CHAPTER I

INTRODUCTION

1.1 Background of the Study

Value Added Tax (VAT) is a 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 services tax or GST; and in 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 services. It is a consumption tax because it is borne ultimately by the final consumer. It is not a charge in companies. It is charged as a percentage of price, which is actual tax burden is visible at each stage in the production and distribution chain. It is an indirect tax, in tax is collected from someone other than the person who actually bear 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.

It is collected fractionally, via a system of deduction whereby taxable persons can deduct from their VAT liability the amount of tax they have paid to other taxable person on purchases for their business activities. This mechanism ensures that the tax is neutral regardless of how many transactions are involved. In other words, it is multi- stage tax, levied only on value added at each stage in the chain of production of goods and services with the provision of a set- off for the tax paid at earlier stage in the chain. The objective is to avoid 'cascading', which can have a snowballing effect on prices .It is assumed that due to cross- checking in a multi – staged tax, tax evasion will checked, resulting in higher revenues to the government.VAT falls under the general category of a consumption tax, meaning taxes on what people buy rather than on their earning, saving, or investments.

VAT has also been referred to as a sort of sales tax, though if functions very differently. Sales tax is imposed on the total retail price of the item sold, while VAT is imposed on the value added at each stage of production and distribution. And though more complicated than sales tax, value added tax systems have more checks against tax fraud because the tax is assessed at more than one point in the distribution process.

Over 130 countries worldwide have introduced VAT over the past three decades and Nepal is amongst the last few to introduce it. Nepal already has a system of sales tax collection where in the taxes were collected at one point (first/last) from the transaction involving the sale of goods.VAT would, however, be collected in stages (installments) from one stage to another. The mechanism of VAT is such that, for goods that are imported and consumed in a particular state, the first seller pays the first point tax, and next seller pays tax only on the value addition done leading to a total tax burden exactly equal to the last points. (Bhattarai and Koirala, 2010:259)

Nepal is a developing country lying between two fast growing countries India and China. The main goal of developing countries like Nepal is to attain reducing of income inequality and poverty, high rate of economic growth and improving standard living of the people.

There are mainly two sources of revenue in Nepal. The revenue of the government comes from two sources tax and non-tax.tax revenue is further divided into two parts; direct and indirect tax. Indirect tax is a tax which is imposed on one person but not can be paid either partly or wholly by another person. Thus in the case of indirect ; the impact and incidence of tax can be shifted to other person, excise duty, sales tax, import and export tax, custom duty and value added tax(VAT) etc. Indirect tax plays a significant role as compared to tax or in developing countries like Nepal "Indirect taxes is superior than direct taxes".

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. The concept of VAT was developed further in 1949 by a tax mission to Japan headed by prof.Carl S. Shoup. The tax, however, remained as only a topic of academics interest until 1953.

The concept of VAT in Nepal was introduced in early 1990. Nepal government indicated its intention to introduce VAT in eighth plan. Subsequently, the finance Minister declared to introduce a two- tire sales tax system to make the base of implementing VAT from the FY 1992/93. VAT task force was created in 1993, under the financial assistance of USAID in order to make necessary preparation for the introduction of VAT. The VAT task force prepared the draft of VAT legislation.

The parliament of Nepal enacted "Value Added Tax Act 1995) in 1995 subsequently, VAT regulation was made in 1996.Although the act was passed in 1995, its implementation was delayed due to political instability and strong opposition from the business community. VAT with single rate of 10 % was fully implemented was effected from 16 November, 1997 (Mangsir 1, 2054). It has replaced sales tax, hotel tax, contract tax and entertainment tax. It has been designed to collect same revenue as the four taxes it replaced. VAT is a new tax system for Nepal. VAT has been justified in the light of government fiscal imbalance and need for extra revenue mobilization through an efficient tax system. The government of Nepal has increased VAT to 13percent with effect from 2004.

1.2 Statement of the Problem

To meet the growing public expenditure funds originated from both internal and external sources, the vital role has to be played by internal sources. External source is only the follower and facilitator.

Taxes are important source of public revenue and the major fiscal policy instrument. They are necessary to accelerate the pace of development. The rate of capital formation is low due to small resource base and large revenue expenditure gap. As expenditure is increasing tendency of growth in revenue is still stagnant which widens the resource gap and either raises foreign dependency or decreasing the development expenditure. Nepal has been adopting deficit financing since 1964, which is another reason for huge resource gap.

We can't claim that increasing tendency of public expenditure is the sole determinant of resource gap. It is the stagnant revenue, which is another aspect is the regard. In other words, budgetary deficit is the consequence of not only increasing expenditure, but also poor performance of existing taxes. Keeping this fact in account, the government in this 1990s initiated a reform program and introduced Value Added Tax. It was expected that the tax GDP ratio will be increase and the resource gap will diminish with the introduction of VAT, four different taxes (sales tax, entertainment tax, contract tax and hotel tax) were substituted by VAT. Almost seven years have already gone and it is time to evaluate this tax system.

The new introduction has shown positive as negative aspects. The study will try the find out prospect of VAT and try to evaluate the theoretical as well as practical problems of VAT.

The study focuses the answer of the following questions:

1. What are the challenges and opportunities of VAT in Nepal?
2. What is the structure of VAT in Nepal?

1.3 Objectives of the Study

The generalobjective of the study is to analyze the effectiveness and contribution of VAT on the Government revenue of Nepal. But the specific objectives of the study are as follows:

1) To identify the challenges and opportunities of VAT in Nepal,
2) To examine the structure of VAT in Nepal,.

1.4 Significances of the Study

VAT can play an important role in the process of development in developing countries like Nepal which needs higher revenue to fulfill various responsibilities. If it is properly implemented VAT provides various financial needs. For the successful implementation of VAT co-ordination between government and business community is needed.

VAT is the modern form of sales taxation. It has been implemented since 1997 in Nepal. There is need of deeper and wider study about VAT in Nepal. In this context, many empirical and theoretical studies have been conducted to examine the various challenges and opportunities of VAT in Nepal. The study will be directly beneficial to policy maker, private sector, researcher and general people. Policy maker will be able to identify the areas needed for improvement .It will help the re-searcher to carry out their research a step ahead about VAT.

1.5 Limitations of the Study

This study is subjected to following limitations:

1) This study is based on the secondary source of data only.
2) The study covers only the period from FY 2000/01-2014/15

1.6 Organization of the Study

The first chapter includes the background of the study, statement of the problem, objectives of the study, significance of the study, limitations of the study and also research methodology. The second chapter reviews some important literatures, books and some articles. The third chapter analyzes the research methodology. The fourth chapter examinestheoretical aspect of Value Added Tax (i.e. introduction, types, methods, structure, operation andcomparing the other taxes). The fifth chapteris describes thoroughly checked compiled and presented in appropriate tabular form to facilitate analysis and interpretation.Analysis is done descriptively as well as percentage, bar graphs, and line graph and trendanalysis. Thesixth chapter mainly deals with challenges and opportunities of Value Added Tax in Nepal. And the last chapter seven includes summary, conclusion and recommendations.

CHAPTER II

REVIEW OF LITERATURE

2.1 Theoretical Review

2.1.1 International Level

Symons, Howlettand Alcantara (2010) have analyzed that VAT is the most common form of consumption tax system used around the world. Although the principles of the tax are broadly the same everywhere, the compliance burden on business varies considerably.

This study suggests that different administrative practices and the way in which VAT has been implemented are key reasons for the range in hours that it takes Nepalese case study to comply with VAT requirements.More time is spent on compliance activities where VAT is administered by a separate Tax Authority. More time is spent where tax administration is weaker (as measured by the time it is likely to take to obtain are fund).The frequency of returns and the amount of data which has to be submitted have an impact on how long it takesto comply. Less time is spent where business uses online filing and payment. The compliance burden tends to be lower in the developed world and higher in lower income countries. Streamlining the compliance burden and reducing the time needed by business is important for the efficient working of VAT system.

Lejeune (2011) has stated that significant differences exist among experts regarding the basic features that should be taken into account for the successful implementation and effective administration of a VAT; however, in the context of capacity building and strengthening, a lot of common grounds are apparent among many developing countries. Most importantly, multiple rate structures of VAT and non-harmonized compliance and enforcement rules create unnecessary complexity, uncertainty, and inefficiencies. Wider definition of taxable persons/enterprises (including government bodies), high registration threshold, single rates, minimal exemptions, and minimal zero-rated supplies are more preferred compared to the opposite cases.

Musgrave and Musgrave (1976) have suggested that major three types of VAT (i.e., consumption, income, GNP). The least is the best for practical consideration for two criterions (efficiency and equity). Tax based on consumption is similar to the retail sales tax, especially in developing countries. The tax credit method for calculation is more useful, easily and advantageous than the other methods. Describing the problems of VAT state " a sales tax may be imposed in either single or multiple stage form. If latter is implemented in the value added, sense it is equivalent from economic point of view to a corresponding single stage tax. At each stage, the production is increased and these prices rise accordingly which is the value added tax base'.

Among the two types of alternative that is VAT and Retail Sales Tax (RST) posing the same tax base which one is more preferable? This strong difference in their opinions is analyzed as: the number of taxpayers are less in RST than VAT. Therefore, the tax administration is feasible in RST than VAT. The exclusion of capital goods is more effective in VAT system than under RST. VAT constitutes self-enforcement in invoice system for calculation of tax liability than under RST.

Tait (1991) has concentrated that mainly deals on the policy, structure and issue concern on the basis of theoretical as well as empirical proofs. This theory concluded that the VAT is play vital role in the government revenue.VAT is for the buoyant, base of revenue, explaining neutrality and efficiency in taxation. It is preferable that the VAT should cover all steps of production and services. Single rate VAT with no zero rates and few exemptions proves regressive but it should be evaluated on the basis of proofs relatively less regressive than other. VAT simply change relative prices but not the overall price increase. Tax increase should be deflationary. Over all VAT may not contribute to promoting exports but it makes the system easier.

The VAT is the alternative of retailer's sales tax. However both do not can tax the unofficial business but under the reporting of sales will show up under the VAT. The VAT is for the buoyant base of revenue maintaining neutrality efficiency in taxation. It is preferable that it has the capacity of covering all the stages of production to the retail level and services. Overall, VAT may not contribute to promote export but it makes the system easier. Single positive rate VAT and few exemptions prove regressive but it should be evaluated on the basis of proofs relatively less regressive than others. It should be weighted compares with deficits. VAT, simply changes relative price but not the overall price increase, tax should be deflationary. VAT administration affects many components whether all are retail sales and services be taxed or how many rates are to be used, the treatment of capital goods, financial services, foods, small traders will affect the administration of VAT.

Hyman (1972) has opined that the VAT is simply multi stage sales, the tax which exempts the purchase of capital goods and services from the tax base. By exempting capital outlays at the time of purchase consumption types of VAT provides a kind of investment, and tax credit incentive. Describing precisely in theoretical words, it is indicated that:

a) Though VAT is not simple to administer the tax apparently has proved to be an effective revenue instrument.

b) VAT strikes all factors incomes (rent, wages and so on in addition to corporate profits).

c) One common argument in favor of VAT over the profit tax is that the former is neutral between efficient vs. inefficient producers.

d) The economic effects to including VAT depend in apart on the type of tax chosen and method by which it is introduced.

e) The VAT is amenable to rate discrimination in order to alleviate regressive effects.

Shoup (1988) has pointed out that a VAT is a tax on the value that a business firm adds to things it buys form other firms in producing its own products.VAT is comprehensive if it covers all economic activities form the earlier stage of farming or mining right through to the retail. The speed with which the VAT has spread around the world is unmatched by that of any other tax in the modern time. VAT reduces vertical integration because of its nature, which is taxed on the value added but not on turnover.VAT offers more revenue and coverage than other forms of sales taxes. It exempts exports as well. Considering the problem of deducting the capital goods, consumption types of VAT is superior than other forms.

In the VAT system the tax payers responsibility spread much more, better exempts producer's goods. VAT is more revenue productive, self enforcing and if foods and basic necessities are to be zero rated regressively may be reduced. These are the advantages pointed out. Similarly, on the other hands; its complexity is difficult both in the case of compliance and administration or collection, inflationary in nature, more problematic in developing countries like Nepal and its regressively are also pointed. After comparing VAT with turnover tax, retails tax, MST the author recommended VAT to be superior than them but it needs caution in implementation. The main findings of that study were:

- VAT is not ideal for all developing countries.
- Basic accounting problem and efficient and empirical tax administration are lacking in developing countries which are the main obstacles to VAT
- The choice between turnover taxes and the VAT becomes a matter of weighing the pros and cons.
- No generalization seems justified on the suitability of the VAT for developing countries as a group. Those mean circumstances are also important.

Goode (1986) has described the VAT as the most important innovation in public finance. VAT applies to the tax imposed on the value added at successive stage of production and distribution. VAT, a sales tax on consumption is fairer than an income tax because the later results double taxation of saving is unconvincing but the former lacks the progressiveness, which serves by later.

The author has analyzed the following advantages of VAT:

- It is broad based and relatively neutral.
- It avoids both simple cascading and cumulative taxation of goods of producers that are not physically incorporated in products.
- Spreading the tax over the several stages of production and distribution is often considered as an administrative advantage compared with collecting it all at one stage because an enterprise has less incentive to evade tax.
- It generates the possibility of issuing information as a cross checks on compliance with other taxes particularly income taxes.

Besides these suitability of Value Added Tax is questionable for countries where small enterprises are important accounting is unreliable and administrative is weak.

2.1.2 National Level

Shah (2012) has analyzed to cover almost all the theoretically aspect of VAT specially the introduction of VAT, types of VAT (GNP, Income and consumption), operation of VAT (registration, VAT number, master file, penalties, books of account, invoice, etc), methods of computing of VAT (additional, subtraction and tax credit), the evaluation of VAT, comparison of VAT with Turnover Tax, sales tax the cause for its adoption and VAT preparation in Nepal.

The author defines VAT is an indirect tax that is imposed on different goods and services on the basis of value added amount in different stages of production and distribution. It is levied on the value addition at every point of sale. Presently tax on sale or purchase of goods is levied by virtue of entry of VAT. The author also argues that VAT means:

a. is multi point tax on value addition

b. which is collected at different stages of sale, and

c. with a provision for set-off for tax paid at the previous stage tax paid on inputs, before remitting to the government's accounts.

By comparing VAT with manufacturing VAT (MANVAT). The author argue that Value Added Tax at manufacturing level is to reduce the cascading effects of excise duty. If sales taxes continue in the present form, they would impinge on inputs and much of the advantages of MANVAT would be lost. By comparing VAT with modified VAT (MODVAT). The author argues that MODVAT has developed transparency of tax, reduced cascading effect of inputs tax and it also helped self-polishing on its evasion to large extent. It helps in saving the payment of interest at different stages of excise duty.

There are so many challenges to implement of VAT in Nepal. In the context of Nepal, the main issue of implementing VAT is its applicability issue. Implementing a VAT in Nepal may raise a host of practical difficulties making the VAT inappropriate or less applicable. Challenges may also further as the side effects of implementing the VAT. The author focused the challenges and opportunities of Nepalese tax (VAT). Such as small traders, granting exemption, taxpayer's identification.

Dahal (2011) has explained that VAT is a neutral and equitable tax system with fair and simple accounting. Almost all the supply to be under VAT and should be single rate. Otherwise, it creates the economic gap and falls the revenue system. VAT is the major sources of indirect tax. It is somewhat one half of tax revenue, where as income tax is somewhat one third of tax revenue.VAT has wide coverage indirect tax applicable for territorial economic value addition. For VAT purpose, all the person, whether legal or physical or governmental agencies (central or local government) or association (joint venture, partnership, body of individuals or similar) are taxable person. The main principle of VAT is 'keep infract the tax base'. The author argues that value addition means additional cost incurred plus profit on the process, but in VAT accounting, value addition means all the cost on which VAT has not paid on purchase (or not allowed for set off) plus profit. So,

Value addition in VAT = Sales plus all sales associated taxes- VAT paid (all allowed) purchases.VAT required being collected in transaction value on sale of taxable transaction by registered person. In general, principle of VAT, registered seller collects VAT and purchases pay VAT to sellers not to be revenue itself. Buyers need to pay VAT to be registered person seller. any person (registered or not) in Nepal receiving service from person outside Nepal need to pay VAT for that services (on the local currency based on NRB exchange rate on date of supply not date of payment).

Pokharel and Bhandari (2014) have suggested that the VAT raises revenue in a neutral and transparent manner. Some suggest that VAT is most effective instrument for generating government revenue and that the marginal cost of raising funds for public purposes through VAT is generally lower than it would be if other taxes were employed. He suggests that there are many differences in the way value added taxes VAT is implemented around the world and across OECS countries. Nevertheless, there are some common core features:

- VAT is a tax on consumption paid, ultimately, but final consumers and collected by businesses.
- The tax is levied on a broad base (as opposed to e.g., excise duties that cover specific products).
- In principle, business should not bear the burden of VAT itself and so there are mechanisms in place that allow for a refund or credit of tax levied on transactions between businesses.
- VAT should also be administered in a neutral way, in the sense that it should not discriminate between similar businesses and businesses should not bear disproportionate or inappropriate compliance costs that could distort their economic decisions.

To implement in VAT in our system is an arduous task. Especially as the practice of maintaining tax accounts is very less, smuggling and under valuation is rampant and tax linkages take place implementing VAT with its true spirit is very challenging. The implementation aspect of VAT has been affected by the widespread prevailing practice of not issuing and receiving invoices.

One of the critical areas for successful implementation of VAT is effectiveness of tax credit and tax refund system. If a taxpayer cannot avail of the tax credit facility because of a minor error in issuing an invoice or in maintaining accounts, it works against the essence of VAT. This study concludes that the major challenges in successful implementation of VAT lies on the effectiveness of self assessment tax system, organization of taxpayer's education programs, function based organizational structure, employee, training, continuous monitoring, and continuous enhancement in application of computerized system. The fact that to fully establish a broad based tax such as VAT which is capable of influencing the entire tax system requires intense efforts and a long time is not only true in the context of developing country like ours but the experiences of developed nations have also evidenced the same. But it is essential to implement this tax to make our tax system sustainable, efficient, sound and transparent. Therefore, maximum benefits from this tax can be reaped with the creation of atmosphere where it can implement in its true spirit. VAT cannot be implemented in isolation and has an impact on various other taxes including customs duties and income tax. Therefore, it has been observed that in the context of implementing VAT in various countries, an integrated tax reform approach is adopted by establishing good coordination among different taxes.

Khadka (2000) has concluded that the Nepalese tax system and tax administration and points outs the needs to introduce VAT in Nepal. The main causes to introduce VAT was to develop a stable source of revenue by broadening the tax base. In the near future, the revenue from custom duties will diminish because of the enactment of SAFTA and WTO agreements'. In such situation, broad based internal tax system in required.

The sales tax was narrow based and most of the sales tax was collected from Custom/ Manufacturing points. The huge exemption made on socio-economic ground resulted on weak tax administration and low yields of revenue. Moreover, delegation of taxing authority to the local bodies to make them financially autonomous also caused low performance of central taxes. In such condition, the author stresses on the proper implementation of VAT in Nepal .but, VAT is not great panacea because there are many obstruction on the implementation of VAT. Most of the business venders do not want to be registered under VAT. Cross checking has not been possible and under valuation is dominating. So, in conclusion that writer suggests that VAT will generate more revenue in the days to come when it because fully operational.

Dhakal, Panday and Bhattarai (2015) stated that VAT is charged on the value added at each stage in a chain of manufacture and distribution. It is collected bit by bit along the chain and finally into the consumer who does not add value, but uses up the goods. Value added tax is also called multi stage tax as it is levied in every stage of distribution channel. Every businessperson collects tax from their customer and pays to the government deducting the tax paid earlier on its purchase.

Discussing the characteristics of VAT,

- It a form of indirect tax and levy on the consumption of goods and services.
- It is a multi stage tax and levy on every stage of distribution channel.
- It is based on value added principle and levy on value added by each intermediaries.
- It is designed to remove cascading effect on tax and chances of tax evasion.
- It is based on self-assessment system with a facility of tax credit and refund.
- It is a transparent, as it requires doing transaction up on VAT bill by a registered person and maintaining systematic record in each stage.

This study concludes that a developing country like Nepal, tax evasion has been a major problem. In order to avoid such problem as much as possible, an account based transparent taxation system. Otherwise known as VAT has a emerging to play. When operational, it helps as detect the loopholes & minimize the problems associated with leakage in items of revenue collection. It has the self-policing feature to avoid and controls tax evasion.

Sharma(1998) has examinedthat several aspects of VAT administration such as its Challenge, opportunity,operation and other aspects. 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 relationship between government and business community is broken, which has been limit boundary to implement of VAT successfully.

His suggestions to the government to implement VAT successfully in Nepalese context are follows:

- The government should pay attention of design the strong administration.
- The government should try to produce an official 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.

Nepal Chamber of Commerce (1977I) has analyzedthat the possible effects of VAT on some Nepalese economy has made some observation. Which are following;

- Adverse effects on price level.
- Increase in the prices of imported goods would hit the import business and re-export of imported goods leading to a decline in the revenue from import tax.
- The account keeping requirements of the VAT would increase the tax compliance cost and cost of doing business. It would adversely affect the small traders.
- Adverse effect on domestic production due to the abolition of protection policy under VAT.
- VAT would be unjustifiable on social ground. It would aggravate the income distribution.
- Negative effects in revenue collection and
- Chances of failure of VAT in Nepal are great because the present administration in incapable for handling VAT. The study concludes that VAT

in Nepal should not be implemented in haste. A partial VAT on some commodities should be implemented on experimental basis to known its pros and cons and after that a full- fledged VAT may be considered.

2.2 Empirical Review

2.2.1 International Level

Ernst and Young Global Limited (2015) has explained that the countries where a VAT/GST already exists, average VAT/GST rates have increased in recent years, and those increases seem set to continue. This upward rate trend is particularly true for Europe and the OECD countries, where the average standard VAT rate has now reached 21.6 percent (EU Member States) and 19.2 percent (OECD Member Countries) compared with 19.5 percent and 17.5 percent average rates, respectively, before the crisis in 2008. Compared to previous years, the rates in Europe have been surprisingly stable at the start of 2015, although they remain high. Iceland even reduced its standard rate from 25.5 percent to 24 percent (while increasing the reduced rate from 7 percent to 11 percent). However, there have been some increases. Luxembourg raised its standard rate from 15 percent to 17 percent, which is also the reason why the average EU standard rate is still increasing. And new rate increases are likely on the horizon: Italy is considering a rise, and Portugal may also follow suit. For the OECD countries, the main reason for the increased average is because of the consumption tax rate increase in Japan from 5 percent to 8 percent in April 2014. Again, this trend is likely to continue, with the already scheduled next increase in Japan due in 2017. Other than Europe and the OECD countries, the VAT rate development is more stable. In contrast to Europe, Angola, Peru and Sri Lanka all lowered their standard rates.

Owens and Battiau (2011) have suggested that several developing economies with similar level of economic development have adopted single VAT rate. Of the total 21 African countries that implemented VAT between 1990 and 1999, 14 have adopted single rate. Likewise, of the nine countries that implemented VAT after 2000, eight have applied the single rate. The rate, however, is determined based on the country specific conditions and the revenue requirements. European Union has a minimum of 15 percent, with 10 percent in Australia, 15 percent in New Zealand and 14 percent in South Africa.

Alemu (2010) has explained that the tools of quantitative empirical analysis technique to evaluate the contribution of value-added tax to the development of Ethiopia State economy over an eight-year period (1995 - 2002 E.C. or 2003/04 – 2009/10 G.C.). The state economy was disaggregated into five strategic economic sectors in the development process, and specified to enhance isolated analysis of each sector. In order to generalize the study, the capital expenditure on respective development indicator sectors is aggregated as a single dependent variable, development indicator sectors. The analysis had shown that, with the exception of education sector. VAT revenue has positively contributed to the development of the rest of other sectors health, agricultural and natural resource, infrastructure development, and other development indicators such as, urban development and housing, culture and sport, social welfare, and disaster trade and industry.

Lastly the author concluded that there are some challenges to implementation of VAT. That is computerization and trained personnel, rate of tax and exemption (The government should carefully choose the most suitable tax rate so that the tax will not burden the poor. Considerations should be made on whether the GST to be levied at a single rate, or a higher rate to certain products which is considered luxury products. However the government will face some problems when it takes into account these considerations.), accounting records (Most small businesses do not have a proper system to keep accounting records than create the problem to the implementing of VAT). Education problems or factors that might retard the development of the GST or VAT system which should be taken into account by the government before GST become into the force as problems can occur on both sides of taxpayers and administrators.

Hossian (1995) has described that investigate income distribution implications of different VAT schemes in Bangladesh. The author applying the methods developed by Ahamad and Stern and using the data of households 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 author also explains 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 finding of the study suggest that, among different possible VAT schemes, selective VAT with exemptions (or zero rating) and additional excises is clearly preferable than to be complete uniform VAT if the distributional issues are dominant concern in tax reform.

Guerad (1973) has evaluated that the Brazilian VAT against the background provided by two broader issues: one is a case study of the VAT in a developing country and second is an illustration of problem posed by inter- state tax bo-ordination in a special setting of a regional disparities .The Brazilian states adopted a broad based single rated (i.e., 15percent) VAT in 1976 in the place of existing heterogeneous turnover taxes aiming to secure a greater degree of tax federation. The VAT was modified origin principle, and it extended to retail level with minimum exemption. The administration of the tax did not appear burdensome.

In the first year of its introductions revenue increased by 54 percent, the 30 percent of which was due to price increase and 17 percent was the real increase. The industrial sector bore a heavier tax impact than the rest of the economy in relation to its own value added because of the non- deductibility of tax on inputs used by the industrial sectors from the exempt sector. Manufacturing accounted for 60 percent of estimated VAT although it generated less than one fourth of the GDP. The Brazilian experience does suggest that the VAT techniques can be applied to the condition in developing countries with no great difficulty. The administration of VAT could be expected to pose initially a more difficult problem in developing countries which previously have no experiences in operating broad based sales tax.

2.2.2 National Level

Acharya (2016) has viewed that Nepal has been adopting single VAT rate since its inception in 1997. After eight years of administration of standard VAT rate of 10 percent, the rate was raised to 13 percent in 16 July 2005. Global experiences, however, are varying based on existing administrative capacity of the government, tax education among businessmen regarding proper book keeping, the culture of conducting business, and compliance cost of the tax payers. However, for the last several years, business community is lobbying for multiple VAT rate in Nepal in view of tax favor to different business activities. Introducing several VAT rates will definitely complicate the Inland Revenue administration and the compliance. However, if the existing list of exemption goods are transferred to zero rate, goods with different refund rates are applied with half of the standard rate of VAT, and the rest are applied with standard 13 percent VAT rate, this change does not necessarily increase the compliance cost rather it improves efficiency in VAT administration.

Despite the single rate policy followed by the Nepalese government, multiple rates exist in Nepalese VAT system in one way or another. A long list of exemption goods, and varying rates of refund to different goods such as vegetable ghee, sugar, wheat flour, and mobile imports in the range of 40 to 70 percent, and 13 percent standard VAT rate to other goods/services have made the Nepalese VAT at least three-tiered in terms of the rate. Should Nepalese government try to address the demand of the business sector and improve the compliance within the given tax administration cost, 13%, 6%, and 0% might be the three rates to administer that is not essentially different from the current rate structure.

Koirala (2010) has stated that the VAT comprises 35.9 percent of total tax revenue in FY 2010/11 and the pictures during the early years of its inception were also near about the same. The VAT/ GDP growth has been increasing marginally from 2.78 percent in FY 1997/98 to 4.58 percent in FY 2010/11. The effective rate of VAT was hovering around 3 percent when the standard rate was 10%.It increased to 3.97 percent in FY 2006/07 and to 4.91 percent in FY 2010/11. The efficiency ratio defined as the ratio of VAT revenue to GDP divided by the standard rate (expressed in percentage) has been widely used as a summary indicator of the performance of the VAT (Ebrillet all, 2001). The marginal efficiency of VAT has been almost stagnant up to FY 2006/07, but start growing in subsequent years and now it is 35.22 percent which means only 35.22 percent of GDP is under the purview of VAT system. Though VAT collection still relies on import, yet domestic collection has been increasing over the years and reached up to 1.70 percent of GDP.

Timsina (1990) has reviewed that prior to 1997, the VAT was not existent. However sales tax, contract tax, and hotel tax were present. Therefore, the sum of these taxes is treated as VAT up to that time. The elasticity and buoyancy of VAT are calculated in two periods 1975-1996 and 1975-2005, as the sample period of VAT is very small, that is, eight years only. From the empirical results, the elasticity and buoyancy coefficients of VAT are 0.55 and 1.15 respectively during the review period. In the period 1975-1996 (prior to the introduction of the VAT), such coefficients (the sum of sales tax, contract tax, hotel tax and entertainment tax) were 0.82 and 1.04 respectively. This result demonstrates that after the introduction of the VAT, tax buoyancy increased but the tax elasticity declined. Though the VAT is introduced in Nepal with an expectation of broadening the tax base, eliminating tax cascading, creating an investment friendly tax system and increasing the revenue, it seems also inelastic.

For the improvement and better collection of VAT he recommended that developing a sound billing habit, increasing consumers' consciousness on demanding bills, easing the tax deduction and VAT refund process, discouraging the sellers' trend of demanding huge amount of 'tax credit', developing cooperative and positive thinking of VAT personnel to correct the mistakes of the sellers on maintaining the accounts, relevant training for the VAT personnel, right placement of the personnel as well as less frequent transfer policy are some of the important measures that need to be taken.

Singh (2010) has identified that the Nepalese VAT system with challenges, opportunity and suggestion. VAT has been most essential choice an ingredient of tax reform for developing countries like Nepal, which leads to revenue increases day to day and increasing economic growth and sustainable economic development. There is huge scope for increase in the revenue from VAT and its sound implementation in coming days. Billing system is one of the major aspects of effective implementation of VAT but businessman hardly issue bill to consumer. The proper issuance of bills has remained a major bottleneck.

Lack of proper billing system is the most challenging problem in Nepalese context so computerized billing/ automatic billing system should be developed in the VAT system. The use of cash machines should be encouraged in the shop to solve the problems to great extent. Basically custom duty and excise duty is paid for import and export. The more we decrease the rate the more we promote export and import of the goods.

Bhusal (2014) has explained the structure and trend of VAT in the government revenue on Nepal and identified the challenges on VAT implementation in Nepal. VAT is play in vital role in revenue mobilization in Nepal. The reason behind this is that VAT system is transparent with broad tax base and discouraging tax evasion. VAT is the most innovation powerful and scientific tax system with built in quality of universal application for both developing and developed countries.VAT system makes it is possible to broaden the tax base, eliminate the tax evasion and cascading create an investment friendly environment and finally to increase to the government income/ revenue. This is a matter of great pride that Nepal has entered in to the major global tax system with the introduction of VAT. VAT system in Nepal is both necessary and compulsion. The globalization and recent trend of trade and tax system has affected the Nepalese economy. As Nepal is one of the member of WTO, it is necessary to decrease the custom duty and excise duty. Consumption based tax is only an alternative to more revenue which directly helps to increase domestic resources for development works. I spite of VAT is a major instrument to achieve the high rate of economic growth, there are many challenges and problems on the successively implementation on VAT system in Nepal. As per the equity principle of taxation, the government may apply different rates of VAT to luxury goods and essential goods.

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 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, government and its concerned agencies are making 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 the deficit of past studies and this study is very important for the planners, policymakers, economists, and stakeholders.

CHAPTER III

RESEARCH METHODOLOGY

3.1Introduction

Research is a systematic and organized effort to investigate a specific problem that needs a solution. This process of investigation involves a serious of well throughout activities of gathering, recording, analyzing, and interpreting the data with the purpose of finding answers to the problem. Thus, the entire process by which we attempt to solve problems or search the answers to questions is called research.Research methodology descries the methods and process applied in the entire study. In other words, research methodology is a systematic process to approach any research problem to and explore it objectively.

3.2Research Design

Research is the way or plan that specifies the sources and types of information relevant to the research problem, specifies quantitative approach which will be used forthe relevant data collection and analyzes the collected data. It helps the researcher to find answer of the problem and control the errors over the study. Although there are many types of research design, this study follows the descriptive research design.

3.3 Nature and Sources of Data

The nature of the thesis is descriptive .In this study, the secondary data has used. The secondary sources of data are the information desired from books, journals, newspapers, reports and dissertations, etc. The major sources of secondary data are:

- Publication of Ministry of Finance (MoF), the government of Nepal Budget Speech of Various fiscal years, Economics surveys, report of various task – force submitted to MoF.
- Published documents of Nepal Rastra Bank (NRB)
- Statistical Pocket book of various year by Central Bureau of Statistics (CBS)
- Published documents of National planning Commission (NPC)
- Various Journals of CEDECON,TU
- Internet

3.4 Data Collection Procedures

Date processing is one of the important stages of research. Processing means a series of operations on data in a research so as to obtain desired objective. Analysis means categorizing, manipulating and summarizing of data to obtain answers of research questions. The collected data into books, annual report of Inland Revenue Department, thesis, newspapers published form so as to obtain desired objectives tools for analysis of data. The research covers the study from FY 2000/01 to 2014/15.

3.5 Analysis and Interpretation of Data

The information revived from secondary sources is firstly tabulated into separate formats systematically in order to achieve desire objectives. After that these data are tabulated and analyzed. For the purpose of analysis generally simple percentage methods, ranking methods, graphs, charts and diagrams.

The study based on the secondary sources of data as stated above in data sources and information processing of obtained data will be done in computer using application programs like MS – word, MS- excel etc. The data collected from various source s and analyzed by using various tools like percentage, pie chart, bar-diagrams, graphs, tables etc. according to the need of our study.

CHAPTER IV

THEORETICAL ASPECT OF VAT IN NEPAL

4.1 Introduction of VAT

4.1.1 Concept

The concept of Value Added Tax (VAT) emerged in 1919, when a German industrial list Carl F. Siemens purposed the tax to replace the multistage sales taxes in Germany. The concept of VAT was developed further in 1949 by a tax mission to Japan headed by Prof. Carl. S. Shoup.

VAT is an indirect tax. It is an improved and modified form of sales tax. It is levied on value added of goods and services at each stage in the process of production and distribution chain. These stages can be import, manufacturing, wholesale, retails. The value added can be obtained by adding at factor of production (wages, salaries, rent, interest and profit). This value added is the base of VAT. It substitutes for sale tax, hotel tax, contract tax and entertainment tax. It is based self-assessment system and provides the facility of tax credit and tax refund.

VAT is levied on the value addition at every point of sale presently tax on sale or purchase of goods is levied by virtue of entry of VAT.VAT is simple form of sales tax; only difference is that it is collected every point in the series of sales by a registered dealer with the provision at credit for inputs tax paid at the previous point of purchase thereof. Thus, the dealer is the required to pay difference of what tax he has charged and what tax he has paid at the earlier stage. The basic requirement for this purpose is that the tax amount should be invariably shown in the invoice.

4.1.2 Origin and Development

VAT is the most recent innovation in the field of taxation. VAT is the youngest member of the sales tax family. This tax is proposed for the first time by Dr. Wilhelm von Siemens for Germany in 1919 as improved turnover tax (Due, 1957: 138). The improvement consisted in the subtraction of previous outlays from taxable sales with the results that the tax base of each firm would be reduced to the value which it added to the product (Sullivan, 1965:12). In 1921, Prof T.S. Adman's suggested it for USA (Carlson, 1980: 7). He observed" sales tax with a credit or refund for taxes paid by the producer or dealer (as purchaser) or goods bought for resale's or for necessary use in the production of goods for sales". But USA did not get implement it.VAT was also recommended by the Shoup mission for reconstruction of the Japanese Economy in 1949 (Sullivan, 1965:7).However, the tax was not introduced by any country till 1953. The tax was limited to the boundaries of France until the nineteen fifties. From 1960's, this tax system took speed in European countries. The modern VAT first implemented in France in 1945 with the name Aure. La Valeur- Adout'ee (VAT) in place of French unmanaged production turnover taxes. French VAT was designed by Maurice Laure, was an officer in the French Minister of finance.

At the beginning of sixth decades of last century, VAT has taken a giant leap in its history. Some French Colonial countries such as Ivory Coast (1960), Senegal (1961) as well as other developing countries of Africa and South America like Brazil (1967), Uruguay (1968) Equator (1970), and Bolivia (1973) replace their turnover taxes by VAT in French model 1954.

Vietnam has established a new record in nations to adopt a board base VAT in 1973. South Korea introduced VAT in 1977. Similarly, China in 1984, Indonesia in 1985, Taiwan in 1986, Philippines in 1988, Japan in 1989, Thailand in 1992 and Singapore in 1994. In the SAARC region, India introduced modified VAT (MODVAT). The MODVAT has been designed to avoid the cascading effects and the tax was extended in later year. The classical type of VAT was first introduced by Pakistan in 1990, followed by Bangladesh (1991) and Sirlanka in 1995 in SAARC region.

Nepal could not remain isolated from VAT so partially adopted since 16th Nov, 1997 (2054 B.S) and full implemented from 17th Aug, 1999. Although the VAT act passed in 1995, the VAT regulation was approved in 1996. But the VAT could only be introduced from Nov. 16, 1997. VAT replaces the existing sales tax, contract tax, hotel tax and the entertainment tax. So, VAT is new tax system for Nepal. While early preparation has been made with commencement 8th Five Yearly Plan (1992/93 - 1996/97) and experimental basis was announced from 1992/93 budget with a two tier sales tax system on some selected items. Now, with the 80 years of history, VAT has been heartily adopted by more than 100 countries with the arrival of last decades of previous century. VAT has spread its roots in repaid acceleration all over the world.

4.2 Types of VAT

The types of VAT have been classified on several basics. The precise treatment of deductibility of tax paid on durable capital goods is of great concern in distinguishing

VAT of various types. The VAT has typically been classified into three variants according to the way of capital goods are treated. They are:

a) Consumption Type of VAT

Under consumption type of VAT, all capital goods purchase from other firms, in the year of purchase are excluded from tax base while depreciation is not deducted from the tax base in subsequently years. The base of tax is consumption since investment is relieved from taxation under this type. Consumption type of VAT is widely used. Hence, by the' VAT' we basically mean the consumption type of VAT (Bhattarai and Koirala, 2067:261). As exports are relieved from tax while imports are taxed, the base of this tax becomes identical to the base of retail sales tax on consumer goods and services.

b) Income Type of VAT

The income type VAT does not exclude capitals goods purchased from other firms from the tax base in the year of purchase this type, however, excludes depreciation from the tax base in subsequently years. The tax fall both on consumption and net investment. The tax base of this type is the net national income.

If annual capital depreciation is excluded from the tax base it is called the income type of VAT. The income type of VAT can be used as substitute for income tax because total base of the tax is equal to personal income without exemptions. It is also the theoretically defective and rarely used in practice. As exceptions "The income VAT has used by Argentina and Colombia. The state of Michigan in USA used an income VAT and an approximate from in Turkey".

Income type = GNP-Depreciation

= Net investment + Consumption

= Net National Production (NNP)

c) Gross National Product (GNP) Type of VAT

In this type of VAT capital goods purchased by a firm from other firms are not deductible from the tax base in the year of purchase. It does not allow the deduction of depreciation from the tax base in subsequently. Hence, it is levied both on consumption and gross investment. The tax base of this type is gross domestic product.

GNP=Gross investment +consumption

Most countries apply the consumption type VAT but introduce various ways of giving credit for capital goods. Rarely do countries allow for immediate and full of tax charged on capital goods. They generally limit the credit in a certain period to the level of the VAT chargeable on output and aloe the remaining credit to be carried to be forward to offset the tax in later periods. On the other hand, some countries selectively grant immediate exemption of the VAT on purchase of capital goods as part anoverall package of fiscal incentives to priority industries.

There are two imports notes. First, both product and income typed VAT is entail cascading effect as they more or less charge the tax on investment items. Thus they are not production efficient. The income typed VAT allows for partial and delayed refunds of tax: investment items are not immediately expensed but gradually deducted fromthe tax base over a specified period the investment items, therefore, bear partial tax burden in present value items. However, the GNP or income tax base is relatively larger than the one of the pure consumption typed VAT and is not commonly applied in practice- China and Brazil are among a few exceptional cases, which apply the GNP typed VAT. On the other hand the pure consumption base would relieve production from tax burden and hence makes the VAT more production- efficient. In addition, as a general consumption tax, the consumption typed VAT does not distort the investment and saving behavior.

4.3 Methods of Computing of VAT

Under VAT the value added at each stage of production and distribution process is taxed. The value added, in turn, can be defined in two alternative ways. First, value added is equivalent to the sum of wages to labor and profit to owners of the production factors including land and capital. Second, value added is simply measured as the different between the value of output and the cost of inputs. The two ways of definition of value added give rise to following three major alternatives for computing the VAT liability:

a) Addition or Income Method,

b) Subtraction or Production Method,

c) Tax-credit or Invoice Method

a) Addition or Income Method

As the name of the method suggests, the tax base under this method is ascertained by adding the profit to the cost of production factors such as wages, rent, interest etc. This method is suitable for income type value added tax.

This method is based on value added which can be estimated by adding value of all the elements of value added i.e. wage, profit, rent and interest. This method is known as additional method or income approach. This is same as income method of calculating national income.

In this method, first value added is computed by adding all income generated or factor payments in the forms of wages, rent, interest and profit during the production and distribution process and then, the VAT rate is applied to the value added to get the VAT payable.

VAT= f (W+R+I+P); where W= Wage, R= Rent, I= Interest, P= Profit

This method is rarely found in practical due to its complexity computation since, in this method VAT seeks to avoid capital goods from its base. It is practically applied in Argentina and Israel, in their selected economic activities such as banking and finance where value of inputs and outputs is difficult to measure.

b) Subtraction Method

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

Calculation of VAT payable in this method requires a subtraction of gross purchases from gross sales of a business enterprise during a period and application of VAT rate the reminder. Under this method, the taxable base is calculated by subtraction of gross purchase from gross sales of business enterprises during a taxable period. Definitely sales value is greater than purchase value by its own activity of firms. In these methods, tax base is determined as a net turnover, which is obtained by subtraction the cost of materials from sales proceeds. This method is also known as a direct subtraction technique or account method. The subtraction method is the most appropriate for consumption type of VAT. However, it is simplest one but it needs a uniform rate of tax without exemption, which has lack of equity consideration of good tax.

VAT= t (SV-CPI)

Where, t=given tax rate, SV= sale value and CPI= cost of purchase inputs.

c) Tax Credit Method

Tax credit method is also known as the invoice method and uses as indirect subtraction technique to compute the tax liability.The value added tax under tax credit method is ascertained by deducting input tax paid on purchase from the gross tax collected through sales proceeds. In this method, tax is imposed on total sales revenue and credit is given tax paid on its purchase. In practice, most developing countries use this method and employ net consumption VAT.

In the tax credit method, VAT liability of a firm paid on total purchase is deducted from VAT levied on total sales, which is the net tax liability. In other words, the net VAT is calculated by deducting tax on inputs from the tax of outputs during a taxable period.

Net VAT= Output Tax (Tax on sale) - Input Tax (Tax on purchase)

Under this method of the computation of VAT, first tax will be computed on entire sales of dealer then a credit is given regarding tax paid by the proceeding dealer. The main advantage of tax credit methods over the subtraction methods is that it does not lose revenue if a link in the chain is broken by evasion or exemption.

Among the three methods of computing VAT the tax credit method is widely universally accepted measure. It is more successfully used in all UDCs and EU countries including Japan, South Korea and elsewhere. This methods is suitable under the destination mechanism in which the tax credit chain is not broken. It is also especially useful if it is designed to reduce the rate of VAT at some stage in the business process (say raw materials) or primary stage in without reducing the total tax paid on total value added. The reduced amount is maintained by equally increased tax at further stages. This phenomenon is known as catch –up effect, which could not be achieved under the addition and subtraction methods(Shah,2012:158). The invoice method is used generally in European countries and constitutes an advantage of the value added approach, especially in countries where tax compliance is otherwise poor (Musgrave and Musgrave, 1976: 402). The tax credit method is so superior to the other methods in terms of the application and enforcement, as well as adaptability to various rate modifications, which is now universally employed. The tax credit methods can be especially useful if it is desired to reduce the rate of the value added tax at some stage in the production and distribution process, say the raw materials or farm products stage, for administration reason, without reducing the total tax paid on total value added (Shoup, 1969:259).

Table 4.1

Different Methods of Calculating the VAT Liability (13% of VAT)

a)Addition Method				
	Manufacturer	**Wholesaler**	**Retailer**	**Total**
a) Wages	2000	1100	1500	4600
b) Rent	600	300	300	1200
c) interest	300	200	100	600
d) Profit	700	400	500	1600
e) Value added (a+b+c+d)	3600	2000	2400	8000
f) VAT liability (13% of e)	468	260	312	1040
b) Subtraction Method				
	Manufacturer	Wholesaler	Retailer	Total
Sales	17200	19200	21600	58000
Purchase	13600	17200	19200	50000
Value added (a-b)	3600	2000	2400	8000
VAT Liability (13% of C)	468	260	312	1040
c) Tax Credit Methods				
	Manufacturer	Wholesaler	Retailer	Total
Sale	17200	19200	21600	58000
Tax on sale	2236	2496	2808	7540
Purchase	13600	17200	19200	50000
Tax on Purchase	1768	2236	2496	6500
VAT Liability (b-d)	468	260	312	1040

Note: All sales and Purchase are Exclusive of tax and figures are arbitrarily estimated.

Table 3.1 shows that VAT liability calculated by using any of the three different methods (addition, subtraction. Tax credit). The result is same Rs.1040.Therefore, the refinement of subtraction methods tax credit methods is of universal use. The tax credit method is original EU model, which is adopted as a methods of tax calculation by almost all countries all over the world. Tax credit methods is superior to other methods (addition, subtraction) because there are some advantages of tax credit method over the other two methods. They are as follows:

- Tax credit methods creates a good audit trail and cross checking possible.
- Due to "Catch-up effect" under valuation and evasion at some stage is not possible.
- The tax liability in this method is attached to the transaction that make it technically and legally for superior to other methods.
- Tax collection is easy.
- There will be no loss of revenue due to the exemptions granted to the small traders.
- It never demands for the calculation of value-added total tax.
- Liability entirely depends on the rate on the last stage, so rate differentiation is possible for the same revenue yield.
- Tax rate differentiation at different stages for administrative or other reason becomes possible under this system without reducing the total tax paid.

4.4 Structure of VAT

The situation for a tax refund arises when the amount of input tax is higher than the amount of output tax. Such a situation generally arises in the case of exports are zero rated in order to relieve them from burden of VAT. In Nepalese context, the tax payer may apply to the VAT office for refund. If the tax payer is a regular exporter with more than 50 percent of his sale exported or has had more input tax than output tax for a continuous period of least 6 months, and interest will be paid on refund where payment is made more than 60 days after the claim if field (VAT Act and Regulation VAT Department, Bhadra, 2054: 29-31). Such a provision would help to settle account for each taxable period. However, it is necessary to examine return in the case of large and abnormal claims. "This is prudent requirement in any VAT system".

4.4.1 Coverage

VAT is a tax on goods and services consumed in Nepal. The tax is a based on the principle that each producer or distributor adds value' in some way. To the materials they have purchased and it is this added value that is taxed at each stage of the production and distribution chain.The coverage of VAT in Nepal is based on transfers, sales, supply, import and export of goods and services expected some special provisions. It is levied on the value added at each stage of the production or distribution. Every persons or firms or companies who are involved in such transaction liable to pay and collect tax. The actual coverage is structured by standard and zero rates as well as tax exempted provisions. In other words tax coverage is guided by tax invoice system.

Nepal has also adopted a broad based consumption type VAT using the tax credit method. Under this system, tax is levied on all types of goods and services, both imported and domestically produced except those specifically exempted by law. It is desirable to make the commodity coverage of VAT as wide as possible. So, all goods and services should be brought into the VAT net unless there is strong justification for their exclusion. In the case of service, there are different practices, however, in developing countries like Nepal, the service sector is rather unorganized and not many services seem to be attractive from the revenue point of view. That is why; some economist recommended a selective approach rather than an integrated approach in the cases of service.

4.4.2 Exemption

Exemption means that the transaction is not required to pay tax on sale. He is however, not allowed any credit for tax paid on inputs. It simply means the goods and services freed from a tax jurisdiction. Under this approach, goods and services are subject to exemption and inputs tax inquired there is not refundable.While it is desirable to make the coverage of VAT as broad as possible, there are reasons to exempt some transactions from this tax, particularly on administrative grounds. For example, it is not desirable to waste scare administrative resources in chasing after very small vendors who are unorganized seasonal and illiterate and do not keep any record of their business. They are scattered all over the mountainous country. It will be extremely difficult to bring them in to VAT net and the revenue gain may not be substantial. So, small vendors having on annual turnover up to the level of threshold may be exempted from the VAT. The exempted goods and services in the context of Nepal are:

a. Basic agricultural products,
b. Goods of basic necessity,
c. Livestock and their product,
d. Agriculture related equipment,
e. Medicine, medical treatment and other health services,
f. Education,
g. Books, newspaper, printed materials, and publishing,
h. Culture, arts and craftsmanship related services etc.

4.4.3 Zero Rating

Zero –rating simply means a zero percent tax rate on goods and services. If a goods or service is zero rated the input tax or tax paid on purchases is creditable of refundable. Theoretically, zero rating is applied to ensure for freeing tax truly. However, zero rated goods and services remain under the lieu of tax, but it will fully liable for tax refund on its inputs. Zero rating is applicable for certain goods and services only. For example, if export is zero rated, the tax payers will be granted refund the VAT paid on his exports on the basis of the exportation and he will be also be credited the tax, before paid, on his inputs i.e. raw materials, capital goods etc. This means, the tax payers are not only does not pay any VAT on the value of his exports, he will be fully compensated for the tax pays on inputs and, therefore, is truly exempt from VAT.

Zero raring means that a trader is not only exempted from payment of VAT on his sales but it also allowed getting refund for any taxes paid in his inputs. It means zero percent tax rate on goods and services. Zero rating of VAT is guided by mainly two basic purposes.

i) To serve social welfare.
ii) To encourage the export industry.

Zero rated areas consist of certain goods and services that are taxed at the rate of zero percent. The objective behind the introduction of zero rates is to relive some goods and services completely from taxation. It means that VAT is not levied on zero rated goods or services, but they are regarded as taxable goods or services. Zero rating is definitely a better method than exemption. It is generally levied in the case of exports, which need to be free completely from internal commodity taxation.

Under the VAT system some goods and services are, may be taxed at zero- rate. The main objective of this zero rate is to relieve some goods and services from taxation working under regular VAT system and net for the purpose of promote and encourage export and to maintain diplomatic behaviors. Under this, purchaser is allowed to credit the tax paid on inputs or purchase in concern. However he has to maintain all records regarding VAT.

The VAT is meant to apply only to consumption of goods and services in Nepal Supplies made in Nepal that are exported are taxable at zero rate. Exporters are allowed to claim input tax credits for VAT paid or payable on purchases of goods and services relating to their commercial activities. Exports taxed at zero percent (0%) include exports of both goods and services.

Zero rating, however, increases the burden considerably on the part of both at payer and tax administration to the requirement of maintaining books of accounts, submitting return and refunding the tax levied on the inputs of zero rated items. So, in Nepal, zero rating should be limited to the exports and some international services only.

4.4.4Threshold

Small traders whose annually turnover is certain amount are not required to register under VAT. This amount is known as threshold. The level and threshold in different from country to country depending upon the

- Revenue requirements,
- Administrative capability,
- Level of record and accounting proficiency in the industry and business sectors etc.

According to VAT Act 1985 (Nepal), the certain/minimum transaction threshold was NRs 1 millions, lateral it adjusted to NRs 2 million by Economic Act 2054. Recently it has further risen to 3 millions. (Shah, 2012:13).

- **Self- Policing Technique**

VAT is a new improved from of sale tax based on invvioces and computer system. The whole transaction of the economy from production to consumption is recorded in each step of the transaction. That is why, tax evasion and cheating is considered to be minimum in comparing to other forms of taxes.

4.4.5 Rates

VAT can be levied both with single positive rate or multiple rates. Generally, VAT with single positive rate is desirable in order to make VAT system simple, because multiple rates make tax administration more complicated under this system. There is need to classify commodities into different groups according to their rates. Moreover, in a developing country like Nepal many small vendors, who may not be sufficiently literate, sell a number of commodities. They may not be able to apply properly the different rates of various goods they sell.

Multiple rates make the tax system inefficient from the economic point of view. It gives incentive to producers to divert their resources from higher rated to lower rated industries to save on tax payment. The multiple rates create scope for tax evasion that may result in considerable revenue loss. Theoretically and practically, the rate of VAT may be diversified in to two rates. They are:

- **Single VAT Rate**

In simple, single VAT rates means a VAT of which tax rate is fixed only at one number. In other words, if tax rate in VAT is fixed at less than two tax rates for all level including the wholesaler, the producer and retailer. It is said to be single tax rate. For example, suppose if tax rate is 13 percent it fixed for all level of VAT purposes. The fixed VAT rate is then, known as only single VAT rate. In practice, almost countries of the world favored single VAT rate rather than multiple VAT rates, because it has many merits. Firstly, its singularity brings simplicity, VAT administration side. Secondly, its simplicity reduced the cost of VAT administrative operation. Thirdly, it is easily understandable to the customer, the trader and others. Fourthly, for transparency, it makes easy for record keeping and account will be minimum due to the effectiveness of VAT administration which is stimulated by single VAT rate.

) **Multiple VAT Rate**

Differential VAT rate makes tax burden to higher incomes class more than to lower income class so that the vertical progressive may be stored in thee society. The gap between the higher income class and the lower income class may distort the economy. Therefore, it should be multiple for the sound economy.

1. Differential VAT rate discourages luxurious life and unproductive expenditure, and Encourages social welfare for the lower income class by imposing two different VAT rates.
2. Since multiple VAT rates enlarge its tax coverage by including all kinds of goods and Services, the estimated revenue level may be collected. The higher ratio of revenue Collection supports the additional development activates.
3. To implement the policy of production especially for domestic products for Industrialization, differential VAT rate is suitable instrument that is applied for "discourage imported goods and encourages domestic goods." so differential VAT rate is protective umbrella for domestic goods. On the other hand, single rate makes VAT less costly, easy to comply and easy to administer.

Table 4.2

Tax Rates in South Asian Association for Regional Co- operation (SAARC) Countries

Name of Countries	Reduced	Standard Rates	Increased
Bangladesh		15	
Bhutan		-	
India	1 to 4	5.5	20
Nepal		13	
Pakistan		17	
Sir Lanka		12	
Maldives		6	
Afghanistan		-	

4.5 Operation of VAT

4.5.1 Registration

In general, countries that have a VAT system require businesses to be registered for VAT purposes. VAT registered businesses can be natural persons or legal entities, but countries have different thresholds or regulations specifying at which turnover levels registration becomes compulsory. Businesses that are VAT registered are obliged to include VAT on goods and services that they supply to others (with some exceptions, which vary by country) and account for the VAT to the taxing authority. VAT-registered businesses are entitled to a VAT deduction for the VAT they pay on the goods and services they acquire from other VAT-registered businesses.

It has been argued that the introduction of a VAT reduces the cash economy because businesses that wish to buy and sell with other VAT-registered businesses must themselves be VAT-registered.

According to VAT Act and VAT related other laws of Nepal the persons (the suppliers or distributor or producers of taxable goods and services) are required to register in concern Inland Revenue Office under VAT Act and should obtain the TPIN.In other words a person who is involved in a commercial activities and the turnover exceeds the given threshold is required to register for VAT purpose. A person means an individual, firm, company, association, cooperative, institution, joint business, partnership, trust, government body or religious organization. However it is notnecessary to register who deals only non- taxable goods and services. Similarly those person who fall below than defined threshold are not necessary to register. But if they want they can register and take TPIN. A non- registrant is not entitled to collect VAT and utilize the facility of tax credit and refund.

The TPIN refers to the Taxpayer identification Number (TIN) that is be allocated to each registrant during the registration process. It consists nine digits with a cheque digit. It does not represents the such as geographical territory and nature and form of business organization. For registration purpose the taxpayer can get the prescribed form (in Nepali) from any Inland Revenue Office. Major information to be mentioned or to be field in the form are name, type of business, main place of business, PAN, fax and telephone number and the form of business entity.

4.5.2 VAT Number

A unique vat number must be assigned to each tax payer for identification. It is desirable that VAT number should become the tax payer identification number (TIN) which covers that all types of taxes and tax payers including VAT and those not liable to VAT. A TIN is a code to identify taxpayers. Each taxpayer must have a single unique TIN. The TIN has mainly two objectives:

- To facilitate computer applications, such as detecting stop filers.
- To help cross- check information on taxpayers compliance.

After providing VAT number, registration certificate is issued to all taxpayers. Each taxpayers should display his VAT registration certificate at his business place so that inspectors and consumers knows whether the vender is registered.

4.5.3 Accounting

The effectiveness of VAT depends on the VAT accounting system. It should be neither with unnecessary details nor inadequate to provide appropriate and useful information. The VAT accounting should be inform- based as well as less costly. The accounting in VAT consists the process of maintaining purchase book, sales books, VAT account and stock. Thus purchase and sales books are main part of VAT accounting. This is describing as following.

a. Purchase Book,
b. Sales Book,
c. A VAT Accounts.

a. Purchase Book

The purchase book is a certified register. The purchase book contains the information TPIN (Taxpayers Identification Numbers),the supplier's name and TPIN, the customer's name and TPIN.VAT registrants are required to maintain an account of their business purchase to VAT purpose. They have to record of purchase by invoice. At the end of each accounting period, VAT registrant must total the amount of taxable purchase/ imports tax, exempt purchase/ imports and the tax paid on purchase as well as imported goods.

b. Sales Book

The sales book is second important part of VAT accounting. It should be posted on the basis of sales invoices chronologically showing the amount of standard and zero rated sales amount and tax amount.Similarly, VAT registrants are required to maintain account of their sales are also to be recorded for invoice basis. At the end of each accounting periods, VAT registrants are required to total the amount of taxable and tax collect on sales. If they make both taxable and exempt purchase and sales, they are then required to calculate the proportion inputs tax, they are entitled to the tax period.

Specially this account contains purchases and sales an the VAT spent and collected. In schedule 7 of VAT Regulation, 1996 a sample VAT Account is given. In left side, it contains the description relating to purchase and import, date, particulars, tax rate, tax amount. In right side the date, particulars, tax rate, tax amount relating to sales and export are given.

These accounts are related to Annex-8 and 9 of VAT regulation 1996.Value Added Tax is levied on value added at each stage of selling and distribution activities of taxable goods or services. It is taxed on the basis of transaction of taxable goods and services. The effectiveness of VAT depends upon the record and accounting of the transition. So, the VAT registrant requires to keep clear accounts of their transactions of purchase, the registrant person has to maintain records of the following information, document and details:

- Information as per VAT account,
- Records relating to trade accounts cash receipts and payments,
- Tax invoices and abbreviated tax invoices issued by registrants,
- Tax invoices and abbreviated tax invoices received by registrants,
- All document relating to his imports and exports,
- Books of purchase and sales.

c. VAT Account

It is a monthly summary of taxable purchase and sales and VAT paid on purchase and sales.

4.5.4 Tax Invoices

The tax invoice is a major part of VAT account. It requires the name and address of the seller and purchaser, the seller's VAT number and invoice number. Similarly, it is contains the date of the transaction and a description of the sale including the number of its purchased and the unit cost of each item and a notation of any discount. Invoice or tax bill is the base for whole VAT system. Every registrant should use invoice in prescribed form. The tax invoice must beprepared in three copies and clearly identified as a tax invoice. The original copy is to be given to purchaser. The second copy is to be retained for audit purposes while the third or bottom copy is for use of the seller in preparing record accounts of the transaction. While issuing tax invoices the seller must mention the name, address and TPIN or PAN of the purchaser. If the purchaser has no PAN or TPIN or he is not a registrant it is not compulsory to mention the PAN or TPIN of purchaser by seller. The taxpayer or registrant, in case of any mistake in issued tax invoice or in case of refused by customer to take the goods or service, may cancel the issued tax invoice or bill. But all copies of issued invoices should be attached and should be written the cancellation immediately. Similarly if customers return the goods credits notes should be issued properly at the same time including the invoice number, date, quantity and price of returned goods.

4.5.5 Tax Return Forms

Tax return forms are the preprinted forms the transactions of a VAT registered business firms which consists to total purchases, sales, output tax , input tax etc during a every tax period. The form contains the following information:

- Total sales including personal use of owner
- Exempted sales
- Zero rated sales
- Taxable sales
- The taxable sales and tax rate (gross tax)
- Tax on purchase and
- The net VAT

After each taxpayers should return complete tax return form and tax on

4.5.6 Penalties

Penalties are designed to punish taxpayers for their any VAT offences and to recoup the revenue losses due to miss functions of tax payers. Penalties are creating an incentive to tax payers to deter evasion and non-compliance; however, penalties should be fair and reasonable. Some of the VAT offences liable to penalties are failure to register, not to issue invoices and keep account fraud report, fraud invoices and accountsetc. The penalties have divided mainly into four forms; automatic financial, automatic non- financial, criminal financial and non- criminal financial (Tait, 1988: 318). The severity of penalty depends upon the type of offence made. Financial charges if often made for less serious offense. Some other typical devices for penalties ate attachment of bank account, revocation of business certificate, seizure of property shutdown of premises, temporary suspension of trading license, threat of imprisonment, imprisonment, criminal prosecution, etc.(Tait,1988: 318-319).

4.6 VAT and Other Forms of Sales Tax

Generally sales taxes are regarded as consumption related taxes. Sales taxes are favored rather than other direct consumption related taxes (i.e., expenditure taxes) in the sense of greater revenue potentiality, because of the broad coverage and easiness in administration. They can be indirectly imposed upon production or sales or distribution and collected especially by the seller. It is also assumed that sales taxes so not distort the incentives for economic growth or expansion of business activities because sales of does not create excess burden and if confined to consumer purchases, does not reduce efficiency in production and distribution. VAT is a subspecies of the sales tax.

4.6.1 VAT and Turnover Tax

Turnover tax is a form of sales tax which applies to the selling price of each point of sale. In this sense a turnover tax is the multiple stage cascade tax. This means the effective tax rate applies to all stages of production and distribution. It is the simplest and oldest form of broad based sales tax known as ' alcabala' in Spain, used from fourteen century. A turnover tax or cascade tax is an older and probably the most elementary form of sales tax. Which existed in many countries including European countries, china, Korea, Mexico ect. Before the VAT came into effect. The turnover tax is levied as a percentage of sales, regardless of value added, at each point of sale right from the initial production of materials to the final sale to the consumers. The taxable price of any particular commodity depends on the number of stages it does through in the production and distribution process or vertical integration of industries. This makes the taxable price (or tax base) of a commodity far much higher than the final price the commodity is actually sold in. because of a large tax base, even a small tax rate is sufficient to raise the required amount of revenue in cascade tax.Bycontrast the taxable base of a commodity in a VAT is equal to the final sales price of the commodity. Tax base in a VAT is lower than in a cascade tax and cascade tax is more productive and elastic form the revenue point of view.

4.6.2 VAT and Manufacture's Sales Tax (MST)

Manufactures sales tax basically, covers domestic manufacturing as well as import. This is a single stage levy. In practice, manufactures and importers are requires to register foe sales tax purpose. Generally, this type of tax is applied on the " sales value (sales price including excise duty) in the case of domestic manufacturing and on the "import value" (import price determined for custom duty purpose, including countervailing duty in the case of imported goods. A single stage tax at manufacturing level is designed to limit the tax to sales by manufacturers to wholesalers or to retailers. This is usually accomplished by a suspense system according to which licensed manufactures are exempt from tax on their purchases. In addition, a complementary tax is generally assessed on imports of finished manufactured goods so as to equalize the burden with that domestic production. These types of tax is favored in many developing countries in this sense that it more or less avoids the cascade evil and covers more organized entrepreneurs so as to make administration easy.(Subedi,1998: 135).

MST, may be applied with accompaniment by wholesale level sales tax, under the reasoning that "transfer of functions effects" can be reduced by catching them at wholesale level. Little improvement may realized under such system but manufactures or importers will start to transfer their share of functions to non-registered firms or persons, or will directly sell to the retaiers in order to lowering their selling price artificially so as to pay less tax. Thus net gain will be the same. A VAT extended through retail level will check such practices, because there remains a fear of ' caught' at later stages. Such a "catch- up" effect is the meritorious features of the VAT, which the MST lacks. Under the MST the taxpayers, if once escaped from tax burden, will even escape. Such an evil encourages the tax payers to understate their sales price, and their imports value or import illegally or transfer some of their function to their dealers or sales depots. Under a VAT system, if, they do so, the later one will gain less tax credit. Thus, such practices may be corrected.

The tax base under a MST is very much narrower relative to a VAT because MST is levied door or import point and value added at the latter stages is totally excluded from the tax base. A VAT has much boarder base than a MST not only because it includes the margin of the wholesalers and the retailers but also because a VAT expends the tax coverage to include services as well. Because of its broader tax base, even a lower rate generates higher revenue in a VAT, unlike MST, VAT is more responsive tax as it has a broad-coverage due to which the increase in production or price change is clearly reflected into the change in revenue.

From the above analysis we can conclude that MST is non neutral, limited in base and encouraging various difficulties with a culmination of tax evasion. Cascading and pyramiding are coherent on this system. However, cascading can be mitigated by means of tax credit but is impossible to eliminates it under the MST system. VAT proves advantageous over MST, that it has broad coverage equipped with catch-up effects eliminating cascading and pyramiding and desirable in developing countries because it is distributed roughly according to consumer expenditures. The main disadvantage, coherent to VAT, in comparison to MST is the large number of tax payers with poor record keeping. But it can be covered by means of improvements in administration.

4.6.3 VAT and Wholesales Level Sales Tax (WST)

Wholesaler's sales tax, one step closer to retail stage and one stage far from manufacturer's sales tax, generally means the taxation on sales to retailers. In many developing countries, wholesalers are engaged to sell both retailers and final consumers. Basically wholesalers are required to register for sales tax purpose under a wholesale level sales tax system. WST was recommended. For many developing economies, based on the reasoning that wholesalers are more organized and it is easy to cover them. WST is advantageous than MST in the sense that it covers value added by the wholesalers. In practice, wholesaling is carried on directly by manufacturers or importers, if not, by their dealers or sales depots, which are not separately registered in many developing countries. a country where wholesalers are separately operated as an enterprise and imports are more in volume rather than domestic manufacturing, WST proves to be more suitable. In its natural form, WST is applied on the sales of such enterprises. In practice, WST is levied in its two faces as (a) originally on wholesales enterprises and (b) accompanied with manufacturing or retail system. Principally, it should be taken into account, in its original form. Hence it is required to register wholesalers as tax payers and collect tax on their sales to retailers.

4.6.4 VAT and Retail Sales Tax (RST)

A retailers sales tax applies to sales value by retailers under RST system, retailers are required to register for sales tax purpose and tax is levied ntheir sales to consumers or non-registered firms or other person. However, for cross checking purpose manufactures and wholesalers need to register and their purchases for manufacturing purpose is exempted from the tax is many developing countries. In the more advanced developing countries retail sales tax becomes a real rival to the VAT. The final base of RST is the final value of the consumer goods, likely as in comprehensive consumption based VAT only methods of collection are different.

Both RST and VAT reduce cascading while they depend upon final price of the commodity. VAT applies tax credit system and the RST uses suspension system and VAT utilize tax credit system to relieve tax on input purchases of registered tax payers.

The most usually quoted alternative to a VAT is a retail sales tax. However, a RST has its own problems. Since transport, telecommunications, professional services and construction works are not usually taxed under RST. Comparatively VAT has larger tax base. A retail sales tax is usually identified with the sale of goods and not services. It might seen that fewer traders have to be registered under a RST than under a VAT. Therefore RST narrows the net and coverage of tax. Usually the governments adopt the VAT because of their extreme dissatisfaction with existing sales taxes. The VAT is more efficient because it may ensure that producers' inputs are freed from tax than RST. Similarly under VAT refunds are released promptly. Finally distinction between the RST and VAT regarding the matter of VAT tax evasion is most debatable. In some extent the RST at low rate is simple to understand and administer. But the VAT provides a better audit trail than RST.

Therefore in Nepal, keeping all the matters in mind HMG adopted the VAT system. The VAT may be an equal- yield replacement but the tax it replaces is presumably less desirable. Many taxes replaces are often highly distortionary with many multiple rates, often taxing capital and exports. Nepalese VAT replaced the taxes: Hotel tax, Sales tax. Entertainment tax and Contract tax to free the taxation from above mentioned distortions.

CHAPTER V

ANALYSIS AND INTERPRETATION OF DATA

5.1 Revenue Structure of Nepal

The income of the government collects all the resources from all relative sources, which are normally called national revenue. In other words the total revenue generated by the government for spending public expenditure is identified as national revenue. The government collects the required funds through different sources; mainly from revenue and debt (internal and external). Revenue basically from two sources tax revenue and non- tax revenue. The revenue structure is the composition role of tax revenue and non- tax revenue. The revenue structure of Nepal from 2000/01 to 2014/15 is presented in the following table.

5.1.1 Composition of Total Revenue

Table 5.1

Composition of Total Revenue

(Rs. in Millions)

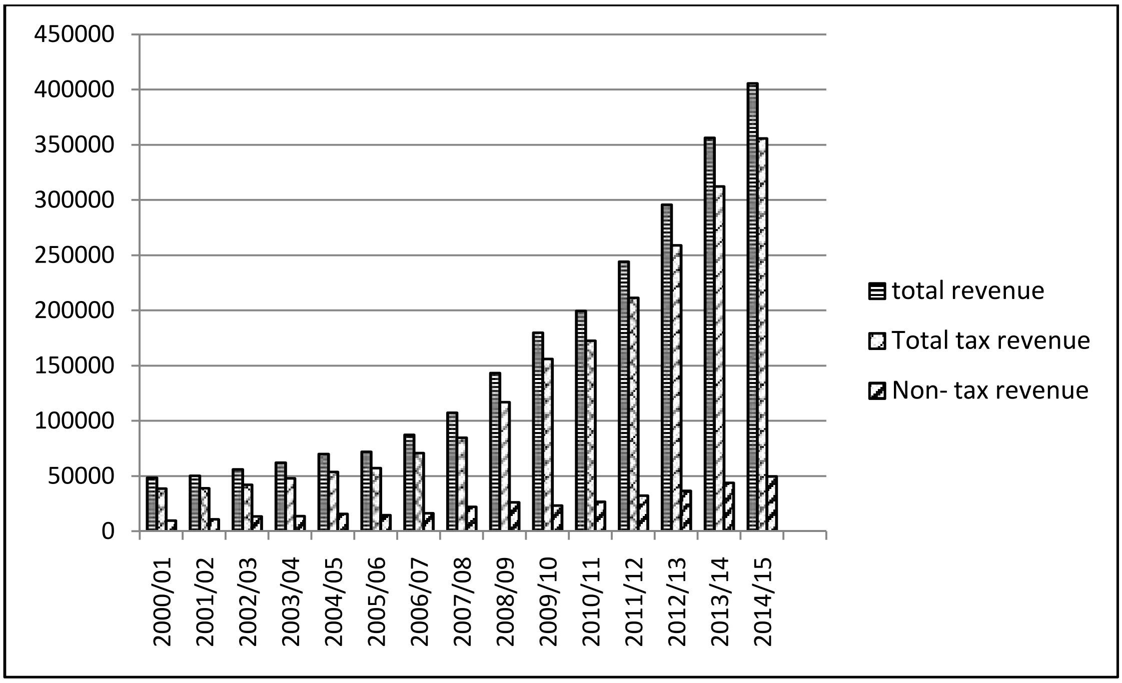
FY	Total Revenue	Total Tax Revenue	Tax Revenue as % of Total Revenue	Non- Tax Revenue	Non- Tax Revenue as % of Total Revenue
2000/01	48893.6	38865.1	79.48	10028.6	20.52
2001/02	50445.5	39330.6	77.96	11114.9	22.04
2002/03	56229.8	42507	75.59	13642.9	24.26
2003/04	62331.1	48173	77.28	14158.1	22.72
2004/05	70122.7	54104.7	77.16	16018	22.84
2005/06	72281.9	57430.4	79.45	14851.5	20.55
2006/07	87712.1	71126.7	81.10	16585.4	18.90
2007/08	107622.5	85155.5	79.13	22467	20.87
2008/09	143474.5	117051.9	81.58	26422.6	18.42
2009/10	179945.8	156294.9	86.85	23650.9	13.15
2010/11	199818.7	172777.6	86.47	27041.1	13.53
2011/12	244374	211722.61	86.63	32651.2	13.37
2012/13	296021.2	259215	87.56	36806.2	12.44
2013/14	356620.7	312441.2	87.62	44180	12.38
2014/15	405866.5	355955.7	87.70	49910.7	12.30

*Source:*Economy Survey,FY 2014/15,Ministry of Finance(MoF)

Table 5.1 shows that the tax revenue is contributing at in as average rate of 75.60 percent to 87.70 of total revenue since last 15 years. The share of tax revenue fluctuating 78.48 percent to 86.46 percent (in FY 2000/01 to FY 2000/11). After the FY 2010/11 the contribution of tax revenue is continuously increases however the amount of tax revenue is increasing continuously each year. Similarly, the share of non tax revenue fluctuating from 12.30 percent to 24.27 percent. The maximum contributions of tax revenue are 87.70 percent and the maximum contribution of non tax revenue is 24.26 percent. So there is a highly contribution of the total tax revenue in the Nepalese economy.

Figure 5.1

Composition of Total Revenue

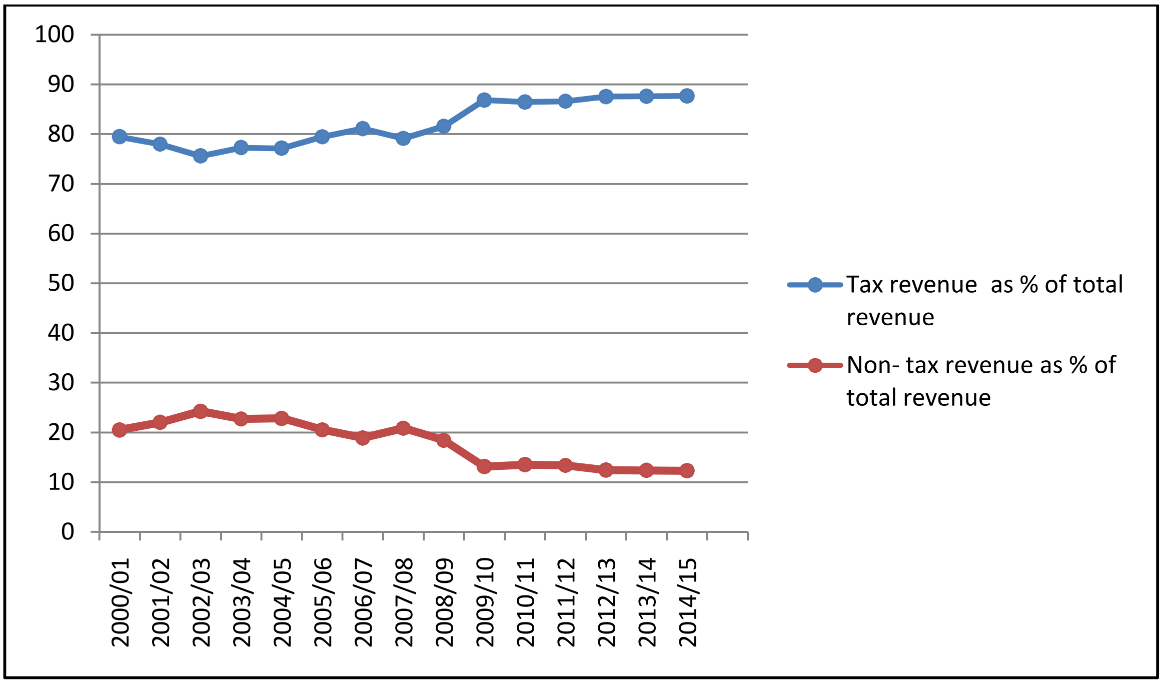


Source: Based on Table 5.1.

The contribution of tax revenue total revenue is higher than non-tax-revenue. The above table shows the composition of tax revenue and non tax revenue and their share in total revenue. In the FY 2000/01, the share of tax revenue was 79.48 percent and the share of non tax revenue was 20.51 percent. In the FY 2002/03, the share of tax revenue is low 75.60 percent and the share of non tax revenue was 24.26 percent in this study period. In FY 2014/15 the share of tax revenue is very high 87.70 percent where as the share of non tax revenue is 12.30 percent.

Figure 5.2

Trend of Tax Revenue andNon- Tax Revenue



Source: Based on Table 5.1.

5.2 Tax Revenue Structure of Nepal

The major source of revenue of government of Nepal is tax revenue. It includes income tax, VAT, custom duty, excise duty etc. These entire sources are collected by the government of Nepal through Inland Revenue department (IRD). Basically tax revenue is collected by IRD through individual and entity with consideration of all rules and provision of income tax act 2058.Tax revenue contributes mostly as 80 percent national revenue. The Nepalese tax revenue generates mainly from two resources; direct tax and indirect tax.

Direct Tax: A direct tax is a form of tax paid by a person on whom it is legally imposed. It is collected directly by the government from the person who bears the tax burden. Taxpayers need to file tax returns directly to the government. Therefore, direct tax cannot be shifted. The impact or the money burden and the incidence are on the one and the same person. In other words, the same person pays and the bears the tax burden. It is the tax on income and property. For examples include income tax, property tax, vehicle tax, interest tax, gift tax, expenditure tax, etc.

Indirect Tax: An indirect tax is a form of tax imposed on one person but partly or fully paid by another. It is collected by mediators who transfer the taxes to the government and also perform functions associated with filing tax returns. Hence, indirect tax can be shifted. In indirect tax, the impact and incidence of tax are on different persons. In other words, the person paying and bearing the tax is different. It is the tax on consumption or expenditures. For examples include VAT, excise duty, customs duty, etc.

5.2.1 Contribution of Direct Tax and Indirect Tax in Total Tax Revenue

Table 5.2

Contribution of Direct Tax and Indirect Tax in Total Tax Revenue

(Rs. in Millions)

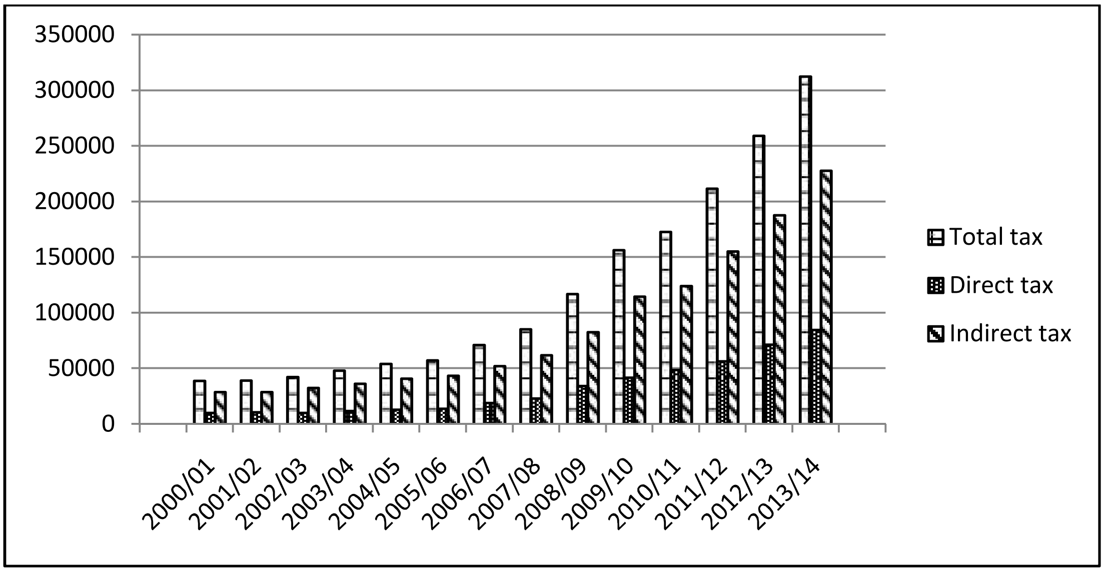
FY	Total Tax Revenue	Direct Tax	Direct Tax as %of Total Tax Revenue	Indirect Tax	Indirect Tax as % of Total Tax Revenue
2000/01	38865.1	10069.4	25.90	28795.5	74.10
2001/02	39330.6	10597.5	26.95	28733.1	73.05
2002/03	42507	10105.8	23.78	32481.2	76.42
2003/04	48173	11912.6	24.73	36260.4	75.27
2004/05	54104.7	13071.8	24.14	41044.8	75.86
2005/06	57430.4	13968.1	24.32	43462.3	75.68
2006/07	71126.7	18980.3	26.69	52146.4	73.31
2007/08	85155.5	23087.7	27.12	62067.8	72.88
2008/09	117051.9	34320.7	29.32	82731.2	70.68
2009/10	156294.9	41750	26.72	114544.9	73.28
2010/11	172777.6	48655.1	28.16	124114.3	71.84
2011/12	211722.61	56446.4	26.66	155275.4	73.34
2012/13	259215	71407.5	27.55	187807.5	72.45
2013/14	312441.2	84724.6	27.13	227706.1	72.87
2014/15	355955.7	996670	28.68	253835	71.32

Source: Economy Survey, FY 2014/15,Ministry of Finance (MoF)

Table 5.2shows that in developing countries like Nepal indirect tax plays a vital role in total revenue generation. Direct tax has been drawn least in the FY 2002/03 (23.78 %) and the greatest value reached in the FY 2008/09 (29.32 %). Similarly, indirect tax has the lowest indication in the FY 2008/09 (70.68 %), and the highest value reached in the FY 2002/03 (76.42 %) can present the above data in the following bar diagram

Figure 5.3

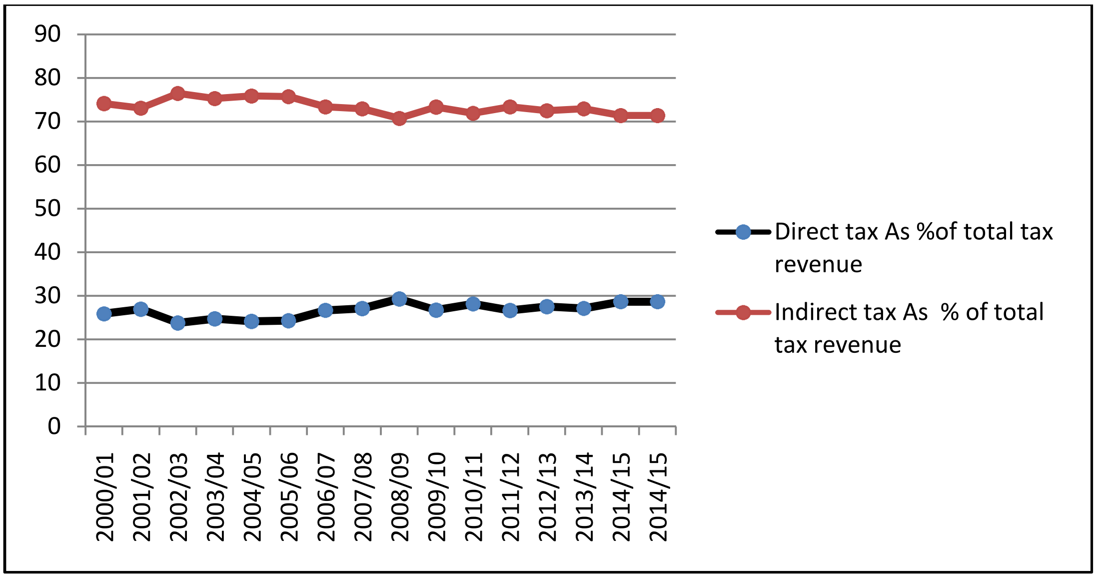
Contribution of Direct Tax and Indirect Tax in Total tax Revenue



Source: Based on Table 5.2.

Figure 5.4

Trend of Direct and Indirect Tax Revenue



5.3 VAT Revenue Structure in Nepal

5.3.1 Share of VAT Revenue in GDP

Table 5.3

Share of VAT Revenue in GDP

(Rs. in Millions)

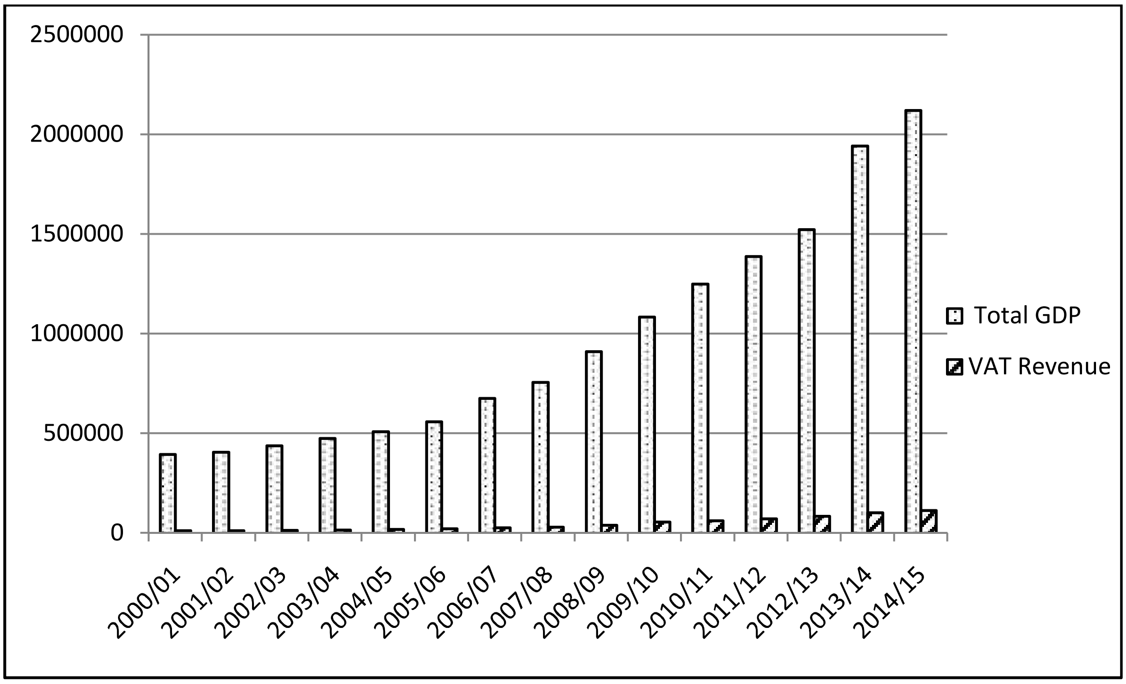
FY	Total GDP	VAT Revenue	% of GDP
2000/01	394052	12382.4	3.14
2001/02	406138	12267.3	3.02
2002/03	437546	13459.7	3.07
2003/04	474919	14478.9	3.04
2004/05	508652	18885.4	3.72
2005/06	557870	21610.7	3.88
2006/07	675859	26095.6	3.88
2007/08	755256	29815.7	3.95
2008/09	909528	39700.9	4.37
2009/10	1083415	54920.9	5.06
2010/11	1248481	61663.9	4.93
2011/12	1387482	70930.4	5.12
2012/13	1522852	83418.4	5.47
2013/14	1941600	101104.6	5.20
2014/15	2120000	112521.8	5.30

Source: Economy Survey, FY 2014/15,Ministry of Finance (MoF)

Table 5.3 shows that the contribution or share of VAT revenue in GDP in Nepal is low and it around 5.5 percent. In FY 2000/01 to FY 2003/04 the contribution of VAT revenue is decrease but it increases 3.7 percent from FY 2004/05. It is gradually increasing in the recent year and reaches 5.30 percent of GDP in the year 2014/15. So VAT is the play the vital role or positive contribution of the total GDP or in Nepalese economy.

Figure 5.5

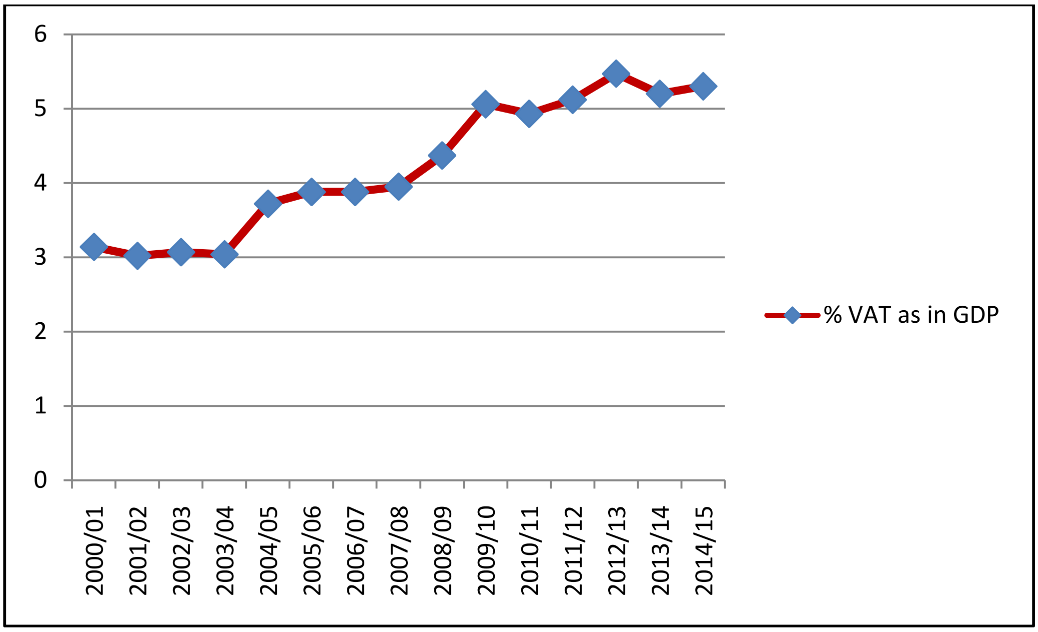
Share of VAT Revenue in GDP



Source: Based on Table 5.3.

Figure 5.6

Trend of VAT Revenues in GDP



Source: Based on Table 5.3.

5.3.2 Share of VAT in Total Revenue

Table 5.4

Share of VAT in Total Revenue

(Rs. in Millions)

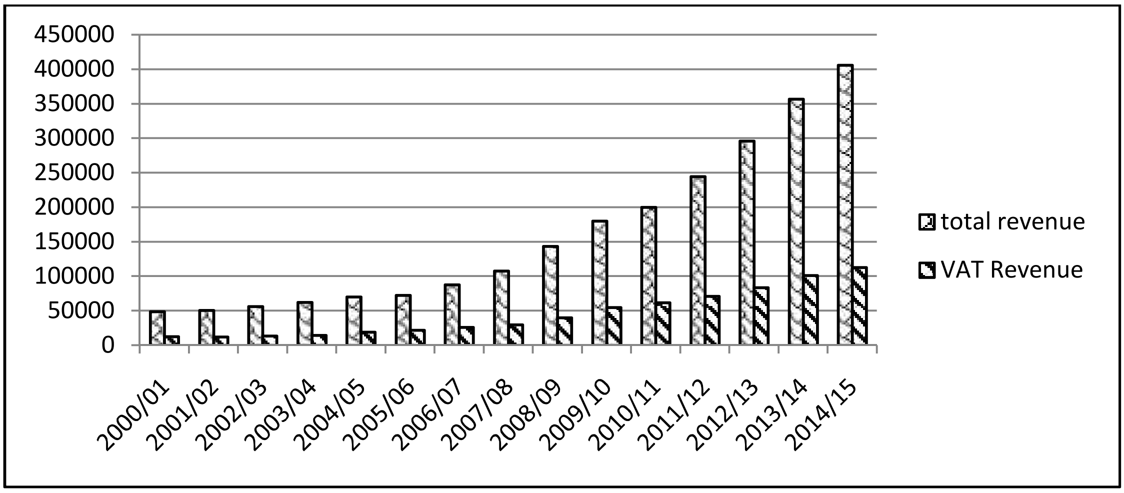
FY	Total Revenue	VAT Revenue	% of Total Revenue
2000/01	48893.6	12382.4	25.33
2001/02	50445.5	12267.3	24.32
2002/03	56229.8	13459.7	23.94
2003/04	62331.1	14478.9	23.23
2004/05	70122.7	18885.4	26.94
2005/06	72281.9	21610.7	29.90
2006/07	87712.1	26095.6	29.76
2007/08	107622.5	29815.7	27.71
2008/09	143474.5	39700.9	27.68
2009/10	179945.8	54920.9	30.53
2010/11	199818.7	61663.9	30.86
2011/12	244374	70930.4	29.03
2012/13	296021.2	83418.4	28.18
2013/14	356620.7	101104.6	28.36
2014/15	405866.5	112521.8	27.73

Source: Economy Survey, FY 2014/15,Ministry of Finance (MoF)

The contribution of VAT in total revenue as 25.33 percentages in the FY 2000/01. The contribution of VAT in the total revenue is fluctuation in till a now. The contribution of VAT is total revenue was maximum of 30.86 percentage in FY 2009/10 and minimum of 23.23 percentage in FY 2003/04. And the FY 2011/12,2012/13,2013/14,2014/15 the share of VAT revenue asthe total revenue is reached to 29.03 percent, 28.18 percent, 28.36 percent, 27.73 percent is respectively.

Figure 5.7

Share of VAT in Total Revenue



Source: Based on Table 5.4

5.3.3 Share of VAT in Total Tax Revenue

Table.5.5

Share of VAT in Total Tax Revenue

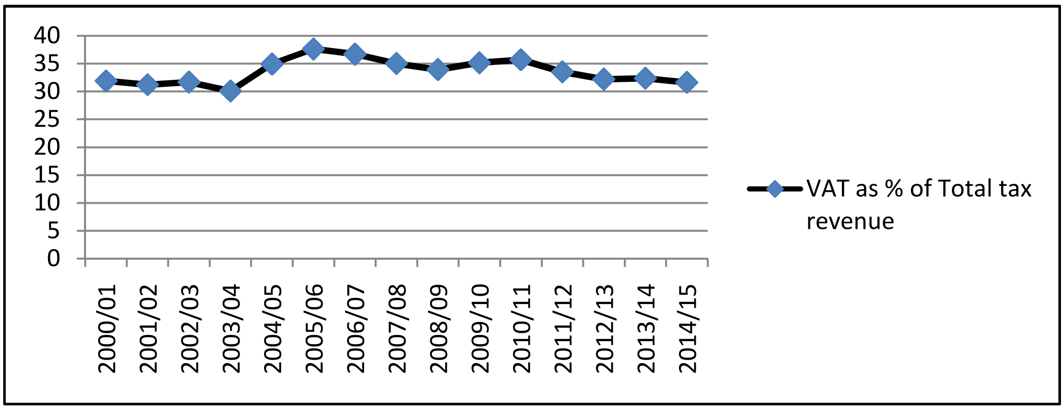
(Rs. in Millions)

FY	Total TaxRevenue	VAT Revenue	VAT as % of Total Tax Revenue
2000/01	38865.1	12382.4	31.87
2001/02	39330.6	12267.3	31.20
2002/03	42507	13459.7	31.67
2003/04	48173	14478.9	30.06
2004/05	54104.7	18885.4	34.91
2005/06	57430.4	21610.7	37.63
2006/07	71126.7	26095.6	36.69
2007/08	85155.5	29815.7	35.02
2008/09	117051.9	39700.9	33.92
2009/10	156294.9	54920.9	35.14
2010/11	172777.6	61663.9	35.69
2011/12	211722.61	70930.4	33.51
2012/13	259215	83418.4	32.19
2013/14	312441.2	101104.6	32.36
2014/15	355955.7	112521.8	31.62

Source: Economy Survey, FY 2014/15,Ministry of Finance (MoF)

Figure 5.8

VAT as % of Total Tax Revenue



* VAT includes sales tax, entertainment tax, hotel tax, air flight tax, and contract tax.

In the FY 2000/01, the total tax revenue was Rs. 38865.1 million out of which was Rs. 12382.4 million was VAT revenue. That means contribution of VAT revenue was 31.86 percent in total tax revenue. The collection of VAT and total tax revenue was at increasing stages as per years. In FY 2014/15 the amount of total tax revenue and VAT is very high but the contribution of VAT to the total tax revenue is 0.74 percentage decreases to the FY 2013/14.

5.4.4 Share of VAT in Indirect Tax Revenue

Table 5.6

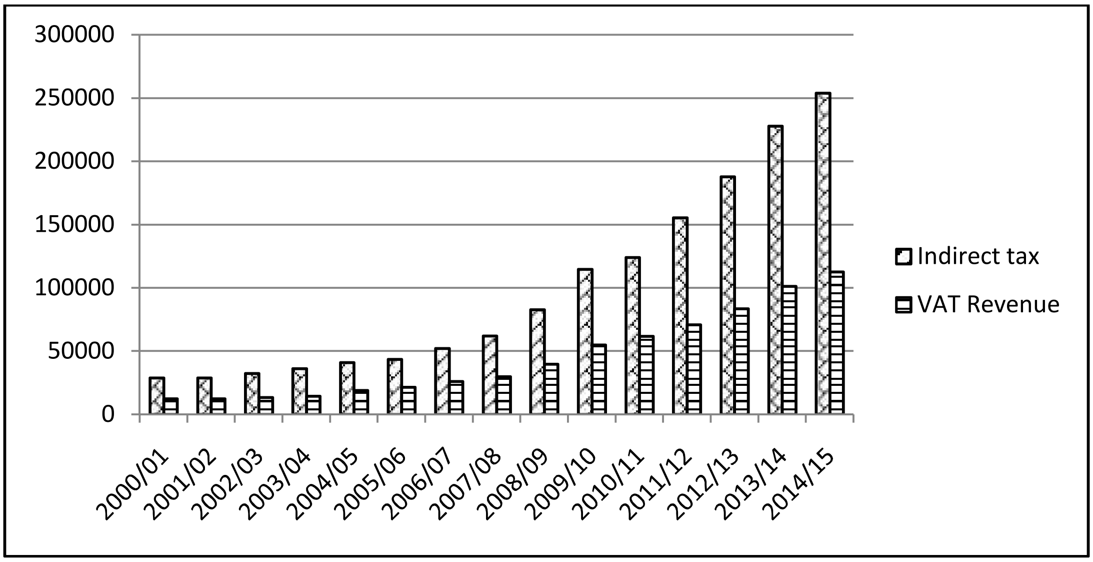
Shareof VAT in Indirect Tax Revenue

FY	Indirect Tax	VAT Revenue	VAT as % of Indirect Tax
2000/01	28795.5	12382.4	43.00
2001/02	28733.1	12267.3	42.69
2002/03	32481.2	13459.7	41.43
2003/04	36260.4	14478.9	39.93
2004/05	41044.8	18885.4	46.01
2005/06	43462.3	21610.7	49.72
2006/07	52146.4	26095.6	50.04
2007/08	62067.8	29815.7	48.03
2008/09	82731.2	39700.9	47.98
2009/10	114544.9	54920.9	47.94
2010/11	124114.3	61663.9	49.68
2011/12	155275.4	70930.4	45.68
2012/13	187807.5	83418.4	44.41
2013/14	227706.1	101105	44.40
2014/15	253835	112522	44.33

Source: Economy Survey, FY 2014/15,Ministry of Finance (MoF)

Figure 5.9

Share of VAT in Indirect Tax Revenue



Source: Based on Table 5.6.

Figure 5.10

Trend of VAT as % of Indirect Tax

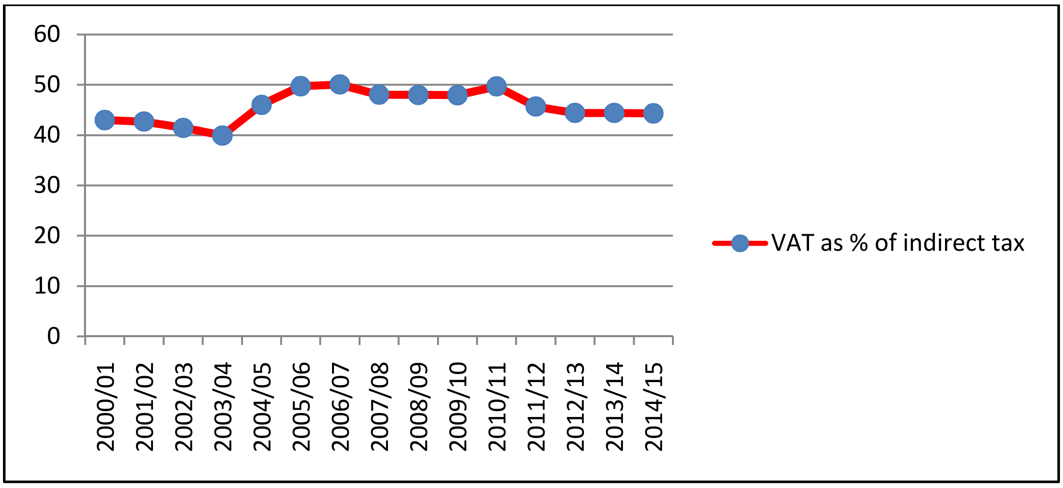


Table5.6 shows the contribution of VAT in the indirect tax in the Nepalese economy. In the study period, the share of VAT revenue is increasing in both relative and absolute term. The amount of indirect tax and VAT revenue is increasing in year by year. In FY 2000/01 the VAT is 43 percent contributions of the indirect tax and increased to 50.04 percent in FY 2006/07. In FY2011/12 to 2014/15 the both amount increases but the contribution of VAT revenue is decrease 45.68 percentage to 44.33 percent (1.35 %).

CHAPTER VI

CHALLENGES AND OPPORTUNITIES OFVAT IN NEPAL

Value Added Tax is a superior tax with many good features as well as theoretical merits. But it would be wrong to purse one to believe that the VAT is the best tax, which has no drawbacks. Like other taxes, the VAT may be problematic if accompanying factors are unsuitable. The actual implementation of VAT in many developed as well as developing countries shows that the VAT is bound to fall well short of the theoretical ideas; there are many difficulties in applying the full VAT principle to reality. The VAT is not free from practical drawbacks and controversial elements producing a number of problems.

One of the most important controversies as regards VAT is whether the tax is applicable to a country. The applicability of VAT depends on administrative capability, stage of economic development, and other special factors. In the context of Nepal, the main issue of implementing VAT is its applicability issue. Implementing a VAT in Nepal may raise a host of practical diffulties making the VAT inappropriate or less applicable. Problems may rise further as the side effects of implementing of VAT. There are so many challenges and opportunities to implementing of VAT, which are followings;

6.1Tax Evasion

Tax evasion is the main challenges of VAT in the Nepalese context. Most of the tax evasion occurs at the import level. The existence of long- open border and weak and easily corruptible tax administration are the major factor of tax evasion. There are several possible ways and forms of tax evasion in VAT.

- **Non- registration**

Some businesses, especially small traders who are liable to register may not register themselves as taxpayers. It is administratively very difficult to discover all the legal taxpayers under the VAT because of the threshold limit. Tax evaders may take a good advantage of this difficulty. Further, non- compliance of the tax from the registered taxpayers may also occur due to administrative weakness.

Unrecorded Trade: due to the weak administration, a channel of unrecorded trade or underground economy may be developed and make strong creating a large amount of revenue loss in this system of VAT. Some manufacturers also may allow some their products to the unrecorded black market channel.

Dummy Businesses: Tax evaders may use the technique of supplying goods through nominees or dummy businesses below limit threshold limit. They may establish dummy stores in secret places and supply goods from such stores without any records and invoices. Dummy stores may be sued to supply smuggled goods. Business firms may also establish fake business units below threshold limits and do some part of their business activities in their names. There may be frequent appearances and disappearances of disguised firms.

Other Forms of Tax Evasion

- Tax evaders may use the invoices from unregistered suppliers to claim credit. The tax authorities may be defrauded if the tax evader pretends that he or she has a purchase invoice with VAT number or creates an imaginary VAT number.
- Traders, especially small traders use some of their stocks for their self consumption and they may omit the self consumption from the records.
- If a business is engaged in selling both taxed and exempt goods and services, he may easily divert some of the taxed inputs use in producing exempt items as a credit against the tax on his taxed sales.
- Tax evaders may create artificial losses by showing damages or sales in loss and lower tax liability or claim tax refund.
- There is another possibility of false export claims and over invoicing of exports by using fake devices. For this purpose there may appear some bogus businesses that are involved in fabricating fake export invoices and claim VAT rebates on goods that have never been entered into transactions.

Opportunities

- Tax administration should be computerized to make a large amount of processing of returns and cross checking or purchases against sales feasible. A strong technical database should be built and maintained to make detection and checking effective.

- There should be a good co- ordination and co- operation between the VAT and other revenue departments to prevent revenue leakages.
- A moderate tax rate should be designed at the initial stage f the introduction of the VAT. Considering the fact that higher rate may provide an incentive for tax evasion.
- Collection of VAT through banks is found to be effective in many countries. in addition to congestion caused by the taxpayers in tax officer there may be give and take between tax payers and tax inspectors leading to a great deal of corruption. The possibility of negotiations between the taxpayers and tax officials can be reduced it the banks are used to collect the VAT for the banks merely act as collection agents.
- The rates of import and income taxes should be reduced with the introduction of VAT so that there is no substantial increase in tax burden on the economy in VAT regime.
- High penalty should be imposed if a guilty is found VAT offences, penalties and criminal prosecution should be well advertised through the media so that it would act as a deterrent to other. Public notices and boards should be put on market areas warning the people for not taking invoices.

6.2Tax Administrations

Tax administration is a tax policy in developing countries also hold true in Nepalese context. Administration issues are the most important issues of the applicability of a VAT in Nepal. The success and effectiveness of a VAT in Nepal depends on the extent the administration is strong enough and capable for an effective operation of the tax.

The administrative difficulties seem to be greatest hindrance for feasibility of VAT in Nepal. The VAT as a modern and complex tax cannot be implemented without an efficient and modernized administrative set up. In the absence of technically competent, honest and dedicated administration, the VAT, though it may be a good proposal, cannot be brought into being. But the tax administration in napalm is very weak reflecting the condition of the country itself.

The various aspects of administrative ability are examined in the following subsections.

- **Capability**

The challenge of administration mainly centers on the administrative capability of implementing a VAT. Unless the administration is strong enough to administer the tax the theoretical merits of the VAT do remain only on paper. Administering a VAT is possible only when the administration has achieved a certain level of efficiency. Besides the high level of efficiency achieved by the administration the capability for administering a VAT efficiently is the function of a number of factors. One group of factors includes the structure of VAT and another group of factors is external factor such as economic environment and business structure. These groups of factors are discussed elsewhere; here we consider the factors which are specific to the tax administration.

The lack of adequate personnel training is one of the weaknesses of the tax administration in Nepal that adversely affects the efficient administration of the whole tax structure, especially the implementation of any new tax scheme. The problem is more serious for VAT as VAT is a new concept for Nepal and there is a severe death of knowledge about the concept, working and operation of the VAT. Efficiency comes from skilled manpower, proper management, honesty and dedication. But all of these factors are severely lacking in present administration. Administrative management is often motivated by political and money consideration. Even competent, dedicated and honest tax officials and it is amazing how many of them there are can seldom do jobs properly, for lack of political support on the one hand and minimum resources needed on the other. Frequent political interference and undue transfers further reduce efficiency of the administration.

VAT has a very complex operation relative to the present sales tax. It includes a large number of taxpayers, many of whom are difficult to deal with, and this alone is the vast addition burden on the administration. Further, the administration has to be very clever on controlling the tax collection such as identifying non- filters, underreporting, and excess credit claim, over refunding. The failure of effective tax control leads to wide spread drainage in tax revenue. Such an effective controlling demands greater expertise and capability, which is rage in present administration due to the lack of proper planning, training and experience.

An effective inspection and audit system is very much required for preventing revenue leakages in a VAT system. But this function is severely limited by the scarcity of capable and trained personnel. As much of the administrative work would be devoted to the daily problems of collection, appeals and other matters, only a small portion of trained personnel would be free for inspection and audit work. The present trend shows that the inspection and audit by many of the tax officials would be guided by the money concerns due to the absence of tight control and supervision of the staff.

- **Corruption**

The applicability of a VAT in Nepal is further hindered by the existing wide spread corruption in the tax administration. Not only is the tax administration, the whole political systm corrupt in Nepal. We can see many corruption charges even against government ministers daily in newspapers and such charges get tacit consent as there is seldom refusal of such charges. Corruption as an existing reality in Nepal has become an obstacle to country's economic development. Corruption is politically protected and institutionalized from top to bottom level. If the country is sea of corruption, as some are, the tax administration will not be as island of incorruptible, and it is foolish to pretend it is. Nepalese tax administration also inevitably reflects to a large extend the nature of country itself.

The whole administrative set up in Nepal is fully of corruption .it is frequently complained by all that there is no work without bribe. How to make money is main work motive of many government employee from top to bottom. Revenue administration is even notorious to theis regard. Many businessmen said the tax officials often taught them how to corrupt them and evade tax.

The corrupt nature of tax officials may well be seen in the sharp competition among them to get transferred to the departments like income tax and customs where there are more direct contacts with the taxpayers and chances of collusion with them are also more.

The corruption would greatly reduce administrative efficiency in the VAT. In addition adoption of a VAT would broaden the scope for corruption and malpractice leading to a substantial leakage of revenue. After all, if the tax implementing agency is itself corrupt and it brings malpractice, there is no solution and everything goes wrong.

Opportunities

- Tax administration should be kept away from political intervention and any sort of influences from the outside. Capable person should be selected in the leadership of tax administration.
- To increase the capability of administration training of tax personnel should be kept on the topmost priority. Training should be designed for various levels and purposes. General training for all and specialized training for particular persons and foreign training should be designed and provided. Foreign tax tour may be helpful in this case.
- Tax collection and payment activities should be made transparent. Rules and regulations should also be made simple and unambiguous. The limitation of discretionary power and transparency in tax rule and tax collection activities would reduce the chances of malpractice.
- A good co- ordination of VAT department with the other tax departments should be established to facilitate cross checking of records to tax matters. A coordination tax audit program carried out by both. VAT and income tax departments are very much desirable.
- Collection of VAT through banking is an attractive opportunity to reduce the chances of administrative harassment on taxpayers and collusions between taxpayers and tax officials.
- The cases of corruption and bribing should be strong controlled by an effective monitoring and evaluation system.

6.3Business Structure

The problems of implementing a VAT due to the underdeveloped business structure and pattern have been summarized below:

- A VAT is an account-based system. It cannot be applied unless the business enterprises keep systematic records of their purchases and sales and issue invoices of their sales. In Nepal, a large portion of business activities are concentrated in the informal sector, where traders do not issue invoices of their sales and do not keep systematic records of their transactions. It is, because, the trading activity is dominantly shared by small and medium scale traders. Almost all of such, trading entities are self- employed where family member's area engaged in marking transactions. Keeping account and issuing invoices is felt not necessary as all the purchases and sales are handled by owners themselves and transactions are made in small scales. Consumers also do not insist on taking bills of their purchases.

- Another reason for not keeping accounting record is illiteracy and lack of knowledge about modern record keeping. Many of the traders are notable to keep systematic records by themselves and they also cannot hire an accountant for those purposes since their small scale of operation does not permit them do so.
- The distribution channel is not well- developed and specialized in Nepal. Goods are not always supplied in a same established pattern. Manufactures sometimes sell goods directly to the retailers or consumers also. A same person sometimes act an importer, wholesaler and retailer and also as an industrialist- cum- trader. There is no clear line, which divides the various stages of the distribution of goods. As there are many difficulties in extending the VAT to the retail level(explained in small traders problem), limiting VAT to the pre- retail level also arises numerous problem as retailers and wholesalers cannot be distinguished.
- Nepalese business sector is also not well organized. Small traders who dominate the business sector are scattered throughout the country in rural, mountainous and remote areas. There exist many small market towns and seasonal markets all over the country. It is very difficult for the tax administration to have a physical access to each market place. It may not be possible and worthwhile to set a tax office in each of the market place. A tax office located in the districts headquarter cannot control all of the trading activities in the district. In some districts, it is difficult to set even a tax office due to geographical condition; lack of transport and communication facilities, high cost etc. implementation of a VAT in such an environment may be a very difficult task.

- There is no fixed pricing system in the market; price varies from market to market, shop to shop and from day to day. Prices of some products especially of imported goods are determined by bargaining .there is also a frequent price fluctuation. But for a VAT to be applicable there should be uniform price of the products in the market. Otherwise, the profit margins and value added of different sellers would appear different which is very suspicious for taxpayers. Some sellers selling the products with high prices and some with lower prices would create many doubts and pose many difficulties to the administration for its verification.
- Trade between Nepal and Tibet is based on barter system. There is no purchase invoice of goods from Tibet. Difficulties arise to levy VAT since VAT is based on a actual invoice price.
- Prices of some goods are highly flexible at present. Because of high competition traders sometimes sell goods with very low margin and consumers highly benefit. But under VAT, prices tend to be rigid because of a fix mark- up allowed or prevalent. Traders cannot sell goods at lower prices even if they wish to do so. But they may have to sell at lower price than allowed because of high competition. To compensate this, the traders may hide some of their turnover.

In VAT, value added by a trader is a trend make- up or a margin, which is more or less fixed. But for some traders, the operation cost of their trading may be higher because they incur some special expenses. For example, special lighting system in their shop, furnishing cost, and packaging cost, high rent, etc. such expenses are not recognized in a VAT and the trade cannot cover such expenses by shifting them to consumers.

Mixed sales are also created problems. Many trades sell both VAT able and non-VAT able goods form a single shop. They may sell both goods at a time. This creates a problem for separating the taxed and non- taxed goods. It may also make difficult to determine the annual turnover of traders in taxable goods.

6.4Small Traders

The challenge of the small traders is one of the most prominent issues of the applicability of a VAT in Nepal. The trading activity of the country is dominated by small trader, which include most of the retailers, artisanscraftsmen, street hawkers and seasonal traders. They are scattered throughout the country including rural and remote areas, which makes it difficult to bring them into tax net and govern administratively. But bringing the small traders, which include most to the retailers, into VAT net is essential for many reasons.

The VAT is collected right from the manufactures and the collection process is completed only when the retailers collect the entire amount of tax from the consumers. The inclusion of retailers makes crosschecking before the retail stage feasible because there is a sale and purchase records, and the retails claim credit or his purchase. Inclusion of the retailers is also important for widening the tax base and increasing revenue yield. On the other hand, if retailers are excluded, evasion is made easier for a sector that represents and substantial element of the total value added in the economy and more significant revenue loss may result. It also requires higher tax rates to derive the same revenue (tait, 1988: 110). It is, therefore, very essential to include the small traders or retailers into the coverage of VAT to achieve the theoretical as well as practical advantages of the tax.

The inclusion of all small traders into the coverage of VAT is, however, virtually impossible because of the administrative and the tax compliance problems. For a VAT the tax administration and taxpayers must meet some essential pre- requirements and reach a certain level of a ability. The problem of small traders as taxpayers is how to comply with the VAT with no additional burden and bad effect on them. If it is for the reason, the effectiveness or success of VAT depends on how far the small taxpayers are handled with relative case.

The root cause of the problems of small traders is the problem of record-a basic requisite for a VAT. Small traders are engaged in making transactions with no systematic written records: goods and services are freely sold or purchases with no invoice issued and entry in account books. The small traders keeping no records are the function of many factors.

a) Small traders are the traditional type of businesses with no practice of record keeping.

b) Secondly, most of them are illiterate and ignorant about modern record keeping.

c) Thirdly, their scale of operation is usually so small that there is no need of recording keeping.

d) The important factor is small traders are self employed business where family members are engaged in making purchases and sales, and there is no need for issuing invoices and keeping record of their each purchase and sale.

Even though there is no practice of records keeping by small traders, it is important to consider whether they are able to maintain the essential records required by the VAT if they are asked to do so. In the VAT, the taxpayers are, as a minimum, required to record and file their all purchase invoices, normal accounting record, and a VAT account in a readily retrievable fashion. They have to submit the tax return every tax period. But most of the small traders are illiterate in Nepal. Seeing the level of literacy and knowledge about record keeping, the small traders can hardly be expected that they would be able to keep records. Rather, their scale of operation is very small, small turnover, low margin and low profit. Their scale of operation and income do not permit them to make any special expenses for tax purposes, such as hiring an extra manpower, devoting extra time and incurring stationary and other costs. The continual process of record keeping, filing tax return, paying tax. Dealing with the administration, and suffering administrative hassles would be a big cost for small traders, which may ultimately lead them to close their doors or find a way to escape the burden of tax totally.

Problem equally arises also in the administrative front. Inclusion of small traders into the tax net of VAT would result in a all at once and considerably increases in the number of taxpayers. It cannot be expected that such a weak tax administration of Nepal would handle the situation. The number of taxpayers may alone be a headache of the administration. Further, registration, accepting returns and their verification, taxpayers' services, control of evasion, inspection auditing, etc.pose many problems for efficient administration of the entire tax system. Even if the administration is an efficient one, the control of such a large number of tax payers, are fairly dispersed throughout the country in small markets and towns. Seasonal markets, village shop and markets in remote areas are a formidable tax for the administration.

Opportunities

- Small traders should be exempted initially. Other ways of treating small traders may be adopted after some years of experience with VAT.
- Before fixing a threshold limit, a survey of the number and turnover of new (potential) taxpayers should be conducted. After estimating the number of potential taxpayers and their after annual turnover, the threshold limit should be fixed at the point so threat the number of additional taxpayers could be handled by existing administrative strength with relative ease and efficiency. The threshold limit can be lowered in the following years as the administrative capability gradually.
- To fix the threshold limit, it would be better to follow the administrative approach. For this, first, the administrative capability should be assessed as how many new taxpayers can be dealt with existing administrative power. After that, following opportunities, the number of additional taxpayers that are likely to come under VAT and their turnover should be assessed. The threshold limit should be fixed at the point where administratively required number of taxpayers is equal to the actual number.
- The date of the turnover of the businesses those are not under the present sales tax can be found form a number of sources. The existing income tax and import tax records are the most important source for that. Besides, information may be found from advertisements, business yellow pages, department of industries and commerce, trade licenses, registration in various trade associations, records with business organizations, etc. in addition to these, field survey can be conducted to estimate the correct number of potential taxpayers.
- Businessmen, various trade groups, and their associations and organizations should be consulted and their opportunities should also be considered in fixing the threshold limit.
- In lowering the threshold limit in future, the revenue generation from small traders should be weighed against the administrative costs in handling them and an optimal point should be reached. It is because the very small traders like small retailers are not very significant from revenue point of view,

omitting the smaller ones does not make any larger difference in revenue collection.

- In would be advisable to require the traders who have fixed location but are not registered as taxpayers to submit a provisional statement of their annual turnover and expected future turnover. The provisional statement submitted by the traders may be very useful in lowering the threshold limit and identifying the taxpayers in future.
- Seller of some specialized items such as cement, furnishing materials and services, electric goods, electronic goods, watches, beverages, PCOs, photo goods and services, etc. who issue invoices of their products and who are able to maintain records should be compulsorily registered regardless of their turnover after some years of experience with VAT. Coverage of such goods should be increased annually.
- Another method for treating the small traders may be to require all the traders having fixed shops. Such traders should be given a special registration number and be required to take invoice of their each purchase and keep the invoices in a file. The tax inspectors should be made able to check their purchase invoices against their stocks. Such taxpayers should be required to submit their purchase records to the tax office every six months. A turnover tax or VAT may be levied on such traders by adding certain make-up to their purchases. This method may be used to abolish the tax preference to the small traders after some years of experience with VAT and such trader may ultimately be treated as regular VAT payers.
- There is another method that can be adopted for abolishing the tax preference to the small traders after some years of experience with the VAT. This method includes the application of a higher rate or the application of some rate after adding a certain mark-up when the wholesalers or dealers sell goods to the unregistered traders. The unregistered traders may be given special identification numbers.
- To increase registration, the registration program should be lunched as a campaign. Strong notices for the registration should be widely disseminated with strong warning of penalty for non- registration. If any case of non

registration is found, this should be severely treated with greater publicity among other traders so that it may act as a deterrent to others.

- Simple accounting system should be devised for the small taxpayers. Tax return forms should be simple, they should not demand the information that cannot be easily calculated and that is not necessary.
- Incentives for the taxpayers should be devised as far as possible. Small traders may be supplied account books and purchase books free of cost if they demand. Tax rebate of a certain percent of their tax liability may be allowed as compensation to the compliance cost of the taxpayers.

6.5Open Boarder and Unauthorized Trade

Open boarder issues assume greater importance for the success of VAT Nepal. The long open boarder of Nepal with neighboring countries creates many problems for the tax system of Nepal due to the free movement of people and a large amount of unauthorized trade through the boarder.

- **Open Boarder Situation**

Nepal has long open boarder with its both giant neighboring nations India and china. With china the open boarder is not a serious problem due to geographical inconveniences caused by mountain area. There is no easy pass through the boarder and level of illegal trade because it is negligible. However, the problem is alarming between India and Nepal, because there is no legal ban or passport system. People of India and Nepal may easily enter into each other's nation. People of both countries often go to the border towns of other country to buy goods because there is no need to pay customs duty for the goods brought for personal use. Goods brought for commercial purpose have to go through customs and pay customs duty as well as sales tax.

Since goods from India or imports from India have to pay import and sales tax. The Indian product becomes dearer in Nepal as compared to Indian market. This gives two kinds od incentives: one is Nepalese consumers living near the Indian boarder go directly to Indian boarder to purchase cheaper goods and second is goods from India are bought for trading purpose through smuggling giving rise to a amount of unauthorized trade.

- **Unauthorized Trade**

Although there is no any measure of unauthorized trade between Nepal and India, it is generally agreed that such trade in the borderarea is considerable. Many businessmen have claimed that only a little amount of goods from India come through customs. Some of them went as far to say that 90 percent of goods from India come via illegal channel. Others opined that the level of illegal trade two or threefold then legal trade.

One of the main point s of opposition of the businessmen opposing VAT is that VAT is not feasible due to open boarder with India and illegal imports from India. They say if VAT is implemented they cannot complete with illegally imported goods or goods brought without repaying any tax. It has an implication that they are now able to complete which means they also engaged in illegal trade to complete others. The illegal trade being impossible under VAT, their business dries. As the businessmen best know about the business situation, this is a strong evidence of existence of large amount of illegal import from India.

Unauthorized trade is very much organized and systematic in the border area. There are many organized groups active on the both sides of the boarders and these groups are responsible for illegally supplying goods from India to Nepal and Nepal to India. There are different forms of illegal imports. These are

- Hiding
- Underreporting
- Under invoicing
- Manual supply
- Bribing
- Luggage etc.

The problem of illegal trade is great in Nepal. The government has not so far been able to tackle the problem, instead of being decreased, is ever increasing as there has been often said that there is an alleged contact of smugglers with high level government officials. The problem will not come an end unless corruption is abolished in the country.

The existence of open boarder and unauthorized trade is a great threat to a VAT in Nepal. It would have many bad implications for the business activities as well as tax system in Nepal. Mainly, there would be two kinds of implications of the open boarder and illegal trade if VAT were implemented.

Firstly, there is a possibility that the level of illegal imports would decrease after the adoption of a VAT in Nepal. It is because there is a danger of being discovered when the goods imported illegally are sold through taxable channel. VAT registered vendors would not dare sell goods which bear no tax. To the extent VAT prevents illegal trade. Indian goods would be dearer in the Nepalese markets due to the full imposition of import duty and VAT. Nepalese consumers living near the border area would prefer rather to go across the border than to buy in local markets. This tendency would show for Indians in the Nepalese trade and revenue collection may not increase.

Secondly, it is the most impossible that the level of unauthorized trade remains the same even after the VAT. It is possible due to the existence of exempted trade and weaknesses of tax administration. The goods brought through illegal channel may be marketed through small exempted shops. Even the registered traders may sell the illegally brought goods secretly without issuing invoice and showing in record. The illegal imports are unrecorded and such trade is difficult to catch by the administration. The administration is itself very poor and corrupt. Such administration can hardly be accepted that it would be able to prevent such malpractice.

If illegal trade remains the same even after VAT, the genuine trade in Nepal would adversely affected and parallel economy would develop further in Nepal. The illegal trade repealslegal trade and whole trade would tend to be illegal and black economy would develop further. This would also raise corruption, bribery and other malpractice.

Opportunities

- There should be a joint action by both Indian and Nepalese authorities to control illegal trade in the border area. Any action to prevent illegal trade should be closely co- ordinate with that of Indian authorities' actions.
- The tendency of Nepalese consumers going to Indian markets should be discouraged.
- Tariffs should be reduced to discourage illegal imports. Tariffs should be reduced in Nepal due to this India also reduces them.

6.6 Co- Operation between the Government and the Private Sectors

There should be a close co-operation between the government and the private sector as one of the basic requirement for implementing a VAT in any country. But there is a wide gap between the government and private sector as regards to the implementation of a VAT in Nepal. The private sector is actively opposing the implementation of VAT, at least, at present. The government on the other hand, is firm to implement the new tax. Such a divergence would lead to many undesirable consequences, which make the VAT at unsuccessful tax.

Government policies in Nepal are often formed and implemented without a due consideration and preparation. With regards to VAT the government never took the private sector into confidence. Private sector is not much involved in designing the VAT structure rules and regulation, and solving the wide range of issues.

Preparation of the private sector is not going on equal pace with the government. The private sector is somewhat neglected form the VAT implementation process.

The absence of active participation of the private sector in the VAT implementation process in is not a good symptom for the success of VAT. The rejection of the tax by the private sector would make it an unpopular tax. Tax compliance and co-operation with the administration would be lower under such an unpopular tax. The VAT structure, rules and regulations formed without consulting and discussing with the private sector are likely to become unpractical and non- operational. International experience also shows that the VAT is less likely to be effective or successful where the private sector does not fully co-operate with the government.

6.7Geographical Issues

The existing geographical condition of the country and difficulties created by such conditions would create several problems for the applicability of the VAT in Nepal. There arise mainly three sets of problems due to geographical conditions:

- Many districts of Nepal are not within the access of transport. Some of the districts are connected by very poor means of transport and some other is not connected by motor transport. Supplies to these areas are made by porters, animals and air transport. But the cost of manual of air transports very high. Due to high transportation cost, value added of the goods supplied to these areas becomes very large at distribution stage. Application of VAT in such areas as other easily accessible areas means the consumers of the remote areas bear much higher burden of the VAT then the consumers of other accessible areas. This is clearly inequitable and in unjustifiable for any reason.

- There is a small scale of business activities in those remote hilly and mountain area. For the collection of the VAT in those areas, it is necessary to incur some essential expenses like a building, certain staff, computers, etc. but the revenue collection in such areas would be a negligible amount as compared to the collection cost. Moreover, the business activities scattered throughout the hilly and mountain areas in small markets, towns, seasonal markets, village shop, and mobile shop pose a great difficulty in identifying taxpayers and their control. Some areas are such that it is not worthwhile to set even a tax office in a district. Therefore, the high collection cost does not permit VAT to be applicable in some of the districts in Nepal.
- Controlling VAT in far and remote areas is not easy. In VAT system, the function of collection, taxpayers' assistance and other small functions are done by local offices, whereas inspection, audit, hearing appeals, tax refund, and penalty falls within the function of higher level offices or regional or central offices. But due to the lack of transport, communication and easy access, it is not possible for high level offices to perform these functions. It would also impossible for the taxpayers to come to the center for getting tax refund, appealing, etc.

Opportunities

- The districts which are not connected by motor transport should be excluded from the VAT.
- Later lower rated VAT or a special turnover tax may be levied on the selling of goods in remotes areas.

6.8 Political issues

Any government policy, especially when it is related with the effects on general public is very much likely to be a political issue. VAT in Nepal is likely to be a political issue since it is connected with the loss or gain of the entire people including the consumers, traders and businessmen. There are some factors, which would make VAT a political issue in Nepal. The most important is that the tax may be the cause of increased price level. Since VAT is perceived to have a direct link with increased price level. The introduction of VAT would be unpopular among people and this, in turn, would make the government unpopular. Political parties always seeking to secure their vote bank would take step back under such condition. The regressively of VAT is another issue. Unlike price effect the regressively of VAT would not directly provoke people's reaction, however, it would sooner or later a hostile feeling among people. In political front also, such issue would be prominently raised to attract people's attention.

VAT would be major part of Nepalese fiscal structure, the failure of which would have serious consequences. International experiences so that taxes are cause of the fall of many governments and political instability. If VAT cannot borne by the country, or if it possible fails it would lead to the disturbance of the whole political as well as economic set up of the country.

CHAPTER VII

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

7.1 Summary of Findings

Value Added Tax is a comparatively young tax. It has been spreading rapidly all over the world. By, now VAT has been adopted by more than 125 developed and developing countries and it is under active consideration in many others countries.VAT has emerged as broad based, transparent and scientific tool of indirect tax system in the world lately. Many nations have accepted VAT as an effective tax system to increase governments' revenue while broadening the tax base and without adversely disturbing the economic activities. Summary of findings are as follows:

- Government of Nepal has introduced VAT in Nepal in Nov. 1997, following enactment of the Value- Added Tax Act in 1995. The government has undertaken several preparatory measures required for the effective implementation of the VAT such as institutional development capacity building, training of tax officers and dissemination of information to potential tax payers. According to VAT act 2052 the tax rate is10% (now changed to 13%) and experts are subject to rate of zero %. There are certain cases such as exemptions and zero ratings under which commodities are tax free.
- Among the various types of VAT. i.e., GNP, income and consumption, the later variant exclude capital goods from its base and do not hamper investment and the growth. It is to be neutral regarding to methods of production and administratively feasible. There are three methods of calculating VAT, base are: addition, subtraction, and invoice and tax credit is more popular in the world. The tax credit method is considered as the tool for cross- checking measure under a VAT system. . In Nepal, consumption type, tax credit method VAT based on the destination principle with single positive rate of 13% is in practice. To adjust international trade VAT uses one of the two principles, i.e., origin or destination principle.
- Empirically as well as theoretically analysis shows that VAT is superior to other types of sales tax. VAT proved for more superior to turnover tax,

manufacturing level sales tax, wholesale level sales tax and retailer's sales tax. A multiple rates VAT is less regressive than single rated but single rated VAT is highly desirable on various grounds. Multiple rated VAT is administratively more complex, provides loopholes for tax evasion to the small traders and may create economic distortions. The structure of VAT in Nepal is well designed but existing coverage of exemptions is significantly broad and threshold limit is also high which are being helpful means for tax evasion for the business community.

- In Nepal the tax revenue is a major source of government revenue. A recent study of 15 years (2000/01 to 2014/15). Tax revenue in Nepal is contribution about 85 percent of total revenue and non tax revenue in Nepal is contribution about 15 percent which comes in the form of fees, fines dividend, interest etc. In the study period the contribution of tax revenue is increasing and the contribution of non tax revenue is decreasing. In the FY 2014/15 the share of tax revenue is 87.70 percent and the share of non tax revenue is 12.30 percent (table 4.1). The structure of total tax revenue is dominated by indirect tax. The indirect tax play more significant role of the underdeveloped countries like Nepal to collect the government revenue. The indirect tax comes in the form of custom duties, VAT and excise duties. The relative share of VAT in total tax revenue is 31.62 percent and the relative share of VAT in indirect tax is 44.33percent in 2014/15. The share of VAT revenue in GDP in 2012/13,2013/14,2014/15 are 5.47 percent, 5.20 percent and 5.30 percent respectively

- From theoretical point of view, the implementation side of VAT is not so effective in Nepal due to many challenges associated with practice. The lack of technology and billing tax evasion is the most challenging to implement VAT effectively. The other challenges are open boarder, poor performance in tax administration, small traders,unauthorized trade, lack of close co-ordination between customs and VAT department, lack of co-operation between the government and private sectors, political issues, geographical issues, corrupted nature and carelessness of tax officials and low level of public awareness. The illegal; import is helping to black market channel resulting in al large scale of tax evasion, the scope for illegal trade and tax evasion has not been decreased even after the implementation of VAT because tax administration is not strong and efficient enough to check this situation.

7.2 Conclusion

Value added tax plays significant role in revenue mobilization in Nepal. The main goal of the underdeveloped countries like Nepal is to achieve the economic development and ensure the rapid rate of economic growth to increase the growth rate, to have built in-flexibility into the tax structure and to provide maximum revenue productivity continuously and consistently with optimum growth rate, to remove the inequality of income and wealth in society. It needs huge amount of investment in economic overheads and other development activities for which taxation is undoubtedly a primary source of revenue for the government. Taxation may be considered as basic tool in the path of economic development.

Recently, developing as well as developed countries in the world have a increasingly focused their towards reforming tax system by realizing the poorly designed tax structure. VAT replaced existing sales tax along hotel tax, contract tax and entertainment tax since 1997 in Nepal.VAT was expected to have a high revenue yield due to its broader coverage and base. VAT is the modern and best form of the sales tax however an implementation part is the more important. One of the key issues is administrative capability and situation which definitely wells the great importance for the effective implementation of VAT in Nepal. Another is lack of co-operation between private and government bodies and irresponsible political leader are the matter of creating question for the prospects of VAT in Nepal. The problem is further intensified due to lack of culture of issuing and receiving bills at the point of sale and purchase, negative behavior of tax officials and lack of sense of accountability in the government and political parties. It is a big challenge to resolve these problems. Apparently, VAT cannot deliver the intended results unless these problems are addressed seriously.

Thus the study concludes that there is immense scope of VAT in Nepalese economy which can give right direction to the tax revenue and can be perennial source of domestic revenue, if the VAT is to be implementing effectively it will not so far to meet our objectives of taxation as well development which the study mention above. This can be claimed after looking the figure of potentiality of VAT revenue. But the present situation of VAT is not according to our expectation and the requirement of the economy. Inefficient tax authorities, low level of public and tax payers awareness, insufficient and inefficient manpower, lack of IT system, lack of research on about the weakness of existing VAT system low level of implementation of findings of scholars, lack of political commitment absent of proper mechanism for monitor and audit, etc are creating hurdles and obstacle on the path of VAT implementation.

7.3 Recommendations

There are some challenges of in implementation of VAT system as mentioned in previous chapter. These problems are quite challenging to the concerned authorities from the point of view of their financial performance. In such situations, following recommendations have been made to make VAT effective and more efficient on the basis of findings and conclusions of the study

1) The VAT Act and Rules should be amended as per the need of the present day requirements of business organizations.

2) The existing long open border is the main cause of smuggling and undervaluation in the border sides. So open border should be systematized to greater extend.

3) Threshold and tax refund are two possible gates for tax evasion. An effective efficient tax auditing, investigation and monitoring system should be developed. Refund system should be made simple and effective and the period of such refund should be minimized.

4) Most of the taxpayers as well as publics are still unknown about VAT and its effects on various aspects. They have developed a kind of misconception regarding to VAT. They do not think that sellers already include VAT in their goods price rather they do think VAT as an extra charge. Thus, proper publicity regarding to VAT is the fundamental tools for the success of VAT.

5) Some businessmen having tax able transactions are still beyond the tax net. So, the enforcement should be made more effective and voluntary compliance should be encouraged. The level of the voluntary compliance could be raised through a set of promontory and regularly measures including positive and services minded attitude of the tax personnel, rationalization of tax structure simplification of tax procedures and forms,

strengthening tax administration, conducting audit ad investigation in an effective manner and penalizing those who break the rules. The procedures regarding registration, collection, interest, penalty, audit and appeal should be simplified and improved.

6) Nepalese policies are directed by the politicians. The bureaucrats do whatever their political leaders call for. Most of the politicians are motivated by their own benefits and hence, defective policies are likely to be made. Due to political interference, policies are not so effective to generate VAT revenue as it was expected during the initial implementations. Thus, political interest highly influences economic policies.

7) Political commitment is one of the most essential phenomenon for the success of government policies. This is true for VAT implementation as well. The leader shows their commitment but intentionally nobody has strong will power to make VAT system successful and more effective. There is a lack of proper cooperation and coordination between government and opposition parties. Hence, government should create favorable political environment for effective and successful implementation of VAT.

8) Computer networking system is necessary. The existing computer system should be revised and an integrated computer network with Customs Department, Department of Tax and Ministry of Finance should be established for information and operation of this system. More improvement is needed in the present communication system.

9) The success of VAT system is not only the success of the IRD, but also the success of nation as whole. The role of general media, radio, TV, newspaper plays an important one. Emphasis should be given on mass media. Awareness towards VAT system should be crated among general public, non-government and government organization.

10) There should be a close co-operation between the private sector and government sector for the successful implementation of VAT. But in practice, there is a crisis of confidence between the private and government sector. Three were made many agreements between VAT payer and VAT collector. Persons of each sector blaming to another. Due to the lack of

understanding between them, there is loss of revenue; the tax authorities in many cases arbitrarily fix taxable amount, which is beyond the current feature of VAT system. Hence it is necessary to co-operate the private sector with government sector. A proper co-operation between both sectors should be established confidently.

11) The existing exemption and zero rating lists are rather long. Exemptions and zero rating have on impact not only on revenue collection but also on economic efficiency and administration. Thus, the existing labyrinth of exemptions and zero rating in VAT most be avoided from tax act.

12) Unproductive, corrupted, inefficient staff lacking practical and specialized training is a serious problem. So, providing training to such staff is highly essential.

REFERENCES

Acharya, S. (2016, June). Reforming Value Added Tax system in developing world: The case of Nepal. Business and Management Studies, 2(2), Retrived form: http://bms.redfame.com

Adhakari,C.M. (2003). *Value Added Tax in Nepal: Theory and practice. Kathmandu:* PairaviPrakashan Publishers & Distributers.

Agrawal, J. (2014).*Income tax: Theory and practice*. Kathmandu (4thed.).2011 AYAM Publication.

Basaula, B. (2013*). Income tax and VAT Laws in Nepal*. Kathmandu:Printers Mission Printers & Media Pvt.Ltd.

Basnet, D. (2002). An analysis of Value Added Tax in Nepal ((Unpublished master'sthesis). Tribhuvan University, Nepal commerce campus Minbhawan, Kathmandu.

Bhattarai, I., &Koirala,G.P. (2010). Taxation in Nepal. Kathmandu: Asmita Books Publishers & Distributors (p) Ltd.

Bhusal, S. (2014). *An analysis of structure and challenges of value added tax in Nepal* (unpublished master's thesis). Tribhuvan University of Central Department of Economics (CEDECON), Kirtipur, Kathmandu.

Carlson.G.N.(1980). *Value added tax: European experience and lesions for the United States,* Department of Treasury: Office of Tax Analysis.

Dahal, B.N. (2013). *Taxation IPS.* Kathmandu: Professional Studies Resources Developers (PSRD), NayaBaneswor.

Dhakal, K.D., Panday, B., Bhattarai, R.,Koirala, G., &Bhattarai, I.S.(2015).*Fundamentals of taxation and Auditing*. Kathmandu:Asmita Books Publishers& DistributorsPvt. Ltd.

Dhakal, K.D., Panday, B., &Bhattarai, R. (2015). *Corporate taxation with tax planning*. Kathmandu: MK Publishers & Distributors Pvt.Ltd.

Goode, Richard. (1986). *Government Finance in Developing Countries,* New Delhi: McGraw Hill Co. Ltd.

Guerard. M. (1973). The Brazilian stage value added tax. Washington DC: International Monetary Fund (IMF). *Staff Papers*, xx(1), 118-147.

Hyman, D.N.(1972). *Economics of government activity*. Halt, Rirehart and Winstons.

Kesto. D.A. (2011).*Empirical analysis of contribution of VAT to economic development & social spending in Ethiopia*(Unpublished Masters. Thesis).Addis Abava University School of Business and Public Administration Msc in Accounting and Finance Program.

Khadka, R. (2015). The SAARC tax system. Kathmandu:PriraviPrakashan.

Koirala, K. (2010). Value Added Tax (VAT) in Nepal: A critical assessment of its performance.*The Journal of Nepalese Business Studies, VII (1)*.

Lejeune, I. (2011). *The EU VAT experience*: What are the lessons? In *the VAT reader* (pp. 257-282). Tax analysts.

Musgrave, R.A. & Musgrave, P.B. (1976). *Public finance:* Theory and practice Tokyo: McGraw Hill.

Pokharel, S.B., & Bhandari, B.P. (2014).*Value Added Tax:Theory and practice*. Kathmandu: Valley Printing Press.

Shah, R.K. (2012). *VAT in Nepal*. Kathmandu: Heritage Publishers and Distributors Pvt. Ltd.

Sharma, K.P. (1998, January).Value added tax in Nepal: Issues and options (unpublished master'sthesis). Tribhuvan University, Central Department of Economics, Kirtipur, Kathmandu.

Shoup. C. S. (1988) Value added tax and developing countries. Washington DC: The World Bank.

Shrestha,S.M. (2005). An introduction of Value Added Tax with practice and regulation in Nepal. Kathmandu Himalaya Books Stall.

Singh, S.K. (2010). *Value Added Tax in Nepal: Problems, prospects and suggestions*(Unpublished management thesis). Tribhuvan University, Central Department of Management, Kirtipur, Kathmandu.

Subedi, B.R. (1998).*Value Added Tax*.Kathmandu: BhrikutiAcedemic Publications.

Sullivan, K.K. (1965). *The tax on value added.* New York and London: Columbia University Press.

Symon, S.,Howeltt. N., &Alcantara, K. R. (2010*). The impact of VAT compliance on business.Retrived form*. http://www.pwc.com/gx/en/paying-taxes

Tait, A.A. (1988). Value added tax: International practice and problems. Washington DC: International Monetary Fund (IMF).The World Bank.

Tait, A.A. (1991). *VAT policy issues: Structure, regressivity, inflation and exports in Value Added Tax administrative and policy issues* Alan AA. Tait(ed.) Washington DC,IMF,Occasional Paper.

Timsina, N. (n.d.). Tax elasticity and buoyancy in Nepal: A Revisit. *Economic Review*. Kathmandu: Nepal Rastra Bank (NRB).

Value Added Tax Act, 1996, Kathmandu: Inland Revenue Department (IRD).

Various Annual Report of IRD

Various Budget Speeches

Various Economic Surveys

Wikipedia the free encyclopedia: https://en.wilipedia.org