer networking system is necessary. The existing computer system should be revised and an integrated computer network with Customs Department, Department of Tax and Ministry of Finance should be established for information and operation of this system. More improvement is needed in the present communication system.
17. Inefficient staffs lacking practical and specialized training are the serious problem. So, providing training to such staff is highly essential such as e-training.
18. The consciousness consumer program and the conscious seller program will be effective in Kathmandu valley. These programs should be launched and extended all over the country.

Tax administration is the liability of the state or government. So, the government needs to act duly in full cooperation with the Tax Administration, the taxpayers and businessmen as well as consumers as its efforts to generate more revenue. VAT must be made successful and depends upon honesty, faith and morality of tax officials and business people. Therefore, it is time to action and improvements for effective and successful operation of VAT in Nepal for future perspectives as well as present needs of economic development. The contribution of large taxpayers should not be minimized. The large taxpayers have nationwide network of production, supply and storage. The government cannot replace them over night. Though the large taxpayers though public or private corporation act for profit generating business, their contribution in social welfare shall not be minimized. The whole country shall have to unite for development, prosperity and advancement in life.

The developing countries like Nepal, since they are facing several challenges in their economic sectors, have limited economic activities in the country and are bound to manage the resource from tax. Considering the limited scope of direct tax, revenue largely depends upon indirect taxes like custom duty, sales tax and excise duty. Contribution of indirect tax total revenue has an most influential trend. Custom duty contributes major source hence the revenue policy amounts virtually to import based. The distribution of incidence of indirect taxes has been found regressive. Buoyancy of components indirect taxes such as customs and sales tax is found greater than unity while that of excise duty is less than unity. In terms of GDP sales tax is found made buoyant. In these all regards, implementation of VAT shall be duly exercised.

The measurement of the administrative cost associated with tax system is a part of theory and policy of taxation and enables us to see a public finance from the angle of positive economy and makes the decision concerning taxation policy at central even local level less difficult to economist. Theoretically the measurement of the administrative costs is not too difficult main issue lays at perfect determination of particular type of taxation costs and its proper measurement. The evaluation of tax efficiency collecting in the Czech Republic is suffering from lack of supportive data. The data are available on an aggregate level, but for measurement of administrative costs and analysis of costs for particular taxes are inapplicable.

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