

# **INDIRECT TAX AND ITS EFFECT ON REVENUE GENERATION IN NEPAL**

**A Thesis  
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## **CERTIFICATION OF AUTHORSHIP**

I certify that the work in this thesis has not previously been submitted for a degree nor it has been submitted as part of requirement for a degree except as fully acknowledge within the text. I also certify that the thesis has been written by me. Any help that I have received in my research work and the preparation of the thesis itself has been acknowledged. In addition, I certify that all information sources and literature used are indicated in the reference section of the thesis.

.....

Bal Krishna Chamlagain

July, 2018

## RECOMMENDATION

This is to certify that Mr. Bal Krishna Chamlagain has completed this thesis work entitled **Indirect Tax and Its Effect on Revenue Generation in Nepal** as a partial fulfillment of the requirement of Master in Business Studies under my supervision and guidance. To my knowledge, this research has not been submitted for any other degree, anywhere else.

I therefore, recommend the thesis for acceptance and approval.

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## APPROVAL SHEET

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## **ACRONYMS**

A/C	Account
Etc.	Excreta
FY	Fiscal Year
GDP	Gross Domestic Product
GOF	Government of Nepal
i.e.	That is
IMF	International Monetary Fund
IRD	Inland Revenue Department
MBS	Master of Business Studies
USAID	United States Agency for International Development
MOF	Ministry of Finance
NCC	Nepal Chamber of Commerce
Rs.	Rupees
TR	Total Revenue
TU	Tribhuvan University
VAT	Value Added Tax
AGR	Annual Growth Rate
AAGR	Average Annual Growth Rate
GST	Goods and Service Tax
EU	European Union
TPIN	Tax Payer Identity Number
PAN	Permanent Account Number

## ABSTRACT

*This study examined the assessment of value added tax and its effect on revenue generation in Nepal for ten years. This study is based on both Primary and Secondary data. The Primary data were collected by using questionnaire from consumer, tax collector and officer, tax experts and teacher, and Business firm respondents. The Secondary Source of data was sought from Economic Survey of Nepal 2017/18 and Annual report of IRD. Data analysis was performed with the use of statistical and financial tools. The findings showed that Value Added Tax has statistically significant effect on revenue generation in Nepal. However, having significant contribution on total revenue of Nepal, there are low government initiation, lack of trained manpower, Low responsible taxpayers, delay in registration process, long tax refund process, tax evasion, unauthorized trade due to open boarder, under billing system, ineffective VAT administration system, unconcious customer about VAT, and ineffective VAT collection.*

*The revenue contributed by VAT and others revenue that combined in total revenue decreased in year 2072/73 due to earthquake, blockage and strike made by India for almost 3 months. It is only a year which has less contribution than previous years.*

*The study recommends that there should be dedication and apparent honest on the parts of all agents of VAT with respect to the collection and payment and government should try as much as possible to improve on the way of collecting value added tax.*

*Keywords: Indirect Tax, Value Added Tax, Total Revenue, Tax Revenue, Revenue Generation, Taxation and Contribution, Nepalese Economy.*

## CHAPTER 1: INTRODUCTION

### **1.1. Background of the Study**

In recent world, economic development has become one of the challenging works among almost all the developing countries. Likewise, high economic growth rate, increase in per capita income, reducing poverty, improving living standard etc. are the main focus of government for the development in developing countries. Government needs sufficient funds to carry out development plans, day to day administration, maintaining peace and security etc. For this government needs to mobilize its revenue generated from external and internal source. External source generally include grants and loans whereas internal sources are tax collection, public borrowing, fine and penalty received, etc. External sources of revenue is uncertain as compare to internal sources. So government decrease its dependence on foreign source and increase its own resources for generating revenue. Among the different internal sources of revenue, taxation is the most important source for government (Parajuli, 2009).

Today all companies and individuals are required to pay taxes. The general idea behind the important of taxes by the government is generally to balance the economy in terms of redistribution of funds and income from the rich to the poor. Tax revenue, all over the world plays a major role in development of an economy. It is important as it helps financing expenditure part of national budget. Tax is financial charge or levy or fees imposed by the government on legal entities and individuals. It is a compulsory and unrequested payment made by the people to the government. Tax is major source of government income. Tax imposition and its collection, mostly depends upon a country's economic structure, its phase of development, extent to which the country has been industrialized, growth of its service sector, contribution of agriculture in its GDP, employment level along with diversity in work force and amount of wages and salaries. However, tax enforcement and its collection is based on the efficiency of tax administration that greatly depends upon government system and its policies, principally its monetary and fiscal policies, legal framework, transparency of its processes, use of information technology, cooperation of stakeholders, essentially the taxpayers, as well as the personnel of the tax department (Qamruz et al., 2012). Taxes

are major fiscal policy instruments and important government policy tools have an important role in increasing the rate of capital formation and thereby a high rate of economic growth can be achieved. Increase in taxes may be directed to increase in saving through the postponement of consumption. The increase in saving means a higher volume of resource is available for making useful and productive investments. Taxation may also play a dual role. On the one hand, it may be used to make the maximum volume of resource available to public sector. On the other hand, taxation may be used to promote useful investment in the private sector and to prevent there source from being dissipated over speculative and unproductive investment as well as over lavish and luxurious consumption.

The financial capacity of any government depends among other things, on its revenue base, the fiscal resources available to it and the way these resources are generated and utilized. It is therefore, the duty of the government to adequately mobilize potential revenue across the country to prevent economic stagnation. This mobilization involves the adoption of economically and politically acceptable taxes that would ensure easy administration, accounting, verification, auditing and investigation based on the equality, neutrality and other attributes of a good tax (Myles, 2000).

A commonly applied classification of taxes is into direct and indirect. This classification is based on the shifting of the burden of tax. Direct tax include income tax, vehicle tax, casual gain tax, property tax, etc. Direct tax generally means a tax paid directly to the government by a person or organization on whom it is imposed. A taxpayer pays a direct tax to a government for different purposes, including real property tax, personal property tax, income tax or taxes on assets. A direct tax cannot be shifted to another individual or entity. Indirect taxes are those taxes which are paid in the first instance by one person and then are shifted on to some other persons. The tax imposed is on one person but the impact is on the other. It is levied on the goods and services. The business persons collect the taxes from the consumers and pay the amount to the government. Indirect taxes are value added tax, excise duty, custom duty, service tax, etc. under developed countries like Nepal having low per capita income highly depends on the indirect tax rather than direct tax.

### **1.1.1 Value Added Tax**

VAT is indirect tax. VAT is also known as goods and services tax is a broad-based tax imposed on the various stages of production, starting from raw materials to the final product. A VAT is known as "regressive tax" because it taxes all people the same amount regardless of their income level or ability to pay. It is mainly a form of consumption tax since it is intended to operate as a tax on final consumption. The most evident consequences of a VAT is that the local government will receive more revenue and the price of goods will rise for the consumer. VAT is basically a multistage tax. According to which, a person has to pay tax at every stage of production and distribution. Hence, tax would be charged at every step of value addition. Since, the tax is charged on commodities purchased for consumption, it is therefore a consumption tax. From a buyer's view point, it is a tax charged on purchase price while from a seller's perspective; it is levied on value addition made to any product, service or material at a particular stage in the supply chain. The difference between the two amounts is paid to the government and the remainder is kept by the producer to makeup the changes they have incurred in purchasing inputs. VAT is similar to sales tax in the manner that it is charged only on end consumer. However, it differs in the aspect that sales tax is only collected when the product is purchased by final consumer while in case of VAT; taxes are paid each time a purchase is made in the supply chain (Qamruz et al., 2012).

### **1.1.2 Historical Background of VAT Implementation**

Value added tax (VAT) is the most recent innovation in the field of taxation. It is an improved and modified form of sales tax. It is an indirect form of tax on supply of goods and service, which is eventually borne by the final consumer, but collected at each stage of production and distribution. The VAT is simply a multistage sales tax that exempts the purchase of intermediate goods and services from the tax base. It was invented by a French Economist, Maurica Laure in 1954 and was first introduced in France on April 10, 1954. VAT is a consumption tax levied at each stage of the consumption chain and borne by the final consumer.

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. VAT with single rate of 10% was fully implemented with effect from Mangsir 1, 2054 (dhakal et al. 2072). The government of Nepal has increased VAT to 13% with effect from Magh 1, 2061. VAT as a means of financing the public lies in the positive impact on the entire tax system and revenue generation in our country. In Nepal, VAT is calculated on invoice credit mechanism in which the registered taxpayer collects VAT from the consumers 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. The vendors who have taxable transaction of goods worth of Rs. 2 million, of services worth of Rs. 1 million, and of mixed transaction of goods and services worth of Rs. 1 million for the last 12 months are not subject to VAT and they are not required to be registered in VAT. (Koirala, 2010)

## **1.2 Statement of the Problem**

Generally the rapid population growth, high unemployment, lack of proper utilization of available resource, low per capita income, etc. are the common characteristics of developing countries. Government needs to mobilize its resources to obtain high

economic growth. For this income should be high as compare to expenditure. But government expenditure is increasing while there is no equivalent increment in government income as compare to government expenditure. In Nepal VAT is one of the main source of revenue of government of Nepal. Among total revenue collected 127.75 billion is the contribution of VAT in fiscal year 2072/73 (IRD, 2072/73).

The total revenue here explains the total public revenue collected from tax and non-tax source. Total revenue is the amount collected by the nation's government in the form of nation income through different sources like internal revenue, debt and external debt. Government collects its required funds through different sources mainly from revenues and debt. The revenues come basically from two sources: tax and non-tax. Tax revenues include direct tax and indirect tax whereas non tax revenues include the revenues like gifts, grants, penalties.

Value-added tax (VAT) has become the most common general consumption tax in the world. There are different goods and services that have to keep within the criteria of VAT system. To classify those goods and services and impose levy government should have to make list of taxable items. In Nepal, there is another problem that tax payers do not have proper knowledge about VAT system. Having such problems VAT system has become complicated.

One of the recurrent problems of government in Nepal is declining revenue generation as characterized by yearly budget deficits and insufficient funds for economic growth and development. This economic reasoning emphasized the revenue need of government and indicates that, apart from strengthening the existing sources of revenue, it is also necessary for government to diversify its revenue base in order to meet its constitutional responsibilities.

The study seeks to find out the answer of the following investigation.

- i. Is there any relationship between value added tax and revenue generation in Nepal?
- ii. Does value added tax has effect on revenue generation in Nepal?
- iii. What are the implementation problems associated with VAT?

### **1.3 Purpose of the Study**

The general purpose of this study is to examine the impacts of value added tax on revenue generation in Nepal. However, the specific objectives are:

- i. To assess the effect of value added tax on revenue generation in Nepal.
- ii. To analyze the implementation problems of VAT in Nepal.

### **1.4 Significance of the Study**

The scope of the study is to explore the practical scenario of VAT. This research work is an invaluable source of literature for researchers, student, accountants, bankers, companies, government agencies and related field who might be interest in knowing much about the concept of indirect tax and its effects on revenue generation in Nepal. It's general contribution to economic development of Nepal is mention. Types of taxes, the origin of VAT, its application, impact and administration were thoroughly analyzed which is an indispensable material to the above mentioned beneficiaries. It also help the government in policy formulation to suggest alternative strategies that can aid effective administration and monitoring of the VAT process and procedures.

### **1.5 Limitation of the Study**

The study has very limited area of investigation. It is only a part and partial analysis of the corpus of Tax system. The comprehensive study of the tax system is not possible in this research work due to its certain deadline for completion. The history of VAT is not so long in Nepal. The information and data were collected from the IRD office, MOF and other concerned offices. Due to time and resource limitation mainly secondary date were used in this study. So, it is largely dependent on the reliability of secondary data.

- i. The study is based on primary and secondary data. The reliability of secondary data has not been examined.
- ii. The study has covered from the period 2064/65 to 2073/74 B.S

- iii. The study has been conducted with small size of sample for primary data due to time limitation.
- iv. This study has been concentrated about the study of Value Added Tax in Nepal.
- v. It is not a complete study of the whole tax system in Nepal.
- vi. The views of respondents are collected only in the Kathmandu Valley.

## **1.6 Chapter Plan**

This study is divided into five chapters. Prior to the body of the thesis, several pages of preliminary materials such as title page, Viva-voce sheet, Recommendation, Declaration of the researcher, Acknowledgements, Table of contents, List of tables, List of figures and Abbreviations used have been included.

### **Chapter One**

The first chapter is introduction. It contains background of study, brief description about Value Added Tax, statement of the problem, purpose of the study, significance of the study, limitation of the study and chapter plan.

### **Chapter Two**

The second chapter is the review of related literature which includes concept of Value Added Tax, review of previous studies of the related international studies as well as the review of studies in Nepalese context.

### **Chapter Three**

The third Chapter is research methodology. This chapter includes the detail framework of the study, such as research design, population and sample, sources of data, data collection procedure, data processing procedure, data analysis tools and techniques.

### **Chapter Four**

The fourth chapter comprises data presentation & analysis of data. In this chapter the primary and secondary data collected from various sources have been presented in a systematic format: such as tables, charts, and figures. These collected data have been

analyzed by using different mathematical, statistical and analytical tools. In addition to that, the major findings of the study have been presented. Chapter four basically focuses on the systematic presentation and analysis of data.

## **Chapter Five**

The fifth or last chapter provides a summary of overview on all works carried out in chapter one through four including major conclusions derived from the study that are consistent or contradicted with past studies. This section will also contain a recommendations about selection of variables, and study period. This study is expected to be more beneficial for further studies in the field of value added tax.

At the end of the study, bibliography and appendices have also been incorporated.

## **CHAPTER 2: LITERATURE REVIEW**

### **2.1 Conceptual Review**

#### **2.1.1 Value Added Tax**

VAT is an indirect tax. It is an improved and modified form of sales tax. It is levied on value added of goods and services at each stage in the process of production and distribution chain. These stages can be import, manufacturing, wholesale and retail. Value added for a firm is sales value minus all expenditures on goods and services purchased from other firms. Although VAT is eventually borne by the final consumer, it is collected at each stage of production and distribution chain.

##### **2.1.1.1 Methods of Computing VAT**

###### **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 processes such as wages, rent, interest, transportation and profit. This method is generally suitable for income type VAT.

###### **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. This method is suitable for consumption type VAT.

###### **Tax Credit Method**

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 purchase from sales and levies tax on the difference, tax on purchase is subtracted from the tax on sales under this method. The method is also known as invoice method.

Khadka (2000), entitled "*The Nepalese Tax System*" examined and evaluated the value added tax in Nepal from its introduction to its impact on the economy. He covered the reasons for adopting VAT, basic features, operation of VAT, VAT implementation, revenue performance, existing problems of VAT, future strategy, including various data and illustrations.

The book points out following reason for the introduction of VAT in Nepal:

- Nepalese tax system is massively dominated by custom duties but the contribution of custom duties has been decreasing due to reduction in import tariff in line with the liberal economic policies adopted since 1992/93 and in line with the custom duties reform taking place around the world since the early 1990s.
- The first and important reason was to develop a stable source of revenue by broadening the tax base.
- The adoption of VAT was also essential to establish an account -based modern transparent tax system.
- It was necessary to introduce VAT in Nepal to generate revenue required for improving its deteriorating macro-economic performance.

Nepalese VAT possesses some basic features as mentioned in this book, they are,

1. Nepal has adopted a consumption type of VAT.
2. VAT is based on the destination principle.
3. VAT is a broad-base tax.
4. VAT is levied with a single positive rate of 13%.
5. Exports of goods and services are zero-rated.
6. Some goods and services are exempted from VAT.
7. The level of registration threshold is fixed at Rs. 2 millions.

Regarding the revenue performance, Khadka was optimistic in affirming that VAT would generate more and more revenue in the days to come when it was fully operational. Pointing out the existing problems of VAT in Nepal, the author stated "It is not easy to Implement a broad-based VAT in the present Nepalese context where smuggling and under valuation are common and the amount of unauthorized trade is considered to be very significant. This type of trade does not come in the tax net. Since VAT tries to dismantle this type of trade, it is not easily acceptable by those traders who are involved particularly in unauthorized cross - border trade. It has also been common to grant many exemptions and incentives under various taxes, including the sales tax system. VAT intended to abolish them, which was necessary to broaden the tax base and rationalize the tax system.

### **Fines, Penalties and Appeal**

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

1. If anybody does not register or conducts business without having tax payer registration certificate, then the tax amount due in each tax period and rupees ten thousand.
2. If anybody does not display the PAN No. in the conspicuous place on places where the main business is run or does not use that number for all transactions related to value added tax, excise, customs and others prescribed transactions or does not give information as regards to the change, then rupees one thousand each time.
3. If invoice is not issued in supplying goods and services, then the due tax amount and rupees five thousand.
4. If the tax payer does not submit return in each month within 25 days to tax offices, then either 0.05% per day of the due tax amount or rupees ten thousand for each tax period, depending upon which is higher.

5. If a person prepares false accounts, invoices or other documents computes a fraud or an evasion of tax, carries out a transactions and purchases low invoice goods, a tax officer may impose a fine not exceeding 100% of the amount of tax or an imprisonment up to 6 month or penalize with both the fine and imprisonment.

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

### **Administration of VAT**

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

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

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

1. To facilitate computer applications, such as detecting stop. Filers and delinquent accounts; and
2. To help cross check information on tax payers compliance. Sec. 10 of the VAT act, 2052 has given provisions as regards to registration. As per that seeing each

tax payers who is not doing business of tax exempt goods should apply for registration. Within 90 days of the commencement of the business in the prescribed form. The Tax Officer registers the businessman and gives registration number. The tax payers should display the registration certificate in a conspicuous place at his principal place of transactions. Accordingly, the tax payers should use his registration number for all transaction related to VAT, excise and customs duty. The registered person should inform to tax officer if certain information given in TPIN is changed.

### **Assessment**

Assessment is the process of determining the amount of Tax. It is either by the tax administration itself or tax payer himself. It includes fees and fines also. In our country, there exists self-assessment basis. Self-assessment means tax assessment made by the tax payer himself in relation to assessment of tax. His transaction, tax collection and tax payment tax payer should submit each month the amount to be paid by himself within 25 days of the end of the months in scheduled 10 given in VAT act sec 19 of the act has given this provision along with 40% of yearly expected VAT amount should be paid at the end of the Poush, 70% of yearly expected VAT amount at the end of Chaitra and 100% of yearly VAT should be paid at the end of Ashadh.

### **VAT Refund**

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

### **Custom Duty**

A custom duty is a tariff or tax on the import as well as export of goods. It is a border tax. Nepalese customs administration collects custom duty, value added tax, excise duty and other taxes at the border points. The government of Nepal has enacted Custom Act

2064 with an aim to amend and consolidate the prevailing custom laws in order to make safe and facilitate international trade by making custom administration systematic, transparent and accountable.

### **Excise Duty**

An Excise duty is broadly defined as an inland tax on the production or sales of a specific good. An excise is an indirect tax, meaning that the producer or seller who pays the tax to the government is expected to recover the tax by raising the price paid by the buyer. Excises are typically imposed in addition to another indirect tax such as a VAT. In common terminology an excise is distinguished from VAT in three ways:

1. An excise is applied to a narrowed range of products.
2. An excise is heavier, accounting for higher fractions of the retail prices of the targeted products.
3. An excise is specific.

### **Income Tax**

Under income tax, taxable income, which is subject to a basic tax rate, is arrived at after allowing deductions depending on circumstances from chargeable incomes. Some basic sources of income taxes are income from employment, income from business, income investment and income from casual gain. For natural person, taxable income is derived by deducting allowable deductions depending on marital status and other personal circumstances from admissible incomes and is subject to a basic rate with increasing rates.

### **2.2 Review of Previous works**

Murti (1995), stated that a comprehensive VAT covers value added at all the three levels of business activities, i.e., manufacturing, wholesaling and retailing. He distinguished between three types of VAT, i.e., consumption VAT, net income VAT and gross income VAT; and opined that a comprehensive VAT with consumption base, the tax credit method, following destination principle to determine VAT on international and inter-state trade flows could be an ideal commodity tax structure for

India. There could be ideally two types of tax regimes in India with central and state VATs. There could be parallel central and state VATs on the same base from manufacturing to retailing or central VAT up to manufacturing stage and the state VAT at wholesaling and retailing stages. He further pointed out that VAT system with one or two rates might have to be supplemented by special excise and subsidies to take care of the problems of equity, environment and social bads like tobacco and alcohol.

Bagchi (1995), termed the operating sales tax system as unworkable. Different problems in the system including multiple cascading levies, numerous rates, drawing hair-splitting distinction among commodities, large number of exemptions which narrowed the tax base, ‘tax wars’ among the states which led to bizarre results, cumbersome laws and procedures resulting in thousands of cases pending before courts, etc. did not reflect comfortable picture about commodity taxation in India. He opined that simplifying sales tax and removing the drawbacks, was not the solution and stated that superiority of sales tax lay in taxing consumption of goods and services in the economy without needless interference with market forces and freeing of exports from domestic trade taxes in a way which was not otherwise possible. VAT also offered a buoyant but non-distortionary source of revenue for governments by virtue of wide base and structure. He cautioned that VAT should apply to all goods and services with minimum exclusions and should also strictly adhere to the principle of destination, following preferably tax credit method.

Oyegbile (1996) observed that the Value Added Tax was introduced in Nigeria with several reasons, among which are the following.

1. To broaden the nations revenue base thereby making it less dependent on oil export
2. To broaden the tax base with an equal burden on imported and domestically produced goods and services. The old sales tax places locally manufactured good at disadvantage relative to imported ones.
3. It would diminish the incidence of taxation towards expenditure rather than income

4. Through Value Added Tax, it was believed that the harmonization of our tax system would be achieved especially with these flat rates of 5% throughout the nation.
5. It makes it easier to claim credit for input tax, since a registered person must hold tax invoice.
6. It makes it easier for the collection of tax collected on behalf of the federal government by businesses or organization, which have registered with the federal Inland Revenue Services (FIRS, VAT Directorate) for VAT purposes
7. The introduction of VAT has brought fairness to all tax payers, because a number of goods and services which were not previously covered by the sales taxes were brought together under the VAT regime.
8. To widen the base of the tax system in the country, because VAT is the only Tax imposed on a wide range of goods and services without undue attention being given to the place of manufacturer of item (local or imported) or the peculiar nature of the commodity. (Luxury and harmful products).
9. To help the common people, traders industrialists and also the government. It is indeed a move towards efficiency; healthy competition and farmers in the tax system.

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

According to him, the following facts were considered while designing a VAT in Nepal:

1. Tax base issues
2. Rate structure issues
3. Exemption issues
4. Threshold issues

Finally, he concluded that the introduction of VAT provides an opportunity to sweep the cobwebs, revamp and substantial part of the tax administration. In every country, where it has been implemented properly, the VAT has proved itself as revenue productive tax. However, the benefit from VAT depends upon its coverage.

Bird (2005), defined value added tax as a multi stage tax imposed on the value added to goods and services as they proceed through various stages of production and distribution and to services as they are rendered” which is eventually borne by the final consumer but collected at each stage of production and contribution chain. This definition brings out the three characteristics of value added tax which are:

1. VAT is consumer tax
2. VAT incidence is on the final consumer
3. VAT is a multi-stage tax

These points are further amplified by Gendron (2005), who argues that consumption tax, such as VAT, is increasing being favored as a tax base over income and allied items. Nairayan (2003) further supports the introduction of VAT in Nigeria as an instrument for the balance of payments engineering, by encouraging exports through zero-rating of exporting goods. VAT was adopted in Nigeria in 1994 and prospective VAT payers, manufacturers, wholesalers, importers suppliers of taxable goods and services were required by decree No 102 of 1993 to register with the Federal Inland Revenue Services (FIRS) which centrally administers VAT. In the country, VAT is a gross product type of tax imposed on the destination principle. At the moment, there are seventeen categories of goods and twenty-four categories of services that attract VAT. The goods and services exempted by the decree are purely those that bother on people welfare and whose requirements are necessary for improving human development. These include medical and pharmaceutical products, basic food items, educational materials, agricultural services and equipment, etc. However, there is much confusion over which goods or services should be in the exemption list.

Keen and Lockwood (2007) showed that more than 130 countries have adopted this simple form of indirect taxation. VAT has been claimed as a money machine as it helps

in increasing tax revenues in the long run. However, when varying country circumstances were taken into account, it was found that high income and open economies gain more from this form of taxation. Therefore, it was suggested that while some countries would be at a benefit while others won't gain by its adoption. Similarly, Chapter 1 from World Bank (2003) reviewed empirical researches on the prevalence of VAT and some additional implied taxes in certain African and Asian States. Majority of the studies reported that tax structures in those states were progressive since consumption commodities used by poor were zero-rated.

Feria (2008) reported that in most countries applying a VAT system, the activities and transactions undertaken by public sector bodies are not subject to full taxation. The rationale usually invoked to justify lack of full taxation is of a mixed conceptual and political kind. On one hand, there is a view that the activities of those bodies are hard to tax and that, in practice, it is almost impossible to establish a single VAT treatment applicable to all of them. On the other hand, and more importantly, there is a perception that exclusion of the products supplied by public sector bodies from full taxation, achieves social and distributional aims. The author considered the current legislative framework, with special consideration being given to recent developments in this area, at both legislative and jurisprudential.

A value-added tax is a fee assessed against businesses at each step of the production and distribution process, usually whenever a product is resold or value is added to it. A VAT is levied on the difference between the purchase cost of an asset and the price at which it can be sold (i.e., the amount of value added to it). Producers and distributors typically pass the cost of the VAT on to the final consumer in the form of price increases. Tax is added to a product's price each time it changes hands until delivery to the customer takes place, when the final tax is paid.

Value-added tax falls under the general category of a consumption tax, meaning taxes on what people buy rather than on their earnings, savings, or investments. VAT has also been referred to as a sort of national sales tax, though it functions very differently. Sales tax is imposed on the total retail price of the item sold, while VAT tax is imposed on the value added at each stage of production and distribution. And though more complicated than sales tax, value-added tax systems have more checks against tax fraud

because the tax is assessed at more than one point in the distribution process. (Encyclopedia of Management, 2009)

### The VAT Assessment Process

1. Manufacture adds value to a product; the amount of value added can be described as the difference between the cost of the materials used to make the product and the price charged to the customer (often a wholesaler).
2. The manufacturer pays value-added tax (a percentage of the value added), which is then included in the purchase price charged to the customer (wholesaler).
3. The manufacturer gets a rebate from the government for VAT paid on the materials.
4. The customer (wholesaler) pays a VAT on the value they add, which can be described as the difference between what they paid to the manufacturer and the price at which they sell it to their customer (retailer). This VAT amount is included in the price charged to the retailer.
5. The wholesaler gets a rebate from the government for the VAT paid to the manufacturer.
6. The retailer pays value-added tax on the value they add, which can be described as the price charged to customers less the wholesale cost, and includes the VAT in the final sales price of the product.
7. The retail store collects value-added tax from the person buying the product (retail price thus includes all VATs collected at each stage of this process) and gets a rebate for the VAT paid to the wholesaler.

Salti and Chabaan (2010) studied the effect of increasing rate of VAT by targeting poverty and inequality in Lebanon. An empirical model “Almost Ideal Demand System” based on consumer theory of demand was established to study the impact. Simulation results showed that increased rate of VAT would have significant impact on poverty. Although the increased rate would have a negative impact on overall consumption, yet its effect on poor is greater compared to rich populates.

Sakkaravarthi and Ganesan (2011) in their paper *A Study on Literature Review on Value Added Tax* explained that 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. The manufacturer remits to the government the difference between these two amounts, and retains the rest for themselves to offset the taxes they had previously paid on the inputs. The “value added” to a product by 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. The paper deals with studies undertaken in the area of research in value added tax. Their studies are classified in to three types, viz general studies on VAT, studies on VAT evasion and Studies on VAT in European Union.

Tripathi et al. (2011), evaluated that Value Added Tax would change the nature of trade in the coming years, but the medium level of trade would face problems. Similarly, small retail dealers would be required to maintain more accounts or pay composition money which cannot be collected from the customers. The present provision of central sales tax and Value Added Tax cannot go together. After the abolition of central sales tax the direct marketing concept may gain ground and the necessity of having warehouse, go downs etc. in all states may decrease or finish. Value added tax in India has been introduced in modified variants over the past two decades. However, Value Added Tax in its original form is yet to be introduced in India, at Central or State level. After the negative and positive impact on the India consumers, Value Added Tax has been identified as the real goal maker by the Indian government in the coming years to foster growth and prosperity in the country. The change in the standard of livings has increased the purchasing power of the high class society but the medium and the poor class society has to work hard in order to achieve their living and meet extravagances.

Owolabi and Okwu (2011) examined the contribution of Value Added Tax to Development of Lagos State Economy, using simple regression models as abstractions of the respective sectors considered in the study. The study considered a vector of development indicators as dependent variables and regressed each on VAT revenue proceeds to Lagos State for the study period. Development aspects considered included infrastructural development, environmental management, education sector development, youth and social development, agricultural sector development, health sector development and transportation sector development. The results showed that VAT revenue contributed positively to the development of the respective sectors. However, the positive contribution was statistically significant only in agricultural sector development. On the aggregate, the analysis showed that VAT revenue had a considerable contribution to development of the economy during the study period.

Unegbu and Irefin (2011) in their paper, the impact of value added tax (VAT) on economic and human developments of emerging Nations from 2001 to 2009 , using regression, discriminant analysis and ANOVA, found out that VAT allocations have a very significant impact on expenditure pattern of the state during the same period. Also observed that, the perceptions by the citizenry across the administrative areas of the state suggest that VAT has minimum impact level on the economic and human developments of Adamawa State from 2001 to 2009.

Igweonyia (2011) in his paper, *The Analysis of Value Added Tax and Its Impact on the Nigeria Economy* investigate the impact of VAT on the Nigeria economy as it relates to how it can improve government revenue and throws more light in its contribution to the economic growth and development of Nigeria. In addition to the oral interview and questionnaires distributed, his paper include the study of literature relating to the impact, administration and collection of VAT in Nigeria. Simple percentages, bar chart, pie chart, and chi-square were used for data analysis on which purposive sampling technique was adopted. His finding shows that VAT has economic impact in consumption pattern and positive impact on the economy of Nigeria. The payment of VAT has improved the prospects of businesses, organizations and industries in Nigeria and the study strongly recommends that:

- a) There should be functional VAT offices in every council area to coordinate a vigorous campaign to educate people and seek their cooperation.
- b) The above will no doubt erode the negative attitude that some of the taxpayers have developed towards VAT.
- c) Government should make adequate provision, for retrieving the VAT proceeds from companies and other collection agents.

Qamruz et al. (2012) in their paper *Value Added Tax-Theoretical Aspects and Empirical Evidence for Pakistan* analysed 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. The paper recommended that VAT should not be enforced unless appropriate measures aimed at poor and susceptible have been enacted and strategies to ease the vulnerable have been explored. They explained for a country like Pakistan, enforcing VAT is not an appropriate idea. Its economy contains a blend of certain informal and undocumented components. The population is food insecure, economic growth rate is low, inflation rate is already high and employment opportunities are not even sufficient; all these have contributed to growing poverty in the country. Implementing VAT in such an environment would have a negative impact on the welfare of extremely poor, those belonging to middle class families and those living just above the poverty line. They concluded that VAT would result in rising prices, lower middle class families risk dropping into poverty. Hence, VAT might be feasible for developed states but for underdeveloped nations like Pakistan, it is not a workable option.

Alm & Ganainy (2012) Value-added Taxation and Consumption, In this paper, they estimate the impact of a broad-based consumption tax, the value-added tax (VAT), on the aggregate consumption of fifteen European Union countries over the period 1961–2005. One of the main rationales for taxing consumption rather than income is that it is believed that consumption taxes discourage consumption, encourage savings, and thus generate higher economic growth. However as per expectation saving is very limited. They also mention that across a variety of estimation methods and specifications, that a one percentage point increase in the VAT rate leads to roughly a one percent reduction in the level of aggregate consumption in the short run and to a somewhat larger

reduction in the long run. Results demonstrate that greater use of the VAT has led, at least in EU countries to less consumption and more savings, a finding that has broader implications for the choice of a consumption tax versus an income tax.

Jain (2013) Goods and Services Tax is a broad based and a single comprehensive tax levied on goods and services consumed in an economy. GST is levied at every stage of the production-distribution chain with applicable set offs in respect of the tax remitted at previous stages. It is basically a tax on final consumption. In simple terms, GST may be defined as a tax on goods and services, which is levied at each point of sales or providing of services. At the time of sale of goods or providing the services the seller or service provider may claim the input credit of tax which he has paid while purchasing the goods or procuring the service. India, being one of the largest democracies in the world, has to follow the convention of welfare state. This paper puts an attempt to explore the impacts, implications and policies of introduction of GST in India.

Okoye (2013) this study aimed at evaluating the influence of revenue generated through VAT on wealth creation in Nigeria. In an effort to accomplish this objective, secondary data were generated from Federal Inland Revenue Service and Federal Bureau for Statistics which were analyzed with the aid of table and simple percentages while the hypotheses formulated were tested using Product Moment Correlation Coefficient and Student T test. The findings revealed that revenue generated through VAT has a significant influence on wealth creation in Nigeria and also that revenue generated through VAT has a significant effect on total tax revenue in Nigeria.

However, it has been recommended among others that Federal Inland Revenue Service should pay attention to the informal sector of the economy by creating VAT offices at the Local communities so as to generate more revenue and to fully achieve the objectives of wealth creation through VAT. Equally there should be constant review of existing laws every four months as done in the United State of America and other advanced economies to create room for flexibility in line with the changing economic circumstances.

Rahim et al. (2013) the main purpose of this study, is surveying the organizational barriers of Value Added Tax full implementation according to Ardabil city's tax

official's view. Population of the study is all Ardabil city's tax officials. They determined the amount of the sample size with the used of Cochran sampling method which the statistical sample is 132 of these tax officials which have been selected through the simple random sampling method. To gathering of data, they used questionnaire that its stability was 82% according to Cronbach alpha. In order to analyze the data resulted from collected questionnaires deductive and descriptive statistical methods are used, and to display some statistical data were used column diagram and in deductive level to test the hypothesis of the research they used one-sample t-test and Friedman test. The results show that organizational barriers are preventing the full deployment of VAT. And organizational barriers are not equally important in the establishment of the VAT.

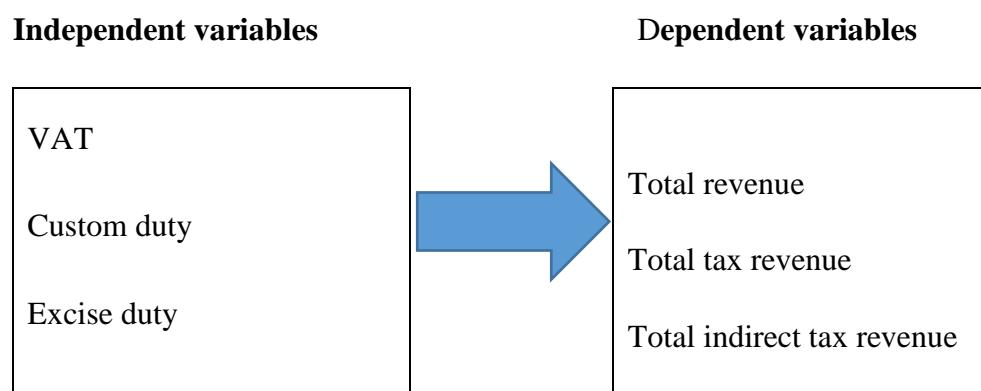
Izedonmi and Okunbor (2014), The Roles of Value Added Tax in the economic Growth of Nigeria, VAT was introduce by the Federal Government of Nigeria in 1993 to replace sales tax. The aim was to increase the revenue base of government and make funds available for developmental purpose that will accelerate economic growth. The paper empirically examined the contribution of VAT to the development of Nigerian economy. Time series data on the Gross Domestic Products (GDP), VAT revenue, Total Tax Revenue and Total (Federal Government) Revenue from 1994 to 2010 Sourced from Central Bank of Nigeria were analyzed, using both simple regression analysis and descriptive statistical method. Findings showed that VAT Revenue accounts and total revenue accounts for as much as 92% significant variations in GDP in Nigeria. A positive and insignificant correlation exists between Revenue and GDP. Both economic variables fluctuated greatly over the period though VAT Revenue was more stable. This paper therefore recommends that all identified administrative loopholes should plug for VAT Revenue to continue to contribute more significantly to economic growth of the country.

Sumathi and Govindappa (2016) In this paper they explain tax is “a compulsory charge imposed by the Government without any expectation of direct return in benefit”. Tax imposes a personal obligation on the people to pay the tax if they are liable to pay it. The general public should be taxed according to their ability to pay, and the people in the same financial position should be taxed in the same way without any discrimination.

VAT is simply a form of sales tax. It is a tax on value added in the price of a commodity at each stage, may be due to passing through various hands in a channel of distribution or the value added in its price due to some activity on production or manufacture or process undertaken on the commodity.

### **2.2.1 Theoretical Framework**

As per the review of articles, previous thesis and related books the total revenue of government is effected by tax revenue and non-tax revenue. Tax revenue includes the direct tax and indirect tax. Similarly, direct tax consists income tax, property tax, vehicle tax etc. and indirect tax includes the value added tax, excise duty, custom duty etc. The tax revenue covers highest percentage of total revenue. Non tax revenue comprises charges, fees, and fines receipts from sale of commodities and services. Non tax revenue has contributed lower percentage as compare to tax revenue in total revenue. Ultimately, they have positive or negative effect on revenue generation in Nepal.



### **2.3 Research Gap**

The country has experienced the VAT about the decade and these days various study has been conducted on Nepalese VAT system regarding its implementation and its contribution. Though, the topic of this research work is also similar to the previous research work.

Various researches have been undertaken on the VAT system in Nepal, with regard to its implementation and contribution. These were conducted only by using secondary data. They analyzed data by using the table and simple correlation and did not test coefficient of determination. But, this study is based mainly on secondary data from the reliable source i.e. the annual report of IRD for fiscal year 2072/073 and Economic Survey and primary data, by which the actual figure and trend of VAT to government revenue can be projected. The primary data are collected from tax experts, business corporations, tax officer and tax students. Here, regression analysis has done for data of ten years. Similarly, the problems that have been faced in implementation a VAT system in Nepal and its effectiveness after the implementation is pointed out.

## **CHAPTER 3: RESEARCH METHODOLOGY**

Research methodology describes the methods and process applied in the entire study. It helped us to find out accuracy, validity, and suitability of the research.

### **3.1 Research Design**

The descriptive causal research design has been used to analyze the relationship between indirect tax and total revenue in this study. Although there are many types of research design, to achieve the objective of the study descriptive research design and some financial and statistical tools also has applied. This study examine facts about the indirect tax and its effect on revenue generation in Nepal.

### **3.2 Population and Sample**

The population for this study has comprised of the entire concerned person with Value Added Tax in Nepal. To benefit this research work 150 samples were collected out of total population. Samples of business corporation/firm has been taken from total population (86,815) of registered business corporation/firms in VAT of Kathmandu valley. Similarly, samples of tax officer and collector has been taken from among 571 tax collector and officer working in Kathmandu valley. The experienced tax experts were taken from IRD, teachers of different colleges of Nepal, and consumers. Persons included in the sample were carefully selected.

This study is based on judgmental sampling procedure. Judgmental sampling procedure is to obtain experts opinion. The selection of the sample is deliberate and purposive; it is not random. The respondents have been dividing into four groups. The following table shows the group of respondents and the size of samples.

Table 3.2: Group of respondents and size of sample

S.N	Groups of respondents	Sample size
1	Consumers	50
2	Business corporation/firm	50
3	Tax collector and officers	25
4	Tax experts and teachers	25
	Total	150

Consumers were selected on volume of activity in the market. Regular buyer and seller who is in the economic activity of market. Business corporation/firms were selected among the registered business firm in Kathmandu valley. Tax collector and officers were selected among the total tax staffs who regularly work in the tax office and who have direct interaction with the tax payers. Experts were selected as per their task who worked in VAT section in IRD, Tax office and others who taught in different colleges.

### 3.3 Source of Data

Both primary as well secondary data have been collected to fulfill the objectives of the study as well as to achieve the factual result of this research.

#### 3.3.1 Primary Sources of Data

Primary data and information were collected through field survey by administering questionnaire to the selected samples of population which includes: tax experts, business firm, tax officers, and consumers. Set of questionnaire were developed and distributed to the selected respondents in order to get the useful response. Personal as well as telephone contact were also used to collect more information from the selected respondents.

### **3.3.2 Secondary Sources of Data**

The secondary sources of data are the information defined from books, journals, newspapers, reports and dissertations etc. The major sources of secondary data are

1. Annual report of Inland Revenue Department.
2. Budget speeches and economic surveys of MOF, Nepal
3. Newspapers such as Gurkhaptra, The Rising Nepal, Kantipur daily etc.
4. Co-operative Magazines and journals of accountancy.
5. Dissertation related to VAT available at central library TU.

### **3.4 Data Collection Procedure**

Total 150 sets of questionnaire were distributed to four distinct types of 150 respondents. Distribution was done personally through field rather than sending by any means to get accurate and actual information in time.

### **3.5 Data Processing Procedure**

The collected information were compiled and tabulated in different headings. The data were processed by using relevant statistical tools.

### **3.6 Data Analysis Tools and Techniques**

#### **Bar Diagram**

A bar diagram is a visual display used to compare the amounts or frequency of occurrence of different characteristics of data. This type of display allows us to compare groups of data and to make generalizations about the data quickly.

#### **Pie chart**

This type of diagram is used to show the break-up of a total into component part.

## **Simple Percentage Method**

Simple percentage method is the method to represent raw streams of data as a percentage (a part in 100 - percent) for better understanding of collected data.

## **Correlation Analysis**

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

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

Correlation coefficient can be obtained using following formula:

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

In this study relationship between the dependent and independent variables is analyzed by using correlation.

## **Regression Analysis**

Regression analysis is a set of statistical processes for estimating the relationships among variables. It includes many techniques for modeling and analyzing several variables, when the focus is on the relationship between a dependent variable and one or more independent variables (or 'predictors'). More specifically, regression analysis helps one understand how the typical value of the dependent variable (or 'criterion

variable') changes when any one of the independent variables is varied, while the other independent variables are held fixed.

The regression equation used for the prediction can be expressed as:

$$Y = a + b_1x_1 + b_2x_2 + b_3x_3 \dots \mu$$

Where; Y= Total revenue

a =constant

$b_1 - b_3$  = Regression coefficient attached to variable  $x_1, x_2, and x_3$

$x_1 - x_3$  = Independent variables that significantly contributed to the dependent variable total revenue

$x_1$ = Value Added Tax,

$x_2$ = Custom Duty

$x_3$ = Excise Duty

$\mu$ = error term (unexplained variance)

### Coefficient of determination

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

Coefficient of determination can be obtained using following formula:

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

## Average Annual Growth Rate

Growth rates, in general, express changes in values of a variable between two (or more) periods of time. The average annual growth rate is the average increase in the value of an individual investment, portfolio, asset or cash stream over specific interval of time. It is calculated by taking the arithmetic mean of the growth rate over the time periods in questions. The AAGR measure the average rate of return of growth over a series of equally spaces time periods.

## CHAPTER 4: RESULT

### 4.1 Revenue Structure of Nepal

The total revenue of government of Nepal is collected from tax and non-tax sectors. The tax revenue, which is compulsory sacrifice of the peoples, can divide into two components i.e. direct tax and indirect tax. Those revenues collected as income tax, land tax, property tax, etc. are direct tax and those revenues collected as sales tax, value added tax (VAT), customs and contract tax etc. are an indirect tax. Another sides, the government has received other kinds of revenues, e.g. postal service charge, fees fines and forfeiture etc. are non-tax revenues. Non-tax revenue are not imposed specially views of revenue collection. In Nepalese economy amount of tax revenue is generally higher than that of non-tax revenue. In Nepal, the contribution of tax revenue used to be almost 87% and non-tax revenue almost 13%.

**Table 4.1 Revenue structure in Nepal (Rs. in millions)**

Fiscal year	Total revenue	Total tax revenue	Tax revenue as % of total revenue	Non-tax revenue	Non tax revenue as % of total revenue
2064/65	127623	95156	74.56	32467	25.44
2065/66	145320	118628	81.63	26692	18.37
2066/67	182370	158530	86.93	23840	13.07
2067/68	199810	172438	86.30	27372	13.70
2068/69	243920	205079	84.08	38841	15.92
2069/70	296010	258797	87.43	37213	12.57
2070/71	356850	310555	87.03	46295	12.97
2071/72	422900	370867	87.70	52033	12.30
2072/73	481790	424420	88.09	57370	11.91
2073/74	609180	547480	89.87	61700	10.13
Total	3065773	2661950	86.83	403823	13.17
Average	306577.3	266195	86.83	40382.3	13.17

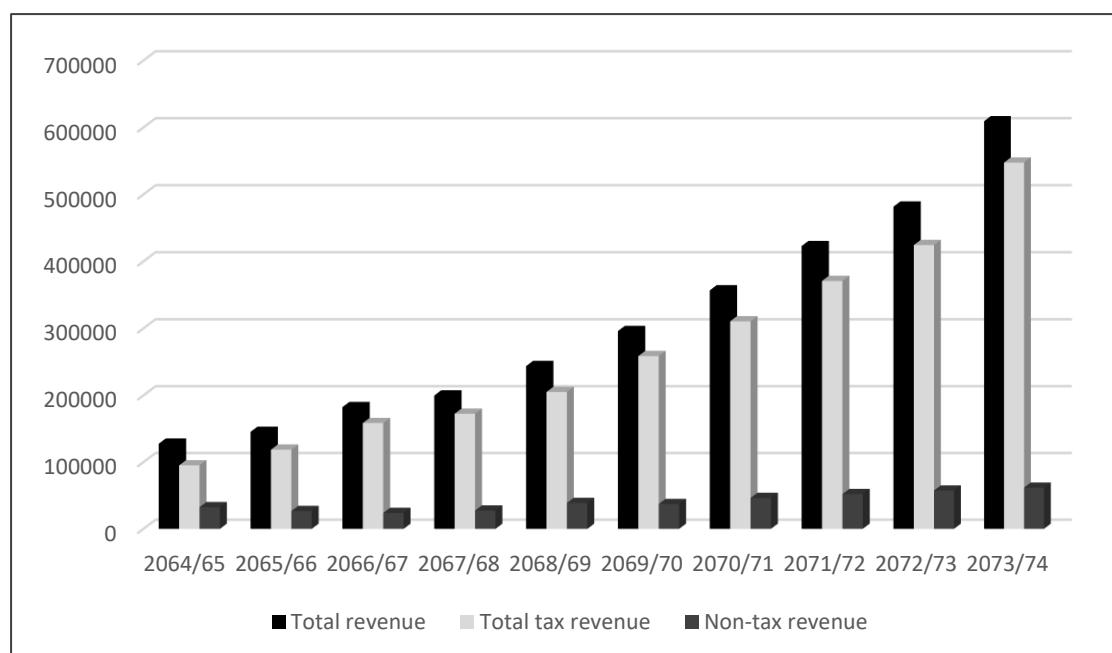
*Source: Budget speeches (FY 2064/65 to 2073/74, MOF, GON)*

The table no. 4.1 shows the share of contribution of tax revenue and non-tax revenue on generation of total revenue in F/Y 2064/65 to 2073/74. The Contribution of tax revenue in base year 2064/65 is 74.56 percent. This slightly increase up to the year 2073/74, than the base year. In the F/Y 2068/69 it decreases to 84.08% than previous

two years which is minimum after base year and F/Y 2065/66 and it reaches to maximum of 89.87% in year 2073/74. On the other hand, the contribution of non-tax revenue on total revenue is 25.44% in 2064/65, which kept decreasing until it reached to 10.13% in the year 2073/74. The average contribution of total tax revenue in 10 years is 86.83% and average contribution of non-tax revenue is 13.17%. It proves that tax revenue is in increasing order and high contribution of tax revenue on generation of total revenue and low contribution of non-tax revenue.

In the overall judging figure presented in the table 4.1 contribution of tax revenue is in increasing order and contribution of non-tax revenue is in decreasing order. It indicated that good sign or progressive in tax revenue in current years than the base year. Which can be presented in the following figure also.

**Figure 4.1 Structure of total revenue, tax revenue, non-tax revenue**



*Source: Revenue structure in Nepal, table 4.1*

The figure no. 4.1 shows that structure of total revenue, tax revenue and non-tax revenue for the year 2064/65 to 2073/74. That revenue structured of Nepal is in increasing trend. The figure reflected that contribution of tax revenue is greater than the contribution of non-tax revenue on total government revenue.

#### **4.2 Contribution of VAT on Total Revenue and Tax Revenue**

Total revenue is sum total of tax revenue and non-tax revenue. Tax revenue is collected through direct and indirect tax way. Tax is levied either directly on income or indirectly on consumption of goods and services. Indirect tax is collected mainly from customs and consumption of goods and services supremacy of tax user of indirect tax is one of the important features of the developing economics. The propensity to consumption is higher in developing countries due to their marginal income. The significant level of saving, marginal results in to the poor level of collection of direct tax.

The VAT is important source of total revenue generation and tax revenue generation. Value added tax is most recent innovation in the field of taxation. It is a scientific tax system, which was first introduced by in 1954 in France. In Nepal value added tax is implemented from 1997 with replacement of sales tax. So, VAT is largest source of government revenue in Nepal. It accounts for about one third of the total tax revenue and constitutes over 5% of GDP. Tax revenue is high contributed source of total public revenue and value added tax is main and high contributed source of tax revenue. Contribution of VAT on total revenue and tax revenue of Nepal prescribed in table as follows.

The table no. 4.2 shows that the beginning period of economy the contribution of VAT has high on total revenue and tax revenue in comparison of later period. Here amount of VAT is in increasing order but on the basis of table 4.2 contribution of VAT is fluctuating rate, somewhere increasing and somewhere decreasing rate. In the table higher contribution of VAT is in year 2067/68 on total revenue is 30.88% and on tax revenue is 35.78% as well. And lower contribution of VAT in year 2072/73 on total revenue 26.52% and tax revenue is 30.10%.

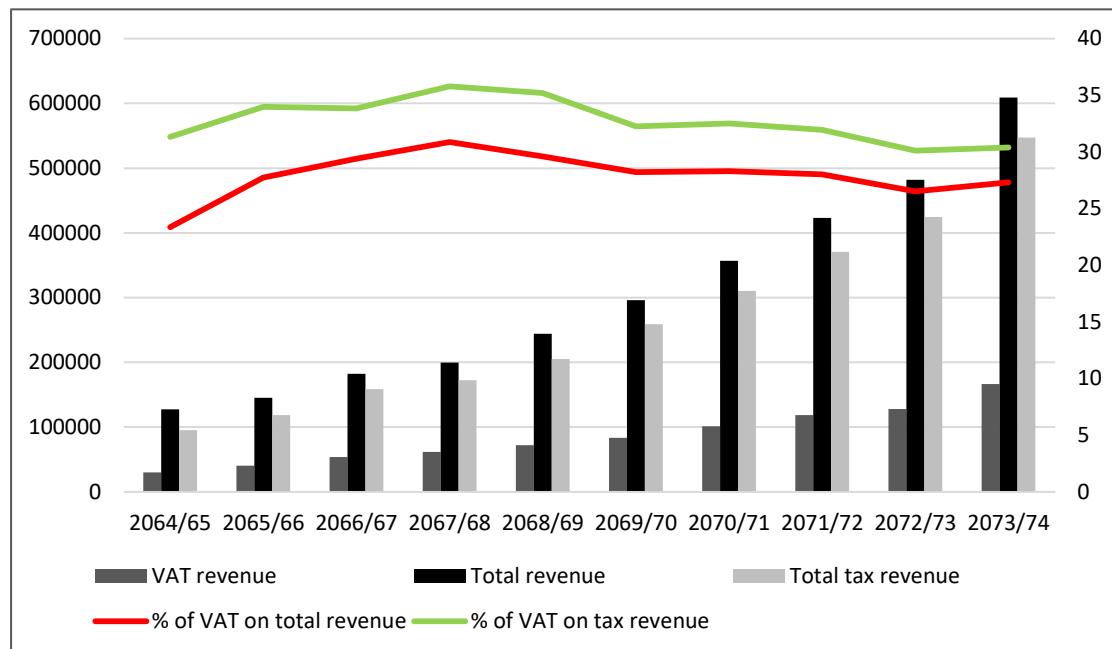
**Table 4.2 Contribution of VAT on Total Revenue and Tax Revenue (Rs in millions)**

Fiscal year	Total revenue	VAT revenue	% of VAT on total revenue	Total tax revenue	% of VAT on tax revenue
2064/65	127623	29815	23.36	95156	31.33
2065/66	145320	40310	27.74	118628	33.98
2066/67	182370	53640	29.41	158530	33.84
2067/68	199810	61700	30.88	172438	35.78
2068/69	243920	72180	29.59	205079	35.20
2069/70	296010	83500	28.21	258797	32.26
2070/71	356850	100970	28.29	310555	32.51
2071/72	422900	118490	28.02	370867	31.95
2072/73	481790	127750	26.52	424420	30.10
2073/74	609180	166460	27.32	547480	30.40
Total	3065773	854815	27.88	2661950	32.11
Average	306577.3	85481.5	27.88	266195	27.88

*Source: Budget speeches (FY 2064/65 to 2073/74, MOF, GON)*

Table no. 4.2 indicates decreasing rate of contribution of VAT on total revenue and total tax revenue. It may be cause of social and political environment. In Nepal various business houses suffering problems from political instability, changing government rule and policies and lack of investment encouraged environment. Most of Nepalese people have no knowledge of VAT and have no habit of demanding VAT bill. The tabulated data analyzed that when the peak, period of internal conflict our countries has been facing different problem relating to economy activity which was directly affect the revenue collection to government and VAT revenue. But, when the problem has set down in own place increases the economy activities and automatically increase the revenue collection. The contribution of VAT on total revenue and total tax revenue is shown on figure as.

**Figure 4.2 Contribution of VAT on total revenue and tax revenue**



Source: *Contribution of VAT on total revenue and tax revenue, table 4.2*

Figure 4.2 reflected that structure of total revenue, VAT revenue and tax revenue is in increasing trend but contribution of VAT on total revenue and tax revenue in fluctuating rate. In general analyzed of figure 4.2 total revenue, tax revenue and VAT increases after the year than the base year 2065/66.

#### **4.3 Correlation of VAT, Excise, Custom, Total revenue, Tax revenue and Indirect tax**

Correlation is a statistical measure that indicates the extent to which two or more variables fluctuate together. A positive correlation indicates the extent to which those variables increase or decrease in parallel, a negative correlation indicates the extent to which one variable increases as the other decreases.

**Table 4.3 Correlation Matrix**

	VAT	Excise	Custom	Total revenue	Tax revenue	Indirect tax
VAT	1					
Excise	.992	1				
custom	.995	.989	1			
Total revenue	.996	.995	.997	1		
Tax revenue	.997	.996	.997	.998	1	
Indirect tax	.972	.948	.957	.956	.957	1

From the table 4.3, it is revealed that correlation between each dependent and independent variables. The correlation between independent (VAT), and dependent variables (total revenue, total tax revenue, total indirect tax) is perfectly positive. It means increase or decrease in VAT result parallel to total revenue, total tax revenue, and total indirect tax revenue. The correlation value in the table indicate that the VAT is highly correlated with total revenue and total tax revenue and indirect tax revenue i.e. 0.996, 0.997 and 0.972 respectively. The correlation between VAT and excise, and VAT and custom is 0.992 and 0.995 respectively.

#### **4.4 Average Annual Growth Rate of VAT, Total Revenue, Total Tax Revenue, and Total Indirect Tax Revenue**

With the change in time the things doesn't remain the same. VAT, total revenue, total tax revenue and total indirect tax revenue doesn't remain the same every year. The policy and rules imposed by the government, collection procedure, and other many internal and external factors affect the amount collection in different headings. In average annual growth rate methods the growth rate of annual is calculated and the

average of annual growth is shown. The amount of VAT, total revenue, total tax revenue, and total indirect tax revenue either increase or decrease every year. This changes are shown in the table below.

**Table 4.4 Average annual growth rate (Rs. In millions)**

Fiscal year	VAT revenue	AGR*	Total revenue	AGR*	Total tax revenue	AGR*	Total indirect tax revenue	AGR*
2064/65	29815	-	127623	-	95156	-	70512	-
2065/66	40310	35.20	145320	13.87	118628	24.67	83764	18.79
2066/67	53640	33.07	182370	25.50	158530	33.64	113256	35.21
2067/68	61700	15.03	199810	9.56	172438	8.77	134012	18.33
2068/69	72180	16.99	243920	22.08	205079	18.93	181254	35.25
2069/70	83500	15.68	296010	21.36	258797	26.19	192669	6.30
2070/71	100970	20.92	356850	20.55	310555	20.00	213689	10.91
2071/72	118490	17.35	422900	18.51	370867	19.42	220241	3.07
2072/73	127750	7.82	481790	13.93	424420	14.44	226734	2.95
2073/74	166460	30.30	609180	26.44	547480	29	293840	29.60
<b>AAGR*</b>		<b>19.23</b>		<b>17.18</b>		<b>19.50</b>		<b>16.04</b>

Source: Inland Revenue Department (FY 2064/65 to 2073/74)

AGR\* = Annual Growth Rate

AAGR\* = Average Annual Growth Rate

The above table no. 4.4 shows that the annual growth rate of VAT is in more fluctuating position. In the table the amount of VAT is increasing every year but in decreasing rate. Taking the base year 2064/65, in F/Y 2065/66 the growth rate of VAT is 35.20% and in F/Y 2066/67, 33.97%. Similarly in F/Y 2067/68 growth rate is 15.03% and remains nearly same with no high fluctuation. But in F/Y 2072/73 it falls down to 7.82% and

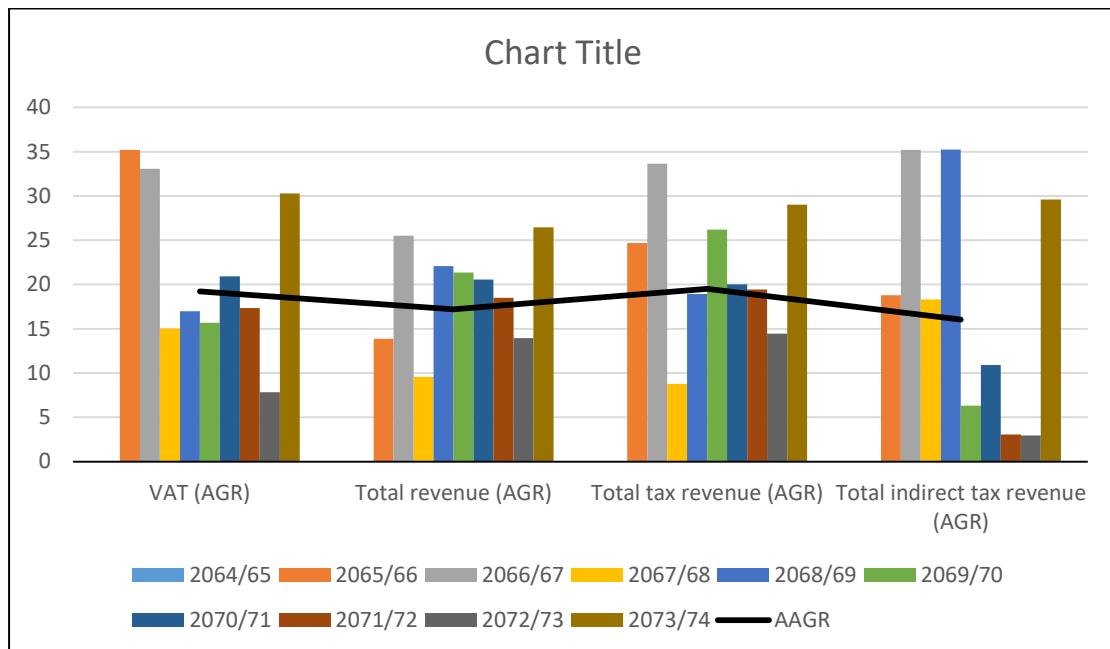
suddenly increases to 30.30% in year 2073/74. This shows that no matter how much the amount of VAT increases every year but it is in decreasing rate. Taking base year 2064/65 in F/Y 2065/66 the growth rate of total revenue is 13.87%. The growth rate of total revenue decreases to 9.56% in year 2067/68. With not more fluctuation between F/Y 2068/69 to 2071/72 growth rate remains within 22 to 18%. But in year 2072/73 it falls down to 13.93% and with high fluctuation it increases to 26.44% in year 2073/74. Taking the base year 2064/65 the growth rate of total tax revenue is 24.67% in F/Y 2065/66. Then it decreases to 8.77% in year 2067/68. The annual growth rate of total tax revenue is 18.93%, 26.19%, 20%, 19.42% and 14.44% in F/Y 2068/69, 2069/70, 2070/71, 2071/72 and 2072/73 respectively. But in F/Y 2073/74 the growth rate of total tax revenue increases to 29% which is higher in ten years of collection. Taking the base year 2064/65 the growth rate of total indirect tax in year 2065/66 is 18.79% and 35.28% in year 2066/67 which decreases to 18.33 in F/Y 2067/68. In year 2068/69 total indirect tax increases by 35.25% than the amount of year 2067/68. In F/Y 2069/70, 2070/71, 2071/72, 2072/73 the growth rate of total indirect tax decreases massively to 6.30%, 10.91%, 3.07% and 2.95% respectively as compare to previous years but increases in F/Y 2073/74.

The decrease of growth rate of VAT than the previous year has affected the growth rate of total revenue, total tax revenue and total indirect tax too. This is because VAT has valuable contribution on other variables. Decrease in VAT decreases the total revenue, decreases the total tax revenue and total indirect tax revenue. The correlation between the VAT and other variables in the table 4.4 explains that they are strongly correlated and the movement of VAT amount from one point to another parallel the other variable. The growth rate and the correlation in the table above shows the relation of VAT with total revenue, VAT with total tax revenue and VAT with total indirect tax revenue. The increase or decrease in the amount of VAT revenue cause the positive reaction with other variables other things remaining the constant.

The highest annual growth rate of VAT, total revenue, total tax revenue and total indirect tax revenue has 35.20%, 26.44%, 33.64% and 35.25% in F/Y 2065/66, 2073/74, 2066/67 and 2068/69 respectively. The lowest annual growth rate of VAT, total revenue, total tax revenue and total indirect tax revenue has 7.82%, 9.56%, 8.77%

and 2.95% in F/Y 2072/73, 2067/68, 2067/68 and 2072/73 respectively. The average annual growth rate of VAT, total revenue, total tax revenue and total indirect tax revenue has 19.23%, 17.18%, 19.50% and 16.04% respectively. It can be shown in figure as.

**Figure 4.4 Average Annual Growth Rate and Annual Growth Rate**



*Source: Average annual growth rate, table 4.4*

Figure 4.4 reflects the annual growth rate and average annual growth rate of VAT, total revenue, total tax revenue and total indirect tax revenue. The average annual growth rate line in the figure shows that the growth rate of all the variables in average is nearly same that means increase in independent variable may cause the increase in dependent variables other things remaining constant. Here VAT is independent variable and total revenue, total tax revenue and total indirect tax are dependent variable.

#### **4.5 VAT internal, VAT import and Total VAT in Nepal**

VAT is composed by VAT internal and VAT import. VAT internal is VAT collected by internal sources of goods and services whereas VAT import is collected from the import of goods from outside country. Import VAT has higher share than internal VAT.

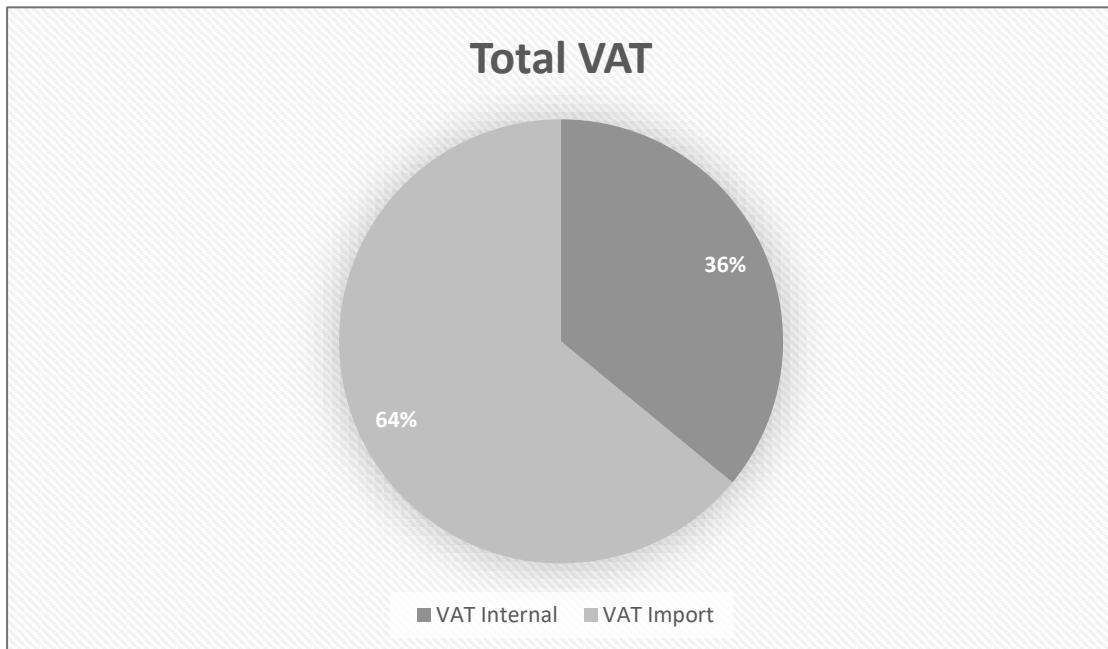
**Table 4.5 VAT internal, VAT import and Total VAT (Rs. In millions)**

F/Y	VAT Internal	VAT Import	Total VAT
2064/65	10808	19007	29815
2065/66	16100	24210	40310
2066/67	19100	34540	53640
2067/68	22390	39310	61700
2068/69	25640	46540	72180
2069/70	28490	55010	83500
2070/71	34400	66570	100970
2071/72	39550	78940	118490
2072/73	49820	77930	127750
2073/74	61120	105340	166460
Total	307418	547397	854815
Average	30741.8	54739.7	85481.5

*Source: IRD annual report (FY 2064/65 to 2073/74)*

Table 4.5 exposes that composition of VAT. Here, import VAT has higher contribution rather than VAT internal to total VAT collection. Each year VAT import has greater share in total VAT collection. Rs. 854815 million VAT is collected up to year 2073/74 from base year 2064/65, where import VAT is Rs. 547397 million and internal VAT is Rs. 307418 million.

**Figure 4.5 VAT internal, VAT import and Total VAT**



*Source: VAT internal, VAT import and total VAT, table 4.5*

The total VAT in Nepal is composite of VAT import and VAT internal. Import VAT has higher contribution rather than VAT internal to total VAT collection. Import VAT contributes 64% of total VAT collected whereas VAT from internal source contributes only 36% of total VAT in Nepal.

#### **4.6 Ratio of Excise and Custom on Indirect Tax**

Nepalese customs administration collects custom duty, value added tax, excise duty and other taxes at the border points. An Excise duty is broadly defined as an inland tax on the production or sales of a specific good whereas custom is a border tax. Both types of taxes are indirect tax. The ratio of excise and custom on indirect tax is shown in the table below.

**Table 4.6 Ratio of Excise and Custom on Indirect Tax (Rs. In millions)**

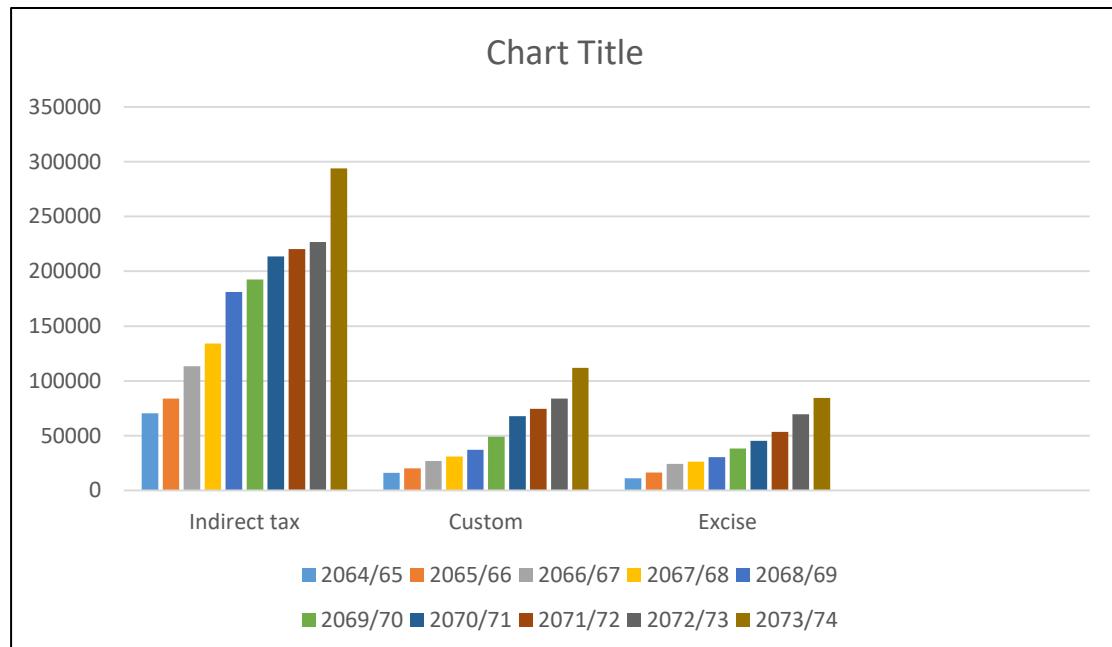
F/Y	Indirect tax	Excise	% Of Excise on Indirect Tax	Custom	% of Custom on Indirect Tax
2064/65	70512	11210	15.90	16176	22.94
2065/66	83764	16300	19.46	21160	25.26
2066/67	113256	24310	21.46	26950	23.80
2067/68	134012	26450	19.74	31038	23.16
2068/69	181254	30410	16.78	37119	20.48
2069/70	192669	38360	19.91	49170	25.52
2070/71	213689	45390	21.24	67880	31.77
2071/72	220241	53520	24.30	74640	33.89
2072/73	226734	69450	30.63	83890	37.00
2073/74	293840	84560	28.78	111840	38.06
Total	1729971	399960	23.12	519863	30.05
Average	172997.1	39996	23.12	51986.3	30.05

Source: *IRD annual report (FY 2064/65 to 2073/74)*

The above table no. 4.6 shows that the ratio of custom and excise on indirect tax. From the table no. 4.6 we can explain that in recent year the ratio of both custom and excise on indirect tax is increasing than previous year but in fluctuating rate. In fiscal year 2072/73 the ratio of excise on indirect tax is 30.63% i.e. higher than previous years. Similarly the ratio of custom on indirect tax is higher in F/Y 2073/74. In base year 2064/65 the ratio of excise on indirect tax is 15.90%. It slightly fluctuate till the fiscal year 2071/72 and reaches 24.30%. In year 2072/73 the percentage of excise on indirect

tax is 30.63 and 28.78 in F/Y 2073/74. Similarly in base year 2064/65, the percentage of custom in indirect tax is 22.94 and fluctuate till F/Y 20 2068/69. In F/Y 2068/69 it remains 20.48% but after that it increases till the F/Y 2073/74 and reaches 38.06%.

**Figure 4.6 Indirect Tax, Custom, and Excise (Rs. In millions)**



*Source: Ratio of excise and custom on indirect tax, table 4.6*

In the figure indirect tax, custom and excise is shown. The figure shows that the increasing trend of indirect tax but in decreasing rate. Similarly custom and excise in the recent year is in increasing trend which shows positive impact on indirect tax. As the amount of custom increases, its contribution to indirect tax increases and the total tax revenue. In recent year the collection of custom and excise is more than the average.

#### **4.7 Excise internal, Excise import and Total Excise in Nepal**

Excise is composed by excise internal and excise import. Excise internal is excise collected by internal sources of specific goods whereas excise import is collected from the import of specific types of goods from outside country. Internal excise has higher

share than import excise in overall but in recent year excise from import is increasing in higher ratio then the excise collection from internal source.

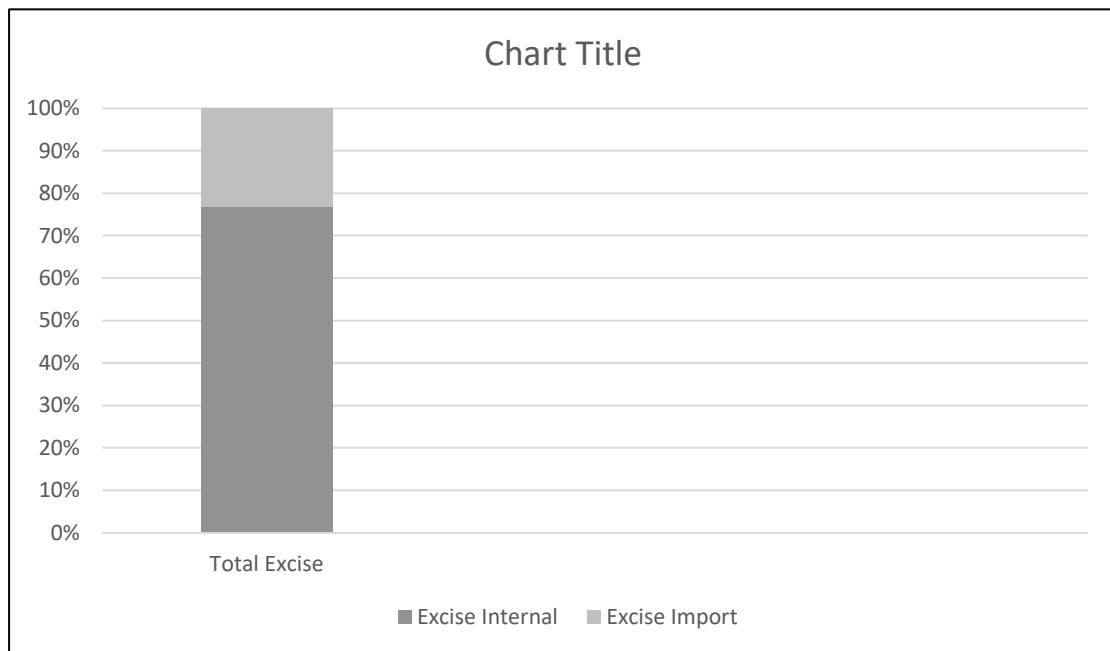
**Table 4.7 Excise internal, Excise import and Total Excise (Rs. In millions)**

Fiscal year	Excise Internal	Excise Import	Excise
2064/65	11189	21	11210
2065/66	16237	63	16300
2066/67	24306	4	24310
2067/68	24680	1770	26450
2068/69	28650	1760	30410
2069/70	30730	7630	38360
2070/71	36280	9110	45390
2071/72	41050	12470	53520
2072/73	46190	23260	69450
2073/74	47200	37360	84560
Total	306512	93448	399960

*Source: IRD annual report (FY 2064/65 to 2073/74)*

Table 4.7 shows that the composition of total excise. In the table excise collection of each year for ten year is shown. Taking the F/Y 2064/65 as base year the excise collection is higher from internal source till F/Y 2073/74 than the excise collection from import.

**Figure 4.7 Excise internal, Excise import and Total Excise**



*Source: excise internal, excise import and total excise, table 4.7*

In the figure 4.7 the total amount collected from excise duty in ten years is shown. Taking base year as F/Y 2064/65 the total amount collected from excise till the end of F/Y 2073/74 is Rs. 399960 out of which more than 75% of amount is collected from excise import. From the figure we know that the contribution of excise internal is higher as compare to excise import in total excise collected in Nepal.

#### **4.8 Comparison of VAT Internal with Excise Internal and VAT Import with Excise Import**

VAT and excise are the main source indirect tax in context of Nepal. Comparison of VAT internal and Import with excise internal and import in terms of collection in different fiscal year is shown in the table below.

**Table 4.8 Comparison of VAT Internal with Excise Internal and VAT Import with Excise Import (Rs. In millions)**

Fiscal year	VAT Internal	Excise Internal	VAT Import	Excise Import	Indirect Tax
2064/65	10808	11189	19007	21	70512
2065/66	16100	16237	24210	63	83764
2066/67	19100	24306	34540	4	113256
2067/68	22390	24680	39310	1770	134012
2068/69	25640	28650	46540	1760	181254
2069/70	28490	30730	55010	7630	192669
2070/71	34400	36280	66570	9110	213689
2071/72	39550	41050	78940	12470	220241
2072/73	49820	46190	77930	23260	226734
2073/74	61120	47200	105340	37360	293840
Total	307418	306512	547397	93448	1729971

*Source: IRD annual reports (FY 2064/65 to 2073/74)*

In table 4.8 the total amount of vat internal and excise internal shows that its contribution to indirect tax has not much difference but the collection of vat internal in recent year is increasing highly as compare to excise internal. In the same way table 4.8 shows that the total collection of vat import is excessively higher than excise import. This means that the contribution of vat import in indirect tax is more than excise import.

#### 4.9. Partial Correlation

Model	R
1	.996 <sup>a</sup>
2	.998 <sup>b</sup>
3	.999 <sup>c</sup>

- a. Predictors: (Constant), VAT revenue
- b. Predictors: (Constant), VAT revenue, Excise
- c. Predictors: (Constant), VAT revenue, Excise, Custom

The findings showed in the table 4.9 revealed that value added tax, custom, and excise duty were the variables selected on the basis of highest partial correlation to meet the entry probability requirement of less or equal to 0.05. The result depicts the relationship between the dependent variable (total revenue) and each independent variables (value added tax, custom and excise duty) that meet the entry probability requirement of less or equal to 0.05. The result further shows that the three variables, value added tax, custom and excise had strong positive correlation of 0.999 with dependent variable, total revenue. This means that three variables together had a strong relationship with the total revenue collected in Nepal.

The relationship between total revenue and independent variables value added tax and excise with effect of custom partial out was also stated as 0.998. This indicate a gradual decline in the relationship by 0.001 (0.999-0.998), which means despite the decline in the relationship as a result of partial ling out the effect of custom there exist still a strong relationship between total revenue in Nepal and the independent variables value added tax and excise.

In addition, while separating out the effects of custom tax and excise tax leading to a reduction in the relationship by 0.003 (0.999-0.996). From this two relationship while partial ling out the effect of excise only a gradual decline in the relationship by 0.002. This means despite the decline in the relationship as a result of partial ling out the effect of custom and excise there exist still a strong relationship between total revenue and VAT. The findings shows that value added tax had greater relationship with total revenue in Nepal followed by excise and custom.

#### 4.10 Regression Analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.996 <sup>a</sup>	.992	.991	14969.421
2	.998 <sup>b</sup>	.995	.994	12170.636
3	.999 <sup>c</sup>	.998	.997	8758.730

- a. Predictors: (Constant), VAT revenue
- b. Predictors: (Constant), VAT revenue, Excise
- c. Predictors: (Constant), VAT revenue, Excise, Custom

The result presented in table 4.10 showed that value added tax, custom tax and excise tax had on  $R^2$  of 0.998 on the total revenue of Nepal which implies that value added tax, custom tax and excise tax can jointly predict 99.8% of the variation in total revenue. To further affirm the significance of this test, the result also showed that the regression sum of square is greater than the residual sum of square which means that the independence variable accounted for the better part of the variation in Nepal's total revenue. The result further revealed a  $R^2$  value 0.995 joint contribution of value added tax and excise to Nepal's total revenue with the contribution of custom tax partial out. This implies that value added tax and excise tax has jointly accounted for 99.5% contribution of Nepal's total revenue.

The result also shows the contribution of value added tax, when the effects of custom and excise tax partially removed. The finding indicates that value added tax had a  $R^2$  value of 0.992 on total revenue collection in Nepal and this means that 99.2% of total revenue in Nepal can be explained solely by value added tax. The  $R^2$  was tested at 1005.993 F-value which was statistically significant at a low P of 0.000, an indication of the significant effect of value added tax in explaining the total revenue in Nepal.

#### 4.11 Implementation Problem of VAT in Nepal

The questions of implementation problem of VAT in Nepal were asked to 150 respondent. The response has been received of 150 respondents out of 150. Actually the nature of this question is existed as well as prevailing in nature.

#### 4.11.1 Customer are largely not conscious about VAT billing procedure?

Respondents	Consumer		Business corporation /firm		Tax collector and officer		Tax experts and teachers		Total	
Alternatives	No.	%	No.	%	No.	%	No.	%	No.	%
Yes	30	60	40	80	15	60	20	80	105	70
No	20	40	10	20	10	40	5	20	45	30
Total	50	100	50	100	25	100	25	100	150	100

Source: field survey, 2075

According to table 4.11.1, 70% respondents thinks customer are largely non conscious about vat billing procedure. It shows the customer are not aware regarding vat in aggregates analysis of respondent. Similarly 40% of consumer thinks customer are conscious that means they are aware about vat which is positive generally. The collection of tax revenue highly depends upon customer awareness in vat billing procedure.

The analysis of table 4.11.1, suggest that, needed of general public awareness programs to improvement the awareness level of customers. Otherwise it might be play negative role for collection of tax and revenue generation.

#### 4.11.2 How frequently you demand VAT invoices whenever you buy goods or services?

Respondents	Consumer		Business corporation /firm		Tax collector and officer		Tax experts and teachers		Total	
Alternatives	No.	%	No.	%	No.	%	No.	%	No.	%
Always	8	16	40	80	25	100	20	80	93	62
Sometimes	30	60	10	20	-	-	5	20	45	30
Never	12	24	-	-	-	-	-	-	12	8
Total	50	100	50	100	25	100	25	100	150	100

Source: field survey, 2075

The table 4.11.2 shows that 100% of tax collector and officials, 80% of tax experts and teachers, 80% of Business Corporation and 16% of consumers have the habit of taking bill on most of their purchases. In total 62% of people take bills on their every purchases. About 30 % people have the habit of taking bill sometimes but are not so serious about it, so they are not regular about picking up bills on their purchases. 8% of people never demand bill on purchase. The analysis of whole respondents found that customer are not so, serious for demanding of bills.

In detail analysis of table 4.11.2, 62% respondents' demand of bill. This percentage is all due to Business Corporation, tax officer and experts but the general consumer are unaware about the vat invoices. The customer were found to have neglected or ever asking for the bill after they have purchased goods and services. Likewise, the salesperson also doesn't bother to provide them with any bill. So, this habit may be taken as the critical problems for the smooth implementation of VAT system.

#### **4.11.3 Do you think the current VAT rate 13% is okay?**

<b>Respondents</b>	<b>Consumer</b>		<b>Business corporation /firm</b>		<b>Tax collector and officer</b>		<b>Tax experts and teachers</b>		<b>Total</b>	
<b>Alternatives</b>	<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>
Yes	35	70	38	76	15	60	18	72	106	70.67
No	15	30	12	24	10	40	7	28	44	29.33
Total	50	100	50	100	25	100	25	100	150	100

*Source: field survey, 2075*

The table 4.11.3 shows that 70.67% of respondents think the current vat rate 13% is okay. Among the respondents 76% of business corporation/firm and 72% of tax experts and teachers think no need to change of vat rate. Similarly 29.33% of respondents thinks for the change in vat rate. Among 150 respondents in total 106 respondent agrees with the effective implementation of vat rate to increase the total national revenue rather than increasing or decreasing vat rate.

#### 4.11.4 VAT administration system of Nepal is?

<b>Respondents</b>	<b>Consumer</b>		<b>Business corporation /firm</b>		<b>Tax collector and officer</b>		<b>Tax experts and teachers</b>		<b>Total</b>	
<b>Alternatives</b>	<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>
Effective	25	50	10	20	22	88	10	40	67	44.67
Ineffective	25	50	40	80	3	12	15	60	83	55.33
Total	50	100	50	100	25	100	25	100	150	100

*Source: field survey, 2075*

Every study related to VAT suggested that administration is the main problems of Nepal. Unless and until administration is transparent, capable, trained and honest, the government's intention to collect revenue through VAT will be limited to nothing more than just a daydream. The table 4.11.4 shows that in total, 55.33% of respondents explain vat administration of Nepal is ineffective. Only 44.67% thinks vat administration of Nepal is effective. Among the total tax collector and officer 88% agrees with the effectiveness of vat administration. 60% of tax experts and teachers think vat administration is ineffective, according to them, the corruption and bribery is deeply rooted in the Nepalese administration.

#### 4.11.5 In your opinion, has the adoption of VAT had any positive impact in revenue generation in Nepal?

<b>Respondents</b>	<b>Consumer</b>		<b>Business corporation /firm</b>		<b>Tax collector and officer</b>		<b>Tax experts and teachers</b>		<b>Total</b>	
<b>Alternatives</b>	<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>
Yes	44	88	47	94	25	100	25	100	141	94
No	6	12	3	6	-	-	-	-	9	6
Total	50	100	50	100	25	100	25	100	150	100

*Source: field survey, 2075*

According to table 4.11.5, 94% of total respondent agrees that the adoption of vat had positive impact in revenue generation in Nepal and only 6% of total respondent thinks that the adoption of vat had no any positive impact in revenue generation. Out of 50 12% of total consumer and 3% of total business corporation/firm thinks vat had no any positive impact in total revenue.

#### **4.11.6 Do you think collection of VAT in Nepal is very effective?**

<b>Respondents</b>	<b>Consumer</b>		<b>Business corporation /firm</b>		<b>Tax collector and officer</b>		<b>Tax experts and teachers</b>		<b>Total</b>	
<b>Alternatives</b>	<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>
Yes	18	36	10	20	22	88	15	60	65	43.33
No	32	64	40	80	3	12	10	40	85	56.67
Total	50	100	50	100	25	100	25	100	150	100

*Source: field survey, 2075*

Table 4.11.6 revels that about 56.67% of total respondent thinks that the collection of vat in Nepal is not effective. Among the total respondent only higher percentage of respondent among tax collector and officer agree that the collection of vat in Nepal is effective. But in overall only 43.33% of respondent agrees with the collection of vat in Nepal is effective.

#### **4.11.7 In your opinion, which of the following are main problems of low registration of VAT? (Please rank 1 for the main problem and 5 for least problem and so on)**

<b>Ranks</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>Total</b>
<b>Alternatives</b>	<b>No.</b>	<b>No.</b>	<b>No.</b>	<b>No.</b>	<b>No.</b>	<b>No.</b>
Low government initiation	60	25	32	13	20	<b>150</b>
Low responsible tax payer	35	35	28	20	32	<b>150</b>

Lack of E-registration	8	25	50	30	37	<b>150</b>
Confusion of turnover base threshold	10	35	35	45	25	<b>150</b>
Lack of trained manpower	37	30	5	42	36	<b>150</b>
<b>T0tal</b>	<b>150</b>	<b>150</b>	<b>150</b>	<b>150</b>	<b>150</b>	

Source: field survey, 2075

The table 4.11.7 shows that out of 150 respondent 60 thinks low government initiation is the main problem low registration of VAT. In overall 40% of total respondent ranks low government initiation is the main problem of low registration of vat. In the same way 37 of total respondent rank lack of trained manpower. In overall 85 respondent rank low registration as 1 and 2 in the main problems of low registration of vat.

#### **4.11.8 Which way is the best way to increase total revenue through VAT? (Please rank 1 for the best way to increase total revenue and 5 for least best and so on)**

Ranks	1	2	3	4	5	Total
Alternatives	No.	No.	No.	No.	No.	No.
Increasing in tax rate	5	15	22	38	70	<b>150</b>
Discouraging tax evasion	65	45	23	12	5	<b>150</b>
Widening its coverage	38	28	47	25	12	<b>150</b>
Attracting service holder towards VAT	10	32	45	38	25	<b>150</b>
Increasing tax education	32	30	13	37	38	<b>150</b>
<b>T0tal</b>	<b>150</b>	<b>150</b>	<b>150</b>	<b>150</b>	<b>150</b>	

Source: field survey, 2075

According to the table 4.11.8, 65 of total respondent suggest that discouraging tax evasion is the best way to increase total revenue through VAT. Tax evasion is one of the main problem in collection of tax in Nepal. So proper policy is required from government to reduce such problem and increase tax revenue. Rank 1 and 2 shows high influencing factor that is explained by discouraging tax evasion. Similarly 38 and 28 response of rank 1 and 2 of total respondent thinks widening tax coverage is the best way to increase tax revenue. 70 of total respondent rank increasing tax rate as last best way to increase total revenue through vat.

**4.11.9 In your view, what is the main problem of VAT implementation in Nepal?**  
*(Please rank 1 for the most influencing factor for implementation of VAT and 5 for less and so on)*

Ranks	1	2	3	4	5	Total
Alternatives	No.	No.	No.	No.	No.	No.
Delay in registration process	49	34	32	17	18	<b>150</b>
Tax evasion	33	40	30	27	20	<b>150</b>
Long tax refund process	42	38	31	22	17	<b>150</b>
Exemption and rates	6	16	33	41	54	<b>150</b>
Segregation of Business	20	22	24	43	41	<b>150</b>
<b>Total</b>	<b>150</b>	<b>150</b>	<b>150</b>	<b>150</b>	<b>150</b>	

*Source: field survey, 2075*

Table 4.11.9 shows that 49 and 42 of total respondent thinks the main problem of VAT implementation in Nepal is delay in registration process and long tax refund process respectively. From rank 1 and 2, 83 thinks delay in registration as a main problem, 80 thinks long tax refund process, 73 thinks tax evasion, 42 thinks segregation of business and only 22 thinks exemption and rates as main problem of vat implementation in Nepal.

**4.11.10 what do you think the main problem behind the reduction of VAT collection in Nepal? (Please rank 1 for main and 5 for least and so on)**

Ranks	1	2	3	4	5	Total
Alternatives	No.	No.	No.	No.	No.	No.
Unauthorized trades due to open boarder	52	35	28	18	17	<b>150</b>
Non- issuance of invoice	31	32	33	34	20	<b>150</b>
Under billing system	45	38	31	17	19	<b>150</b>
Frequently change in tax policy	8	19	32	43	48	<b>150</b>
Delay in VAT return process	14	26	26	38	46	<b>150</b>
<b>T0tal</b>	<b>150</b>	<b>150</b>	<b>150</b>	<b>150</b>	<b>150</b>	

*Source: field survey, 2075*

Table 4.11.10 shows that out of 150 respondents 52 respondent rank unauthorized trades due to open boarder is the main problem behind the reduction of VAT collection in Nepal. 45 rank under billing system as next main problem. 31 rank non-issuance of invoice as another problem being reduction in vat collection.

## 4.12 Findings

On the basis of previous chapter and data presentation and analysis, some importance findings can be drawn. The major findings are:

1. The economic status of Nepal is very poor and suffering from trade deficit. The Per capita income of Nepalese people has been lowest in the South Asian Association Region Co-operation. Being least developed country, it requires mass public revenue to meet government expenditure.

2. In the composition of Government total revenue there are tax and non-tax revenue. Contribution of tax revenue is approximately 87% to the total revenue whereas the contribution of non-tax revenue is approximately 13%. Due to this reason, government heavily depends upon tax revenue rather than non-tax revenue.
3. The amount of VAT revenue is in increasing trend, but contribution of VAT on tax revenue and total revenue is decreasing rate. The average annual growth rate of vat has highly fluctuation in recent year.
4. VAT is composed by VAT internal and VAT import. The contribution of vat import is higher than vat internal. Vat import contribute 64% of total vat.
5. About 23% of excise and 30% of custom contribute to indirect tax.
6. Excise is composed by excise internal and excise import. Excise internal have higher contribution than excise import. Excise internal contributes more than 75% of amount in total excise collection.
7. VAT import and excise internal have higher contribution in total indirect tax rather than vat internal and excise import.
8. Correlation between VAT and total revenue, VAT and total tax revenue, VAT and total indirect tax revenue, VAT and excise, and VAT and custom are 0.996, 0.997, 0.972, 0.992 and 0.995 respectively.
9. Partial correlation between dependent variable (total revenue) and independent variable (VAT and excise) keeping custom constant is 0.998 & VAT revenue and tax revenue keeping custom and excise constant is 0.996 which are positively correlated.
10. VAT, custom tax and excise tax had on  $R^2$  of 0.998 on the total revenue of Nepal which implies that value added tax, custom tax and excise tax can jointly predict 99.8% of the variation in total revenue. Joint contribution of value added tax and excise to Nepal's total revenue with the contribution of custom tax partial out  $R^2$  value 0.995 which implies that value added tax and excise tax has jointly accounted for 99.5% contribution of Nepal's total revenue.
11. The contribution of value added tax, when the effects of custom and excise tax partially removed. The finding indicates that value added tax had a  $R^2$  value of

0.992 on total revenue collection in Nepal and this means that 99.2% of total revenue in Nepal can be explained solely by value added tax.

12. The result shows that 70% respondent thinks people are non-conscious about VAT billing procedure.
13. In total respondent 62% always demand vat bill in their purchase. Among them only 16% consumer demand vat bill this means that the consumers are not so, serious for demanding of bill on their purchased.
14. Out of 150 respondents 70.67% of total respondent thinks current vat rate is okay. This shows only increasing in vat rate is not the best way to increase revenue of country.
15. The study suggested that VAT administration is main problems of Nepal. About 55% of respondent thinks vat administration of Nepal is ineffective. Among the 25 vat collector and officer 88% thinks it's effective which influence the result of 55% ineffectiveness.
16. The adoption of VAT had positive impact in revenue generation in Nepal. 94% respondent thinks adoption of vat had positive impact in revenue. To generate more revenue from VAT collection administration must be effective. About 56% of respondents thinks collection of VAT in Nepal is not effective.
17. Low government initiation, lack of trained manpower and low responsible tax payer are the main problems of low registration of VAT respectively.
18. More than 40% of respondent thinks discouraging tax evasion is the best way to increase total revenue through VAT. Out of 150 respondent 38 thinks widening vat coverage and 32 as increasing tax education to increase total revenue through vat. Only 10 go for attracting service holder towards VAT and 5 with increasing in tax rate.
19. Delay in registration process and long tax refund process is the main problem of VAT implementation in Nepal.
20. Out of 150 respondent 52 thinks unauthorized trades due to open boarder and 45 thinks under billing system as the main problem behind the reduction of VAT collection in Nepal.

## CHAPTER 5: CONCLUSION

### **5.1 Summary**

Tax is a compulsory financial contribution imposed by a government to raised revenue. VAT is a broad based indirect tax. VAT is the most recent innovation in the field of taxation of the second half of the twentieth century as it has already been implemented popularly in more than 130 countries. VAT is multistage commodity and services based tax which is imposed on goods and services at each stage of production and distribution. It is imposed only on value added amount. VAT is not perfectly new form of taxation. It is commodity based refined form of sales tax. VAT is popular because of its special features such as input tax credit system, based on accounting system, less chance of tax evasion, avoidance of cascading and pyramiding. In the least developed countries like Nepal, role of indirect tax seen to be more important to generate government revenue. Nepalese government introduced VAT in Nov. 16, 1997 A.D. The vat rate is 13% combined with zero on export with exemption on specified transaction or goods and services. The registration threshold is Rs. 2million.

The present study attempts to examine the indirect tax and its effects on revenue generation in Nepal. The basic objective of the study is to examine the impacts of value added tax on revenue generation in Nepal. The specific objectives of the study are: (a) To assess the effect of value added tax on revenue generation in Nepal, (b) To analyze the implementation problems of VAT in Nepal.

The study has employed descriptive causal research designs to analyze the relationship between vat and total revenue. Although there are many types of research design, to achieve the objective of the study descriptive research design and some financial and statistical tools also have been applied. The population for this study has comprised of the entire concerned person with Value Added Tax in Nepal. To benefit this research work 150 samples were collected out of total population. This study is based on judgmental sampling procedure. Primary data and information were collected through field survey by administering questionnaire to the selected samples of population and the secondary sources of data are the information defined from books, journals,

newspapers, reports and dissertations etc. The study used statistical package for social sciences (SPSS) to find the effect and relationship between vat and revenue generation in Nepal. The method of data analysis and presentation consists of bar diagram, pie chart, simple percentage method, correlation, regression, coefficient of determination, and average annual growth rate.

The economy status of Nepal is very poor. Therefore, role of VAT is seen to be more important to generate high amount of total revenue. Nepal has been implementing VAT as a manufacturing, production as well as service sector. Service sector consist contract and consultancy, tourism industry and other service and non-service sector consist production, imports and sales and distribution. Total revenue consist tax and non-tax revenue, about 87% of total revenue collected from tax revenue. Tax revenue and VAT revenue is in increasing trend but the contribution of VAT revenue and tax revenue on total revenue is fluctuating trend. Correlation between VAT and total revenue, VAT and total tax revenue, VAT and total indirect tax revenue, VAT and excise, and VAT and custom are 0.996, 0.997, 0.972, 0.992 and 0.995 respectively. Partial correlation between dependent variable (total revenue) and independent variable (VAT and excise) keeping custom constant is 0.998 & VAT revenue and tax revenue keeping custom and excise constant is 0.996 which are positively correlated. Value added tax had a  $R^2$  value of 0.992 on total revenue collection in Nepal and this means that 99.2% of total revenue in Nepal can be explained solely by value added tax.

Low government initiation, lack of trained manpower and low responsible tax payer are the main problems of low registration of VAT respectively after physicals infrastructure if any. Similarly delay in registration process and long tax refund process are the main problem of VAT implementation in Nepal. Unauthorized trade due to open boarder and under billing is the main problem behind the reduction of vat collection in Nepal.

## **5.2 Conclusions**

The empirical findings of the assessment of value added tax and its effects on revenue generation in Nepal suggest the following conclusions.

First, the relationship between value added tax and revenue generation in Nepal is positive. It means increase or decrease in VAT result parallel to total revenue. If Nepal manage to increase the tax through vat it increases total revenue which helps in increasing the economic status of country.

Second, value added tax had greater effect with total revenue in Nepal. Value added tax had a  $R^2$  value of 0.992 on total revenue collection in Nepal, this means that value added tax can solely predict 99.2% of total revenue in Nepal. There exist a strong relationship between total revenue and value added tax in Nepal.

Third, VAT structure is not sufficient to explain the growth contribution of VAT but improvement in VAT administration and compliance are even more important to deliver the positive changes.

In the Nepalese context, the trend of revenue contribution from VAT is fluctuating but the amount has been increasing reasonably. Total VAT is amount is increasing trend in each year but contribution of VAT on total revenue and tax revenue is fluctuating trend. For the full implementation VAT in all sectors first of the entire problem relating to the implementation of VAT must be minimized or removed. Delay in registration process and long tax refund process are the main problem of VAT implementation in Nepal. Low government initiation, lack of trained manpower and low responsible tax payer are the main problems of low registration of VAT respectively. When the registration of firms/business in vat increases the collection of tax revenue increases which ultimately increases in total revenue of nation. So government should take effective action to solve this problems. The government needs full cooperation to tax administration to avoid administration problems and tax payers and collectors to avoid billing and account keeping problems. Discouraging tax evasion is the best way to increase total revenue through VAT rather than increasing tax rate. Increasing in tax rate discourage the investor so it is better to discourage tax evasion and encourage investor for investment in different sector of production.

Finally, the result of the study revealed that value added tax is beneficial to the Nepalese economy. This can be understood from the behavior of the variables in this research, which shows that value added tax is statistically significant to revenue generation in Nepal. From the findings, for Nepal to attain its economic growth and development, it

must be able to generate enough revenue in order to meet up with the challenges of its expenditures in term of provision of social amenities and the running costs of the Government.

### **5.3 Implications**

Nepal has introduced VAT system since, 1997 after a long preparation and planning. The implementation of VAT has passed about twenty years but VAT is not fully implemented due to various problems. Revenue mobilization through VAT is not satisfactory as expected. In such circumstances on the basis of major findings, conclusion have been made a fully implementation of VAT, which could be fruitful concerned authorities while reforming VAT system in Nepal.

It has been found that low government initiation, lack of trained manpower and low responsible tax payer are the main problems of low registration of VAT. Inland Revenue Department should conduct different training and seminars to manpower to strengthen their capacity. Government should be responsible and education program to tax payer should be conducted to make them aware. The problems of registration, billing, account keeping in VAT system due to lack of public awareness. Delay in registration process and long tax refund process should be made easier. The use of minimum invoice by businessmen as well as having no interest of purchaser to demanding bill. Considering these issues government or tax administration should focus on billing system in the country by increasing public awareness in order to implement VAT system. Public awareness can be improved by providing VAT education from school level to adult education and also through different source of mediums.

Awareness towards VAT system should be created among general public, non-government and governmental organization. Research and innovation should be conducted on various issues, such as the effect of VAT on price, economic growth, investment and measure for solving VAT problem should be recommended by the expert group. The accounting system should be transparent. Tax payers should be encouraged to register their business voluntarily. Instead of forcefully coercing tax

payers providing various facilities to them can increase VAT compliance. The tax administration can select genuine business person and reward them.

This research work is an invaluable source of literature for researchers, student, accountants, bankers, companies, government agencies and related field who might be interest in knowing much about the concept of VAT and its effects on revenue in Nepal. It also help the government in policy formulation to suggest alternative strategies that can aid effective administration and monitoring of the VAT process and procedures. This study has been conducted with limited data, future studies may deal with wide range of data and respondent.

Study still recommends that the value added tax bases be widened to bring the informal sector into the value added tax net so as to stem possible evasion even by the so faithfully complying under the new rate.

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## APPENDICES

### Appendix: 1

#### QUESTIONNAIRE

May 20, 2018

Dear Respondent:

Greetings!

I am MBS (semester) final year student of Central Department of Management, T.U. Currently I am conducting a study entitled "**Indirect tax and Its Effect on Revenue Generation in Nepal**" as a requirement of the course of Master in Business Studies.

In this connection, I would like to request you to be one respondent in my study. Below various questions related to implementation problems of VAT in Nepal are listed. Please express your opinion regarding agreement or disagreement in the questions below.

The information provided by you will be used only for research (master thesis) and not for any commercial activity. I hope you spare a few minutes from your valuable schedule and share your true feelings. I really need and appreciate your opinions.

I look forward to your reply

Thank you very much for your support and cooperation.

Very truly yours,

Bal Krishna Chamlagain

**Supervisor**

**Prof. Dr. Gopi Nath Regmi**

*Central Department of Management*

*T.U., Kirtipur*

#### **Personal Information**

Name (optional): .....

Occupation: .....

Institution: .....

Address: .....

Phone no: .....

A. Please mark a tick mark (✓) in an appropriate option for each of the following questions.

Q.1) Customer are largely not conscious about VAT billing procedure?

- a. Yes ( )
- b. NO ( )

Q.2) How frequently you demand VAT invoices whenever you buy goods or services?

- a. Always ( )
- b. Sometimes ( )
- c. Never ( )

Q.3) Do you think the current VAT rate 13% is okay?

- a. Yes ( )
- b. No ( )

Q.4) VAT administration system of Nepal is?

- a. Effective ( )
- b. Ineffective ( )

Q.5) In your opinion, has the adoption of VAT had any positive impact in revenue generation in Nepal?

- a. Yes ( )
- b. No ( )

Q.6) Do you think collection of VAT in Nepal is very effective?

- a. Yes ( )
- b. No ( )

**B. Please make a rank 1 to 5 for the following questions.**

Q.7) In your opinion, which of the following are main problems of low registration of VAT? (*Please rank 1 for the main problem and 5 for least problem and so on*)

- a. Low government initiation ( )
- b. Low responsible tax payer ( )
- c. Lack of E-registration ( )
- d. Confusion of turnover base threshold ( )
- e. Lack of trained manpower ( )

Q.8) Which way is the best way to increase total revenue through VAT? (*Please rank 1 for the best way to increase total revenue and 5 for least best and so on*)

- a. Increasing tax rate ( )
- b. Discouraging tax evasion ( )
- c. Widening its coverage ( )
- d. Attracting service holder towards VAT ( )
- e. Increasing tax education. ( )

Q.9) In your view, what is the main problem of VAT implementation in Nepal? (*Please rank 1 for the most influencing factor for implementation of VAT and 5 for less and so on*)

- a. Delay in registration process ( )
- b. Tax evasion ( )
- c. Long tax refund process ( )
- d. Exemption and rates ( )
- e. Segregation of Business ( )

Q.10) What do you think the main problem behind the reduction of VAT collection in Nepal? (*Please rank 1 for main and 5 for least and so on*)

- a. Unauthorized trades due to open boarder ( )
- b. Non- issuance of invoice ( )
- c. Under billing system ( )
- d. Frequently change in tax policy ( )
- e. Delay in VAT return process ( )

**C. Any other suggestions? Please write below:**

.....  
 .....  
 .....  
 .....  
 .....  
 .....

*Thanks for your commitment to fill the questionnaire !*

## Appendix: 2

### CORRELATION AND REGRESSION

**Variables Entered/Removed<sup>a</sup>**

Model	Variables Entered	Variables Removed	Method
1	VAT revenue <sup>b</sup>	.	Enter
2	Excise <sup>b</sup>	.	Enter
3	Custom <sup>b</sup>	.	Enter

a. Dependent Variable: TR

b. All requested variables entered

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.996 <sup>a</sup>	.992	.991	14969.421
2	.998 <sup>b</sup>	.995	.994	12170.636
3	.999 <sup>c</sup>	.998	.997	8758.730

a. Predictors: (Constant), VAT revenue

b. Predictors: (Constant), VAT revenue, Excise

c. Predictors: (Constant), VAT revenue, Excise, Custom

**ANOVA<sup>a</sup>**

Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	225426403788.656	1	225426403788.656	1005.993
	Residual	1792668487.444	8	224083560.930	
	Total	227219072276.100	9		
2	Regression	226182201632.008	2	113091100816.004	763.487
	Residual	1036870644.092	7	148124377.727	
	Total	227219072276.100	9		
3	Regression	226758780172.899	3	75586260057.633	985.282
	Residual	460292103.201	6	76715350.534	
	Total	227219072276.100	9		

a. Dependent Variable: TR

b. Predictors: (Constant), VAT revenue

c. Predictors: (Constant), VAT revenue, Excise

d. Predictors: (Constant), VAT revenue, Excise, Custom

**Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1	(Constant)	-8685.263	11009.395	-.789	.453
	VAT revenue	3.688	.116		
2	(Constant)	10871.901	12453.152	.873	.412
	VAT revenue	2.045	.734		
	Excise	3.023	1.338		
3	(Constant)	32551.672	11952.184	2.723	.034
	VAT revenue	.564	.755		
	Excise	2.391	.990		
	Custom	2.504	.913		

a. Dependent Variable: TR

**Excluded Variables<sup>a</sup>**

Model	Beta In	t	Sig.	Partial Correlation	Collinearity Statistics
					Tolerance
1	Excise	.447 <sup>b</sup>	2.259	.058	.649
	Custom	.597 <sup>b</sup>	2.613	.035	.703
2	Custom	.495 <sup>c</sup>	2.741	.034	.746

a. Dependent Variable: TR

b. Predictors in the Model: (Constant), VAT revenue

c. Predictors in the Model: (Constant), VAT revenue, Excise

		Correlations					
		VAT revenue	Excise	Custom	TR	tax revenue	Indirect tax
VAT revenue	Pearson Correlation	1					
	Sig. (2-tailed)						
	N	10					
Excise	Pearson Correlation	.992**	1				
	Sig. (2-tailed)	.000					
	N	10	10				
Custom	Pearson Correlation	.995**	.989**	1			
	Sig. (2-tailed)	.000	.000				
	N	10	10	10			
TR	Pearson Correlation	.996**	.995**	.997**	1		
	Sig. (2-tailed)	.000	.000	.000			
	N	10	10	10	10		
tax revenue	Pearson Correlation	.997**	.996**	.997**	.998**	1	
	Sig. (2-tailed)	.000	.000	.000	.000		
	N	10	10	10	10	10	
Indirect tax	Pearson Correlation	.972**	.948**	.957**	.956**	.957**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	
	N	10	10	10	10	10	10

\*\*. Correlation is significant at the 0.01 level (2-tailed).

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
VAT revenue	10	29815	166460	85481.50	42912.209
Excise	10	11210	84560	39996.00	23522.398
Custom	10	16176	111840	51986.30	31434.880
TR	10	127623	609180	306577.30	158891.672
tax revenue	10	95156	547480	266195.00	146166.884
Indirect tax	10	70512	293840	172997.10	71015.035
Valid N (listwise)	10				

### Appendix: 3

#### Total revenue, total tax revenue, non-tax revenue, indirect tax and custom

Fiscal year	Total revenue	Total tax revenue	Non-tax revenue	indirect tax	Custom
2064/65	127623	95156	32467	70512	16176
2065/66	145320	118628	26692	83764	21160
2066/67	182370	158530	23840	113256	26950
2067/68	199810	172438	27372	134012	31038
2068/69	243920	205079	38841	181254	37119
2069/70	296010	258797	37213	192669	49170
2070/71	356850	310555	46295	213689	67880
2071/72	422900	370867	52033	220241	74640
2072/73	481790	424420	57370	226734	83890
2073/74	609180	547480	61700	293840	111840

### Appendix: 4

#### VAT internal, VAT import and Total VAT

तालिका नं. १३ : मूल्य अभिवृद्धि करको आन्तरिक र पैठारी संकलन अनुपात								
Tax Heading	2066/67	2067/68	2068/69	2069/70	2070/71	2071/72	2072/73	2073/74
VAT(INTERNAL) (Rs.bn)	19.1	22.39	25.64	28.49	34.4	39.55	49.82	61.12
VAT(IMPORT) (Rs.bn)	34.54	39.31	46.54	55.01	66.57	78.94	77.94	105.34
VAT Collection (Rs.bn)	53.64	61.7	72.18	83.5	100.9 7	118.4 9	127.75	166.46
Ratio(Internal:Import)	36:64	36:64	36:64	34:66	34:66	33:67	39:61	37:63
VAT Collection on Total Revenue(%)	35.11	15.02	16.99	15.68	20.92	29.2	26.52	27.33

माथिको तथ्यांकलाई विश्लेषण गर्दा आर्थिक वर्ष २०६४/६५ मा मूल्य अभिवृद्धि कर संकलनको आन्तरिक र पैठारी तरफको अनुपात ३५६३ रहेको देखिन्छ । यो अनुपातमा त्यसपछिका वर्षहरुमा आन्तरिक मू.अ.करको हिस्सा घट्दै र पैठारी मू.अ.करको हिस्सा बढ्दै गएको देखिन्छ । जुन आ.व. २०७१/०७२ मा आईपुग्दा आन्तरिक मू.अ.करको अंश ३३ र पैठारी मू.अ.करको हिस्सा ६७ प्रतिशत भएको देखिन्छ । आ.व. २०७१/०७२ भन्दा पछिका वर्षमा भने आन्तरिक मू.अ.करको हिस्सा बढेको छ जुन अनुपात आ.व २०७२/७३ ३९.६१ रहयो भने आ.व २०७३/०७४ मा ३५६३ रहेको छ ।

## Appendix: 5

### Total revenue and Total tax revenue

**तालिका ३ : कूल राजस्व संकलनमा आन्तरिक राजस्व विभागको योगदान (अर्बमा)**

	2066/67	2067/68	2068/69	2069/70	2070/71	2071/72	2072/73	2073/74
Total Revenue (bn)	182.37	199.81	243.92	296.02	356.62	405.86	481.96	609.18
IRD's Collection(bn)	67.96	80.49	97.9	117.89	140.59	160.09	204.43	258.17

**तालिका ४ : कूल कर राजस्व संकलनमा आन्तरिक राजस्व विभागको योगदान (अर्बमा)**

	2069/70	2070/71	2071/72	2072/73	2073/74
Total Tax Revenue (bn)	259.21	312.44	355.96	421.09	547.48
IRD's Collection(bn)	117.89	140.59	160.09	204.43	258.17