CONTRIBUTION OF VALUE ADDED TAX ON GOVERNMENT REVENUE

Submitted by

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RECOMMENDATION

This is to certify that the thesis

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Contribution of Value Added Tax on Government Revenue

Has been prepared as approved by this department in the prescribed format of the faulty of management. This is forwarded for examination.

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And found that the thesis to be an original work of the student and written according to the prescribed format. We recommend the thesis to be accepted partial fulfillment of the requirement for the degree of

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DECLARATION

I hereby declare that the work reported in this thesis entitled **"Contribution of Value Added Tax on Government Revenue"** submitted to Central Department of Management, Tribhuvan University is my original work in the form of the partial fulfilment of the requirement of Master of Business Studies (MBS) under supervision of Dr. Dhruba Lal Pandey, Lecturer, Central Department of Management, Tribhuvan University.

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Karuna Adhikari

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ABBREVIATIONS

AD	Anno Domini
C-VAT	Consumption Variant
EEC	European Economic Community
GDP	Gross Domestic Product
GON	Government of Nepal
GST	Goods and Service Tax
i.e.	That is
IMF	International Monetary Fund
IRD	Inland Revenue Department
I-VAT	Income Variant
MOD-VAT	Modified Value Added Tax
MOF	Ministry of Finance
P-VAT	Gross Product Variant
SN	Serial Number
TU	Tribhuvan University
USAID	United Stated Agency for International Development
VAT	Value Added Tax
WTO	World Trade Organization

CHAPTER I

INTRODUCTION

1.1 Background of the Study

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

The term 'Value Added Tax (VAT)' can be defined as a tax levied (on the value created) at each stage in the process of production and distribution of a good or service. These stages can be import, manufacturing, dealers, wholesalers and retailers etc. For example, a large paddy collector from the local farmers pays a percentage on the paddy it sells to a miller. The miller then pays the same percentage (less what the paddy collector paid) on the rice (processed paddy) which it then sells to a hotel. The hotel likewise pays the same percentage (less what the paddy collector and miller paid) on the food it serves to its guest. Proponents of a VAT claim it is transparent as each person or company along the supply chain has an incentive to ensure that every other person or company pays the VAT, and thus reducing the likelihood of tax evasion and avoidance. They also argue that it is more straightforward than other taxes (which it replaces) because there are virtually no exemptions or loopholes. It is based on value added principle.

The tax levied on the value added by the registered taxpayers to their purchase and import is called value added tax (VAT). The basis for VAT is the value addition that takes place at each level in the production and distribution process of goods and services (Khadka, 2001). There are three variants of VAT, namely production-type VAT, income-type VAT, and consumption-type VAT. Production-type VAT is simply calculated on the sum of all expenditure on Gross Domestic Product (GDP) net of government wage expenditure (Zee, 1995). Under this variant, capital goods purchased by a firm from other firm are not deductible for the tax base in the year of purchase (Khadka, 1989). Income-type VAT relates with the sum of factor of income payments. Under this system, capital goods used for methods of production are not fully deductible but only a portion relevant to a particular period is allowed to deduct and the remaining portion is carried over for the next period" (Silwal, 2000). Consumption-type VAT basically relates with the domestic consumption irrespective of capital or consumable goods and services.

It is normally implemented under two principles, viz, the origin and destination principles. Under the origin principle, goods and services are taxed at the place where they are produced or rendered whereas destination principle signifies that goods and services are taxed at the place where they are consumed irrespective of its place of production. Imports are exempted and exports are taxed under origin principle while imports are taxed and exports are exempted under destination principle. There are three methods of calculation, viz, addition method, subtraction method, and credit invoice method. Under the addition method, VAT is calculated on the value derived by adding all costs incurred to the factors of production like material, wages, overheads, profits etc. while VAT is calculated by deducting raw materials from the sales under the subtraction method. Under the credit invoice method, tax paid on the purchase of inputs is allowed to deduct from the tax collected from the sale of goods and services. Moreover, some other important aspects of VAT design issues must be addressed. This comprises the numbers of tax rates, the scope of exemptions and zero-rating goods and services, level of exemption threshold, and administrative apparatus.

VAT is the recent innovation in the field of taxation in Nepal. Despite all the constraints and obstructions from the business communities, VAT was introduced in Nepal on 16 November, 1997 with the objectives of increasing revenue mobilization by broadening the tax base, and of instilling neutrality, efficiency, fairness, and transparency in tax administration. It was launched in place of the then four different taxes, namely, Sales Tax, Contract Tax, Entertainment Tax, and Hotel Tax.

In Nepal, VAT is calculated on invoice credit mechanism in which the registered taxpayer, de jure taxpayer, collects VAT from the consumers, de facto taxpayers, on their taxable supply and offset their input tax paid on their taxable purchases. A transaction within the scope of VAT and on which VAT is imposed is commonly called an input and the VAT collected on it is called output tax (Williams, 1996). Nepal has embraced destination principle that imposes tax on the taxable transaction within the jurisdiction of Nepal. All Imports are taxed and exports are zero-rated in order to lend support for export of domestically produced goods and services through its tax credit and tax refund mechanism. The single standard rate of VAT was set at 10 percent at the outset and subsequently increased to 13 percent since 2005.The government has defined different thresholds for different businesses.

In the least developed countries like Nepal, the role of indirect tax is seen to be more important. Of the Indirect taxes, VAT is probably the best tax system and the most important innovation of the second half of the twentieth century, which is considered as an effective means to collect revenue as a reformed sales tax of indirect tax system. VAT is a broad based tax as it also covers the value added to each commodity by a firm during all stages of production and distribution. It is a modern tax system which enables to efficient collection system, to increase efficiency and to reduce tax evasion. It is also refereed as the backbone of income tax system in Nepal. VAT plays great role in the revenue mobilization in Nepal. The reason behind VAT system, it makes transparency in all kinds of transaction, helps to make the wide area of tax and discourages tax evasion. So it is needless to say that VAT is the most important sources of the government revenue. VAT is intended to be levied – or charged – whenever there is some value addition to raw material. The taxpayers on the other hand, will get credit for the amount of tax paid off at the stages of procurement. The value added tax system has proven to be effective in avoiding problems that normally might arise out of the double taxation of goods and services. The lesson learnt of tax reforms in developing countries proves that VAT is the most important choice and ingredient of tax reform. It may be adopted by a developing country with no difficulty and is an important instrument for the mobilization of internal resources and the pressure of VAT on economic activities is minimal or not at all. The tax reform and adoption of a VAT, is therefore, essentially connected with the efforts of many underdeveloped countries to achieve the goal of economic development (Adhikari, 2003).

1.2 Statement of the Problems

Like other developing countries of the world, Nepal is also suffering from rapid population growth, increasing unemployment, resource constraints and high dependency on an agriculture, low living standard and poor infrastructure. The government expenditure is increasing but government revenue is not growing equivalently as per expenditure. So the government is facing deficit financing year by year. The deficit financing increases share for external as well as internal and foreign aids. For the payment of external as well as internal loan and financing the government expenditures, internal revenue is the main source. Tax revenue is one of the main sources of government revenue. Income tax is a strong component of tax revenue. In this context, VAT is only one solution to increase the research mobilization capacity of country. It has been already 17 years of implementation of VAT in Nepal. VAT was implemented after several preparation programs such as publicity, Campaign, workshop, training advertisements, publication of articles discussion on radio and television, commenced various booklets and other materials were published. In this process only positive aspect of VAT were discussed.

The negative aspects were not taken in to consideration. So that the shortcoming that can enter on the process of VAT implementation couldn't discussed .It seems its right time to make an assessment the VAT by identifying its problems that has been arisen in the process of VAT implementation and prospects of revenue mobilization through VAT in the country. By analyzing the problem of implementation of this study is trying to pinpoint the problem in depth and discussed in meaningful way by which further research work can be carried out in coming future for the purpose of effective VAT collection in Nepal. The major problems of the study are as follows.

1. What is the trend and structure of VAT in Nepal?
2. What is the contribution of VAT on Total Revenue and Tax Revenue?

1.3 Objectives of the Study

The main objective of this study is to examine the contribution of VAT in context of Nepalese government revenue. However, specific objectives of the study are as follows.

1. To analyze the trend and structure of VAT in Nepal.
2. To analyze the contribution of VAT on total revenue and tax revenue.

1.4 Significance of the Study

The current research is based on secondary data. Previous researchers have suggested improving the VAT administration, increasing the contribution of VAT in resource mobilization, and widening the VAT coverage. This study mainly focused to identify the contribution of VAT on government revenue, contribution to GDP, performance of VAT, correlation of VAT with gross domestic product, total revenue including tax and indirect tax revenue. Hence, the study will be applicable to the following stakeholders:

- VAT in some parts of the world ensure that every step of the life cycle of a product/service is taxed, rather than just the sales of the product. The tax is on the value added to the product.
- For the tax department this gives them a better idea of what is going on and how is the structure of VAT on government revenue and thus ensure they collect tax. This is because people get a tax deduction on the VAT they paid. Thus they have an incentive to get receipts from their suppliers so they can reduce their tax bill. Thus the supplier has to create a paper trail which can be caught out in an audit.
- A sales tax has to determine if the customer is the final customer etc. and then apply it to the bill. This is not required however for a VAT tax, because if the customer is not the final customer of the product that customer gets a credit for the VAT they paid.
- VAT calculations would be terribly costly to businesses, which would have to calculate VAT on every product, at every step of the process. These costs, of course, would be passed on to consumers, along with the VAT rates. Hence, the study will be significant to the government for policy making of easy VAT collection.

1.5 Limitations of the Study

Following are the limitations of the study:

1. This study is covered only ten fiscal year data since the fiscal year 2007/08 to 2016/17.
2. This study is based on availability of reliable data and sufficient literature.
3. It cannot cover whole tax system. It covers only VAT system of Nepal.

1.5 Organization of the Study

The whole study will be categorized into following five chapters. Which is presented as follows:

Chapter I: Introduction: In the first topic explains background of the study, statement of the problems, objectives of the study, significance of the study, limitation of the study, and organization of the study.

Chapter II: Literature Review: In this chapter, the researcher was consulted various polished and unpolished theoretical review, review of previous studies (international article, national article, previous thesis), research gap.

Chapter III: Research Methodology: In this chapter describes the data and methodology. Basically, this chapter covers the research design, population and sample, sources of data, data collection procedures, data processing procedures and data analysis tools and techniques. In includes also relation between dependent variable and independent variables.

Chapter IV: Data Presentation and Analysis: This chapter presents the table, pie-chart, correlation, trend and graph by the analysis of data. This chapter also consists of major findings of the study.

Chapter V: Summary, Conclusion and Recommendations: This chapter is final chapter which consists of summary, conclusion and recommendations for further improvements.

Beside this, bibliography and appendices have also been incorporated at the end of the chapters.

CHAPTER II

LITERATURE REVIEW

A literature review is an evaluative report of information found in the literature related to the selected area of study. The review describes, summarises, evaluates and clarifies this literature. It gives a theoretical base for the research and help to determine the nature of your research. Works which are irrelevant should be discarded and those which are peripheral should be looked at critically. A literature review is more than the search for information, and goes beyond being a descriptive annotated bibliography. All works included in the review are read, evaluated and analysed. Relationships between the literature must also be identified and articulated, in relation to the tax field.

2.1 Theoretical Review

Theoretical concepts are formulated to explain, predict, and understand phenomena and, in many cases, to challenge and extend existing knowledge within the limits of critical bounding assumptions. The theoretical framework is the structure that can hold or support a theory of a research study. The theoretical framework introduces and describes the theoretical concept of taxation that explains why the research problem under study exists.

2.1.1 Meaning of Tax

A tax (from the Latin *taxo*) is a mandatory financial charge or some other type of levy imposed upon a taxpayer (an individual or other legal entity) by a governmental organization in order to fund various public expenditures. A failure to pay, along with evasion of or resistance to taxation, is punishable by law. Taxes consist of direct or indirect taxes and may be paid in money or as its labour equivalent.

Most countries have a tax system in place to pay for public/common/agreed national needs and government functions: some levy a flat percentage rate of taxation on personal annual income, some on a scale based on annual income amounts, and some countries impose almost no taxation at all, or a very low tax rate for a certain area of taxation. Some countries charge a tax both on corporate income and dividends; this is often referred to as double taxation as the individual shareholder(s) receiving this payment from the company will also be levied some tax on that personal income.

Tax is, in simple terminology, a liability to pay an amount to the government. It is a compulsory contributions to the national revenue from the taxpayers according to law. According to Prof. Seligman, “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”. Same way According to Plehm, “Taxes are general contribution of wealth levied upon persons, natural of corporate to defray expenses incurred in conferring common benefit upon the residents of the states” (Bhattarai and Koirala, 2004: 1-3),

From above definition, it can be said that firstly a tax is a compulsory levy and those who are taxed have to pay it without getting corresponding benefit of services or goods from the government. The taxpayer does not have any right to receive direct benefit from the tax paid. Due to this compulsory nature, people have expressed different views in satirical ways about the taxation. Some say: “Nothing is certain in this world but death and taxes”, some say, “Death and taxes are both certain. But death is not annual”, while others say, “Death means stopping to pay tax”. Here it should be noted that not all compulsory payments are taxes. For example, fines and fees are also compulsory payments without having direct benefit to the payer but it is not tax because its objective is not to collect revenue but to curb certain types of offences. Secondly, taxpayer cannot receive any quid pro quo for the payment of tax. The taxpayer does not receive equivalent benefit from the government. A tax is not a price paid by one, for which he can claim goods and services. The charge of price for goods and services by public authority is not a tax. Thirdly, the tax has to be paid to the government for running it, fourthly, in case of tax the amount spent for common interest of the people. The tax is collected from haves and spent for the interest of have-nots in the society. Fifthly, a natural as an artificial person pays the tax.

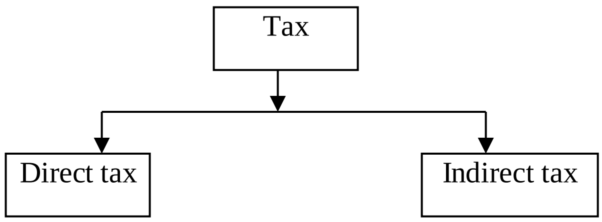
In conclusion, it can be said that a tax is a liability to pay an amount to the state. The basis for the payment is that the assesses have income of a minimum amount from certain specified sources or that they own certain tangible or intangible property of that that carry-on certain economic activities which have been chosen for taxation.

Taxation has been a very essential element of a government from the very beginning to the state system. However, the main objective of taxation has been different for different epochs. In ancient times, the major objective of taxation was strengthening the muscle of a state by providing resources. Since the time of Adam Smith, the chief motive of collecting the revenue was to provide resources to the government for providing security to an individual and society against violence, invasion, and injustice and maintaining public institutions.

In the modern day, the main objective of taxation has been shifted from security perception to the economic development. The modern objective of taxation is not only to maintain peace and security but also to conduct development activities.

2.1.2 Classification of Taxes

On the basis of shifting of burden tax can be classified into two broad categories; direct and indirect tax. This is most common and popular classified of tax.



Direct tax:

- Income tax
- Property tax
- Vehicle tax
- Interest tax
- Expenditure tax
- Death tax, gift tax, etc.

Indirect tax:

- VAT
- Excise duty
- Import and export duty

a) Direct Tax

A direct tax is a form of tax paid by a person on whom it is legally imposed . It is collected directly by the government from the person who bears the tax burden. Tax payers need to file tax returns directly to the government. Therefore, direct tax can not be shifted. The impact or the money burden and the incidence are on the one and the same person pays and bears the tax burden. It is the tax on income and property. Examples include income tax, property tax, vehicle tax, interest tax, expenditure tax, death tax, gift tax etc.

b) Indirect Tax

An indirect tax is a form of tax imposed on one person but partly or wholly paid by another. It is collected by mediators who transfer the taxes to the government and also perform functions associated with filing tax, the impact and incidence of tax are on different persons . In other words the person paying and bearing the tax is different. It is the tax on consumption or expenditure. Example include vat, excise duty, import and export duty etc.

2.1.3 Value Added Tax

A value added tax (VAT), also known as Goods and Services Tax (G.S.T), Single Business Tax, or Turnover Tax in some countries, applies the equivalent of a sales tax to every operation that creates value. To give an example, sheet steel is imported by a machine manufacturer. That manufacturer will pay the VAT on the purchase price, remitting that amount to the government. The manufacturer will then transform the steel into a machine, selling the machine for a higher price to a wholesale distributor. The manufacturer will collect the VAT on the higher price, but will remit to the government only the excess related to the "value added" (the price over the cost of the sheet steel). The wholesale distributor will then continue the process, charging the retail distributor the VAT on the entire price to the retailer, but remitting only the amount related to the distribution mark-up to the government. The last VAT amount is paid by the eventual retail customer who cannot recover any of the previously paid VAT. For a VAT and sales tax of identical rates, the total tax paid is the same, but it is paid at differing points in the process.

VAT is usually administrated by requiring the company to complete a VAT return, giving details of VAT it has been charged (referred to as input tax) and VAT it has charged to others (referred to as output tax). The difference between output tax and input tax is payable to the Local Tax Authority.

VAT replaces the old Sales Tax, Contract Tax, Hotel Tax and Entertainment Tax. It is believe that successful implementation of VAT will helps to generate customs duties and income tax also and it is expected to enhance the revenue collection and it is closely associated with the GDP. This Act classifies good and services under three category they are Vat able goods and services, exempted goods and services and zero rated goods and services. It is applied at a single rate (presently 13%, initially 10%) based on addition of value of the goods and services at each stage in the process of supply and delivery of goods and services.

The VAT is a general, broad based consumption tax assessed on the value added on the goods and services. It applies more or less to all goods and services that are bought and sold for use or consumption in the community. Thus, goods which are sold for export or services which are sold to customers abroad are normally not subject to VAT. The success of the VAT system depends upon the proper account keeping, registration of business, effective billing system and so on.

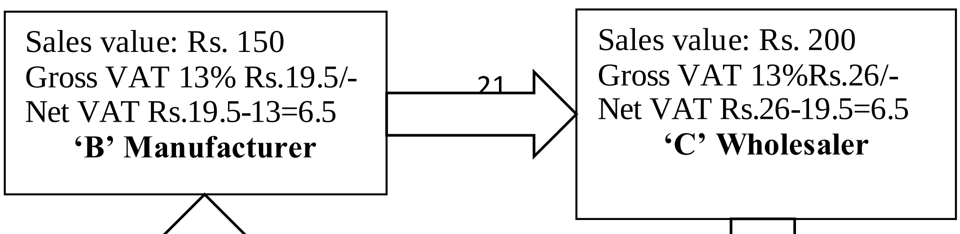
Over 130 countries worldwide have introduction VAT over the past three decades and Nepal is amongst the last few to introduce it. Nepal already had a system of sales tax collection where in the taxes were collected at one point from the transaction involving the sales of goods. VAT would, however, be collected in stage from one stage to another. The mechanism of VAT is such that, for goods that are imported and consumed in a particular state, the first seller pays the first point tax, and the next seller pays tax only on the value- addition done (Dhakal, Bhattarai, Koirala et al, 2015).

A VAT is a form of consumption tax. From the perspective of the buyer, it is a tax on the purchase price. From that of the seller, it is a tax only on the value added to a product, material, or service, from an accounting point of view, by this stage of its manufacture or distribution. (Dhakal, Bhattarai, Koirala et al, 2015).

The main characteristics of VAT are stated as follows:

1. It is form of indirect taxation.
2. It is a broad-based tax as it covers the value added to each commodity by a firm during all stage of production and distribution.
3. It is based on value added principal. Value added can be obtained either by adding payments to factors of production or deducting cost of inputs from sales value.
4. It is a substitute for sales tax, hotel tax, contract tax and entertainment tax.
5. It is based on self- assessment system and provides the facility of tax credit and tax refund.
6. It avoids cascading effect existed in sales tax and contains catch-up effects.

Figure 2.1 : Multistage VAT



The value added to a product by or with a business is the sale price charged to its customer, minus the cost of materials and other taxable inputs. A VAT is like a sales tax in that ultimately only the end consumer is taxed. It differs from the sales tax in that, with the latter, the tax is collected and remitted to the government only once, at the point of purchase by the end consumer. With the VAT, collections, remittances to the government, and credits for taxes already paid occur each time a business in the supply chain purchases products. Value added tax (VAT) in theory avoids the cascade effect of sales tax by taxing only the value added at each stage of production. For this reason, throughout the world, VAT has been gaining favor over traditional sales taxes. In principle, VAT applies to all provisions of goods and services. VAT is assessed and collected on the value of goods or services that have been provided every time there is a transaction (sale/purchase). The seller charges VAT to the buyer, and the seller pays this VAT to the government. If, however, the purchaser is not an end user, but the goods or services purchased are costs to its business, the tax it has paid for such purchases can be deducted from the tax it charges to its customers. The government only receives the difference; in other words, it is paid tax on the gross margin of each transaction, by each participant in the sales chain i.e. from seller to final consumer (http://en.wikipedia.org/wiki/Value_added_tax).

In Nepal, VAT is based on the destination principle. It is levied on the goods and services where the place of supply is in Nepal and importation of goods and services into Nepal. Exports of goods and services are zero-rated. This means that the tax base is domestic consumption. Value Added Tax, or VAT, is levied on top of the cost of a product or service and generates revenue for a government.

VAT is a multi-point Sales Tax with set-off for tax paid on purchases. It is collected in installments at each transaction in the production distribution system. It does not have cascading effect due to the system of deduction or credit mechanism.

2.1.4 Principles of VAT

Commodity tax is levied on two principles:

i. Principle of origin and
ii. Principle of destination

Origin Principle

Under origin principle, tax on goods and services is levied on the basis of origin of goods. The place where the goods are originated is sites of sale of place of sale. Central Sales Tax is typical illustration for this principle. Under the 'origin principle', value added domestically on all goods whether they are exported or internally consumed is subjected to tax. Consequently, tax cannot be levied on value added abroad and this principle confines VAT only to goods originating in the country of consumption. In short, exports are taxable under this principle while imports are exempt. It is mostly used in conjunction with income VAT (I-VAT) and is unpopular for obvious reasons. The origin principle indirectly gives importance to the goods manufactured abroad and its amounts to unfair treatment of domestic producers which is economically and politically inadvisable. The EEC countries adopted and followed origin principle in their Tax System but subsequently shifted to destination principle.

Destination Principle

Under 'destination principle', value added irrespective of the place of origin is taxable. All goods are taxed if they are consumed within the country. In this regime, exports are exempt while imports are subjected to tax. In other words, all the goods which are consumed domestically are subjected to tax. General Sales Tax is an illustration. The imports are taxed, while exports are exempt. This principle treats imported goods at par with domestic products unlike the origin principle which gives indirect protection and even preference to the producers abroad. This method is used in connection with

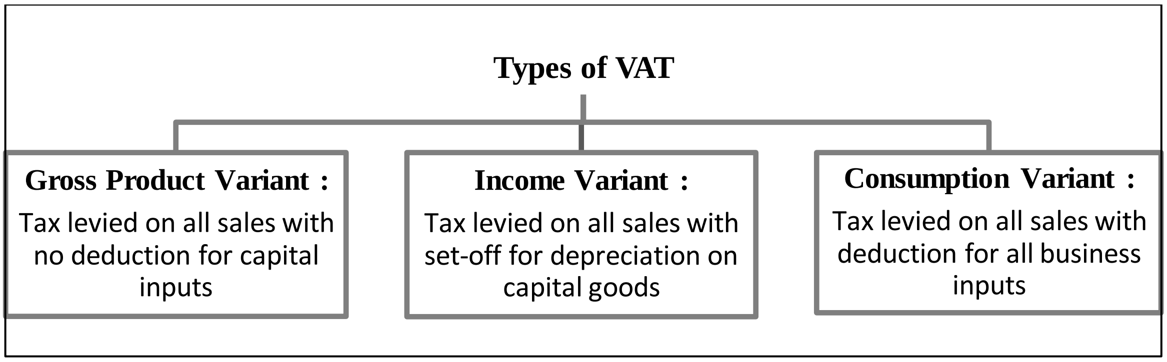
Consumption VAT (C-VAT). Most of the countries which introduced VAT follow this principle.

In a federal set-up like India, destination principle is preferred for taxation of products consumed within the various States of the country. In the EEC countries, origin principle was once considered for eliminating border controls and problems of valuation, but was subsequently given up as being impractical and destination principle is now followed.(Dhakal, Bhattarai, Koirala et al, 2015).

2.1.5 Type of VAT

For better tax compliance and tax administration, it is always desirable to have wider tax base. Tax base depends upon various factors, such as number of rate of tax, sectors and persons to be taxed, number of exemption, zero rates etc. It is desirable to keep rate of tax as low as possible with minimum range of tax and few exemption. On the basis of tax base, the VAT is classified into three variant types, namely:

Figure 2.2 : Type of VAT



These variants are generally distinguished according to method of calculation in determining VAT liability. The different variants are explained as follows:-

Gross Product Variant (P-VAT)

A GNP-typed VAT taxes all final goods and services except for intermediate goods. Investment costs also enter the tax base on capital expensing or depreciation is allowed. The advantage of this type of the VAT is that the base is relatively large. The big disadvantage is, however, that the investment items will bear the full tax burden.

Gross National Product Type = Gross Investment + Consumption

= Gross value of output - all current inputs

Income Variant (I-VAT)

This type of the VAT excludes from the base the value of intermediate inputs and depreciation. The base is, therefore, similar to the one in income taxation.

Income Type = Gross National Product - Depreciation

= Net Investment + Consumption

Consumption Variant (C-VAT)

The base excludes the value of both intermediate inputs and investment items from the gross value of goods and services. The base as defined is close to the one in retail sales taxation.

Consumption Type = Gross National Product - Gross Investment

= Total Consumption Expenditure

Most countries apply the consumption type VAT but introduce various ways of giving credit for capital goods. Rarely do countries allow for immediate and full credit of the tax charged on capital goods. They generally limit the credit in a certain period to the level of the VAT chargeable on output and allow the remaining credit to be carried forward to offset the tax in later periods (for example, this is a common practice in Latin America). On the other hand, some countries selectively grant immediate exemption of the VAT on the purchase of capital goods as part of an overall package of fiscal incentives to priority industries (Dhakal, Bhattarai, Koirala et al, 2015).

2.1.6 Origin and Evolution of VAT in Nepal

VAT is the most recent innovation in the field of taxation. The concept of VAT was development for the first time by Dr. Wilhelm V. Siemens in Germany in 1919. The concept of VAT was development further in 1949 by a tax mission to Japan headed by Prof. Carl S. Shoup. The tax, however, remained as only a topic of academic interest until 1953. In 1954, France introduced a VAT covering the industrial sectors. The tax was, however, limited up to the wholesale level. By the end of 1960s, only eight countries including France, Brazil, Germany, the Netherlands, Sweden, etc, had introduced VAT. Since then, VAT has been introduced by at least one country each year and by now it has been adopted by more than 120 countries.

Vietnam ventured VAT for the first time in Asia in 1973 but it was repealed in short period. South Korea adopted VAT in 1977 and is continuing till this time. Therefore, it is the leading country in Asian continent. I n South Asia, Pakistan is the first country introducing the VAT. It introduced VAT in 1990. Bangladesh and Srilanka started VAT in 1992 and 1995 respectively. India had introduced modified VAT (MOD-VAT) in 1986 for manufacturing products. Full VAT has been implemented there with effect from 1st April, 2003.

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. 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)” in 1995. Subsequently, VAT regulation was made in1996. Although the Act was passed in 1995, its implementation was delayed due to political instability and strong opposition from the business community. VAT with single rate 10% was fully implemented with effect from 16 November, 1997 (Mangsir 1, 2054). It has replaced sales tax, hotel tax, contract tax, and entertainment tax. It has been designed to collect same revenue as the four taxes it replaced. VAT is a new tax system in Nepal. VAT has been justified in the light of government fiscal imbalance and need for extra revenue mobilization through an efficient tax system. The Government of Nepal has increased VAT to 13% with effect from Magh 1, 2061. (Dhakal, Bhattarai, Koirala et al, 2015).

2.1.7 Principles Governing VAT

The following are the principles which govern VAT:

a. **Principle of Transparency**

   VAT is the transparency tax. It is an account based tax system. VAT has made tax system transparent. Tax evasion is not pervasive where accounting system is transparent.

b. **Principle of Removing Cascading Effect**

VAT removes cascading effect. Cascading effect means tax on tax i.e. tax in charged on the value including tax. But VAT has removed this effect by not including the cost price to the second stage of the distribution channel. But under sales tax system, sales tax paid at one stage is included in the cost price for another stage.

c. Principle of Neutrality

Neutrality means not to discriminate one to another. VAT does not discriminate one economic activity against others. Tax rate or good and services to be taxed are not discriminated by VAT. So, in this regard, VAT is neutral.

d. Principal of Destination and Zero Rating

Under this principle, goods and services are taxed at consumption point, not on production. Goods and services that are exported are taxed at zero rates. Generally, exports have no incentives to under- declare their export values, and importers have no incentive to over value their imports. If the VAT is properly applied, all inputs are free of tax burden. Therefore, the destination principle promotes production efficiency.

2.1.8 Methods of Computing VAT

The VAT, by definition, is the on the value added at each stage of a production-distribution chain. The value added, in turn can be defined in two alternative ways. First, value added is equivalent to the sum of wages to labor and profits to owners of the productions factor including land and capital. Second, value added is simply measured as the difference between the value of output and the cost of inputs. The two ways of definition of value added give rise to following three major alternatives for computing the VAT liability (Dhakal, Bhattarai, Koirala et al, 2015).

a. Addition Method

Under this method, tax base is obtained by adding the payments made by the firm to the factors of production employed in production process such as wages, rent, interest and profits. This method is suitable for income type VAT.

$$VAT = t\ (cost + profit)$$

b. Subtraction Method

Under this method, value added is determined as net turnover. The net turnover is obtained by subtracting the cost of materials from sale proceeds. The method is suitable for consumption type VAT

VAT = t (sales - cost of inputs)

c. Tax Credit

Under this method, tax is imposed on total value of sales and taxpayers are allowed to deduct from their gross tax liability the taxes already paid by their suppliers and pass on to them. As compared to subtraction method, which deducts purchases from sales and levies tax on the difference, tax on purchases is subtraction from the tax on sales under this method. This method is also known as invoice method.

VAT = VAT collection – VAT paid

2.1.9 Collection, Realization and Refund of VAT

Collection and Realization

The registered businessmen at each stage of production and distribution collection of VAT in taxable transaction on behalf the tax office. Usually, they collect VAT on sales and deposit the same within 25 days of the end preceding month after recovering the tax paid on their purchases. A huge amount of VAT is collected in this way throughout the year. However, collecting VAT is not only the responsibility of the business men. The tax office also collects VAT and the arrears. It identifies the defaulter and collects VAT from them by applying any of the following measures (Dhakal, Bhattarai, Koirala et al, 2015).

By deducting the tax from refundable tax amount.

- The processing taxpayer's fixed and current assets.
- By auctioning all or some property owned by taxpayer through sealed quotation or public auction at one time or more time.
- By deducting from the amount held in bank and other financial institute by the tax payer.
- By deducting the amount payable by third person with pre- consent of the tax payer.
- By deducting from receivable amount of taxpayer from government of Nepal owned organization and local body.

- By imposing restriction on import- export and other transactions of the tax payer.

Refund of VAT

In VAT system, the registered businessmen are entitled to recover the tax paid on their purchases from the VAT collected from sales. If the tax on sales is less then tax on purchases the person claim s a refund for the difference, with 15% interest per annum. But the interest is calculated after 60 days of the application submitted for refund. The taxpayers whose export is more than 40% of total sales or those who are continuously on 6 months credit may claim for refund. The refund should be made within 60 days from the receipt of the refund claim in the former case while within 30 days in the latter case.

2.1.10 Penalties, Actions and Appeal

Penalties and Actions

Value added tax Act 2052 has made the following provisions of offences and penalties

1. A person who fail to apply for registration of before commencement of transactions under subsection (1) o section 10 or if the transaction goods become taxable after commencement of business under subsection (2) of section 10, such taxpayers is liable to pay Rs. 10,000 for each tax period
2. A taxpayer who fails to use registration number under section 10(5) or to clearly display the registration certificate under section 10 (6) or to inform the change, if any regarding business transactions within 15 days of such change under section 10(7), such taxpayer is liable to pay Rs. 1,000 for each time.
3. If the taxpayer does not maintain tax plate (karpati), Rs. 2,000 per week and if he does not keep the tax plate in the specified place, Rs. 1,000 is imposed.
4. If any registered person does not issue an invoice to the recipient under subsection (1) of section 14 and does not keep tax invoice with him while transporting taxable goods worth above Rs. 10,000 outside the area specified by the department under subsection (4) of section 14, such person is liable to pay Rs. 5,000 for each offence.
5. If a person, who is not registered, issues the tax invoice or other document showing the collection of tax, such person is liable to pay 100% of the tax amount as penalty.
6. If any taxpayer who is unable to keep an up to date account of transaction of the tax period under subsection (1) of section 16, such taxpayer is liable to pay Rs.

10,000. The taxpayer who obstructs the audit of transaction is liable to pay Rs. 5,000 for each offence.

7. The taxpayer who fails to include the information such as the date of transactions, the value of each transaction, the registration number of counter–part of transaction and prescribed matters related to transactions, is liable to pay as penalty up to Rs. 5000.
8. A penalty of Rs. 10,000 is imposed on a registered person who does not use the certified purchases book and sales book for the purpose of keeping accounts under subsection (3) of section 16 or does not preserve the account of transactions for a prescribed period under subsection (4) of section 16.
9. Taxpayers who have been approved for computer billing, if found using software for amending or deleting data, are subject to a fine of Rs. 5 lakhs.
10. If an unregistered person dealing with taxable goods or services fails to maintain self- certified purchases and sales books for each fiscal year, Rs, 1,000 is charged each time as a fine.
11. If a taxpayer businessman fails to access , file return and pay the tax in the period as prescribed by law, the taxpayer is liable to pay either 0.05% per day of the due tax amount or Rs. 1,000 for each tax period whichever is higher as penalty.
12. If a taxpayer makes obstacles or objections regarding the investigation and audit of his business and tax related matters by the tax officer, such taxpayer is liable to pay a penalty of Rs. 5,000 each time.
13. If a taxpayer is found to have issued an invoice by under invoicing, the tax officer may impose a penalty of Rs. 2,000 for each invoice or 100% penalty or a maximum of 6 months imprisonment or both whichever is higher.
14. If the taxpayer violates VAT Acts or VAT Rules framed under this Act, the taxpayer should pay Rs. 1,000 each time.
15. If a taxpayer reduces his tax liability by violating VAT Act or VAT rule framed under the Act, penalty of up to 25% to tax amount fixed by the department.
16. If the person commits any of the following offences, a tax officer may impose a fine not exceeding 100% of the amount of tax or an imprisonment of up to 6 months or penalize with both the fine and the imprisonment.
    - On preparing false accounts, invoices or other documents.
    - On committing a fraud or an evasion of tax.
    - ▪ If an unregistered person acts as if he were a registered person.

- If the person sells goods by under- invoicing.
- Carrying out a transaction by infringing the suspension of business transaction for a maximum of 7 days.

17. A person who aids or abets another person to commit an offences or counsels or induces another person to commit such is liable to pay 50% of less paid tax as fine (Dhakal, Bhattarai, Koirala et al, 2015).

Appeal to Revenue Tribunal

A person who is not satisfied with the following may appeal to the Revenue Tribunal (established under Revenue Tribunal Act, 2031). The person must also register a copy of notice of appeal to the Inland Revenue Department within 15 days of appeal.

- Order of the Director General to suspend transaction under section 30.
- Decision of the department on administration review under section 31 a (4)

The person should have to pay the undisputed tax out of assessed tax and deposit one third of disputes tax amount as cash deposit.

2.2 Review of Previous Work

2.2.1 Review of Articles

Yesegat, (2008) the journal "VAT Administration in Ethiopia: A Reflection of Problems" the research examined the VAT administration practices in Ethiopia and identify the main problems data through in debts interview with tax officials and surveys were used. In this research examine the response to the tax payers surveys questions 'What aspects of the legislation and administrative procedures are problematic for you to comply with the VAT system. And tax practitioner surveys are 'Do you have any comments on the VAT system in Ethiopia. In Ethiopia there is divergence between the effectiveness of VAT taxation and the legislation. The main areas where there are gaps and problems include taxpayer's identification and registration. In addition, the outcomes of the surveys showed a paucity of tax awareness among the society and strong education programs as well as lack of trust between taxpayers and administrators as major challenges to the VAT system in the country.

Koirala, (2011) studied on "Value Added Tax The Critical Assessment of its performance in Nepal", included the VAT has come of 14 years in Nepal, but it has completed 57 years in the international arena of taxation as it was firstly introduced in France in 1954. VAT in Nepal has witnessed many ups and downs and twists and turns so far. Despite all the odds, it has been able to prove itself as a strong and healthy backbone of the internal revenue by outstripping custom duties from FY 2002/03 onward and now stands as the largest contributor to the state coffer. At the time of its introduction, there were only 2045 taxpayers converted into VAT from the then sales tax regime, but by the end of FY 2011/12, registration toll has reached to almost 97,664, registering a phenomenal annual average growth of 126.42 percent.

The VAT comprises 35.92% of total tax revenue in FY 2011/12 and the pictures during the early years of its inception were also near about the same. The VAT/ GDP growth has been increasing marginally from 2.78 % in FY 1997/98 to 4.58% in FY 2011/12. The effective rate of VAT was hovering around 3 percent when the standard rate was 10%.It increased to 3.97% in FY 2007/08 and to 4.91% in FY 2011/12. The efficiency ratio defined as the ratio of VAT revenue to GDP divided by the standard rate (expressed in percentage) has been widely used as a summary indicator of the performance of the VAT (Ebrill et al, 2001). The marginal efficiency of VAT has been almost stagnant up to FY 2007/08, but start growing in subsequent years and now it is 35.22% which means only 35.22% of GDP is under the purview of VAT system. Though VAT collection still relies on import, yet domestic collection has been increasing over the years and reached up to 1.70% of GDP.

Abdullah, (2012) the journal, “Effect of VAT and Tax on Economy: An analysis in the context of Bangladesh” This research had given focus what effect tax and VAT have in the economy in Bangladesh. The objectives of the study are analyzed the economic effect of tax structure of Bangladesh and analyze the effect of VAT on the economy of Bangladesh. This study depends on primary sources as well as secondary sources. The general rate of Value Added Tax in Bangladesh is 15%. The implementation of an effective revenue system will involve the setting up of new organizational structures, the designing of new procedures and forms, writing of new instructions, arranging for the provision of better management information and statistics

Zaman, (2012), the journal, “VAT- Theoretical Aspects and Empirical Evidence for Pakistan” Consumption based, value added tax (VAT) had praised for years for its ability to generate revenues. Organizations and authorities claimed it to be an effective form of taxation. But their claim was based on assessment of mere developed economies and its implementation in developing/underdeveloped economies was overlooked. Consequently, this paper is aimed at analyzing the impact of VAT when enforced in an underdeveloped country such as Pakistan. Using household survey data, the paper tries to grasp the effect this tax would have on social and economic life of the populace. Results suggested that VAT would disturb economic order of the society and hence the concept was inappropriate in current state of affairs. VAT would result in rising price lower middle class family risk dropping into poverty. Hence, VAT might be feasible for development states but for underdevelopment nation like Pakistan, it is not a workable option.

Jayakumar, (2012), the journal, "A Study on Impact of VAT Implementation in India" This study base on impact on Indian vat implementation system. The objectives of the study were to identify the characteristics feature of VAT and implementation domain and identify the problems and prospects in the lacuna of Government mental and implementation domain. The study is based on primary and secondary data. The convenient random sampling techniques are exploited to obtain the responses from the required domains of VAT. The Value Added Tax makes an evasive attempt on Implementation level as well as execution level. The study revealed the requirement of transparency in VAT in all the states of India. It is found that equal channel of distribution of VAT is found among Wholesalers, Retailers and Consumers. The tax applicability and e-filing plays a vital role in the VAT system. It gives mutual benefits to the Consumers and Government. Service tax, sales tax and other taxes can be easily vivid due to its Implementation process. But the transparency is required at all the level in order to obtain effective functioning in the VAT system in all the states of India. The introduction of Uniform Product Classification across the country is required to exhibit the Implementation process with effective return.

Oladipupo, (2013), the journal, "Public perception and Attitude towards VAT in Nigeria" focused on the recently promulgated tax laws in Nigeria, particularly the Value Added Tax .The objectives of this study are to assess the level of awareness and understanding of VAT by businessmen, professionals and laymen, to assess the relative impacts of VAT on the VAT payers and the economy and to identify the problems confronting the administration of VAT from the perspective of the respondents.

The two hypotheses formulated for testing in this study are stated as, that there are differences in the knowledge of VAT amongst the businessmen, professionals and laymen. And that there is positive relationship between the level of formal education of a taxpayer and his level of knowledge of VAT law.

The data obtained from the study were analyzed using descriptive statistical techniques such as the frequency distributions and measures of central tendency. Two hypotheses were formulated for the study. The first hypothesis states that there are differences in the knowledge of VAT amongst the businessmen, professionals and laymen. This hypothesis was tested using chi-square analysis. The second hypothesis states that there is positive relationship between the level of formal education of a taxpayer and his level of knowledge of VAT law. The hypothesis was tested using the Spearman rank correlation analysis.

That the majority of Nigerian taxable persons is quite aware of the operations and knew that VAT law exists but many have never seen a copy nor talk, read and understand it. This is perhaps responsible for the difficulty of understanding the technical concepts contained in VAT law.

There is no remarkable difference in the knowledge of VAT law by the businessmen and professional men from those of laymen. We could conclude that the pre- sent form of general education does not guarantee tax education. Most of the professional men in this study could not demonstrate better understanding of the VAT law than Businessmen and laymen.

That poor understanding of various tax laws by taxpayers could be responsible for the high magnitude of their non-compliance.

Okeyo, (2013) the journal, “Effective VAT: An Imperative to Wealth Creation in Nigeria” examined the influence of revenue generated through VAT on wealth creation and examine the effect of revenue generated through VAT on the overall tax revenue of Nigeria. This research hypothesis is Revenue generated through VAT has no significant effect on the overall tax revenue in Nigeria. This study based on pure secondary data. This study shows the very highly positive correlation between the VAT and GDP (0.97). And VAT and total revenue also highly positive correlation (0.90). This analysis shows that VAT revenue has significant influence on wealth creation in Nigeria.

Abay, (2013) studied on “Assessment on the Implementation of VAT tax in Mekelle City Administration” this research on implementation of VAT and identify the major problems and prospects in its implementation in Mekelle city administration. The main objectives of the study is to identify the major problems encountered by the business firms, to evaluated the perception of business community towards VAT and identify the major problems faced by the authority (ERCA). This study based on qualitative and quantitative data analysis. This study collects the data secondary as well as primary. A part of primary data sources questionnaire were distributed to VAT collectors and VAT payers. Data gather from VAT payers and consumers analyze using SPSS outputs. It was found that while the intent that the benefits of the system goes the society. Most of the respondents felt that the government is the sole beneficiary of the system. There has been a major decline in the number of their customers following the implementation of VAT system. Majority of the consumers get to know about VAT from government media, thus it can be concluded that the government media has played an important role in awareness creation of the system. The level of enforcing business firms to provide bill during payments is low as majority of the consumers fail to ask for receipt during payments, similarly many consumers fail to tear down the receipt as it give the chance to use illegal businesses for tax evasion.

Koirala, (2014) studied about “Compliance of VAT policy in Nepal.” It had mentioned policy structure, policy changes, implementation structure, implementation approaches, policy output and outcomes from the perspective of filing compliance. To what extent the intervening variables affect the voluntary compliance of the taxpayers as well as to the implementation capabilities of the institutions? The major findings are the compliance behavior of the taxpayers is affected by poor assessment of the risk and inadequate capability of the IRD and its functional organizations to manage non-compliance. The relations between the role of tax officials and filing compliance are found to be insignificant. From the research findings, it is figured out that the staffs of the IRD have less to do with enhancing voluntary compliance of the taxpayers. The taxpayers themselves can decide when to file tax returns. Moreover, the information captured in the VAT system is less effective to enhance the capability of the tax officials to communicate and control the behavior of the taxpayers. Moreover, the intra office coordination in the IRD and IROs was poor to deal with non-compliant taxpayers and to enhance the service quality so that taxpayers can be motivated to be compliant in terms of returns filing. The inter office coordination within and beyond the IRD organization is also insignificant in influencing the behavior of the taxpayers.

Joseph and Samuel, (2014) studied on “A Log Linear Assessment of the Effect of VAT on Revenue in Nigeria” and examined the effect of VAT on revenue generation for sustainable development in Nigeria. The specific objectives are to examine the growth and structure of VAT to public revenue in Nigeria; ascertain the contribution of VAT to public revenue in the country. This study was collected mainly from secondary data from Central Bank of Nigeria, Annual Statistical Bulletin and the Bullions. These study major findings are the Nigerian VAT has potential for revenue generation, but it is inelastic to GDP. VAT has no proper threshold in Nigeria. Waivers, exemptions, concessions, evasion are the major threat to VAT revenue generation in Nigeria.

Immanuella, (2016) studied on "Evaluation of the Contribution of VAT to the Nigeria economy” evaluated the empirically the contribution of VAT to Nigeria from 2002-2012. The broad objective of this study is to investigate the effect of VAT on revenue generation and the Nigeria economy. To examine the effect of revenue generation through VAT on the overall tax revenue of Nigeria and investigate to what extent has VAT contribution to the steady growth GDP in Nigeria. It also investigates the extent to which tax revenue has contribution to the total GDP in Nigeria. This study base on secondary data. The financial data have been collected from annual report and account government in the central bank of Nigeria statistical bulletin and Federal Board of Inland Revenue Services. In this research finding made VAT has a significant impact on economic growth in accepts the alternative that total tax revenue has increased the total value of GDP. VAT contribution had a positive significance relationship with the total tax revenue judging from the outcomes of this study the VAT enhances economy growth in Nigeria.

Hanya, (2017) studied on “Value Added Tax in Japan.” It had included the draft for the VAT formulated by the Japanese government which was originally expected to be enforced from 1950. The main purpose of this article is to clarify the points which are the subject of discussion on the VAT and criticism. The describe character and advantage of VAT, disadvantage of VAT, suggestions for amendment and give an outline of the system to be followed In Japan. There are three categories of business subject first industries and trade, second Agriculture industries and third is liberal professional. The taxable basis the VAT of the specific outlay from the total sales. The standard rate of the tax is 4% for the value added of business category 3% second and third category. In any case the rate not excess 8% and 6% respectively. There various problem which have come to the front since the proposed enforcement of VAT. Actual conditions to be studied carefully time to time after the new tax came into the effect.

As above stated review of literature shows that VAT is a very important part of government revenue which has a significant share on total government revenue. All previous studies show that the VAT is in increasing trend in all years as increment in government revenue.

2.2.2 Review of Previous Thesis

Shrestha, (2008) in this study "VAT implementation problems and its Effectiveness in Nepalese Economy" focused on analyzed the implementation VAT in Nepalese tax structure and analyzed the problem faced by the government to collect VAT. She found that lack of clarities in the tax laws and regulation, un-satisfaction with VAT administration by tax payer, lack of awareness of VAT etc. She has recommended on the manpower of IRD and VAT office should be trained, efficient management effective monitoring system, publicity and taxpayer related Education should be organized should be made more easy and effective in order to refund the tax amount etc.

Thapa, (2009) in this study “Effectiveness of VAT in Revenue Collection in Nepal” focused on is to analyze the effectiveness of VAT in revenue collection in Nepal. However the specific objectives are to study the historical background of VAT, to examine the contribution of VAT in Revenue collection in Nepal, to analyze the effectiveness and problems of VAT in Nepal and to provide suggestions, recommend for making VAT more effective in Consumers are unaware with the billing importance and don't demand valid bill from businessmen while purchasing goods and services and open boarder is main problem for effectiveness of VAT on revenue collection for improvement and more effectiveness of VAT, there should be develop skill manpower; make coordination with private sector; manage of reward and punishment systems improve in administration so on.

Pradhan, (2010) the thesis, "Tax payers Education Regarding VAT Collection in Nepal" the study had examined the education and awareness with regarding VAT collection and suggest to the policy maker to improve the knowledge of people with collection of VAT. The basic objective of this study is to gain an insight in to the provision made in the present taxation policy regarding income from employment and give appropriate suggestions to improve the system so that the government can collect more revenue. The objectives of this study are to assess the current status of taxpayers education and awareness regarding VAT, find the relationship between VAT collection and taxpayers' education. Examine the effectiveness of present management system of VAT and provide suggestions for improving taxpayer's awareness in Nepal. Nepal being one of the least developed countries in the world has always suffering from the social and economic problems. VAT must be successful and this largely depends upon the public awareness, honesty, faith and morality of tax officials and business community. There is need for willpower and action. Unnecessary hindrance to economic activities must be avoided. The government needs full cooperation from the tax administration, the taxpayers and businesspersons as well as consumers in its effort to generate more revenue.

Puri, (2011) in his study "an analysis of Tax Structure in Nepal" focus to review the Nepalese tax structure and to provide some recommendations for making VAT effective and efficient. In Nepal, collection of VAT has been classified as imports and domestic sources, out of which collection from imports have significant, and share i.e. Rs.34.55 billion in the fiscal year 2010/11 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 surly indicates that there is heavy dependence of Government of Nepal on imports rather than domestic products. The contribution of VAT to GDP is just 2.7 percent in an average of 19 years. The contribution of VAT to GDP reached 4.64 percent in the fiscal years 2010/11. So the VAT/GDP ratio is very low as compared to other developing countries like Nepal. The contribution of VAT in total revenue is not up to the satisfactory level either in an average. It could contribute just about 30.51 percent to the total revenue in fiscal year 2010/11. 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.

Shrestha, (2011) studied entitled, “Effectiveness of VAT in Nepal” with the objective to gain an insight into the effectiveness of VAT implementation in Nepal and leakages within it and to give appropriate suggestion to address.

The objectives of the study were to assess the current status of VAT in Nepal, to display major strength and weaknesses of present VAT system in Nepal and to recommend possible corrective measures to overcome weaknesses encountered

The contribution of direct tax in the total tax revenue is very low. Although Value Added Tax belongs to the indirect tax category, introduction of this tax does not increase the share of indirect tax on total revenue. The contribution of income tax to direct tax is higher than other tax and it occupied the largest share in the direct tax.

Custom duty and VAT occupies major position in indirect tax and that the contribution of the VAT for 08/09 is Rs. 11,917.77 million The contribution of total revenue on total GDP is 14.22% in FY 2008/09. This is not satisfactory which is mainly due to the economic condition of the country. The contribution of tax revenue on GDP is 11.25% in FY2008/09. The average contribution was 9.86% during the study period. The contribution of direct tax on GDP is very low. It is 3.86% in FY 2001/02. On the other hand the contribution of indirect tax on GDP was 6.68% in FY 2001/02 and it reached to 8.20% in FY 2008/09. The average contribution of indirect tax on GDP was 7.36% during the study period.

Maharjan, (2013) studied entitled, “VAT: Its Implementation and Implication” this study for the effective and efficient implementation of the VAT system in Nepal. The study objectives are to explore the current scenario of VAT in Nepal, to analyze the contribution of VAT to GDP, total revenue and tax revenue, to know the collection and reporting procedure of VAT and to analyze the problem faced by taxpayers on the collection and reporting system.

Among the components of revenue, value added tax (VAT) increased by 17.1 percent to Rs.72.19 billion in 2068/69. Last year, revenue had increased by 15.3 percent. The increase in was due to growth in imports, investigation into taxpayers’ involvement in fraud VAT bill issuance and reforms in VAT administration.

The income tax revenue in 2068/69 increased by 25.5 percent to Rs. 52.33 billion. Last year, it had increased by 23.9 percent to Rs. 41.68 billion. The inc crease was due to the effect of "Tax Compliance Campaign Year" and emphasis on taxpayer education.

Of the total revenue in 2068/69, VAT constituted the highest, i.e., 29.6 percent followed by income tax (21.4 percent), customs duties (17.8 percent) and excise duties (12.5 percent). Last year, the respective shares had been 30.9 percent, 20.9percent, 17.8 percent and 13.2 percent

Very few people are aware about the VAT system. Only 49% Consumers and businessmen know about VAT whereas 51% don't know or have little knowledge about VAT. Those saying they know about VAT system and its impact could not give satisfactory answer. So awareness regarding VAT on general public should be improved.

Pathak, (2013) studied on "Issue and Effectiveness of VAT in Nepal" to examine effectiveness of VAT in Nepal and suggest and useful alternative solution to the wide range of problems. The specific objectives are to examine the historical background of VAT, to evaluate effectiveness of VAT, to find out the problem faced by government in effective implementation of VAT and to provide suggestions for making VAT effective and efficiently in Nepal. The major aspect of the effective implement of VAT but businessmen hardly issue bill to consumers, consumers too are not much interested in taking bills due to miss-concept of increase in the price of goods such practice has discouraged the consumers to demand VAT bill and is the root cause of the failure of the billing system. 63% respondents claimed it is possible and 27% respondents claimed it is not possible in VAT system.

Karki, (2017) studied "Value Added Tax problem in Nepal" focused mainly to examine the problem of VAT in Nepal. He made recommendation that tax related information should be published regularly. The member involved in formulating VAT polices must have deep knowledge of VAT. Administration should be very watchful to prevent and kind of malpractices, fraud and tax evasion. Tax authority should be continuous effort in order to develop the tax payer's positive attitude towards taxation.

Gole, (2017) had concluded a study "Awareness on Taxation on Nepal" evaluating the respondent knowledge about tax system in Nepal. In that study he found that the main problem of VAT implementation in Nepal is weak and unfair administration then lack of consumer awareness. In the respondent view the suitable steps to make effectiveness is to increase public awareness.

From the study, it was found that most of the respondents had knowledge about income tax, VAT and custom duty, though some respondents had knowledge about it. Provision of rebates concession and facilities included in income tax were not satisfactory. Current tax and VAT rate is high. It must be reducing. Taxpayer were agreed that good knowledge of reducing illegal business. Majority of the respondent were agreed that VAT is superior to sales tax. In aggregate, very view respondents were agree on the effectiveness of taxation system and about 94 percent respondent agreed that the taxation system is not effective in. In Conclusion, most of the respondents feel that Nepalese Income Tax System is not effective.

Lacks of public awareness, ineffective tax administration are major problem of VAT. Without knowledge of taxation small taxpayers may not be included in the tax system. Defective income Tax Act, rule, ineffective taxpayer education program, rapids changing government economic and taxation policy, ineffective tax administration are the major problems of income tax system which affect income tax knowledge to taxpayers in Nepal. Lacks of co-operative between taxpayers and custom officers, corrupted tax administration, rapid changing taxation policy are the major problem of custom duty.

2.3 Research Gap

Research gap means the difference between present research and previous research. The previous researches were based on indirect tax but this study is only concern on VAT. The current research is conducted the weakness of previous research. The current research is based on secondary data. However, there are various researches found on value added tax, its problems, awareness, issues, effectiveness, implementation and implications and so on. But, there are very few researches on contribution of VAT on Nepalese government revenue. Hence, it is expected that the study can fulfill the research gap to some extent. This research study is based on using current data from the fiscal year up to 2016/17. The current research was not incorporated in previous studies. Many sectors likewise, civil society, general people, businessman, students and government policy prospective would be productive.

CHAPTER III

RESEARCH METHODOLOGY

The process used to collect information and data for the purpose of making business decisions. The methodology may include publication research, interviews, surveys and other research techniques, and could include both present and historical information. There are five parts as research design, population and sampling, nature and source of data, data collection procedure and data processing Analysis procedures.

3.1 Research Design

The research design refers to the overall strategy that you choose to integrate the different components of the study in a coherent and logical way, thereby, ensuring you will effectively address the research problem; it constitutes the blueprint for the collection, measurement, and analysis of data. The study has to follow descriptive research design to investigate and examine the effectiveness of value added tax. And to analyze the contribution of VAT to revenue analytical research design has used. In this way the research design of this research ware descriptive and analytical.

3.2 Population and Sampling

In this study, the analysis has been done about VAT and its contribution on government revenue. Concept of VAT in Nepal was introduced in FY 2049/50 but the act was developed in BS 2050. VAT was implemented in 1998 and is the major source of government's revenue. Hence, whole taxpayers are population of hte study. It is almost impossible to conduct all the population. Hence, only 10 years data have been taken as sample from 2007/08 to 2016/17 as sample using judgement sampling method.

3.3 Sources of Data

The study was based secondary sources of data. The secondary data of this research were collected from the following sources:

- Published and unpublished books, reports, articles and dissertation on the concerned subject.
- Publication and annual report of Inland Revenue Department (IRD).
- Different publication of Central Bureau of Statistics Various books written by tax officers and scholars.
- Publications, Budget Speeches and Economic Survey of various fiscal year of Ministry of Finance, the Government of Nepal.

- Publications of various VAT Department.
- Websites

3.4. Data Collection Procedure

This data were based on secondary sources. The data have been collected through published and unpublished reports. The secondary data were collected through the total structural issue of VAT system in Nepal, MOF, IRD, Economic survey, budget speech and budget in Nepal.

3.5. Data Processing Procedures

In this study the collected information has complied and tabulated in different headings. These data has to be patronized and graphed into different way so as to makes research understandable. The data were processed by MS-Excel

3.6. Data Analysis Tools and Techniques

In the process of data analysis, various statistical tools were used in order to get the meaningful result. Collected data were processed for tabulation and analysis. For the purpose of analysis, following simple statistical tools were used:

3.6.1 Arithmetic Mean or Average

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

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

Where,

$\overline{X}$ = Arithmetic Mean

$\sum X$ = Sum of values of all items, and,

N = Number of items

3.6.2 Charts and Diagrams

Those tools are used for visually description of the data bar diagrams, and pie charts are used for this purpose.

3.6.3 Trend Analysis

The tools that are used to show grandly increase or decrease of variables over a period of time is known as trend analysis. With the help of trend analysis the tendency of variables over the period can be seen clearly. Trend analysis is a technique used in technical analysis that attempts to predict the future VAT movements based on recently observed data. Trend analysis is made in this study to evaluate the variations between actual collection and trend of collection of VAT.

3.6.4 Correlation Analysis

Correlation analysis is a method of statistical evaluation used to study the strength of a relationship between the variables. This particular type of analysis is useful when a researcher wants to establish if there are possible connections between VAT and its associated variables. In this study, correlation analysis is made between VAT with GDP, government revenue, tax and indirect tax revenue.

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

Under this heading, total government revenue, tax revenue, non-tax revenue, VAT as a source of government revenue and its contribution to government revenue has been presented.

4.1 Structure of Government Revenue

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

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

Table: 4.1

Structure of Total Revenue

(Rs. In Ten Million)

Fiscal Years	Total Revenue	Tax Revenue	% of Tax Revenue	Non- Tax Revenue	% of Non-Tax Revenue
2007/08	7228.21	5827.80	80.63	1400.41	19.37
2008/09	8771.12	7112.67	81.09	1658.54	18.91
2009/10	10762.25	8515.55	79.12	2246.70	20.88
2010/11	14347.45	11705.19	81.58	2642.26	18.42
2011/12	17994.58	15629.49	86.85	2565.09	13.15
2012/13	19837.63	17722.72	89.33	2114.91	10.67
2013/14	24437.41	21172.26	86.64	3265.14	13.36
2014/15	29602.11	25921.49	87.57	3680.62	12.43
2015/16	35662.07	31244.12	87.61	4417.95	12.39
2016/17	40586.64	35595.57	87.70	4991.07	12.30
Average	20922.95	18044.69	84.81	2898.27	15.19

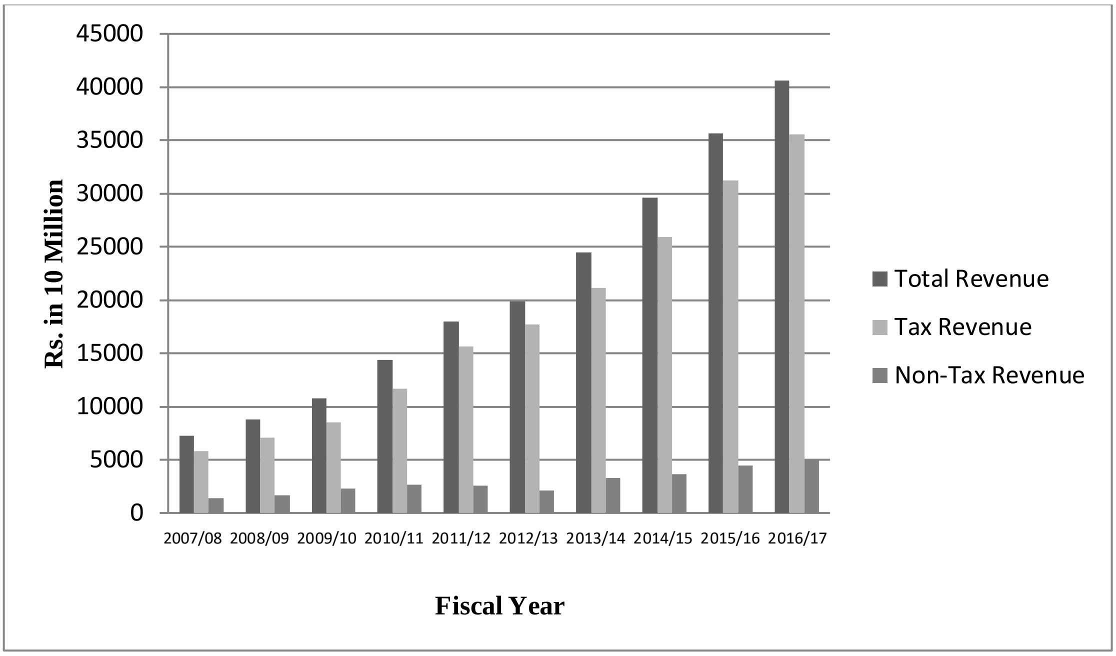
Source: Economic Survey Report 2016/17, MOF, GON

*Note: VAT Implementation Year

The table 4.1 demonstrates the structures of total revenue of the government before and after implementation of VAT. The contribution of tax revenue on total revenue in the year 2007/08 is 80.63%. This slightly increased upto the year 2008/09 is 81.09% again decrease another year. In the year 2010/11, it reached to 81.58% 2013/14 and continuous three years grow up to 89.33%. And in last three year remain the same proportion. In the 2016/17 is 87.70%. On the other hand, the contribution of non-tax revenue on total revenue is 19.37% in 2007/08, which remained decreasing to 18.91% in the year 2008/09.That tax revenue was in decreasing order and non-tax revenue is in decreasing order last three years. But after the implementation of VAT in the year 2016/17 is decrease upto 12.30%. The contribution of tax revenue come down to 79.12% and does not cross 89.33% last year, which proves that tax revenue increased in amount, whereas it does not lead to the proportionate increasing scenario. On the other hand, the contribution of non-tax revenue increased to 20.88% in the year 2009/10. But in the fiscal year 2012/13, tax revenue exceeded 89.33%, which must be considered a good sign in the tax revenue collection following the implementation of VAT. But overall judging the figures presented in the table 4.1, no significant changes have occurred so far after the implementation of VAT. This only proves the lack of contribution of VAT to raise tax revenue of the government proportionately, which is presented more clearly in the following bar diagram as:

Figure: 4.1

Structure of Total Revenue



4.1.1 Structure of Tax Revenue

Tax is the compulsory levy made to govt. treasury by public. Tax is levied either directly on income or indirectly on consumption of goods and services. Indirect tax is collected mainly from customers on the consumption of goods and services. Supremacy of tax user of indirect tax is one of the important features of the developing economies. The propensity to consumption is higher in developing countries due to their marginal income. The insignificant level of saving results into the poor level of the collection of direct tax. The heavy reliance on indirect taxation in Nepal is justified on the administrative ground (Khadka, 2010).

Nepal is not in a condition to generate adequate revenue from direct taxation. Agriculture is the main occupation of the Nepalese people. The industrial development is very primitive in Nepal. It contributes only about 10% in the GDP. The per capita income of Nepalese people is extremely low. In Nepalese economy the contribution of direct tax is very low, it is almost 25% of total tax and contribution of indirect tax is remarkably higher than direct tax which is almost 75% of total tax revenue. The table below shows the structure of total tax revenue.

Table: 4.2

Structure of Total Tax Revenue

(Rs. in Ten Million)

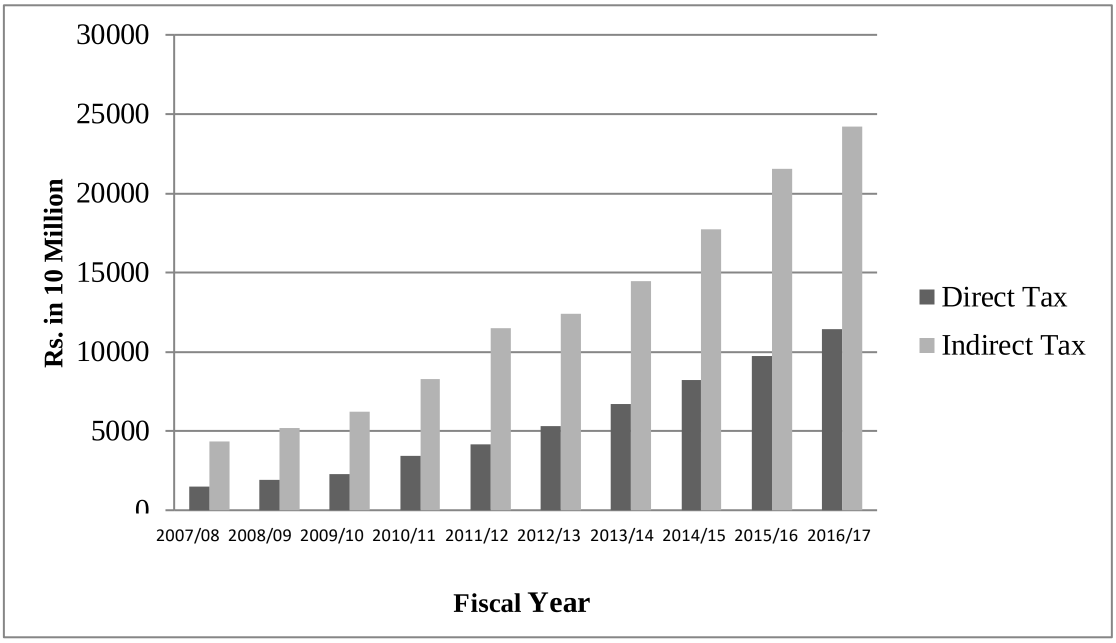
Fiscal Year (FS)	Total Tax Revenue (TXR)	Direct Tax		Indirect Tax	
		Amount	% of Total Revenue	Amount	% of Total Revenue
2007/08	5827.80	1481.57	25.42	4346.23	74.58
2008/09	7112.67	1898.03	26.68	5214.64	73.32
2009/10	8515.55	2308.78	27.11	6206.77	72.89
2010/11	11705.19	3432.08	29.32	8273.11	70.68
2011/12	15629.49	4168.19	26.67	11461.3	73.33
2012/13	17722.72	5310.32	29.96	12412.4	70.04
2013/14	21172.26	6689.46	31.59	14482.8	68.41
2014/15	25921.49	8196.59	31.62	17724.9	68.38
2015/16	31244.12	9706.52	31.06	21537.6	68.94
2016/17	35595.57	11400.37	32.03	24195.2	67.97
Average	18044.69	5459.2	29.15	12585.50	70.85

Source: Economics Survey 2016/17

According the table 4.2, the contribution of the direct tax is very low. Contribution of direct tax revenue in the year 2007/08 is 25.42% and thereafter gradually increased and reached to 29.32% in the year 2010/11 and thereafter slightly decreased in year 2011/12, and increase order 32.03% on 2016/17. On the other hand, contribution of indirect tax revenue is also in decreasing order. Although, Value Added Tax belongs to the indirect tax category. Introduction of this tax does not increase the share of indirect tax on total revenue. The tax experts always say that implementation of VAT helps to collect more revenue. It also helps to collect more income tax and other direct taxes due to its transparency characteristics. This claim of tax experts might come true in the case of successful implementation. But it suddenly had started picking up once again, but in an insignificant percentage of only 25.42 reaching 32.03% in 2016/17 with reverse impact on the indirect tax revenue standing at 74.58% in 2007/08 and coming down to 67.97% in the year 2016/17, in the sense the direct tax is increasing order, but indirect tax is decreasing order. In last trend collection of direct tax is high but indirect tax is decrease. This can be better presented in the following bar diagram as:

Figure: 4.2

Structure of Tax Revenue



4.1.2 Composition of Indirect Tax

Nepalese tax structure is heavily depending on indirect taxes. Nepalese tax revenue is dependent mainly on international trade and sales Tax/VAT on goods and services supplemented by taxes on income and property to some extent. The major components of indirect tax in Nepalese tax structure constitutes custom duty, excise duty, Value Added Tax etc. Custom duty has been classified mainly into import duty and export duty and value added tax component includes sales tax, entertainment tax, hotel tax, air flight tax and contract tax. Composition of indirect tax is given in the following table.

Table: 4.3

Composition of Indirect Tax

(Rs. In Ten Million)

Fiscal Year	Custom Duties	Sales Tax/ VAT	Excise Duties	Other Taxes	Indirect Taxes
2007/08	1534.37	2161.30	650.69	0.00	4346.23
2008/09	1670.76	2609.56	934.32	0.00	5214.64
2009/10	2106.24	2981.57	1118.96	0.00	6206.77
2010/11	2679.28	3970.09	1622.09	1.65	8273.11
2011/12	3521.89	5483.09	2114.75	341.57	11461.3
2012/13	3571.34	6166.36	2633.85	40.85	12412.4
2013/14	4339.08	7039.04	3001.61	103.07	14482.8
2014/15	5693.18	8341.82	3623.47	66.43	17724.9
2015/16	6798.06	10111.06	4541.10	87.38	21537.6
2016/17	7484.45	11251.82	5354.03	104.9	24195.2
Average	3939.87	6011.57	2559.49	74.59	12585.50

Source: Economic Survey 2016/17

Note:

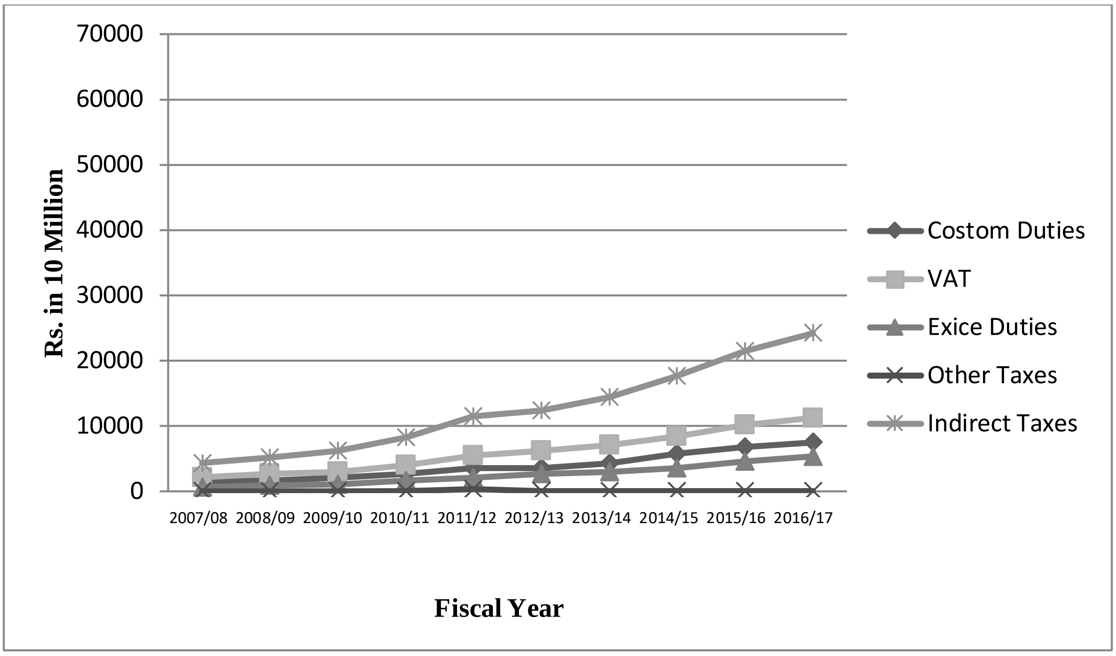
1. Custom includes imports, exports, Indian excise refund and others.
2. Excise on industrial product.
3. Value Added Tax (VAT) includes sales tax, entertainment tax, hotel tax, air flight tax and contract tax.

The table 4.3 reflects that the custom duty and VAT occupy major position in indirect tax. In the FY 2007/08, the contribution of custom duty was Rs.1534.37 which is increasing range upto FY 2016/17. The VAT has become an important source of overall tax revenue with increasing trend which contributed Rs. 2161.30 of indirect tax in FY 2007/08 as it reached to 11251.82 in FY2016/17. Similarly, the share of excise duty was 650.68 in FY 2007/08 and 5354.03 in FY 2016/17; the average contribution of custom duty, excise duty and VAT was 3939.86, 2559.49 and 6011.57 respectively during the study period.

From the data, it can be concluded that the VAT has highest contribution on total indirect tax revenue. Similarly, custom duties, excise duties have also significant contribution on total indirect tax revenue. The above description can be clearly presented in the bar diagram below:

Figure: 4.3

Composition of Indirect Tax Revenue



4.1.3 Registration Status of VAT

Every country introducing VAT makes some provisions for registration of commercial entities by setting the transaction threshold. In Nepal, the level of threshold of VAT is five million Nepalese rupees for general business and one million for services and some specific business like restaurant with bar, furniture, hardware, brick industries. However, from FY 2016/17 compulsory provisions have been eliminated replacing by turnover tax to those whose annual transaction is below the threshold level. After the implementation of this provision large number of small taxpayers will be departed out from the VAT net.

Over the period, registration in the system has been enthusiastic, for instance the number of tax payers registered of VAT purposed has increased by from 6,961 in FY 2007/08 to 22,946 at the end of FY 2016/17.

Table: 4.4

Registration of VAT

Fiscal Year	No. of VAT Registrant	Cumulative Total	Rate of Increase (%)
2007/08	6,961	6,961	-
2008/09	6,161	13,122	88.51
2009/10	6,713	19,835	51.16
2010/11	9,942	29,777	50.12
2011/12	12,961	42,738	43.53
2012/13	15,064	57,802	35.25
2013/14	16,206	74,008	28.04
2014/15	16,110	90,118	21.77
2015/16	17,271	1,07,389	19.16
2016/17	22,946	1,30,335	21.37

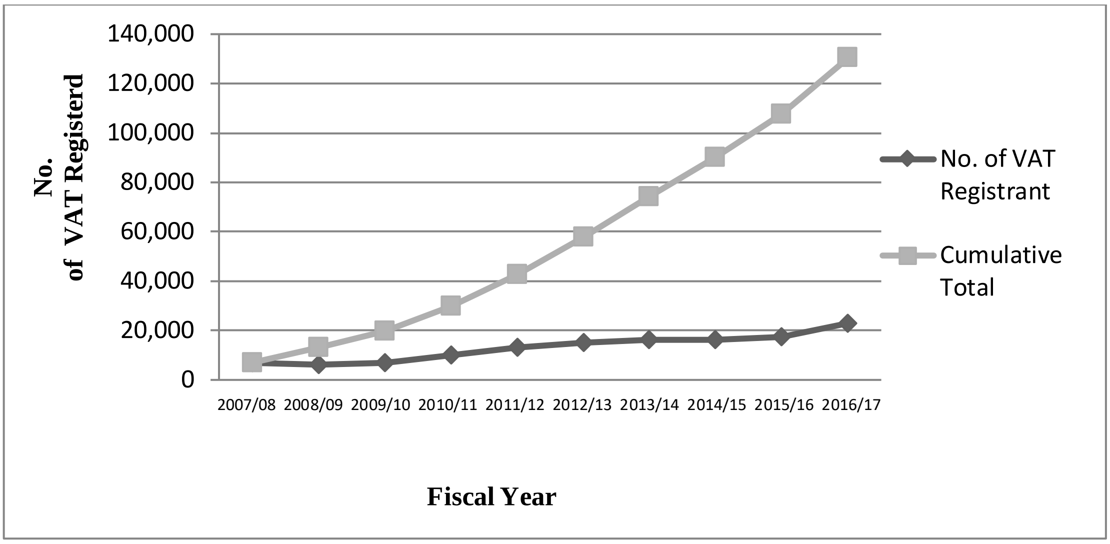
Source: Inland Revenue Department, 2017.

The member of VAT registrants increased gradually. Some tax payers registered under the revenue department. This is proved by the above table and chart which shows that in the year 2007/08, 6961 tax payers registered for VAT. In the year 2008/09, new tax payers registered were 6161 and the total tax payers reached to 13122, which is 88.51%. The growth rate of VAT registration remained at level in the fiscal year 2010/11 at about 51.16%. Both voluntarily and compulsorily, the business communities came under VAT flag because there is a legal provision in the VAT law that the government bodies are required to buy only from the VAT registrants in case of their purchases exceeds certain amount. Every year VAT payers registered are increased. This increasing trend of VAT registrants reach in FY 2016/17 is 22946.

Hence, from the data given in table 4.4 shows the rapid increment in taxpayers as well as new businesses. The total VAT payers up to 2016/17 remained 130,335 which has been presented in the trend diagram below:

Figure: 4.4

Trend of VAT Registrant



4.1.4 Status of VAT Return

Filing the VAT return is the first step after registration in the end-to-end process of establishing VAT liabilities. Hence, all registered tax payers have to file a monthly VAT return within 25 calendar days after the end of every month. For monthly, every two month or trimester by monthly and trimester tax payers. If a taxpayer's fails to file return he/she is treated as non-filer (Subedi, 2017).

Table: 4.5

Status of VAT Return

Fiscal Years	Total VAT Return	Debit %	Credit%	Zero%
2007/08	2,76,610	20.3	47.95	31.75
2008/09	2,95,775	19.54	48.01	32.46
2009/10	3,29,034	18.91	47.84	33.26
2010/11	3,71,229	18.12	47.83	34.04
2011/12	4,37,315	17.4	47.41	35.19
2012/13	5,14,911	17.44	47.48	35.07
2013/14	6,05,022	17.19	49.25	33.56
2014/15	6,79,143	16.31	51.91	31.78
2015/16	8,19,125	14.98	49.24	35.77
2016/17	9,13,704	15.09	52.05	32.86
Average		17.52	48.89	33.57

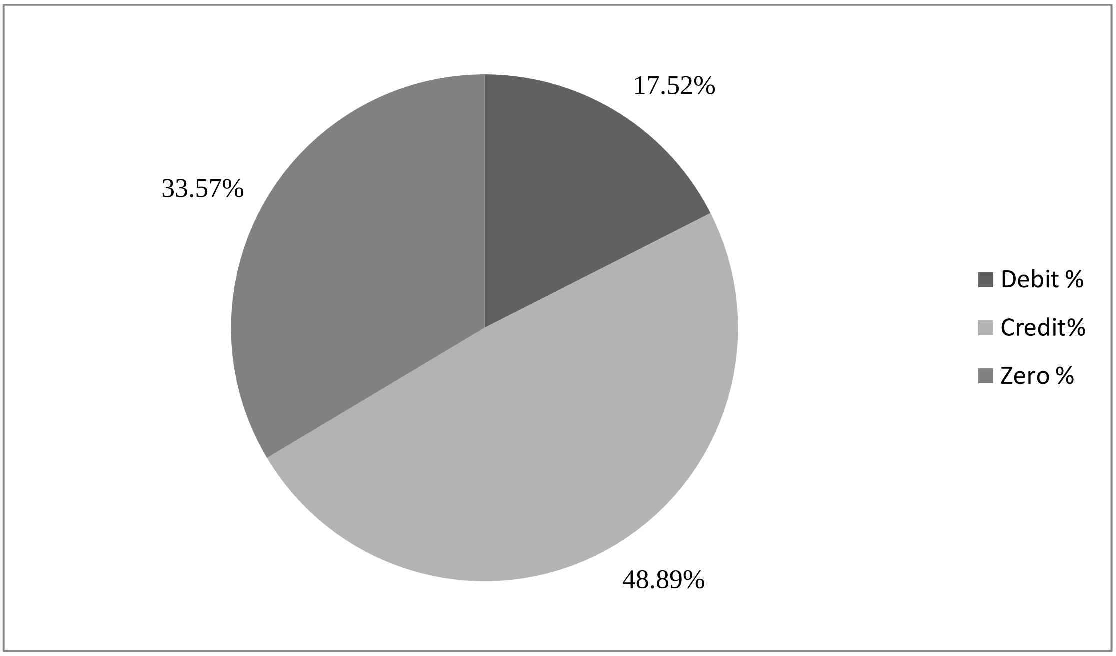
Source: Inland Revenue Department 2017

The table 4.5 shows that VAT return has continuously increased since 2007/08. For instance, it has increased from 276,610 in FY 2007/08 to 913,704 in FY 2016/17. In FY 2007/08, the debit, credit and zero is 20.30%, 47.95% and 31.75% respectively. The debit fluctuating decreasing and in 2016/17 is 15.09%. The credit is increasing range upto 52.05% in FY 2016/17 and zero also 32.86%. Zero return average is more than thirty percentage (33.57%) and debit return is comparatively low (17.52%). In addition, debit returns are increased modestly throughout the period whereas zero return and credit also the same.

Hence, it can be concluded that, out the total VAT of returns, almost half (48.89%) of the returns are through the credit return.

Figure: 4.5

Composition of VAT Returns



4.1.5 Collection of VAT

The performance of VAT in terms of collected amount is not satisfactory. Despite rapid increase in VAT base and the imports of goods, the collected amount is less than the actual rate. In Nepal, there are two sources of VAT collection through Domestic and Imports.

Table: 4.6
Collection of VAT

(Rs. In Ten Million)

Fiscal Year	Total VAT	Domestic	Imports
2007/08	2161.30	815.05	1346.25
2008/09	2609.56	963.13	1646.43
2009/10	2981.57	1080.82	1900.75
2010/11	3970.09	1391.85	2578.24
2011/12	5483.09	2037.99	3445.10
2012/13	6166.36	2228.40	3937.96
2013/14	7039.04	2596.63	4496.41
2014/15	8341.82	2838.00	5503.83
2015/16	10111.06	3428.93	6682.13
2016/17	11251.82	3952.06	7299.76
Average	6011.57	2133.29	3883.69

Source: Economics survey 2016/17
Budget Speech of Different Year

The table 4.6 reflects the total VAT collection of fiscal year 2007/08 to 2016/17. Of the total collection VAT, 60 percent contributed by import source and 40 percent contributed by domestic sources. By the data, VAT collection from domestic and imports was 37.71 and 62.29 percent respectively in fiscal year 2007/08 which gradually increased of the following years and in 2016/17 it reaches domestic and import collection by 35.12 and 64.88 respectively.

Figure: 4.6

Collection of VAT

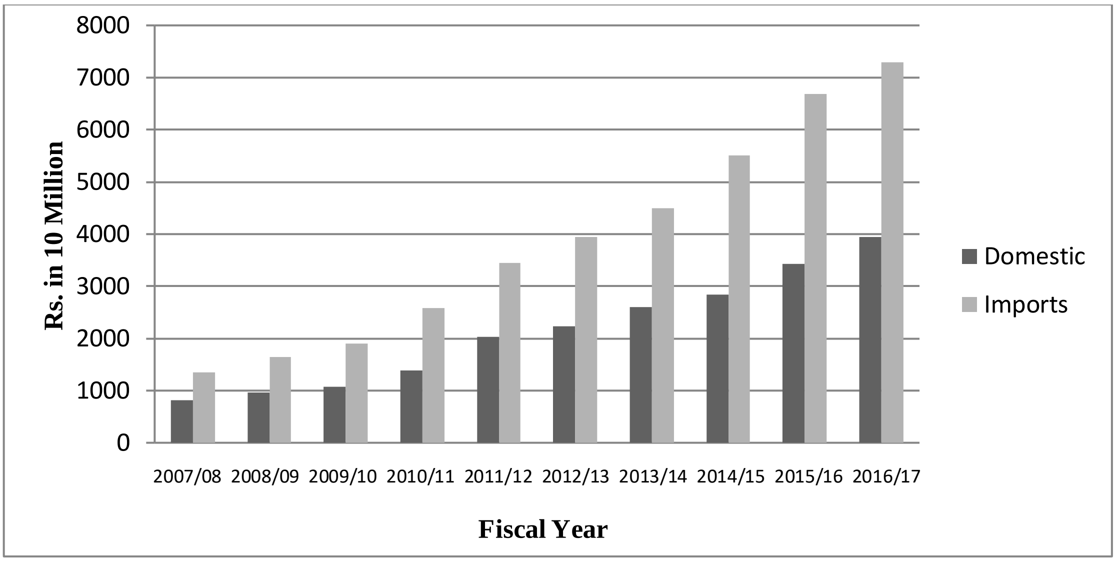


Table: 4.7

Proportion of Domestic VAT Revenue & Import VAT Revenue on Total VAT Revenue

(Rs. In Ten Million)

Fiscal Years	Total VAT Collection	% on Domestic collection	% on Imports collection
2007/08	2161.30	37.71	62.29
2008/09	2609.56	36.90	63.10
2009/10	2981.57	36.25	63.75
2010/11	3970.09	35.06	64.49
2011/12	5483.09	37.17	62.83
2012/13	6166.36	36.14	63.86
2013/14	7039.04	36.89	63.11
2014/15	8341.82	34.02	65.98
2015/16	10111.06	33.91	66.09
2016/17	11251.82	35.12	64.88
Average	6011.57	35.92	64.04

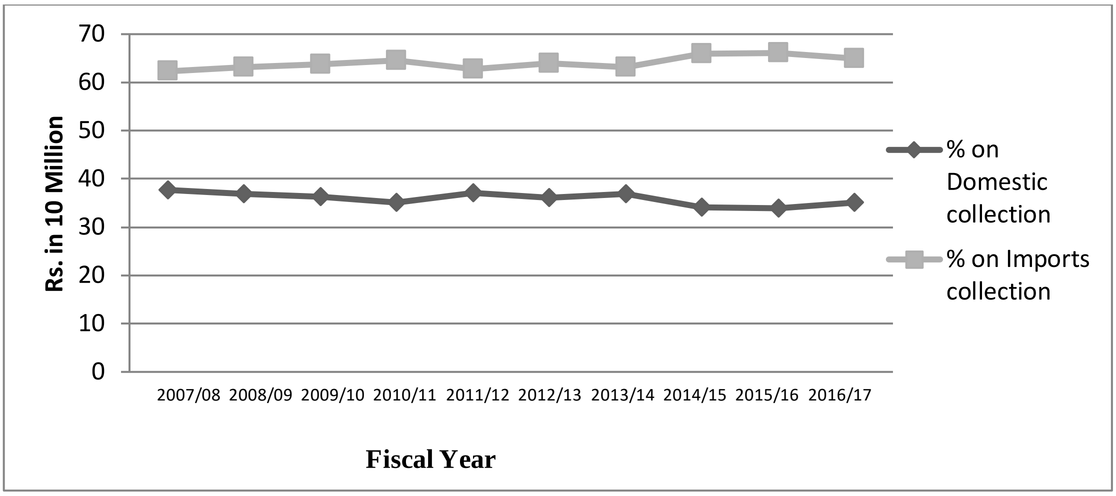
Source: Economics survey 2016/17

The table 4.7 shows that the proportion of internal VAT revenue & imports VAT revenue on total VAT revenue. The proportion of imports VAT revenue is higher than the proportion of internal VAT revenue each fiscal year. The proportion of internal VAT revenue and imports VAT revenue are fluctuating in each year. The proportion of highest internal VAT revenue is 37.71% in the fiscal year 2007/08; the lowest is 35.91% in the fiscal year 2015/16 and the average proportion is 35.92%. Similarly, the highest proportion of imports VAT revenue is 66.09% in the fiscal year 2015/16 and that of lowest is 62.29% in the fiscal year 2007/08 and the average increments is 64.04%.

From the data, it can be seen that there is fluctuation of domestic collection, imports collection total VAT collection.

Figure: 4.7

Trend of Domestic VAT Revenue & Imports VAT Revenue



4.1.6 Contribution of VAT on Total Revenue

One of the clearest reasons for VAT's widespread application is its sheer effectiveness at rising revenue, given the current high budget deficits and nation's necessities for more tax revenue. As consumption tax VAT is a board based tax on almost all goods and services, and as such it has massive revenue- raising potential (Subedi, 2017).

Table: 4.8

VAT on Total Revenue

(Rs. In Ten Million)

Fiscal Years	Total Revenue	VAT Amount	% of VAT
2007/08	7,228.21	2,161.30	29.90
2008/09	8,771.12	2,609.56	29.75
2009/10	10,762.25	2,981.57	27.70
2010/11	14,347.45	3,970.09	22.06
2011/12	17,994.58	5,483.09	30.47
2012/13	19,837.63	6,166.36	31.08
2013/14	24,437.41	7,039.04	28.80
2014/15	29,602.11	8,341.82	28.18
2015/16	35,662.07	10,111.06	28.35
2016/17	40,586.64	11,251.82	27.72
	Average		28.40

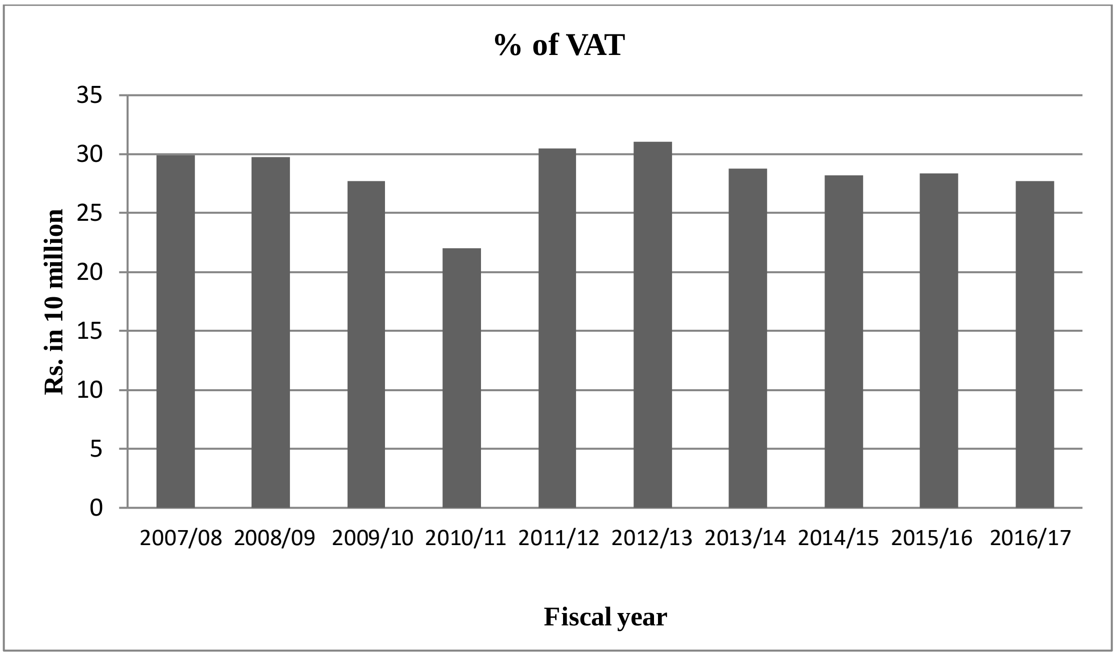
Sources: Economics Survey 2016/17
Inland Revenue Department Annual Report

The table 4.8 shows that the VAT is independent variable and total revenue is dependent variable. In each year, VAT effects on total revenue collection. In FY 2007/08 contribution of VAT is 29.90% of total revenue and decreasing range in following years. In 2010/11, the VAT is 22.06% and increase in two years is 30.47% and 31.08% respectively. In FY 2013/14 the VAT effectiveness is 28.80% and 27.72%. In FY 2016/17, the average contribution of VAT in this study period is 28.40%. The high effectiveness of VAT is 31.08% on 2012/13 and low effectiveness of VAT is 22.06% on 2010/11.

From the data presented in table 4.8, contribution of VAT on total revenue is fluctuating trend. This shows the VAT contribution on total revenue is volatile.

Figure: 4.8

VAT on Total Revenue



4.1.7 Contribution of VAT in Tax Revenue

The effectiveness of VAT revenue to the total tax revenue has been shown in the following table.

Table: 4.9

VAT on Tax Revenue

(Rs. In Ten Million)

Fiscal Years	Tax Revenue	VAT Amount	% of VAT
2007/08	5,827.80	2,161.30	37.08
2008/09	7,112.67	2,609.56	36.69
2009/10	8,515.55	2,981.57	35.01
2010/11	11,705.19	3,970.09	33.92
2011/12	15,629.49	5,483.09	35.08
2012/13	17,722.72	6,166.36	34.79
2013/14	21,172.26	7,039.04	33.25
2014/15	25,921.49	8,341.82	32.18
2015/16	31,244.12	10,111.06	32.36
2016/17	35,595.57	11,251.82	31.61
		Average	34.20

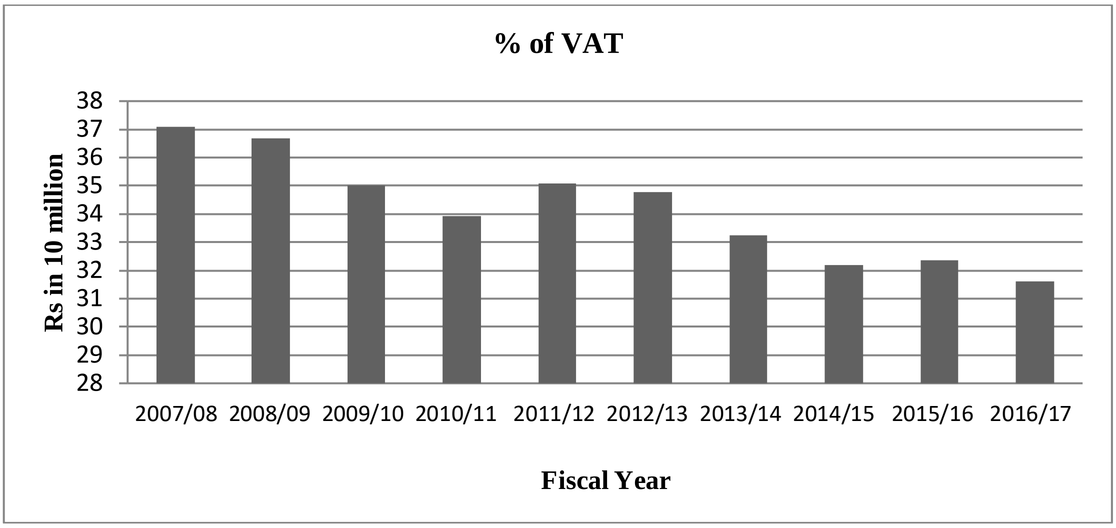
Sources: Economics Survey 2016/17 Inland Revenue Department Annual Report

The table 4.9 shows VAT is independent variable and tax revenue is dependent variable. In each year, VAT effects on tax revenue collection. Tax revenue's one third part is affected by VAT collection revenue. In FY 2007/08, the contribution of VAT is 37.08% of tax revenue and decreasing range in following years. In 2010/11, the VAT is 33.92% and it increases in two years is 35.08% and slightly low next year 34.79% respectively. In FY 2013/14, the VAT effectiveness is 33.25% and 31.61% in FY 2016/17. The average contribution of VAT in this study period is 34.20%.

This shows that the high effectiveness of VAT is 35.08% on 2011/12 and low effectiveness of VAT is 31.61% in 2016/17.

Figure: 4.9

VAT on Tax Revenue



4.1.8 Contribution of VAT on Indirect Tax

In indirect tax, VAT always comprises in majority whose proportion fluctuates in some years towards the summit and some time it decreased, but it never goes below than 50 percent. Most of amount has VAT on indirect taxes. VAT is the major effective factor on indirect tax revenue. If VAT is high then indirect taxes also high and if VAT is low indirect tax revenue also low.

Table: 4.10

VAT on Indirect Taxes

(Rs. In ten million)

Fiscal Years	Indirect Taxes	VAT Amount	VAT %
2007/08	4346.23	2161.30	49.97
2008/09	5214.64	2609.56	50.04
2009/10	6206.77	2981.57	48.04
2010/11	8273.11	3970.09	47.99
2011/12	11461.3	5483.09	47.84
2012/13	12412.4	6166.36	49.68
2013/14	14482.8	7039.04	48.60
2014/15	17724.9	8341.82	47.06
2015/16	21537.6	10111.06	46.95
2016/17	24195.2	11251.82	46.50
Average			48.27

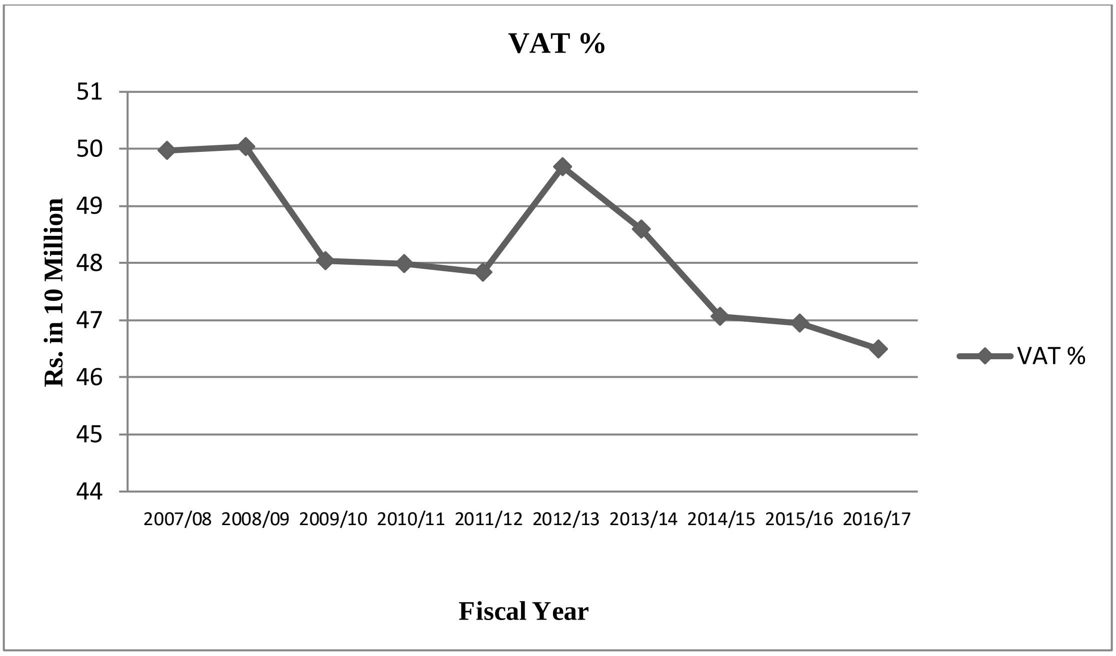
Sources: Economics Survey 2016/17
Inland Revenue Department Annual Report

The table 4.10 shows that VAT is independent variable and Indirect tax is dependent variable. In each year, VAT effects indirect tax revenue collection. The VAT collection revenue contribution is nearly 50% revenue in indirect tax revenue. In FY 2007/08 contribution of VAT is 49.97% on indirect slightly increase next year. Then, decreasing range in following years. In 2009/10, the VAT is 48.04% and it decreases in two years, which is 47.99% and slightly low in next year i.e. 47.84% respectively. In FY 2012/13, the VAT effectiveness is 49.68% and decreasing range in FY 2016/17 is 46.50%. The average contribution of VAT in this study period is 48.27%.

This shows that the high effectiveness of VAT is 50.04% in 2008/09 and low effectiveness of VAT is 46.05% in 2016/17. The collecting trend of VAT is shown in the following figure:

Figure: 4.10

VAT on Indirect taxes



4.1.9 Contribution of VAT to GDP

Gross Domestic Product is the total final output of goods and services produced by the country's territory by residents and non-residents, regardless of its collection between domestic and foreign claims. The VAT/GDP ratio measures the consistency of the growth of VAT revenue with the corresponding growth in Gross Domestic Product

(GDP). Normally, the growth of VAT revenue mobilization in line with the growth in GDP is desirable for the rapid economic development of a country. The contribution of VAT revenue in GDP is shown below:

Table: 4.11

Contribution of VAT to GDP

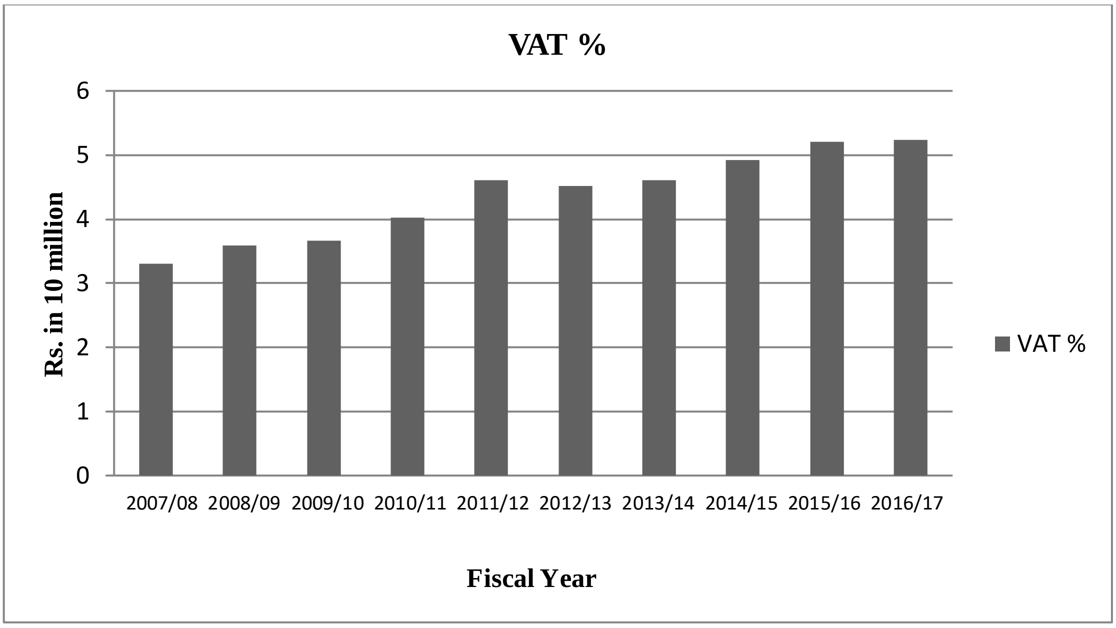
(Rs. in Ten Million)

Fiscal Years	GDP Amount	VAT Amount	VAT %
2007/08	65408.4	2161.30	3.30
2008/09	72782.7	2609.56	3.59
2009/10	81565.8	2981.57	3.66
2010/11	98827	3970.09	4.02
2011/12	119277	5483.09	4.60
2012/13	136695	6166.36	4.51
2013/14	152734	7039.04	4.61
2014/15	169501.1	8341.82	4.92
2015/16	194162.4	10111.06	5.21
2016/17	214665.0	11251.82	5.24
Average			4.37

Sources: Economics Survey 2016/17

Figure 4.11

Contribution of VAT on GDP



Above table and figure analyze the contribution of VAT to GDP. Which is in fluctuating trend. Similarly, in fiscal year 2007/08, the total amount Rs. 2161.30 cores was collected as VAT which is only 3.30% of GDP. However, though insignificantly, the percentage shows the increasing trend, but very low percentage of GDP throughout all the years of analysis. The highest percentage i.e. 5.24% was recorded in the fiscal year 2016/17 with VAT revenue amounting to Rs. 11251.82 cores.

Hence, it can be said that the trend shows an increasing trend. So, in conclusion, the contribution made through VAT in GDP is very low.

4.1.10 Ratio of Total Revenue and Tax Revenue to GDP

Revenue mobilization in Nepal has been enthusiastic over the period. For instance, share of revenue to GDP has continuously increased over the period. Share of total revenue and tax revenue have higher than the initial year's share indicating improvement and optimism in revenue mobilization in Nepal over the period.

Table: 4.12

Revenue Contribution on GDP

Fiscal Years	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Ratio Total Revenue to GDP	12	13.3	12.6	13.2	15.3	16.1	16.75
Ratio Tax Revenue to GDP	14.7	15.3	14.6	15.7	17.5	18.5	19.1

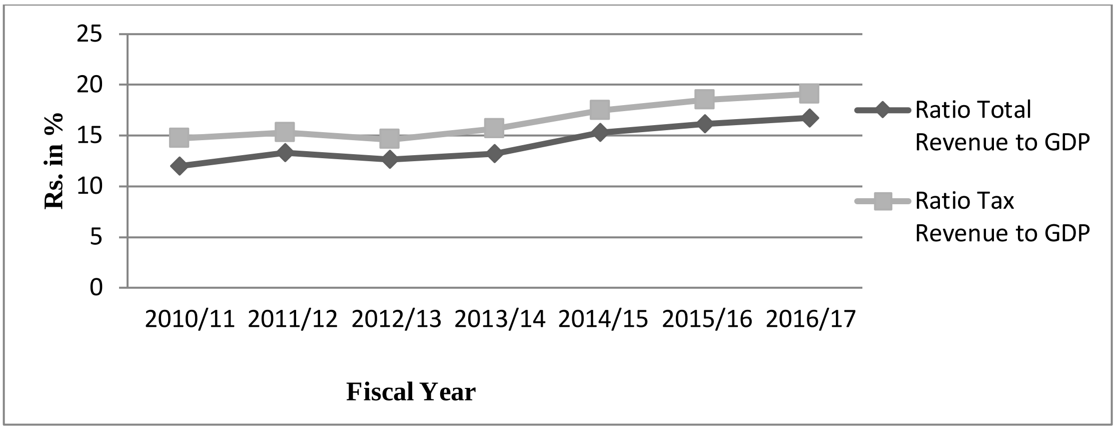
Source: Inland Revenue Department 2017

The table 4.12 shows the ratio of total revenue and tax revenue is increasing range. In FY 2010/11 ratio of total revenue was 12% and in 2011/12 it was 13.3%. But in FY 2012/13 it slightly decreases into 12.6% then increase upto 16.75% in 2016/17. Similarly, the ratio of the tax revenue to GDP in FY 2010/11 is 14.7% and in 2011/12 it was 15.3% except the FY 2012/13. Other years' contribution range was in increasing order. In FY 2016/17, the contribution of Ratio of tax revenue to GDP was 19.1%.

Hence, the contribution to GDP of tax revenue was slightly more than the total revenue, which is shown in the following trend diagram.

Figure: 4.12

Trend of Revenue Contribution on GDP



4.1.11 Performance of VAT

Performance of VAT based on different indicators however show positive symptom. Contribution of VAT to GDP, total revenue, tax revenue and indirect tax all have increased significantly. However, all indicators show fluctuation and GDP growth also positive. Furthermore, the deviation from the average value is very high. The contribution of VAT to GDP is in constantly increasing order.

Table: 4.13

Performance of VAT

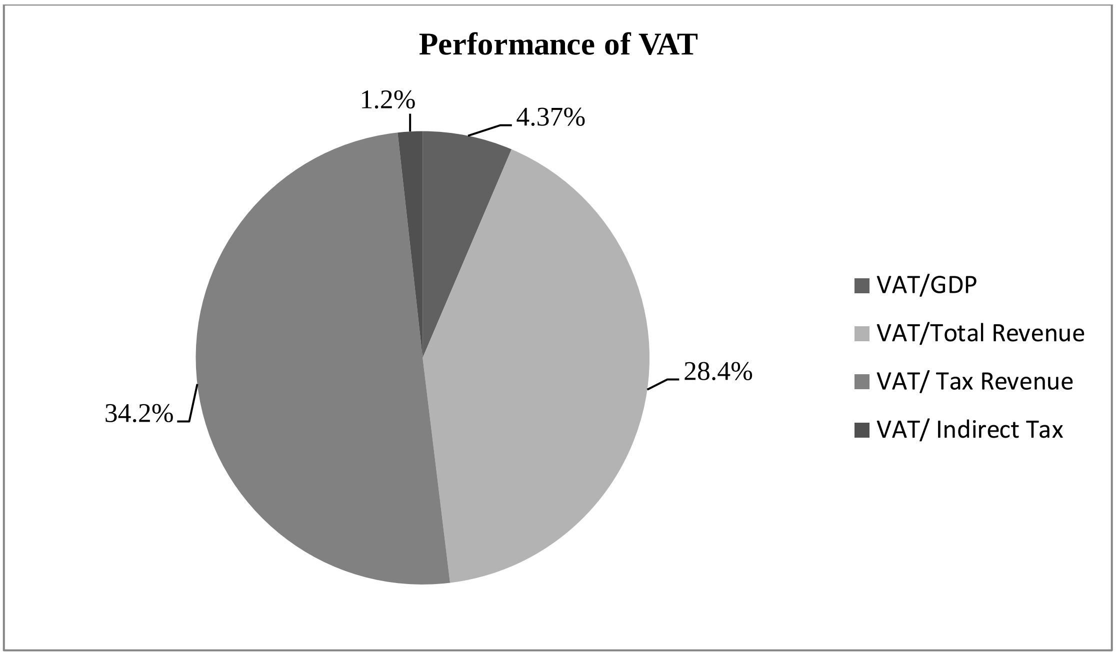
(Rs. in Percentage)

Fiscal Years	VAT/GDP	VAT/ Total Revenue	VAT/ Tax Revenue	VAT/ Indirect Tax
2007/08	3.30	29.90	37.08	49.97
2008/09	3.59	29.75	36.69	50.04
2009/10	3.66	27.70	35.01	48.04
2010/11	4.02	22.06	33.92	47.99
2011/12	4.60	30.47	35.08	47.84
2012/13	4.51	31.08	34.79	49.68
2013/14	4.61	28.80	33.25	48.60
2014/15	4.92	28.18	32.18	47.06
2015/16	5.21	28.35	32.36	46.95
2016/17	5.24	27.72	31.61	46.50
Average	4.37	28.40	34.20	48.27

Source: Author's Calculation, 2016

Figure: 4.13

Performance of VAT



Regarding the contribution of VAT to GDP, total revenue, tax revenue and indirect tax, it is almost near to average for most of the years. The VAT on GDP contribution average is 4.37% and total revenue average is 28.40%. The VAT on tax revenue and indirect tax is 34.20% and 48.27% respectively.

Hence, it indicates that the implementation of VAT not only helped in tax reform and revenue mobilization but also proves to be efficient.

4.1.12 Correlation Analysis

Correlation is defined as the association of two or more random variables or is the degree of relationship between variables, which seeks to determine how well a linear or other equation describes or explains the relationship between variables. One very convenient and useful way of interpreting the value of coefficient of correlation between two variables is to use square of coefficient of correlation, which is called coefficient of determination.

4.1.12.1 Gross Domestic Product with Value Added Tax Revenue

The relationship of VAT revenue and GDP is examined with the help of 10 years data from the fiscal year 2007/08 to 2016/17. Further, the relation of VAT with GDP, coefficient of determination and value of average are presented below:

Statistical Tools of Analysis

Correlation Coefficient (r)	0.999
Coefficient of determination (r2)	0.9980
Average % in GDP	4.37

The association of VAT revenue with GDP is very high or in other words, the VAT revenue has high degree of correlation with GDP (i.e. r = 0.999). The coefficient of determination (r^2) is 0.9980 which means that 99.80% of total variation in VAT revenue is explained by gross domestic product. The average of the VAT and GDP was 4.37%.

4.1.12.2 Total Revenue with Value Added Tax Revenue

The effect of VAT revenue to total revenue is identified with the help of 10 years VAT revenue from the fiscal year 2007/08 to 2016/17. The association of VAT with total revenue, coefficient of determination and average ratio of VAT and sales tax with total revenue over the reviewed period is presented below:

Statistical Tools of Analysis

Correlation Coefficient (r)	0.97
Coefficient of determination (r2)	0.9409
Average % in total revenue	28.40

The relationship of total revenue with VAT revenue is very high. Or, there is almost linear relationship between total revenue and VAT revenue, where the calculated value of r is 0.97. The significance of correlation coefficient is also very high and positive. The coefficient of determination (r^2) is 0.9409 which means 94.09% of total variation in total revenue is explained by VAT revenue. The percentage of VAT revenue in total revenue over the reviewed period is in average i.e. 28.40. This means a weak relationship (28.40%) in total revenue is contributed by VAT revenue.

4.1.12.3 Total Tax Revenue with Value Added Tax Revenue

The effect of VAT on the total tax revenue is found out with the help of 10 years data from 2007/08 to 2016/17 on which the study has been confined. The correlation of total tax revenue with VAT and sales tax revenue, coefficient and average ratio of VAT in total tax revenue are presented below:

Statistical Tools of Analysis

Correlation Coefficient (r)	0.94
Coefficient of determination (r^2)	0.8836
Average % in total tax revenue	34.20

The relationship of total tax revenue and VAT revenue is positive and very high or to put it another way, these are high correlation where value or r is 0.94. The coefficient of determination (r2) is 0.8836, which means 88.36% of total variation in total tax revenue is explained by the VAT revenue. The average percentage of VAT in total tax over the reviewed period is 34.20. This means a weak relationship between total tax revenue which is contributed by VAT revenue.

4.1.12.4 Total Indirect Tax with Value Added Tax Revenue

The effect of VAT on the total tax revenue is find out with the help of 10 years data from 2007/08 to 2016/17 on which the study has been confined. The correlation of total tax revenue with VAT and sales tax revenue, coefficient and average ratio of VAT in total Indirect tax are presented below:

Statistical Tools of Analysis

Correlation Coefficient (r)	0.98
Coefficient of determination (r2)	0.9604
Average % in total Indirect tax	48.27

The relationship of total indirect tax and VAT revenue is positive and average or to put it in another way, these are average correlation where value or r is 0.98. The coefficient of determination (r^2) is 0.9604, which means 96.04% of total variation in total indirect tax revenue is explained by the VAT revenue. The average percentage of VAT in total tax over the reviewed period is 48.27. This means a moderate relationship of total indirect tax revenue is contributed by VAT revenue.

4.1.13 Trend Analysis

Trend analysis reflects the dynamic pace of movements of a phenomenon over period of time. Time element is an important factor with passage of time, the achievement on output. In this study, it is found that, total government revenue and VAT are increasing but in fluctuating rate. So trend analysis is done simply to know how means it would be in the next year. If going on as it is in the past years. It helps in forecasting so that proper strategy can be implemented to bring some changes in the trend value of succeeding years.

Figure 4.14

Trend of Government Revenue

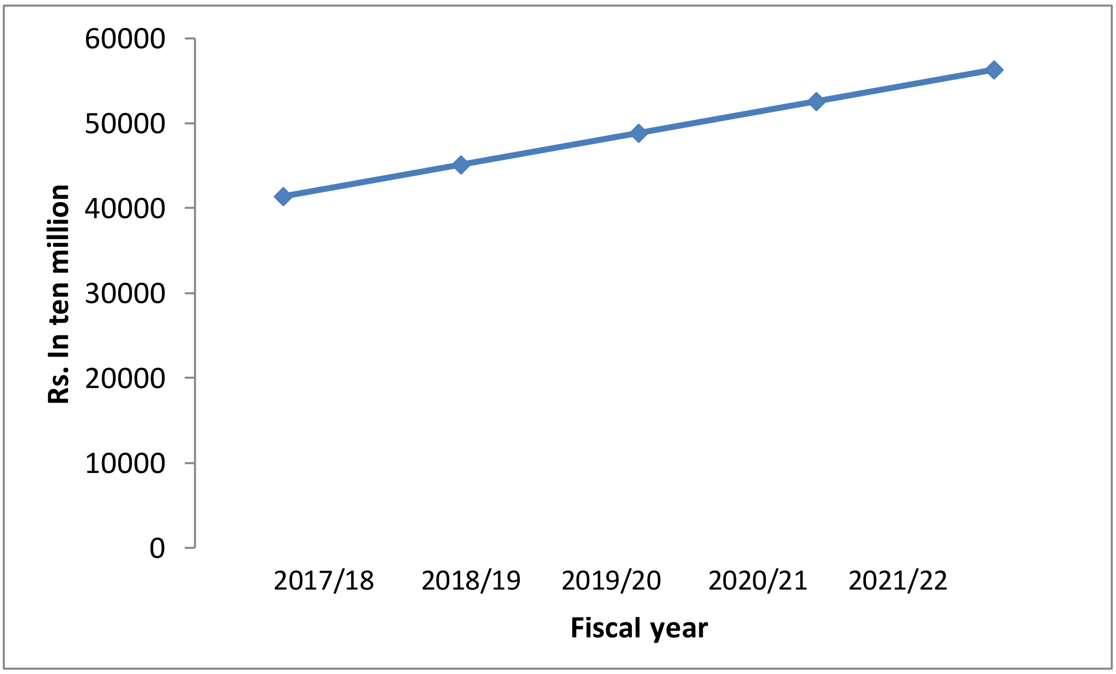


Figure 4.14 shows that the trend of government revenue is found in increasing trend. Government revenue is ranging from Rs. 7228.21 crore to Rs. 40586.64 crore during 10 year study period from FY 2007/08 to FY 2016/17. However, trend of government revenue is increasing per year by Rs. 3725.91 crore. This figure shows the government revenue is increasing significantly.

Figure 4.15

Trend of VAT

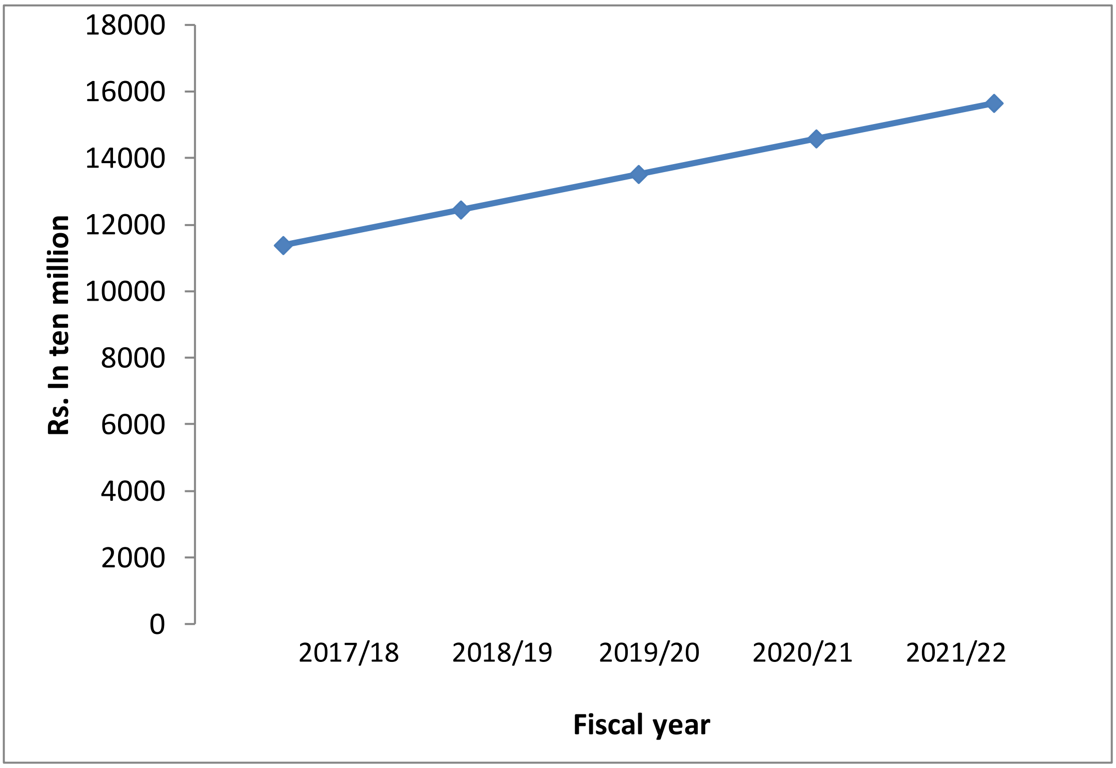


Figure 4.15 shows that the trend of Value Added Tax is found in increasing trend. VAT is ranging from Rs. 2161.3 crore to Rs. 11251.82 crore during 10 year study period from FY 2007/08 to FY 2016/17. However, trend of VAT is increasing per year by Rs. 1064.74 crore. This figure shows the VAT is increasing significantly.

4.2 Major Findings of the Study

The study has following findings:

1. A large amount of government revenue comes from taxation. More than 75% of government revenue comes from taxation, whereas the contribution of non-tax revenue is less than 25% in Nepalese tax structure. 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.

2. The contribution of direct tax in the total tax revenue is very low. Although Value Added Tax belongs to the indirect tax category, introduction of this tax

does not increase the share of indirect tax on total revenue. In FY 2015/16, the direct tax in total revenue was 32.03% and indirect tax was 67.97%.

3. Custom duty and VAT occupy major position in indirect tax and that the contribution of the VAT for 2015/16 is Rs. 1,12,518.20 million, custom duties is 74,844.5 million and excise duties is 53,540.3 million.

4. The member of VAT registrants increased gradually. Some tax payers registered under the revenue department, 88.51, 51.16, 50.12, 43.53, 35.25, 28.04, 21.77, 19.16 and 21.37 percentages from FY 2007/08 to 2016/17 respectively. So, tax compliance behavior in people is increasing gradually in Nepal.
5. Credit occupies major position in VAT returns, which is average 48.89%. Similarly, second position zero average is 33.57% and debit average is 17.52%.

6. In Nepal, collection of VAT has been classified mainly two types i.e. imports and domestic sources, out of which collection from imports has significant share, i.e. Rs.16, 464.3 million in the fiscal year 2007/08 as compared to domestic contribution amounting to just Rs. 9631.3 or just 36.90% of the total VAT revenue in the same fiscal year. This surely indicates that there is a heavy dependence on imports rather than domestic products. The total VAT domestic collection average is 35.92% and imports is 64.04%.

7. Contribution of VAT revenue on total revenue is fluctuating in trend. Amount of VAT revenue increases, but percentage is not. 29.90, 29.75, 27.70, 22.06, 30.47, 31.08, 28.80, 28.18, 28.35 and 27.72. So, the tax compliance rate is not increased gradually. An average VAT effectiveness on total revenue is 28.40%.

8. The average share of VAT revenue in total tax revenue is not good, i.e. just about 34.20%, which simply indicates that VAT though implementation wise, faring very poorly, is still emerging as an important source of revenue generation.

9. There is high share of VAT in total indirect tax revenue in Nepal. The average contribution of VAT to total indirect tax revenue is about half (48.27%) of the same, which shows that Nepalese indirect tax revenue without inclusion of VAT is unthinkable. VAT exemptions, larger amount of tax credit over tax debit and

huge volume of tax refunds are mainly responsible for such a low effective rate of VAT in Nepal. Tax exemption and tax credit are the root cause of revenue loss and revenue loss is the main cause of low effective VAT rate. For that reason, to establish the VAT as a prominent source of tax revenue and total revenue, the amount of revenue losses should be declined. For this, tax exemption, unnecessary claim of tax credit by the taxpayers as well as tax deduction should be controlled to a reasonable limit.

10. The contribution of VAT to government revenue (GDP) on Nepal is very low with comparison to other developed countries. The contribution of VAT revenue as a percentage of GDP remained 3.30, 3.58, 3.65, 4.01, 4.56, 4.51, 4.64, 4.92, 5.21 and 5.24 from the FY 2063/64 to 2072/73 respectively, but contribution of VAT revenue on GDP is increasing per year, it means tax compliance behavior of people is in increasing scenario in Nepal.
11. The contribution of total revenue on total GDP is 16.75% in FY 2015/16. This is not satisfactory, which is mainly due to the economic condition of the country. The contribution tax revenue on total GDP is 19.1% in FY 2015/16. The average contribution of total revenue on GDP was 14.17% during the study period. On the other hand, the average contribution of tax revenue on GDP was 16.48% during the study period.

12. The correlation coefficient of VAT with GDP is 0.99 and coefficient of determination is 0.998. Likewise, the association of total revenue with VAT revenue and coefficient correlation and determination are 0.97 and 0.9404 respectively and the relationship of tax revenue with VAT revenue is 0.94 and coefficient of determination is 0.8836 with its average percentage in total tax revenue being 34.20. The correlation coefficient of indirect tax with VAT and coefficient determination is 0.98 and 0.9604 respectively. The contribution of VAT in indirect tax revenue is 48.27. So, these result show that VAT revenue is growing quite proportionately or head to head with GDP, total revenue, total tax revenue and total indirect tax revenue.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The role of indirect tax is seen to be more important in so many developing countries like Nepal. VAT is probably the best tax system and the most important innovation of the second half of the twentieth century, which is considered as an effective means to collect revenue as a reformed sales tax of indirect tax system. VAT is a broad based tax as it also covers the value added to each commodity by a firm during all stages of production and distribution. It is a modern tax system which enables to efficient collection system, to increase efficiency and to reduce tax evasion. It is also referred as the backbone of income tax system in Nepal. VAT plays great role in the revenue mobilization in Nepal. The reason behind implementing VAT system, is to make transparency in all kinds of transaction, helps to make the wide area of tax and discourages tax evasion. So it is needless to say that VAT is the most important source of the government revenue.

Value added tax is a modern innovation indirect tax in the field of taxation.Value added tax is the improved and modified form of traditional sales tax. VAT is implemented in more than 130 countries in the world. VAT is multi stage commodity and servicebased tax that is levied on the value added of business enterprises at different stages of production and distribution, value added tax offects the only addedportion of price. It has nothing to do with the rest of the prices. Purchasers payVAT to the sellers and seller transfer to government deducting VAT paid on their business purchases by the amount collected from the consumers on their sales. The ultimate burden of VAT shifted to the customers.

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

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

There are five chapter included in this research. The first chapter explain about the introducation of reports. In this chapter back ground of the study, objectives of study, statment of problem, significances of the study, limitation of study, and organization of the study mention briefly. The main objective of this report is to examine the effectiveness of VAT collection, analyze the contribution VAT , explore knowledge of consumer and business persons and assess the problems..

Second chapter included the best article and thesis of previous researcher related about this topic. Conceptual review and empirical review are mentioned related with research objectives.

Third chapter is discussed about the research design. Data were taken from Economic survey, Nepal budget, Inland Revenue Department of Nepal and related books also. All the data are analyzed by suing table, chart, trend, and regression and correlation also.

In fourth chapter, certain data are presented to find out the objectives of the research. Secondary data measure for effectiveness of VAT collection and contribution of VAT on GDP, total revenue and tax revenue. Conclusion of the study is given in last chapter. Some recommendations are also given to the end of the study. In this way this study was complete with the achievement of the stated objectives.

5.2 Conclusion

Nepalese tax structure is the composition of tax revenue and non-tax revenue. Tax revenue contributes 84.81 percent of the total revenue whereas only 15.19 percent on an average of the revenue is contributed by non-tax revenue. Tax revenue is composed of direct tax and indirect tax where, 29.15 percent is contributed by direct tax on total tax revenue and indirect tax has contributed 70.85 percent on an average. Indirect tax is the composition of custom duties, excise duties have also significant contribution on total indirect tax revenue.

VAT has significant contribution on total government revenue. Contribution of VAT revenue on total revenue is fluctuating in trend. An average VAT effectiveness on total revenue is 28.40%. Similarly, VAT has 34.20 percent contribution on total tax revenue of the government. VAT has been classified mainly two types i.e. imports and domestic sources, out of which collection from imports has significant share. This surely indicates that there is a heavy dependence on imports rather than domestic products. The total VAT domestic collection average is 35.92% and imports is 64.04%. In an average, average share of VAT revenue in total tax revenue is not good, i.e. just about 34.20%, which simply indicates that VAT though implementation wise, faring very poorly, is still emerging as an important source of revenue generation. The contribution of total revenue on total GDP is 4.37 percent on an average. This is not satisfactory, which is mainly due to the economic condition of the country.

5.3 Recommendations

The study provides some insight to VAT and its contribution to government revenue:

- Tax collection and payment activities should be made transparent. Rule and regulation should also be made simple and unambiguous. The limitation of discretionary power and transparency in tax rules and tax collection activities would reduce the change of malpractice.
- A policy of increasing the threshold and introduction of annual turnover tax for the non-registered taxpayer could be a viable option for structural reforms in VAT administration. The ever-changing nature and dynamics of service business is also the VAT administration could look into.
- To increase the capability of administration, training of tax personnel should be kept on the top most priority. Training should be designed for various level and purpose. General training for all and specialized training for particular persons and foreign training should be designed and provided.

    - Not only the co-operation of government sector and private sector is sufficient there must be smooth co-operation and joint effort of both customs administration and the VAT administration also the customers.
    - There is no fixed pricing system in the market to market, shop to shop and from day to day prices of some products are determined by bargaining. There is also a frequent price fluctuation. For proper implementation of VAT, there should be uniform price of the product in the market. Otherwise, the profit margins and value added of different sellers would upper different, which is very suspicious for tax persons.
    - The administration should be very watchful to prevent any kinds of mal practice, fraud and tax evasion. Almost care should be taken to prevent any kind of bribing and corruption. Tax officials should effectively be monitored to control it.
- The study has only focused on contribution of VAT on government revenue. It is suggested that the further researcher can conduct research in Problems and Prospects of VAT in Nepal, VAT Compliance and its Determinants, etc.

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Appendix-A

Calculation of Trend Values

Trend of Total Revenue

Fiscal Years	x = (t-2012/13)	Total Rev. (y)	xy	x2
2007/08	-5	7228.21	-36141.05	25
2008/09	-4	8771.12	-35084.48	16
2009/10	-3	10762.25	-32286.75	9
2010/11	-2	14347.45	-28694.9	4
2011/12	-1	17994.58	-17994.58	1
2012/13	0	19837.63	0	0
2013/14	1	24437.41	24437.41	1
2014/15	2	29602.11	59204.22	4
2015/16	3	35662.07	106986.21	9
2016/17	4	40586.64	162346.56	16
n = 10	-5	209229.47	202772.64	85

b = $\frac{n\sum xy - \sum x.\sum y}{n\sum x^2 - (\sum x)^2}$

= $\frac{10 \times 202772.64 - (-5).(209229.47)}{10 \times 85 - (-5)^2}$

= 3725.91

a = $\frac{\sum y - b(\sum x)}{n}$

= $\frac{209229.47 - 3725.91(-5)}{10}$

= 22785.90

Projected VAT (y = a + bx)

2017/18 22785.90 + 3725.91 x 5 = 41415.45

2018/19 22785.90 + 3725.91 x 6 = 45141.36

2019/20 22785.90 + 3725.91 x 7 = 48867.27

2020/21 22785.90 + 3725.91 x 8 = 52593.18

2021/22 22785.90 + 3725.91 x 9 = 56319.09

Trend of VAT

Fiscal Years	x = (t-2012/13)	VAT (y)	xy	x2
2007/08	-5	2161.3	-10806.5	25
2008/09	-4	2609.56	-10438.24	16
2009/10	-3	2981.57	-8944.71	9
2010/11	-2	3970.09	-7940.18	4
2011/12	-1	5483.09	-5483.09	1
2012/13	0	6166.36	0	0
2013/14	1	7039.04	7039.04	1
2014/15	2	8341.82	16683.64	4
2015/16	3	10111.06	30333.18	9
2016/17	4	11251.82	45007.28	16
n = 10	-5	60115.71	55450.42	85

$$b = \frac{n\sum xy - \sum x.\sum y}{n\sum x^2 - (\sum x)^2}$$

$$= \frac{10 \times 60115.71 - (-5).(55450.42)}{10 \times 85 - (-5)^2}$$

= 1064.74

$$a = \frac{\sum y - b(\sum x)}{n}$$

$$= \frac{60115.71 - 1064.74(-5)}{10}$$

= 6063.94

Projected VAT (y = a + bx)

2017/18 6063.94 + 1064.74 x 5 = 11387.64

2018/19 6063.94 + 1064.74 x 6 = 12452.38

2019/20 6063.94 + 1064.74 x 7 = 13517.12

2020/21 6063.94 + 1064.74 x 8 = 14581.86

2021/22	$6063.94 + 1064.74 \times 9 = 15646.6$

Appendix -B

S.N.	Fiscal year	VAT Registration					
		Total VAT Registered	Growth	Monthly	% Total VAT	Others	Gr
1	1998/1999	5207		3032	96.64	175	
2	1999/2000	4423	-15.06	3977	89.92	449	15
3	2000/2001	8452	91.09	7912	93.61	539	2
4	2001/2002	3550	-58	3425	96.48	124	-7
5	2002/2003	4565	28.59	4190	91.79	376	20
6	2003/2004	3695	-19.06	3402	92.07	634.24	6
7	2004/2005	4726	27.9	4309	91.18	444.6	-
8	2005/2006	5108	8.08	4579	89.64	864.57	9
9	2006/2007	6961	36.28	6148	88.32	783.27	-
10	2007/2008	6161	-11.49	5557	90.2	1304.2	6
11	2008/2009	6713	8.96	6223	92.7	475	-6
12	2009/2010	9942	48.1	9195	92.49	746	5
13	2010/2011	12961	30.37	12020	92.74	940	2
14	2011/2012	15064	16.23	13620	90.41	1143	2
15	2012/ 2013	16206	7.58	15089	93.11	1116	-
16	2013/2014	16110	-0.59	15216	94.45	895	-
17	2014/2015	17271	7.21	16350	94.67	993	1
18	2015/2016	22946	32.86	21295	92.8	1575	5
19	2016/2017	13860	-39.59	13478	97.24	382	-7
	Total	184111		171017		13958.88	
	Average		11.08		92.65		2

Appendix - C

S.N.	Fiscal year	Total VAT Return	Growth Returns				% of Returns		
			Total Returns	Debit	Credit	Zero	Debit	Credit	Zero
1	1998/1999	19918	-	-	-	-	28.04	50.87	21.1
2	1999/2000	72819	143.4	157.69	122.91	173.78	29.68	46.59	23.73
3	2000/2001	138938	90.8	43.74	133.32	66.19	22.36	56.97	20.67
4	2001/2002	174577	25.65	27.86	29.0	38.6	22.67	54.44	22.8
5	2002/2003	200054	14.59	10.11	10.06	29.9	21.86	52.29	25.85
6	2003/200	218359	9.15	2.74	7.79	17.32	20.5	51.64	27.7

	4						8		8
7	2004/2005	233269	6.83	12.03	3.2	9.73	21.58	49.88	28.53
8	2005/2006	250228	7.29	9.48	1.43	15.81	22.03	47.17	30.8
9	2006/2007	276610	10.54	1.88	12.38	13.92	20.3	47.95	31.75
10	2007/2008	295775	6.93	2.9	7.05	9.32	19.54	48.01	32.46
11	2008/2009	329034	11.24	7.64	10.86	13.99	18.91	47.84	33.26
12	2009/2010	371229	12.82	8.17	12.81	15.49	18.12	47.83	34.04
13	2010/2011	437315	17.8	13.12	16.75	21.77	17.4	47.41	35.19
14	2011/2012	514911	17.74	18.02	17.94	17.35	17.44	47.48	35.07
15	2012/ 2013	605022	17.5	15.79	21.87	12.44	17.19	49.25	33.56
16	2013/2014	679143	12.25	6.5	18.31	6.31	16.31	51.91	31.78
17	2014/2015	189125	20.61	10.5	14.42	35.74	14.98	49.24	35.77
18	2015/2016	913704	11.55	12.35	17.9	2.46	15.09	52.05	32.86
19	2016/2017	1394886	52.66	33.93	49.41	66.2	13.24	50.95	35.81
Average growth and % of return			27.19	21.93	27.69	31.46	19.4	49.94	30.65

Appendix D

S.N.	FY year AD	Total sales	Customs Collection	Excise Collection	
					Domestic
1	1999/00	3293.79	85022	208.58	351.74
2	2000/01	3713.39	95177	295.32	391.57
3	2001/02	4289.38	1081.33	312.76	452.69
4	2002/03	4889.36	1255.21	377.12	550.89
5	2003/04	5044.55	1265.87	380.70	547.21
6	2004/05	5622.98	1423.64	478.51	539.05
7	2005/06	633.10	1555.48	622.67	630.47
8	2006/07	7012.27	1570.16	644.59	742.14
9	2007/08	7228.21	1534.37	650.69	815.05

10	2008/09	8771.21	1670.76	934.32	963.13
11	2009/10	10762.25	2106.24	1118.96	1080.82
12	2010/11	14347.45	2679.28	1622.09	1391.85
13	2011/12	17994.58	3521.89	2114.75	2037.99
14	2012/13	19837.63	3571.34	2633.85	2228.40
15	2013/14	24437.41	4339.08	3001.61	2596.63
16	2014/15	29794.23	5693.18	3623.47	2838.00
17	2015/16	36865.78	6798.06	4541.10	3428.93
18	2016/17	43850.30	7484.45	5354.03	3952.06

Appendix – E

S.N.	FY/ B.S.	FY/ AD	GDP	Total revenue collection	Tax revenue	Non tax revenue
1	2054/55	1995/96	24891.3	2789.51	2166.80	622.51
2	2055/56	1996/97	28051.3	3037.35	2442.43	594.92
3	2056/57	1997/98	30084.5	3293.79	2593.98	699.81
4	2057/58	1998/99	34203.6	3713.59	2875.29	838.30
5	2058/59	1999/00	37984.8	4289.38	3315.22	974.16
6	2059/60	2000/01	44151.9	4889.36	3886.50	1002.86
7	2060/61	2001/02	45944.3	5044.55	3933.06	1111.49
8	2061/62	2002/03	49223.1	5622.98	4285.69	1364.29
9	2062/63	2003/04	53674.9	6233.10	4817.30	1415.80
10	2063/64	2004/05	58941.2	7012.27	5510.48	1501.79
11	2064/65	2005/06	65408.4	7228.21	5827.80	1400.41
12	2065/66	2006/07	72782.7	8771.21	7112.67	1658.54
13	2066/67	2007/08	81565.8	10762.25	8515.55	2246.70
14	2067/68	2008/09	98827	14347.45	11705.19	2642.26
15	2068/69	2009/10	119277	17994.58	15629.49	2565.09
16	2069/70	2010/11	136695	19837.63	17722.72	2114.91
17	2070/71	2011/12	152734	24437.41	21172.26	3265.15
18	2071/72	2012/13	169501.1	29794.23	25921.49	3872.74
19	2072/73	2013/14	194162.4	36865.78	31243.99	5621.79
20	2073/74	2014/15	214665.0	43850.30	37691.78	6158.52