

**VALUE ADDED TAX IN NEPAL: LEGAL PROVISIONS,
PRACTICES AND CONTRIBUTION
TO GOVERNMENT REVENUE**

Submitted By:

SUNIL TAMRAKAR

Shanker Dev Campus

Campus Roll No.: 1210/065

T.U. Regd. No.: 7-2-353-20-2002

2nd Year Symbol No.: 390295

A Thesis Submitted To:

Office of the Dean

Faculty of Management

Tribhuvan University

*In partial fulfillment of the requirement for the degree of
Master of Business Studies (MBS)*

Kathmandu, Nepal

March, 2013

RECOMMENDATION

This is to certify that the thesis

Submitted by:

SUNIL TAMRAKAR

Entitled:

**VALUE ADDED TAX IN NEPAL: LEGAL PROVISIONS,
PRACTICES AND CONTRIBUTION
TO GOVERNMENT REVENUE**

*has been prepared as approved by this Department in the prescribed format of the
Faculty of Management. This thesis is forwarded for examination.*

.....
Prof. Dr. Kamal Deep Dhakal
(Thesis Supervisor)

.....
Prof. Dr. Kamal Deep Dhakal
(Head, Research Department)

.....
Asso. Prof. Prakash Singh Pradhan
(Campus Chief)

.....
Romakant Bhattarai
(Thesis Supervisor)

VIVA-VOCE SHEET

We have conducted the viva –voce of the thesis presented

by:

SUNIL TAMRAKAR

Entitled:

**VALUE ADDED TAX IN NEPAL: LEGAL PROVISIONS,
PRACTICES AND CONTRIBUTION
TO GOVERNMENT REVENUE**

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

Master of Business Studies (MBS)

Viva-Voce Committee

Head, Research Department

Member (Thesis Supervisor)

Member (Thesis Supervisor)

Member (External Expert)

VIVA-VOCE SHEET

We have conducted the viva-voce examination of the thesis presented

By

SUNIL TAMRAKAR

Entitled

VALUE ADDED TAX IN NEPAL, LEGAL PROVISION, PRACTICES AND CONTRIBUTION TO GOVERNMENT REVENUE

And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for Master Degree in Business Studies (M. B. S.)

Expert Committee:

Chair Person (Research Committee)

Member (Thesis Supervisor)

Member (Thesis Supervisor)

Member (External Expert)

Date:

DECLARATION

I hereby declare that the work reported in this thesis entitled "**Value Added Tax in Nepal: Legal Provisions, Practices and Contribution to Government Revenue**" submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (MBS) under the supervision of **Prof. Dr. Kamal Deep Dhakal** and **Romakant Bhattarai** of Shanker Dev Campus.

.....

Sunil Tamrakar

Shanker Dev Campus

Campus Roll No.: 1210/065

T.U. Regd. No.: 7-2-353-20-2002

2nd Year Symbol No.: 390295

DECLARATION

I hereby declare that the work reported in this entitled “*VALUE ADDED TAX IN NEPAL, LEGAL PROVISION, PRACTICES AND CONTRIBUTION TO GOVERNMENT REVENUE*” submitted to Shanker Dev Campus, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master of Business Studies (M. B. S.) under the supervision of Prof. Dr. Kamal Deep Dhakal and Romakant Bhattarai of Shanker Dev Campus.

.....
Sunil Tamrakar

ACKNOWLEDGEMENT

This study is mainly concerned with an analysis of Value Added Tax in Nepal, Legal Provisions, Practices and Contribution to Government Revenue with investigation of problems regarding VAT in Nepal.

First of all, I like to express my sincere gratitude to my thesis supervisor Prof. Dr. Kamal Deep Dhakal and Romakant Bhattarai, Shanker Dev Campus, Tribhuvan University for his generous encouragement, proper guidance, timely comments and suggestions and undertaking of the supervision of my entire research work. I would also like to extend my sincere gratitude to Associate Prof. Prakash Man Singh, Campus Chief of Shanker Dev Campus and my other respected teachers of Shanker Dev Campus, for providing me valuable suggestion, comments and continuous suggestions.

Similarly, I wish to express my sincere thanks to all staffs of central library T.U., IRD library Lazimpat and National Library Harihar Bhawan who provided me the necessary data and ideas required for this study.

Lastly, my thanks goes to my family members, relatives, friends and all well-wishers for their continuous help in computer work, checking errors and mistake and other suggestions.

Effort has been made to avoid all type of errors and mistake. I am sorry for the unknown mistake that I made in this research work.

Sunil Tamrakar

CONTENTS

Viva-Voce Sheet

Recommendation Letter

Declaration

Acknowledgement

Contents

List of Tables

List of Figures

List of abbreviation

CHAPTER -I

Page No

INTRODUCTION

1-9

1.1 Background of the study

2

1.2 Statement of the Problems

4

1.3 Objective of the study

6

1.4 Significance of the study

6

1.5 Limitation of the study

8

1.6 Organization of the study

8

CHAPTER-II

CONCEPTUAL FRAMEWORK AND

REVIEW OF LITERATURE

10-64

2.1 Conceptual Framework

10

2.1.1 Development and Character of VAT

11

2.1.2 Type of VAT.

15

2.1.3 Objective of VAT

17

2.1.4 Basic Feature of Nepalese VAT System

18

| | |
|--|----|
| 2.1.5 Major Legal Aspect of VAT in Nepal | 19 |
| 2.1.6 Administrative Review and Offence of VAT | 20 |
| 2.1.7 Tax Harmonization | 22 |
| 2.1.8 Principle of VAT | 23 |
| 2.1.9 Working Nature of VAT | 24 |
| 2.1.10 Law of Governing VAT in Nepal | 24 |
| 2.1.11 Tax Liability Should Not base on Assumption | 30 |
| 2.1.12 VAT Introduction Consideration | 31 |
| 2.1.13 Impact of Uses of VAT | 33 |
| 2.1.14 VAT as a State Tax | 35 |
| 2.1.15 Exemption/Non-Exemption of VAT | 36 |
| 2.1.16 VAT Fraud and Evasion | 43 |
| 2.1.17 Sources of VAT Information about Practices in Nepal | 46 |
| 2.2 Review of Literature | 48 |
| 2.2.1 Review of Book / Reports | 48 |
| 2.2.2 Review of Journals/Articles | 51 |
| 2.2.3 Review of Previous Related Thesis | 56 |
| 2.3 Research Gap | 63 |

CHAPTER-III

| | |
|--|--------------|
| RESEARCH METHODOLOGY | 65-68 |
| 3.1 Research Design | 65 |
| 3.2 Nature of Data | 66 |
| 3.3 Source of Data | 66 |
| 3.4 Statistical Tools | 68 |
| 3.5 Data Processing and Analysis Procedure | 68 |
| 3.5.1 Tools, Techniques and Tests | 68 |

CHAPTER-IV

| | |
|---|---------------|
| DATA ANALYSIS AND PRESENTATION | 69-105 |
| 4.1 Revenue Structure of Nepal | 69 |
| 4.1.1 Non Tax Revenue | 69 |
| 4.1.2 Tax Payer Registration on VAT | 71 |
| 4.1.3 Composition of Tax Revenue | 73 |
| 4.1.4 Composition of Indirect Tax | 75 |
| 4.2 Performance and Contribution of VAT to Revenue Collection | 77 |
| 4.2.1 Tax/GDP Ratio | 77 |
| 4.2.2 Composition and Contribution of VAT to GDP And Total Revenue | 79 |
| 4.2.3 Composition of VAT | 79 |
| 4.2.4 Contribution of VAT to GDP and Total Revenue | 80 |
| 4.2.5 Contribution of VAT to Total Tax Revenue | 82 |
| 4.2.6 Share of VAT to Total Indirect Tax | 83 |
| 4.2.7 Comparison between Expected and Actual VAT | 85 |
| 4.3 Comparison of VAT Revenue Potentiality at Different Rates | 87 |
| 4.4 Statistical Analysis - Correlation Coefficient | 89 |
| 4.5 Analysis of Primary Data | 92 |
| 4.6 Major Findings from Secondary Data | 101 |
| 4.7 Major Findings from Primary Data | 103 |

CHAPTER – V

| | |
|--|----------------|
| SUMMARY, CONCLUSIONS AND RECOMMENDATION | 106-112 |
| 5.1 Summary | 106 |
| 5.2 Conclusion | 108 |
| 5.3 Recommendation | 109 |
| BIBLIOGRAPHY | 113-114 |
| APPENDIX | 115-117 |

List of Tables

| | | |
|------------|--|-----|
| Table 3.1 | -Respondent Schedule of Primary Data | 67 |
| Table 4.1 | -Magnitude of Revenue in Nepal | 70 |
| Table-4.2 | -Number of VAT Registrant | 72 |
| Table-4.3 | -Composition of Tax Revenue | 74 |
| Table-4.4 | - Composition of Indirect Tax | 76 |
| Table-4.5 | -Tax-GDP ratio in Nepal | 77 |
| Table-4.6 | -Composition of VAT | 79 |
| Table-4.7 | -Contribution of VAT in GDP and Total Tax Revenue | 81 |
| Table-4.8 | -VAT Revenue as a Percentage of Total Tax Revenue | 82 |
| Table-4.9 | -Share of VAT in Total Indirect Tax | 84 |
| Table-4.10 | -Comparison between Expected and Actual VAT | 85 |
| Table-4.11 | -Comparison of VAT Revenue Potentiality at Different Rates | 87 |
| Table-4.12 | -Calculation of Correlation Co-efficient | 89 |
| Table-4.13 | -VAT as a Suitable Means of Raising Government Revenue | 92 |
| Table-4.14 | - Practices of VAT Bill Issue/Receive in Transaction | 93 |
| Table-4.15 | - Sets of Account Book Maintain in Business/Firm | 93 |
| Table-4.16 | - Efficient of VAT System in Nepal | 94 |
| Table-4.17 | - Major Problem of VAT Management in Nepal | 95 |
| Table-4.18 | - Ways to Increase the VAT Registration Habit of Nepalese Businessman | 96 |
| Table-4.19 | - Practices of VAT Evasion in Nepal | 97 |
| Table-4.20 | - Suggestion for Eradicating VAT Evasion | 98 |
| Table-4.21 | - Response towards VAT Rate Raised | 99 |
| Table-4.22 | - Complication in Paying VAT | 100 |

List of Figure

| | | |
|--------------|---|----|
| Figure 3.1 | -Sources of Data | 66 |
| Figure 4.1 | -Magnitude of Revenue in Nepal | 71 |
| Figure -4.2 | -Number of VAT Registrant | 73 |
| Figure -4.3 | -Composition of Tax Revenue | 74 |
| Figure -4.4 | - Composition of Indirect Tax | 76 |
| Figure -4.5 | -Tax-GDP ratio in Nepal (Tax Effort Ratio) | 78 |
| Figure -4.6 | -Composition of VAT | 80 |
| Figure -4.7 | -Contribution of VAT in GDP and Total Tax Revenue | 82 |
| Figure -4.8 | -VAT Revenue as a Percentage of Total Tax Revenue | 83 |
| Figure -4.9 | -Share of VAT in Total Indirect Tax | 84 |
| Figure-4.10 | -Comparison between Expected and Actual VAT | 86 |
| Figure -4.11 | -Comparison of VAT Revenue Potentiality at Different Rate | 88 |

List of Abbreviation

| | |
|-------|---|
| B.S. | -Bikram Sambat |
| CEDA | -Center for Economic Development and Administration |
| DCs | -Developed Countries |
| EEC | -European Economic Countries |
| Etc. | -and the others |
| GDP | -Gross Domestic Product |
| GNP | -Gross National Product |
| HDI | -Human Development Index |
| HMG | - His Majesty's Government |
| HMG/N | -His Majesty's Government of Nepal |
| IRD | -Inland Revenue Department |
| Ltd. | -Limited |
| MOF | -Ministry of Finance |
| MST | -Multi Stage Tax |
| No. | -Number |
| NRB | - Nepal Rastra Bank |
| Pvt. | -Private |
| Rs. | -Rupees |
| S.N. | -Serial Number |
| SAARC | -South Asian Association for Regional Co-operation |
| T.U. | -Tribhuvan University |
| U.K | -United Kingdom (Great Britain) |
| U.S. | -United State |
| UDCs | -Undeveloped Countries |
| VAT | -Value Added Tax |
| VDC | -Village Development Committee |