Table of Contents

LIST OF TABLES

LIST OF FIGURES

ABBREVIATIONS

Co.	Company
FY	Fiscal Years
GDP	Gross Domestic Product
GNE	Gross National Expenditure
GNP	Gross National Product
GST	Goods and Service Tax
ICAN	Institute of Chartered Accountants of Nepal
IRD	Inland Revenue Department
Ltd.	Limited
MOD VAT	Modified Value Added Tax
MST	Multi Stage Tax
NRB	Nepal Rastra Bank
SAARC	South Asian Associated for Regional Co-operation
T.U.	Tribhuvan University
TOS	Taxpayers Service Officers
USAID	United States Agency for International Development
VAT	Value Added Tax

CHAPTER I
INTRODUCTION

1.1 Background of Study

One of the most important issues faced by the developing countries which are raised even more seriously today is finding ways to improve the internal mobilization of domestic resources in order to finance public expenditure. In the context of the degradation of public finances in the developed world, the high dependency of developing countries on external development assistance should be addressed and reversed by acting on the ways to efficiently increase the mobilization of domestic resources. Looking at the ways to improve the mobilization of domestic resources and build fiscal space in these countries, it is, therefore, crucial for the sustainability of public finances and for economic development in general. The role of revenue in the development of a country is not less important than the role of oxygen for the existence of human body. In this context, a government needs to mobilize a lot of internal resources has to fulfill its responsibility toward the nation its and people. In a developing country like Nepal, there is necessity for raising a larger volume of funds for the development and administration expenses.

The revenue collection is a challenging task in itself which demands the increasing necessity of regular expenditure in general and development expenditure in particular. Development expenditure has been dependent almost entirely on the foreign aid, so external assistance is uncertain, precarious, inconvenient, and not conducive to the healthy and overall development. The foreign aids are not bad for the economic development of the nation. But the experience of most of the developing countries shows that there are negative effects of increasing international grants and loans to finance for public development activities if foreign loans and grants are used in the unproductive sector.

Commonly, there are two types of tax: direct and indirect. Direct tax is directly imposed on a person or organization which are income tax, property tax etc. Indirect tax is indirectly imposed on a person or an organization which is excise duty, custom duties, sales tax, entertainment tax and value-added tax (VAT), etc. These taxes are shifted to other people.

VAT is an indirect tax. It is an improved and modified form of sales tax. It is levied 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 a firm is sales value minus all expenditure on goods and services purchased from other firms. The value added can be obtained by adding payments to factors of production i.e., wages, salaries, rent, interest and profits. This value added is the base of VAT. Although VAT is eventually borne by the final consumer. It is collected at each stage of the production and distribution chain. In the VAT system the registered dealers obtain a tax credit for the tax paid directly by them on goods purchased by them for the manufacture of sale (Bhattarai & Koirala, 2006).

VAT is the most recent innovation in the field of taxation. It is levied on the value-added of goods and services. VAT is an improved version of sales tax. It is levied at different stages of production and distribution. It is a multistage tax. This is connected to the different stages of production and distribution of goods and services.

The existence of the VAT concept was seen in 1919 A.D. German industrialist Wilhem Van Slemens proposed the tax to replace multistage sales taxes but at that time Germany did not apply VAT, but it reduced the rate of multistage sales tax. Shoup (1969) explained Value Added Tax as the latest and probably the final stage in the historical development of general sales tax, imposed on the value added by business firms, which is based on goods and services.

Due (1977) analyzed that among the indirect taxes, VAT is the best one as the latest form of sales tax. Its usage has expanded rapidly because of broader coverage. Agha and Haughton (1996) have made an effort to assess the VAT in Taiwan. According to them, the VAT in Taiwan was implemented in order to increase the competitiveness of exports and the efficiency of the business tax structure. Yoo (2000) examines and evaluates "Value Added Tax (VAT) in the Republic of Korea". He concluded that VAT has broadened tax base, reduced evasion, increased revenue as well as solved many problems.

Goode (1986) in the book "Government finance in Developing Countries" described VAT as the most important tax innovation of the second half of the 20th century. Ebeke (2010) investigates in particular whether the presence of a value added tax (VAT) system increases the benefit of the inflows of remittances in terms of high and less volatile tax revenue ratio.

In the Context of Nepal

In the Nepalese context, the tax system review tax force was constituted by Nepalese government in 1995 to propose and recommend implementing VAT. In place of sales tax, hotel tax and entertainment tax, Nepalese government implemented it on 16 November 1997. However, VAT came into full operation in February 1998 (Khadka, 2001).

Nepal is also a developing country situated between two economically rising nations India and China. Rapid population growth, increasing unemployment, resource constraint and high dependency on agriculture, low living standard and poor infrastructure etc. are the common features of the Nepalese economy. To solve these problems, it needs more revenue obtained through the effective mobilization of domestic resources. But Nepalese resource mobilization is still poor that does not cover the growing expenditure. Government expenditure is increasing every year but revenue is not growing equivalently as per the expenditure. In addition, the country is also facing the increasing burden of foreign loans. In order to increase revenue, different sources are available but they have their own merits and demerits. That's why the government should try to mobilize resources through measures which has less trouble and more benefits.

The tax system of Nepal is still dominated by custom duties but Nepal has entered as a member of the World Trade Organization (WTO). Being a member of WTO, the governmentshould reduce the custom duties drastically within certain time period. So, it is expected that VAT would be a major instrument to avoid deficit financing. It is the best form of sales tax within most merits of self-pricing, catch-up effect, broad base, etc. So, there is no alternative option available except to increase its effectiveness to mobilize internal resources effectively. Thus, VAT can be the optimal solution to resources gap and high dependency on foreign aid.

However, the problem of VAT in Nepal is still a matter of discussion. Mainly, the businessmen are reluctant to pay VAT, even the consumers are not aware of taking VAT invoice. Low voluntary tax compliance, cumbersome, legal and administrative procedures, weak tax administration and tax evasion are still prevailing. Khadka (2001) explores in a report that VAT is the most recent innovation in the field of taxation. Dahal (1995) 'Task Force' recommends VAT in the place of the existing sales tax and small service base taxes as a long-term tax reform measure. Khanal (2008) explained that Value Added Tax puts greater significance in revenue mobilization in Nepal. In his conclusion the share of direct tax and indirect tax are around 30 percent and 70 percent oftotal tax revenue respectively.

Despite all the constraints and obstructions from the business communities, VAT was introduced with the objectives of increasing revenue mobilization by broadening the tax base, and of instilling neutrality, efficiency, fairness, and transparency in tax administration. It was launched in place of the four different taxes namely Sales Tax, Contract Tax, Entertainment Tax and Hotel Tax. In Nepal consumption type VAT is being implemented.

1.2 Statement of the Problem

VAT plays great role in the revenue mobilization in Nepal. The reason behind VAT system, it makes transparency in all kinds of transaction, helps to make the wide area of tax and discourages tax evasion. So, it is needless to say that VAT is the most important sources of the government revenue. VAT was implemented after several preparations program such as publicity, campaign, workshop, training, advertisements, publication of articles discussion on radio and television, commenced various booklets and other materials were published. In this process only the positive aspect of VAT was discussed and publicized. The negative aspects were not taken into consideration. So that shortcoming that can enter on the process of VAT implementation could not be discussed. VAT has some difficulties in the administrative aspect as well. Only a good tax system is not sufficient to make the revenue collection procedure effective, effective implementation of the system is also necessary. VAT is a scientific, simple and very good tax system. However, there are so many problems regarding implementation of VAT system. It has been more than 20 years of VAT implementation in Nepal, but there are so many problems in its effective implementation. Implementation of VAT was not easy in the initial days. It was a matter of great debate. Even after the enactment of law, there were a lot of constraints and difficulties in introducing and implementing VAT in Nepal. A large number of entrepreneurs, traders and business communities were against VAT system. The initial two year of VAT implementation was very turbulent. Now it has become familiar and VAT is currently well receipted by the consumers as well as business and industrial communities of Nepal. This is account-based tax system that leads to transparency and accountability on the both part of tax payers and tax collectors. The present situation of VAT showed the need for understanding and commitment at the general taxpayer level, political level, and motivated tax administration, serious study of the negative aspects of the new tax system and honest and earnest attempts and environment to tackle the problem in order to make any tax system revenue productive. So, it seems its right time to make an assessment the VAT by identifying its role and contribution to GDP, total revenue and total tax revenue and make people aware about it. In the process, it is essential to provide knowledge on prospects of revenue mobilization through VAT in the country. How better is the system, if proper knowledge is provided to the people about role and contribution of VAT and its benefit of the system? At present, the issues have become the effective information, knowledge of VAT system and its role and contribution is most needed in Nepal.

Nepal is a developing country facing development challenges to promote the life standard of its citizens living below the poverty line. Under such condition, Nepal is facing a serious problem of research gap and dependency of foreign grants and loans. More and more inflation rate, never decreasing unemployment rate, the unacceptable amount of corruption in the financial sector, political instability, unjustified and unmanaged agriculture sector are the few examples that have been deteriorating the growth of economy.

The study tries to answer the following questions:

- What is the current implementation scenario of VAT in Nepal?
- What is the contribution of VAT on GDP, Total Revenue and Total Tax Revenue?
- What is the correlation among VAT, Total Revenue, Total Tax Revenue and GDP?
- What is the trend value of Domestic VAT and Import VAT?
- How much is it essential to provide knowledge about VAT and its contribution in the country?

1.3 Objectives of the Study

VAT considered as the account-based tax system as it leads to transparency and accountability on the both part of tax payers and tax collectors.

Resistance from the business community, ignorance of general people, lack of full support and commitments from the politicians and government officials has been of great hindrances in awareness of trend and contribution of VAT in the country.

However, specific objectives of the study are:

- To analyze the contribution of VAT to total revenue and tax revenue.
- To explore the current status of VAT in Nepal.
- To assess contribution of VAT on Nepalese Gross Domestic Product.
- To find the trend value of Domestic VAT and Import VAT.
- To examine the correlation between VAT with total revenue , total tax revenue and GDP in Nepal.
- To provide information for further research work in future.

1.4 Significance of the Study

According to Bird (2005) over the last few decades, VAT has swept the world. VAT can play an important role in the process of development in developing countries like Nepal which needs higher revenue to fulfill its financing deficit.

There is need of comprehensive study about VAT in Nepal. This study is thus undertaken to add to whatever scare studies already exist in VAT. So, many theoretical and reports studies have been conducted to measure prospects of VAT in Nepal and finds out the contribution of VAT to GDP, total revenue and other economic indicators. So, the research is significant in the sense that its thorough study may facilitate the government making policy and solving the VAT related issues. Moreover, the government is facing many problems for effective implementation of VAT. It may be helpful for the businessmen and the consumers as well who are still lost amid the confusion about the proper implication of VAT. The study will be directly beneficial to policy maker, private sector, researcher and general people. Policy maker will be able to identify the areas needed for improvement. It will help the researcher to carry out the research a step ahead about VAT and other researchers who are interested in doing research in this particular topic.

1.5 Limitations of the Study

All research study has been lunched to solve a particular research problem. It requires various kinds of data, materials and other relevant information, which may not sufficient to the researcher. This study also cannot escape from the frame of limitations. This research has own limitations. Some of which are given below:

- Secondary data is going to be used only so the validity and reliability may depend on the goodness of these data.
- Data is used from last six years so it won't explicit about before it.
- It doesn't include primary data.
- It is not a complete study of the whole tax system in Nepal

1.6 Organization of the Study

The study is organized into five chapters – Introduction, Review of Literature, Research Methodology, Presentation and Analysis of Data and Summary, Conclusion and Discussion.

Chapter I: Introduction

The first chapter introduces with the background of the study, statement of the research problem, objectives of the study, theoretical framework, and limitation of the study.

Chapter II: Conceptual Framework and Review of Literature

The second chapter reviews the existing literature about VAT , its role and implementation inNepal.

Chapter III: Research Methodology

The third chapter describes the methodology used for this study. This chapter introduces the introduction, research design, population and sample, nature and source of data, methods of analysis, nature of respondents, statistical tool used and methodological limitations.

Chapter IV: Presentation and Analysis of Data

This chapter includes the analysis of the data which are gathered from the research and presentation of the data. This chapter also includes graphs, tables and findings of this study.

Chapter V: Summary, Conclusions and Recommendations

This is the final chapter of this research. The fifth chapter states about the discussion and conclusions of this study. It also states significance of this study and implications for the future research.

CHAPTER II
CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE

This chapter includes the study of the various Literature related to tax structure in general and Sales Tax and VAT in particular and critically understands the same with the object whether there has been any similar study in the past. Research made in the past identifies various gaps in the studies.

Review of literatures help to demonstrate familiarly with the body of knowledge and establish credibility, as well as, showing how the current research is linked to the past research. Moreover, the literature review helps, integrate and summarize what is known in an area, learn from others and stimulate new ideas. In addition, the literature review shows what research has been done in the field, the research methods used, the results generated and what was the done with the findings. Therefore, all studies must be connected to literature to support the need for the study and situate it in terms of previous work.

2.1 Conceptual Framework

Taxation is a payment levied by government for which no good or service is received directly in return - that is, the amount of tax people pay is not related directly to the benefit people obtain from the provision of a particular good or service. A government requires a lot of revenues in order to carry out the development plans, handle day to day operation, maintain peace and security and launch other public welfare activities. In this context, taxes are the most important and reliable sources of revenue of the government. It has become one of the important resource mobilizations to make the financial requirement of the government. It is a major source of government revenue. In general,it can be defined as a levy or other type of financial charge or fee imposed by state or central government on legal entities or individuals. It is money which is the legal duty of every citizen to pay honestly to the government. It may be levied on income, property and even at the time of purchasing commodity. It is a liability which is contributed to the national revenue from the tax payers in a prescribed laws, rules and regulations. In Nepal, the budget speech of F/Y 1993/94 realized the need to change sales tax into VAT gradually. A task force was set up in the sales tax and Excise duty department to make necessary preparations for an early introduction of VAT. The effort of the task force was not fruitful because the government felt the need of further study in this project. During1994/1995 a new task force unit was formed for re-observation of Nepalese tax system. The task force reached the conclusion that "there is no reliable measure other than changing existing sales tax into VAT."As a result of the study, the VAT Act, 2052 and VAT rules 2053 (ICAN, 2012).

Tax compliance is a major problem for many tax authorities and it is not an easy task to persuade taxpayers to comply with tax requirements even though tax laws are not always precise (James & Alley, 2004).

Different persons have defined tax in different ways. For example; Seligman defined "Tax is a compulsory contribution from a person to the government to defray expenses incurred in the common interest of all without reference to special benefit conferred" (Kandel, 2009).

As the above definition, it can be said that firstly, a tax is a compulsory levy and those who taxed have to pay it without getting corresponding benefit of service or goods from the government. The taxpayer does not have any right to receive direct benefit from the tax paid.

In conclusion, it can be said that a tax is a liability to pay an amount to the state. The basis for the payment is that the assesses have income of a minimum amount from certain specified sources or that they own certain tangible or intangible properties or that they carry on certain economic activities or they consume certain goods and services which have been choose for taxation. One thing is noted that tax and taxes are not synonymous terms. Taxation is a device for imposing tax.

2.2 Canons of Taxation

A number of important taxation canons arise in the study of public finance. These canons provide insight into causes and consequences of government taxation. A good tax system is pre-requisite to attain goal of required revenue. The canon of good taxation emerges since the start of the seventeenth century. The art of taxation is the art of plucking the goose so as to get the largest possible amount of feather with the least possible squealing. Likewise, the famous economist Adam Smith wrote “an enquiry into the nature and causes of the wealth of nations” in 1776 and mentioned fours maxims of taxation.

Tax and expenditure policies reveal the fundamental ideology of a government and a political system. The government adopts various canons while formulating a good tax policy. These canons are referred to as the canons of taxation. The canons of taxation were first developed by Adam smith as a set of criteria by which to judge taxes. They are still widely accepted as providing a good basis by which to judge taxes. Smith’s four canons as outlined in his book entitled “wealth of nation” are as follows (Dhakal, Bhattarai & Koirala 2073):

Canon of Equality

The canon states that a good tax is that which is based on the canon of equality. In this canon it is maintained that the tax most be levied according to taxpaying capacity of the individuals.

Adam Smith coined this canon as “The subject of every state ought to contribute toward the support of the government, as nearly as possible, in proportion to their respective abilities, that is, in proportion to the revenue which they respectively enjoy under the protection of state.”

This canon states that the burden of taxation should be fair and just. Thus, rich people must be charged higher taxes than the poor. The higher the income, higher the tax, lower the income lower the tax. Tax policy should not discriminate the persons with same income level.

Canon of Certainty

This canon states that the taxpayers should feel certainty regarding the time of payment, amount to be paid, methods of payment, the place of payment and the authority to which the tax is to be paid. Every taxpayer must know the time of payment, manner and mode of payment, so that he may adjust his expenditures accordingly. In the words of Adam Smith “the tax which is individual is bound to pay or to be certain and not arbitrary. The time of payment, the quantity to be paid, all ought to be clear and plain to the contributor and to every other person”. Thus, certainty creates confidence in the contributor of the tax. On the other hand, uncertainty makes the tax system arbitrary andunfair to the taxpayers. If the tax is certain, no one can exploit taxpayers in any way.

Canon of Convenience

The tax should be levied and collected in such a manner that it provides maximum convenience to the taxpayers. The public authorities should always keep this point in view that the taxpayers suffer the least inconvenience in payment of tax. For example, land revenue should be collected at the harvest time. The income tax from the salary class should be collected only when they get their salaries from their employers. To quote Adam smith, “every tax ought to be levied at the time or in the manner which is most likely to be convenient for the contributor to pay it.” This canon helps to reduce tax evasion to a great extent

Canon of Economy

The canon states that the collection expenses of tax should be less than the amount of tax collected so that a surplus to public revenue is generated and the country will be benefited. The amount that goes from the taxpayers’ pocket should not differ greatly with the amount that actually goes to government treasury. This canon also implies that a tax should interfere as little as possible with the productive activity and general efficiency of the community so that it may not create adverse effect on production and employment.

Canon of Productivity

This canon connotes that the fund raised through taxes should be utilized by the government in productive sector of the economy so that the taxpayers can see the utilization of their hard-earned money paid as taxes. According to this canon, it is better to impose a few productive taxes than to go in for a large number of unproductive taxes.These unproductive taxes create complications both for the taxpayers, and the government. Therefore, tax must be imposed in a systematic way so that it may not discourage the productive capacity of the individuals. Unfavorable taxes, usually, reduce the working efficiency which ultimately reduces the taxpaying capacity of the people.

Canon of Elasticity

this canon signifies that the taxes should be levied in such a way the amount to be collected can be increased or decreased with the least inconvenience from time to time.

In other words, the government can easily change the tax rates as per the need of the country. Instead of being rigid, tax rates should be made flexible to cope up with the changes in tax payers' income, properties and transactions

Canon of Simplicity

This canon states that every tax should be simple and understandable to general public. There should be no administrative hassles. The tax payment procedure should not be too lengthy. If the tax system is complex and complicated, the taxpayers will have to seek the assistance of tax experts to understand its complications. This will bring irregularities and corruption.

Canon of Diversity

The tax system should not totally depend on one source of revenue. It is risky for the government to depend on a single source. The government should levy various taxes instead of imposing a single tax. The burden of tax should be scattered among different kinds of people. The burden of paying tax should not centralize on one group of people but it should be diversified in such a way that it ensures a smooth collection in different years.

Canon of Neutrality

The tax system should not affect badly to the production and distribution aspect of the nation rather it should facilitate them. The government should impose heavy taxes on harmful products and less tax or not tax on basic goods in such a way that the total tax revenue is not affected. The tax must not have any inflationary or deflationary effect on the economy.

Canon of Co-ordination

This canon states that there should be coordination among various taxes raised in the country. Tax payers should not be imposed taxes of similar nature by various tax authorities (i.e., central government or local bodies).

2.3 Types and Classifications of Tax

The taxes have been variously classified. There are different type's taxes according to basis. They are on the basis of structure and on the basis of form.

2.3.1 On the Basis of Structure

On the basis of structure tax can be classified into three types. They are proportional tax, progressive and regressive tax.

2.3.1.1 Proportional Tax

If tax is similar to all taxpayers, it is proportional tax through the tax rate is same, the amount of tax goes on increasing with the increase in tax base. A proportional tax is onein which income tax is the same percentage of income from every person no matter howmuch income the person makes. An income tax that takes the same percentage of income from everyone regardless of how much an individual earns.

There are arguments on both sides as to the merits and drawbacks of proportional taxes. One of the biggest arguments for proportional or flat taxes is that on their face they are the easily argued as the most "fair." Another argument is a flat tax provides more motivation for people to try and earn more, even at high income levels, because a person wouldn't lose more and more to taxes as he earned more and more money.

A proportion form of taxation to many seems quite fair as individuals pay according to their ability to pay. One point of view is that for the rich, based on the different high incomes, it is easier to pay off taxes because a smaller proportion of their income is spent on necessities. They therefore have more disposable income to spend on other goods/services also to invest within capital goods which said before may stimulate and benefit the welfare of the economy. Some may say that this system promotes a more fair and justice society. Equity of taxation in this economy can be neutral (Keen & Smith, 2007):

Advantage of Proportional Tax

- The first advantage of proportional tax is that since all people pay taxes at the same rate there is no ambiguity as to rate of taxation which in itself lead to clarity in the minds of taxpayers as well as tax collecting authorities because when it comes to taxes majority of people do not understand the tax rates as there are many slabs and exemption related to those slabs and therefore a clarity with regard to rate of taxation makes life easy for taxpaying people.

- Another benefit of proportional tax is that it reduces the tax theft from rich sections of society because when tax rate is high for rich and low for middle and poor section than it is the rich who try all the ways so that they don’t have to pay taxes and hence in a way proportional tax leads to less tax leakage from the system.

- Another merit of proportional tax is that it simple to understand by both tax authorities as well as taxpaying individual which in turn lead to better implementation by the tax authorities and acceptance by taxpaying individuals.

Disadvantages of Proportional Tax

- The biggest drawback of proportional tax is that large section of the society that is middle and lower class feel cheated because according to them those who have more money should also pay more tax and those who have less money should pay less tax but since this system keeps tax rate same for all there is frustration and anger among majority of people in the country as middle and poor class people form 99 percent of the population of any country.

- Proportional tax is that since rich and poor are taxed at the same rate it leads to a huge gap between the rich and poor leading to anger, frustration and in the worst-case scenario may even lead to the revolt by middle and poor class against affluent people and government of the country.
- Proportional tax is that government receives less tax than another form of tax system because tax rate has to be kept low so as to appease poor and middle class which in turn lead to the lower tax rate for rich also leading to loss of revenue for the government of the country

As one can see from the above that proportional tax has advantages, as well as dis-advantages and government, should carefully consider above points before implementing the proportional taxation system in the country.

2.3.1.2 Progressive Tax

If the rate of tax increases with the increase in tax base, it is known as progressive tax. A progressive tax takes a larger percentage of income from high- income groups than from low-income groups and is based on the concept of ability to pay.

The progressive income tax is effectively a means of income redistribution. Individuals who earn more pay higher taxes; those taxes are then used to fund social welfare programs that are used primarily by individuals who earn less. Critics of the progressive tax consider it to be discriminatory and believe that a flat tax system, which imposes the same tax on eve1ryone regardless of income, is a fairer method of taxation (Keen & Smith, 2007):

Advantages of Progressive Tax

- The biggest advantage of progressive tax is that under this structure those people who earn more income will pay more tax and those people who fall under lower income category will pay less tax, hence in a way this system puts more pressure on more capable or rich person while puts less pressure on less capable or poor and middle-class person.
- Progressive Tax gives sense of satisfaction to the people in the country because there is proper distribution of taxes as people earning more income are made to pay more taxes and people earning less income have to pay lesser taxes which in a way helps in reducing income inequality between the rich and poor.
- Another benefit of progressive taxation is that government gets good amount of revenuebecause in normal taxation many middle classes and lower class people do not pay taxes due to higher rates but due to lower income tax rate in progressive tax system majority of such people will pay taxes leading to increasing in taxable base of the country and higher the tax base higher will be the tax collection by the government.

Disadvantages of Progressive Tax

- The biggest disadvantage is that in a way this form of taxation punishes those people who work hard in order to earn money and hence in a way it discourages people to work hard because there is no incentive for people to work hard because the more the income the higher will be the tax rate and a person after earning enough money will stop working because marginal utility of money for an individual will decrease due to highertax rates.
- Another limitation is that there will be more cases of tax evasion as rich people will feelthat they are being exploited and they will try to use all possible ways to

make sure that they pay less tax and hence in a way under this system there is an increase in tax evasion by the high tax paying individuals.

- Another disadvantage of a progressive tax is that it has the scope of manipulation by the tax authorities because there is no uniform rate and rate of taxation varies according to income which makes this system subjective and dependent on the personal opinion of the tax officials.

2.3.1.3 Regressive Tax

A tax which falls more heavily on people with low incomes than on those with high incomes, consumption of some commodities depends on the size of the family than on income. The total revenue requires by a modern state is so great that it cannot all be provided from direct or income taxes. All the indirect taxes imposed on the basic necessities are regressive in nature. It is the opposite of a progressive tax (Keen & Smith, 2007).

If the tax rate goes on decreasing with the increase in the ability to pay or tax base, it is called regressive tax. It is a tax that takes a larger percentage from low-income people than from high-income people. A regressive tax is generally a tax that is applied uniformly. This means that it hits lower-income individuals harder.

Few countries around the world employ the Regressive tax system. Regressive tax systems are favored by those who make a large income because a small proportion of their income is taxed. It is an incentive for many high-net-worth individuals. From a government point of view, the wealthy individuals have more disposable income to invest within the economy namely capital goods which in turn would stimulate it. On the other hand, those who make moderate or lower incomes have to pay a higher percentage of their income in taxes (Kandel, 2009):

Advantage of Regressive Tax

- Convenient: These taxes are paid in the shape of price of commodities. People pay thesetaxes when they buy commodities.

- Increase in investment: The poor section of the economy bears the burden of thesetaxes. The aggregate demand increases which encourages the more investment.

- No Evasion: The poor section of the economy is not in a position to evade these taxes.

Disadvantage of Regressive Tax

- All Taxes are not regressive: All indirect taxes are not regressive in nature. Many expensive articles that are taxed beyond the means of people in the lower income group.
- In Justice: The tax burden decreases with increase of income. The incident of tax is greater on poor than on the rich. Therefore, it is unjust method of taxation.
- Non-Productive: These taxes are usually implemented or low-priced commodities. These commodities are consumed by low-income consumers. There is a discouragementin the production of theses commodities.

2.3.2 On the Basis of Form

On the basis of shifting of burden, tax can be classified into two broad categories: direct and indirect tax.

2.3.2.1 Direct Tax

One of the most important and widely used classifications of taxes is direct and indirect taxes. A direct tax is a form of tax paid by a person on whom it is legally imposed. It is collected directly by the government from the person who bears the tax burden. Taxpayers need to file tax returns directly to the government. Therefore, direct tax cannot be shifted. The impact or the money burden and the incidence are on the one and the same person. It is equitable as it is imposed on person as per the property and income. It is flexible. The government can change tax rate with the change in the level of property or income. But with this it gives mental pinch to the taxpayers as they have to curtail their income to pay to the government. Tax payers feel inconvenience as the government imposes tax progressively. Income tax, Property Tax, Vehicle Tax, Interest Tax, Gift Tax, Casual Gain Tax etc. are some of the forms of direct tax (Gerald, 2004):

Advantage of Direct Tax

- Direct taxes afford a greater degree of progression. They are, therefore, more equitable.They entail less expense on collection and as such are economical.

- They satisfy canons of certainty, elasticity, productivity and simplicity.
- Another advantage of direct taxes is that they create civic consciousness in people. When a person has to bear burden of tax, he takes active interest in affairs of state.

Disadvantage of Direct Tax

- It is easy to evade a direct tax than an indirect tax. Taxpayer is seldom happy when he pays tax. It pinches him that his hard-earned money is being taken by government. So, he often submits false statements of his income and thus tries to evade tax. Direct tax is in fact a tax of honesty.
- Direct tax is very inconvenience because taxpayer has to prepare lengthy statements of his income and expenditure. He has to keep a record of his income up-to-date throughout the year. It is very laborious for taxpayer to prepare and keep these records.
- Direct tax is to be paid in lump sum every year while income which a person earns is received in small amounts. It often becomes difficult by taxpayers to pay large amounts in one installment (Gerald, 2004).

2.3.2.2 Indirect Tax

An indirect tax is form of tax imposed on one person but partly or wholly paid by another. It is collected by mediators who transferred the taxes to the government and also perform functions associated with filing tax returns. Hence, indirect tax can be shifted. Indirect tax, the impact and incidence of tax are on different persons. In other words, “the person paying and bearing the tax is different.” Indirect taxes are those which are demanded from one person in the expectation and intention that he shall indemnify himself at the expense of another. It is convenient as the taxpayer does not have to pay a lump sum amount for tax. There is a less chance of tax evasion as the taxpayer pays the tax collected from consumers. But it is uncertain with the fluctuation in demand, the tax amount can also fluctuate. It is regretful as the tax burden to the rich and poor is same. VAT, Excise duty, import duty, Export Duty etc. are some of the examples of indirect tax (Goode, 1986):

Advantage of Indirect Tax

- It is not possible to evade indirect tax. The only way to avoid this tax is not to buy taxedcommodities.

- They are more convenient because they are wrapped in prices. Consumer often does notknow that he is paying tax.
- Another advantage of tax is that every member of society contributes something towards revenue of state.
- Indirect tax is also elastic to a certain extent. State can increase its revenue within limitsby increasing rates of taxes.
- If state wishes to discourage consumption of intoxicants and harmful drugs, it can raise their prices by taxing them. This is a great social advantage which a community can achieve from tax.

Disadvantage of Indirect Tax

- A very serious objection leveled against indirect taxation is that it is regressive incharacter. It is inequitable. Burden of tax falls more on poor people than on rich.
- Indirect tax is also uneconomical. State has to spend large amounts of money oncollection of taxes.
- Revenue from indirect tax is uncertain. State cannot correctly estimate as to how muchmoney will receive from this tax. As tax is wrapped up in prices; therefore, it does not create civic consciousness.
- If goods produced by manufacturers are taxed at higher rates, it hampers trade and industry and causes widespread unemployment in the country.

2.4 Introduction of VAT

VAT is a general consumption tax assessed on the value added to goods and services. VAT is imposed on business at all levels of transactions. It means it is imposed at every level of transaction such as manufacturer, wholesaler, and retailer at their selling price.

VAT is known as the most recent and effective innovation in the taxation field. It is levied on the value added of the goods and services. Theoretically, the tax is broad based as it covers the value added to each commodity by a firm during all stages of production and distribution. VAT is considered as one form of sales taxation. VAT is a multiple stage tax which has grown as a hybrid of turnover tax and retail level sales tax. VAT, however, differs from turnover tax as the turn over tax is imposed on the total value at each while VAT is imposed only on value added at that stage. VAT varies from sales tax in the sense that VAT is imposed at each stage of production and distribution whereas retail sales tax is imposed only at one stage, the final stage. VAT helps to minimize many problems related with tax evasion. Therefore, VAT is more productive and less destructive than retail sales tax (Upreti, 2004).

The term ‘Value Added Tax (VAT)’ can be defined as a tax levied (on the value created) at each stage in the process of production and distribution of a good or service. These stages can be import, manufacturing, dealers, wholesalers and retailers etc. For example, a large paddy collector from the local farmers pays a percentage on the paddy it sells to a miller. The miller then pays the same percentage (less what the paddy collector paid) on the rice (processed paddy) which it then sells to a hotel. The hotel likewise pays the same percentage (less what the paddy collector and miller paid) on thefood it serves to its guest. Proponents of a VAT claim it is transparent as each person or company along the supply chain has an incentive to ensure that every other person or company pays the VAT, and thus reducing the likelihood of tax evasion and avoidance. They also argue that it is more straightforward than other taxes (which it replaces) because there are virtually no exemptions or loopholes. It is based on value added principle (Koirala, 2010).

The tax levied on the value added by the registered taxpayers to their purchase and import is called value added tax (VAT). The basis for VAT is the value addition that takes place at each level in the production and distribution process of goods and services (Khadka, 2001). There are three variants of VAT, namely production-type VAT, income-type VAT, and consumption-type VAT.

a. Production-type VAT is simply calculated on the sum of all expenditure on Gross Domestic Product (GDP) net of government wage expenditure (Zee, 1995).

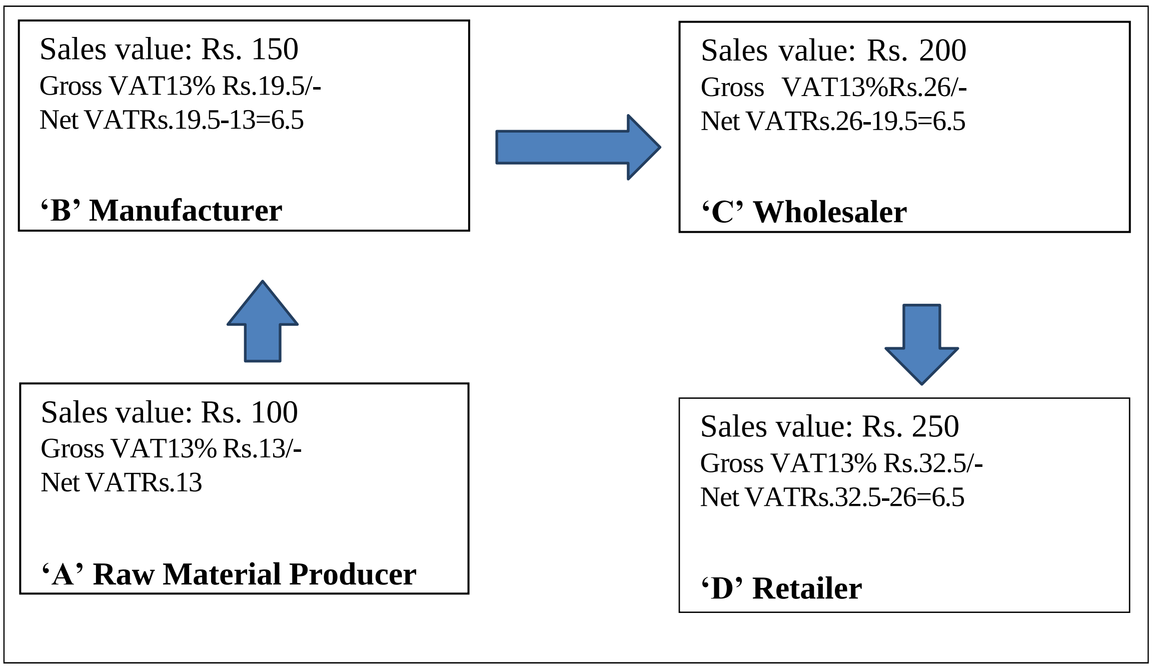
   Under this variant, capital goods purchased by a firm from other firm are not deductiblefor the tax base in the year of purchase (Khadka, 1989).

b. Income-type VAT relates with the sum of factor of income payments. Under this system, capital goods used for methods of production are not fully deductible but only aportion relevant to a particular period is allowed to deduct and the remaining portion is carried over for the next period (Silwal, 2000).

It is normally implemented under two principles, viz, the origin and destination principles. Under the origin principle, goods and services are taxed at the place where they are produced or rendered whereas destination principle signifies those goods and services are taxed at the place where they are consumed irrespective of its place of production. Imports are exempted and exports are taxed under origin principle while imports are taxed and exports are exempted under destination principle. There are three methods of calculation, viz, addition method, subtraction method, and credit invoice method. Under the addition method, VAT is calculated on the value derived by adding all costs incurred to the factors of production like material, wages, overheads, profits etc. while VAT is calculated by deducting raw materials from the sales under the subtraction method. Under the credit invoice method, tax paid on the purchase of inputs is allowed to deduct from the tax collected from the sale of goods and services. Moreover, some other important aspects of VAT design issues must be addressed. This comprises the numbers of tax rates, the scope of exemptions and zero-rating goods and services, level of exemption threshold, and administrative apparatus (Koirala, 2010)

VAT is a multi-stage tax, levied only on value added at each stage in the chain of production of goods and services with the provision of a set-off for the tax paid at earlier stages in the chain. The objective is to avoid 'cascading', which can have a snowballing effect on prices. It is assumed that due to cross-checking in a multi staged tax; tax evasion will be checked, resulting in higher revenues to the government (Hassan, 2005).

Figure 2.1 Multistage VAT



(Source: Hassan, 2005)

The value added to a product by or with a business is the sale price charged to its customer, minus the cost of materials and other taxable inputs. A VAT is like a sales taxin that ultimately only the end consumer is taxed. It differs from the sales tax in that, with the latter, the tax is collected and remitted to the government only once, at the point of purchase by the end consumer. With the VAT, collections, remittances to the government, and credits for taxes already paid occur each time a business in the supply chain purchases products. Value added tax (VAT) in theory avoids the cascade effect of sales tax by taxing only the value added at each stage of production. For this reason, throughout the world, VAT has been gaining favor over traditional sales taxes. In principle, VAT applies to all provisions of goods and services. VAT is assessed and collected on the value of goods or services that have been provided every time there is a transaction (sale/purchase). The seller charges VAT to the buyer, and the seller pays this VAT to the government. If, however, the purchaser is not an end user, but the goods or services purchased are costs to its business, the tax it has paid for such purchases can be deducted from the tax it charges to its customers. The government only receives the difference; in other words, it is paid tax on the gross margin of each transaction, by each participant in the sales chain i.e., from seller to final consumer (Koirala, 2010).

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

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

Therefore, VAT is paid to the revenue authorities by the seller of the goods, who is the “taxable person”, but it is actually paid by the buyer to the seller as part of the price. It is thus an indirect (Hassan, 2005).

VAT, like other sales taxes is classified as an indirect tax because it is a consumption tax and borne ultimately by the final consumer. It is not a charge on business firms.

VAT is charged as a percentage of prices, which means that the actual tax burden is visible at each stage in the production and distribution chain. It is collected fractionally, via a system of deductions whereby taxable persons can deduct their VAT liability the amount of tax they have paid to other taxable persons on purchases for their business activities. This mechanism ensures that the tax is neutral regardless of how many transactions are involved.

VAT is unanimously acknowledges being a major reform in the direct taxation system for the following reasons:

- It eliminates the cascading effect of taxes.
- It promotes competitiveness of exports.
- It has a simple and transparent structure and it improves compliance.

In Nepal the VAT replaced the import/manufacturing level sales tax as well as the hotel, contract and entertainment taxes. This section highlights the rationale for the VAT in Nepal. Points out tax policy considerations that were important in the design of Nepalese VAT system and describe the VAT preparatory and implementation processes.

At present, the share of the total economy in Nepal that flows through market channels where indirect taxes can be administratively levied is relatively small. The potential tax base for all indirect tax systems is at best less than 25% of gross national expenditure (GNE). The potential tax base becomes even smaller when domestic trade taxes are collected at an early stage in the production and distribution process. Furthermore, the large number of exemptions granted on sociopolitical grounds and a weak tax administration only aggravate the problem.

Advantages of VAT

The advantages of VAT are as follows (Silwal, 1999):

- VAT acts as check on tax evasion. Unless proper records are maintained availing credit is not possible under VAT. Hence VAT promotes maintenance of records thereby checking tax evasions.
- VAT does not interfere in the decision of making purchases as the entire tax paid on purchases is allowed to set off. Thus, VAT allows free play of market

forces and competition.

- VAT is a transaction-based tax. It does not give room for interpretation thereby VAT tends to avoid confusion in the minds of the taxpayer.
- It is a transparent tax. The buyer, the seller and also the Government is aware of the tax from the documentary evidence. Thus, VAT helps the state government in taking decisions with regard to rate of tax.
- VAT ensures better revenue collections and stability the revenue leakage to the government is minimum, as tax credit will be given only on the basis of proof of tax paid at the earlier state.
- VAT promotes better accounting systems, 0as only proper accounting will ensureproper credit.
- VAT does not have any impact on the retail price of the commodity the tax credit takescare of the cascading effect of prices due to tax.

Disadvantages of VAT

The disadvantages of VAT are as follows (Silwal, 1999):

- VAT can be successful only when there is on rate applicable to all commodities and there is no exemption. If concessions are given the fundamental principle of VAT that itwill eliminate cascading effect on price cannot be guaranteed.
- VAT is transaction based it requires record keeping which increases the accounting cost. Small traders and firms may find it difficult to meet this cost.
- VAT is charged on each value addition due to which there is a share of increase in working capital requirement.

2.5 Types of VAT

The types of VAT are determined on the basis of treatment of capital goods of a firm. Input tax paid for capital goods is allowed or not is the fundamental question in the study of types of VAT. There are three different types of VAT. They are: Gross product variant, Income variant and Consumption variant (Adhikari, 2007):

Gross Product Variant

Under the gross product variant taxes paid on purchases of raw material and components alone are allowed as deduction. Taxes paid on capital goods are not allowed as deduction. This method is not in use, as it does not allow tax deduction of capital goods like plant and machinery on which the tax is large due to the price of the capital goods this method is discouraged, as it does not take into account all the taxes paid by the buyer.

Income Variant

The income variant of VAT allows for deduction on purchases of raw materials and components as well as depreciation on capital goods. This method is also discouraged, as there is no one method by which depreciation can be calculated as depreciation always depends upon the life of the asset.

Consumption Variant

The consumption variant of VAT is the most popular method and is followed widely in many countries. This variant of VAT allows for deduction of taxes paid on all business purchases including capital assets.

2.6 Methods of Computing VAT

VAT is a tax on value addition. To calculate the tax component there are several methods used. However, there are three methods, which are most commonly used. They are: Addition method, Invoice method and Subtraction method (Adhikari, 2007):

Addition Method

This method of computing VAT is used under the income variant. Under this method all the payments including profit is aggregated to arrive at the total value addition and on this value addition the rate of tax is applied to calculate VAT. This is not a popular method, as this method does not facilitate the matching of invoices for detecting the tax evasion.

Invoice Method

This is the most popular and commonly used method. In India this method is being followed both in central excise as well as state VAT. Under this method tax is charged on the sale value, which reflected on the invoice issued to the buyer. The tax charged by the seller which is reflected on the purchase invoice is taken into account for set off thusthe net tax payable will be tax on sales minus tax on purchases. Any excess tax paid on purchases is allowed to be carried forward for set off against future tax liabilities. This method is also called as tax credit method or voucher method. Under the central excise act this method is known as convert credit. Even though tax evasion cannot be ruled out completely yet this method ensures that it is kept under check as only on raising an invoice for sale the tax paid on purchases can be set off.

Subtraction Method

Under this method tax is charged on the value-added portion alone at each state of sale of goods. This method does not recognize set off or tax credit as the total value of goods sold is not taken into account. Under this method tax is not separately charged. For imposing tax, the value added is the difference between the total sales and total purchases.

Under the direct subtraction method, the total value of purchases exclusive of tax is deducted from the total value of sales exclusive of tax. The balance is the value added which is to be taxed.

Under the intermediate subtraction method, the purchase value is taken as inclusive of tax and other parameters are as per the direct subtraction method.

2.7 Features of VAT

The main characteristics of VAT are stated as follows (Kandel, 2009):

- VAT is a form of indirect taxation.
- VAT is a broad-based tax as it covers the value added to each commodity by a firm during all stages of production and distribution.
- VAT is based on value added principle. Value added can be obtained either by adding payments to factors of production (i.e., wages + rent + interest + profit) or deducting cost ofinputs from sales revenue.
- VAT is a substitute for sales tax, hotel tax, Contract tax and entertainment tax.

- VAT is based on self-assessment system and provides the facility of tax credit and tax refund.
- VAT avoids cascading effect existed in sales tax and contains catch-up effect.

In a nutshell, VAT is an indirect tax that is imposed on different goods and services on the basis of value-added amount in different stages of production and distribution. It is not a genuinely new form of taxation but merely a sales tax administered in different form. Although it is borne by the final consumer, VAT is collected at each stage of production and distribution chain (Kandel, 2009)

2.8 Principles of VAT

Commodity tax is levied on two principles:

- Principle of origin
- Principle of destination

Origin Principle:

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

Destination Principle:

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

In a federal set-up like India, destination principle is preferred for taxation of products consumed within the various States of the country. In the EEC countries, origin principle was once considered for eliminating border controls and problems of valuation, but was subsequently given up as being impractical and destination principle is now followed (VAT Act, 2052).

2.9 VAT System in Nepal

In Nepal, after the restoration of the multi-party democratic system, measures for economic reforms were introduced. Tax reform was a part of this economic reform and value added tax emerged as the main feature of the tax reform program. To bring about sustainability in internal resource mobilization, Nepal Government adopted the policy to integrate the prevailing commodity taxes under VAT within the period of the Eighth five-year development plan (1992/93- 1996/97). In the budget speech of the fiscal year 1993/94 and the speeches thereafter, the intention to introduce VAT was declared. Preparations for the introduction of VAT were commenced in September 1993. For this purpose, a steering committee and a task force were formed. The financial assistance forthe preparatory work to introduce (Pokharel , 2015).

VAT was provided by the United States Agency for international Development (USAID) and the technical assistance by the Harvard Institute for International Development (HIID) of the Harvard University, USA. The members of the VAT task force and the consultants from Harvard University carried out the preparatory works; Preparation of a VAT law, launched taxpayer education programs, created an appropriate organizational structure and personnel system, organized training, initiated computerization process etc. However, the announcement in 1994 to hold mid-term elections brought about slackness in the preparation activities for VAT. The new minority government formed after the mid - term election appointed a Tax System

Review Task Force and declared that the decision regarding VAT would be taken based on the report of the task force. As a consequence, the earlier task force was then dissolved and the USAID activities were suspended. The tax system review task force recommended that VAT should be introduced. There was again a change in the government and a new coalition government was formed. The government decided to introduce VAT at the earliest date. As a consequence, the USAID/ HID technical assistance resumed and continued until the end of September 1997. Assistance for the implementation of the VAT was continued beyond September 1997 through financing provided by the Danish government. The VAT Bill was presented to the parliament on December 3,1995. It was referred to the finance committee of the parliament which held discussions over it on December 24, 25 and 26, 1995.The finance committee sent the Bill to the parliament on December 27, 1995 together with its report for amendments to a few provisions. The lower house of parliament passed the VAT Billon December 30, 1995 and the Upper house of parliament on January 04, 1996. The seal on the VAT Act was affixed on March 20, 1996. The VAT Regulations were initially drafted in July 1996. Like the VAT Act, the regulations were discussed at different stages and finally approved by the cabinet on January 27, 1997 (Pokharel ,2015).

Through the budget speech of the fiscal year 1996/97, Government of Nepal declared that all taxpayers should register within 90 days from April 16, 1997 and that VAT collection would commence from the beginning of the fiscal year 1997/98 (July 16, 1997). But after the change in Government in April 1997, the new government decided to postpone the date for implementation and published a gazette notification declaring that VAT would commence on November 16, 1997. As per the notification sales tax registrants having an annual turnover above the threshold level were to convert into VAT registrants by November 16, 1997. Other persons, who were not registered under the sales tax were required to be registered within 90 days from November 16, 1997 (VAT Act, 2052).

2.10 Basic Features of Nepalese VAT System

The type of VAT adopted by Nepal in conventional similar to that implemented over 136 countries around the world, it has injected some special features in to VAT system to make it uniquely Nepalese. The following are the main features of the Nepalese VAT system (Kandel, 2009).

- The adoption of consumption type of VAT because VAT is finally borne by the consumer.

- The consumption of VAT through tax credit method.
- The principle of destination.
- The level of threshold is Rupees Rs. 5 million during the period of consecutive 12 months in case of transactions of goods, and Rs. 1million in case of transactions in service or mixed transaction of service and goods.
- The facility of tax refund.
- The application of VAT to all business turns over through the retail stages.
- The rate of VAT is single and positive @ 13%.
- The provision of exemption and zero rate for the goods and services.
- The allowance of tax credit for taxable supplies including the zero-rate supply.
- Small entrepreneurs are exempted to register in VAT office.
- Self-assessment system.

2.11 Major Legal Aspects of VAT in Nepal

According to VAT Act, 2052, Government of Nepal has formed many procedures of VAT registration, Examination application, Issuance of certificate of registration, Provision related to contract, Determination of amount of transaction and Transfer of transaction, Invoice Accounting, Tax return, Assessment of Tax and Cancellation etc. (VAT Act, 2052):

Requirement for VAT Registration

VAT is subject matter of law, for this registrant is most. VAT Shall be collected by a person who is registered for VAT purpose. Sec 10 of VAT Act has prescribed conditions for compulsory registration for VAT purpose. The requirement of VAT registration is in case of both of the following conditions are satisfied:

- The person deals in transactions that are taxable except for exempted items listed in schedule 1 of the VAT Act, and

- The turnover for the transaction exceeds the threshold of Rs.5 million during the period of consecutive 12 months in case of transactions of goods, and Rs.2 million in case of transactions in service or mixed transaction of service and goods.

- If the person obtains business loan exceeding Rs. 10 Lakhs
- Small venders those who do have less than 5 million annual turnovers may also registered their business voluntarily.

Cancellation of Registration

A VAT registration may be cancelled in following cases:

- Closure, sale of the business or cessation of the business.
- Death of individual owner; in case of death of partner or dissolution of partnership of the partnership firm.
- Registered person ceases to engage in taxable transactions.
- Of the registered person submits zero return for continuous one year or has not submitted tax return.
- Registration by error.
- Tax officer may cancel registration in any of the above case.

Tax credit system is the main feature of VAT. VAT is a tax based on value addition and since this concept is translated into practice through medium of tax credit taxpayer should be entitled to deduct entire tax paid in connection with the transaction. Under VAT registered taxpayer has to collect tax on sales at the rate specified and deduct the VAT paid on purchase and import from the tax collected on sales and submit only the remaining amount to the government. This process of deducting the tax paid on purchases from the tax collected from sales is known as tax credit.

Full tax credit is awarded in case of input VAT paid on purchase which is directly related to VAT attractive output.

Proportion tax credit is awarded on proportion of sales in case of input VAT paid on purchase which cannot be specifically assigned to either of VAT attractive or VAT exempted output.

No tax credit is awarded in case of input paid on purchase which is directly related to VAT exempted output.

2.11.1 Invoicing

VAT is an invoice-driven system. Under this system, each registrant is required to issue a tax invoice or an abbreviated invoice (VAT Act, 2052):

Tax Invoice

A VAT registrant is required to issue a tax invoice in the prescribed form whenever a transaction takes place. The format is prescribed in the VAT regulations, which requires thefollowing information a sequential identifying number.

- The date of the transaction.
- The date of issue of the invoice, if different from the date of the transaction. The name, address and TPIN of the vendor.
- The name, address and, where applicable, TPIN of the buyer.The type of transaction (e.g., sale, hire, rental or exchange).
- A description to identify the goods or services supplied. The quantity of the goods or theextent of the service for each description.
- The rate of VAT and the amount payable, excluding VAT, for each description of goods orservices.
- The value of any goods or services provided in part exchange. The total amount payable, excluding VAT.
- The rate and amount of any discount offered. The total tax charged.
- The total amount charged, inclusive of VAT.

A minimum of three copies of each invoice must be prepared. The first copy must be given to the buyer and the vendor must retain the remaining two copies. These must be made available at all reasonable times for inspection by a tax officer. The invoices must be issued in sequential numerical order. However, the invoices can be prepared with different serial numbers for branches or different sections (such as restaurants, bars, laundry, etc., in thecase of hotels) with prior approval of the VAT office.

Abbreviated Invoice

VAT registrants may make application to use an abbreviated invoice and the concerned tax officer may allow its use subject to the following conditions:

- The recipient of goods or services for which an abbreviated invoice is issued shall not be entitled to input tax credit on that purchase.
- The abbreviated invoice shall not be used for transactions exceeding Rs.10,000 , includingVAT.
- The registered person must keep a daily record of sales.

- Any till rolls or cash rolls used by the retailer must be totaled daily and retained for inspection at any reasonable time.

The following information must be recorded on the abbreviated in voice:

- An identifying number issued in sequential order.
- The name, address and registration number of the vendor. The date of the transaction.
- A description to identify the goods or services supplied. The total amount of money paid,including VAT.

In the case of sales under the abbreviated invoice, VAT is calculated by multiplying the sales by the VAT quotient. The VAT quotient is found by dividing the rate of VAT by 100plus the rate of VAT.

2.11.2 Accounting

VAT registrants are required to maintain purchase and sales books and list all sales and purchase in these books. They are also required to prepare a VAT account (VAT Act, 2052):

Purchase Book

VAT registrants are required to maintain an account of their business purchases for VAT purpose. They have to record of purchases by invoice. At the end of each accounting periodVAT registrant must total the amount of taxable purchase/ imports, tax exempt purchase/imports and the tax paid on purchases/imports. Sample of the purchase book is onannexure 8 of Value-Added Rules, 2053.

Sales Book

Similarly, VAT registrants are required to maintain account of their sales for VAT purpose. Like purchases, sales also are to be recorded per invoice basis. At the end of each accounting period VAT registrants are required to total the amount of taxable (standard-rated and zero-rated) and tax-exempt sales they have made in the period and the tax collected on sales. If they make both taxable and exempt purchases and sales, they are then required to calculate the proportion of input tax they are entitled to the tax period.

VAT Account

VAT registrants are also required to maintain the VAT account. It is a monthly summary of taxable purchase and sales and VAT paid on purchases and charged on sales.

Others

VAT registrants can maintain their business accounts on computer with prior approval of VAT administration. VAT registrants must make their accounts available at all reasonable times for inspection by the VAT officer. In most instances, they will be produced at the VAT registrants' premises, but their production can be demanded at any place. The VATofficer may take possession of accounts at any reasonable time and they may be removed,copied or taken possession of, as necessary.

All documents and accounts relating to the business must be retained for a period of six years.

2.11.3 Tax Return

It shall be the responsibility of every registered person to assess and collect tax for every taxable transaction. It is self-assessment-based tax wherein taxpayer can be considered as agent or representative of government. 'Tax Return' is a statement prepared by a registered person for each tax period in the prescribed format. It contains (VAT Act, 2052):

- Taxable and tax-free salesTaxable and tax free salesTax collected on sales Tax collected on purchase
- Adjustment in tax for previous periodExcess/ Short payment of Tax
- Every registered person shall submit VAT Return within 25days of end of each taxperiod (VAT Act, 2052)

2.11.4 Payment of VAT

Every registered person shall have to collect tax on supply of goods and services except mentioned in schedule 1 and 2. Tax is charged on taxable value at the rate mentioned in the act (currently 13%). The amount of VAT payable is calculated by deducting the VAT credit from the VAT collected on sales affected during the same period.

VAT payable on Tax Period= VAT collected on sales during the VAT period – Eligible input tax credit for same period.

The amount of VAT payable shall shave to be deposited to the government revenue account. Every registered person shall deposit the payable VAT amount within 25days of end of each tax period with regards to VAT payable for such tax period.

2.11.5 The Obligations of the VAT Registrant

The obligations of the VAT registrant are as follows (VAT Act, 2052):

- Play the role as the government agent for the purpose of the VAT collection.
- Submit VAT return and pay the collected VAT amount within the 25th day of the following month.
- Provide tax invoice to their customer.
- Maintain purchase and Sales Book separately for the VAT purpose. Keep record for a period of 6 years.
- Inform the Inland Revenue Office of changes to the business including new address, telephone number or a reorganization of a partnership within 15 days.
- Put their Certificate of Registration in the premises where customers may easily see andread it.
- Allow tax officers to enter the business to examine the business records and the stock on hand. Most business will require only minor modifications to their record keeping. In order to complete his VAT return, a taxpayer will need to ensure that his books and records provide:
    - The amount of VAT paid on purchases. The amount of VAT collected on sales.
    - A method of distinguishing between taxable and exempt sales. The time property the goods and of services were supplied and
    - Evidences that goods were exported, if any, A taxpayer must keep the records of purchase book,a sales book and a VAT account. The purchase and sales book should include the following things:
        - The invoice numbers.
        - The invoice dates.

- The supplier's name and PAN number in the purchase book. The customer's name and PAN number in the sales book.
- The taxable value, and
- The amount of VAT

2.11.6 Fines and Penalties

Following acts are considered offence and fine and penalty will be imposed (VAT Act, 2052):

- Doing taxable transactions without registration.
- Not placing registration certificate within the business premises publicly.Not using the certificate of registration as per instructed guidelines.
- Not giving information regarding transfer of location or area of business to the authoritywithin 15 days from such transfer.
- Not issuing tax invoice and transporting goods without accompanying tax invoice.Collecting tax (VAT) by a person who is not registered.
- Taxpayer does not maintain VAT accounts as prescribed.Not filing of tax statement as per the prescribed period.
- Any kind of cheating forgery or fraudulent transaction with view of avoiding tax.Creating obstacle to the tax officer during the inspection of business transaction.
- Person conducting above acts shall be imposed fines and penalties according to degreeof offence.

2.11.7 Assessment of Tax

VAT is based on self-assessment system. First and foremost, responsibility of tax assessment lies on tax payer. If any person by mistake or knowingly submits tax returns by understating the tax liability, then the tax officer may amend the tax liability (VAT Act, 2052):

Self-Assessment

Every registered tax payer has to submit tax return for a tax period by assessing tax liability by himself. Registered person shall submit VAT Return within 25days of end of each tax period. They may be filed in documentary form or through electronic means often called as e-return. When such return is field to tax office, the self-assessment is deemed to be conducted.

Assessment by Tax Officer

If a taxpayer submits false, incomplete or incorrect tax return or does not submit tax return at all or showed less tax liability or showed incorrect tax liability or transects without getting registered, the Act has given power to the tax officer for making tax assessment. Act has mentioned various conditions on which tax officer may make tax assessment.

Administrative Review

If the taxpayer is not satisfied with the decision of tax assessment made by the tax officer, he has remedy to go for administrative review. Administrative review is a procedure wherein assessment made by tax officer or department is investigated, and it is insured that the assessment is done as per legal provisions.

A tax payer who is not satisfied with the Tax Assessment made by Tax Officer may submit an application to the director of IRD (Inland Revenue Department) for review within 30 days from the time of receiving such decision. IRD bound to furnish their verdict within 60 days from the filing of application and IRD fails to do then taxpayer may submit their appeal to the Revenue Tribunal.

Conclusion

VAT is based on the principle of self-assessment system. VAT applies to supplies of goods and services for consideration other than exempt goods by taxable persons. VAT is collected by taxable person. A taxable person is entitled to deduct the input tax (tax credit) from the tax collected by the sales. Similarly, if the input tax exceeds the tax collected, the taxpayer may adjust in any tax payable. After adjusting it, if any tax amount remains, taxpayer is entitled to deduct from tax payable in next month. VAT

Act has made provision regarding tax refund also. Conditions and procedures of tax refund are also stipulated in the VAT Act.

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

For VAT purposes, a taxable person is any individual, partnership, company or whatever which supplies taxable goods and services in the course of business. However,if the annual turnover of this person is less than a certain limit (the threshold), which differs according to the member state, the person does not have to charge VAT on their sales.

At present, the issues have been raised on effective implementation of VAT system in Nepal. VAT regime is extremely challenging in a burgeoning economy like Nepal. Resistance from the business community, ignorance of general people, lack of full support and commitments from the politicians and government officials forced the authority responsible for implementing VAT to make compromises on various aspects of VAT which has weakened the process of its implementation right from the beginning. The attitude of businessmen and tax administration also appear hostile to the effective implementation of VAT in Nepal. The culture of doing business without maintaining proper books of accounts or maintaining multiple sets of books of accounts have made implementation of VAT difficult.

Hence, VAT has some difficulties in the administrative aspect. It is the most advance and scientific system of tax. Transparency is the most feature of VAT that will help to control the tax evasion. For the successful implementation of VAT system, it needs welltrained personnel, proper account keeping, proper billing system etc. and of course, the registration is also an important factor.

2.11.8 Exempt Goods and Services

Goods and Service exempt from VAT are kept under Schedule-1 of VAT Act 2052 which are as follows (VAT Act, 2052):

Group 1: Basic Agricultural Products

- Rice, wheat, maize, barley, millet, buckwheat, lentils, flour, semolina, grits, grams, beans, and similar basic, unprocessed agricultural food products and their residues.
- Green and fresh vegetables, fruits, fresh eggs, and similar unprocessed agricultural products (apart from those consumed by hotels, restaurants, bars, guest houses, cafeteria, and other similar enterprises).
- Unprocessed cash crops (e.g., sugarcane, cotton, cardamom, ginger, dried ginger, jute, unprocessed tobacco sold by farmers, tea leaves, orthodox tea produced by using organic fertilizers, coffee seeds, oil-extractable food items such as soybeans, peanuts, mustard seeds, sunflower seeds, sesame seeds and their residue.
- Herbs (including their extracts)

Group 2: Goods of Basic Necessity

- Piped water including water supplied by tanks.
- Fuel wood and charcoal
- Kerosene (apart from aviation fuel)
- Salt

Group 3: Livestock and their Products

- Goats, lambs, sheep, yaks, buffaloes, boars, pigs, rabbits and other similar livestock; their fresh milk (including pasteurized milk), yogurt, and other unprocessed, raw varieties.
- Cows, buffaloes, lambs, and their fresh milk (including pasteurized milk) and yogurt.
- Ducks, cocks and hens, turkeys, partridges and similar fowl and their fresh meat, other unprocessed varieties, and eggs
- Fresh or dried meat (unpacked)

Group 4: Agriculture Related Products and Equipment

The seeds of crops and plants listed in Group 1

- Fertilizers, chemical fertilizers, and products used for treating the soil

- General equipment used for agricultural work
- Hand equipment used for digging or cleaning the soil and for cutting wood, twigs, etc.(apart from hand saws)
- Small hand equipment used for separating the grains and cleaning the husk (dehuskers)Hand equipment used for cutting animal fodder and the plough.
- Chemical pesticides used exclusively or primarily in crops.The following items used in agricultural work
- Tractor Cultivator Leveler
- Equipment used for cutting animal fodder
- Thresher
- Fishing net
- Readymade cages to keep fish
- Fish incubator
- Pumping pipe of up to 8 horsepower and its hose pipe of up to 30 meters
- The utensil in which hens are given drinking water, the box in which chick lets are kept.Specified ingredients used in animal feed and feed supplement

Group 5: Medicines, Medical Treatment and other Health Services

- Medical or surgical services (other than by registered with VAT) Human blood and products derived from human blood
- Human or animal organs or tissue for medical research
- The supply of services by persons of veterinary surgeons and veterinary doctor.
- Pacemakers used for treatment of heart disease, sent, valve of heart and other relatedequipment.
- X-ray film and oxygen gas to be used for treatment
- Raw materials purchased or imported by the drug industries to the extent approved bythe department of drug management.

Group 6: Education

- Research work carried out in schools and universities
- Commercial or professional training courses and refresher training courses organized without profit motive
- Educational services provided by schools and universities

Group 7: Books, Newspapers, Printed Material, and Printing and Publishing

- Books, newspapers, magazines, and periodic publications
- Newsprint paper

Group 8: Culture, Arts and Craftsmanship Related Services

- Fine arts, sculpture, architecture and similar handicrafts and related services
- Cultural programmers.
- Entry fees to libraries, museums, art museums, zoos

Group 9: Passenger Transport and Goods Transportation Services

- Air travel, non-tourist transport (apart from cable cars), and goods transportation services (apart from transportation of goods related to supply)

Group 10: Commercial or Professional Services

- Institutional or personal services provided by artists, sportspersons, writers, designers,translators, and interpreters.

Group 11: Miscellaneous Goods and Services

- Postal service (only those operated by the Government), Services related to transportation or handing over of letters, money and parcels Various services related to services required for transportation or handing over of letters, money and parcels, Postalstamp
- Financial and insurance services,Bank notes and cheque books
- The printing and releasing of Nepalese notes
- The supply of bank notes into Nepal from outside NepalCheque book
- Gold and silver
- Gold, gold coins, and gold ornaments
- Silver and silver coins (apart from readymade silver goods and ornaments) Electricity
- Raw Wool
- Battery-operated three-wheeler and its chassis and battery
- All machinery and equipment used for the production of biogas, solar, and wind energyon the recommendation of the Alternative Energy Centre.

- Aero planes, helicopters, fire brigades, and ambulancesProducts made of jute only those industrial machineries on which a maximum of 5 % customs duty is levied,as per Part 84 of the Customs Tariff.
- Woolen carpets and their cutting, dying, washing and knitting.
- Aluminum, copper, and bronze scrapes, blocks, sheets, and readymade utensils.
- Cotton saris, lungi (wrap around), dhoti (for male and female), petani, and gamcha (small cotton towels)
- Cotton thread
- Woolen thread (apart from artificial and acrylic) used to knit handmade sweaters in thecountry
- Goods received as donation in any natural calamities or for philanthropic purposes withpermission from the Ministry of Finance of Government of Nepal

Group 12: Building and land

- Purchase, sales and renting of houses and land (apart from services provided by commercial enterprises such as hotels, guest houses, etc.)

Group 13: Betting, Casinos, and Lotteries

- Activities related to providing services to enterprises engaged in betting and gamblingLotteries

2.11.9 Zero Rated

Goods and Service subject to Zero-rated are kept under Schedule-2 of VAT Act 2052 which are as follows (VAT Act, 2052):

Export of Goods

- goods exported outside of Nepal; or,
- goods shipped for use as stores on a flight to an eventual destination outside the of Nepal; or,
- goods loaded for use as stores on aircraft to a destination outside of Nepal

Export of Services

- A supply of services by a person resident in Nepal to a person outside of Nepal and having no business establishment, agent, or legal representative acting on his behalf in Nepal

- Where goods are supplied by a registered person resident in Nepal to a person resident outside the of Nepal's

Imports of goods and services by accredited diplomats' duty privilege

- Import of goods or services on recommendation of Ministry of Foreign Affairs by following persons:

Accredited diplomat individual or diplomatic agency or

- Any individual working in diplomatic agency, which is entitled to duty exemption office.
- Projects exempted under any treaty or agreement effective on the date of enactment of VAT Act
- Any purchases of goods from a registered dealer in Nepal by any person to whom exemption of sales tax was provided as per the agreement with a project till the agreement is in force, on recommendation of the related project, the person shall avail the zero VAT facility.

Supply to Industries in Special Economic Zone

- Sales of raw materials and finished goods to any industry established at special economic zone set up as per prevailing law.

Solar Energy

- Production and Supply of Battery Related to production of Solar Energy
- Sales of battery required for plants and equipment for use in production of solar energy duly approved by Alternative Energy Promotion Centre by a domestic producer directlyto the solar power producing unit.

Supply to Hydroelectric Project

- Sales of plants, equipment's and parts thereof, machineries, penstock pipe or iron leaf used to manufacture penstock pipe required for hydro power project produced by a domestic producer and directly supplied by the producer itself to the project upon approval of Alternative Energy Promotion Centre or Department of Electricity, as the case may be.

Refund of VAT Paid on Raw Materials

- The VAT paid on raw materials used to carve statue, idol, paintings, or similar handicrafts items by small and cottage industries; the products of which are exported through approved export houses is refundable.

Refund of VAT in case of purchase of scooter to be used by incapacitated persons

- In case of import of scooter by a disabled individual or purchase of scooter from local supplier, the VAT paid by the owner shall be refunded by Transportation management office in case of import and by IRD in case of local purchase when the scooter is registered in the name of such person on recommendation of Ministry of Female, Children and Social Welfare or concerned District Administration Office.

2.12 Review of related studies

Various researches have been conducted in Nepal as well as in the foreign countries about the value added tax (VAT). But only few researches and studies are available focusing internal issues of VAT in Nepal. Here, some relevant books, dissertation, journals and some other reference materials were viewed on the topic. Essences of someuseful and relevant ones are presented below in brief.

2.12.1 Review of books

Khadka (2015), in his book "*VAT and its Relevancy to Nepal"* explains about the general introduction of VAT on the eve of the introduction of VAT in Nepal. He has compared the VAT with sales tax in the use before the introduction of VAT. Nepal has the experience of implementing import/ manufacturing level sales tax; wholesale level sales tax and retail level sales tax. The Manufacturer's Sales Tax (MST) had narrow base and suffered from the cascading effects. It also discriminates against the domestic indirect tax system and presents views of various committees and individual on VAT in India

Adhikari (2016), in his book "*Value Added Tax In Nepal: Theory and Practice"* deals with the theoretical concept of VAT which includes historical background, objectives merits and demerits of Vat, Introduction of VAT system in Nepal, different terminologies associated with VAT, Tax Administration System and legal provision made for the VAT implementation in Nepal and Value Added Tax rule 1997 and Value Added Tax Act 1996.

Adhikari (2017) published a book named "*Mordern Taxation in Nepal: Theory and Practice"*. This book has been divided into five parts. In his first part, he described the theoretical aspect of tax. In second part, he described the Income Tax Act 2058. In third part, he described about Value Added Tax (VAT). In fourth part, he described property tax house and compound tax in Nepal. At last in fifth part he described wind fall tax and other provision.

Bhattarai & Koirala (2018) in their book named "*Tax Laws and Tax Planning*" describes the income tax system in depth. This book includes the separate chapter of Value Added Tax. It describes VAT practice in Nepal with several theoretical as well as with examples. This book specifically designed for the study of MBS 2nd year under Tribhuwan University. However, the book has not mentioned about the legal provisions.

Pandey (2018) has published a study material entitled *"Income Tax & VAT-Theory".* This book has been prepared for the students of Chartered Accountancy Professional (CAP)-III course with an objective to develop expert knowledge and ability to apply direct and indirect tax provisions. The study material has been divided into two parts, PartI: Direct Tax- Nepalese Income Tax; & Part II: Indirect taxes. It has described the provisions under VAT Act, 2052 and VAT Rules, 2053 with appropriate numericalexamples.

Silwal (2017) wrote a book entitled *Value Added Tax: A Nepalese Experience.* He has explained the empirical finding of VAT after its implication and shown that practical experiences about the VAT system in Nepal. This book has been designed to know about the effectiveness of VAT system in Nepal. It covers positive and negative aspect of VAT and problems in implementation of VAT at initial and current period. In his own words tax base, rate, structure, exemption and the threshold issues were major factors affecting VAT design in Nepal. Further the author stresses on the proper implementation of VAT in Nepal.

2.12.2 Review of Journals and Articles

Koirala (**2011**) published an article on *Value Added Tax in Nepal: A Critical Assessment of its Performance.* He mentioned that VAT as the recent innovation in the field of taxation in Nepal. Despite all the constraints and obstructions from the business communities, VAT which was introduced in Nepal on 16 November, 1997 with the objectives of increasing revenue mobilization by broadening the tax base, and of instilling neutrality, efficiency, fairness, and transparency in tax administration. It was launched in place of the then four different taxes, namely, Sales Tax, Contract Tax, Entertainment Tax, and Hotel Tax. In Nepal, consumption-type VAT is being implemented in which tax base is dependent upon the following national account:

VAT base = GDP - Gw - I = Pc + Gc + (X - M).................................. (1)

Where,

GDP = Expenditure on gross domestic production 65 An Overview of Microfinance Service Practices in Nepal Gw = Government expenditure on wage and salaries

I = Gross investment expenditurePc = Final private consumption

Gc = Final government nonwage expenditure on goods and services

X-M =Trade balance [the values of exported (X) less imported (M) goods and services]

Sharma (2015) published an article on *An Experience of Executing Value Added Tax (VAT) in Nepal.* The study focused on the effectiveness of the VAT implementation of VAT collection policy in real field. Hence its main objective is to analyze the effectiveness of the VAT implementation. For efficient implementation VAT officials has to perform effectively. To assess the satisfaction level of the VAT registrants is also one of the objectives of this study. He also explained about the most challenging aspect of VAT i.e., to address no-billing and under billing malpractices of the vender head on. For this, custom administration should enforce the law to buy all the goods being declared on under-valuation and simultaneously the Inland Revenue administration should also purchase under-invoiced goods and should not spare anybody to bring them under the purview of law.

Pokharel (2018) published an article on *Current Status of VAT in Nepal.* The study focused on the major challenge in successful implementation of VAT. He mentioned that the successful implementation of VAT lies on the effectiveness of self-assessment tax system, organization of taxpayer education programs, function based organizational structure, employee training, continuous monitoring, and continuous enhancement in application of computerized system. The fact that to fully establish a broad-based tax such as VAT which is capable of influencing the entire tax system, requires intense efforts and a long time is not only true in the context of a developing country like ours but the experiences of developed nations have also evidenced the same. Therefore, maximum benefits from this tax can be reaped with the creation of atmosphere where it can be implemented in its true spirit.

Gnawali (2018) published article in Journal of Nepalese Business Studies under heading "*Tax Payer's Knowledge towards Value Added Tax in Nepal*", the main objectives of which is to find out the knowledge of businessman, consumer, tax experts & tax official regarding the implementation of VAT in Nepal, to know the rate of VAT to be levied on the goods & services that are imported in Nepal, exported from Nepal & supplied within the state of Nepal, provision related to issue of VAT invoice & views of respondents regarding whether VAT is the extra burden to the taxpayers & increase the price of goods& services.

This articles concludes that VAT broadens the tax base, eliminates tax cascading, creates and investment friendly tax system, have a simple and modern tax system that exempted export and basic goods from taxation and finally increases revenue. This is a matter of great pride that Nepal has entered into a major global tax system with the introduction of VAT.

Theoretically, the Nepalese VAT system has no weak provisions. It is one of the best models in the world. However, practically the system is not effective even today. Most of the problems concerning the operation of VAT in Nepal have been identified. The major problem or reason behind all the problems is lack of taxpayers' awareness regarding VAT. Empirically, VAT is found to be the best source for reducing economic inefficiencies of the nation and contributes greatly in revenue potential of the nation. These findings have been supported by the study done by Poterba (1997). Hence, the main point to be considered is that there is a positive relationship between the taxpayers' awareness and revenue collection of nation i.e. increasing a number of taxpayers would, of course contribute in increasing revenue potential of the nation. This puts forward the need for encouraging taxpayers for voluntary compliance and any reforms of tax administration should also aimed at motivating taxpayers on it. VAT must be successful and this largely depends upon the public awareness, honesty, faith and morality of tax officials and the business community. Shrestha (1999), has drawn this type of conclusion.There is need for willpower and action. Unnecessary hindrance to economic activities must be avoided. The government needs full cooperation from the tax administration, the taxpayers and businesspersons as well as consumers in its effort to generate more revenue. The government should focus the public awareness program through seminar, conference, talk program and mass publicity to increase the VAT revenue.

Dangal (2019), Published article related to "*Value Added Tax in Nepalese Context*" in NUTA Journal. The main objectives of this research is to examine historical development of VAT in Nepal, to assess administrative capacity and function of VAT system in Nepal & to assess contribution of VAT on Nepalese Gross Domestic Product.

This articles concludes that Value Added Tax (VAT) is that indirect tax which is imposed only on the value added at each stage of production and distribution of goods andservices. It is the imposing of tax on sales of goods and services minus the purchase of goods. VAT as its name implies, is a tax in the value added to a commodity or service(i.e. except export and government service). Its special characteristics being that it falls on the value added at each stage from the stage of production to retail stage. It means that the value added tax is imposed on the value that business firm adds to the goods and services that purchased from other firms. It also adds value by processing or handling these purchased goods with its own labour force or machinery, building or other firms. However, value added tax belongs to the family of sales tax. A general sales tax is a tax on sales transactions but it has been applied at only one stage of the business activities. Discussing the incidence of VAT in an open economy if demand is not inelastic, there remain the possibilities of exporting some of tax to non-resident factor owner.

Dahal (2020) published journal on *Role of Value Added Tax in Total Tax Revenue, An Empirical Study of Nepal*. Through the analysis of time series data of 18 years, He concluded that there would be higher potentiality in VAT revenue in Nepal. So the government must give higher attention in VAT for effective resource mobilization. After analyzing the coefficient of correlation between VAT and total revenue, total tax revenue and total indirect tax revenue, He concluded that VAT has contributed a significant percentage in total revenue, total tax revenue and indirect tax revenue because they have higher positive relationship. Similarly, there is more than 99 percent variation due to VAT in total revenue, total tax revenue and indirect tax revenue. And all these relationship are significant as r > 6PEr everywhere. Thus, VAT has significant contribution in government revenue of Nepal. Moreover, the contribution of VAT, in total revenue is not up to the satisfactory level. It could contribute just about 27.33 percent to the total revenue and 30.40 percent to the tax revenue of Nepal in the fiscal year (1991/92 to 2016/17).

From the overall discussion he concluded that the VAT is the effective system for the revenue collection of the country. However it has to necessary to improve some policy of VAT system and increase awareness for the taxpayers about VAT system. Government hasto establish the effective monetary system to correct the contribution of the VAT in totalrevenue and tax revenue in Nepal.

Chapagain (2021) published journal on "*Contribution of Value Added Tax in Gross Domestic Product of Nepal"* .Recently an increasing number of countries around the world have swapped their concern towards the adoptions and implementations of VAT and Nepal is not exceptions but one among such a large chorus. This study investigates the relationship between VAT to GDP in Nepal from 2001 to 2019 with the applications of the OLS method by using the annual quantitative time series secondary data. The result of the study shows that, after the implementations of VAT in Nepal, the national income that is measured in terms of GDP has largely improved. This is evidenced because of the growth rates of VAT itself was 17.42% on average and the average ratio of VAT revenue to that of GDP was 4.38%. And finally, the growth rate of GDP after the implementations of VAT becomes 11.62% on average during the periods under review. Furthermore, the regression finding of the study showed as the Nepal is significantly influenced by the VAT revenue. So, the study concluded that

VAT plays an energetic role for the GDP in Nepal and it enables to succeed the current growth and transformations plan (GTP) of the country. The empirical investigation in the study reveals that VAT has a positive relationship with GDP and is contributing to the economic growth of the nation. Finding the positive relation is important to any economy for some reasons. Therefore, the paper recommends that Nepal government should make a full-fledged effort to efficiently collect and effectively utilize such tax revenue through closing the door towards the issues of corruptions which can be possible through making the VAT administrations more fashionable than ever before. This will enhance compliance and reduce tax avoidance and evasion which common under the present VAT regime.

2.12.3 Review Previous Research Works

Thapa (2016) has submitted thesis on *“Value Added Tax (VAT): It's Implementation inNepal”*

Main Objectives of Study:

- To explore the current scenario of VAT in Nepal.
- To examine the problems in the implementation of VAT.
- To examine the effectiveness of VAT in Nepal.
- To know the collection and reporting procedure of VAT.
- To identify public view points towards VAT.
- To provide necessary suggestion and recommendations.

Major Findings of the Study:

- General public should be made more aware of VAT system.
- Most of the businessmen got their business registered on VAT due to the compulsory nature. This shows even to the present context people don't want tobe in VAT system willingly.
- According to the businessmen, most of them say major problem in VAT registration process is lack of sufficient assistance and guidance by
- It is found from the study that the main problem of VAT system is in its billing system though there is somehow a problem on refund process too.
- As per the Tax Administrators / Experts major weakness on Vat implementation is its unconscious tax payers.

Thapa states the problem in relation to the awareness to public about VAT system & the problem faced by the businessmen during the VAT related issues. The main problem of VAT implementation is the unconscious tax payers and research talks about the problem in billing system. But the research presented here describes about the lack of supervision and lack of rational auditing to the businessmen where many businessmen are found not issuing the VAT bill to manipulate the figure of total VAT. The research presented here finds the communication to public about VAT related information should be done in various technological ways.

Cheetri (2016) has submitted thesis on *"A Study on contribution of VAT to Tax revenue in Nepal"*

Main Objectives of Study:

- To analyze the contribution of VAT to GDP, Tax revenue and Indirect Tax
- To examine the major problems of VAT in Nepal.
- To analyze the most important factors for the effectiveness of VAT to revenue collection.
- To provide appropriate suggestion.

Major Findings of the Study:

- Researcher can say that training must be provided to tax experts and administrations.
- There was problem regarding the issuing of invoice.
- The information provides to the general public should be replaced by various forms of media.
- There are so many problems in the environment which are creating the obstacle inthe effective implementation of VAT. Lack of Tax consciousness of people is the main problem. The other problem are improper billing system, smuggling and undervaluation, lack of skilled administrators/manpower, tax evasion etc.

Thapa states, the problem regarding the issuing of VAT invoice, the problem of unclear VAT laws and regulation and inefficient educational programs relating to VAT and the problem in the economic environment. But the research presented here describes about the lack of supervision and lack of rational auditing to the businessmen. Current research work also states about irregular trade practices, tax evasion, and reluctance to support the tax administration by the private sectors, procedural complexities and lack of transparent and rigid government policy regarding VAT.

Paudel (2018) has submitted thesis on *“A study on VAT in Nepal & Problems in itsImplementation”*

Main Objectives of Study:

- To examine the possible effects of VAT in the economy.
- To observe the potential revenue of VAT in Nepal.
- To analyze the existing challenges on VAT.
- To examine the Nepalese tax structure.

Major Findings of the Study:

- Though VAT has been implemented in Nepal in order to generate more revenue, but the efficiency of the Nepalese VAT administration is not satisfactory and not up to the expectation of the general people.
- Taxpayers are not satisfied with the VAT administration.
- More revenue can be generated through VAT by widening its coverage. The small traders can be brought in the tax net by reducing the threshold of the transaction for compulsory registration.
- Only few consumers have habit of taking bills on their purchases. They only ask the VAT bill for the expensive goods in which they feel insecure and to get the warranty.

Paudel states, the revenue structure of Nepal is highly dependent on Tax revenue. Indirect tax comprises major part of the tax revenue and revenue from VAT covers almost one third of the total tax revenue. Registration is the most initial stage in the process of collection of VAT. The registration of every person who is required to be registered under the VAT Act will definitely bring all the taxable transactions inside the tax net and in turn will help to increase the total revenue collection. Current researchwork also states about irregular trade practices, tax evasion, and reluctance to support the tax administration by the private sectors, procedural complexities and lack of transparent and rigid government policy regarding VAT.

Dhakal (2018) has submitted thesis on *"Contribution of VAT in Nepal with Reference to Kathmandu District"*

Main Objectives of Study:

- To study the contribution of VAT in total revenue in Nepal.
- To identify current problem for the implementation of VAT in Nepal.
- To find out the possible solutions for the problems regarding the implementationof VAT in Nepal.
- To suggest remedies and recommendations for successful implementation of VAT in Nepal.

Major Findings of the Study:

- Tax evasion is emerging problems for tax administration. Tax administration is not effective and efficient.
- Under billing, fake transaction, bribing of tax administrator and fake bill for taxcredit are main types of tax evasion.
- Consumers don't ask for the VAT bill and traders don't will to give the bill.People have less knowledge about VAT system.
- Some portion of business persons doesn't maintain accurate VAT account andthey are less known about tax assessment.
- Tax law and rule are not amended as per the requirement and there are still loopholes through which VAT evasion is committed.
- Revenue collection from VAT has always been less than the targeted result inmany years.

Dhakal states, the current problems & future prospect of VAT in Nepal, importance of implementation of VAT in Nepal & effectiveness of VAT during last five years, importance of VAT revenue collection in Nepal. Current research work also states about irregular trade practices, tax evasion, and reluctance to support the tax administration by the private sectors, procedural complexities and lack of transparent and rigid government policy regarding VAT.

Ghimire (2017) conducted a study on *An analysis of Value Added Tax in Nepal.*

Main Objectives of Study:

- To analyze the contribution of VAT to total revenue, GDP and tax revenue.
- To access the number of tax payers registered under VAT system and cancelled theregistration under VAT system.

Major Findings of the Study:

- VAT revenue from imports dominates VAT revenue from domestic VAT revenue.
- Among the source of revenue VAT has dominant in all other sources of revenue collections i.e., income tax, excise duty and others.
- People show positive response towards applicability of VAT.VAT increases inflation.
- VAT helps in economic growth
- VAT discourages illegal trade.

2.13 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 contribution, implementation and its effectiveness. Though, the topic of this research work is also similar to the previous research work but it is found that in previous researches, the research is mainly focused on secondary data but here the researcher has taken the secondary data from the reliable source i.e., the annual report of IRD for fiscal year 2077/78. Here, it is tried to found out the current status of VAT and its contribution to GDP, total revenue, total tax revenue. Similarly, the correlation among these variables and trend value of VAT along the time is measured well.

Various researches have been undertaken on the VAT system in Nepal, with regard to its contribution, implementation and effectiveness. The secondary data has been taken from the annual report of IRD for the fiscal year 2077/78.

CHAPTER III

RESEARCH METHODOLOGY

Research Methodology refers the various steps that are generally adopted by researcher in studying his/her research problem along with the logic behind it. Thus, research methodology is a systematic and organized effort to investigate a specific problem that needs a solution (Wolf and Pant, 1999). Every research should be out lined in the systematic manner and for that reason research methodology is one of the most important parts. For the proper evaluation of the research problem, research methodology is very important to any researcher. Research methodology generalizes the way of solving the research problem thoroughly and systematically. Therefore, research methodology is used for the achievement of the objectives of the study.

This chapter explains not only the research method, but also considers the logic behind the methods, which are used in the context of research study. In this regard, the chapter Research Methodology consists of research design, nature and sources of data, population and sample, methods and tools of data analysis.

The goal of the research process is to produce new knowledge or deepen understanding of a topic or issue. This process takes following forms i.e.

- Exploratory research, which helps to identify and define a problem or question.
- Constructive research, which tests theories and proposes solutions to a problem orquestion.

3.1 Research Design

Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and control variance. The research design refers to the conceptual structure within which the research is conducted. Research design describes the general plan for collecting, analyzing and evaluating data after identifying, what the researcher wants to know and what has to be dealt with in order to obtain the required information.

The research design of this study is designed as to fulfill its objectives. Both analytical and descriptive methods are used as needed for secondary data. Statistical tools like percentage, average, etc. are used.

3.2 Population and Sample

The population for the study comprises of the entire person belonging to or associated with VAT in Nepal. But since the research is based on only secondary data , here is no any population and sample used. Directly, most of the data is used from reliable source i.e. Inland Revenue Department.

3.3 Nature and Source of Data

Mainly the source of data can be classified into two categories:
i. Primary source ii. Secondary source.

3.3.1 Primary Data

Primary data is important for all areas of research because it is unvarnished information about the results of an experiment or observation. It is like the eyewitness testimony at a trial. No one has tarnished it or spun it by adding their own opinion or bias so it can form the basis of objective conclusions. Primary data is the specific information collected by the person who is doing the research.
Since, the research is done on the basis of only secondary data, here primary data is not used.

3.3.2 Secondary Data

Secondary data is the data that have been already collected by and readily available from other sources. Such data are cheaper and more quickly obtainable than the primary data and also may be available when primary data cannot be obtained.

3.4 Data Collection Procedure

As stated above, data have been collected using only Secondary sources. Secondary data are collected from different published documents, budgets speech, previous research, reports etc.

3.5 Data Processing and Analysis

Processing means a series of operations on data in a research work so as to obtain desired result. Analysis means the categorizing, ordering, manipulating and summarizing of data to obtain answers to research questions. The collected information is compiled and tabulated in different headings. These data have to be patronized and graphed in different ways so as to make research understandable even at glance.

3.6 Tools for Analysis

To make research objective, to find result accurate and practicable, different tools are used. The information collected in different aspect of VAT from Secondary sources was first processed for tabulation and analysis. For analysis purpose simple statistical tools have been used which are as follows:

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.

Trend Analysis

Trend analysis is the practice of collecting information and attempting to spot a pattern or trend in the information. Although trend analysis is often used to predict future events, it could be used to estimate uncertain events in the past. It is an aspect of technical analysis that tries to predict the future movement of a stock based on past data. It is based on the idea that what has happened in the past gives traders an idea of what will happen in the future.

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.

3.7 Reliability and Validity of Data

During the collection of data, both qualitative and quantitative tools are applied. So, it has high possibility of getting most reliable data.Only the secondary data from the reliable source i.e Inland Revenue Department and Economic Survey Nepal have been used. so, the research can be accurate and useful for suggestions and further research works.

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

Data collected secondary sources are analyzed in this chapter to achieve the objectives stated in chapter I, in accordance to the research methodology described in chapter III.

4.1 Contribution of VAT to GDP

Gross Domestic Product is the total final output of goods and services produced by the country's territory by residents and non-residents, regardless of its collection between domestic and foreign claims. The VAT/GDP ratio measures the consistency of the growth of VAT revenue with the corresponding growth in Gross Domestic Product (GDP). Normally, the growth of VAT revenue mobilization in line with the growth in GDP is desirable for the rapid economic development of a country. The contribution of VAT revenue in GDP is shown below:

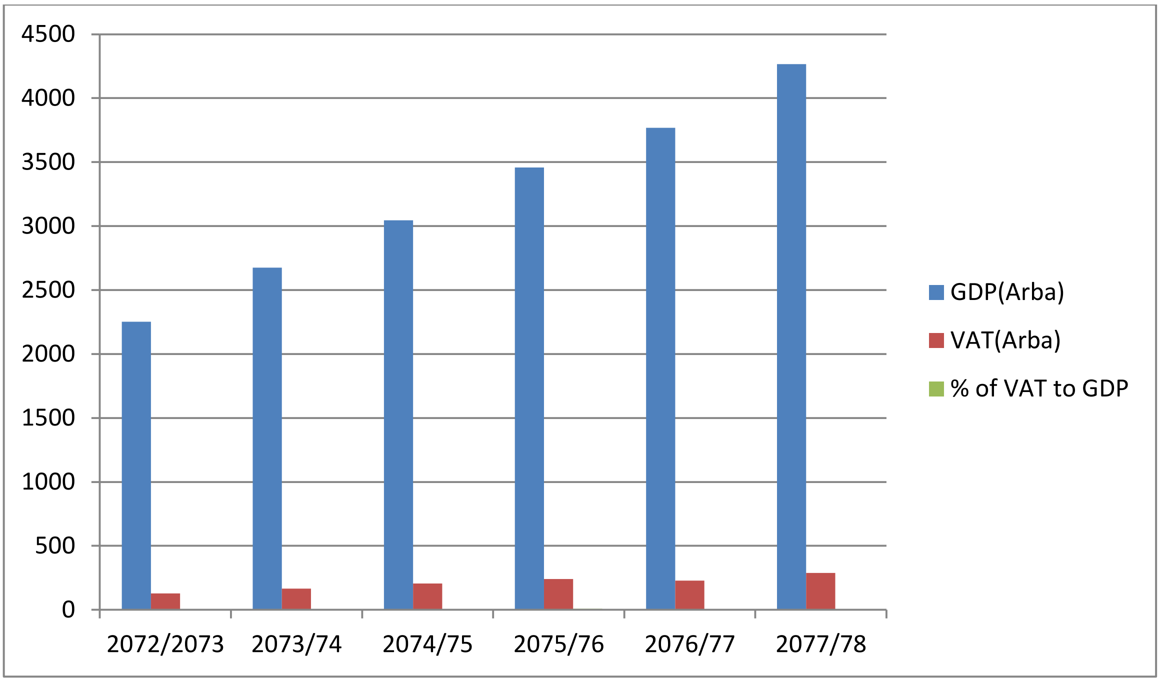
Table 4.1

Contribution of VAT to GDP (Rs.in Arba)

Fiscal Year	GDP	VAT Revenue	% of VAT to GDP
2072/73	2253.16	127.75	5.67
2073/74	2674.5	166.46	6.22
2074/75	3044.92	206.86	6.79
2075/76	3458.79	241.9	6.99
2076/77	3767.04	227.54	6.04
2077/78	4266.32	287.06	6.73
Mean	3244.12	209.59	
S.D	736.28	56.45	
C.V	22.7%	26.93%	

(Source: Economic Survey 2077/78)

Figure 4.1 Contributions of VAT to GDP



The above table 4.1 and figure 4.1 indicate that the contribution of VAT to GDP is in increasing trend. In fiscal year 2072/73, total amount of VAT collected is Rs.127.75 arba which is only 5.67% of GDP. However, though insignificantly, the percentage showed the increasing trend and decreased in 2076/77 because of covid pandemic. The highest percentage i.e. 6.99% is in the fiscal year 2075/76 .So it can be said that the trend does show an increasing trend although in a snail pace. So in conclusion, the contribution made through VAT in GDP is very low.The mean are 3244.12 & 209.59,S.D are 736.28 & 56.45 and C.V are 22.69% &26.93% of GDP and VAT respectively.

4.2 Contribution of VAT to Total Revenue and Total Tax Revenue

Total Revenue includes Tax revenue and non-tax revenue. VAT is the main source of Total Revenue. The contribution of VAT on Total Revenue and Total Tax revenue has been shown below:

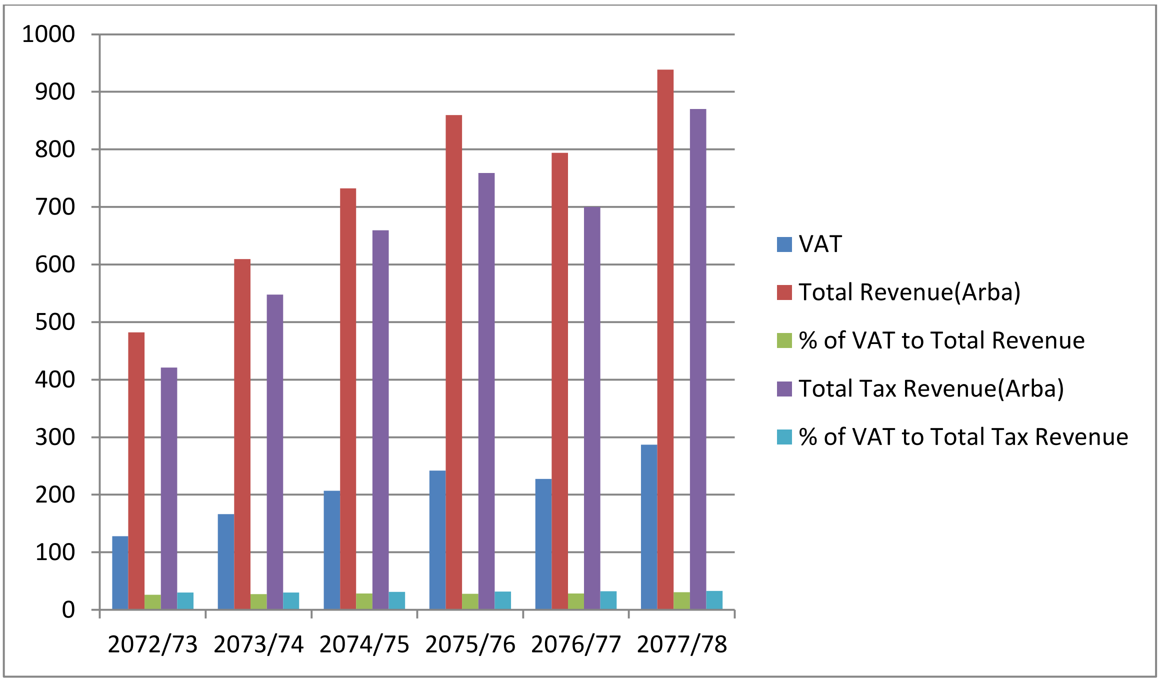
Table 4.2

Contribution of VAT to Tax Revenue and Total Revenue (Rs.in Arba)

Fiscal Year	VAT	Total Revenue	% of VAT toTotal Revenue	Total Tax Revenue	% of VAT to TotalTax Revenue
2072/73	127.75	481.96	26.51	421.09	30.33
2073/74	166.46	609.18	27.33	553.87	30.05
2074/75	206.86	726.72	28.46	659.49	31.37
2075/76	241.9	859.6	28.14	738.6	31.87
2076/77	227.54	793.78	28.67	700	32.51
2077/78	287.06	938.32	30.59	870.11	32.99
Mean	209.59	734.93		660.59	
S.D	56.45	167.44		155.06	
C.V	26.93%	22.75%		23.59%	

(Source: MOF, Economic Survey 2077/2078)

Figure 4.2 Contributions of VAT to Tax Revenue and Total Revenue



The above table 4.2 and figure 4.2 indicate that in the year 2072/73 ,the contribution of VAT on Total Revenue is 26.51 %. And similarly the contribution of VAT on Total Tax revenue in the year 2072/73 is 30.33 %. There is fluctuation in VAT, total revenue and total tax revenue because of COVID pandemic in F/Y 2076/77.while the contribution of VAT increases in year 2077/78 which is 30.59 % and 32.99 % of total revenue and total tax revenue respectively. The average mean of VAT is Rs.209.59 arba, S.D is Rs.56.45 arba while C.V is 26.93%.The average mean of total revenue is 735.85 arba , S.D is 167.44 while C.V is 22.75%.The average mean of total tax revenue is 657.2 arba, S.D. is 155.06 and C.V is 23.59%.We can conclude that contribution of VAT to total revenue and total tax revenue is in increasing trend.

4.3 VAT Collection: Internal and Import

VAT is mainly collected basically through internal trade and while importing.

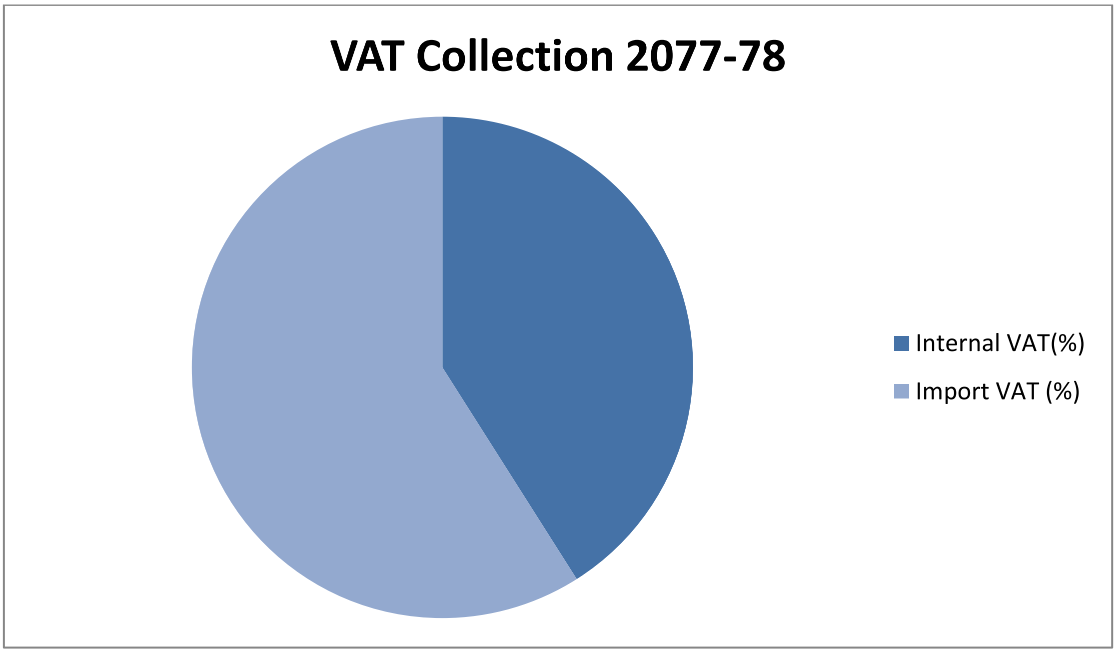
Table 4.3
VAT Internal and Import

FY	2072-73	2073-74	2074-75	2075-76	2076-77	2077-78
Vat Collection (%)	100	100	100	100	100	100
Internal (%)	39	37	37	36	43	41
Import (%)	61	63	63	64	57	59

(Source: Annual Report FY 2077/78, IRD)

The above data shows the data of VAT collection from internal trade and from import from abroad. VAT collection from import from abroad goods is more than the collection from internal trade. The trend is in fluctuate ratio as in FY 2075/76 it was 36% from internal source and 64% from import. While it was 41% from internal and 59% from import in FY 2077/78. This data is followed by the pie-chart and trend analysis below.

Figure 4.3 Collection of VAT: Import and Internal



4.4 Total Revenue and Total Tax Revenue collection on GDP(Rs. Arba)

Tax revenue and total revenue contributes to the GDP of the nation.

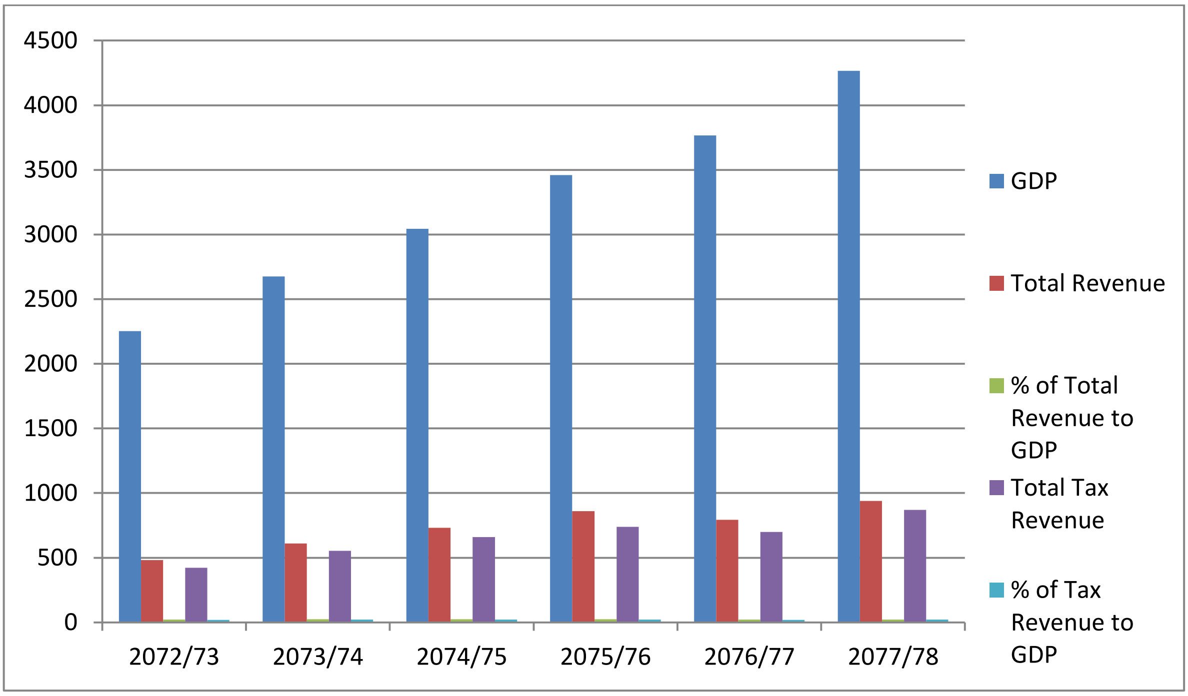
Table 4.4

Total Revenue and Total Tax Revenue collection on GDP (Arba)

Fiscal Year	GDP	Total Revenue	% of Total Revenue to GDP	Total Tax Revenue	% of Total Tax Revenue to GDP
2072/73	2253.16	481.97	21.39	421.1	18.69
2073/74	2674.5	609.18	22.78	553.87	20.71
2074/75	3044.92	726.72	23.87	659.49	21.66
2075/76	3458.97	859.6	24.85	738.6	21.35
2076/77	3767.04	793.78	21.07	700.05	18.58
2077/78	4266.32	938.32	21.99	870.11	20.39
Mean	3244.15	735.85		657.2	
S.D	736.29	167.44		155.06	
C.V	22.69%	22.75%		23.59%	

(Source: IRD Report ,FY 2077/78)

Figure 4.4 Total Revenue and Total Tax Revenue collection on GDP



The table 4.4 and figure 4.4 show the contribution of tax revenue and total revenue to the GDP of the nation. The total revenue ratio to GDP is 21.39% in 2072/73 and 21.99% in F/Y 2077/78.Similarly, the tax revenue ratio to GDP in F/Y 2072/73 is 18.69% and 20.39% in F/Y 2077/78.The ratio fluctuates in F/Y 2076/77 because of covid pandemic. The ratio is in increasing trend in 2077/78.The mean are 3244.15,735.85 & 657.2,S.D are 736.29,167.44 & 155.06 and C.V are 22.69%,22.75%,23.59% of GDP, Total Revenue and Total Tax Revenue respectively. We can say contribution of tax revenue and total revenue to GDP is in increasing trend.

4.5 Ratio of Excise Duty, Income Tax and VAT to GDP (%)

Excise Duty and VAT play great role in collecting indirect tax. Similarly income tax also plays role in collecting revenue as direct tax. The excise duty , income tax and VAT has significantly contributed to GDP of the country. It can be explained on below table and figure.

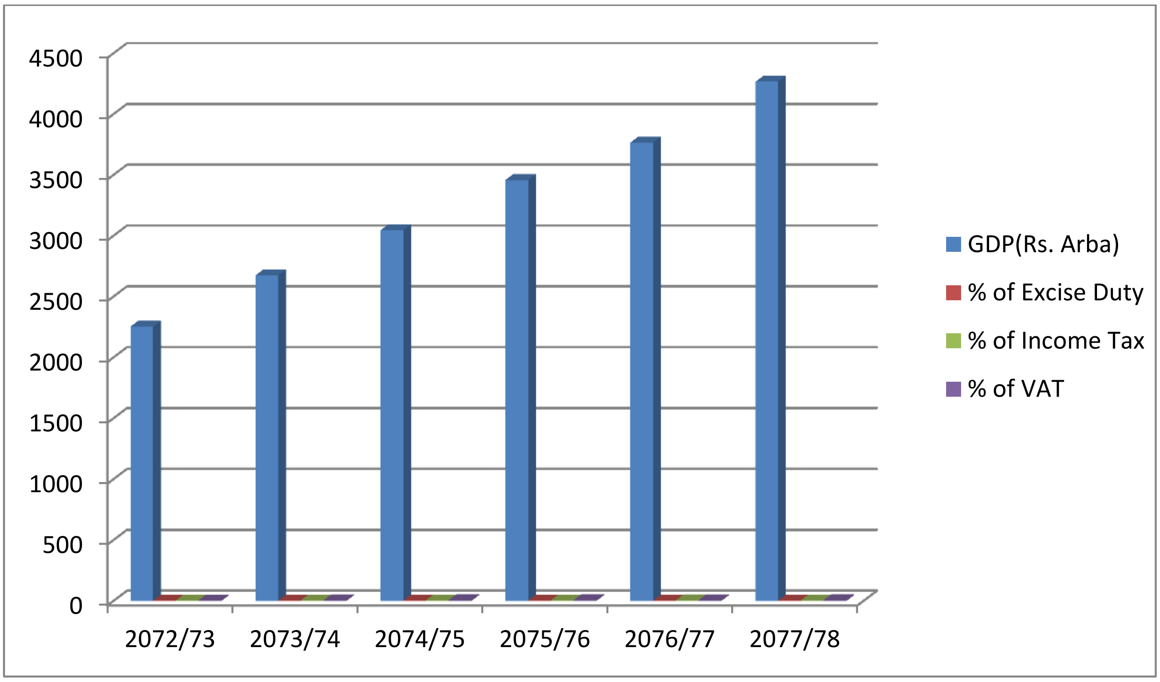
Table 4.5

Ratio of Excise Duty, Income Tax and VAT to GDP

Fiscal Year	GDP(Rs. Arba)	% of Excise Duty	% of Income Tax	% of VAT
2072/73	2253.16	2.92	5.21	5.67
2073/74	2674.5	3.17	5.54	6.22
2074/75	3044.92	4.14	5.27	6.79
2075/76	3458.97	3.52	5.61	6.99
2076/77	3767.04	2.68	5.84	6.04
2077/78	4266.32	3.14	5.3	6.73

Source: Economic Survey Nepal & IRD, F/Y 2077/78

Figure 4.5 Ratio of Excise Duty, Income Tax and VAT to GDP (%)



The above table 4.5 and figure 4.5 indicate that ratio of excise duty, income tax and VAT to the GDP of the country. The excise duty increased in increasing trend from 2072/73 to 2075/76.It decreases in 2076/77 that is 2.68% because of covid pandemic. Then it increases and reaches to 3.14% in 2077/78.

The ratio of income tax to GDP is in increasing trend. The ratio is 5.3% in F/Y 2077/78 while ratio is 5.21% in 2072/73.

The ratio of VAT to GDP increased from 5.67% to 6.99% in F/Y 2075/76 from 2072/73.It decreases in 2076/77 that is 6.04% and reaches to 6.73% in 2077/78.

The contribution is in increasing trend.

4.6 Share percentage of IRD collection to Total Revenue

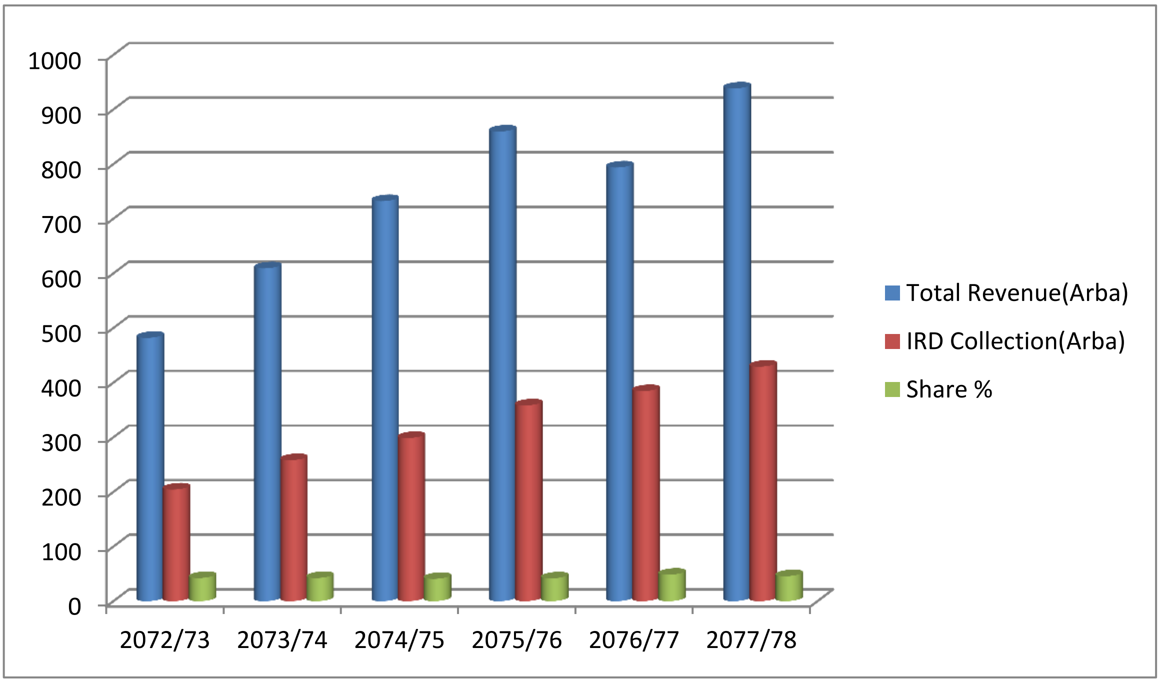
Total revenue is the sum of tax revenue and non-tax revenue. IRD collection has great role in total revenue of the country in any fiscal year. The table and figure are shown below.

Table 4.6

Share percentage of IRD collection to Total Revenue

Fiscal Year	Total Revenue (Arba)	IRD Collection (Arba)	Share %
2072/73	481.96	204.43	42.42
2073/74	609.18	258.17	42.38
2074/75	732.23	298.65	40.79
2075/76	859.6	358.35	41.69
2076/77	793.78	384.45	48.43
2077/78	938.32	429.27	45.75

Figure 4.6 Share Percentage of IRD Collection to Total Revenue



The above table 4.6 and figure 4.6 indicates that share percentage of IRD collection to Total Revenue. The IRD collection is 42.42% in F/Y 2072/73 and reaches to 45.75% in 2077/78.It shows increasing trend in share percentage due to effective implementation of rules and acts.

4.7 IRD Collection's Share to Total Tax Revenue (Rs. Arba)

Total tax revenue comprises of direct taxes and indirect taxes. The presentation and analysis of IRD's collection share to total tax revenue are as below:

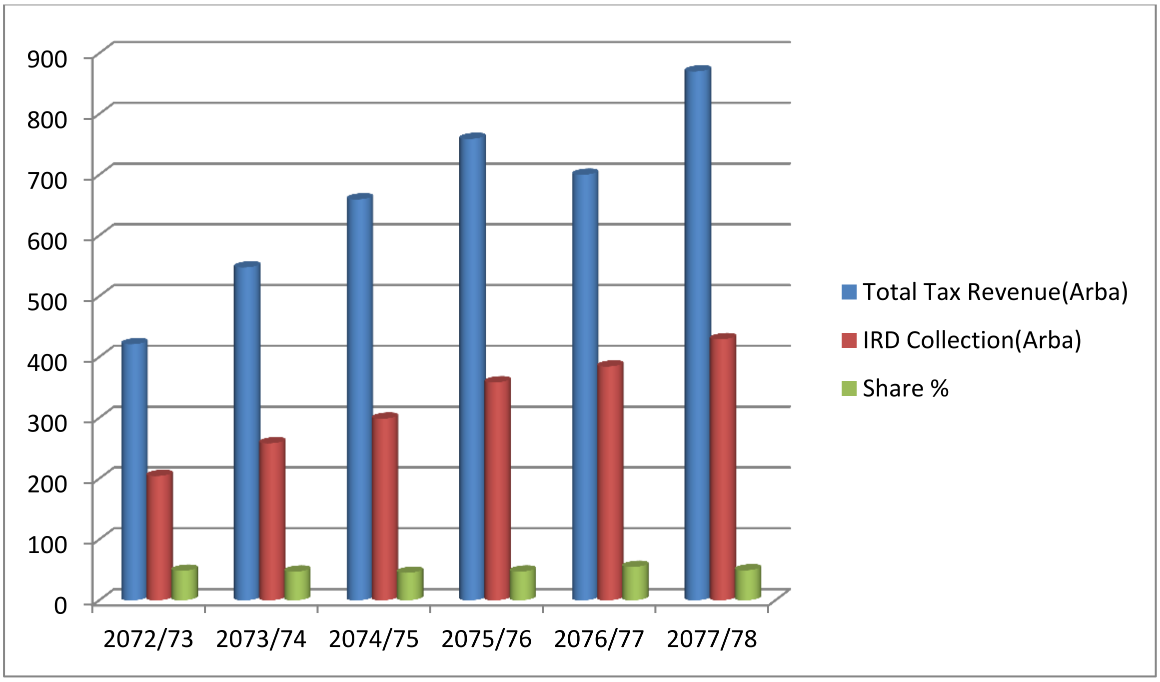
Table 4.7

IRD Collection's Share to Total Tax Revenue (Rs. Arba)

Fiscal Year	Total Tax Revenue	IRD Collection	Share %
2072/73	421.09	204.43	48.55
2073/74	547.48	258.17	47.16
2074/75	659.49	298.65	45.28
2075/76	759.01	358.35	47.21
2076/77	700	384.45	54.92
2077/78	870.11	429.27	49.34

Source : IRD Report,2077/78

Figure 4.7 IRD Collection's Share to Total Tax Revenue



The above table shows the fluctuation in IRD's collection share to total tax revenue. IRD collects 48.55% in F/Y 2072/73 and decreases to 47.16% & 45.28% in 2073/74 & 2074/75 respectively. It increases to 54.92% and reaches to 49.34% again.

The figure however shows the share % of IRD collection on total tax revenue is in increasing trend from F/Y 2072/73 to 2077/78.

4.8 VAT Collection as per Heading.(Internal) (Rs. Arba)

VAT is the replacing tax of sales tax, contract tax, entertainment tax and hotel tax etc.VAT collection as per heading (Internal) are presented and show in below table and figure.

Table 4.8

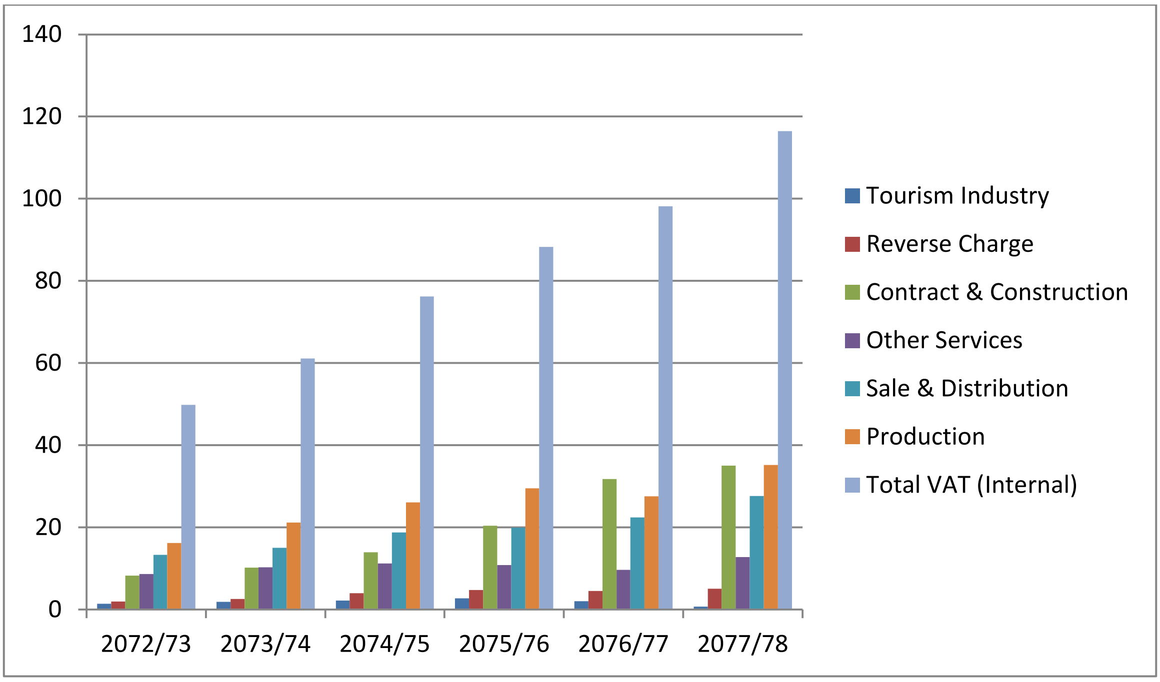
VAT Collection as per Heading.(Internal) (Rs. Arba)

Tax Heading	2072/73	2073/74	2074/75	2075/76	2076/77	2077/78	% Collection in 2077/78
Tourism Industry	1.4	1.87	2.16	2.78	2.02	0.7	0.6
Reverse Charge	2	2.57	3.99	4.79	4.52	5.08	4.36
Contract & Construction	8.24	10.2	13.94	20.39	31.8	35.05	30.1
Other Services	8.64	10.26	11.26	10.86	9.7	12.75	10.95
Sale & Distribution	13.34	15.02	18.74	19.95	22.45	27.65	23.75
Production	16.2	21.2	26.08	29.51	27.61	35.21	30.24
Total VAT (Internal)	49.82	61.12	76.18	88.29	98.13	116.43	100

(Source:Annual Report of IRD for F/Y 2077/78)

The above table shows vat collection(Internal) as per the heading. The vat collection in tourism industry increases from 1.4 arba to 2.78 arba from F/Y 2072/73 to 2075/76.It decreases from F/Y 2076/77 to 2077/78 that is 2.02 to 0.7 arba because of covid pandemic. It affects most the tourism sector. Collection from other headings are in increasing trend. The collection % is 0.6%,4.36%,30.1%,10.95%,23.75% and 30.24% from tourism, reverse charge, contract & construction, other services, sale & distribution and production respectively in F/Y 2077/78.The table is presented in the following given figure .

Figure 4.8 VAT Collection as per Heading.(Internal)



4.9 Tax Revenue Collection

Tax revenue is collected from VAT, Income Tax, Excise duty, health service fee and education service fee. The main sources of tax collection in the different fiscal years have been presented in the following table:

Table 4.9

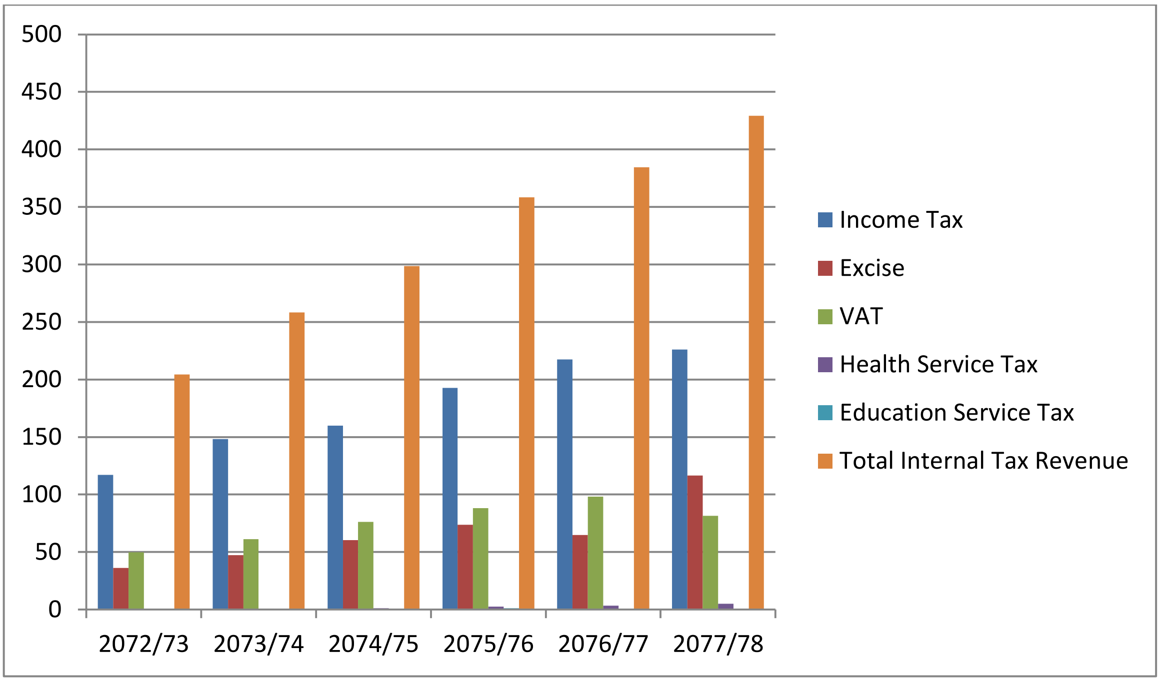
Tax revenue collection (F/Y 2072/73 to 2077/78) (Rs. in Arba)

Revenue Heading	2072/73	2073/74	2074/75	2075/76	2076/77	2077/78
Income Tax	117.14	148.24	159.9	192.84	217.5	225.94
Excise	36.19	47.22	60.48	73.61	64.84	116.43
VAT	49.82	61.12	76.22	88.29	98.14	81.51
Health Service Tax	0.72	0.86	1.15	2.51	3.45	5.02
Education Service Tax	0.59	0.74	0.91	1.07	0.58	0.36
Total Internal Tax Revenue	204.43	258.17	298.65	358.32	384.53	429.27

(Source: Annual Report from 2072/73 to FY 77/78, IRD)

The above table 4.9 shows that total tax revenue(Internal) comprises income tax, excise tax, VAT, health service, tax education and service tax. The income tax is 117.14 arba in F/Y 2072/73 and reaches to 225.94 arba in F/Y 2077/78.It is in increasing trend. Excise duty is 36.19 arba and reaches to 81.51 arba from F/Y 2072/73 to 2077/78.VAT is 49.82 arba and reaches to 116.43 arba from F/Y 2072/73 to 2077/78.Similarly,Health service tax is 0.72arba and reaches to 5.02 arba.So,on education service tax increases from 0.59 arba to 1.07arba from F/Y 2072/73 to 2075/76.It decreases to 0.58 in 2076/77 and reaches to 0.36 arba in 2077/78.It is due to covid pandemic.All heading revenue are in increasing trend except in pandemic in education sector. It is presented in given figure 4.9.

Figure 4.9 Analysis of Tax Revenue Collection



The graph showed the analysis of tax revenue collection in different fiscal years. This graph explains that the collection is in increasing trend.

4.10 Composition of Indirect Tax

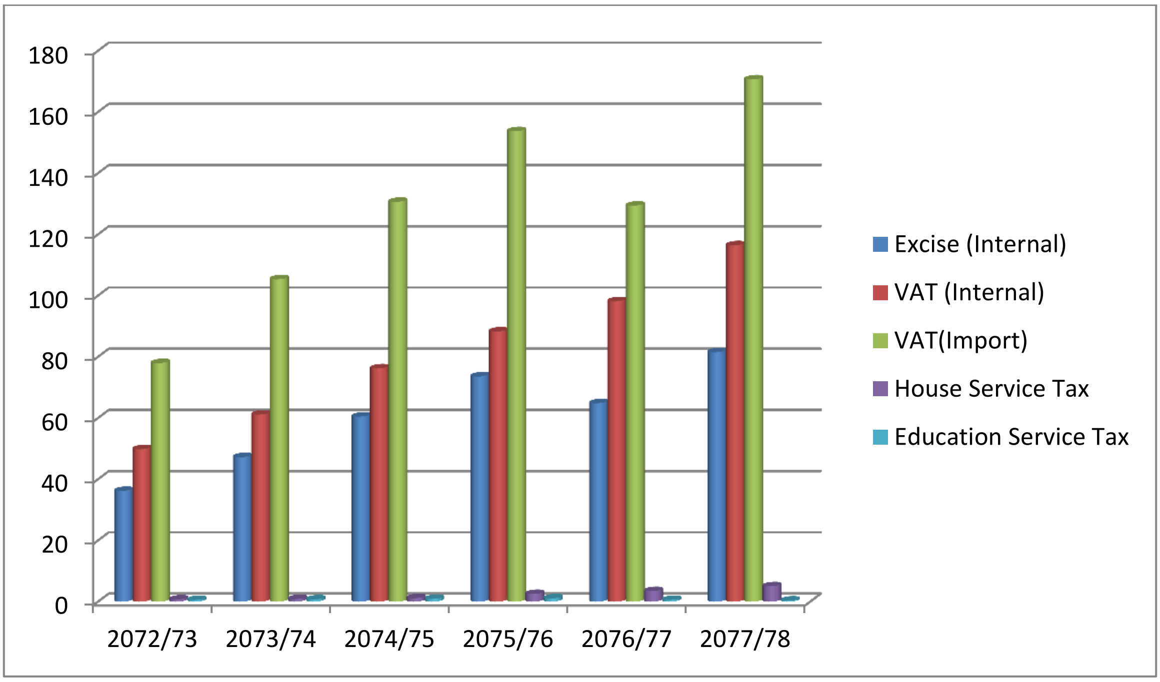
The indirect taxes comprise of excise duty,VAT (Internal),VAT (Import), health service tax and education service tax. The contribution of indirect taxes has more than 70 % of total tax revenue in Nepal.

Table 4.10

Composition of Indirect Taxes (Rs. In Arba)

Heading	2072/73	2073/74	2074/75	2075/76	2076/77	2077/78
Excise (Internal)	36.19	47.22	60.48	73.61	64.84	81.51
VAT (Internal)	49.82	61.12	76.22	88.29	98.14	116.43
VAT (Import)	77.94	105.34	130.64	153.71	129.4	170.63
Health Service Tax	0.72	0.86	1.15	2.51	3.45	5.02
Education Service Tax	0.57	0.74	0.91	1.07	0.58	0.36
Total	165.24	215.28	269.4	392.8	296.41	373.95

Figure 4.10 Composition of Indirect Taxes (Arba)



In above table 4.10 and figure 4.10 indicates the composition of indirect taxes .The indirect taxes are in increasing trend.The excise duty is 36.19 arba and reaches to 81.51 arba in F/Y 2072/73 to 2077/78.It decreases and reaches to 64.84 arba in 2076/77 due to covid pandemic.

The VAT(Internal) increases from 49.82 arba to 116.43 arba in 2072/73 and 2077/78 respectively.It has shown that it doesn't affect in the revenue due to covid.

The VAT (Import) has increases from 77.94 arba to 153.71 arba in F/Y 2072/73 to 2075/76.It has decreased to 129.4 arba in 2076/77 and increased to 170.63 arba in 2077/78.

The house service tax increases from 0.72 arba to 5.02 arba in F/Y 2072/73 t0 2077/78 respectively.

The education service tax increases from 0.57 arba to 1.07 arba in 2072/73 and 2075/76 respectively. It decreases to 0.58 arba due to pandemic in 2076/77 and reaches to 0.36 arba in2077/78.

4.11 Trends and Correlation

The analysis with the help of statistical tool is performed taking 6 years' data are being used for trend analysis of Vat and taking 6 years' data are used for coefficient of correlation analysis among VAT ,excise duty and income tax of Internal Tax Revenue.

4.11.1 Trend Analysis

This analysis depends on the basis of 6 years of data. The revenue amount of VAT from domestic product and import has been predicted as.

Let the trend line be, $Y_c = a + b\,x$

Where,

Y_c = total amount of domestic product/ import product of VAT

a = constant which iscomputed y value when x=0

b= constant which is change in y corresponding to the change in x by one unit. X= time in the case of time series analysis.

Formula to be used:-

$$a = \frac{\sum y}{n} \quad \& \quad b = \frac{\sum xy}{\sum y^2}$$

Here, in case of this study, each domestic VAT and import VAT at a time is considered as the main variable and denoted by (y, x) is 't' base year, here all the years are denoted by t. the following table shows the trend values of domestic product VAT and import VAT from FY 2072/73 to 2077/78.

Table 4.11

Trends of domestic product VAT and import VAT (Rs in Billions)

Years (t)	Y = a+ bx (trend value of domestic product VAT)	Y = a+ bx (trend value of import VAT)
2072/73	31.86	58.13
2073/74	56.76	93.04
2074/75	81.65	127.94
2075/76	106.54	162.85
2076/77	131.44	197.75
2077/78	156.33	232.66

Source: Appendix (i) and (ii)

Therefore, by the help of trend analysis we find the value of domestic product VAT and import VAT for past 6 years. By adopting same formula of trend we can get the future trend value of domestic product and import product VAT which will reflect the trends in composition of VAT.

4.11.2 Correlation Analysis

The coefficient of correlation 'r' among variables measures the degree and relationship among these variables. The purpose of computing coefficient of correlation among VAT and total revenue, GDP and tax revenue is to find out whether they are significantly contributed in dependent variables or not.

To find out the Karl Pearson's correlation 'r' between them,we consider dependent variable and independent variables. The value of r is calculated in between -1 to +1. The negative value of r signifies the opposite relationship between the variable i.e. increases in VAT will lead decrease in other variables and vice-versa. While positive value of r shows the positive relationship among variables.

Table 4.12
Correlation Coefficient of Study Variables

Variable	*GDP*	*Total Revenue*	*Total Tax Revenue*	*VAT*
GDP	1			
Total Revenue	0.955	1		
Total Tax	0.963	0.990	1	

Revenue				
VAT	0.970	0.994	0.997	1

Source: IRD from 2072/73 to 2077/78

The table 4.10 explains correlation coefficients of variables. From above, it is visible that there is Positive correlation between total revenue and GDP i.e 0.995 which means when total revenue increases, GDP also increases and decreases when total revenue decreases.

similarly, The correlation between total tax revenue and GDP is positive that is 0.963.

VAT and GDP has positive relation that is 0.970.

The correlation between total tax revenue and total revenue is 0.990 which means when total tax revenue increases, total revenue also increases and decreases when total tax revenue decreases.

similarly, VAT and total revenue has positive correlation that is 0.994.

The correlation between VAT and total tax revenue is 0.997whic means total tax revenue increases when VAT is increased and decreases when VAT is decreased.

4.12 Descriptive Statistics of variables

Descriptive statistics are brief descriptive coefficients that summarize a given data set,which can be either a representation of the entire or sample population.They are broken down into measures of central tendency and measures of variability (spread). Central tendancy includes mean,median and mode , while measures of variability includes standard deviation ,variance etc. Measure of central tendancy focus on average or middle values of data sets while , measures of variability focus on the dispersion of data.

Table 4.13

Descriptive Statistics of Variables

Variables	Mean	S.D	C.V
GDP	2679.587	923.9278	34.48023
Total Revenue	571.22	248.8114	43.5579
Total Tax Revenue	507.76	227.9929	44.9017
VAT	173.3922	74.05433	42.70914

Source : Annual Report of IRD F/Y 2077/78

The mean of GDP from F/Y 2072/73 to F/Y 2077/78 is 2679.59 arba. The S.D is

923.93 arba while C.V of GDP is 34.48%.

The mean of total revenue is 571.22 arba. The S.D is 248.81 arba while its C.V is 43.56%.

The mean of total tax revenue of last six years is 507.76 arba. The S.D is 227.99 arba while its C.V is 44.9%.

The mean of VAT is 173.39 arba for last six years. The S.D is 74.05 arba while its C.V is 42.71% .

4.13 Major Findings

Table 4.1 : The contribution of VAT to GDP is in increasing trend. In FY 2072/73, total amount of VAT collected is Rs.127.75 arba which is 5.67 percent of GDP. Similarly, the highest percentage i.e. 6.99 percent is in the FY 2075/76 with VAT revenue amounting to Rs.3458.79 arba. The contribution of VAT to GDP is Rs. 287.06 arba which is 6.73 % in 2077/78.

Table 4.2 : The contribution of VAT on total revenue and total tax revenue is 26.51 % and 30.33 % in the FY 2072/73 respectively .while of FY 2077/78 is 30.59 % and 32.99% on total revenue and total tax revenue.The contribution of VAT on total revenue and total tax revenue is in increasing trend.

Table 4.3 : The VAT collected internally is in increasing trend from 49.82 to 116.43 arba from F/Y 2072/73 to 2077/78.Similarly, the VAT collected from import is also in increasing trend from 77.94 arba to 170.63 arba from F/Y 2072/73 to 2077/78.

Table 4.4 :The contribution of total revenue to GDP is in increasing trend from 21.39% to 24.85% from F/Y 2072/73 to 2077/78.The ratio decreases in 2076/77 i.e 21.07 % because of covid pandemic then it increases in 2077/78 that is 21.99%.Similarly, the contribution of total tax revenue is in increasing trend from 18.69 % to 21.35 % from 2072/73 to 2077/78.It decreases in 2075/76 that is 18.58% and again increases to 20.39 % in 2077/78.

Table 4.5 : The ratio of income tax to GDP is in increasing trend from F/Y 2072/73 to 2077/78 that is 5.21 % to 5.3 % .The ratio of VAT to GDP is in increasing trend from F/Y 2072/73 TO 2077/78 that is 5.67 % to 6.73 % .Similarly, the ratio of excise duty to

GDP is in fluctuating trend. The ratio is 2.92% ,3.52 % ,2.68 % and 3.14 % in fiscal year 2072/73,2075/76,2076/77 and 2077/78 respectively.

Table 4.6 : The ratio of IRD collection to total revenue is in increasing trend. The collection is Rs. 204.43 arba which is 42.42 % in F/Y 2072/73 and reaches to Rs. 429.27 arba which is 45.75 % of total revenue in F/Y 2077/78.

Table 4.7 : The ratio of IRD collection to total tax revenue is in increasing trend. The collection is Rs. 204.43 arba which is 48.55 % in F/Y 2072/73 and reaches to Rs. 429.27 arba which is 49.34 % of total tax revenue in F/Y 2077/78.

Table 4.8 : The VAT collection (Internal) as per heading like tourism industry, reverse charge, contract and construction, other services , sales & distribution and production are in increasing trend from 2072/73 to 2075/76. The mostly affected heading are tourism industry, other services and production due to covid pandemic so there is decrease in collection in 2076/77.The collection from tourism industry is 1.4 arba in 2072/73 and reached to 2.78 arba in F/Y 2075/76. It decreases to 2.02 arba in 2076/77 and reaches to 0.7 arba in 2077/78. It is due to covid pandemic. It is just 0.6 % contribution on total IRD VAT collection in 2077/78. The The IRD collection for reverse charge in 2077/78 is 5.08 arba. Its contribution to IRD VAT collection is 4.36 % in 2077/78.Similarly,the collection for contract and construction is 35.05 arba in 2077/78.Its contribution is 30.01 % on total IRD VAT collection in 2077/78. The collection for other services is 9.7 arba and 12.75 arba in F/Y 2076/77 and 2077/78 respectively. Its contribution is 10.95 % on IRD VAT collection in 2077/78.The collection from sale and distribution by IRD is 27.65 arba in 2077/78.Its contribution is 23.75 % on total VAT collection (Internal) in 2077/78. The collection for production is 27.61 arba and 35.21 arba in 2076/2077 and 2077/78 respectively.Its contribution is 30.24 % on total VAT collection (Internal).

Table 4.9 shows increasing trend in tax revenue collection (Internal).It includes income tax,excise duty, VAT , health service tax and education service tax.The collection is 204.43 arba in 2072/73 and reaches to 429.27 arba in 2077/78.

Table 4.10 shows the composition of Indirect Tax. It includes excise duty ,VAT (Internal),VAT (Import), house service tax and education service tax. The indirect tax collection is 165.24 arba in 2072/73 and reaches to 392.8 arba in2075/76.Its collection decreases in 2076/77 and reaches to 296.41 arba due to pandemic.It reaches to 373.95 arba in 2077/78 and it shows positive prospects in future.

Table 4.11 shows trend value of domestic product VAT and Import VAT. The domestic product VAT has increasing trend by 24.89 arba while import VAT has increasing trend by 34.9 arba.It shows positive prospects for the country.

Table 4.12 shows positive correlation among the variables - GDP, total revenue ,total tax revenue and VAT.

Table 4.13 shows average mean of GDP is 2679.57 arba.Average mean of total revenue, total tax revenue and VAT is 571.22,507.76 and 173.39 arba respectively.

CHAPTER V
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

VAT was first introduced in France in 1954 and today, it has been implemented worldwide with tremendous success. In Nepal, after intense debate and deliberation, it was implemented first in 1997. However, it is felt that its positive impacts are yet to be fully realized even after 20 years of implementation. The main problem that the government is facing each year is lack of compliance by all taxpayers due to various reasons. It is presently adopted by over 120 countries all over the world.

The concept of VAT in Nepal was introduced in early 1990s. Nepal government indicated its intention to introduce VAT in the eight plans. 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. Finally, VAT was introduced in Nepal in 16 November, 1997 with single rate of 10% formally and it was fully implemented.

Nepal got the idea to implement the VAT by observing its success in many European nations. The main reason why developed economies in Europe favored the VAT was because of improved compliance and lesser evasion when compared to a sales tax. Our Inland Revenue Department claims the low evasion to be the prime reasoning behind implementation of VAT in Nepal. And, their reasoning is quite sound given the general consensus among VAT implementing nations that VAT is not as easy to evade as the sales tax.

Nepal introduced VAT system for several reasons. It was necessary to introduce such a tax to develop a stable source of revenue, to broaden the tax base, to promote economic growth, to generate a revenue required for improving its deteriorating macro-economic performance, to establish an account based modern transparent system, to make the tax system more scientific, to gain the confidence of donors and to make the Nepalese tax system effective.

In the study, the analysis has been done about VAT and its contribution to the country on the basis of information collected from reliable sources IRD and other published sources.

5.2 Conclusions

VAT is a scientific system of indirect taxation in which tax is charged on selling price so that the ultimate burden of tax is passed on to customers. It is basically tax on consumption and collected at each stage of production and distribution. VAT applies to each commodity as it passes through the production and distribution channels but only to the 'value additions' to each stage in the production and distribution process.

The correlation between vat and total revenue is highly positive degree relation. So, VAT has contributed a significant amount in total revenue. The correlation between VAT and total tax revenue is highly positive degree relation. The correlation between VAT and GDP is also positive. Likewise, the contribution of VAT on Total Revenue in the FY 2072/73 is 26.51 percentwhile of FY 2077/78 is 30.59 percent and similarly the contribution of VAT on Total Taxrevenue in the FY 2072/73 is 30.33 percent while of FY 2077/78 FY is 32.99 percent. The highest contribution of VAT to GDP is 6.99 % in 2075/76 and remains 6.73 % in 2077/78.

The total tax revenue and total revenue are in increasing trend. The domestic product VAT and import VAT are also in increasing trend. Similarly excise duty and income tax are also increasing.

VAT has great role in contributing to GDP, total tax revenue and total revenue in the country. There is positive prospects in future so,the government should be serious and take action in effective implementation of VAT in the country.

5.3 Recommendations

On the basis of major findings and conclusion, the following measures are recommended for successful role, contribution and implementation of VAT and to achieve the desired result.

VAT has some difficulties in the administrative aspect. It is the most advance and scientific system of tax. Transparency is the most feature of VAT that will help to control the tax evasion. For the successful implementation of VAT system, it needs well trained personnel, proper account keeping, proper billing system etc. and of course, the registration is also an important factor.

Modern tax systems and their administration are built on the principle of voluntary compliance, meaning that taxpayers are expected to comply with their basic tax obligations with only limited intervention by revenue officials. The arguments against self-assessment sometimes encountered are unpersuasive. Small traders are too illiterate to complete their returns, taxpayers cannot be trusted, the preconditions for self-assessment have not been met i.e. complete absence of a taxpaying culture and where proper accounting standards". The answer to this lies in developing effective taxpayer service and enforcement programs, and good understanding by tax officials of basic risk management principles.

No billing, Lack of invoicing, incorrect value in billing is the main problems observed in invoicing system, which leads to weak VAT implementation. So, importers should be asked to declare their sales and distribution channels and the estimated sales prices at all stage sales.

The government should apply the multi rated VAT system for different goods and services so that goods and services can be equally rated.

Every person must maintain purchase book and sales book along with VAT account as prescribed by the laws and rules.

Consumer should be made aware of taking invoices, which is their fundamental right and responsibility to the state. Consumer awareness program should be launched through media, journals, magazines, newspapers, pamphlets, seminar, discussion, lottery program etc. effectively which encourages people for invoices after buying goods and services.

The VAT registration procedures should not be time consuming and complex.

There should be wide spread publicity and educational program among general public to make effective for raising public awareness regarding VAT and its role and contribution towards the country.

The lack of strong political commitment, administrative capability and recording system are the major problems in the implementation of VAT system in Nepal. Furthermore, lack of proper accounting and auditing, indifferent attitude among tax officials and weak appeal system have also been hindrances for the proper functioning of the Nepalese VAT system. So, the government of Nepal should be more concentrated on rules and regulation of VAT system and it should be practically applied. Then only our government can run the country smoothly with the good financial condition and can get the proper revenue as predicted.

The trend of under-invoicing, attempt to avoid VAT and producing fake VAT bills by creating fictitious transactions have been found in secondary sources. Such activities should be discouraged by imposing high penalty fees, regular investigation, monitoring and fairauditing.

The periodic reports, annual reports and Economic surveys are available to general through the website but they are not updated timely. This should be considered by the respective departments which in return helps the researcher with first-hand information and finally benefits the government with solutions to the problems.

BIBLIOGRAPHY

Books:

Adhikari, C.M. (2007). *VAT system in Nepal*, Kathmandu: Pairavi Prakashan.

Adhikari C.M. (2016). Value Added Tax in Nepal: Theory & Practice. Kathmandu: Pairavi Prakashan.

Adhikari, C.M. (2017). *Modern Taxation in Nepal*: *Theory & Practice*. Kathmandu: Pairavi Prakashan.

Bhattarai, I. & Koirala, G.P. (2006). *Income taxation in Nepal with tax planning and VAT*,Kathmandu: Asmita Publisher.

Bhattarai, I.& Koirala, G.P. (2018). *Taxation in Tax Planning & VAT*. Kathmandu: Asmita Prakashan.

Dahal, B.N. (2015). *Value Added Tax:* Professional Studies Resources Developers (PSRD).

Dahal, B.N. (2018). *Value Added Tax:* Professional Studies Resources Developers (PSRD).

Gerald, M. Meier (2004). *VAT law and practice*, Delhi: Oxford University Press

Goode, R. (1986). *Government Finance in Developing Countries*, New Delhi: Mc-Graw Hill Co. Ltd.

Joshi, P. (2001). *Tax Credit and Tax Refund under the VAT system*

Kandel, P.R. (2009). *VAT System of Nepal and Practices*, Kathmandu: Buddha Academic Publisher

Keen, M. & Smith, S. (2007). *VAT Fraud and Evasion: What do we know and what can be done?* WP/07/31.IMF.

Khadka, R.B. (2001). *VAT and its Relevancy*, Kathmandu: Ratna Pustak Bhandar.

Pandey Umesh (2018). *Income Tax & Vat: Theory*.

Silwal, N.P. (1999). *Resource mobilization and VAT* Kathmandu: VAT Department of Nepal.

Wolf, H.K. & Panta, P.R. (1999). *Social Science Research and Thesis Writing*, Kathmandu: Buddha Academic Enterprises.

Journal and Articles:

Aryal, K.P. (2014). “The Nepal Chartered Accountant. The Journal of the Institute of Chartered Accountants of Nepal”. ‘*Alarming Compliance Cost of Taxation*’, *16*(3), 37.

Beretta, G. (2018). “World Tax Journal”. *‘International-VAT and the Sharing Economy’, 10*(3), 3.

Chapagain (2021), Contribution of Value Added Tax in GDP, Scholar’s Journal, Jananyoti Campus, Tanahu

Dahal (2020), Value Added Tax in total tax revenue, Empirical Study, Journal of Population and Development

Dangal, Dilnath (2019). Value Added Tax in Nepalese Context. Kathmandu: ‘Nuta Journal’

Dhungana, Sujan (2019). Consumers, Suppliers to Share VAT Burden. Kathmandu: ‘The Himalayan Times’

Gnawali, Achyut (2018). Tax Payers Knowledge Towards VAT in Nepal. Kathmandu: ‘The Journal of Nepalese Business Studies’

Goslinga, S., Sigle, M. and Veldhuizen, R. (2018). “Tax Administration”. ‘*Cooperative Compliance, Tax Control Frameworks and Perceived Certainty about the Tax Position* in Large Organisations’, *5*(1), 5.

Jha, K. (2016). “The Nepal Chartered Accountant. The Journal of the Institute of Chartered Accountants of Nepal”. ‘*Thin capitalization-Highly talked issue in International Taxation’, 18*(3), 43.

Koirala,Kamal (2011). Value Added Tax in Nepal: A Critical Assessment & its Performance. Kathmandu: 'The Journal of Nepalese Business Studies'

Sharma, D. (2014). "Value Added Tax". *An Experience of Executing Value Added Tax (VAT), 1*(2), 29.

Shoup, C. (2010). "The Value Added Tax and Developing Countries". The WorldBank Research Observer *3*(2), 139-156.

Previous Research Works:

Ghimire, K. (2017). *An analysis of Value Added Tax in Nepal.* An Unpublished Master's Degree Thesis, Submitted to Faculty of Management, Shanker Dev Campus, TU,Kathmandu.

Chhetri,R (2016). A Study on Contribution of VAT to Tax Revenue in Nepal. An Unpublished Master's Degree Thesis, Submitted to Nepal Commerce Campus, Faculty of Management, T.U. Kathmandu.

Dhakal,A (2018). Contribution of VAT in Nepal With Reference to Kathmandu District. An Unpublished Master's Degree Thesis, Submitted to Nepal Commerce Campus, Faculty of Management, T.U. Kathmandu.

Paudel,L(2018). A Study of VAT in Nepal & Problems in its Implementation. An Unpublished Master's Degree Thesis, Submitted to Nepal Commerce Campus, Faculty of Management, T.U. Kathmandu.

Thapa, G (2016). Value Added Tax (VAT): It's Implementation in Nepal. An Unpublished Master's Degree Thesis, Submitted to Nepal Commerce Campus, Faculty of Management, T.U. Kathmandu.

Websites:

www.ird.gov.np

www.ican.com.np

Appendices

Appendix (i)

Trend value of domestic product VAT 2072/73 to 2077/78 (In Rs Billions)

FY (t)	Domestic products VAT(y)	x=t-2075	x^2	xy	Y= a+bx
2072/73	49.82	-2	4	-99.64	31.86
2073/74	61.12	-1	1	-61.32	56.76
2074/75	76.22	0	0	0	81.65
2075/76	88.19	1	1	88.19	106.54
2076/77	98.14	2	4	196.28	131.44
2077/78	116.43	3	9	349.29	156.33
	∑y= 489.92	∑x=3	$\sum x^2$=19	∑xy=473	

Source: Economic Survey, 2072/73 to 2077/78

Here, the trend line is supposed to be:

Y=a+bx where y=dependent variable,x=derivation from sources convenient time period.a= y-intercept and b=slope of trend line.

Now, Using formula,

$$a = \frac{\Sigma y}{n} \;\&\; b = \frac{\Sigma \text{xy}}{\Sigma x^2}$$

a = 81.65 &

b=24.89

Appendix (ii)

Trend value of import VAT 2072/73 to 2077/78 (In Rs Arba)

FY (t)	Import VAT(y)	x=t-2075	x^2	xy	Y= a+bx
2072/73	77.94	-2	4	-155.88	58.13
2073/74	105.34	-1	1	-105.34	93.04
2074/75	130.64	0	0	0	127.94
2075/76	153.71	1	1	153.71	162.85
2076/77	129.4	2	4	258.8	197.75
2077/78	170.63	3	9	511.89	232.66
	$\sum y$= 767.66	$\sum x$=3	$\sum x^2$=19	$\sum xy$ = 663.18	

Source: Economic Survey, 2072/73 to 2077/78

Here, to identify trend line, least square method of time series has been used.

where, $a = \frac{\Sigma x}{n}$ & $b = \frac{\Sigma xy}{\Sigma x^2}$

a=127.94

b=34.9