

# CHAPTER I

## INTRODUCTION

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

In the present situation, the government spends lot of money to fulfill the responsibility of its people. That responsibility may be either for security or for health, for education or other development activities or for peace or to make secure from other states, etc. However, without resources, the state would be in stagnant situation. Civil personnel, army, police, teachers, administrators, bureaucrats, etc. depend on state's fund. To spend a lot of money, the government needs funds that are raised by internal and external way. The government revenue comes from different sources like grants, administrative income, business income, tax and foreign aid and loans. Among these most important source of government revenue is taxation. Customs, excise duties, value added tax, corporate and personal income taxes are the examples of the sources of tax revenue. The main objective of taxation is to collect revenue.

The history of systematic tax management in Nepal has not been so long. The sensitivity of revenue mobilization was realized only after popular movement of 1950 AD, prior to that the Rana rulers used the national property and revenue of the government as their own individual property. During that time excise duty, customs duty and land tax were the main sources of National income (Mainali, 2004). After the success of popular movement of 1950, the first national budget was submitted to the nation and thus it started making the tax system much more transparent and systematic.

The public revenue has two segments-taxable and non-taxable. Tax has two modes, direct and indirect. Direct taxes (property tax, income, expenditure) and indirect taxes (VAT, exercise duty and customs duty, etc.) are modern taxation, and structure in the Nepal can be designed in such a way that it can play a major role in the economic and social development of the country.

The value added tax is broad based indirect tax. The term value added tax is not world-wise. VAT is general consumption tax assessed on the value added to goods and services. VAT was introduced in Germany in 1919 A.D. to replace the

multistage sales tax in order to avoid the undesirable effects particularly cascading and pyramiding (Kandel, 2007). The first country to introduce VAT in Asia is Vietnam. Vietnam introduced VAT in 1973 but avoided in the same year and again rose in 1999. Our neighboring country China introduced VAT in 1984. India also has used for full VAT from 2003. Nepal introduced VAT in 16 November 1997. However, the concept of this tax in Nepal was introduced in early years of 1990's. Government of Nepal included the concept of introducing VAT in Nepal in its 8<sup>th</sup> Plan. Finance Act 1992 and 1994 introduced two tier sales tax to make the base of implementing VAT. VAT Task Force was formulated in 1993 in technical assistance of USAID, which suggested the steps to be followed while implementing the VAT in Nepal. It drafted the VAT law as well (Kandel, 2007).

In Nepal, VAT was brought to replace sales tax, contract tax, hotel tax, and entertainment tax. VAT is a modern tax system to improve the collection of taxes to increase efficiencies for the administration and to do inter-link among customs duty, income tax and excise duty (Shah, 2018).

At present, VAT is most important because it is eventually borne by the final consumers. It is collected at each stage of production and distribution chain. In conclusion, it can be said that VAT is a popular tax in the contemporary world. Today more than 130 countries in the world use this tax system and most of the business person understand the principles and application aspect of VAT and accept it.

To conclude, VAT has been one of the most important tool and element for developing rapid economy of the nation. It is improved and modified form of tax of sales tax. It is an instrument of revenue mobilization, backbone of the income tax and also minimizes the tax evasion. VAT is levied on value added of goods and service at each stage in the process of production and distribution. It is eventually borne by the final consumers and so, it is getting primary preference for the revenue generation. Previous sales tax system was based narrowly and less productive but VAT is a scientific system of taxation. Therefore, it is regarded most effective, scientific and popular means of taxation (Shah, 2018).

## **1.2 Statement of the Problem**

Nepal is one of the vulnerable developing countries in the world. About 6 decade of planned development system of the Nepalese economy, it is still suffering from poverty and stagnation. Nepal is facing on various problems like political, economic, social, technological and others dependency of foreign aid and loan from developed countries. More than 60 percent of Nepalese people are depended on agriculture which contributes only 1/3 of GDP. The per capita income of Nepal is also very poor which nearly US \$1120 is. In this condition, the government of Nepal decided to introduce VAT in Nepal from the FY 1997/98, with replacement of sales tax, entertainment tax, hotel tax and contract tax. Preliminary work was started since the FY 1994/95 to introduce VAT. After the midterm election 1994, there was frequent change in the government in Nepal. The government of Nepal was instable and disturbed its smooth functioning for a certain period. It had adopted from 16<sup>th</sup> November 1997 for this purpose. VAT registration work had been already started from April 1997.

When the VAT was introduced in Nepal, at that time many private sectors had been seen opposite of VAT. VAT is not applicable in Nepalese context because it increases tax burden to consumers and creates difficulties to administration as a problem of incompetent of manpower in tax system. However, the government claims that VAT is a modern and scientific tax system, which does not increase unnecessary tax burden nowadays.

Keeping this controversial situation in view, the study has tried to deal with the following issues,

- What is the share of VAT to total revenue, GDP and tax revenue?
- What are the trends of VAT registration and its cancellation?

## **1.3 Objectives of the Study**

The main objective of this study is to analyze the value added tax in Nepal. The specific objectives of this study are as follows:

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

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

The causes for the persisting fiscal deficit are small resource base, therefore, Nepal has to depend upon external resources but self-sustaining development is impossible. Only if external resources are utilized optimally, for strengthening internal resources of revenue collections, Nepal has adopted VAT administration and policy as an ingredient of fiscal sector reform.

Majority of Nepalese people are far unknown about various aspects of VAT. So, this study mainly focus in those aspects which are unknown to general public like theoretical aspect of VAT, structure and administration of VAT. In Nepal, significance of VAT in the contest of fiscal sector reform, existing practical problems of VAT in Nepal. VAT came into operation recently, so people are unknown about various aspects of it. VAT being itself a complicated and modern tax system, more efforts should be on actual circumstances.

#### **1.5 Limitations of the Study**

This study has following limitations:

- This study has used primary as well as secondary data.
- The reliability and validity of secondary data have not examined.
- All the aspects of VAT are not included in this study.

#### **1.6 Organization of the Study**

The organizations of the study are divided in six chapters. The first chapter includes general introduction of VAT, statement of the problem, objectives of the study, significance of the study, limitations of the study. The second chapter has included about review of past studies, international review, and Nepalese review of books, journals, and theses. The third chapter deals with the research methodology including research design, nature and sources of data, procedures of analysis and presentation of data. The fourth chapter highlights the tax revenue, meaning of VAT, evaluation of VAT, methods of calculating VAT, VAT and international trade, freeing from VAT, tax rates and tax refund of VAT in Nepal. The fifth chapter analyzes statistical tools and techniques and interpretation of data using variables like tables, charts, diagrams, percentage, mean and standard deviation, etc. The sixth chapter concludes summary of findings, and recommendations.

## **CHAPTER II**

### **REVIEW OF LITERATURE**

#### **2.1 Theoretical Review**

##### **2.1.1 International Review**

In the United States, the state of Michigan used a form of VAT known as the "Single Business Tax" (SBT) as its form of general business taxation. It is the only state in the United States to have used a VAT. When it was adopted in 1975, it replaced seven business taxes, including a corporate income tax. On August 9, 2006, the Michigan Legislature approved voter-initiated legislation to repeal the Single Business Tax, which became effective January 1, 2009. Sales taxes range from 0-13 percent and municipalities often add an additional tax in the form of a local sales tax.

House Speaker Nancy Pelosi stated in October 2009 that a new, national VAT was "on the table" to help the federal government garner needed revenues. After her speech, the Americans for Tax Reform group urged the public to contact their members of Congress to oppose this potential measure. President Barack Obama was reported to be open to a national VAT. One day later, US Treasury Secretary Tim Geithner stated that President Obama does not support a VAT for the US.

Wilhelm Van Siemens first recommended value added tax in 1919 for Germany to replace the multistage sales tax in order to avoid the undesirable effects. For the development of VAT in 1949, by the Tax Mission to Japan led by Prof. Carl. S. Shoup recommended the VAT for Japan in avoid the undesirable and unintended effects.

Due (1976) examined the VAT in developing countries and has made theoretical and implementation recommendations, along with its nature and history. VAT is regarded as a sales tax to overcome the demerits of turnover tax; VAT is entirely acceptable for the sales tax in comparison to other forms of sales taxes.

Due and Friedlander (1977) stated that VAT is the most critical among other sales taxes because it has broader coverage and offers great revenue potentiality in comparison to other type of sales taxes.

Value-Added is the tax base defined as the difference between sales of firm products and amount of sum of the amounts paid by the firms. In fact, indirect tax can be treated as a supplement of direct tax revenue. But dependence on indirect tax for revenue generation may create excess burden to the poor people. The authors accepted that "The administrative complexity" is the main visualized problem of VAT in developing countries. However, they concluded "it is undoubtedly the ideal form of sales tax in many countries."

Heming and Kay (1982) stated that Value added Tax (VAT) is the simple multi stages of goods and services. Its special characteristics are being that it falls on the value added at each stage from another stage of the production no retail stages.

### **2.1.2 National Review**

In Nepal, the tax system review Task Force constituted by Nepalese government in 1995 under the chairmanship of Prof. Madan Kumar Dahal proposed and recommended to implement VAT in lieu of sales tax, hotel tax, contract tax and entertainment tax. In this way, VAT came into full operation in Nepal in February, 1998.

Khadka (2004) concluded that VAT in Nepal was introduced as a major part of the overall tax reform program initiated in the early 1990's. A detailed preparation was made for the implementation encountered various obstacles due mainly to the political instability and opposition from the business community. Despite this, the number of VAT registrants and the VAT revenue collection has been increasing gradually. The implementation of VAT will broaden the tax base and develop a stable and reliable source for future revenue generation.

Koirala (2012) found that Value Added Tax (VAT) is a recent phenomenon in the arena of tax administration in Nepal. This paper aims to assess critically the performance of VAT in Nepal since its inception to date, focusing basically on three aspects of it, viz, (i) Current scenario of VAT administration (ii) Major issues, and (iii) Urgent corrective actions required. Most of the qualitative and quantitative relevant data have been collected from Economic Survey and office of Inland Revenue Department (IRD). The data comprises of both primary and secondary data.

Ozdemer (2015) stated that Value added tax (VAT) has been a handy instrument, particularly in the financing of European governments during the last quarter of the

twentieth century, when their expenditures were rising rapidly. This suggested to many that there could be an association between the share of VAT revenues in total government revenues and the rate of government growth. This paper investigates the effects of VAT on government growth using ordinary least squares with panel corrected standard errors for OECD countries. The results strongly suggest that unlike “cascading type of turnover taxes”, VAT does not increase the rate of government growth; rather, it can account for current slowdowns in government growth rates for OECD countries.

Nepal (2011) conducted a research on “Revenue generated from VAT in Nepal.”

The main objectives were:

- To analyze the status of VAT registration.
- To analyze the composition of VAT revenue.
- To analyze the applicability of VAT.
- To examine the helpfulness of VAT on economic growth.

The major findings were:

- 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.

Ghimire (2012) conducted a research on “Contribution of VAT to National Income.”

The main objectives were:

- To assess the contribution of VAT in IRD of Kathmandu to national revenue, total tax revenue, indirect tax revenue and total VAT revenue.
- To study about effectiveness and problems of implementation of VAT.

- To provide suggestions for effective implementation of VAT in Kathmandu.

The major findings were:

- The trend of VAT registrants in IRD of Kathmandu is in increasing trend which shows that people are being quite aware regarding VAT system and its advantage.
- Revenue is in increasing trend so it is expected to generate more VAT revenue in future and in the long run VAT will be an integral part of Nepalese tax structure but the revenue resources have not increased to meet in increasing government's expenditure as expected.
- Difficulties in business registration procedure, account keeping system and cost of record keeping are the major problems in business sectors.

Gautam (2014) conducted a research on "Value added tax: Problem and Prospective".

The main objectives were:

- 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.

The major findings were:

- There is a trend of persisting resource gap along with the huge amount of saving & investment and revenue & expenditure structure of Nepal.
- An efficient, strong & fair administration is the most crucial for proper implementation of VAT collectors.
- There is a crisis of confidence between the private sector and the government bodies i.e. VAT payers and self VAT collectors.
- VAT being a self-assessed, involve based and account based tax, the role of business community along with the general consumer is more important for its successful operation.



Acharya (2015) conducted a research on “Effectiveness of Value Added Tax in Revenue Collection in Nepal”

The main objectives were:

- To study the historical background of the VAT.
- To examine the contribution of VAT in revenue collection in Nepal.
- To analyze effectiveness and problems of VAT in Nepal.

The major findings were:

- Trend of revenue collection ratio through VAT depending in import business.
- Open boarder is main problem for collectiveness of VAT revenue collection.
- For improvement and more effectiveness of VAT, there should be developed skill manpower, make coordination with private sector, manager of reward and punishment systems prove in administration so on.

Silwal (1999) expressed his practical experience about VAT. The book covers all aspect of VAT. In writer's word "VAT is an all stages non-cascading tax system. It extends to all levels of production and distribution. Similarly, it covers all stages and services. Any discrimination in taxing goods or services or exempting any of them renders VAT ineffective." The book gives main focus on Nepalese tax system. The book clearly analyze why the government of Nepal introduced VAT. HMG announced retail level sales tax at the rate of 10 percent covering a whole range of goods and services. There was no procedural law to administer it. When RST introduced in Nepal, literacy level was just meager and billing and record keeping was fanciful. In this situation, required revenue could not take place, which in turn into the development expenditures. So that a modern, efficient and neutral tax like VAT was therefore preferred to get rid of past anomalies.

The writer expressed a version by borrowing HMG declaration that "The government of Nepal does not have the option of doing nothing. Major changes must be made in order to make tax administration fair, efficient and effective. The hostility, harassment and corruption that currently exist between the tax office and the business community must end if Nepal is to have a modern tax system. The business wants the system changed and willing to pay a reasonable tax but they want the system transparent and fair."

Silwal suggested that factors affecting VAT design take also into consideration. A poorly designed VAT accompanied by weak administration would just drain the treasury, so utmost care is necessary while designing VAT. According to him the following fact were considered while designing a VAT in Nepal.

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

Amatya, Pokhrel and Dahal (2004) exclusively designed for the subject "Taxation in Nepal". Unlike other books available on this subject, this book makes an in-depth approach to the study of value added tax in Nepal in order to meet the specific requirements of those students who are studying taxation as a concentrative. This study was very useful to know the legal provisions of Value Added Tax Act 1995. Theoretical aspects as well as numerical problems of value added tax are shrewdly presented in this book.

Bhattarai and Koirala (2015) described the theoretical and practical aspect of Value Added Tax with Practice & Regulation in Nepal. It is based on TU syllabus. They were able to describe the tax structure of Nepal and problems and prospectus of VAT.

Choir (1997) judged the impact of VAT in Korea. The government of Republic of Korea introduced general type of VAT of European model in 1977 with the objective of; simplification of tax restructure and administration, the promotion of exports, capital formation and maintenance of neutrality in indirect tax system. The government spent a good number of years for preparation and became success to convey the message that the adoption of VAT benefited the business person in Korea. It showed a good impact on the investment. In its overall evaluation the VAT has broadened tax base, reduced Evasions, increased revenue and solved major problems associated with the previous tax. Besides the positive impact stated above, the Republic of 'Korea' experience with VAT had made it clear that it was not so simple in practice. It created more or less arbitrary distortions in trade and consumptions and inequalities in the distribution of tax burden. VAT posses a corresponding increase may be substantial.

## **2.2 Empirical Review**

### **2.2.1 International Review**

According to economy watch website, Value Added Tax, popularly known as ‘VAT’, is a special type of indirect tax in which a sum of money is levied at a particular stage in the sale of a product or service ([www.economywatch.com/business-and-economy/vat.html](http://www.economywatch.com/business-and-economy/vat.html)).

Due and Meyer (1998) examined the VAT in Dominican Republic. Ignoring the hostile reaction of business sector, labor union and even political parties, VAT was introduced in 1983 in Dominican Republic. The increased record-keeping requirement became the main issue in the medium and small sizes business dominated economy of Dominican, also the belief that VAT was responsible for the inflation become another obstacle, but the inflation was due to other reasons. There was general agreement that the enforcement of the tax hadn't been adequate mainly because of lack of personnel. Evasion was wide spread, many firms failed to register. The overall evolution of the tax in the country therefore remained rather negative. While the tax has brought additional revenue, the inadequate enforcement and failure to extend it to the commercial sector as planned, and the use to making shift, distorting system in the latter have resulted in serious failure to attain the advantage of complete value added tax. The experience of the country with the tax provides a warning to other developing countries not to attempt to use a value added tax expending beyond to import and manufacturing sectors without careful consideration of the ability of the wholesale and retail sector to operate the tax, and general attitude of these sectors towards the tax.

Value added tax (VAT), or goods and services tax (GST), is tax on exchanges. It is levied on the added value that results from exchange. It differs from a sales tax because a sales tax is levied on the total value of the exchange. For this reason, a VAT is neutral with respect to the number of passages that there are between the producer and the final consumer. A VAT is an indirect tax, in that the tax is collected from someone who does not bear the entire cost of the tax. To avoid double taxation on final consumption, exports (which by definition, are consumed abroad) are usually not subject to VAT and VAT charged under such circumstances is usually refundable ([www.en.wikipedia.org/wiki/Value\\_added\\_tax](http://www.en.wikipedia.org/wiki/Value_added_tax)).

Shoup (1969) has considered that Value Added Tax as the latest and most probably the final stage in historical development of general sales tax, imposed on the value added by the business firms. He explains VAT as the difference between sales proceeds and the cost of the materials etc. purchased from other firms, which is the base of a VAT.

Value Added Tax, popularly known as 'VAT', is a special type of indirect tax in which a sum of money is levied at a particular stage in the sale of a product or service, ([www.economywatch.com/business-and-economy/vat.html](http://www.economywatch.com/business-and-economy/vat.html))

Goode (1986) suggested that among the advantages of the value added tax are its broad coverage and relative neutrality. Goods and services are subject to the same effective rate of taxation except where a deliberate decision is made to discriminate through the rate structure or exemption. The author regards VAT as the most important tax innovation of the second half of twentieth century.

Due and Friedlander (1977) highlighted that VAT is the most critical among the sales taxes because it has broader coverage and offers great revenue potentially in comparison to other type of sales tax.

Murti (1998) offered an explanation of the underlying theories pushing Hungary to develop a VAT system, under the substantially changing economic condition, there was need to lift the state regulation and leave the economy to be operated by the profit mechanism. In addition to certain other factors, the development of market force required through changes in the price structures its wage content and taxation. In other words, the reform included the tax and price reform was to diminish the tax burden on the business sector, make it more uniform and simplicity in taxation and budgeting relationships. By reducing the part of taxes payable from corporate income the level of produces prices might have fallen with other portion of taxes being transformed into cost. This was going to be ensured by introducing VAT and personal income tax parallel with modifying the taxation of the business sector and system of producer prices.

Ahmand and Lucflow (1999) identified the alternative tax reform packages on VAT for Pakistan keeping the distributional consequence in consideration. The authors have their own method for the tax reform analysis. In the first step, they describe the existing taxes and then, examine the consequences of the tax changes (and thus price

changes) on households, resulting government revenue and also implications for production. They analyze and compare the consequences of different options such as the single rate VAT with selective exercise and some exemptions (Or zero rating) and multiple VAT rates. The reform with equal revenue and the reform with additional revenue as well as the production implications of tax reform are also considered. The work shows that instrument can be designed to increase revenue and at the same time, protect the poor. A value added tax supplanted with selective excises would have made Pakistan's tax system more buoyant and reduced the production distortions inherent in Pakistan's current tax system and not at the expense of the poor.

Carl (1999) viewed that Value Added Tax as the latest and probably the final stage in a historical development of general Sales Tax, which is imposed on the "value added" by the business firms. VAT is the difference between sales proceeds and the cost of materials etc. purchased from other firms, which is the tax base of a VAT. A firm adds value added by processing or handling these purchased items with its labor force and its own machinery, building or other capital goods.

Aujean, Jenkins and Poddar (1999) developed a model for central and eastern European countries, on the base of the observation on the value added tax in EC and OECD countries. In this article, he states that it requires nearly complete overhaul of the tax system and in most contrives the introduction of VAT is considered a corner stone of the necessary tax reform. "In addition, he describes that this form of taxation is worldwide, apart from that of transaction based, accounts controlled VAT in the market economy based on the free enterprise and pricing system." At last, he has concluded that on appropriate VAT for central and eastern European countries has proceeded from the widely agreed promise that the tax should be used almost exclusively to generate revenue for government budget in as neutral and administratively feasible manner as possible, while the income tax can be employed to achieve distribution objectives and excise and imports duties to attain allocate goals", the focus of the VAT should be on revenue."

Shome (2004) tried to examine the extent of gain or loss to the states from the introduction of value added tax, having features of uniform design, tax credit for inputs, extensions of tax base to transactions beyond the first-point sale and zero-rating of interstate trade and international exports. She stated that exclusion of services from the base would not eliminate the problem of cascading from the tax

system. As manufacturing sector output was the major basis of sales tax, the estimation of impact of VAT was limited to registered manufacturing sector only. If the entire cost of tax was passed on as higher prices of output, then the result would be reduction in value of output. The effects of Introduction of VAT were classified into four parts, i.e., loss from providing input tax credit, loss from reduced value of output, loss from removal of CST, and gains from taxing second and subsequent sales within the state. With certain assumptions, she estimated the losses, gains and net impact on different states for the year 1997-98. With 15 per cent rate of VAT, the impact (loss) varied from Rs. 932 crore for U.P. to Rs. 1054 crore for Maharashtra.

Narayan (2003) noticed that something interesting. Indeed, by assuming a 100 percent collection rate and approximately a 0.6 percent rise on real GDP, if Fiji's VAT was increased by 25 percent, it resulted in about 4 percent increase in government revenue. Nevertheless, it caused investment, real consumption and national welfare to decline.

Shahabuddin (2005) investigated income distributional implications of different VAT schemes in Bangladesh in his paper "the equity impact of value added tax in Bangladesh." Applying the method developed by Alameda and Stern and using the data of household consumption expenditure and input output table, the results obtained indicate that a revenue neutral uniform VAT is regressive (relative to pre-reform situation) in its impact on the income of different households. The paper also explores the income distributional impact of an alternative policy package, and the welfare consequences of the alternative package are found to be superior to those of uniform VAT. The findings of the study suggest that, among different possible VAT schemes, a selective VAT with exemption core zero rating) and additional exercise is clearly preferable than to a complete uniform VAT if the distribution issues are of dominant concern in tax reform.

Aydin, (2010) stated that following the adoption of value added taxes by western Europe countries, many developing countries have been giving increased attention to this form of tax as a means of rationalizing their Sales Taxes and improving their revenue."

Jantshcer and Silvani (2010) presented their research paper entitled as "The guide lines for administering a VAT" in the seminar on "the value added tax in Asia"

organized by IMF and UNDP. For effective and proper administering a VAT, they emphasized registration and taxpayer's identification, invoicing and book keeping requirements and the collection function, including the role of electronic data processing.

Burgess, Stephen and Nicholas (2010) suggested that a comprehensive VAT covers value added at all the three levels of business activities, i.e., manufacturing, wholesaling and retailing. He distinguished between three types of VAT, i.e., consumption VAT, net income VAT and gross income VAT; and opined that a comprehensive VAT with consumption base, the tax credit method, following destination principle to determine VAT on international and inter-state trade flows could be an ideal commodity tax structure for India. There could be ideally two types of tax regimes in India with central and state VATs. There could be parallel central and state VATs on the same base from manufacturing to retailing or central VAT up to manufacturing stage and the state VAT at wholesaling and retailing stages. He further pointed out that VAT system with one or two rates might have to be implemented by special excise and subsidies to take care of the problems of equity, environment and social evils like tobacco and alcohol.

Hsiung (2011) made an effort to assess the VAT in Taiwan, which was in effect since 1986. According to her, the VAT in Taiwan was implemented in order to increase the competitiveness of exports and improve the efficiency of business tax structure. VAT had replaced business receipt tax, stamp tax and commodity tax which constituted 28% of total tax revenue. The impact of VAT showed that the business tax revenue increased considerably although the reform were aimed to be revenue neutral. Adoption of VAT did not cause price fluctuations. Another surprising impact of VAT was that the revenue from the business income tax increased significantly immediately after the adoption of VAT. This may be attributed to the cross-checking procedure provided by VAT. As for exports, there did not seem to be a direct link between VAT and exports since exports are influenced by a number of factors. The tax fell heavily on the public sector business and they were more affected by VAT than the private sector business. Generally, it can be said that the VAT system tremendously improves the efficiency of tax collection. However, there are some rooms for improvements especially in administration. The experience of Taiwan has attested to the superiority of VAT in taxing business activities.

Choi (2012) examined and evaluated the Value Added Tax in Korea from its introduction to its effects on the economy in his paper “Value Added Tax in the Republic of Korea”. VAT in the Republic of Korea was introduced in 1977 as a part of large tax reform with the objectives of the simplification of tax structure and its administration, the promotion of exports, capital formation and maintenance of neutrality in indirect tax system. Introduction of VAT was also guided by revenue consideration. The characteristics of Korea VAT were of general type as had been lesser than its supporter had claimed in its favor or its opponents had feared would result from its introduction. The VAT did not have a major impact on the price increases, it showed a good impact on investment, and VAT supported exporters more than the previous tax system. One of the most controversial issues of VAT is that it is regressive in nature. Studies found that the VAT in Korea was more or less regressive with respect to income. In its overall evaluation, VAT in Korea has worked relatively well, in some cases much better than its designer and taxpayers had anticipated. The VAT has broadened tax base, reduced evasion, increased revenue and solved many problems associated with previous taxes.

However, the VAT may be simple in theory; the Korea experience with VAT during the last 10 years has made it clear that it was not so simple in practice. It created a host of problems that gave rise to voluminous paper work, more or less arbitrary distortions in trade and consumption and inequalities in the distribution of tax burden. The proper assessment of several problems relating to VAT including coverage, rate structure, administration, special taxpayer, co-ordination with direct taxation, etc. It will help other countries to learn from Korea experience.

### **2.2.2 National Review**

VAT is definitely a new and modern tax as compared with other traditional tax systems. Actually, VAT is thought of being the most important tax reform in the 21<sup>st</sup> century. VAT has gained wide concern among the economist, policymaker as well as businessman in Nepal. So, there has been a lot of study in this topic at the national level as well.

Dahal (1984) suggested that VAT is a most scientific innovative and powerful tax with built-in quality of universal application for both developed and developing economies. The biggest virtue of VAT is that it is revenue buoyant and highly



instrumental for resource mobilization especially in an economy with and acute shortage of resource. "He further added" Nepal has entered in to major global tax system with the introduction of VAT

Bhattarai and Koirala (2007) recommended that VAT is a general consumption tax assessed on the valued added to goods and service. It is a general tax that applies in principle to all commercial activities involving the production and distribution of goods and the provision of services. It is a consumption tax because it is borne ultimately by the final consumers; it is not a charge on companies. It is charge 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 an indirect tax, in that the tax is collected from someone other than the person who actually bears the cost of the tax (namely the seller rather than the consumer). As VAT is intended as a tax on consumption exports (which are by definition consumed abroad) are usually not subject to VAT is refunded,

Silwal (1999) covered all the aspects of VAT. The author experience extends to all levels of production and distribution. Similarly, it covers all stages and services or exempting any of them renders VAT ineffective.

Value Added Tax is not an additional tax, but has replaced taxes such as sales tax, hotel tax, contract tax and entertainment tax that used to be levied on the sale of goods and services (Khadka, 1997).

Thapa (1994) made an effort on "Value Added Tax into Nepalese Context." he applied the theoretical methodology and deal with theoretical issues. The conclusion derived was "considering the present condition of Nepal facing government expenditure, low revenue effort, high dependency of foreign loan, and need of more economic growth of the economy and because of low revenue potentiality from direct taxes there is a prompt need to improve the Sales Tax of Nepal. But there is less chance to mobilize more revenue through existing form of Sales Tax. In this context, there is no any other alternative except introducing VAT in Nepal.

Karnikar (1997) made a study with Nepal Chamber of Commerce to examine VAT in Nepalese economy in 1997. The main finding of the study report was follows:

- VAT effects adversely in price level.

- It increases the price of imported goods.
- Ultimately increase the cost of production there by reduces the exports business.
- Requirement of book-keeping is complicated
- It would finally affect the small traders.
- It is Untimely to implement.
- It would be unjustifiable on social ground.
- Present administration is incapable for handling VAT.
- Computerization system is not sufficient and it is new concept for the tax administration.

The study report suggested for a partial VAT on some commodities. It was in favor of phase-wise implementation of VAT. This study analyses negative impact of VAT neglecting its positive impact.

Bista (2000) focused the need of VAT for Nepal for several reasons. They are effective revenue mobilization, industrial development, story administration, transparency and avoiding all tax loopholes. VAT helps to reduce the resource gap by broadening the tax base and mobilizing additional resource by controlling tax, leakage, smuggling, unofficial trade and corruption through transparency and account based cross checking. Positive and favorable effects of VAT on all sectors can be aligned only if government can operate the VAT administration with effectively and efficiently in his dissertation, found the following findings:

- The Sales Tax system is failure to several cases: narrow tax base, inelasticity of tax rate, incapable and weak administration tax leakage, corruption and political intervention. So, the entire tax reform is needed.
- A VAT is account based, invoice based and record based: it checks the tax loopholes such as under valuation, non-recording and unauthorized trade. It discourages such issues and problems existed in the Sales Tax system.
- VAT mobilizes the additional resources and the rest of internal resources by broadening tax base and by discouraging the existing tax loopholes.

- For implementation of VAT, the public awareness level relating VAT and VAT administration should be good and it is a pre-requisite in the preparation of VAT.

VAT administration should be strong and efficient in order to implement properly. But in Nepal, VAT administration has been facing the problems like corruption, incapability, inefficiency, delaying, ineffectiveness, inadequate physical environment, unexpended employee and weak organizational set up.

Pokharel (2005) described Value Added Tax (VAT) is the improved and modified form of the traditional sales tax and avoids cascading effect existed in sales tax. Value added at each stage of the production and distribution activities. The stage may be import, manufacturing, wholesale and retail. Value added is sale value minus purchase value or conversion cost plus profit. Conversion cost may include wages, interest, rent, depreciation, other expenses & overhead and taxes excluding VAT and income tax.

Sharma (2008) examined several aspects of VAT administration such as its problems, constructions, possibilities, operation and other aspects. In his dissertation, he has found the following findings:

- Most of the Traders and businessman are lacked with the minimum concept of VAT. They are mainly facing pricing, billing and accounting problems.
- An adequate VAT education programs are not conducted and VAT administration has also facing lack of administrative personnel.
- The relation between government and business community is broken, which has been barrier to implement of VAT successfully.

His suggestion to the government to implement VAT successfully in Nepal as follows:

- The government should pay attention of design the strong administration.
- The government should try to produce gazette manpower and to train them well.
- The government should launch comprehensive educational program.

At last, he concludes that VAT requires the strengthen administration for its effective and efficient implementation.

Sainju (2009) commented the experience of VAT system in the past years reveals that the VAT system is gradually succeeding in making the revenue system of Nepal more scientific and has also been increasing internal revenue generation which is very praiseworthy. By gradually resolving the problems seen in its concept, the role of the tax administration, industrialists, businessman, and most importantly the consumers is crucial and hence their full and honest contribution is expected. The mobilization of internal revenue occupies an important role in the mission of national development. Therefore the researcher suggest, a part from the government's commitment in making a scientific and systematic tax system to make VAT more successful and effective, there is equal need for contributions from industrialist, businessmen as well as consumer as well.

From the above definitions, it is obvious that VAT is an indirect tax which is the news and significant experiment done on the modern tax system. Like its predecessor, i.e., the sales tax, VAT is also levied on the sale of goods and services (GST). VAT is a broad-based tax as it also covers the value added to each commodity by a firm during all stages of production and distribution. It is a modern tax system to improve the collection of taxes.

### **2.3 Research Gap**

This research helps the reviewers to find the updated and changed situations in the economy and the behaviors of the consumers and business persons towards the VAT system. VAT is becoming the backbone leading indirect tax for the strong revenue system for development of the country in Nepal. In the past, there were not enough development of information and technology and Inland Revenue Offices in different cities of the country. But now it has been improving as major revenue resource of government. For sound implementing VAT system, the government and its concerned agencies are making different plans and policies to collect the maximum revenue in the country for the welfare of the people of Nepal. Besides, VAT system is most important tool to collect the higher revenue through government agencies. So, this is the deficit between past studies and these research studies which is the important for planners, policy makers, VAT experts, economists and business scientists.

## CHAPTER III

### RESEARCH METHODOLOGY

#### 3.1 Introduction

This study is undertaken to examine the condition of value added tax in Nepal, past and present. Actually this is a review of past and present situation of Value Added Tax in Nepal: problems and prospects. More specifically to fulfill objective describe about research design, nature and sources of data, tools, procedure of presentation and analysis etc.

#### 3.2 Research Design

Most of data and information of the study are concerned with past phenomena of the performance either they are numerical or opinions. The studies have made the base of past rustles of VAT and to analyze it. After collection of past data and experience, this study uses its own procedure. Therefore this study also followed analytical as well as descriptive research design.

#### 3.3 Population and Sample

The population for this study was comprise of the entire person belonging to or associated with Value Added Tax in Nepal. They were tax administrators, experts business persons and customers. In order to fulfill the objectives of the study, 60 samples from the population in the Kathmandu Valley were by consultation with lecturers and best judgments of the researchers. The respondents could be divided into three groups. The following table shows the groups of respondents and the size of samples:

**Table 3.1**  
**Group of Respondents and Sample Size**

S. N.	Group of Respondents	Sample Size	Percentage
1.	Tax Administrators	20	33.33
2.	Tax Experts	20	33.33
3.	Tax Payers	20	33.33
	Total	60	100.00

Source: Opinion Survey, 2017

### **3.4 Nature and Sources of Data**

The nature of the study is descriptive as well as analytical. Both primary as well as secondary data were collected in order to achieve the real and factual result out of this research. Since the nature of these primary and secondary data is different, collection procedure also tend to vary. A set of questionnaires was designed and distributed to the selected respondents and data were also collected from respondents through field visit by the researchers. The secondary data were collected through annual reports, different books and publications. The sources and data collection procedure is explained below:

#### **A. Primary Sources**

The primary data were collected through following techniques:

- (a) Interview
- (b) Questionnaire Survey
- (c) Telephone Queries

#### **B. Secondary Sources**

The secondary data of this research were collected from the following sources:

- a) Published and unpublished reports, articles and dissertations on the concerned subject.
- b) Published documents of National Planning Commission.
- c) Publication and annual reports of Inland Revenue Department (IRD).
- d) Publications of Nepal Rastra Bank.
- e) Various books written by Tax Officers and Scholars.
- f) Publications, Budget Speeches and Economic Survey of various fiscal year of Ministry of Finance, the Government of Nepal.
- g) Publications of various VAT Departments.
- h) Websites.

The collected data through secondary sources have been tabulated in different ways according to the requirement of the study.

### **3.5 Tools and Techniques of Presentation and Analysis of Data**

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

- a. Simple Average,
- b. Simple Percentage,
- c. Graphs, Charts and Diagram.

## CHAPTER IV

### THEORETICAL BACKGROUND OF VAT IN NEPAL

#### 4.1 Introduction

VAT was introduced in attempt to improve the existing shortcoming of the sales tax. In the history, the VAT has emerged as an alternative to defective multi-stage turnover tax. In the 21<sup>st</sup> century nothing has become popular as VAT in the field of taxation (Khadka, 2012).

Emergence of VAT dates back to 1919 as an improved turnover tax. German industrialist Dr. Wilhelm Von Simons proposed the tax to replace multistage turnover taxes in Germany. In 1994, Prof. Carl S. Shoup recommended VAT for Japan, but such proposal never came into effect. The modern VAT first appeared in France in 1954. It covered industrial sectors that extended to the whole-sale level.

Following France, several others countries such as Senegal, Algeria and Morocco (1960) introduced VAT that was limited to import and manufacturing stages only. Thereafter, Brazil (1967) Uruguay (1968), Ecuador (1970), Bolivia (1973) and Argentina (1975) introduced VAT in their countries. Subsequently, many European countries such as Denmark, Sweden and Norway also adopted VAT. During 1970s and 1980s, VAT spread to Asian countries such as Vietnam (1985), Korea (1977), China (1984), Indonesia (1985), Taiwan (1986), Philippines (1988), Japan (1989), Thailand (1992), Singapore (1994) and Mongolia (1989). In South Asia, Pakistan introduced VAT in 1990, following by Bangladesh (1991) and Sri Lanka (1995). In India, the tax reform committee headed by Raja J. Chelliah recommended full-fledged VAT for India in 1992 and implemented MODVAT in place of VAT. At present, around 130 countries have adopted it in their respective countries.

Value added tax (VAT) is similar to a sales tax. It is a tax on the estimated market value added to a product or material at each stage of its manufacture or distribution, ultimately passed on to the final consumers. Mauric Joint Director of the French Tax. Initially directed at large businesses, it was extended over time to include all business sectors. In France, it is the most important source of state finance, accounting for nearly 50 percent of state revenues.

Personal end-consumers of products and services cannot recover VAT on purchases, but businesses are able to recover VAT on the products and services that they buy in



order to produce further goods or services that will be sold to yet another business in the supply chain or directly to a final consumers. In this way, the total tax levied at each stage in the economic chain of supply is a constant fraction of the value added by a business to its products, and most of the cost of collecting the tax is borne by business, rather than by the state. VAT was invented because of very high sales taxes and tariffs encourage cheating and smuggling. Critics point out that it disproportionately raises taxes on middle- and low-income homes.

The European Union Value Added Tax (EU VAT) is a value added tax encompassing member states in the European Union Value Added Tax Area. Joining in this is compulsory for member states of the European Union. As a consumption tax, the EU VAT taxes the consumption of goods and services in the EU VAT area. The EU VAT's key issue asks where the supply and consumption occurs thereby determining which member state will collect the VAT and which VAT rate will be charged.

VAT is charged by a business and paid by its customers is known as "output VAT" (that is, VAT on its output supplies). VAT is paid by a business to other businesses on the supplies that it receives is known as "input VAT" (that is, VAT on its input supplies). A business is generally able to recover input VAT to the extent that the input VAT is attributable to its taxable outputs. Input VAT is recovered by setting it against the output VAT for which the business is required to account to the government, or, if there is an excess, by claiming a repayment from the government.

The VAT Directive (prior to 1 January 2007 referred to as the Sixth VAT Directive) requires certain goods and services to be exempt from VAT (for example, postal services, medical care, lending, insurance, betting), and certain other goods and services to be exempt from VAT but subject to the ability of an EU member state to opt to charge VAT on those supplies (such as land and certain financial services). Input VAT that is attributable to exempt supplies is not recoverable; although a business can increase its prices so the customer effectively bears the cost of the 'sticking' VAT (the effective rate will be lower than the headline rate and depend on the balance between previously taxed input and labor at the exempt stage).

OECD (2008, pp.112-113) approvingly cites Chanchal Kumar Sharma (2005) to answer why it has proved so difficult to implement a federal VAT in India.

"Although the implementation of broad-base federal VAT system has been considered as the most desirable consumption tax for India since the early 1990s, such a reform

would involve serious problems for the finances of regional governments. In addition, implementing VAT in India in context of current economic reforms would have paradoxical dimensions for Indian federalism. On one hand economic reforms have led to decentralization of expenditure responsibilities, which in turn demands more decentralization of revenue raising power if fiscal accountability is to be maintained. On the other hand, implementing VAT (to make India a single integrated market) would lead to revenue losses for the States and reduce their autonomy indicating greater centralization" (Sharma, 2005, as quoted in OECD, 2008, pp. 112-113).

Sharma (2005) led the government to propose an imperfect model of VAT" 'Indian VAT system is imperfect' to the extent it 'goes against the basic premise of VAT'. India seems to have an 'essence less VAT' because the very reasons for which VAT receives academic support have been disregarded by the VAT-Indian Style, namely: removal of the distortions in movement of goods across states; Uniformity in tax structure. Sharma (2005) clearly stated, "Local or state level taxes like octroi entry tax, lease tax, workers contract tax, entertainment tax and luxury tax are not integrated into the new regime, which goes against the basic premise of VAT, which is to have uniformity in the tax structure. The fact that no tax or will be allowed for inter-state trade seriously undermines the basic benefit of enforcing a VAT system, namely the removal of the distortions in movement of goods across the states".

Even the most essential prerequisite for success of VAT i.e. elimination of [Central sales tax (CST)] has been deferred. CST is levied on basis of origin and collected by the exporting state; the consumers of the importing state bear its incidence. CST creates tax barriers to integrate the Indian market and leads to cascading impact on cost of production. Further, the denial of input tax cr. on inter-state sales and interstate transfers would affect free flow of goods.

The greatest challenge in India, asserts Sharma (2005) is to design a sales tax system that will provide autonomy to sub-national levels to fix tax rate, without compromising efficiency or creating enforcement problems.

The Act appears to be the most liberal VAT law in India. It has simplified the registration procedures and provides for across the board input tax (with a few exceptions) for business transactions. A unique feature of registration in Andhra Pradesh is the facility of voluntary VAT registration and input tax for start-ups.

The act not only provides for tax refunds for exporters (refund of tax paid on inputs used in the manufacture of goods exported) but also provides for refund of tax in cases where the inputs are taxed at 12.5 percent and outputs are taxed at 4 percent.

Increased growth and pressure on the GCC's governments to provide infrastructure to support growing urban centers, the Member States of the Persian Gulf Cooperation Treaty, which together make up the Gulf Cooperation Council (GCC), have felt the need to introduce a tax system in the region.

In particular, the United Arab Emirates (UAE) has clarified that government officials are studying the situation and considering implementation of a Value Added Tax.

Prior to the IVA, a similar tax called impuesto a Las ventas ("sales tax") had been applied in Mexico. In September, 1966, the first attempt to apply the IVA took place when revenue experts declared that the IVA should be a modern equivalent of the sales tax as it occurred in France. At the convention of the Inter-American Center of Revenue Administrators in April and May, 1967, the Mexican representation declared that the application of a value-added tax would not be possible in Mexico at the time. In November, 1967, other experts declared that although this is one of the most equitable indirect taxes, its application in Mexico could not take place.

In response to these statements, direct sampling of members in the private sector took place as well as field trips to the European countries this tax was applied or it was soon to be applied. In 1969, the first attempt to substitute the mercantile-revenue tax for the value-added tax took place. On December 29, 1978 the Federal government published the official application of the tax beginning on January 1, 1980 in the Official Journal of the Federation.

As of 01/01/2010, the general 15 percent VAT rate will be increased to 16 percent. This rate is applied all over Mexico except for the Mexican region bordering the US states of California, Arizona, New Mexico and Texas, where the VAT (IVA) tax is 10 percent (to be raised to 11 percent as of 01/01/2010.) The main exemptions are for books, food, and medicines on a 0% basis. Also some services are exempt like medical doctors attention.

Goods and Services Tax (GST) is a Value Added Tax introduced in New Zealand in 1986, which is currently 12.5 percent. It is notable for exempting few items from the tax. From 1 October 2010 will be increased to 15 percent.

Goods and Services Tax (GST) is a Value Added Tax introduced in Australia in 2000, which is collected by the Federal Government but a percentage is given to the State Governments. The Australian Constitution restricts the ability of individual States to collect excises or sales taxes. Whilst the rate is currently set at 10 percent, there are many domestically consumed items that are effectively zero-rated (GST-free) such as fresh food, education, and health services, as well as exemptions for Government charges and fees that are themselves in the nature of taxes.

Goods and Services Tax (GST) is a Value Added Tax introduced by the Federal Government in 1991 at a rate of 7 percent, later reduced to the current rate of 5 percent. A Harmonized Sales Tax (combined GST and provincial sales tax) is collected in New Brunswick and Newfoundland (13 percent) and Nova Scotia (15 percent), and effective July 1, 2010 Ontario (13 percent) and British Columbia (12 percent). Advertised prices for goods generally do not include taxes; instead, tax is calculated at the cash register.

#### **4.1 Comparison with a Sales Tax**

Value added tax (VAT) 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 favors 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.

In many developing countries such as India, sales tax/VAT is key revenue sources as high unemployment and low per capita income render other income sources inadequate. However, there is strong opposition to this by many sub-national governments as it leads to an overall reduction in the revenue they collect as well as a loss of some autonomy.

Sales tax is normally charged on end users (consumers). The VAT mechanism means that the end-user tax is the same as it would be with a sales tax. The main difference is

the extra accounting required by those in the middle of the supply chain; this disadvantage of VAT is balanced by application of the same tax to each member of the production chain regardless of its position in it and the position of its customers, reducing the effort required to check and certify their status. When the VAT system has few, if any, exemptions such as with GST in New Zealand, payment of VAT is even simpler.

#### **4.2 Basis for VAT**

By the method of collection, VAT can be accounts-based or invoice-based under the invoice method of collection, each seller charges VAT rate on his output and passes the buyer a special invoice that indicates the amount of tax charged. Buyers who are subject to VAT on their own sales (output tax), consider the tax on the purchase invoices as input tax and can deduct the sum from their own VAT liability. The difference between output tax and input tax is paid to the government (or a refund is claimed, in the case of negative liability). Under the accounts based method, no such specific invoices are used. Instead, the tax is calculated on the value added, measured as a difference between revenues and allowable purchases. Most countries today use the invoice method, the only exception being Japan, which uses the accounts method.

The timing of collection, VAT (as well as accounting in general) can be either accrual or cash based. Cash basis accounting is a very simple form of accounting. When a payment is received for the sale of goods or services, a deposit is made, and the revenue is recorded as of the date of the receipt of funds, no matter when the sale had been made. Checks are written when funds are available to pay bills, and the expense is recorded as of the check date — regardless of when the expense had been incurred. The primary focus is on the amount of cash in the bank, and the secondary focus is on making sure all bills are paid. Little effort is made to match revenues to the time period in which they are earned, or to match expenses to the time period in which they are incurred. Accrual basis accounting matches revenues to the time period in which they are earned and matches expenses to the time period in which they are incurred. While it is more complex than cash basis accounting, it provides much more information about your business. The accrual basis allows you to track receivables (amounts due from customers on credit sales) and payables (amounts due to vendors on credit purchases). The accrual basis allows you to match revenues to the expenses incurred in earning them, giving you more meaningful financial reports.

Further information: Comparison of Cash Method and Accrual Method of accounting

### **Example**

Consider the manufacture and sale of any item, which in this case we will call a widget. In what follows, the term "gross margin" is used rather than "profit". Profit is only what is left after paying other costs, such as rent and personnel.

#### **Without any tax**

- A widget manufacturer spends \$1.00 on raw materials and uses them to make a widget.
- The widget is sold wholesale to a widget retailer for \$1.20, making a gross margin of \$0.20.
- The widget retailer then sells the widget to a widget consumer for \$1.50, making a gross margin of \$0.30.

With a North American (Canadian provincial and U.S. state) sales tax with a 10% sales tax:-

- The manufacturer pays \$1.00 for the raw materials, certifying it is not a final consumer.
- The manufacturer charges the retailer \$1.20, checking that the retailer is not a consumer, leaving the same gross margin of \$0.20.

So, the consumer has paid 10 percent (\$0.15) extra, compared to the no taxation scheme, and the government has collected this amount in taxation. The retailers have not paid any tax directly (it is the consumer who has paid the tax), but the retailer has to do the paperwork in order to correctly pass on to the government the sales tax it has collected. Suppliers and manufacturers only have the administrative burden of supplying correct certifications, and checking that their customers (retailers) are not consumers.

#### **With a Value Added Tax**

With a 10 percent VAT:

- The manufacturer pays US \$1.10 [ $\$1 + (\$1 \times 10 \text{ percent})$ ] for the raw materials, and the seller of the raw materials pays the government \$0.10.

- The manufacturer charges the retailer US \$1.32 [ $\$1.20 + (\$1.20 \times 10\%)$ ] and pays the government \$0.02 [ $\$0.12 \text{ minus } \$0.10$ ], leaving the same gross margin of \$0.20. [ $\$1.32 - \$0.02 - \$1.10 = \$0.20$ ]
- The retailer charges the consumer \$1.65 [ $\$1.50 + (\$1.50 \times 10\%)$ ] and pays the government \$0.03 ( $\$0.15 \text{ minus } \$0.12$ ), leaving the same gross margin of \$0.30 [ $\$1.65 - \$0.03 - \$1.32 = \$0.30$ ].

With VAT, the consumer has paid, and the government received, the same as with sales tax. The businesses have not incurred any tax themselves. Their obligation is limited to assuming the necessary paperwork in order to pass on to the government the difference between what they collect in VAT (output tax, an 11th of their sales) and what they spend in VAT (input VAT, an 11th of their expenditure on goods and services subject to VAT). However they are freed from any obligation to request certifications from purchasers who are not end users, and of providing such certifications to their suppliers.

The advantage of the VAT system over the sales tax system is that under sales tax, the seller has no incentive to disbelieve a purchaser who says it is not a final user. That is to say the payer of the tax has no incentive to collect the tax. Under VAT, all sellers collect tax and pay it to the government. A purchaser has an incentive to deduct input VAT, but must prove it has the right to do so, which is usually achieved by holding an invoice quoting the VAT paid on the purchase, and indicating the VAT registration number of the supplier.

A VAT, like most taxes, distorts what would have happened without it. Because the price for someone rises, the quantity of goods traded decreases. Correspondingly, some people are worse off by more than the government is made better off by tax income. That is, more is lost due to supply and demand shifts than is gained in tax. This is known as a deadweight loss. The income lost by the economy is greater than the government's income; the tax is inefficient. The entire amount of the government's income (the tax revenue) may not be a deadweight drag, if the tax revenue is used for productive spending or has positive externalities - in other words, governments may do more than simply consume the tax income. While distortions occur, consumption taxes like VAT are often considered superior because they distort incentives to invest, save and work less than most other types of taxation.

The "value-added tax" has been criticized as the burden of it relies on personal end-consumers of products. Some critics consider it to be a regressive tax meaning the poor pay more, as a percentage of their income, than the rich. Defenders argue that excising taxation through income is an arbitrary standard, and that the value-added tax is in fact a proportional tax in that people with higher income pay more at the same rate that they consume more. The effective progressiveness or regressiveness of a VAT system can also be affected when different classes of goods are taxed at different rates. To maintain the progressive nature of total taxes on individuals, countries implementing VAT have reduced income tax on lower income-earners, as well as instituted direct transfer payments to lower-income groups, resulting in lower tax burdens on the poor.

Revenues from a value added tax are frequently lower than expected because they are difficult and costly to administer and collect. In many countries, however, where collection of personal income taxes and corporate profit taxes has been historically weak, VAT collection has been more successful than other types of taxes. VAT has become more important in many jurisdictions as tariff levels have fallen worldwide due to trade liberalization, as VAT has essentially replaced lost tariff revenues. Whether the costs and distortions of value added taxes are lower than the economic inefficiencies and enforcement issues (e.g., smuggling) from high import tariffs is debated, but theory suggests value added taxes are far more efficient.

Certain industries tend to have more VAT avoidance, particularly where cash transactions predominate, and VAT may be criticized for encouraging this. From the perspective of government, however, VAT may be preferable because it captures at least some of the value-added. For example, a carpenter may offer to provide services for cash (i.e. without a receipt, and without VAT) to a homeowner, who usually cannot claim input VAT back. The homeowner will hence bear lower costs and the carpenter may be able to avoid other taxes (profit or payroll taxes). The government, however, may still receive VAT for various other inputs (lumber, paint, gasoline, tools, etc.) sold to the carpenter, who would be unable to reclaim the VAT on these inputs (unless of course the carpenter also has at least some jobs done with receipt, and claims all purchased inputs to go to those jobs). While the total tax receipts may be lower compared to full compliance, it may not be lower than under other feasible taxation systems.



Because exports are generally zero-rated (and VAT refunded or offset against other taxes), this is often where VAT fraud occurs. In Europe, the main source of problems is called carousel fraud. Large quantities of valuable goods (often microchips or mobile phones) are transported from one member state to another. During these transactions, some companies owe VAT; others acquire a right to reclaim VAT. The first companies, called 'missing traders' go bankrupt without paying. The second group of companies can 'pump' money straight out of the national treasuries. This kind of fraud originated in the 1970s in the Benelux-countries. Today, the British treasury is a large victim. There are also similar fraud possibilities inside a country. To avoid this, in some countries like Sweden the major owner of a limited company is personally responsible for taxes. This is circumvented by having an unemployed person without assets as the formal owner.

### **4.3 Tax Revenue**

Tax is the main source of government. Mainly there are two types of tax revenue, Direct tax revenue and Indirect tax revenue. Direct tax is that type of tax which is really paid by the tax payer. Direct tax is the sum of personal and corporate income tax, property tax, vehicle tax, interest tax and others. Indirect tax is that type of tax, which is levied on one person and paid by another person. Indirect tax is the sum of excise duty, goods and service based tax. Direct tax is important than indirect tax for the economy. Direct tax is more progressive than indirect tax. Social Justice can be established by direct tax. On the other hand both higher income group and lower income group are equally responsible to pay indirect tax.

In developed economies like the USA, the UK, etc. direct tax plays a leading role for the internal resource mobilization, where as in developing countries like Nepal indirect tax plays pioneering role by dominating direct tax. In general how much direct tax can mobilize the internal resource shows the magnitude of economic development but in the context of Nepal indirect taxation is the principle source of general revenue. So convert the economy in the channel of development, it is necessary to increase the share of direct tax.

In Nepal, direct tax revenue is the sum of income tax, land tax, research earth tax, property tax, vehicle tax, tax on registration and other. Nepal is levying for different type of income tax namely individual income tax, corporate income tax, house rent

and interest tax. In dividable tax included all forms of income and the government has given exemption. Corporate income tax is levied on the net profit of the corporation (company). House rent tax levied on the house rent received by the individual and housing company and the interest tax is levied on the interest received on deposit and investment (bond). Property tax levied on each real property at late rate. Wealth tax is levied on person's wealth in the progressive way. Registration tax is levied on the transfer of ownership or the rights of use of immovable property under the name of house show the structure of direct tax revenue in Nepal.

#### **4.4 Meaning of VAT**

Value added tax is the latest innovation in the field of indirect tax system. VAT is the youngest member of sales tax family. It is a broad based indirect tax. The term VAT exists, in English from value added tax. It is nearest from the French term added value tax. VAT is a sales tax in advanced form. It is imposed on different stages. It is the tax imposed on added value of good and service. Value added tax is one of the forms of indirect tax too. Encyclopedia of taxation and tax policy says "value added tax is a broad based tax on business designed to measure net value generated in a country" Being a broad based tax it is imposed on producer, wholesaler, retailer and consumers also. It is related to both the goods and services. It is levied on industry as well as commerce. Accordingly, It measures net value generated in a country i.e. GDP. (Kandel, 2007)

According to Indian Tax institute, VAT is " a tax imposed on the seller of goods and services based on value added by their respective units." value added tax is also known as goods and services tax or added value tax it is a tax system that aims to minimize tax evasion and increase resource mobilization It is imposed on value added amount in each stage and therefore, is equivalent to multi-stage sales tax. In constrict to sales tax. VAT is imposed on added value of production and distribution. The value is added in the form of profit, rent, wages, salary, etc. (Kandel, 2007)

The following table shows simple process of calculation the VAT

**Table 4.1**  
**Process of Calculating a VAT**

<b>Stage of Sales</b>	<b>Net Purchase Price (A)</b>	<b>Sales Price (B)</b>	<b>Value Added</b>	<b>VAT @ 13%</b>
Manufacture	100	200	100	13.00
Wholesaler	200	350	150	19.50
Retailer	350	500	150	19.50
Total	650	1050	400	52.00

Source: Arbitrary figure estimated during the study.

From this example, Researcher can say that the value added tax collected in varies steps of production as a placement on the basis of the value added in the process of doing business. Again  $VAT = \text{Value added tax rate} \times \text{Let value added}$  be 400 and tax rate is 13 percent then  $VAT = 13 \text{ percent of } 400 = 52$ .

#### **4.5 Evaluation of VAT**

VAT is the most recent innovation in the field of taxation. The concept of VAT was developed for the first time by Dr. Wilhelm V. Siemens in Germany in 1919 A.D. The concept of VAT was developed further in 1949 by a tax mission to Japan headed by Prof. Carl S. Shop. The tax however, remained as only a topic of academic interest until 1953 A.D. In 1954 France introduced a VAT covering the industrial sector the tax was however, limited up to the wholesale level. By the end of 1960s only eight countries including France, Brazil Germany, the Netherlands, and Sweden etc. had introduced VAT (Bhattraï & Koirala, 2007).

In Asia, Vietnam introduced VAT in 1973 but avoided in the same year and again used in 1999 A.D. Out of seven countries of the SAARC region, five countries have implemented VAT system. Republic of Pakistan introduced the system on November 1, 1990, for the first time in the region. VAT in Pakistan is applicable in transactions up to wholesale stage only. Bangladesh introduced the system in 1991 but VAT is applicable in transactions of production and import stage only. The Nepal and Sri Lanka too introduced the system in 1997 and 1998 respectively. Nepal introduced VAT in 16 November 1997 with replacement sales tax, contract tax, hotel tax and entertainment tax. Unlike above Nepal has implemented full VAT system i.e. VAT is require in retail transactions also. India

has introduced the system in some prescribed regions of the country on April 1<sup>st</sup>, 2005 (Shrestha, 2005).

As the data provide by IMF the rapid and seemingly irresistible rise of the VAT is probably the most important tax development of latter twentieth century and certainly the most breathtaking. Forty five years ago the tax was a child in the revenue sectors. Value added tax is the most efficient tax system developed so far. The system operates in a way that it becomes beneficial to all concerned. Under the system tax authority can collect more government revenue in one hand on the other hand consumers can have relatively cheaper commodities as the systems helps government to reduce tax rates.

Now a day around 130 countries have introduced VAT system across the world. The system has been chief source of revenue of the governments of those countries. About 70 Percent of people of the world live in VAT. IMF, UNIDO, WTO, WCO etc. organization are focusing on political, social policy. After liberalization of the decade of the 1970s, VAT started to spread world wise. Good result of VAT in the implemented countries attracted to apply VAT in the virgin countries. From this fact researcher find out some more countries are in process to adopt the system.

Nepal introduced VAT in November 1997. However the concept of this tax in Nepal was introduced in early years of 1990s. GON included the concept of introducing VAT n Nepal in its 8th plan Finance act 1992 and 1994 introduced two tier sales tax to make the base of implementing VAT. VAT task force was formulated in 1993 in technical assistance of USAID which suggested the steps to be followed while implementing the VAT in Nepal. It drafted the VAT law as well high level tax system review task force headed by Prof. Madan Dahal suggested implementing VAT in Nepal in 1995. VAT related act and rules were enacted in 1995 and 1995 respectively.

1. VAT was implemented fully in 1968.
2. VAT was abolished soon after its implementation and reintroduced in 1999.

3. VAT was first introduced only in selected province and selected goods but since the achievement was not satisfactory it was implemented fully in 1994.
4. VAT was abolished after three month of its introduction in 1995 and was reintroduced again in 1998.
5. VAT was introduced in 1995 and was abolished after a change in the government in 1997 and it was reintroduced in 1999.

#### **4.6 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. Basically there are three types (i.e. consumption type, income type and Gross National product (GNP) type) of VAT. They are described below.

##### **a) Consumption Type**

This is the popular types of VAT type Nepal also applies this type. Under this type VAT excludes all capital goods purchased from other firms. In the year of purchase, all are excluded from the tax base while depreciation is not deducted from the tax base in subsequent years. The base of tax is consumption since investment is relieved from taxation under these types.

Consumption Type VAT = Gross domestic product - cost of intermediate goods cost of capital goods.

##### **b) Income Type VAT**

The income type VAT does not exclude capital goods purchased from other firms from the tax base in the year of purchase. This type however excludes depreciation from the tax base in subsequent years. Under this system the tax falls both on consumption and net investment and the conceptual tax base of this variant is the net national income.

Income type VAT = Gross receipt - cost of intermediate goods- depreciation

##### **c) Gross National Product. (GNP) Type**

Capital goods purchases are not excluded from the tax base, under this type Capital goods purchase by a firm from other firms are not deductible for the tax

base in the year of purchase. It also does not allow the deduction of depreciation from the tax base in subsequent years. Tax is levied both on consumption and gross investment. The tax base of this type is gross domestic product.

GDP type VAT= Gross receipts- cost of intermediate goods.

#### **4.7 Method of Calculating VAT**

Consumption types of VAT system is popular and widely, adopted in the world. In this type the real taxpayer is consumer but the service follower are only the tax collector agent. They are registered on government revenue (tax) office. There are mainly three method of computing VAT liability. They are given below.

##### **a) Addition Method**

In production or distribution, there are same process and involve the means of production under this method, tax base is obtained by adding the payments made by the firm to the factors of production employed in production processes such as wages, rent, interest and profit. This method is suitable for income types of VAT (Bhattraai & Koirala, 2007).

##### **b) Subtraction Method**

One can assume that under this method tax base is determined through the means of subtraction by its name. Very simply value added is found out through purchase minus from the sales and rest of the amount regarded base for tax. Under this method value added is determined as net turnover the net turnover is obtained by subtracting the cost of materials from sale proceeds. This method is suitable for consumption type VAT.

$$T = f(\text{out puts}) - t(\text{in puts})$$

##### **c) Tax Credit Method**

The tax base to deposit to the government is calculated deducting the tax paid to purchase or receives the goods and services from the tax collected or charged in the sales. Under this system, tax is imposed on total value of sales and taxpayers are allowed to deduct from their gross tax liability the taxes already paid by their suppliers and pass on to them. As compared to subtraction method which deducts purchased from sales and levies tax on the difference, tax on purchase is subtracted from the tax on sales under this method. This method is also known as

novice method or this method is also called indirect subtract method in that it calculates the value added indirectly while calculating the tax,

$$T = t(\text{output}) - t(\text{input})$$

Out of three methods of computation VAT. Tax credit method is widely used.

#### **4.8 VAT and International Trade**

When Nepal was entered in WTO at that time Government of Nepal has made major commitment to economic liberalization with the view to adopting international trade. Globalization made the world in a small village. Foreign investment, trade, tourism are affected by the policies of nation. Fiscal policy, Monetary policy, commercial policy, revenue policy, etc impact the trade and development. In the case of international trade, for applying VAT, there are two alternative. These two principles or alternative largely depends on the goods and the policies of nation. These two alternatives are found regarding international trade in the system.

##### **i) Origin Principle**

Under this principle goods and services produced in a country are taxed at the place where they are produced or rendered irrespective of whether they are consumed there or not. A country applying this principle taxed all exports and free imports. VAT is charged in the country where goods are originated and goods imported are free of VAT under this principle. Export is taxable and import is received from tax liability under the origin principle. Addition, subtraction and tax credit there three method of consumptions of VAT can be applied equally under this system but tax credit method is not suitable because tax rate importing country needs to compute export is discouraged under the origin principle due to equal tax burden as domestic supply.

##### **ii) Destination Principle**

Under this principle tax for import and tax free for exports, is known as destination principle of VAT. Under a destination principle of VAT all exports are allowed to free tax and all imports are tax paid. Under the basic destination rule, tax would be collected at importation and the firm would receive credit for this tax and a refund when the products are exported (KC, 2006).

## **4.9 Freeing from VAT**

Some goods and services are left free from VAT or not taxable goods and services known as freely from VAT. Such provision makes the tax administration simple and promotes equity among tax payers. There are mainly three provision of freeing form VAT they are,

- i) Exemption
- ii) Zero rating.
- iii) Threshold.

### **i) Exemption**

The supply where the VAT is not imposed is exempt supply. This is not taken into account in determining whether a trader is a taxable person or not. Accordingly input tax attributable to it is not normally available for credit. The objective of the government is to make the vender free from the responsibility for registering and paying tax, but to keep some tax on the final purchaser exemption is a suitable measure.

In Nepal several goods and services are exempt from VAT. Exemption are generation particularly on administrative and social ground the list of goods and services which are tax exempt are given schedule 1 of the act, amended by Finance Act 2063 are as follows.

- Basic agricultural products.
- Goods of Basic needs like water fuel wood and coal, kerosene and salt.
- Live animal and animal products.
- Agricultural inputs such as seeds, fertilizer pesticides, agriculture equipment, pots to be used for poultry purpose birds and animal feeds etc.
- Medicine, Medical and similar health services.
- Education including the provision of research in a school or university the provision of professional or vocational training or refresher train and the provision of education in a school or university and supply of goods made in connection with such service.



- Books newspapers etc including books, news papers, newsletters and periodicals and newsprint.
- Artistic and cultural goods and services carving services painting etc, cultural program, admission to libraries, museums etc.
- Passengers and goods transportation services covering air transport non - tourist passenger trains partition (except cable car) and goods.
- Personal or professional service including personal services rendered by artists. Sportsmen, authors, writers, designers, translators and interpreters, institutionally or individually.
- Other goods or services including postal related services, financial and insurance service, printing related services, ornaments electricity, raw wool, battery operated tempo, their chassis and battery, alternative energy related items, airplane related items, fire brigade and ambulance, jute goods, industrial machinery, woolen carpets and related items cotton items, goods of philanthropic purpose personal goods imported which it free of tariff due to personal belongings.
- Land and building
- Betting, Casinos, Lotteries. (Kandel, 2007)

## **ii) Zero Rating**

Zero Rating means taxing goods or services with zero rates. In this model the goods and services are taxable but the government defines the criteria of zero rating. The zero –rate is a tax rate of nil. Zero rates are equivalent to complete exemption. The zero rates are applied to goods supplied for export, although no taxes are charged on a supply. The input tax paid on it is available for credit. It is opposite of exempt supply because the tax paid input in case of exemption is not credited. Zero rated items according to the Value Added Tax Act 2052, schedule 2 are:

1. Goods or services purchased or imported by his majesty king, Her majesty Queen, His majesty crown prince, and other members of the Royal Family, ( Abolished by the declaration of parliament of May 2008)

2. Export of goods
  - Goods exported outside the Nepal or,
  - Goods shipped for use as stores on a flight to an eventual destination outside the Nepal or,
  - Goods loaded for use as stores on aircraft to a destination outside the Nepal or as merchandise for sale by retail or supplied to persons in the cause of such a flight.
3. Export of Services: A supply of services by a person resident in the Nepal and having no business establishment, assent or legal representative acting on his behalf in the Nepal.
4. Imports of goods and services by accredited diplomats.
5. Medical industries can get zero rate facility if they intended.
6. Local purchase from those which were provided exemption from sales tax as per the agreement made previously (Kandel, 2007).

### **iii) Threshold**

In most of the VAT system small suppliers having transactions of up to mention limit are not required to register. The amount determined for that purpose is known as threshold. The main objective of threshold is to make easy to tax administrator to administer and to make easy to small supplier in doing his business. The threshold amount varies from country to country and time to time. It depends on number of factors like revenue requirement, administrative capacity, status of the recording system in the economy, etc. (Kandel, 2007) to make simplicity VAT Act 1995 and Rules 1996 have fixed the threshold in Nepal. The provisions are

- i) Provided that any person who imports in to the Nepal goods value at 10,000 rupees or more at one time for commercial purpose shall have to register is transaction.
- ii) In case any person has reason to presume that his transaction shall exceed fifty million rupees in the coming three months he shall submit an

application setting out such conditions to the concerned tax officer in the format as set forth in schedule one for the registration of the transactions.

- iii) If the amount of transactions carried out by any person exceeds fifty million rupees in absence of conditions where presumption could not be made as set forth in sub rule (a.) The person carrying out such transaction shall submit an application to the concerned the officer in the format set forth in schedule for registration of the transactions with in thirty days of the date on which such excess occurs.
- iv) If the amount of transactions of any consultant Rs Two hundred thousand or more yearly that consultant shall have to register in the concerned tax officer.
- v) The transaction of government purchase and construction more than thirty five thousand shall have to register in the VAT office.

#### **4.10 Tax Rates**

Rates means positive rate excluded zero rate. Design of tax rate structure is chiefly influenced by revenue requirement, administrative, simplicity, efficiency types of products, tax burden etc. Without tax rate one cannot determine the tax liability of concern party. Before the application of VAT there were different rates in sales tax, hotel tax, entertainment tax and contract tax. Now according to VAT system, theoretically and practically, the rate of VAT may be diversified into two rates they are:-

##### **i) Single VAT Rate**

In simple single VAT rate means a VAT of which tax is fixed only at one number. The tax rate has direct impact on the tax compliance, consumption as well as investment. It has crucial role in the context of economic development of a country and requires to be levied in the ideal rate. About 90% VAT applier countries are following the single rate. It is simple to understand easier to calculate. For example, Let us suppose 13 percent is a VAT rate fixed for all level for VAT purpose. The fixed VAT rates are known as single VAT rate.

##### **ii) Multiple VAT Rate**

In concept, multiple VAT rate means more than two kinds of VAT rate which are fixed on the basis of the commodities and the services nature. The multiple tax

rate system encourages the tendency of the tax evasion, difficulty to administer affect the equity etc. The multiple VAT rate system is economically inefficient as well multiple rates have to classify the goods and services into groups. For example suppose VAT rates are 1 percent, 2 percent, 3 percent for first, second and third goods respectively for VAT purpose. Those fixed VAT rates are known as multiple VAT rate.

#### **4.11 Tax Refund**

If the input tax is more than the output tax, the balance should be carry forward to tax payer it is known as tax refund. Income Tax Act, 2007 has deal with refund and set off the tax. As per the provision of that section, if a person has paid the tax in excess of the tax liability IRD will recover the tax payable by the person at first. After recovering that amount it there is still the tax excess of the liability, the remaining amount will be refunded to the tax payer. The interest payable against the amount of tax, which is not payable, will also be refunded. However the IRD obliged to refund the amount of tax to a person interest at the standard rate for period filing the return and retuning the amount in case of tax deposited with retained filed. Tax credits related to medical and foreign tax for an income year may not be set off or retuned under this section. The tax payer should apply in department for refund of tax in specified form. Consumer should also submit the documents related to excess payment of the tax.

## CHAPTER V

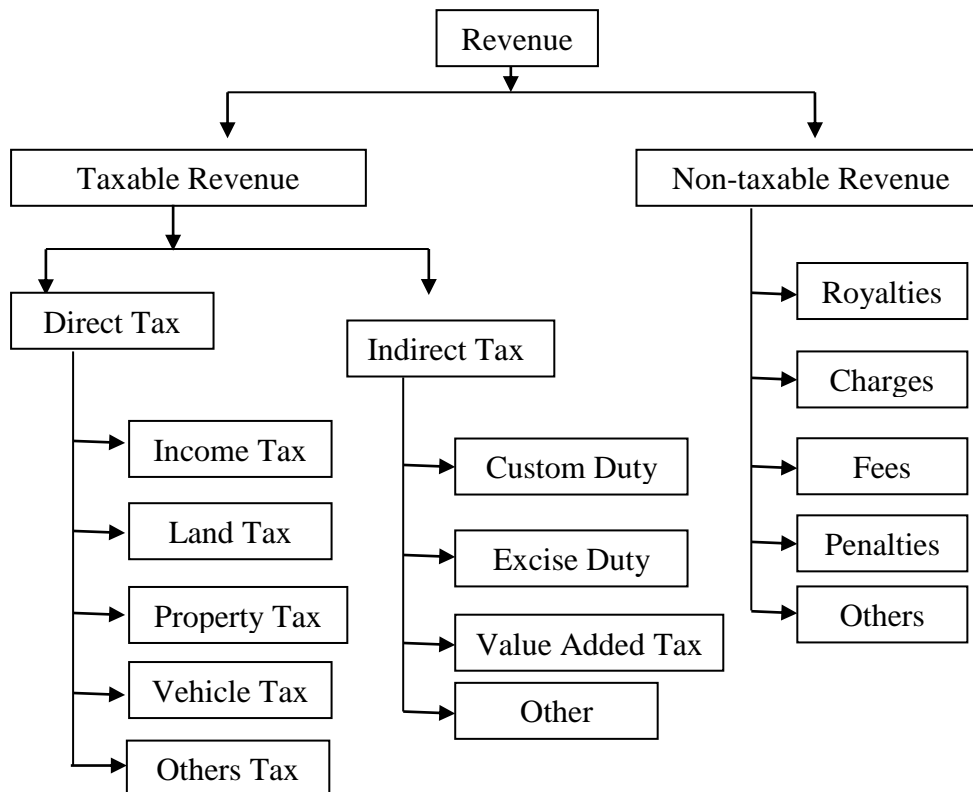
### ANALYSIS AND INTERPRETATION OF DATA

This chapter deals with the analysis and interpretation of data collected from the various sources. The analysis and interpretation is undertaken as per the objectives of study.

#### 5.1 Nepalese Tax Structure

##### 5.1.1 Total Revenue Structure

This section of this chapter is concerned with the total revenue structure of the government of Nepal. Total revenue is divided into two parts, i.e. taxable revenue & non-taxable revenue.



Source: Economic Survey 2015/16, MoF, Kathmandu

Both tax revenue and non-tax revenue are equally important for the government. The structure of tax revenue and non-tax revenue is mostly determined by the type of economy that the government adopts. In capitalist economy, amount of tax revenue is generally higher than non-tax revenue and socialist economy, the amount of non-tax revenue is generally high.

In Nepalese economy amount of tax revenue is generally higher than that non tax revenue. The following table 5.1 shows the total taxable and non-taxable revenue from FY 2008/09 to 2015/16 of country.

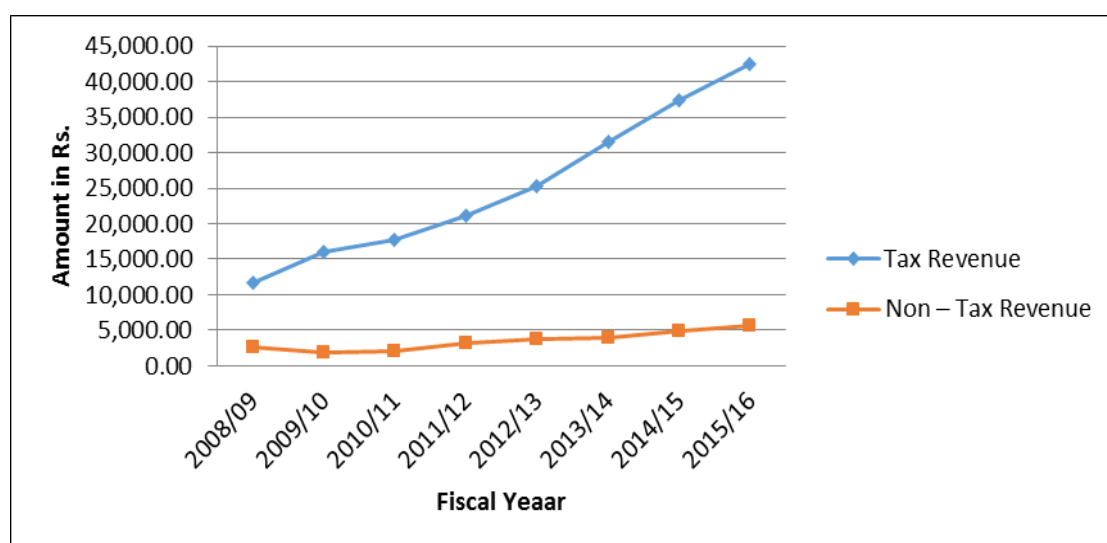
**Table 5.1**  
**Structure of Total Revenue**

(NRs. in Ten Millions)

Fiscal Year	Total Revenue		Tax Revenue			Non – Tax Revenue		
	Amount	% change	Amount	% Change	Percent of Total Revenue	Amount	% change	Percent of Total Revenue
2008/09	14,347.36	-	11,705.2	-	81.58	2,642.26	-	18.42
2009/10	17,799.09	24.06	15,978.5	36.51	89.77	1,820.56	-31.1	10.23
2010/11	19,837.59	11.45	17,722.7	10.92	89.34	2,114.87	16.17	10.66
2011/12	24,437.3	23.19	21,172.2	19.46	86.64	3,265.12	54.39	13.36
2012/13	28,960.3	18.51	25,257.2	19.29	87.21	3,703.2	13.42	12.79
2013/14	35,450.0	22.41	31,464.0	24.57	88.76	3,986.0	7.64	11.24
2014/15	42,290	19.29	37,470	19.09	88.60	4,819	20.90	11.39
2015/16	48179	13.92	42442	13.26	88.10	5737	19.04	11.90

Source: Economic surveys and Budget Speeches and Annual Report of IRD, 2015/16, Government of Nepal.

**Figure 5.1**  
**Structure of Total Revenue**



Source: Based on Table 5.1.

Table 5.1 and figure 5.1 show that the share of tax revenue and non-tax revenue on total revenue of government of Nepal is 81.58 percent and 18.42 percent respectively to the total revenue in fiscal year 2008/09. It means a major amount of Government revenue is collected from tax revenue. As compared to non-tax revenue, the contribution of non-tax revenue has a very low share in Government revenue. Such kinds of share of tax revenue and non-tax revenue has a not been changed even in fiscal year 2009/10. In year FY 2009/10, the share of tax revenue is 89.77 percent and non-tax revenue was 10.23 percent. Similarly in the year 2010/11 the share of tax revenue is 89.34 percent and non-tax revenue is 10.66 percentage, the share of tax revenue in FY 2011/12 is 86.64 percent and non-tax revenue is 13.36 percent. In the FY 2012/13, tax revenue is 87.21 percent and non-tax revenue is 12.69 percent. In FY 2014/15, tax revenue is 88.76 and non-tax revenue is 11.34 percent. And in FY 2015/16 tax revenue and non-tax revenue is 88.60 and 11.39 percent respectively. In final year tax revenue is 88.10 and non-tax revenue is 11.90 percent.

Tax revenue is increasing trend throughout the study period. But non tax revenue of the government of Nepal is fluctuating trend. The tax revenue and non-tax of the government of Nepal is growing in fluctuating trend.

### **5.1.2 Structure of Tax Revenue**

Tax is the main source of government. Mainly there are two types of tax revenue, Direct tax revenue and Indirect tax revenue. Direct tax is that type of tax which is really paid by the tax payer. Direct tax is the sum of personal and corporate income tax, property tax, vehicle tax, interest tax and others. Indirect tax is that type of tax, which is levied on one person and paid by another person. Indirect tax is the sum of excise duty, goods and service based tax. Direct tax is important than indirect tax for the economy. Direct tax is more progressive than indirect tax. Social Justice can be established by direct tax. On the other hand both higher income group and lower income group are equally responsible to pay indirect tax.

**Table 5.2**

**Structure of Total Tax Revenue**

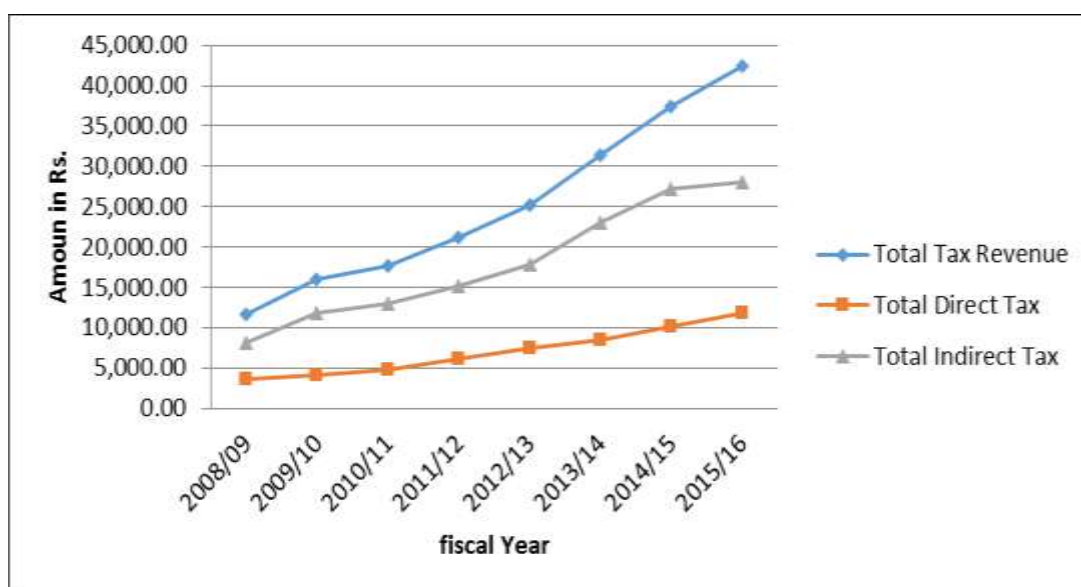
(NRs. in Ten Millions)

Fiscal Year	Total Tax Revenue		Total Direct Tax			Total Indirect Tax		
	Amount	% change	Amount	% change	Percent of Total Revenue	Amount	% change	Percent of Total Revenue
2008/09	11,705.2	-	3,538.7	-	30.23	8,166.50	-	69.77
2009/10	15,978.5	36.51	4,175.0	17.98	26.13	11,803.50	44.54	73.87
2010/11	17,722.7	10.92	4,830.1	15.69	27.25	12,892.60	9.23	72.75
2011/12	21,172.2	0.19	6,050.7	25	28.58	15,121.50	17.29	71.42
2012/13	25,257.2	0.19	7,383.7	22.03	29.23	17,873.50	18.20	70.77
2013/14	31,464.0	24.57	8,484.7	14.91	26.97	22,979.30	28.57	73.03
2014/15	37,470	19.09	10,189.0	20.09	27.19	27,281.00	18.72	72.81
2015/16	42442	13.26	11866	16.45	27.95	28109.88	3.03	66.23

Source: Economic surveys and Budget Speeches Government of Nepal

**Figure 5.2**

**Structure of Total Tax Revenue**



Source: Based on Table 5.2.



Table 5.2 and figure 5.2 show that the indirect tax occupies major portion in total tax revenue. The amounts of direct and indirect taxes are increasing every year. The percentage contribution of direct tax to total tax revenue and indirect tax to total revenue are fluctuating throughout the study period.

### 5.1.3 Structure of Direct Tax Revenue

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

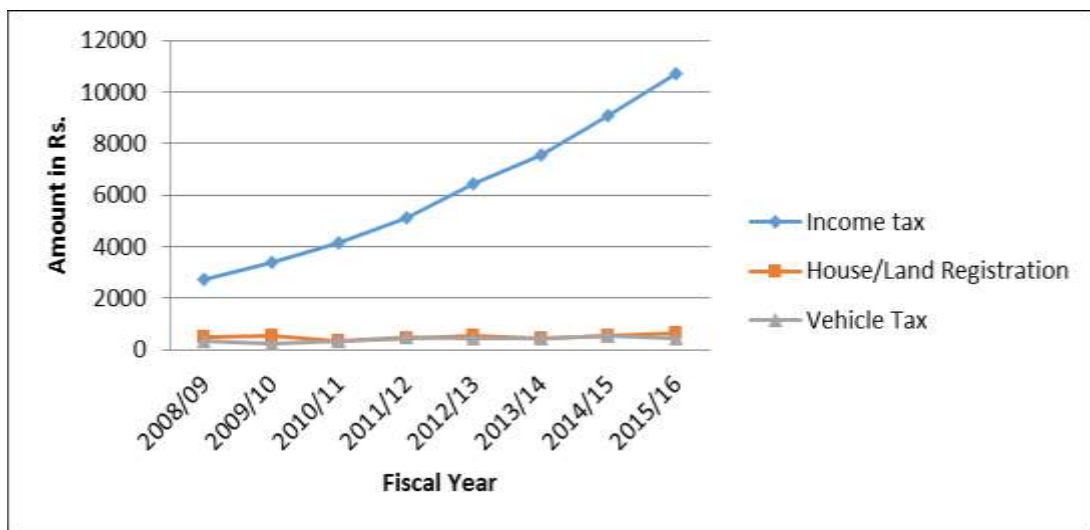
**Table 5.3**  
**Structure of Direct Tax**

(NRs. in Ten Millions)

Fiscal Year	Tax Head				Percentage Share		
	Income Tax	House/Land Registration	Vehicle Tax	Total	Income Tax	House/Land Registration	Vehicle Tax
2008/09	2708.7	480.0	350.0	3,538.7	76.54	13.56	9.89
2009/10	3,382.1	551.1	241.8	4,175.0	81.01	13.2	5.79
2010/11	4,135.0	357.7	337.4	4,830.1	85.61	7.41	6.99
2011/12	5,130.3	450.7	469.7	6,050.7	84.79	7.45	7.76
2012/13	6,418.7	533.6	431.4	7,383.7	86.93	7.23	5.84
2013/14	7,561.4	462.8	460.5	8,484.7	89.12	5.46	5.43
2014/15	9,101.8	536.9	550.3	10,189.0	89.33	5.27	5.40
2015/16	10691	672.02	448.05	11811.07	90.51	5.68	3.79

Source: Economic surveys and Budget Speeches Government of Nepal

**Figure 5.3**  
**Structure of Direct Tax**



Source: Based on Table 5.3.

Table 5.3 and figure 5.3 show that the direct tax has been divided into major three parts; they are income tax, vehicle tax, house and land tax. Table 4.3 and figure 4.3 show that in FY 2008/09, the percentage share of income is 76.54 percent follow by income tax, 13.56 percent house and land tax, 9.89 percent vehicle tax of total direct tax. Similarly, in FY 2009/10, income tax, house and land tax and vehicle tax are 81.01 percent, 13.02 percent, and 5.79 percent respectively. In FY 2010/11, the percentage share of income tax constitute of the total direct tax, 85.61 percent follow by income tax, house and land tax 7.41 percent, vehicle tax 6.99 percent. In FY 2011/12, the total contribution from income tax is follow by 84.79 percent, house and land tax is 7.45 percent and vehicle tax is 7.76 percent. Then in FY 2012/13, income tax, house and land tax and vehicle tax are 86.93 percent, 7.23 percent, 5.84 percent respectively. In fiscal year 2013/14, the total contribution from income tax is follow by 89.12 percent, house and land tax is 5.46 percent and vehicle tax is 5.43 percent. In FY 2014/15, the percentage share of income is 89.33 percent follow by income tax, 5.27 percent house and land tax, 5.40 percent vehicle tax of total direct tax. In FY 2015/16, the percentage share of income tax is 90.51, house and land tax is 5.68 percent and 3.79 percent vehicle tax of total direct tax. The contribution on total revenue from direct tax showed an increasing trend.

This increase in income tax may be attribute by VAT law forced the reluctant businessman to registered their name and file the return of the income although, there was no substantial increase in VAT itself. It helps increase the

collection of income tax. The investment activities have not flourished with in nation due to the political instability and violence. In this situation investor might have been investing their investment in purchasing land and building. This might the reason to be increased in land tax revenue in recent years. Revenue from vehicle tax also showed a growth trend over the studied period. It may due to increase number of vehicle in recent year before. From the above analysis, it can be concluded that the contribution of income tax in direct tax is major. The large portion of direct tax has been covered by income tax.

#### 5.1.4 Structure of Indirect Tax Revenues

Charge levied by the state on consumption, expenditure, privilege, or right but not on income or property. Customs duties levied on imports, excise duties on production, sales tax or value added tax (VAT) at some stage in production- distribution process are examples of indirect taxes because they are not levied directly on the income of the consumer or earner. Since they are less obvious than income tax (because they don't show up on the wage slip) politicians are tempted to increase them to generate more state revenue. Also called consumption taxes, they are regressive measures because they are not based on the ability to pay principle. Indirect tax includes customs duty, sales tax or value added tax, Excise duty and other taxes levied on the persons, who consumes the products but they don't pay to the government directly.

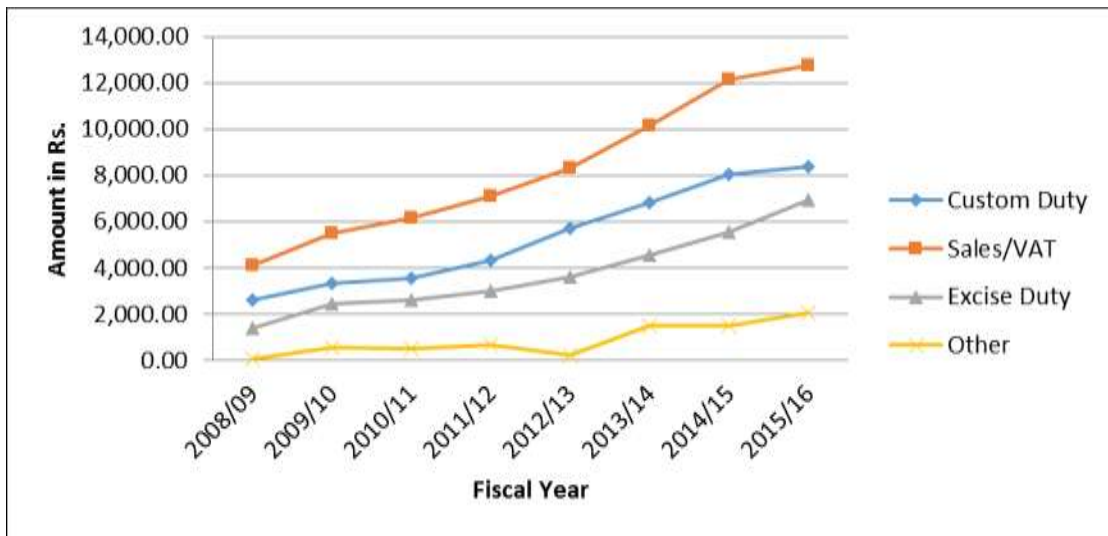
**Table 5.4**  
**Structure of Indirect Tax**

(NRs in Ten Millions)

Fiscal Year	Tax Head					Percentage Share			
	Custom Duty	Sales/ Vat	Excise Duty	Other	Total	% Custom Duty	% Sales/ Vat	% Excise Duty	% Other
2008/09	2,600.0	4,100.0	1,407.3	59.20	8,166.5	31.84	50.21	17.23	0.72
2009/10	3,354.4	5,492.1	2,414.8	542.20	11,803.5	28.42	46.53	20.46	4.59
2010/11	3,571.4	6,166.4	2,633.9	520.90	12,892.6	27.70	47.83	20.43	4.04
2011/12	4339.1	7,093.0	3,001.6	687.80	15,121.5	28.69	46.91	19.85	4.55
2012/13	5693.2	8,341.8	3,623.5	215.00	17,873.5	31.85	46.67	20.27	1.20
2013/14	6798.1	10152.7	4,539.1	1,489.4	22,979.3	29.58	44.18	19.75	6.48
2014/15	8066.9	12173.1	5533.1	1,507.9	27,281.0	29.57	44.62	20.28	5.53
2015/16	8389	12775	6945	2060.25	30771.01	29.84	45.44	24.70	0.2

Source: Economic surveys and Budget Speeches and Annual Report of IRD, 2015/16, Government of Nepal

**Figure 5.4**  
**Structure of Indirect Tax**



Source: Based on Table 5.4.

Table 5.4 and figure 5.4 show that the indirect tax has been divided into four parts; they are custom duty, sales/vat, excise duty and other. In FY 2009/10, the percentage share of indirect tax is 31.84 percent follow by custom duty, 50.21 percent sales/VAT, 17.23 percent excise tax and other is 0.72 percent of other tax. Similarly, in FY 2009/10, custom duty, sales/vat, excise duty and other are 28.42 percent, 46.53 percent, 20.46 percent and 4.59 percent respectively. In FY 2010/11, the percentage share of custom duty constitute of the total indirect tax is 27.70 percent followed by custom duty, sales/VAT 47.83 percent, excise duty 20.43 percent and other 4.04 percent. In FY 2011/12 the total contribution from custom duty is follow by 28.69 percent, sales/vat 46.91 percent, excise duty 19.85 percent and other is 4.55 percent respectively. After that in FY 2012/13, custom duty, sales/vat, excise duty and other are 31.85 percent, 46.67 percent, 20.27 percent and 1.20 percent respectively. In FY 2012/13 the percentage of indirect revenue 29.58 percent follow by custom duty, 44.18 percent Sales/VAT, 19.75 percent excise tax and 6.48 percent of other tax. In FY year 2014/15, the total contribution from custom duty is follow by 29.57 percent, sales/VAT 44.62 percent, excise duty 20.28 percent and other tax is 5.53 percent. And in FY 2015/16, the total contribution from custom duty is follow by 29.84 percent, sales/VAT 45.44 percent, excise duty 24.70 percent and other tax is 0.2 percent respectively. The contribution on total revenue from indirect tax showed an increasing trend.

## 5.2 Analysis of Different Aspects of VAT

Value added tax is general consumption tax, assessed on the value added to goods and services. In some countries including Australia, Canada, New Zealand and Singapore this tax is known as "goods and service tax" and Japan it is known as "Consumption tax". It is a general tax that applies in principle, to all commercial activities involving the production and distribution of goods and the provision of services. It is a consumption tax because it is borne ultimately by the final consumer. It is not charge on companies. It 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 an indirect tax in that the tax is collected from someone other than the person who actually bears the cost of the tax (Bhattraï & Koirala 2007).

### 5.2.1 Share of VAT in GDP

To know the contribution of VAT on GDP on current price, it would be desirable to examine the VAT revenue in GDP. The following table indicates the share of VAT revenue in GDP.

**Table 5.5**  
**VAT on GDP**

(NRs. in Ten Millions)

<b>Fiscal Year</b>	<b>VAT</b>	<b>GDP</b>	<b>VAT as % of GDP</b>
2008/09	3,970.1	98,827.20	4.02
2009/10	5,492.1	1,19,277.40	4.60
2010/11	6,166.4	1,36,695.4	4.51
2011/12	7,093.0	1,52,734.4	4.64
2012/13	8,341.8	1,69,264.3	4.92
2013/14	10152.7	1,94,162.4	5.23
2014/15	12173.1	2,12,465.0	5.73
2015/16	12775	224869.10	5.68

Source: Economic surveys and Budget Speeches Government of Nepal

Table 5.5 and figure 5.5 show that the contribution of customs duty in GDP is very few percent in previous seven years. In FY 2008/09 is 4.02 percent. Similarly, in fiscal year 2009/10 is 4.60 percent which has been increased in this year. In 2010/11, it slowly decreases to 4.51 percent. After that it has started increasing trend

throughout study period. In FY 2011/12, FY 2012/13, FY 2013/14, FY 2014/15 and FY 2015/16 are 4.64 percent, 4.92 percent, 5.23 percent, 5.73 percent and 5.68 percent respectively. Contribution of customs duty on GDP is fluctuating trend up to FY 2067/68 then it starts increasing trend throughout the study period.

The above table shows the contribution of VAT in GDP. The red candles are very smaller than that of the red candles, which indicates the insignificant contribution of VAT on GDP of government of Nepal, although it is increasing trend over the last four years. The GDP of government of Nepal is growing from 2008/09 to 2015/16. So, the blue candles are increasing in the late years then in the initial periods but the red candles are small and even are not growing in the initial years and its contribution is increasing in the recent years.

### 5.2.2 VAT on Total Tax Revenue and Indirect Tax

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

The following table indicates the share of VAT in total revenue and indirect tax revenue.

**Table 5.6**  
**VAT on Total Tax Revenue and Indirect Tax Revenue**

(NRs. in Ten Millions)

Fiscal Year	VAT		Total Tax Revenue			Indirect Tax Revenue		
	Amount	% change	Amount	%	Percent of Total Revenue	Amount	% change	Percent of Total Revenue
2008/09	3,970.1	-	11,705.2	-	33.92	8,166.50	-	50.21
2009/10	5,492.1	38.34	15,978.5	36.51	34.37	11,803.50	44.54	46.53
2010/11	6,166.4	12.28	17,722.7	10.92	34.79	12,892.60	9.23	47.83
2011/12	7,093.0	15.03	21,172.2	0.19	33.50	15,121.50	17.29	46.91
2012/13	8,341.8	17.61	25,257.2	0.19	33.03	17,873.50	18.20	46.67
2013/14	10152.7	21.71	31,464.0	24.57	32.27	22,979.30	28.57	44.18
2014/15	12173.1	19.90	37,470	19.09	32.49	27,281.00	18.72	44.62
2015/16	12775	4.94	42442	25.27	30.09	28109.88	3.03	58.34
Average	8267.8	16.22	25401.5	14.59	33.05	18028.45	17.44	48.16

Source: Economic surveys and Budget Speeches Government of Nepal

Table 5.6 and figure 5.6 show that the contribution of average growth rate of VAT on total tax revenue and indirect tax revenue the introduction of VAT is 30.09 percent and 48.16 percent respectively. It indicates that up to some extent significant contribution of VAT on total tax revenue and indirect tax revenue. From the above table 4.7, researcher can say that the VAT is the important sources of government revenue. Which occupy more than one third of total tax revenue and about half (i.e. 48.16) of total indirect tax revenue of the government of Nepal. The contribution on total revenue from indirect tax showed an increasing trend. The contribution of VAT on total tax revenue in the year 2015/16 is 30.09 percent and on indirect tax revenue in this year is 58.34 percent. The contribution of VAT on total tax revenue and indirect tax revenue is fluctuating trend over the study period.

### **5.2.3 Structure of VAT**

VAT is an important source of indirect tax. A tax based on the sales of goods and services imposed for generating revenue is sales tax. Entertainment tax, hotel tax and contract tax researchers imposed separately with different laws. VAT was introduced with replacement of existing sales tax, entertainment tax, hotel tax and contract tax. Mainly sales tax converted in to value added tax and others are subsidiary.

Sales tax is completely replaced by VAT but hotel, entertainment and contract tax have not been replaced in such way. A small amount of revenue used to be collected under the name of entertainment, hotel and contract tax but their contribution on total is remarkable reduced after the implementation of VAT. Now all the above taxes are being completely replaced by value added tax. Currently, the government of Nepal is imposing different items of VAT they are production, import, sales and distribution, tourism industries, contracts, telephone, insurance and air travel and reverse charge. The structure or composition of VAT during study period is presented in table 5.7.

**Table 5.7**  
**Structure of VAT**

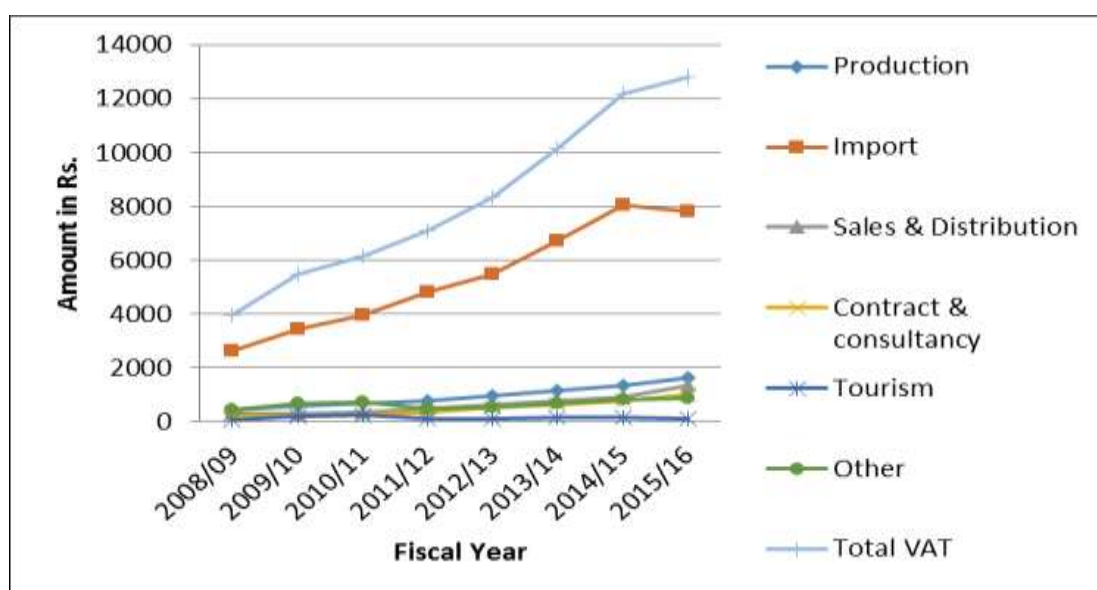
(Rs. in Ten Millions)

Fiscal Year	Production	Import	Sales & Distribution	Contract & Consultancy	Tourism	Other	Total VAT
2008/09	429.2	2625.0	315.4	189.3	89.3	451.8	3,970.1
2009/10	601.7	3454.1	329.9	219.2	222.1	665.0	5,492.1
2010/11	680.9	3968.6	373.0	248.2	252.1	754.4	6,166.4
2011/12	774.2	4806.8	509.3	365.7	135.0	502.00	7,093.0
2012/13	974.9	5503.8	630.8	550.6	120.2	561.50	8,341.8
2013/14	1145.2	6719.8	786.6	649.4	146.6	705.10	10,152.7
2014/15	1374.3	8057.8	937.9	779.4	177.9	845.80	12,173.1
2015/16	1622.07	7793.0	1336.32	1025.6	140.98	857.03	12775

Source: Economic surveys and Budget Speeches Government of Nepal

**Figure 5.5**

**Structure of VAT Revenue**



Source: Based on Table 5.7.

Table 5.7 and figure 5.7 present that the VAT is increasing throughout the study period. Total VAT is Rs. 3,970.1 ten millions in the FY 2008/09 and it increases to Rs. 5,492.1 ten millions in the FY 2009/10. Similarly, in FY 2010/11, 2011/12, 2012/13, 2013/14, 2014/15 and 2015/16 VAT are Rs. 6,166.4, 7,093.0, 8,341.8, 10,152.7, 12,173.1 and 12775 in ten million respectively.



This amount is the total of income tax from production, import, sales & distribution, contract, tourism and other.

**Table 5.8**  
**Structure of VAT Revenue**

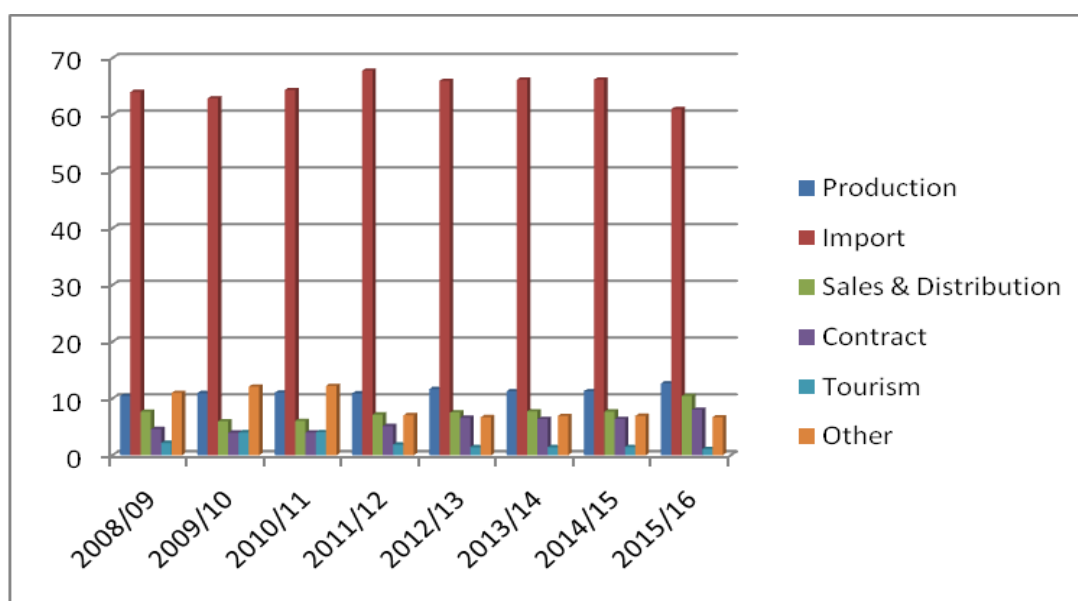
(in Percentage)

Fiscal Year	Production	Import	Sales & Distribution	Contract	Tourism	Other	Total VAT
2008/09	10.47	64.02	7.69	4.62	2.18	11	100
2009/10	10.96	62.89	6.00	3.99	4.04	12.11	100
2010/11	11.04	64.36	6.05	4.03	4.09	12.23	100
2011/12	10.91	67.77	7.18	5.16	1.90	7.08	100
2012/13	11.69	65.98	7.56	6.60	1.44	6.73	100
2013/14	11.28	66.19	7.75	6.40	1.44	6.94	100
2014/15	11.29	66.19	7.70	6.40	1.46	6.95	100
2015/16	12.69	61	10.46	8.02	1.10	6.70	100

Source: Table No. 5.7

**Figure 5.6**

**Structure of VAT Revenue (in %)**



Source: Based on Table 5.8.

Table 5.8 and figure 5.8 show that the VAT has been divided into six parts; they are production, import, sales & distribution, contract, tourism and other tax. The majority share of VAT is import. In FY 2008/09, the percentage share of VAT is 64.02 percent

follow by import, 10.47 percent production, 7.69 percent sales and distribution, 4.62 percent contract, 2.18 percent tourism and other is 11.00 percent.

Similarly, in FY 2009/10, the percentage share of VAT is 10.96 percent follow by production, 62.89 percent import, 6.00 percent sales & distribution, 3.99 percent contract, 4.04 percent tourism and other is 12.11 percent and the percentage share of VAT is 11.04 percent follow by production, 64.36 percent import, 6.05 percent sales & distribution, 4.03 percent contract, 4.09 percent tourism and other is 12.23 percent in FY 2010/11. FY 2011/12, the percentage share of VAT is 10.91 percent follow by production, 67.77 percent import, 7.18 percent sales & distribution, 4.03 percent contract, 4.09 percent tourism and other is 12.23 percent. Then in fiscal year 2012/13, the percentage share of VAT is 11.69 percent follow by production, 65.98 percent import, 7.56 percent sales & distribution, 6.60 percent contract, 1.44 percent tourism and other is 6.73 percent. In fiscal year 2013/14, 11.28 percent follow by production, 66.19 percent import, 7.75 percent sales & distribution, 6.40 percent contract, 1.46 percent tourism and other is 6.95 percent. In FY 2014/15, the percentage share of VAT is 11.29 percent follow by production, 66.19 percent import, 7.70 percent sales & distribution, 6.40 percent contract, 1.46 percent tourism and other is 6.95 percent. In final year 2015/16, the percentage share of VAT is 12.69 percent follow by production, 61 percent import, 10.46 percent sales and distribution, 8.02 percent contract, 1.10 percent tourism and other is 6.70 percent. The contribution of public revenue from import to VAT is satisfactory and the contribution of VAT from production to total VAT and sales and distribution to VAT is also good position.

#### **5.2.4 Trend of VAT/ PAN Registration and Cancellation**

Registration and getting VAT certificate is the first function of both tax administration and business person. The numbers of sales tax registrant were 2045 at the time of introduction of VAT in 1997. Out of the threshold are registrants voluntary in VAT. Business community was opposition in the beginning and they discouraged to register in the VAT. Commitment of government, the registrants are increasing yearly and the private sector also favor of it. There are two departments in the introduction of VAT. VAT department and revenue department. In the past, some researchers registered in VAT department, to improve the revenue collection, refund, registration, audit, data management both revenues department and VAT department merged with the re-structurally inland Revenue department. Total registrants in PAN (Permanent Account Number) are 696371 till FY 2014/15. The registration and registration cancellation can be seen from the following table.

**Table 5.9****Trend for VAT/PAN Registration**

<b>Fiscal Year</b>	<b>No. of new Tax Payers</b>	<b>Total No. of Tax Payers</b>	<b>Increasing % of Tax Payers</b>
2008/09	58,079	3,30,616	17.57
2009/10	45,676	3,79,571	12.03
2010/11	69829	4,52,180	15.44
2011/12	77,239	5,27,179	14.65
2012/13	99,436	7,26,870	13.68
2013/14	83,230	6,82,843	12.19
2014/15	94,560	6,96,371	13.58
2015/16	152865	849236	21.95

Source: Economic surveys and Budget Speeches and Annual Report of IRD, 2015/16, Government of Nepal

Table 5.9 and figure 5.9 show that the total no of tax payer is in increasing order except the year 2012/13 but the total number of new tax payer also increasing trend except the year 2009/10 and 2012/13. In FY 2014/15, the total number of new tax payer and total numbers of tax payer are 94,560 and 696,371 respectively. Now in current FY 2015/16, the total number of new tax payer and total numbers of tax payer are 152865 and 849236 respectively, which is increasing trend.

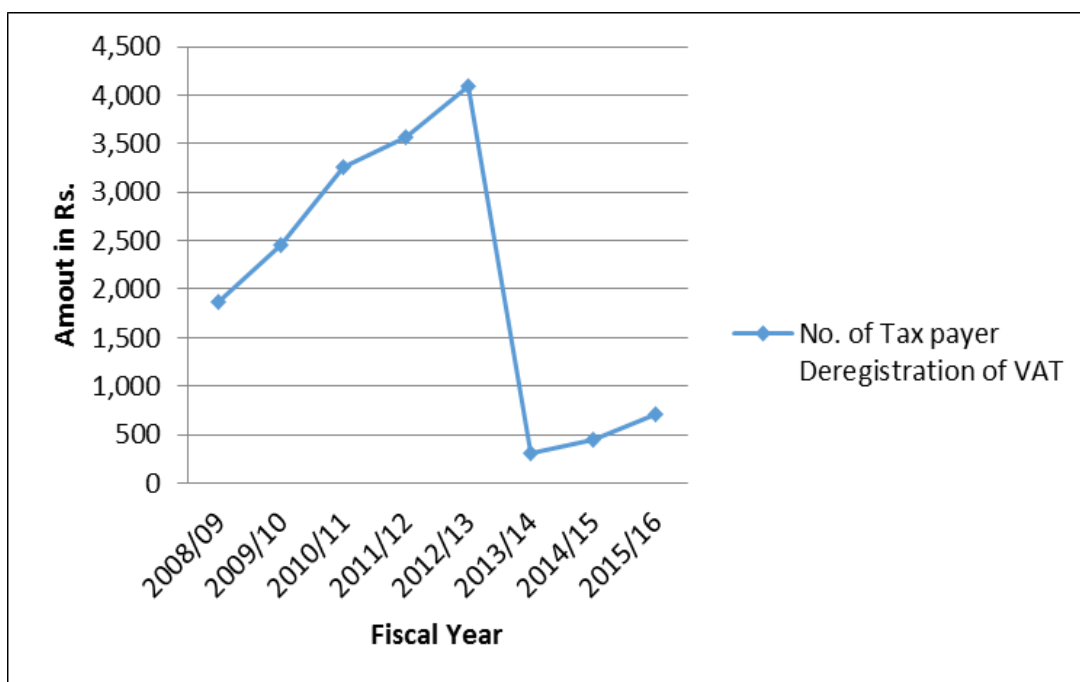
**Table 5.10****Number of Tax Payers Deregistration of VAT**

<b>Fiscal Year</b>	<b>No. of Tax payers Deregistration of VAT</b>	<b>% Change</b>
2008/09	1,861	-
2009/10	2,449	31.59
2010/11	3,261	33.16
2011/12	3,560	9.17
2012/13	4,089	14.86
2013/14	315	-92.30
2014/15	441	40
2015/16	707	60.31

Source: Economic surveys and Budget Speeches and Annual Report of IRD, 2015/16, Government of Nepal

**Figure 5.7**

**Number of Tax Payer Deregistration of VAT**



Source: Based on Table 5.10.

Table 5.10 and figure 5.10 show that the registration of VAT tax payer. Registration canceling is the regular process of VAT. There are many reasons to cancel the registration like it is the corporate organization closed, individual ownership being death, partnership, dissolved, nil trisection year, zero report, confusedly registered etc.

In the above table in the year 2008/09 the 1,861 registrants cancelled deregistration and it is in increasing trend up to 2012/13 at that time it is 4089. After that it drastically decreases to 315 in FY 2013/14 and in FY 2015/16, it increases to 441 and 707 respectively. Mainly the registration order is going in decreasing order in recent year.

**5.2.5 VAT on Revenue Collection**

Value added tax is the best form of sales tax, which is natural regarding method of production and helpful in generates more revenue collection. Because of its broad coverage, naturally, transparency and fairness, VAT will generate more revenue with less distortion. The revenue collection from VAT in different fiscal year is presented below.

**Table 5.11**

**Trend of Revenue Collection from VAT Revenue**

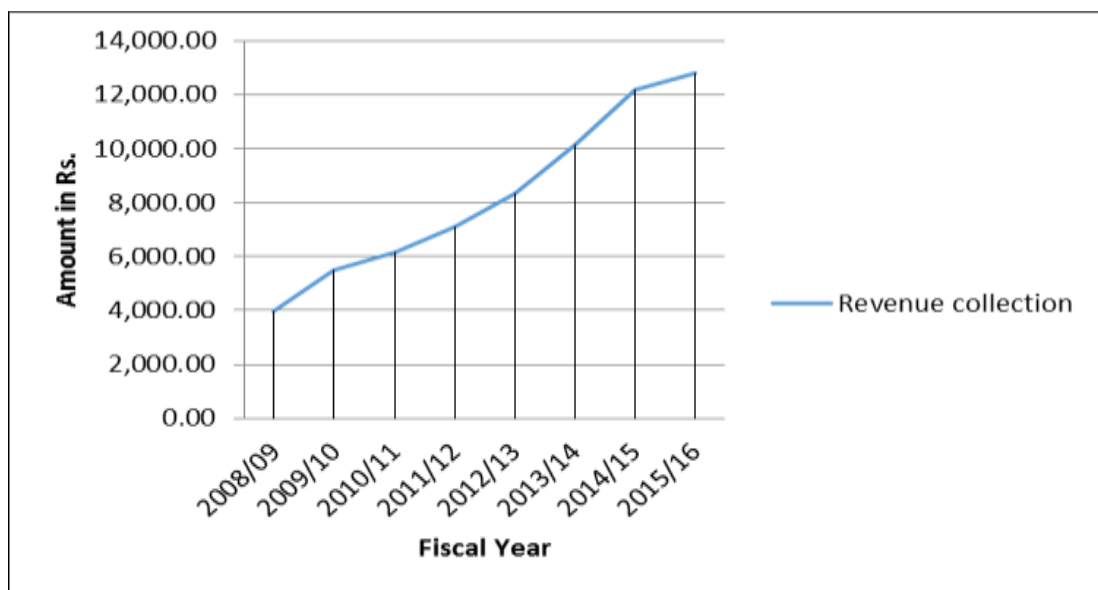
(NRs. in Millions)

<b>Fiscal Year</b>	<b>Revenue collection</b>	<b>% Change</b>
2008/09	3,970.1	-
2009/10	5,492.1	38.34
2010/11	6,166.4	12.28
2011/12	7,093.0	15.03
2012/13	8,341.8	17.61
2013/14	10,152.7	21.71
2014/15	12,173.1	19.90
2015/16	12775	4.94

Source: Economic surveys and Budget Speeches Government of Nepal

**Figure 5.8**

**Trend of Revenue Collection from VAT**



Source: Based on Table 5.11.

Table 5.11 and figure 5.11 show that the value added tax revenue is increasing year to year. VAT generated about 3970.1 ten million in the FY 2008/09. In FY 2009/10, it reaches to NRs. 5492.1 ten million that is 38.34 percent more than previous year similarly it is increase year to year. In FY 2010/11, it increases 12.28 percent to

previous year. In FY 2011/12, 2012/13, 2013/14, 2014/15 and 2015/16 are increased by 15.03 percent, 17.61 percent, 21.71 percent, 19.90 percent and 4.94 percent. Though, VAT collection has reached NRs. 12173.1 and 12775 in ten million in the final year 2014/15 and 2015/16 respectively. Despite the various difficulties in the implementation of VAT, the collection trend of revenue through VAT is not bad. Value added tax is increasing radically over the study period. There are many facilities in value added tax i.e. minimum rate, tax credit, tax refund, deregistration zero tax rate, threshold, exemption facilities in value added tax, now normal tax rate is 13 percent. It is expected that VAT will generate more and more revenue in the days to come when it is implemented effectively and effectively. Since VAT is broad based tax it will provided a stable base of revenue to the government.

### 5.3 Analysis of Primary Data

An empirical investigation was conducted in order to find out the various aspects of value added tax from the experience of the real world. In this empirical study, the analysis has been done about value about tax and the basis of information collected from the tax experts, tax administrators (tax officer) and tax payers. The major tool used for this purpose is questionnaire.

In this study, the questions were asked to 60 different individuals related to this field i.e. tax experts (lecturers, auditors and CAs, etc.), tax administrators (tax officers) and tax payers. The questionnaire has covered various aspects of value added tax in Nepal: past and present situation. (See the format of questionnaire in appendix). Information received from the respondent's are tabulated and analyzed in the proper way. The following table shows the groups and no. of respondents.

**Table 5.12**

#### **Symbol for Respondents Groups**

<b>Respondents</b>	<b>Symbol Used in Table</b>	<b>No. of Respondents</b>
Tax Experts	TE	20
Tax Officers	TO	20
Tax Payers	TP	20
Total		60

Source: Field survey, 2017

### 5.3.1 Analysis of Empirical Study

#### 5.3.1.1 Soundness of Value Added Tax Administration in Nepal

To know the opinion about the soundness of VAT administration in Nepal, question was asked with respondents "Do you consider that the value added tax administration in Nepal is sound?" The responses received from the respondents are tabulated as follows.

**Table 5.13**

#### **Soundness of VAT Administration of Nepal**

Option	Respondents			Total Respondents	Percentage
	TE	TO	TP		
Yes	8	7	9	24	40
No	12	13	11	36	60
<b>Total</b>	<b>20</b>	<b>20</b>	<b>20</b>	<b>60</b>	<b>100</b>

Source: Field survey, 2017

Table 5.13 shows that the 60 percent responses of the questions are received. 60 percent respondents disagree about the soundness of value added tax administration of Nepal whereas 40 percent are agreed about the soundness of value added tax administration. On the conclusion, researcher can say that training must be provided to tax experts and administrators.

#### 5.3.1.2 Views on Billing System

Billing System is the backbone of the VAT system. All the business has to receive the bills of actual transaction price while importing and buying of goods and services. The price of the goods and services with and without VAT has to be mentioned explicitly in the bill. The business has to pay the amount of difference between tax collected on sale and tax paid on purchase to the VAT office. He has to pay the income tax as well as the profit of the transaction. Thus the billing system plays important role in the field of VAT system. But in Nepal the billing system has been one of the major problems. So, the question is designed to show the comments on billing system of VAT. The outcome of the field survey is given below:

**Table 5.14**  
**Views on Billing System**

Option	Respondents			Total Respondents	Percentage
	TE	TO	TP		
Possible	20	20	12	52	86.66
Imposable	-	-	3	3	5.00
Costly	-	-	5	5	8.33
<b>Total</b>	<b>20</b>	<b>20</b>	<b>20</b>	<b>60</b>	<b>100.00</b>

Source: Field survey, 2017

From the empirical survey, it is found that all the tax expert and tax officers advocate for the possibility of billing system. Out of 60 respondent 52 respondents who represent 86.66 percent replied that issuing bill is very much possible but 5 percent said issuing bill is impossible and 8.33 percent replied/viewed it is costly.

### 5.3.1.3 Opinion about Current VAT Rate

To know the opinion about the present VAT rate in Nepal, Respondents are requested to selected one among the three alternatives (High, median and low). The question was asked “What is your opinion about the current VAT rate? The responses received from the respondents are tabulated as follows:

**Table 5.15**  
**Opinion about Current VAT Rate**

Responses	Respondents			Total Respondents	Percentage
	TE	TO	TP		
High	2	2	12	16	26.66
Medium	14	13	6	33	55.00
Low	4	5	2	11	18.33
<b>Total</b>	<b>20</b>	<b>20</b>	<b>20</b>	<b>60</b>	<b>100.00</b>

Source: Field survey, 2017



Table 5.15 shows that sent percent responses of the questions are received. 55 percent respondent's researchers agreed that the present VAT is medium, 26.66 percent respondents researchers agreed on high where as 18.33 percent respondents agreed on low tax rate. From the table, it is concluded that the current VAT Rare is medium. Majority tax exports and administrators researchers agreed on it where as some respondent feel that the rate is not absolutely high, but it is higher as compared to taxpaying capacity of Nepalese people.

#### 5.3.1.4 VAT as the Best Way to Increase Public Revenue

The implementation of VAT in Nepal was necessitated by the strong aspiration to increase the revenue. VAT is the most transparent, fair and broad based tax system. So, there can be no possibilities of tax evasion. Different people have different view when asked what the best way it is to increase public revenue through VAT.

**Table 5.16**

#### **Best Way to Increase Public Revenue through VAT**

S.N.	Alternatives	Respondents			Total	Percentage
		TE	TA	TP		
1.	Increasing Tax	1	2	-	3	5.00
2.	Widening its coverage	16	14	12	42	70.00
3.	Discouraging tax evasion	3	4	8	15	25.00
4.	Others	-	-	-	-	-
<b>Total</b>		<b>20</b>	<b>20</b>	<b>20</b>	<b>60</b>	<b>100.00</b>

Source: Field survey, 2017

Table 5.16 shows that the best way to increase public revenue is through VAT and to widen its coverage because 70 percent of the total respondents are found to think along that line. About 25 percent went for the option of discouraging the tax evasion.

#### 5.3.1.5 Has the VAT been leaking in Nepal?

To know the opinion VAT has been leaking in Nepal, Questions was asked with respondents, "Has the VAT been leaking in Nepal?" The responses received from respondents are tabulated below:

**Table 5.17****Has the VAT been leaking in Nepal?**

Option	Respondents			Total Respondents	Percentage
	TE	TO	TP		
Yes	8	10	12	30	50.00
No	12	10	8	30	50.00
<b>Total</b>	<b>20</b>	<b>20</b>	<b>20</b>	<b>60</b>	<b>100.00</b>

Source: Field survey, 2017

Table 5.17 shows that sent percent responses of the question received. 50 percent respondents were disagreed about the leaking of VAT and 50 percent respondents were agreed about the leaking of VAT. VAT provides more chance of direct contact between the tax payers and tax personnel. Since direct contacts and dealing facilities collusion mal practice and misuse of power, tax evasion would be easier under the VAT.

**5.3.1.6 VAT Education**

VAT is newly introduced scientific tax system so everybody should be educated about it. About VAT education, few people are aware of this very term. Customers believe that VAT will increase the price of the goods and services so they don't want to be even educated about it. Businessmen are also against it as they also lack the proper knowledge about VAT. So, VAT should be the topic of discussion and matter of concern for the successful implementation. The following feedback has been collected from the survey:

**Table 5.18****Effective Media for VAT Education**

S.N.	Alternative Choices	Respondents			Total	Percentage
		TE	TA	TP		
1.	Radio / TV	3	4	7	14	23.33
2.	Newspaper	12	10	8	30	50.00
3.	Booklets / Pamphlets	-	-	1	1	1.67
4.	Wall Painting / Banner	4	4	2	10	16.67
5.	Seminars	1	2	2	5	8.33
<b>Total</b>		<b>20</b>	<b>20</b>	<b>20</b>	<b>60</b>	<b>100.00</b>

Source: Field survey, 2017

Table 5.18 shows that 23.33 percent suggest radio and TV as the effective media for VAT education. Newspaper might be another source of education as suggested by 50 percent of total respondents. About 1.67 percent suggests that the booklets and pamphlets, 16.67 percent wall painting/banner and 8.33 percent seminars may be the best media for VAT education. This media proves to be ineffective, thereby must be replaced by other forms of media.

### 5.3.1.7 Important Factor for the Effectiveness of VAT in Revenue Collection

Although it has been nine year from the implementation of VAT, however it has not yet secured the expected results. There are many problems existing in the Implementation of VAT. It is necessary to identify the existing problems and efforts to solve them successively to make the VAT more successful. There are many factors That effect of VAT. They are proper implementation, broad coverage, tax education, effective and efficient administration and clear VAT laws and regulation. In order to know the most important factor for effectiveness of VAT in Nepal, respondents were requested to rank their responses on the given choice. The opinion made on this context has been summarized in the table.

In the course of analysis each rank has given some score with it.1 marks has been given to the most important factor and 6 mark to the least one. The rank given to each factors has been presented as under.

To know the important factor to make the VAT effective a question was asked," what is the most effective factor for the effectiveness of VAT in revenue collection?" The responses provided by the respondents have been tabulated as under.

**Table 5.19**

#### **Views on the Most Important Factor for the Effectiveness of VAT in Revenue Collection**

S.N.	Factor	Respondents			Total	%	Rank
		TE	TA	TP			
1.	Proper implementation	2	2	4	8	13.33	5
2.	Broad coverage	4	5	3	12	20	2
3.	Tax education	6	7	3	16	26.67	1
4.	Effective and efficient administration	3	2	5	10	16.67	4
5.	Clear VAT laws and Regulation	4	3	4	11	18.33	3
6.	Others	1	1	1	3	5	6
<b>Total</b>		<b>20</b>	<b>20</b>	<b>20</b>	<b>60</b>	<b>100</b>	

Source: Field survey, 2017

From the above table 4.19, it is observed that Tax Education is the most important factor for the effectiveness of VAT in revenue collection. The other important factors for the effectiveness of VAT were: Tax education, Broad Coverage, Clear VAT laws and regulation, Effective and efficient administration, Proper implementation and others, which were ranked 1, 2, 3, 4, 5 & 6 respectively.

Among the others proper billing system and accounting system, effective tax audit and effective monitoring and regulating mechanism are important factors.

### 5.3.1.8 Views on Major Problems of VAT in Nepal

To achieve the expected result from the VAT, the problem related to VAT should be settled. First of all, identifications of these problems is necessary and then required effective steps should be taken to settle the problems relating to vat. The major problems may be lack of skilled administrators/manpower, smuggling trade and under valuation of stock, improper billing system, tax unconsciousness on the part of Taxpayer and tax evasion. In order to know the major problems, respondents were requested to rank their responses on the given choice. The result of opinion survey on this context has been summarized in the table.

In case of analysis every rank has some score with it .1marks are given to the most important problem and 6 marks to the least important problem.

**Table: 5.20**

#### Views on the Major Problems of VAT

S.N.	Problems	Respondents			Total	%	Rank
		TE	TA	TP			
1.	Lack of skilled administration	3	1	5	9	15	3
2.	Smuggling and Under Valuation	2	3	3	8	13.33	4
3.	Improper billing system	5	6	4	15	25	2
4.	Tax unconsciousness of people	7	7	4	19	30	1
5.	Tax evasion	2	2	2	6	10	5
6.	others	1	1	2	4	6.67	6
<b>Total</b>		<b>20</b>	<b>20</b>	<b>20</b>	<b>60</b>	<b>100</b>	

Source: Field survey, 2017

Table 5.20 observed that tax unconsciousness people on the part of people are the most important factor. Other major problems observed were improper billing system

followed by ranked Lack of skilled administrators/manpower, Smuggling and under valuation Tax evasion and others

Among other geographical barriers is the main problem, weak economic condition and stagnant situation of the country are the notable creating problem for the implementation of VAT in Nepal.

#### **5.4 Major Findings of the Study**

After analysis and interpretation of data, in this chapter some important findings are given for study. The major findings are given below.

##### **Major Findings of Secondary Data**

- The government revenue is increasing from year to year. It is increasing trend. The major amount of Government revenue is collected from tax revenue. As compared to non-tax revenue, the contribution of non-tax revenue has a very low share in Government revenue.
- The contribution of customs duty in GDP is very few percent in previous seven years. In FY 2008/09 is 4.02 percent. Similarly, in fiscal year 2009/10 is 4.60 percent which has been increased in this year. In 2010/11, it slowly decreases to 4.51 percent. After that it has started increasing trend throughout study period. In FY 2011/12, FY 2012/13, FY 2013/14, FY 2014/15 and FY 2015/16 are 4.64 percent, 4.92 percent, 5.23 percent, 5.73 percent and 5.68 percent respectively. Contribution of customs duty on GDP is fluctuating trend up to FY 2009/10 then it starts increasing trend throughout the study period. It shows the contribution of VAT on GDP indicates the insignificant contribution of VAT on GDP of government of Nepal previously, although it is increasing trend over the last four years. So, the blue candles are increasing in the late years.
- The contribution of average growth rate of VAT on total tax revenue and indirect tax revenue the introduction of VAT is 30.09 percent and 48.06 percent respectively. It indicates that there is significant contribution of vat on total tax revenue and indirect tax revenue up to some extent.
- There are mainly three kinds of indirect tax revenue. These are custom duties, sales tax/VAT and excise duties. In average sales/VAT is the main and first

position custom duty is the second position and excise duty is the third position in indirect tax revenue. But in FY 2008/09, fifty percent of indirect tax revenue covered the VAT revenue. The VAT contributed the 50 percent in total indirect tax revenue in this year.

- Imports generate more VAT revenue than domestic production. Thus import is the main base of VAT in Nepal.
- The collection of VAT revenue in total tax revenue is in increasing trend and share of VAT in total indirect tax revenue is also increasing condition.
- Total number of tax payer is in increasing order except FY 2012/13 but the total number of new tax payer also increasing trend except FY 2009/10 and FY 2012/13. Now in FY 2015/16, the total number of new tax payer and total numbers of taxpayers are 156862 and 849236 respectively.
- Deregistration of VAT is the regular process of VAT. It is in increasing trend up to FY 2012/13 at that time it is 4089. After that it drastically decreases to 315 in next year and it increases to 441 and in final year it increase to 707. Mainly the canceling order is going in decreasing order in recent year.

### **Major Findings of Primary Data**

- From the above analysis, 60 percent respondents researchers disagree about the soundness of value added tax administration of Nepal whereas 40 percent are agreed about the soundness of value added tax administration. On the conclusion, researcher can say that training must be provided to tax experts and administrators.
- From the empirical survey, it is found that all the tax expert and tax officers advocate for the possibility of billing system. Out of 60 respondent 52 respondents who represent 86.66 percent replied that issuing bill is very much possible but 5 percent said issuing bill is impossible and 8.33 percent replied/viewed it is costly.
- The best way to increase public revenue through VAT is to widen its coverage because 70. Percent of the total respondents are found to think along that line. About 25 Percent went for the option of discouraging the tax evasion.

- 50 percent respondents were disagreed about the leaking of VAT and 50 percent respondents were agreed about the leaking of VAT. VAT provides more chance of direct contact between the tax payers and tax personnel. Since direct contacts and dealing facilities collusion mal practice and misuse of power, tax evasion would be easier under the VAT.
- 23.33 percent suggest radio and TV as the effective media for VAT education. Newspaper might be another source of education as suggested by 50 percent of total respondents. About 1.67 percent suggests that the booklets and pamphlets, 16.67 percent wall painting/banner and 8.33 percent seminars may be the best media for VAT education. This media proves to be ineffective, thereby must be replaced by other forms of media.
- Empirical study shows the most effective factors for the effectiveness of VAT is the availability of educational programs relating to VAT. Other factors mainly its proper implementation, broad coverage; effective and efficient administration and clear VAT laws and regulations can play the great role for the effective implementation of VAT.
- There are so many problems in the environment which are creating the obstacle in the effective implementation on VAT. Lack of tax consciousness of people is the main problem. The other problem is improper billing system, smuggling and undervaluation lack of skilled administrators/manpower, tax evasion, etc.

## **CHAPTER VI**

### **SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS**

#### **6.1 Summary of Findings**

Taxation and economic development are interrelated. Taxation has an important role in country's economic development. In recent decades, many developments around the world have begun to focus their attention on reforming their poorly designed defective tax structures as an integral part of their development efforts.

Summary of findings are as follows:

- Value added Tax is modern Tax system. It is a kind of indirect tax imposed on value added on goods and services by business firm at the successive stage of production and distribution. Value added tax was brought to replace by sales tax, contract tax, hotel tax and entertainment tax. VAT is scientific system of taxation. The types of value added tax are classified in three forms such as (a.) consumption types as invoice/Tax credit method (b.) Income type as subtraction method in connection with deducting facility in subsequent then otherwise addition method and(c.) Gross national production of addition method.
- VAT has been regarded as one of the most important innovation in the field of taxation. The evaluation of VAT is the most significant event in the history of commodity tax. German scholar Dr. Wilhelm Von Siemens, father of VAT, was the founder of value added tax. He developed the concept of VAT in 1919. The concept of VAT was developed further in 1949 by a tax mission to Japan led by earls S, soup. Any country did not introduce VAT until 1953. In 1954, VAT was first introduced by France to cover the industrial sector alone limiting the tax up to the wholesale level. In 1960, this tax was adopted by Ivory Coast. In 1967, Brazil and Denmark adopted this tax system, there after much other country started adopting this tax. Now more than 130 countries of the world have been implementing VAT in their economy up to now.
- In Nepal, FY 1996/97 budget announced that VAT would be implemented from 16 November 1997, however full fielded VAT was effective from 17



August 1999. Value added tax act has already been enacted in 1996 to regulate actual practice of VAT. According to value added tax Act 1996, the tax rate is 10 percent and export are subject to a rate of zero percent. There is provision of threshold and exception in VAT Act 1996. Single positive rate of 10 percent, now this rate is changed to 13 percent from 14 January 2005.

- VAT is not only important in the economy but also the other related portion may be easier then replaced tax system. The methods are available to compute of VAT. There are addition method, subtraction method and Tax credit method. Addition method includes salary wages, interest, profit etc. Under the subtraction method, value is determined as not turn over, which is obtained by subtracting the cost of material from sales proceeds. Tax credit method is popular in these methods. In practices invoice is the important document in tax credit method. Comparatively easier and simplicity, tax credit method is also adopting for computing VAT in Nepal.
- There are two principle of VAT, origin principle and destination principle. Origin principle advocates the theme that “Tax all goods and services where they are originated or produced that relieved those goods from taxes which are imported from abroad. Under a destination principle of VAT, all exports are allowed to free tax and imports are subject to tax. Nepal has been adopting destination principle of VAT.

## **6.2 Conclusion**

The major amount of Government revenue is collected from tax revenue as compared to non-tax revenue; the contribution of non-tax revenue has a very low share in Government revenue. The government revenue is increasing from year to year. There is a little bit significant contribution of VAT in the total GDP of Nepal. There are mainly three kinds of indirect tax revenue. These are custom duties, sales tax/VAT and excise duties. In average sales/VAT is the main and first position custom duty is the second position and excise duty is the third position in indirect tax revenue.

In the Nepalese context the trend of revenue contribution is fluctuating but the amount has been increasing reasonably. It is only the seventh year of VAT implementation but the revenue collection from VAT is not that bad. Theoretically VAT is the best alternative to gain high revenue collection. The boundary of value added tax should

be increased instead of increasing the rate of VAT in order to increase amount of revenue collection through VAT. The collection of VAT revenue in total tax revenue is in increasing trend and share of VAT in total indirect tax revenue is also increasing condition. Number of tax payers registered under VAT has been increasing year after year but their increasing ratio in latest year seen unsatisfactory. Total no of tax payer is in increasing order except FY 2012/13 but the total number of new tax payer also increasing trend except FY 2009/10 and 2012/13. Now in FY 2015/16, total number of new tax payer and total numbers of tax payer are 152865 and 849236 respectively. Registration canceling is the regular process of VAT. Mainly the canceling order is going in decreasing order in recent year.

From the findings the most effective factors for the effectiveness of VAT is the availability of educational programs relating to VAT. Other factors mainly its proper implementation, broad coverage; effective and efficient administration and clear VAT laws and regulations can play the great role for the effective implementation of VAT. There are so many problems in the environment which are creating the obstacle in the effective implementation on VAT. Lack 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.

### **6.3 Recommendations**

On the basis of findings and conclusion of the study, the following recommendations provided for the effective administration and implementation of VAT system in Nepal:

- Tax administrative should be made efficient
- Providing various facilities to VAT registrants can increase VAT compliance. The tax administration can select genuine businessmen and reward them.
- VAT law should be made simple to understand.
- There should be close cooperation between the private sector and government sector for the successful implementation of VAT system.
- VAT collection on import is remarkably higher than domestic production, such high dependency on import is not good signal for the government

therefore authority should take an effective step to encourage domestic production.

- Provide knowledge to people regarding tax planning
- Special incentives should be provided to small business person to increase registration trend.
- Unproductive, corrupted, inefficient staff lacking practical and specialized training is a serious problem. So, providing training to such staff is highly essential.
- Taxpayers, customers are ignorant about VAT system. They have lack of proper knowledge about computation of tax liability, taking invoice of their purchases. So, emphasis should be given to taxpayer education. The issuance of proper bill for every taxable sells must be made mandatory.
- The success of VAT system is not only the success of the Inland Revenue Department, but also the success of nation as a whole. The role of general media, radio, TV, newspaper, has an important role. Emphasis should be given on mass media rather than distribution of booklets and written forms to taxpayers. So, an environment of consciousness towards VAT system should be created covering general public, non-governmental and government organization.
- As per the equity principle of taxation, the government may apply different rates of VAT to luxury good and essential goods. There is injustice in levying more tax on conspicuous consumption.
- The proper co-ordinations among various Government departments involved in revenue collection must be maintained.

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## APPENDIX - I

Name of the Respondent

Position -----

Department-----

Please tick your answer researcher in the following box, if the question is provided with two or more alternative and put in order of preference from 1st to last number if there is two or more alternative.

1. Do you consider that VAT administration in Nepal is sound?
  - a. Yes ----
  - b. No. -----
  
2. Which one of the following options do you think the best to increase public revenue through VAT?
  - i) Increasing Tax
  - ii) Widening its coverage
  - iii) Discouraging tax evasion
  - iv) Others
  
3. What is your opinion about the current VAT rate?

The VAT rate is

  - a. High----
  - b. Medium-----
  - c. Low-----
  
4. What is your view about billing system?
  - a. possible
  - b. Impossible
  - c. Costly
  
5. Has VAT been lacking in Nepal?
  - a. Yes ----
  - b. No.-----
  
6. Which one of the following do you think is the best way to educate people about VAT?
  - i) Radio / TV
  - ii) Newspaper
  - iii) Booklets / Pamphlets
  - iv) Wallpaper / Banner
  - v) Seminars

7. What is the most important factor for the effectiveness of VAT to revenue collection? (Answer on 1 to 6 measurement scale)
- a. Proper implementation
  - b. Broad coverage
  - c. Tax education
  - d. Effective and efficient administration
  - e. Clear VAT laws and regulations
  - f. If any others (please specify) .....
8. What are the major problems of VAT in Nepal? (Answer on 1 to 6 measurement scale)
- a. Lack of skill manpower
  - b. Smuggling on under valuation
  - c. Improper billing system
  - d. Tax unconsciousness of people
  - e. Tax evasion
  - f. If any others (please specify).....

## APPENDIX - I

### VAT Adopting Countries

VAT Adopting Year	Countries
1954	France
1960	Ivry coast
1961	Senegal
1967	Brazil, Denmark
1968	Germany, Uruguay
1969	Nether land, Sweden
1970	Equator, Luxemburg, Norway
1971	Belgium
1972	Ireland
1973	Austria, Bolivia, Italy, United Kingdom
1974	Argentina, Chile, Columbia, Costa, Rica, Nicaragua
1976	Honduras, Israel, Peru
1977	Korea, Panama
1980	Mexico
1982	Haiti
1983	Domineer, Republic Guatemala.
1984	China
1985	Indonesia, Turkey
1986	Morocco, New Zealand, Niger, Portugal Spain, Taiwan
1987	Grenada, Greece,
1988	Hungary, the Philippines, Tunisia.
1989	Japan, Malawi
1990	Iceland, Kenya, Pakistan, Trinidad And Tobago
1992	Algeria, Armenia, Azerbaijan, Cyprus, El-

	Salvador, Estonia, First Kazakhstan, Russia, Tajikistan, Thai Land, Turkmenistan, Ukraine Uzbekistan, Moldova
1993	Burkina Faso, Czech Republic, Poland, Rumania, Georgia, Slovak Replica, Venezuela.
1994	Bulgaria, Finland, Lithuania, Singapore Researchers samara, Madagascar, Nigeria
1995	Gabon, Ghana, Switzerland, Zambia, Mauritania, Togo, Latvia.
1996	Albania, Guinea, Uganda
1997	Barbados, Congo Republic
1998	Croatia, Mongolia, Sri Lanka, Tanzania Vanuatu.
1999	Cambodia, Cameron, Mozambique, Antis Netherlands, Papua New Guinea, Slovenia
2000	Australia, , Macedonia, Namibia,
2001	Rwanda
2002	Lebanon
2003	-
2004	-
2005	India

*Source: VAT Four Year of Implementation, Khadka, 2013.*