

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Value added tax is a twentieth century innovation in the tax system. This tax is based on goods and services. It is also considered to be a tax that is based on consumption. Since this tax is based on consumption, the burden of this tax has to be born by the Consumers. VAT is regarded to be a member of the sales tax family, since it is imposed on the sales of goods and services. This tax is levied on the value addition at each stage of economic activities from the time of production to consumption of all goods and services. Value addition implies the difference between the purchase and sales price that has been incurred in labour, capital etc in relation to the production or distribution of goods and services. This also includes the profit amount that is due to the businessman for taking the risk. Therefore, value addition includes the entire expenses and profits incurred in the process of preparing the goods or services for sale after its purchase. Since VAT is levied only on the value addition made at each stage in the process of production and distribution, this tax system seems more neutral, efficient, elastic and fair and it also said to be an improved version of the sales tax.(Google.Com)

VAT is levied on sales of all goods and services excluding those that have been exempted by the law. Although the laws of different countries have a short or long list of tax exempted goods and services based on the experience of the past tax system, economic condition, the revenue requirement, the standard of the accounting system, political and social will etc. VAT exemption is generally granted to those goods and services, which are administratively difficult to tax or on those goods and services that are of day-to-day basic necessities of a large number of people. It is also believed that exemption list should be as short as possible in order to implement VAT more effectively.

VAT is levied on each level of sale from the production and import to distribution of all goods and services except exempt ones. But for those small business persons engaged in the sale of goods and services below the specified threshold level, it is not

mandatory for them to register under VAT. However they can register voluntarily. To keep small businesspersons outside the tax purview, a threshold has been specified under the VAT system. The wholesalers' retailers, dealers, or producers who sell goods or services below the threshold level do not have to be register under VAT and neither do they have to collect VAT on their sales.

Value added tax is a general consumption tax assessed on the value added to goods and services is an indirect tax and an improve, modified form of sales tax. It levied on value added of goods and services at each stage in the process of production and distribution chain. These stage can be import, manufacturing, whole sale and retails tread value added for a firm is sales value minus all expenditures on goods and services purchased from other firms. The value added can be obtained by adding payment of factors of production. It is borne by final consumer. But collection of VAT is now difficult. Some businessmen try to evade tax and they always stand against the existed tax system.

Developing countries like Nepal should implement VAT in proper way. In Nepal value added tax Act, 1995 enacted in 1995. VAT regulation was made in 1996. But VAT with single rate of 10 percent has been fully implemented with effect from 16 November, 1997. The government of Nepal has increased VAT to 13 percent with effect from 15 January, 2004.

Revenue collection from VAT is serious problem in Nepal due to political instability, attitude of evasion and critical economic condition may help to reduce revenue from VAT. So growing this situation may affect the national prosperity of Nepal. Different prospects in law and it's implementation prospects and problems are should be transparence. For this the tax reform with an adopting of VAT, is essential connection with the effort of many under developing countries as one of the major problem element of tax revenue source to achieve the goal of acceleration of economic development. The types of VAT are determined on the basis of treatment of capital goods of a firm. There are three types of VAT. They are:

Consumption Type VAT

under consumption type VAT, all capital goods purchased from other firms, in the year of purchase, are excluded from the tax base while depreciation is not deducted from the tax base in subsequent years. The base of tax is consumption since investment is relived from taxation under this type . Consumption type VAT is widely used .Hence, by the term VAT we basically mean the consumption type VAT.

Income type VAT

The income type VAT does not exclude capital goods purchased from others firms from the tax base in subsequent years. The tax falls both on consumption and investment. The tax base of this type is the net national income.

GNP type VAT

Under this type, capital goods purchased by a firm from other firms are not deductible from the tax base in subsequent years. Tax is levied both on consumption and gross investment. The base of This tax is gross domestic product.

VAT is a new tax system for Nepal. VAT has been justified in the light of government fiscal imbalances and need for extra revenue mobilization through an efficient tax system.

1.2 Statement of Problem

VAT is improved sales tax. It tries to reduce tax evasion and avoidance. It is the most recent innovation in the field the taxation. The concept of VAT was developed in 1919 in Germany. By the end of 1960s, only eight countries France, Brazil, Germany, Netherlands, Sweden etc had introduced VAT.

The concept of VAT in Nepal was introduced in early 1990s Nepal government indicated its minister to introduce VAT in the eight plan. Subsequently, the finance instep declared to introduce a two tier sales tax system to make the base of implementing VAT from the fiscal year 1992/93. A VAT task force was created in 1993, under the financial assistance of USAID in order to make necessary preparation for the introduction of VAT. The VAT task force prepared the draft to 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 implantation was delayed due to political instability and strong opposition from the business community. VAT with single rate of 10 percent has been fully implemented with effect from 16 November 1997. In 1999 total VAT collection was RS. 9850 million. In which Rs. 3720 million was collection from internal and Rs. 6130 from export. Government of Nepal had increased VAT to 13 percent with effect from 15 ,January,2004. After increasement of VAT rate the VAT collected RS. 18894.63 million. Out of total VAT collection Rs. 66243.33 million was from internally and rest Rs. 12270.30 million was from export. The increasing rate of collecting VAT is gradually decreasing. This is the serious problem of our nation becoming poor.(MOF)

Due to poor economic condition political instability helps to increase this problem. Every year the Revenue collection situation can't meet the Goal. This statement has been done on the basis of following research question:

-) What is the yearly revenue collection from VAT?
-) What is the current situation of VAT in Nepal?
-) What are the current problems for implementation of VAT?
-) What are the effects of VAT on revenue mobilization?
-) What are the suggestions for better collection of VAT in the future?

1.3 Objectives of the Study

Generally, the objectives of study should be related with research problems. The major focus of this study is finding revenue collection from VAT in different year and current prospects and problems in collecting VAT. However specified objectives of study areas as follows:

-) To know the yearly revenue collection from VAT.
-) To examine the current situation of VAT in Nepal.
-) To analyze the current problems for implementation of VAT.
-) To examine the effects of VAT on revenue mobilization.
-) To provide valuable suggestions for better collection of VAT in the future.

1.4 Significance of the Study

There are a lot researches on VAT but very few studies had undertaken on the topic of VAT in Nepalese context and most of the studies were related with theoretical aspect. Developing countries are facing the problem of revenue Collection. Without huge fund government can't implement development projects needs and regular expenses. So every country imposes tax to people, and this will concern to know about current Revenue collection from VAT with Its problems and prospects. It also analyzes the contribution of VAT to tax revenue. It helps to provide information about collection of VAT. So it shows the importance of VAT. Study also shows the problem and prospects which with help to policy reform to the people who are interested and confused about VAT system. It explores the problems and potentialities of the VAT implementation in Nepal. It will be useful too businessman, consumers and policy maker and any other related group. It provides information about the application of VAT under different circumstances. Thus it will encourage the government and the organization/persons who are interested about VAT. Similarly, It will be valuable references to the scholars or researcher to conduct further similar research in this field.

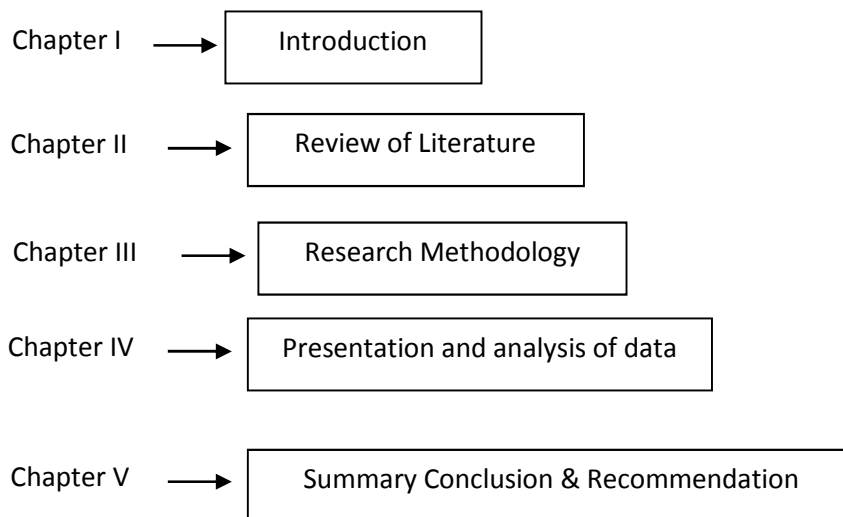
1.5. Limitation of the Study

Every study has its own limitations. The researcher shouldn't cross the limitation while conducting the study. Similarly the limitation of this study is as follows:

-) Data are based on report and field survey.
-) Reliability of data is limited on respondent answer.
-) Sampling methods based on judgmental sampling.
-) Research area is Pokhara valley only.
-) This study are covered the data of 10 years period.
-) This study has been prepared as per the requirement of partial fulfillment for degree of M.B.S.

1.6. Organization of the Study

Base on the above objectives, this study has been systemized in the following five chapters. The following figure shows the detail study process and procedure.



Chapter I contains the introduction of the study. It concludes general back ground, objectives, significant and limitation of the study.

Chapter II states the conceptual framework of value added tax and review of related studies.

Chapter III explains the methodology used this research to find the result for meeting the objectives set in chapter I. It includes research design, population and sample, sampling procedures, sources of data, data collection procedures, research variables, data processing procedures, and analyzing tools.

Chapter IV states the data presentation and analysis first section covers the presentation and analysis of secondary data. Which is collected from VAT office and the next section states the analysis of primary data. In this section states the analysis of question and major finding of survey respectively.

Chapter V states summary, conclusion and recommendation of the study.

CHAPTER - II

REVIEW OF LITERATURE

The main purpose of this chapter is to review the available literature on VAT collection, its problem and prospects in Nepal. Thus authentic and honest attempts are being made to highlight the gist relating with the concerned topic from various books, newspaper, magazines, research articles as well as past thesis. Although there are several studies on value added tax concerning different topics, very few studies have been undertaken on this topic concerning Nepal. To ensure the precise, lucid and concrete views about the stated topic. Some of the studies reviewed in this thesis have highlighted in the following section.

2.1 Conceptual Framework

A government requires sufficient resources to carry out development plans, handle day-to-day administration, maintain peace and security and launch other public welfare activities. The government collects the required resources mainly from two sources: debt and revenues. The debt can be collected either from internal or external sources. The internal debt is collected within the country while external debt is collected from outside the country. The debt financing of the government is known as deficit financing. The revenues on the other hand, come basically from two sources: tax and non-tax. Non-tax sources include different revenues like gifts, grants, revenues from public enterprises, administrative revenues such as registration fees, fines and penalties. Tax sources include custom duty, excise duty, VAT, income tax.

In general, tax can be defined as a levy or other type of financial charge or fee imposed by state or central government on legal entities or individuals. It is a compulsory levy from individuals, households and firms to central or local government. It is a kind of money of which it is the legal duty of every citizen of the country to pay honestly. It may be levied on income, property and even at the time of purchasing a commodity. Tax is computed and paid as prescribed in the law. If a person defies the tax payment, he may be punished in the court of law. A taxpayer is not entitled to compel the government, while paying taxes, to give something to him

in return of the amount he has paid. A fee charged by a government on a product, income or activity. If tax is levied directly on personal or corporate income, then it is a direct tax. If tax is levied on the price of goods or services, then it is called an indirect tax. The purpose of taxation is to finance government expenditure. One of the most important uses of taxes is to finance public goods and services, such as street lighting and street cleaning. Since public goods and services do not allow a non-payer to be excluded, or allow exclusion by a consumer, there cannot be a market in the goods or services and so they need to be provided by the government or quasi-government agency which tend to finance themselves largely through taxes. Tax can be classified in to two broad categories: direct and indirect tax.

An indirect tax is a form of tax imposed on one person but partly or wholly paid by another. It is collected by mediators who transfer the taxes to the government and also perform functions associated with filling 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. Examples include excise duty, import and export duty, VAT, etc.(Google.Com)

2.1.1 Conceptual Framework of VAT

Vat is a sales tax in advanced form. It is imposed on different stages. It is the tax imposed on added value of goods and services. Value added tax is one of the forms of indirect taxes too. Encyclopedia of taxation and tax policy says ' Value added tax is a broad based tax on business designed to measure net value generated in a country". Being a broad based tax, It is imposed on producer wholesaler retailer and consume also. It is related to both the goods and services. It is levied under industry as well as commerce. Accordingly, it measures net value generated in a country, i.e. GDP. Indian Tax Institute defines VAT as "a tax imposed on the seller of goods and services based on value added by their respective units". Value added tax is also known as goods and service tax or added value tax. It is a tax system that aims to minimize tax evasion and increase resource mobilization. It is imposed on value added amount in each stage and therefore, is equivalent to multistage sales tax. In contrasts to sales tax. VAT is imposed on added value of production and distribution. The value is added in the form of profit, rent, wage, salary etc.

The business firms adds value by processing or handling the purchased item i.e. raw materials, auxiliary raw materials and capital goods, using their labour, machinery, building or status or capital value added covers the factors payments (including the profit of the entrepreneur) which is the legal base of the value added (Shoup, 1969).

The value is added both on goods and services and the tax is collected from sellers. A simple process of VAT is depicted in the table 1 below

Table: 2.1
A Simple Process of Value Added Tax

Stage of Production and distribution	Net purchase price exclusive VAT (A)	Sales price Exclusive VAT (B)	Value added (C)= (B-A)	Value added Tax (13%)
Primary producer or importer	10,000	50,000	40,000	5200
Manufacturer	50,000	100,000	50,000	6500
Wholesaler	100,000	1,20,000	20,000	2600
Retailer	120,000	200,000	80,000	10400
Total	280,000	470,000	190,000	247,00

Source : Arbitrary figures.

VAT = Value Added tax | tax rate

for example,

) VAT at primary Production = 40,000 | 13 percent = 5200

) VAT paid by manufacturer in his production = 50,000 | 13 percent = 6500

) VAT paid by wholesaler = 20,000 | 13 percent = 2600

) VAT paid by retailer = 80,000 | 13 percent = 10400 and total VAT revenue received by the government in the economy = 190,000 | 13 percent = 24700

From this example, we can say that value added tax is tax, collected in various stages of production e.g. primary procedure i.e. farmer etc and manufactures and distribution (e.g. wholesaler and retailer) as a pie cement, on the basis of the value added, in the process of doing business.

Following are the characteristics of a full Fledged VAT system.

-) It is an indirect tax.
-) It is based on added value.
-) It is broad-based tax.
-) It is based on self-assessment system.
-) It avoids cascading and pyramiding effects.
-) It has the self-policing and catching up benefit.

Value added tax is a tax purposed on value added on goods and services by business firms at the successive stage of production and distribution. Value added is the excess of sales value over purchase by a manufacturing or trading firm during a period of time. A certain percentage of tax is levied on the "Added Value" at various levels of production and distribution. In this sense, a VAT is a multi stage sales tax (Kandel, 2007).

2.1.2 Introduction of VAT

The origin of value added tax (VAT) can be traced as far back as the writings of F. Vonsiemens, who proposed it in 1918 as a substitute for the newly established German turnover tax. Since the numerous economist have recommended it in different concepts. Also various comities have examined the in great detail. However, for its rejuvenation, the tax owes much to Maurice Lause and Carl shop. The recent evolution of VAT can be considered as the most important fiscal innovation of the present century (Purohit, 1993).

Value Added Tax (VAT) is the most recent innovation in the field of taxation. It is levied on the value added of goods and services. Theoretically, the tax is broad based as it covers the value added to each commodity by a firm during all stages of production and distribution.

VAT is considered as one form of sales taxation. It is multiple stage tax which has grown as a hybrid of turnover tax retail level sales tax. It is similar to a turnover tax in the sense that both these taxes are impose at each stage in the production and distribution process. VAT, however, differs from turnover tax as the turnover tax is impose on total value at each stage while VAT is imposed only on value added at that

stage. VAT is similar to the retail sales tax because the tax base of VAT (The consumption type VAT which is widely in several countries) and of the retail sales tax on consumer goods and services are identical. VAT, however, varies from retail sales tax in the sense that VAT is imposed at each stage of production and distribution while the retail sales tax is imposed only at one stage, the final stage.

Now a brief introduction of value added, the base of VAT is in order. Value added for a firm is nothing but its gross receipts from sales minus all expenditure on goods and services purchased from other firms. In the production and distribution process a firm buys materials from other firms. The materials may include principal raw materials, auxiliary raw materials, chemical, electricity and capital goods such as machinery, equipment, buildings, furniture, vehicles etc. The firm adds value these purchased materials by processing or handling them with the help of its own factors of production such as labour, land, capital etc. This increase in the value of output over inputs is the value added by a firm is the total of incomes paid out by the firm to factors employed. This means that value added by a firm is equivalent to its payment of wages, salaries, rent and interest plus its profit and value added is the base of VAT (Khadka, 1997)

2.1.3 Definition of VAT

VAT is shortening of Value Added Tax. VAT is a tax that is collected and settled by the selling company (of articles and services). The company subject to VAT (seller) settles the VAT to the public authority in the country where the seller is VAT registered (Google.com)

Value Added Tax (VAT) is the most recent innovation in the field of taxation and is an improved form of sales tax. The VAT is levied on the value added on goods and services at each stage in the process of production and distribution. VAT is levied on all types of goods and services except those specifically exempted by the law. Thus VAT covers all goods and services both imported and domestically produced, except those specifically exempted.

VAT is a tax not on the total value of goods being sold but only on the value added to it by the last seller. The seller, therefore, is liable to pay a tax not on its gross value, but net value, that is the gross value minus the value of inputs. The basic difference

between VAT and a sales of inputs. The basic differences between VAT and a sales tax is that the tax liability under VAT is split up into stages. Theoretically, the tax liability in the case of VAT and in the case of sales tax at the retail level should turn out to be the same. This because the total retail price is nothing but the value added to the raw material at different stages of "Production" and trade. In the case of VAT, the some total of created value is taxed in stages. The usual practice is to estimated the tax liability of the last seller on the basis of gross value of the produce and give him credit for the taxes paid by the earlier sellers (Bhatia, 1997).

The VAT, which is more broad based tax than sales tax, is operating in Nepal from Nov. 16th, 1997. Value added tax Act. 1995 didn't define the VAT. But define only tax. According to Value Added Act 1995, sec 2 (ka) tax means value added tax, which levy by this act (Value Added Act 1995). We can't say it is sufficient definition. VAT replaces the sales Tax, contract Tax, Hotel Tax and Environment Tax, which exist at that time. VAT is a modern tax system intended, when fully operational, to improve the collection of taxes, to increase efficiency and to lessen tax evasion. VAT has been designed to collect the some revenue as the four taxes it replaces. While the price of some goods and services will change, but there should not be an overall change in the price structure. Under VAT the number of taxable goods and services will increase but for the most part this tax will operate in a similar fashion to the existing sales tax. The changes that this new system introduces will, however make local business more competitive and will remove the tax from exports.

VAT is 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. In the VAT system, producers, distributors and people providing services charge VAT for the product or the services sold or provided and then claim a refund of VAT paid on the goods or services purchased to make these sales. If the tax on sales is more than the tax on purchase the person remits the differences but if tax on sales is less than the tax on purchase the person claims a refund for the difference (Shrestha, 2002).

2.1.4 Evolution of Value Added Tax

The concept of VAT was developed for the first time by Dr. Wilhelm V. Siemens in Germany 1919. The concept of VAT was developed further in 1949 by a tax mission to Japan headed by Prof. Carl S. Shoup. The VAT proposal was seriously considered by the German Government but as the tax was new and thought to be complicated, it decided to reduce the rate of turnover tax instead of introducing VAT. Despite this, VAT was considered as a improved form of turnover tax in the literature. The improvement consisted in the subtraction of previous outlays from taxable sales with the result that the tax base of each firm would be reduced to the value which it added to product (Sullivan, 1965).

In 1921 VAT was suggested by Professor Thomas S. Adams for the United States of America. Similarly, proposals are periodically made to have the federal government to adopt a VAT either as a supplementary revenue sources or as replacement of some taxes i.e. payroll or corporate income tax. In America, in 1953, the state of Michigan enacted a form of VAT as a compromise between groups seeking and opposing a state corporation income tax. The firms were required to calculate value added and apply the rate to this figure, rather than using the tax credit method regarding the tax as a change for privilege of business and, it was replaced by corporate income tax (Buchanen and Howers, 1987).

In the history of taxation, value Added Tax is the latest and emerging tax. Value added approach was discussed as early as 1918, however, this tax was firstly recommended by William Von Simens in 1919 in Germany to replace the multistage turnover tax in order to avoid the undesirable effects (Khadka, 1994).

A mission led by Professor Carl S. Shoup proposed a Value Added tax for Japan in 1949 and developed its broad structure. This mission suggested the Fuka-Kachi (VAT) for Japan in order to avoid the undesirable and unintended effects of the then Japanese enterprise and turnover taxes. However, the tax was considered very seriously. It was decided by the Japanese Government not to introduce it promptly, showing the cause of further study. Although the Michigan State of USA introduced a limited feature of VAT but the tax was not introduced by any country till 1953. In real practice, France launched the value added tax "The term value added tax on its origin

to French phrase tax *Aur La Valor Ajoutee*" The father of modern VAT is MC Maurie Laure who in his capacity as an official of French ministry of France developed the France levy. The VAT adopted in France was the result of the modification of the France production tax. The change involved two elements (a) extension of the tax through whole sale level (unit 1968, before jumping to retail level) (b) exclusion of capital equipment on a current basis instead of materials and parts alone. Thus, the French levy of this tax initially replaced the turnover tax, covering industrial sector and limited up to whole sale level. Despite this pioneer work, VAT could not cross to the boundary of France until 1959 (Subedi 1998).

2.1.5 Country Wise Implementation of VAT

After three and a half decades of the evolution of the concepts of VAT, France took the courage to put VAT into practice. France introduced VAT in 1954 at the wholesale level in the industrial sector up to 1959, this tax was confined to the boundary of France. In 1960 this tax was adopted by the Ivory Coast, in 1961 Senegal followed suit and in 1967 Brazil and Denmark adopted this tax system. There after many countries started adopting this tax.

In the 1960s, in the process of establishing the European community (EU), the policy to adopt a standard tax system among the members of the community was also adopted. In this context, it was decided that all member countries of the EU should adopt VAT by replacing their various types of indirect taxes. Since it became a precondition to adopt; VAT to become a member of the EU, the member countries started to introduce VAT into their tax system and gradually this became the standard tax system of the European countries. In the decade of the 1970s, VAT started to speared worldwide different countries of Asia, Africa, and North and South America started adopting VAT one after another. This tax system became a popular worldwide measure to bring about tax reforms and its adoption soon gathered global momentum. This fact can be justified by the increase as follows in the number of countries that adopted this tax.

Year	Countries that have started adopting VAT
1954	France
1960	Ivory Coast
1961	Senegal
1967	Brazil, Denmark
1968	Germany, Uruguay
1969	Netherland, Sweden
1970	Ecuador, Luxemburg, Norway
1971	Belgium
1972	Ireland
1973	Austria, Bolivia, Italy, United Kingdom, Vietnam
1974	Argentina, Chile, Columbia, Centrica, Nicaragua
1976	Honduras, Israel, Peru
1977	Korea, Panama
1980	Mexico
1982	Haiti
1983	Dominican Republic, Guatemala
1984	China
1985	Indonesia, Turkey
1986	Morocco, Newzealand, Niger, Portugal, Spain, Taiwan
1987	Grenade, Greece
1988	Hungary, The Philippines, Tunisia
1989	Japan, Malawi
1990	Iceland, Kenya, Pakistan, Trinidad and Tobago
1991	Bangladesh, Benin, Canada, Jamaica, Malta, South Africa, Egypt
1992	Algeria, Armenia, Azerbaijan, Cyprus, EL Salvador, Estonia, Fiji, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, Thailand, Turkmenistan, Ukraine, Uzbekistan, Moldova
1993	Burkina Faso, Czech Republic, Paraguay, Poland, Romania, Georgia, Slovak Republic, Venezuela
1994	Bulgaria, Finland, Lithuania, Singapore, Western Samoa, Maslghascar, Nigeria
1995	Gabon, Ghana, Switzerland, Zambia, Malta, Mauritania, Tobago, Latvia
1996	Albania, Guinea, Uganda
1997	Barbados, Congo Republic, Nepal
1998	Croatia, Mongolia, Srilanka, Tanzania, Vanuatu
1999	Cambodia, Cameron, Mozambique, Netherland, Antils, Papua New Guinea, Slovenia
2000	Australia, Chad, Macedonia, Namibia, Sudan
2001	Rwanda
2002	Lebanon

-) VAT was implemented fully in 1968
-) VAT was abolished soon after its implementation and reintroduced in 1999.
-) First introduced only in selected provinces and on selected goods in China, but since the achievement was not satisfactory it was implemented fully in 1994.
-) In Ghana, VAT was abolished after three months of its introduction in 1995 and was reintroduced again in 1998.
-) In Malta, VAT was introduced in 1995 and was abolished after a change in the Government in 1997 and it was reintroduced in 1999 (Khadka, 2001)

2.1.6 Value Added Tax in Nepal

VAT is a modern and scientific tax system. It is not similar to customs, excise duty, income tax or sales tax that has borne the traditional and historical heritage. It is not a tax that has been improved and amended and accordingly inserted or deleted. It is a tax of the 21st century since it is highly developed and refined. It is a tax that suits the present speed of knowledge, development and skill. Moreover, it conforms to the present context of liberalization, privatization and globalization. It is easily adoptable with the open economy system and matches with the private sector and the market economy of the present day. It is a tax that is transparent and has an inbuilt system of self control. There can be no difference of opinion on the above facts (Thapa, 2001)

Value added tax (VAT) is an important and essential tool to provide the right direction to Nepal's economy and the Government revenue policies. The need for innovative and fundamental reforms in the revenue policies of Nepal has been felt since a long time. In this regard VAT was perceived to be the most appropriate and a positive step. In the initial stages, the business community had opposed the implementation of VAT. But later on environment was created where the business community and other tax payers could accept VAT after knowing various positive aspects of VAT, including simplicity and possibilities of improvements in the other revenue policies.

It became easy to implement VAT as the coalition governments of various parties existed during the preparatory and the initial implementation stages of this tax. Finance ministers at different times expressed their commitment to implement VAT and to make it successful. This indicated that the ministers knew that VAT was a good

revenue policy. Thus, the tax payers become confident that VAT should be made successful and that improvement would be brought about in other revenue policies as well.

The reason for the opposition against VAT in the stage was not due to its weakness or any difficulty arising out of it. It was because of the three years of harassment from the tax administration, particularly the income tax and custom administrations and the fear that the revenue employees would make decision on their own will and collect taxes. It had been possible in the past, for the tax payers to reduce their liability by declaring lower value of their transactions. The apprehension towards VAT was owing to the transparency in the value of transactions, which would make it difficult to under-declare the turnover, leading to an increased income tax and customs duty as well as the possibility of more harassment by the tax administration (Joyti, 2001)

Nepal initiated a program of economical liberalization since 1990 several liberalization policies have been announced. The major thrust of these policies is to create more open, competitive and liberal economic environment in which the private sector can play leading role. In this regard, reduction in taxes rates is recent principle being adopted in many countries to promote privatization. But what Nepal is lacking is the expansion in its tax base. It has become necessary to reduce the number and level of tax rates, broaden the tax base and make the tax system more transparent in line with liberal economic policies. So Nepal should broaden the tax base along with the reduction in the tax rates. What is more important in this respect is the conversion of the existing sales tax into VAT. Selection of a good is an important step in connection with tax reform. VAT is definitely a better tax than the existing import/manufacturing level sales tax when one evaluates these taxes in the basis of revenue productivity, elasticity, neutrality, economic efficiency and administrative simplicity. VAT will bring the value added at the wholesale and retail levels under the tax net and will make it possible to further reduce the rate of other taxes, including income tax and import duties, thereby making the tax system economically more efficient. VAT will improve the efficiency the efficiency and competitiveness of domestic products in international market by relieving exports from internal commodity taxes. Furthermore, as VAT will be levied only on value added, inputs will be relieved from taxation, meaning that double taxation will be eliminated under

VAT. AS VAT will be levied right through the retail level, increases in the value of taxable commodities during the process of production and distribution would be reflected in the tax revenue which will make the tax system more elastic.

Like a sales tax, VAT can also be designed to have different forms. In this connection, there are two important varieties of VAT.

-) Consumption variety
-) Income variety

The differences between these two varieties emerge from the treatment of capital depreciation. If a firm is allowed to deduct the entire credit when the capital equipment is purchase, the system is termed as consumptions VAT. If the firm is allowed to deduct the credit as the equipment depreciates overtime; the system is term as income VAT. Nepal adopts consumption VAT (VAT Project, 2009).

2.1.7 Historical Background of VAT in Nepal

The concepts of VAT in Nepal were introduced in early 1990s. Nepal government indicated its intention to introduce VAT in the eight plans. Subsequently, the finance minister declared to introduce a two tier sales system to make the base of implementing VAT from the Fiscal Year 1992/93. A VAT task force was created on 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 it's implementation was delayed due to the political instability and strong opposition from the business community. VAT has been fully implemented with effect from 16, November, 1997. It has replaced sales tax, total 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 imbalances and need for extra revenue mobilization through an efficient tax system (Bhattarai and Koirala, 2004)

2.1.8. Objectives of VAT in Nepal

The major objective of introducing VAT in Nepal is to improve the tax system structurally, and enhancing revenue productivity. In the sense that the tax system which needs to be neutral among investment and consumption, the objectives of VAT in Nepal are specified as:

-) To encourage competitiveness in industrial production and sustainable development.
-) To make foundation for paying tax voluntarily by means of structural improvements, by reducing the cascading effects of the tax system and developing neutral tax system.
-) To increase tax export by means of zero rate in exports.
-) To introduce tax based on business transaction by reducing the discretionary power of tax administration. To collect more revenue through a board base and at a low rate.
-) To enhance revenue productivity by make the tax administration transparent and efficient (Finance minister, 1995).

The one of the bases of introduction of VAT in Nepal was because of its worldwide success. According to the value Added Tax Act 1995 the purpose of VAT in Nepal is:

-) For increasing revenue mobilization by making effective the process of collecting revenue required for the economic development of the country.
-) To impose VAT in all transactions including the sales, distributions, delivery, importation and exportation of goods services and
-) To collect revenue effectively by regulating the process of collection.
-) It is intended to increase revenue mobilization by converting broad coverage and making the process of collection effective (VAT Act 1995).

2.1.9 Need to Introduce VAT in Nepal

Nepal initiated a program of economical liberalization since 1990 several liberalization policies have been announced. The major thrust of these policies is to create more open, competitive and liberal economic environment in which the private sector can play leading role. In this regard, reduction in tax rates is recent principle being adopted in many countries to promote privatization. But what Nepal is lacking is the expansion in its tax base. It has become necessary to reduce the number and

level of tax rates, broaden the tax base and make tax system more transparent in line with liberal economic policies so, Nepal should broaden the tax base a long with.

2.1.10 Preparation and Implementation of VAT Programme in Nepal

VAT Act came into Force on November 16, 1997. When the sales tax Act 1996 (The Hotel Tax Act 2018. The Contact Tax Act 2023 and the Entertainment Tax Act 2016 were also repealed on November 16, 1997. The Entertainment tax however continued to be levied until the end of 1997/98. Under the Finance act 1997 even after the introduction of VAT was replaced. The import/manufacturing level sales tax was converted into VAT on this date.

Eight Five Year Plan (1992/93-1996/97) Adopted - A

Policy of Adopting VAT

July 11, 1993	The 1993/94 Budget stated that VAT could be introduced within a year or two.
September 1993	Formation of VAT steering committee and VAT task force, commencement of the Technical Assistance of the Harvard Institute for International Development under the USAID Financial assistance. This assistance was suspended in 1995, resumed in February 1996 and continued until September 1997.
	DANIDA has been extending technical assistance since 1997.
March 7-27, 1994	First VAT training for the tax officers was organized in Kathmandu and since then several courses on VAT have been organized in various places.
April 24, 1994	First VAT interaction program with FNCCI, several other programs have been organized since then.
May15, 1994	Fist VAT interaction program with the Nepal Chamber of Commerce. Since then several interaction programs have been organized with the Nepal Chamber of Commerce and various, District Chamber of Commerce and industry all over the kingdom.
July14-16, 1994	First VAT training program for the representatives of FNCCI. Since then several such programs have been organized.
October 30, 1995	VAT steering committee reconstitute
December 3, 1995	VAT bill was presented of the lower house of the parliament.
December 24-26, 1995	VAT bill was discussed in the economic committee of the Parliament.
December 27, 1995	Chairman of the economic committee of the parliament submitted report of the VAT bill to the Lower House of the Parliament.
December 30,1995	VAT bill was passed by the Lower House of the parliament.

January 4, 1996	VAT bill was passed by the Upper House of the Parliament.
March 3, 1996	VAT interaction program was organized with Pharmaceutical association. Since then many interactions programs were held with almost all commodity associations.
March 11-12, 1996	VAT training Program for journalists.
March 20, 1996	Royal Assent on VAT bill.
July 16, 1996	Conversion of the sales tax and Exercise Administration into VAT administration.
August 12-20, 1996	VAT interaction programs for Parliamentarians.
September 17, 1996	VAT interaction programs for Chartered Accounts Association. Since then many VAT interaction program were organized for several other professional group.
November, 14, 1996	A VAT Task Force was set up with members from administration, FNCCI and Consumer Forum.
January 24, 1997	The Cabinet approved VAT regulations.
March 24, 1997	Formation of the National VAT steering committee consisting of representative from HMG/N, FNCCI and Donors.
August 1, 1997	Formation of VAT Task Force with members from HMG/N and industries and commerce sectors.
September 21, 1997	Approval of VAT manual by HMG/N.
September 16, 1997	VAT went live.
December 15, 1997	Formation of a VAT Technical Group in order to solve VAT Implementation problem.
February 13, 1998	Completion of 90 days period for compulsory VAT registration.
April & May 1998	Series of discussions between the government and the private sector representatives on various tax issues, including VAT.
July 10, 1998	Introduction of several new provisions relating to VAT through the Finance Bill 1998.
September 1, 1998	Agreement between the government and private sector representatives on various taxes issues including VAT. This is known as "39 points agreement".
July 11, 1999	Several proposals were introduced in the customs duties, Income tax and VAT through 1999/2000 Budget and the Finance Bill 1999 in order to create a congenial atmosphere for the smooth implementation of VAT.
August 5, 1999	Ministry of Finance simplified several procedures relating to customs duties, income tax and VAT through a notification

As per the gazette notification of the government, all sales taxes registered firms in the middle of November 1997, 2045 firms were registered for the sales tax were supposed to be converted into VAT registrants by November 16, 1997. Other firms, which were not registered under the sales tax, were required to be registered within 90 days from November 16, 1997 (Danida-RAS).

2.1.11 Revenue Policies and Implementation Strategy of VAT in Nepal

2.1.11.1 Revenue Mobilization

Essentially, government needs a huge resources in order to alleviate wide spread poverty in the country. Government involvement in various sectors like: Physical infrastructure development, social service expansion, maintenance of law and order situation guaranteeing welfare to ethnic groups, rural and remote area development etc and there by accelerating the economic growth call for adequate domestic resource mobilization. Therefore, revenue mobilization, which has become a significant part of domestic resources mobilization should be accelerated and made sustainable (Tenth plan, 2002-2007).

Mobilization of internal resources helps significantly to cover increasing government expenditure, to increase investment rate as well as to maximize the use of external assistance. In this context various policies were adopted in the eight plan to make necessary changes in the tax structure. The VAT was implemented. Custom tariffs were lowered down for bringing uniformity. Excise duties were gradually phase out. The scope of income tax was broadened and simplified and revenue administration was made more capable and efficient. Regarding the external assistance specially by obtaining loan for productive sector and grant for other development programmers.

During the plan period, revenue groups was formed with the objectives of making necessary change in the tax structure and making revenue administration more capable and efficient. Import tariffs were classified into five categories for uniformity in import tariffs rate tax. Regarding the implementation of VAT, various public interaction and publicity programmers as well as seminars were organized as a part of preparatory work and the parliament approved the bill concerning the VAT (Ninth Plan, 1997-2002).

2.1.11.2 Long Term Concept of Revenue Mobilization

With a view to mobilizing government finance, various structural improvement targets have been fixed since FY 1997/98 for the next 20 years. Following policies will be implemented to increase the share of tax on internal revenue especially direct tax and tax on internal consumption by reducing the dependency on revenue from import and for foreign assistance, especially debt:

-) Income tax, property tax and tax on internal consumption Value Added Tax (VAT) will be made transparent, effective and capable and will be integrated with over all national economy. Import duties reduced to make national economy more competitive, and will be based on market economy. In addition to making administrative machinery fully professional efforts will be made to honor tax payers.
-) Foreign investment will be gradually encouraged in the private sector. To give emphasis on institutional development, revenue policies will be adopted in a way to limit the role of government privatization of government enterprises will be accelerated and the revenue received from privatization will be utilized for dept relief.
-) The share of national saving will be increased up to 30 percent of GDP.
-) The level of recurrent expenditure will be brought down to 6 percent of GDP and the net internal borrowing will be limited to 0.5 percent. A policy will be undertaken to make government expenditure reach the targeted aspects of social and economic sector. Market economy will be encouraged through the medium of public expenditure.
-) By devising long term strategies and concept, foreign assistance will be canalized in the sectors that are indispensable and give high rate of return based on cost-benefit analysis. Emphasis will be give to increase the capacity of utilizing foreign assistance by mobilizing it in necessary areas in conformity with the concept of long-term development plan and the various aspects of national economy.
-) Revenue will be increased annually by 0.5 percent of the GDP with the identification of new sources of additional revenue mobilization.

a. Objective

The objective of the Tenth Plan are to increase revenue elasticity by broadening tax base, maximum mobilization of domestic resources and gradually reducing dependency of foreign assistance.

b. Quantitative

-) By the final year of the plan, the revenue ration is targeted to be 14 percent of GDP.
-) As percent of gross domestic product, direct tax, indirect tax and non tax are targeted to be 3.5, 8.7 and 2.8 percent respectively.
-) The number of income tax payers will be increased to 3,00,000 similarly, number of "Value Added Tax" registered tax payers will be increased to 40,000.
-) Contribution from revenue surplus to development expenditure will be maintained to minimum of 22 percent by the end of the plan.

2.1.11.3 Policy and Implementation Strategy

Mobilization of Internal Resources

-) Emphasis will be given to increasing the national saving by discouraging unproductive and wasteful expenditures. Efforts will be made to change all sectors of the country's economy into monetization and market economy. NGOs will be also be mobilized to convert household savings into financial assets for the development of financial institution especially in the rural areas. In addition to mobilizing savings, efforts with be made to have efficiency and simplicity in the activities of the financial institutions will be assured. An action plan will be implemented to increase investment of the institutional and micro credit finance. National savings will be increased through the expansion of services and quality improvement in education, health, transportation and insurance so that the tendency of capital outflow is discouraged.
-) Special attention will be given to developing the capital market. Nepal will be developed as an offshore finance centre. Investment opportunities will be created through promoting the availability of capital through financial market development.

-) As regards the revenue policies, emphasis will be laid on direct taxes, especially income tax and other related taxes. Overall improvement will be made in acts, regulations and processes relating to taxes so that the system of direct tax will be made transparent, effective, comprehensive, simple and efficient and also to win the confidence of tax payers. Feasibility study will be carried out to improve the present tax system by identifying different sources of tax and bringing them within the tax framework. A system will be introduced to discourage the tendency of tax evasion by developing a data system that will be help to identify the tax payers as well as other areas like agriculture, export, purchase or handing over of assets, capital gain, gift, donation and other such activities. Minimum alternative concept of tax based on total assets will be brought into practice. Arrangement will be made to finalize the cases of tax disputes through special judicial system. Opportunities for career development of civil servants as well as for penalty system will be based on specific job performance records. Training and skill development progress related to accountancy will be carried out so that the tax administration will become efficient, professional and fair.
-) By acceleration people's awareness on the Value Added Tax, the VAT will be explained to the entire area of internal consumption and develop as a main basis for internal revenue. Data on tax payers will be specially monitored. Tax refund system will be made more effective. Special programmers will be launched to make tax administration more efficient, professional and capable. Efforts will be made to increase tax yield by developing and integrating special computerized data system with internal import and overseas export, internal production data and the data used for income tax purpose etc. Excise duty will be developed as a reliable source of revenue and will be applied to the limited sectors of internal production.

Strategy

-) To bring about effectiveness in revenue mobilization, the tax based will be broadened through structural reforms. To develop value added tax as primary sources of domestic revenue, its scope and coverage will be expanded. Customs tariffs will be further simplified by bringing every income generating sector within the income net tax.

-) Administrative and legal reforms will be prepared to make tax administration simple, transparent and perfect. The mechanisms designed for controlling revenue leakages will be used effectively.
-) Non-tax revenue will be increased through reforms on income and dividend received from telecommunication, electricity and drinking water sector through the cost based pricing. Likewise, reforms will be made in other sectors for this purpose.

Policy

-) Broadening the tax base through institutional (related to strategy 1)
-) The direct and indirect tax will be adjusted in consonance with foreign trade structural protection of domestic industries, accession to the World Trade Organization and South Asian Free Trade Arrangement (SAFTA).
-) Areas where VAT is waived will be reviewed. Arrangements will be made to adopt the task of issuance of tax invoice up to consumer level and to implement it strictly.
-) Adjustment will be made in custom tariffs in the context of World Trade Organization Membership.
-) "Public-private sector partnership", will be promoted to increase participation of the private sector on revenue policy formulation.
-) Proceeds realized through privatization of government enterprises, will be used in clearing the liability of the government enterprises and in repaying in government loans.
-) Various awareness and promotional programs will be initial to bring potential taxpayers into the tax net.
-) An interpreted information system will be developed for the regular monitoring of revenue policy reforms and implementation.
-) A permanent revenue board will be established and activated for making institutional arrangement that assists in providing prompt understanding on current situation of the economy and assist in financial decision making.
-) Setting tax administration simple, transparent and healthy (related to strategy 2).

-) The monitoring capacity of the agencies involved in controlling revenue leakages will be extended and the effectiveness of the monitoring units that are working at the central level will be increase.
-) Professionalism of staff revenue administration will be enhanced through regular trainings.
-) Revenue laws will be made more transparent and practicable by removing impediments in the areas of custom tariffs, excise, VAT and income tax.
-) Design and implement performance indicators applicable to specific units and to staff up to executive level.
-) The monitoring process will be made more effective by setting up permanent revenue policy.
-) Revenue tribunal will be made active for early settlement of tax litigations there by reducing the tax arrears. A separate institutional arrangement will also be made for the management of the tax arrears that exist after the decisions made by the tribunal.
-) Non-tax revenue will be increased through reforms in dividends, duty and loan/investment. (related to strategy)
-) Price of goods and services to be sold by the public sector will be governed by cost and prevailing market price with a view to argument the share of non-tax revenue.
-) The dividend policy will be reviewed every two years to help realize and appropriate rate of return on investment made by the government in the public enterprises.
-) The principal, interest and royalty due from the public enterprise will be claimed, on a planned basis, as per investment made by government in that enterprise.

2.2 Review of Related Studies

It covers review of past studies conducted by other researcher such as review of thesis, research articles and project reports. The review entails name of researcher, years of research, research objectives, brief description of the methodology used and main findings of research.

In a study held in 1973, on Value added tax in developing countries (Lent, 1973), George E. Lent, Milka Casanegra and Michael Guerard state that following the adoption of value added taxes by Western Europe Countries, many developing countries have been giving increased attention to this form of tax as a means of rationalizing their sales taxes and improving their revenue.

The study was purposed to examine the applicability of VAT in developing countries. After the empirical study of VAT structure of seven countries i.e. Brazil, Equador, Ivory Coast, The Malgasy Republic, Morocco, Senegal and Uruguay in 1973 and draw the principle, features of VATS in developing countries. Applying comparative analytical methodology and covering the issues such as revenue importance of the VAT, problems of administration, comparison of the VAT with other forms of sales tax, only with a comprehensive and uniform coverage it is possible to achieve a truly natural sales tax i.e. VAT.

The government of India in 1978 appointed L.K. Jha as the chair person of the committee to examine "The adoption of VAT at retail level" (Stout, 1973). Such committee was called Jha committee. After study, Jha committee presented the report in which the VAT was Rejected by saying no need to adopt comprehensive VAT because of administrative constraints, constitutional problems and revenue consideration. But Jha committee concludes VAT can deliver better satisfactory solution of excise duty. It means VAT Should be applicable at manufacturing level.

A study held in 1988 by Se-won Chang and Ma. Lourdes B. Recente on the VAT experience in Republic of Korea (Se-Won and Recente, 1988) states that the adoption of VAT was a responses to the complex problems arising from the indirect tax structure. One of the reasons for adopting the VAT was to simplify the indirect tax structure in Korea. This was also expected on contribute to reduction of the price of commodities in the domestic and exports markets. Similarly, on the advantage of VAT expecting to eliminate cascading effect of taxation, efficiency in resource allocation, to increase revenue for the government (although it was not primarily introduce to increase government revenue) being it a broad based and built in cross-checking mechanism, VAT was introduced in Korea in 1977.

The study pictures out the VAT very precisely and detail after its implementation and visualizes the conditions of the Korean economy before and after its adaptation using, with descriptive and analytical methodology, covering various empirical studies and proposals made 'by various researcher, economists and practical men for VAT reforms in Korea. The study draws the pre-VAT scenario saying that prior to adoption of VAT. The system of indirect tax in Korea was complicated and distortionary with several taxes and rates. The study covers the issues reasons for adopting, VAT, Guidelines for adopting VAT, the VAT structure, the preparation for VAT reform, implementation, administration and problems, measures to improve it and conclusions giving various data's and illustrations.

Korea has introduced the consumption types of VAT covering all stages of production and distribution, charged on supply of goods and services including imports with 10 percent of normal rate, applying tax credit method for calculation, zero rating on exports and basic necessities with some exemptions in very small firms and supplemented the VAT by excise duty on luxuries and giving special tax payer's facilities to small business.

Due and Meyer (1988) examine that VAT is Dominican Republic. The VAT in Dominican Republic was in effect from November 1983. However, the general reaction towards the tax was hostile from the business sector. Labour unions as well as political parties opposed the tax. Much of complain rose from increased record keeping requirements because the commercial sector of economy was dominated by small and medium sized business. The other main objection was due to the belief that VAT was responsible for increase inflation but the inflation was due to other reasons. There was a general agreement that the enforcement of the tax had not been adequate mainly because of the lack of personnel. Evasion was wide spread, many firms failed to register. The overall evaluation of the tax in the country therefore remains rather negative. While the tax has brought additional revenue, the inadequate enforcement and failure to extend it to the commercial sectors as planned, and the use of make shift, distorting system in the latter, have resulted in serious failure to attain the advantage of a complete value added tax. The experience of the country with the tax provides a warning to other developing countries not to attempt to use a value added tax extending beyond the import and manufacturing sectors without careful

consideration of the ability of the wholesale and retail sector to operate the tax, and general attitude of these sectors towards the tax.

Ahmand and Ludlow (1989) identify the alternative tax reform packages on VAT for Pakistan keeping the distributional consequence in consideration. The authors have their own method for the tax reform analysis. In the first step, they describe the existing taxes and then, examine the consequences of the tax changes (and thus price changes) on households, resulting government revenue and also implications for production. They analyze and compare the consequences of different options such as the signal rate VAT with selective exercise and some exceptions (or zero ratings) and multiple VAT rate. The reform with equal revenue and the reform with additional revenue as well as the production implications of tax reform are also considered. The work shows that instrument can be designed to increase revenue and at the same time, protect the poor. A value added tax supplemented with selective excises would have made Pakistan's tax system more buoyant and reduced the production distortions inherent in Pakistan's tax system and not at the expense of the poor.

Binguang Hsiung (1991) has made an effort to assess the VAT in Taiwan, which was in effect since 1986. According to her, the VAT in Taiwan was implemented in order to increase the competitiveness of exports and improve the efficiency of business tax structure. VAT had replaced business receipt tax, stamp tax and commodity tax, which constituted 28 percent of total tax revenue. The impact of VAT showed that the business tax revenue increases considerably although the reform was aimed to be revenue neutral. Adoption of VAT did not cause price fluctuations. Another surprising impact of VAT was that the revenue from the business income tax increases significantly immediately after the adoption of VAT. This may be attributed to the cross-checking procedure provided by VAT. As for exports, there did not seem to be a direct link between VAT and exports since exports are influenced by a number of factors. The tax fell heavily on the public sector business and they were more affected by VAT than the private sector business. Generally, it can be said that the VAT system tremendously improves the efficiency of tax collection. However, there are some rooms for improvements especially in administration. The experience of Taiwan has attested to the superiority of VAT in taxing business activities.

Jantshcer and Silvani, Who have extensive first-hand knowledge of VAT in Europe, Latin America and Asia, presented their research paper entitled as "The guidelines for administering a VAT (Grahma, 1991) in the seminar on "The value added tax in Asia" organized by IME and UNDP. For effective and proper administering VAT, the emphasize registration and tax payers identification, invoicing and book keeping requirements and collection function, including the role of electronic data processing.

Due and Greany (1991) tell a successful story of VAT in Trinidad and Tobago in their paper, "Trinidad and Tobago: The development of VAT" A Value added tax of general type went into effect in Trinidad and Tobago in 1990. Development of VAT was carefully planned and it went through the several phases from 1986 to 1989. A tax performance committee was established to review the current tax system and developed a preliminary recommendation for direction of reforms. The studies showed that the existing tax system was in urgent need of revision for several respects. The value added tax was put forward as an alternative. Further, the issues such as choice of rate, structure exemption, tax administration etc. were resolved for the final adoption of VAT. The structure of VAT was drafted in the final report after a careful examination of several issues including revenue and equity with the development of analytical models. After so many details works, it was finally drafted and passes by the legislation in 1989.

The VAT was well received and also welcomed by the business community. One year's experience showed that the operation was reasonably satisfactory. It yielded the previous expected and forecasted results. For its success, there were several reasons such as careful planning of tax-structure and administration, a close co-operation between the government and business sector, the extensive publishing proqramme, the co-ordinate reform (reduction) in purchase tax and income tax and selection of competent person in key positions. There are several things that can be taken as suggestions from Trinidad and Tobago for the introduction and operation of VAT to other developing countries as well.

On key questions considering value added tax for central and Eastern European Countries (Cnossen, 1992). Prof. Sijbren cnossen developed a model for central and eastern European countries, on the base of the observation on the value added tax in EC and OECD countries. In this article, he states that it requires nearly complete

overhaul of the tax system and in most countries the introduction of VAT is considered a corner stone of the necessary tax reform," In addition, he describes that this form of taxation is world wide, apart from that of a transaction based, accounts controlled VAT in the market economy based on the free enterprises and pricing system." At last, he has concluded that an appropriate VAT for central and eastern European countries has proceeded from the widely agreed promise that the tax should be used almost exclusively to generate revenue for government budget in as neutral and administratively feasible manner as possible. While the income tax can be employed to achieve distribution objectives and excises and imports duties to attain allocate goals, the focus of the VAT should be on revenue.

Dr. Rup Bahadur Khadka as a research fellow at Phillips University, Merberg, Germany, in his study on a review of the Nepalese sales tax (Khadka, 1993) states that it is therefore, necessary to introduce a full fledged VAT in order to streamline the sales tax system in Nepal. Briefly discussing the sales tax system of Nepal, its history and needs to introduce VAT in Nepal, the study points out the weaknesses of Nepalese sales tax system i.e. inefficient , tax evasion on sales, inequitable and complex. So, he includes a chapter "move towards a VAT" and states that the import/manufacturing level sales tax gained some features of a value-added tax in Nepal in 1985. When, an advanced sales tax system in the place of suspension system was introduced.

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

Dr. Rup Bahadur Khadka, published on article on Probability of VAT in Nepal. (Khadka, 1995) reached a conclusion that a VAT, theoretically, is the best alternatives to remove limitations of present sales tax system of Nepal .He further adds "the merits

of VAT do not appear voluntarily. For this implementation aspect of VAT must be efficient. The implementation aspect of tax depends on the capacity of the tax administration co-partnership of tax payers, accounting system of the business sector and political confidence etc. So, it needs full preparation before introducing VAT in Nepal.

Shahabuddin M. H. (1995) investigates income distributional implications of different VAT schemes in Bangladesh in his paper the equity impact of Value Added tax in Bangladesh. Applying the method developed by Ahamad and Stern and using the data of household consumption expenditure and input-output table, the results obtained indicate that a revenue- neutral uniform VAT is regressive (relative to pre-reform situation) in its impact on the income of different households. The paper also explores the income distributional impact of an alternative policy package, and the welfare consequences of the alternative package are found to be superior to those of uniform VAT. The findings of the study suggest that, among different possible VAT schemes, a selective VAT with exemption or zero ratings and additional exercise is clearly preferable than to a complete uniform VAT if the distribution issues are of dominant concern in tax reform.

Khadka has developed his experience and knowledge achieved in the study tour in Germany into small booklet named as a report on the German Tax system study tour (Khadka, 1996). This book covers all useful discussion held in Germany with policy makers and tax administrators as well as the tax payers on the various related topics. Besides, the study observes the tax administration, training center, tax rates, the existed tax system and the distribution of the collected revenue. In relation with VAT, the government of Germany includes VAT as a shared tax. In this category, the collected revenue from the various tax system are distributed among the different levels of the government. VAT is imposed on the value added at all stages of production, import and distribution. The revenue received from the VAT tax by the state government is distributed on the basis of population. Further more, when data becomes available, a sound policy can be formulated and a tax system be made on the basis of the result of introduction of VAT in Germany. When introducing VAT, the number of tax payers will increase significantly and will be difficult to do all the work manually such as checking whether the tax payers have submitted the tax forms or

not. Paid the tax or not or whether the interest is paid or not. It is essential to introduce a computer system which is suitable to the country even though the standardized system developed in countries.

Khadka R. B. (1996) in his paper A VAT for Nepal focused on the proposed structure, operation and administration set up of a VAT for Nepal and necessary steps to be taken for its early introduction. In its proposed structure, the coverage of VAT should be made as broad as possible covering all business transactions. Exemption should not be granted unless there is a specific reason to do so, such as administration and equity. Zero rating should be limited to exports, and tax rate should be single to avoid complications and inefficiencies in collection.

The proposed operation of VAT requires that the tax payers above a threshold limit should be registered, the vendor should issue an invoice for each sale, keep a clear account of his purchases and sales (separate accounts for zero-rated, exempted (on positive rated goods) and VAT liability should be calculated on its taxable sales, tax credit method should be used as a method of computation of the tax, and tax payment and refund period should be of one month. The present sales tax and excise department should be restructured drastically to administer a VAT. Officer level posts should be increased considerably and extensive training should be provided including the operation of computer system. A VAT implementation team including experts and persons from every field should be set up. A detailed preparation should be considered as a pre-requisite for the introduction of VAT. A comprehensive VAT education programme must be launched to educate the tax-payers.

In a research under title of tax reform in Singapore (Jenkins & Khadka 1998) Glenn Jenkins and Dr. Rup Khadka has made an effort to assess the VAT in Singapore, which was in effect since 1993. This working paper carries the successful story of VAT's introduction and implementation in Singapore to be a good lesson for the non-VAT countries and W-11 'i' countries. According to the authors, Singapore put forward the VAT/GST in order to make Singapore's economy internationally competitive. In this direction, government of Singapore formed a task force committee for the tax reformation. The committee recommended that the government must shift from direct to indirect taxes as its main sources of revenue.

The research papers concluded that Singapore would be facing the problem of an aging population. In such a situation, income taxes will put a greater burden on a smaller group of younger, working Singaporeans; this might inhibit growth and enterprise. It is therefore, necessary to introduce a broad-based tax like GST/VAT to distribute the burden of taxation among a larger section of the population, GST is a tax on consumption and several features. It relieves investment and saving from the tax burden and rewards enterprise and strengthens economic resilience. GST relieves exports commodity taxes through the zero rating mechanism.

Since, VAT is a fairer tax and is levied on a large section of the population, including the self-employed; it is less affected by economic cycles. GST provides more stable sources of revenue than many other taxes. The main objectives of Singapore to introduce VAT is make its economy internally competitive, to promote exports and to develop broad based and more stable sources of tax revenue.

In an article on the value-added tax and Developing countries (Shoup, 1998), Ca, Ls, S. Shoup points out that A VAT is a tax on the value that a business firm adds to things it buys from other firms in producing its own products. A VAT is comprehensive if it covers all economic activities. From the earlier stage of farming or mining right through 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 well. Considering the problem of deducting the capital goods, consumption type of VAT is superior than other forms. In calculation, tax-credit method is the universal one. In the VAT system, the tax payer's responsibility spread much better exempt's producer's goods. VAT is more revenue productive, self-reinforcing and if goods and basic necessities are to be zero-rated regressively may be reduced. Similarly, on the other hand, its complexity is difficult both in the case of compliance and administration or collection, inflationary in nature, more problematic in developing countries.

2.2.1 Review of Books

Carls Shoup in his famous book 'Public Finance' considers value added tax as the latest and probably the final stage in a historical development of general sales tax, which is imposed on the 'value-added' by the business firms. VAT is the differences between sales proceeds and the cost of materials etc, purchased from other firms which are the tax base of a VAT. A firm adds value added by processing or handling these purchased items with its labour force and its own machinery, buildings or other capital goods (Shoup, 1969).

David N. Hyman in the book "The Economics of Government Activity" opines that the VAT is simply multi-stage sales tax which exempts the purchase of capital goods and services from the tax base. By exempting capital outlays at the time of purchase consumption type of VAT provides a kind of investment tax credit incentive (Hyman, 1972).

VAT in its comprehensive form is a tax on all goods and services (except export and governmental services). Its special characteristics being that it falls on the value added at each stage from the stage of the product to retail stage (John, 1976)

In the book Government Finance in Developing Countries (Richard, 1986) Richard Goode describes VAT as the most important tax innovation of the second half of the twentieth century and its classified as a form of sales tax on consumption. The tax applied to the value added at production and distribution that is to sales proceeds less purchase of material inputs and certain services.

Margaret Nicholson explains value added tax is a tax on the supply of goods and services which is eventually borne by the final customers, but it is collected at each stage of the production and distribution chain value added tax which is generally abbreviated to VAT, is charged on the supply both of goods and of services by firms who are registered and taxable for VAT. VAT is an indirect tax charged as a percentage of the selling price on certain services and commodities. The percentage rate is set by the government and is changed from time to time via the budget. Registration of VAT is compulsory for persons and firms whose turnover is in excess of the threshold limit (Margaret, 1989).

Dr. Rup Bahadur Khadka, an expert of Nepalese tax system, in his book, entitled VAT in Asia and the Pacific Region, (Khadka, 1989) writes – VAT is the most recent innovation in the field of taxation. It is levied on the value added of goods and services. The tax is broad based as it covers the value added to each commodity by a firm during all stages of production and distribution. This book has covered all aspects of VAT including the nature of VAT, reasons for the growing popularity of VAT, development of VAT, etc. This apart, the report examines the structure and operation of VAT, in the Asian Pacific Countries which also explores the possibility of introducing VAT in Nepal probably he is the person of observer of VAT abroad and the firstly proposed VAT for Nepal with micro studied of Nepalese economy and system.

Khadka, R. B. (1994) in his book 'Nepalese's Taxation: A path for Reform, has reviewed the development of Nepalese tax system, analyzed its existing problems and studied the feasibility and possibility of tax reform. He lights on the domestic and international economic scenario. Then, he states that in Nepal, tax reform has become necessary and possible due to both internal and external factors. Further, economic reforms, including tax reforms, have been taking place very rapidly in South Asian countries including India, Pakistan and Bangladesh, and they exert pressure in order countries including Nepal. In context of Nepal, he states the foregoing clarity indicates that the Nepalese tax system does not satisfy the criteria of a good tax system. Moreover, poor enforcement has only served to distort the Nepalese tax system to an even greater extent. It is therefore, necessary to rationalize the structure and operation of the Nepalese taxes and strengthen the tax administration.

VAT is levied on the basis of value-added to the value of a product at each stage of its sales in the process of production and distribution. In other words, it is assessed at each stage only on the increase in the value of a commodity since the last transaction (Sharma, 1994).

Dr. Khadka, R. B. (2000) in this latest book *The Nepalese Tax System* points out the need to introduce the VAT in Nepal. In his book, there are several reasons to introduce VAT in Nepal. One of the important reasons was to develop a stable source of revenue by broadening the tax base. Moreover, Nepal will help to become less dependent on international trade taxes for its revenue in the future. Since, it will no

be in a position to levy import duties on trade that take place within the South Asian Association for Regional Co-operation (SAARC) region after the implementation of the South Asian Free Trade Arrangement (SAFTA). Nepal has applied for the member of the World Trade; Organization (WTO), which will also have to be considered in this context.

Narayan, P. Silwal, in his book Value added tax: A Nepalese experience (1999) has expressed his practical experiences about VAT. The book covers all aspect of VAT. In writers word: VAT is an all stages non-cascading tax system. It extends to all level of production and distribution. Similarly it covers all stage and services. Any discrimination in taxing goods or services or exempting any of them renders VAT ineffective (Silwal, 2002).

The book mostly concentrates on Nepalese tax system. The book clearly analyze why the government of Nepal Introduced VAT. HMG announced retail level sales tax at the rate of ten percent covering a whole range of goods and services. There was no procedural law to administer it. 'When RST introduce in Nepal, literacy level was just meager and building and record keeping was fanciful. In this situation, required revenue cannot take place, which is turn into the development expenditure. So that, a modern efficient and neutral tax like VAT was preferred to get rid of past anomalies.

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

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

- i) Tax base issues
- ii) Rate Structure issues
- iii) Exemption issues and
- iv) Threshold issues.

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

A value added tax is a tax assessed at each steps of the production and distribution process, levied on the difference between purchase costs of an assets and the price at which it can sold (the amount of value added on it). Tax is added to a product's price each time it changes hands until delivery to the customer take place when the final tax is paid (Encyclopedia of Management, 2006)

2.2.2 Review of Articles

In an article Value Added Tax: Its problems and prospects in Nepal it is stated that most of the developing countries are now engaged in the study of VAT very seriously and most of the economist of all countries have realized that the VAT only is the source of tax revenue which has very high tax potential yield among the existing tax systems. It will not be an exception for Nepal. VAT is said to be a consumption tax, by whom the taxable goods and services are consumed will ultimately pay the tax. If any goods become spoiled before consuming it will not liable to tax. The features of VAT are stated as following:

-) Input tax credit: on tax paid on earlier stages.
-) Neutrality: VAT does not offer unnecessary burden of tax in any sector.
-) Compulsory invoice system for its good operation.
-) Wide tax coverage: Covering retailing services and others: Similarly possibility of tax evasion and cheating is also minimized.

Pointing out the problems of VAT in Nepal the author says "When retail" level sales tax was introduced firstly in 1965 there appeared several absurdities such as : very low monitoring and supervision skill of the tax administration, very informal relating system, lack of compulsory invoice system and lack of skilled and experienced administrators were seen, which are exactly remained ever today leaving very few improvements. So value added tax is problematic in Nepal."

-) Cost to administer a VAT is the next problem where administrative cost may increase.
-) Negative impact of the VAT is the problem of "rise in consumer's price."

In the Nepalese condition of very low literacy and monetization of the economy, a compulsory invoice system may prove superficial. Lastly the recommendations made about VAT in Nepal are:

We cannot ignore the merits of VAT by showing the artificial difficulty of price rise. Before introducing the VAT in Nepal some unnecessary conditions should be fulfilled. They are as follows:

-) Change in the organization of the tax administration: to monitor, handle and to make supervision of a VAT, a task Force for the necessary preparation for it is recently needed.
-) Development in personnel and staff to administer VAT: Personnel should be prepared selecting from tax administration staff and from general administration, and providing them training.
-) Sufficient information system about VAT should be developed and introduced.
-) Choice of the tactics and policies should be developed. Firstly introducing it through wholesale level setting the low rate (10 percent initially)

In conclusion it is highlighted that "there is no condition of waiting for a long period of time to introduce VAT in Nepal". But the effort is only the theoretical one.

In an "Value Added Tax: it is problems, prospects and suggestion in Nepal: VAT is considered as the mostly growing trend in the field of taxation. Discussing the merits of VAT, reasons for its growing attraction in the world are describe as following.

-) Value added tax is based on the most modern theories.
-) It is more informative.
-) It will raise considerable revenue and sustain it.
-) Increments of tax payers are also advanced in it.
-) It is less tedious.
-) It is free from cascading effect due to the input tax credit.
-) It is effective to control price rise and reduce tax evasion.

Discussing the development of tax in Nepal the author focuses the problems of Nepalese sales taxes such as administrative inefficiencies, very large numbers of small tax payers with no record keeping and issuing the invoices and sales tax concentrated only on import manufacturing level. Considering both these offences and modern context of rising need of fulfilling the deficit of the necessary capital revenue for the government, utilizing internal resource, is it the time of introducing VAT in Nepal? To answer this question he shows the need to identify such backgrounds which are preconditions for VAT system. These preconditions mentioned are:

-) Keeping in mind, the increment the number of tax payer in a VAT system it is necessary to collect, and prepare records of potential value added tax payers firstly which makes feasible to register them while introducing VAT.
-) A separate administrative unit for VAT is necessary.
-) Because of not being separate, "Revenue service's" in Nepalese tax administration creates several problems. So, this should be maintained and according to classification of revenue source "group" should be established and operation of training programs development and extension is must.
-) Computer use should be introduced to assist administration.
-) The rate system of VAT should be a single one (i.e. 10 percent) and in more dual rates (i.e. 5 percent and 10 percent) or 10 percent and 15 percent will be appropriate.
-) A threshold for very small retailers should be maintained (i.e. annual selling of Rs. 5,00,000 to Rs. 10,00,000)
-) Agriculture products, basic necessities e.g. food stuffs, clothes (cotton) and other similar goods and export should be exempted.

- J Necessary forms, ledgers should be improved, they should be simple and coverage should also be extended to services such as electricity consumption and telephone services.
- J Experiences of abroad about VAT should be studied by giving chance to the tax officials through study visit and advices from tax experts and economist.
- J Studies should be operating on aspect such as need of this tax, effects and targeted tax payers. According to studies, policy should be prepared and after a preparation period it will be appropriate to take 3 or 4 years for introduction of VAT.
- J The rates of Custom and excise duty should be re-evaluated. Most of the taxable goods under excise duty should be transferred under VAT and specific excise duty on luxuries.

It is, therefore, the time to consider a VAT as a need based on the preparation made on above preconditions in Nepal.

A report of the Taxation system Re-observation Task Force 1995 published by Ministry of Finance, in May 1995 recommended VAT on long term recommendation for the tax reforms in Nepal.

The report was the result of the study during the six month by the members of the task force. It mainly analyzed the magnitude of the Nepalese tax system and recommended various measures for tax reforms.

The study arrived at conclusion that there is no possibility of any other great measures to introducing a tax, rather than introducing VAT in Nepal. Other recommendations concerning VAT are:

a. Concerning the limitations inherent with the existing tax system of Nepal to which we preserves it for a long as the same manner the economy would bear more costs, more hazards by the tax administration as well as tax payers and generating less amount of revenue, so alternations for this system should be searched. In this sense VAT appears as the best alternation.

- J VAT is the worldwide accepted tax.
- J The need of VAT in Nepal.

-) To increase revenue collection by broadening the tax base.
-) To make the tax system buoyant.
-) To discourage the tendency of tax evasions.
-) To make the tax efficient.
-) To promote the exports.

b. There are some aspects for consecration on VAT:

-) Price Level
-) Equality
-) The conditions of tax payers.
-) Small venders

c. Detailed preparation needs to be undertaken before implementing a VAT. In Nepalese concern they consist.

-) Making choice of the type of VAT.
-) Determining the structures and exemptions.
-) Choosing the best method of compulsion.
-) Giving taxpayers information.
-) Developing the proper administrative system.

d. A special consumption tax on luxuries should be introduced as a supplementary tax for the VAT.

Subedi (1998) the VAT can be viewed as an important form of domestic resource mobilization in Nepal. As a bulk of tax performance to generate more revenue, increase neutrality, maintain efficiency, fairness and make self policy and as simple and equitable tax system VAT is applicable in Nepal. Focus of VAT in Nepal should be on revenue productivity and responsible to changes. A VAT should not be highly effective and progressive in paper and inefficient, iniquitous in operation. The future perspective of VAT in Nepal should be conceived in the light of following recommendation.

Legislative and Policy issues

I. Enforcement of VAT should be made on the basis of well set up legal bases. Preparation of Legal bases should frame very sincerely which will minimize the operational problems. The problems that show up later will be very costly to correct. VAT should be implemented after preparing minimum required level of infrastructure.

Proposed VAT model For Nepal

A consumption type of VAT, fully excluding procedure's goods from tax and taking many goods and services close to the consumer. Apply tax-credit method for computation tax credit should be applied on all producer's goods and services: capital goods, raw material and intermediate goods. Apply destination principle: tax all imports and relieve all exports from VAT net.

Extend VAT through retail level, covering as many goods, services as possible and covering all stages of production, importation and distribution exempting very small vendors, artisans and very small service, service entities, below a threshold on the basis of the annual turnover, (preferably, the annual turnover of 1.5 million)

-) Apply a single rate (preferably of 13 percent) (i) Exempting unprocessed food stuffs, and goods and services for basic necessities (ii) Levy "special consumption duty" for luxuries.
-) Exemptions should be directed to those goods and services for social welfare reasons and to those which are very hard to tax, exemptions should be invited in number (iii) Zero-rate for exports only.
-) Agriculture sectors should be exempted at initial stage.
-) Services should be covered as much as possible except those which are very hard to tax i.e. banking services, life insurance services.
-) Rules, Regulations, Manuals and Directives should be firstly prepared, reaction should be received from business communities and should be analyzing and be published for tax payer's information.
-) There are some high value added areas i.e. service sector and luxury imports and products which should be covered very efficiently.

Executive Works

-) Department of VAT should be recognized with small but effectively structure and information network should linked to every tax related departments of VAT office. Co-operation with custom duty department should finally be bought for.
-) Decisions for establishing District VAT offices should be promptly made preferable covering 30 districts at initial and other should be covered in second phase, the organization of district office also should be small land effective.
-) On the basis of "a" and "b" the number of tax officials should be determined.
-) The VAT organization should be grouped under "VAT sub-group" and the personnel should be competent, qualified, and from taxation background and tax careers.
-) Managerial post should be fulfilled, from existing 1st and 2nd class officers, having taxation ground and very comprehensively trained by high level VAT exports and highly qualified.
-) Other tax officials should be promptly recruited through competition from among qualified (preferably with master's degree) competent and skilled tax careers and the comprehensive training should be imported on them.
-) Existing tax official should be trained well and on opportunity of transfer should be given to those not interested to work for VAT.
-) Before implementing VAT, registration campaign should be launched to the related tax offices and tax payers training should be operated as required.
-) While implementing VAT, filling of returns, tax refund and invoice system should be based on fairness. Invoice oriented problems should be solved before and frequent checking investigating fraud and evasion should be operated frequently. VAT auditing (internally by tax officials) should be operated simultaneously, voluntarily compliance measures should be developed. Discretionary powers of tax officials should be minimized. Faculties should be fair and reasonable.

Research and Development

Research and investigation work should be handled on various issue i.e. the effects of VAT on prices economic growth, investment and regressively and measures for solving such problems should be recommended by the experts group before

implementing VAT. Ongoing researches also should be handle afterwards. For this a VAT Research Bureau should be established. This is the prompt need.

-) A VAT Training Bureau, should be established initially in VAT department including core number of very high level VAT experts to train high level VAT officials, and trainers, and to conduct research work. A training unit including VAT experts for further training should be set up. Observations and practical on the Job training also should be provided for the most competent VAT officers. Guest trainer also play very prominent role. The unit can be transferred to Revenue Administration Training centre afterward. Stage wise training should be provided for other staff and tax payers.
-) Basic VAT training should also be provided for the personnel engaged in the custom offices. Reforms and enhancement of customs duty administration is needed most for the successful operation of the VAT in Nepal.
-) Information campaign on VAT should be promptly stated by i) Arranging debates, interactions, seminars, public hearing programmes frequently ii) Educating public through media like radio, television, newspapers, pamphlets, cinema and advertisement iii) Mobilizing economists or informing people about VAT.
-) Such education include introduction of VAT, accounting system, invoice and reporting system
-) A formal education to the tax payers should be conducted just before the implement of VAT.
-) People should be encouraged to ask questions about VAT arrangements to answer prompt should be made.
-) An integrated computer networks should be established for information and operation of VAT. Central VAT networks should be established in the Department of VAT department and links should be made with other department also.
-) A prompt step should be taken for encouraging business people to improve their account-keeping and invoice system and people should be encouraged to invoice system and people should be encouraged to ask for an invoice for their purchase.
-) A prompt survey of potential tax payers should be carried out. Such surveys should be conducted frequently.

-) Business community should be convinced that VAT is not a revolutionary action but is evolutionary and it will improve the tax system.
-) VAT Auditing unit should be developed into the Office of the Auditor's General equipped with VAT experts and Charter accountants. Other auditors also should be trained.
-) Improvement in customs duty administration must be ensured. Co-operation between VAT Department and custom Duty Administration should be strengthening. And boarder oriented parallel business activities must be controlled.
-) The Fraud and evasion investigation wing should be restructured and mechanism of information system should be strengthened.
-) If more and more disputed about VAT are created, these may make the business community conscious to know about the reality, simultaneously the actual concepts of VAT also should be advertised from media.

Others

The tax officials should be well paid and highly motivated, including especially for maintaining high morality in office. And if they are found in corrupt practices they should be severely penalized.

Transfer of general officials from other services of VAT sub-group (except VAT experts) and from VAT sub-group to other services should be restricted.

The threshold system should be prepared well. If it is ill operated, it will encourage tax payers to show their turnover low resulting, no gain of VAT. Frequent investigation services should be operated. A higher but pragmatic penalty system should be established. Bargaining between tax officials and tax payers should be strictly avoided.

At the final stage of preparation, tax payers should be encouraged to register their business voluntarily.

Lastly, VAT is based on market economy, price control and discretion of the tax officials. Should be fully avoided. The accounting system should be fully transparent.

2.2.3 Review From Master's Degree Thesis

Michele Guerard (1973), in her paper adopted from her unpublished dissertation submitted to Columbia University in 1972, describes, analyses and evaluates the Brazilian VAT against the background provided by two broader issues. One as a case study of the VAT in developing country and other as an illustration of the problem posed by inter-state tax coordination in a special setting of a Federation caused by huge regional disparities. The Brazilian states adopted abroad based single rated (i.e. 15%) VAT in 1976 in the place of existing heterogeneous turnover taxes aiming to secure a greater degree of tax co-ordination among the states of the federation. The VAT was based on modified origin principle, and it extended to retail level with minimum exemptions. The administration of the tax did not appear burden some.

In the first year of its introduction, 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 sector from the exempt sector. Manufacturing accounted for 60 percent of estimated VAT although it generated less than one fourth of 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 previous have no experiences in operating a broad bases sales tax.

Babu Ram Subedi (1997), in his dissertation concludes that VAT is applicable in Nepal on the sense of tax performance. In Nepal, VAT is desired to achieve the goals of neutrality, revenue productivity, fairness and transparency. From his view, VAT is found to be the best alternative to eliminate the existing inefficiencies of tax system. VAT would generate more revenue with less distortion and will unify member of taxes producing very low amount of revenue because of its broad coverage. VAT, being member of indirect taxes is regressive in nature. Utilizing income tax, special consumption tax and some exemption for equity goals, the focus on: VAT should be on revenue generation in Nepal.

In the view of problem of acute budget deficits and foreign dependency, the preparation of VAT should be accelerated in Nepal. But VAT should be implemented in Nepal only after full and adequate preparation. In theoretical sense, VAT is the best form of sales tax, especially due to its neutrality regarding the methods of production and generative more revenue. Further, VAT having the self enforcing feature would make tax administration easier.

According to the study, VAT should not be taken as easy task, rather it is very challenging issue for Nepal. The major challenging issue for VAT implementation in Nepal is successful tax administration. The existing sales tax administration is not capable of handling VAT. Further VAT need more active administrative efforts. Other problem with VAT implementation in Nepal are: lack of account keeping system, lack of sufficient knowledge about VAT, illiteracy and low public awareness. The existing tax evading practices also seems a serious problem. More advantage of VAT can be achieved only if it is extension to the retail level but the extends so of VAT to retail level is impracticable and impossible in Nepalese context.

He recommends that a moderate single rated VAT is desirable. If VAT is implemented well, it will generate 1.5 to 2.5 folds more revenue than existing sales tax. But, however, a VAT in Nepal may not be a hen with golden eggs. And it is not a 'Panacea' for currying all its requires active efforts and commitment for all ills, sides. He further suggests that, on the one hand. VAT itself is the complex tax system and the other hand, taxation system is a part of economic ocean. Thus, we have to know our capacity of swimming and realize depth of the ocean before dividing into it.

Ghimire, Lalmani (1998), in his dissertation value added tax: key issues in Nepal explain great importance for the effective implementation's VAT administrative capability in Nepal. Organizational structure, audit and inspection system, reward and punishment, political intervention, selection of skilled and punishment, political intervention, selections of skilled and experienced manpower are needed to improve for effective implementation of VAT. VAT is considered as a board based tax and potential advantage of it can be attained fully if the tax is extended through retail level. For the period of time he suggested to improve following aspect:

- i) Administrative power and creditability
- ii) Identification of tax payer
- iii) Registration
- iv) Educational programmes
- v) Incentives for small trades.

He also finds some difficulties in implementations VAT in Nepal. These are

- i) Rate structure.
- ii) Small traders in larger proportion
- iii) Lack of accounting records
- iv) Illiteracy and high compliance cost
- v) Existence of open broader.

Strong administration, educational programme, registration programme, existence training programme, technical data base system, combination of various revenue offices, high level VAT implementation term, coordination of VAT department, close cooperation between government and private sector etc are essential pre-requisites for the successful implementation of VAT in Nepal. Focusing on the ever increasing resource gap, inefficiency in sales tax and need of revenue for handling development works, VAT should be implemented in Nepal.

Sharma, Chinta Mani (1998), examine several aspects of VAT administration such as its problems, constructions possibility, operation and other aspects. In his dissertation he has found the following findings.

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

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

-) The government should pay attention to design the strong administration.
 -) The government should try to produce gazette manpower and to train them well.
 -) Comprehensive educational programme should be launched by the government.
- At last, he concludes that VAT requires the strengthened administration for its effective and efficient implementation.

Sharma, Krishna Prasad (1998), in his dissertation, found the following:

-) The serious defect of present sales tax is very narrow tax base so the sales tax is not productive and elastic. Adaptation of full-fledged VAT replacing the sales tax would largely broaden the tax base.
-) In case of imported goods, tax base in VAT would increase about three folds of the present sales tax base.
-) The implementation of VAT would make the tax system more productive and elastic removing the unfairness of the Nepalese tax system, increasing the competitiveness of Nepalese products, removing the production distortions and other undue pressures on economic activities caused by the inherent defects of sales tax.
-) Adaptation of general type of VAT, covering the retail sales with certain exemption would increase the tax base more than two folds. It means that VAT has very high revenue potentially.

There are several issues in the applicability of VAT in Nepal. The first and most important issue is the administrative issue. Lack of administrative capability is the greatest problem in implementing VAT in Nepal. The second biggest problem for the applicability of VAT is posed by the country's undeveloped business structure, practice and distribution system. The third problem is the existence of small traders in large proportion. Other problems are the existence of open borders and a large amount of unauthorized trade from India to Nepal, existing under undervaluation of imports, existing tax evading practices and corrupting nature of tax administrators, lack of co-operation between the government and private business sectors.

Bista, Raghu Bir (1999), in his research, focused the need of VAT for Nepal for several reasons. They are effective revenue mobilization, industrial development, strong administration, transparency and avoiding all tax loopholes. VAT helps to reduce the resource gap by broadening the tax base and mobilizing additional resources.

by controlling tax leakage, smuggling, unofficial trade and corruption through transparency and account bases cross-checking. Positive and favorable effects of VAT on all sectors can be aliened only if government can operate the VAT administration with effectively and efficiently.

In his research, the following finding can be gained

-) The sales tax system is failure to several cases: narrow base, elasticity of tax rate, incapable and weak administration, tax leakage, corruption and political intervention. So, the entire tax reform is needed.
-) A VAT is account based, invoice based and record based, it checks the tax loopholes such as under valuation, non-recorded and unauthorized trade. It discourages such issued and problems existed in the sales tax system.
-) VAT mobilized the additional resources and the rest of internal resources by broadening tax base and by discouraging the existing tax loopholes.
-) For implementation of VAT, the public awareness level relating VAT and VAT administration should be good and it is a prerequisite in the preparation of VAT.

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

Dhakal, Arjun (2000), in his dissertation analyzed the Nepalese tax structure along with the basic emphasis and historical background and potential revenue of VAT in Nepal. The increasing trend of the resources gap of Nepal is forcing the country to debt-trap situation. Domestic resource mobilization through the properly designed tax system is the best way to uplift the situation. Domestic resource mobilization through the properly designed tax system is the best way to uplift the situation. In this process, Nepal is adopted the destination based, consumption type VAT operated by the tax-credit method. VAT encourages investment, supports economic growth and keeps price stable. Exceptions and zero rating reduced the regressively of VAT, however it makes the administration complex. The study found that VAT is unable to complete the existing, sales tax mainly due to the minimum use of invoice by sellers and as well as having no interest to obtain invoices by purchasers. Elasticity and buoyancy of Nepalese tax system very low. Further, they are decreasing in recent years. VAT, more attractive from the theoretical as well as empirical aspects, is being hot milk in

mouths from practical view point mainly due to the inefficient tax administration. Hence, the introduction of the VAT is not the fulfillment of the requirement and VAT system itself has a great need of reforming in the Nepalese context.

2.3 Research Gap

Value Added Tax Act 1995" enacted in 1995, VAT regulation was made in 1996. But VAT with single rate of 10 percent has been fully implemented with effect from 16 November, 1997. About thirteen years have already been passed since VAT came into operation but very few studies had undertaken on the topic of VAT in Nepalese context and most of the studies were related with theoretical aspect. In this study, the researcher try to evaluate Nepalese VAT by identifying existing problems in major market area of Pokhara valley by conducting field survey, in order to know somehow about the practice experiment of VAT. Further, an attempt has been made to analysis revenue pattern of VAT in government revenue and overview of the future prospects as well.

CHAPTER - III

RESEARCH METHODOLOGY

This chapter is devoted to the research methodology applied in the study for, the achievement for desired objectives both primary as well as secondary sources of data are used to conduct this study. Opinion survey technique was adopted while collecting primary data to find out the views of respondents representing different groups related to value added tax. This opinion survey was adopted to find out the practical aspects of VAT. While conducting the opinion survey, questionnaires were distributed to the tax experts, VAT officers, business and consumers in the sizeable manner.

3.1 Research Design

To achieve the stated objectives of the study the study of VAT Act 1996 made for descriptive research where as analytical research has been carried out in terms of role of VAT in generating government revenue in Nepal. For an empirical research, an opinion survey has been conducted. The opinions of various hundred respondents associated with distinct denominations i.e. tax administrators, tax experts, and tax payers were collected through structured questionnaire with reference to VAT system of Nepal, major problem of VAT system, remedy to minimize corrupt practice existed in Nepalese VAT administration, the most important factor for effectiveness of VAT including necessary suggestion for achieving effectiveness of VAT in Nepal. Hence, the research methodology follows in this study are as field survey, analytical and descriptive research design.

3.2 Population and Sample

The total population of Nepal is 26620809. Out of which the total people living in Pokhara valley is 156312. Since the study area is mainly related with Pokhara valley, researcher have selected 100 sample to collect the require data for the completion of this study. The respondents have been divided into four groups. The following table shows the group of respondents and the size of samples.

Table: 3.1
Groups of Respondents and size of Sample from Each Group

S. No.	Group of respondents	Sample size
1	Tax experts	5
2	Tax officers	15
3	Businessmen/ traders	30
4	Consumers	50
	Total	100

3.3 Source of Data

Both primary as well as secondary source of data have been collected in order to achieve the real and fact full result from this research. All the possible and useful data as far available have been collected. The major sources of data are as follows:

a. Primary Data

The major tools used for the collection of primary data are distribution of a questionnaire respondents. A set of questionnaire was developed and distributed to the selected respondents in order to get accurate and actual information. The questionnaire was distributed to tax experts, tax officers, businessmen/traders and consumers are selected from different manufacturing company, trading company, department stores, shopping center, Finance company .

b. Secondary Data

The secondary sources of data are the information service from books, journals, newspapers, reports and dissertation etc. The major sources of secondary data are collected from Inland revenue department, economic survey, and budget speeches, ministry of Finance, dissertation related to VAT available at Paschimanchal Regional Library of Pokhara, publications of VAT projects, publication of VAT department, economic review and indicators from Nepal Rastra Bank, World Development Report, published document of Nepal Rastra Bank and national planning commission, books related to VAT, national newspaper, journals, souvenir and news magazines, other relevant, records and data related to this studies.

3.4 Data Collection Procedures

A total 100 sets of questionnaire were distributed to the selected respondents in order to get actual and accurate information. Distribution work is done personally rather than sending by any means to get accurate and actual information in time.

3.5 Data Processing and Analysis Procedure

The information received from primary and secondary sources is firstly tabulate into separate formats systematically in order to achieve desire objectives. After that these data were tabulated and analyzed. For the purpose of analysis generally simple statistical tools have been used which are trend analysis, mean, standard deviation, coefficient of variation, simple percentage methods, rending methods, graphs, charts and diagrams, etc. which are as follows:

a. Trend Analysis: A series formed a set of statistical data arranged in accordance with their time of occurrence said to be a time series. A widely and most commonly method to describe the trend is the method of least square. Under this method, a trend line is fitted to the data satisfying the following two conditions.

i. $\sum (y - y_c) = 0$ and ii $\sum (y - y_c)^2$ is least where y is the actual value and y_c the computed value of y . the line obtained by this method is known as the line of best fit. Let the trend line between the dependent variable y and the independent variable x {i.e.time} be represented by $y = a + bx$.

b. Mean: mean is the most popular tool of central tendency. It is simply known as average. Simple arithmetic mean is an outcome of the sum of all observation divided by the no of observation .Denoted by \bar{X} and calculated as follows $\bar{X} = \sum X / N$

c. Standard deviation: S.D. is the measure of dispersion. It is defines as the positive square root of the arithmetic mean. It is denoted by sigma.

d. coefficient of variation: The coefficient of variation{CV} is defined as the ratio of the standard deviation to the mean. It shows the extent of variability in relation to mean of the population.

e. Others: others tools can be used for presented the data which are as percentage, rending, graphs, charts, diagram which provide quick and concise in size of the subject under investigation or research.

3.6 Weight of Choice

The questionnaire asks for either to give responses on different views or to tick the best one or write their opinion.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

This chapter encompasses the analysis of information collected from secondary as well as primary. For the sake of convenience, this chapter has been divided into two sections first section contains the presentation and analysis of secondary data. Second section carries the presentation and analysis of primary data.

4.1 Presentation and Analysis of secondary Data

4.1.1 Revenue Collection From VAT

Value added tax is the best form of sales tax which is neutral regarding method of production and helpful in generation of more revenue collection. Because of its broad coverage neutrality, transparency and fairness, VAT will generate more revenue with less distortions. The revenue collection from VAT in different fiscal years is present in table below.

Table: 4.1
Trend of Revenue Collection From VAT

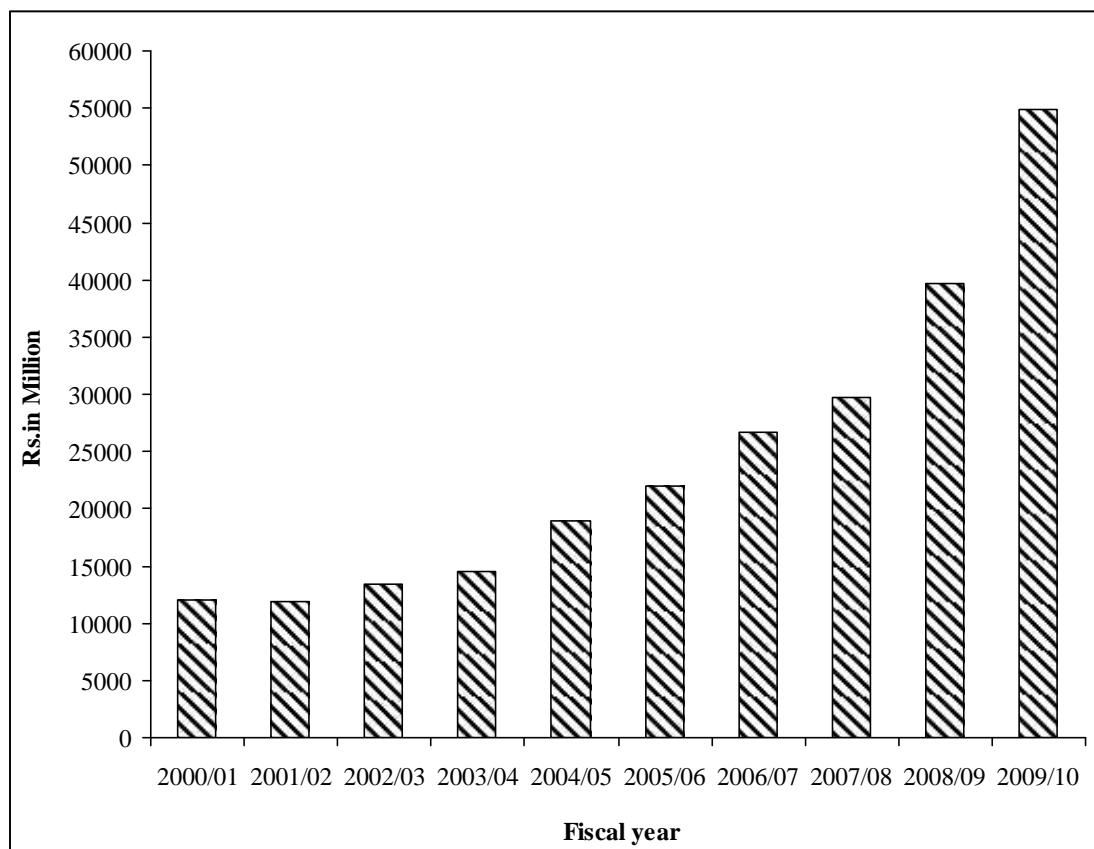
Fiscal year	Revenue collection	Percentage change
2000/01	12047.80	-
2001/02	11948.0	(0.828)
2002/03	13449.0	12.56
2003/04	14478.9	7.66
2004/05	18894.6	30.50
2005/06	21946.0	16.15
2006/07	26704.2	21
2007/08	29703.2	11.23
2008/09	39700.92	33.65
2009/10	54920.85	38.33

Source: Economic Survey 2010/11, MOF.

VAT generated about RS 12047.80 million revenue in FY 2001/02. In FY 2001/02, it increased up to Rs 11948 million as it was decreased by 0.828 Percent to previous

year 2000/01 similarly revenue collection from VAT in fiscal year 2002/03, 2003/04, 2004/05, 2005/06, 2006/07, 2007/08, 2008/09, 2009/10 are Rs 13449.1, Rs 14478.9, Rs.18894.6, Rs.21946.0, Rs. 26704.2, Rs. 29703.2, Rs 39700.92 and Rs 54920.85 million respectively. The trend of VAT collection increased percent in 2009/10 in higher than other years. Despite various Difficulties in the implementation of VAT, the collection trend of revenue through is not so bad. It is expected that VAT will generate more and more revenue in the days to come when it is implement effectively and efficiently since VAT is as broad based tax it will provide a stable base of revenue to the government.

Figure : 4.1
Revenue Collection Trend of VAT



The above figure shows that revenue collection from VAT in FY 2000/01 is Rs 12047.80 million and it has reached up to Rs 54920.85 million in FY 2009/10. It shows the collection trend of VAT is not so bad.

4.1.2 Calculation of Least Square Linear Trend of VAT

Here we are willing to analyze the trend of VAT collection for period of FY 2010/11 to 2014/15 for this purpose just statistical tools i.e. least square linear trend is used. Although there are Various intervening forces to determine the volume of VAT collection but here for simplify purpose only time period is considered, all other factor are being ignored. In the FY 2000/01 a total of about Rs. 12047.80 million revenue was generated from VAT while in the FY 2009/10 it was Rs. 54920.85 million. The trend of collection were given below in table 4.2.

Table: 4.2
Linear Trend of VAT Collection

Fiscal year	VAT(y)	X ($\sum X \sum X^2$)	x^2	xy
2000/01	12047.80	-4.5	20.25	54214.1
2001/02	11948.0	-3.5	12.25	-41818
2002/03	13449.12	-2.5	6.25	-41818
2003/04	14478.9	-1.5	2.25	-21718.35
2004/05	18894.6	-0.25	0.25	-9447/30
2005/06	21946.0	-0.5	0.25	10973
2006/07	26704.2	1.5	2.25	40056.3
2007/08	29703.2	2.5	6.25	74258
2008/9	39700.92	3.5	12.25	1385953.22
2009/10	54920.85	4.3	20.25	2447143.82
N=10	$\phi_x=243793.57$	$\phi X=0$	$\phi x^2=82.5$	$\phi xy = 34562.79$

$$x = (x - \sum X) \frac{\sum X^2}{2} = \frac{10 \Gamma 1}{2} X 5.5$$

$$Y_c = a + bx$$

$$a = \frac{\sum y}{N} = \frac{243793.57}{10} = X 24379.357$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{347562.79}{82.5} = X 4212.8823$$

The projected cash flow of VAT for five years were given below.

Table: 4.3
Future Prediction of VAT Collection

FY	X	$Y_c = 24379.347 + 4212.8823X$
2010/11	5.5	47550.20
2011/12	6.5	51763.09
2012/13	7.5	55975.97
2013/14	8.5	60188.85
2014/15	9.5	64401.7

The statistical tool called least square method can be used to analyze the trend of actual VAT collection and to estimate the possible future VAT collection for a given time. Time element is important factors, which determine the future VAT collection this time series can be expressed in term of straight line trend by at least square method. Here we take the derivation from the middle year thus derivation for the various year will be zero. To fit the straight line trend the time factor is consider as independent factor and VAT collection as dependent factor. Then the straight line of VAT collection upon time express by:

$Y_c = a + bx$ where x is time

The trend of VAT collection is CRS $24379.357 + 4212.8823$)

Shows positive figure of the VAT collection indicating the trend of past year continue in future. Given the value of x (i.e. relevant year) value of y (i.e. expected VAT collection) can be estimate.

4.1.3 Composition of VAT Revenue

The revenue collection from VAT can be divided into major components as domestic products and import. The current trend shows that about one third of total VAT revenue come from domestic products and two third from imports. The following table represents the composition trend of VAT revenue.

Table: 4.4
Composition of VAT Revenue

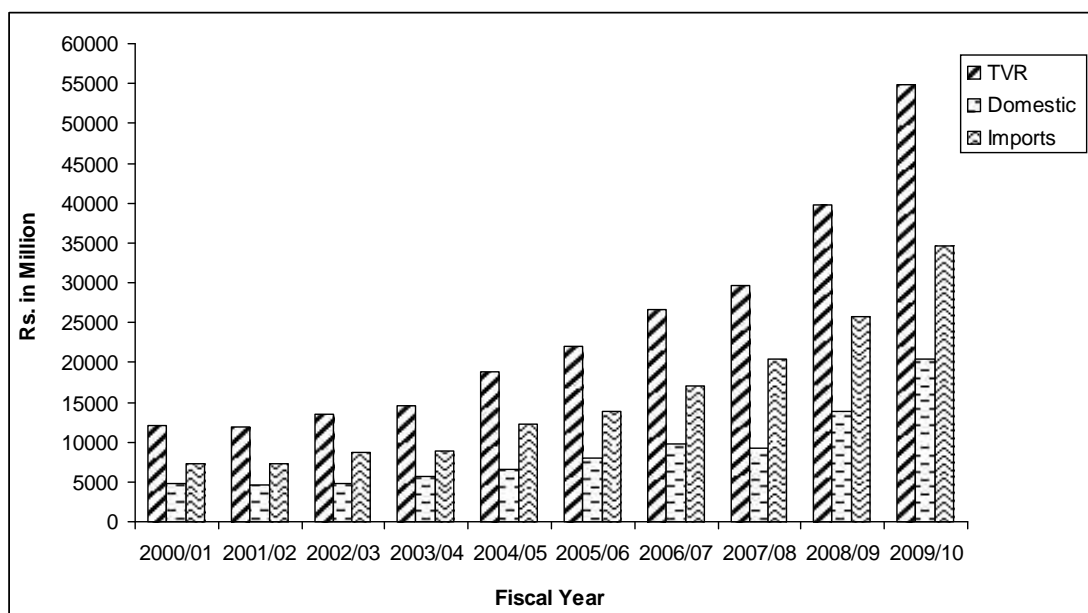
(Rs. Million)

Fiscal Year	Total VAT Revenue (TVR)	Domestic Product		Imports	
		Amount	%	Amount	%
2000/01	12047.80	4744.72	39.38	7303.3	60.2
2001/02	11947.98	4608.40	38.57	7339.58	61.43
2002/03	13449.12	4819.61	35.84	8629.51	64.16
2003/04	14478.90	5604.12	38.70	8874.78	61.30
2004/05	18894.63	6624.33	35.06	12270.30	64.94
2005/06	21946.01	8057.44	36.71	13888.57	63.29
2006/07	26704.55	9689.98	36.29	17014.57	63.71
2007/08	29703.21	9264.71	31.19	20438.50	68.81
2008/09	39700.92	13918.49	35.05	25782.43	64.95
2009/10	54920.85	20379.83	37.11	34541.02	62.89
Total	-	-	364		636
Mean			36.4		63.6
Std			2.25		2.25
C.V			6.18%		3.54%

Source: Annul Report 2010/11, IRD.

Above table depicts that VAT revenue is collected from domestic sales and from imports. The percentage of the both each year during study period shows from import business contributes more rather than domestic as mean 63.7 percent is greater than 36.4 percent. Similarly import side has more uniformity as less C.V. only 3.54 percent in comparison of domestic 6.18 percent.

Figure : 4. 2
Composition of VAT Revenue



The figure 4.2 shows that composition of VAT revenue for the 10 yrs period. The VAT revenue collected from import product is better than VAT revenue collected from domestic product.

4.1.4 VAT Registration

The operation of VAT in Nepal is started by addressing the sales tax registered in the VAT department. The registration is compulsory for that business enterprise who have taxable transaction and taxable capacity, however the traders falling below the threshold limit can register voluntarily. Under the existing sales tax system, there were nominal registrants but VAT was in existence the number of registrants increased significantly. However when VAT was introduced in 1997/98, there was strict opposition from the business community so VAT could not be implemented in full form. But after adjusting different provision and aspects of VAT business community and the government reached to an agreement in 1990/00, there after, VAT was implemented in its full form. The trend of the VAT registration is shown in the following table.

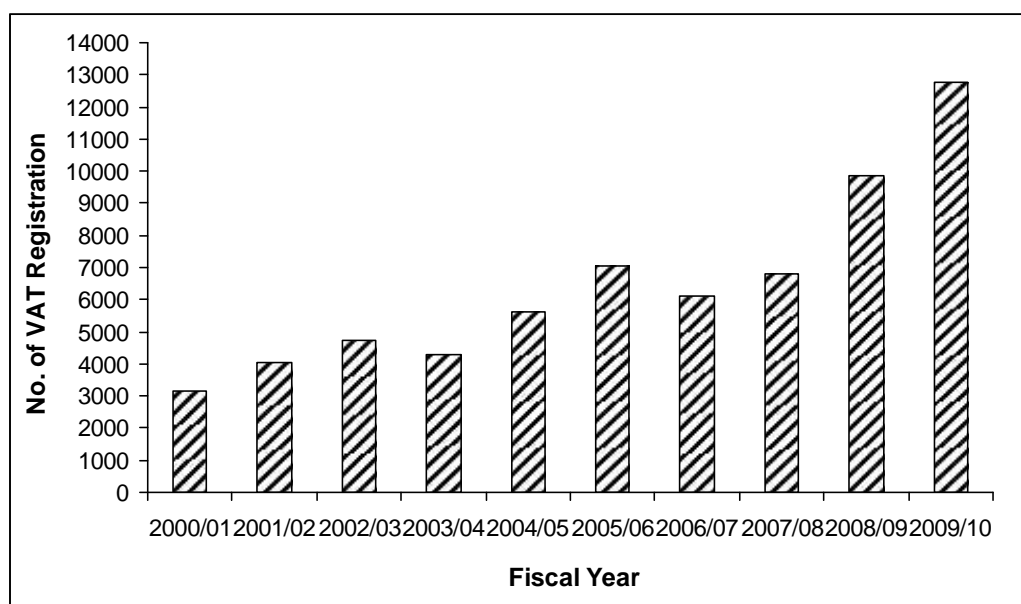
Table: 4.5
Trend of VAT Registrants

Fiscal year	No. of new VAT Registrants	Total number of VAT registrants	Percentage change
2000/01	3146	21093	–
2001/02	4056	25149	19.23
2002/03	4723	29872	18.78
2003/04	4302	34174	14.40
2004/05	5602	39776	16.39
2005/06	7055	46831	17.73
2006/07	6134	52965	13.10
2007/08	6810	59775	12.85
2008/09	9878	69653	16.52
2009/10	12780	82433	18.34

Source: Annual Report 2010/11, IRD.

The table shows that the number of VAT registrants in the fiscal year 2000/01 was 21093 and it was reach to 82433 in the fiscal year 2009/10 by almost tenfold. This shows that trend of VAT registration is impressive.

Figure : 4.3
Trend of VAT Registrants [2000/01to 2009/10]



The above figure shows that the number of VAT registrants in the FY 2000/01 is 21093 and it has reached to 82433 in FY2009/10. This shows that trend of VAT registration is impressive.

4.1.5 Least Square Linear Trend Analysis of VAT Registration

The number of sales tax registrants was 2045 at the time of the introduction of VAT in 1997. Among them, those with an annual transaction above the VAT registration threshold were converted into VAT registrants from 16, November 1997 while among those having transaction below the threshold level some registered voluntarily and others remained outside the VAT net. Other potential taxpayers that were outside the sales tax net registered for VAT over the years. Despite the negative impact on VAT registration due to compromises made from time to time the number of VAT registrants increased gradually. The registration trend analysis can be shown in the following table:

Table: 4.6
Trend Analysis of VAT Registration

F/Y	No .of VAT Registration [y]	X	X ²	XY
2000/01	21093	-4.5	20.25	-94918.5
2001/02	25149	-3.5	12.25	-88021.5
2002/03	29872	-2.5	6.25	-74680
2003/04	34174	-1.5	2.25	-51261
2004/05	39776	-0.5	0.25	-19888
2005/06	46831	0.5	0.25	-23415.5
2006/07	52965	1.5	2.25	79447.5
2007/08	59775	2.5	6.25	149437.5
2008/09	69653	3.5	12.25	243785.5
2009/10	82433	4.5	20.25	370948.5
N=10	$\phi y = 461721$	$\phi x = 0$	$\phi x^2 = 81.5$	$\phi xy = 538265.5$

$$y_c = a + b x$$

$$a = \frac{y}{N} \times \frac{461721}{10} = 46172.1$$

$$b = \frac{xy}{x^2} \times \frac{538265.5}{82.5} = 6524.430$$

$$\dots y = 46172.1 + 6524.430x$$

Table: 4.7

Future Prediction of VAT Registration

Fiscal Year	X	$Y_c = 46172.1 + 6524.430X$
2010/11	5.5	82056
2011/12	6.5	88581
2012/13	7.5	95105
2013/14	8.5	101630
2014/15	9.5	108154

To fit the straight line trend, the time factor is considered as independent factor registration customer is dependent factor. Then the straight line trend of VAT registration [y] upon time is expressed by.

$$Y_c = a + bx, \text{ where } x \text{ is time}$$

the trend line of VAT registration is the $46172.1 + 6524.430$ shows positive figure of VAT registration indication the trend of past year continue in future . However, the customer who has already registered doesn't register. So number may not increase as shown by trend line.

4.1.6 Share of VAT Revenue in GDP

The percentage contribution of value added tax VAT in GDP is presented in table below:

Table: 4.8
VAT Revenue as Percentage of GDP

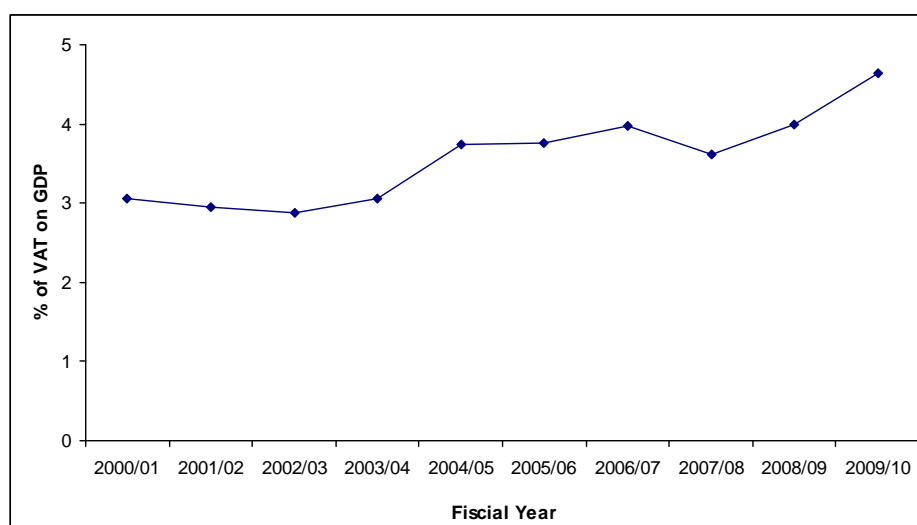
(Rs. in million)

Fiscal Year	Gross Domestic product (GDP)	VAT Revenue	Percentage
2000/01	393566	12047.80	3.06
2001/02	404482	11947.98	2.95
2002/03	468920	13449.12	2.87
2003/04	472424	14478.90	3.06
2004/05	504101	18894.63	3.75
2005/06	582950	21946.0	3.76
2006/07	670588	26704.18	3.98
2007/08	820814	29703.21	3.62
2008/09	992010	39700.92	4.00
2009/10	1182680.10	54920.85	4.64

Source : Economic survey 2010/11, MOF.

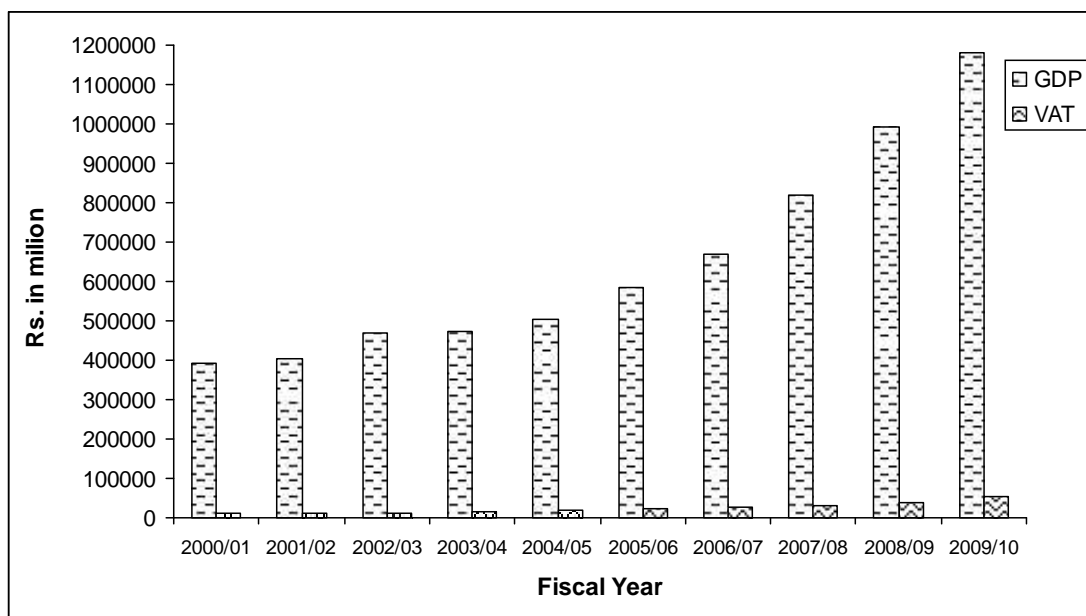
As shown in the above table it is clear that share of VAT in the GDP of Nepal is very low and it is below 5 percent throughout the 10 years period from the fiscal year 2000/01 to 2009/10. VAT revenue of Nepal as percent of GDP is between 2.87 to 4.64 percent with no higher fluctuation.

Figure: 4.4
VAT Revenue as Percentage of GDP



The above figure shows that the share of VAT revenue as percentage of GDP is between 2.87 to 4.64 percent with no higher fluctuation.

Figure: 4.5
Share of VAT Revenue in GDP



The figure 4.5 shows that share of VAT revenue in the GDP of Nepal is very low.

4.1.7 Share of VAT Revenue in Total Revenue

The percentage contribution of VAT revenue in total revenue is presented in table below.

Table 4.9
VAT Revenue as Percentage of Total Revenue

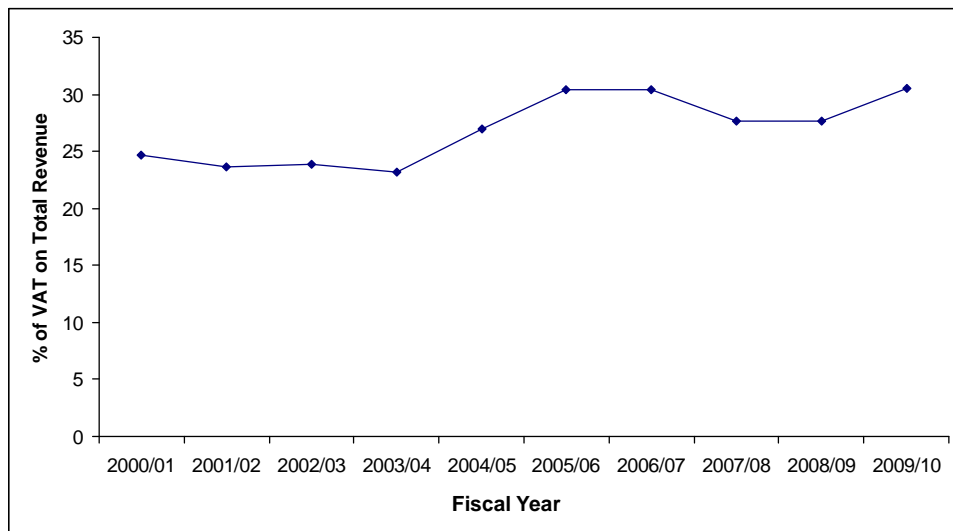
(Rs in million)

Fiscal Year	Total Revenue	VAT Revenue	Percentage contribution
2000/01	48893.60	12047.80	24.64
2001/02	50445.50	11947.98	23.68
2002/03	56229.80	13449.12	23.92
2003/04	62331.0	14478.90	23.22
2004/05	70122.70	18894.63	26.95
2005/06	72282.0	21946.0	30.36
2006/07	87712.20	26704.18	30.45
2007/08	107622.50	29703.12	27.60
2008/09	143474.49	39700.92	27.67
2009/10	179945.82	54920.85	30.52

Source: Economic Survey 2010/11, MOF.

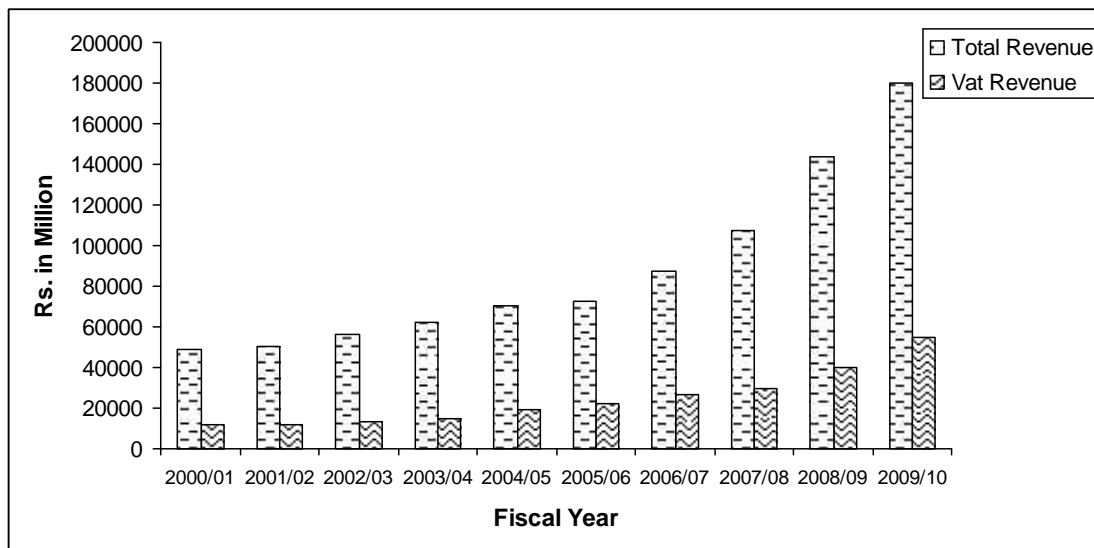
From the above table it is clear that the share of VAT revenue in total revenue increased from 24.64 percent to 30.52 percent in Fiscal year 2000/01 to 2009/10. Throughout the ten years the percentage rate of VAT is in Fluctuation trend.

Figure: 4.6
VAT Revenue as % of Total Revenue



As shown in the above figure, it is clear that share of VAT revenue in total revenue is in fluctuation trend.

Figure: 4.7
Share of VAT Revenue in Total Revenue



The figure 4.7 shows the share of VAT revenue in total revenue for the period of 10 yrs. It has decreased in FY 2001/02 then after that it is in increasing trend till FY 2009/10.

4.1.8 Share of VAT Revenue in Total Tax Revenue

The percentage contribution of VAT revenue in total tax revenue is presented in table below:

Table: 4.10
VAT Revenue as Percentage of Total Tax Revenue

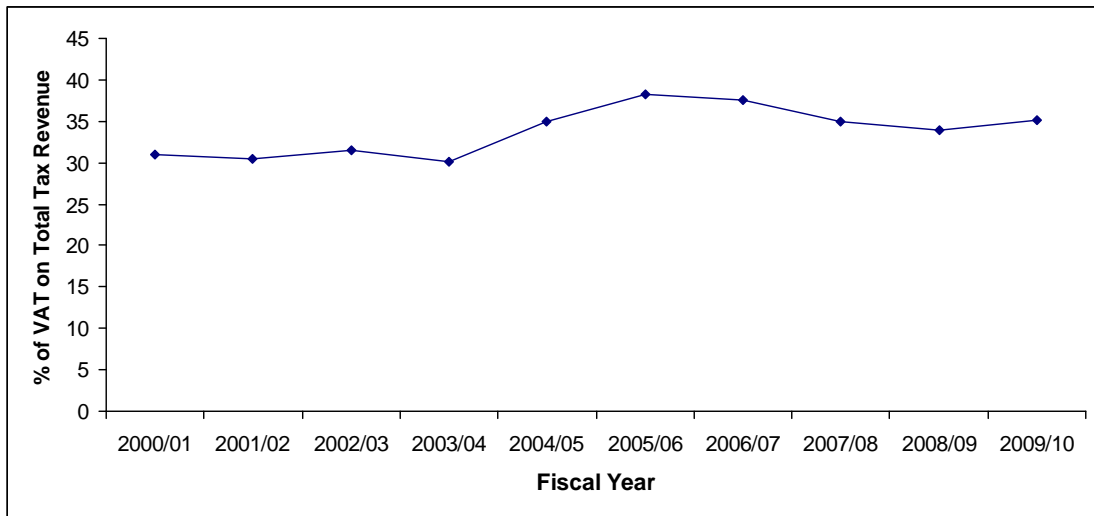
(Rs. in million)

Fiscal Year	Total Tax Revenue	VAT Revenue	% contribution
2000/01	38865.10	12047.80	31.0
2001/02	39330.60	11947.98	30.38
2002/03	42586.90	13449.12	31.58
2003/04	48173.0	14478.90	30.05
2004/05	54104.70	18894.63	34.92
2005/06	57430.40	21946.0	38.21
2006/07	71126.70	26704.18	37.54
2007/08	85155.50	29703.21	34.88
2008/09	117051.91	39700.92	33.92
2009/10	156294.92	54920.85	35.14

Source : Economic survey 2010/ 11, MOF.

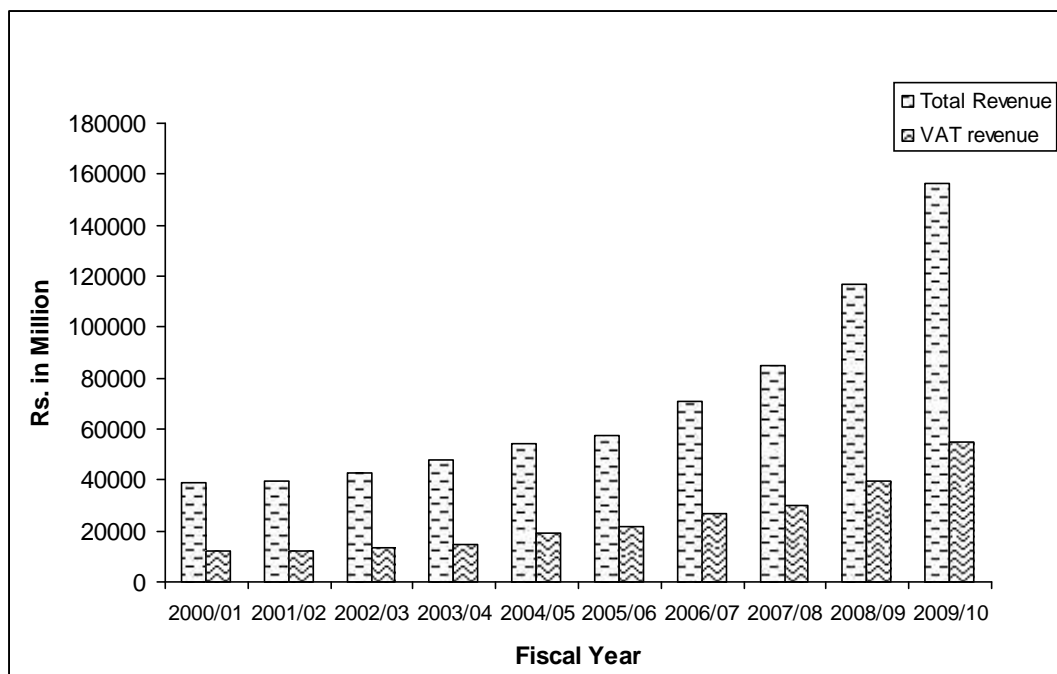
As indicated in above table , VAT Revenue was 31.0% of total tax revenue in fiscal year 2000/01. During the study period of ten years the contribution of VAT Revenue in total tax revenue is below 40 %. VAT Revenue as percent of total tax revenue is between 30. 05 percent to 38.21 percent with no higher fluctuations.

Figure: 4.8
VAT Revenue as Percentage of Total Tax Revenue



As depicted in the figure 4.8 share of VAT revenue as percentage of total tax revenue is between 30.05 percent to 38.21 percent with no higher fluctuations.

Figure: 4.9
Share of VAT Revenue in total Tax Revenue



Above figure depicts that share of VAT revenue in total tax revenue. It has decreased in FY 2001/02 than after that it is in increasing trend.

4.1.9 Share of VAT Revenue in Total Indirect Tax Revenue

The percentage contribution of VAT revenue in total indirect tax revenue is presented in table below:

Table: 4. 11

VAT Revenue as Percentage of Total Indirect Tax Revenue

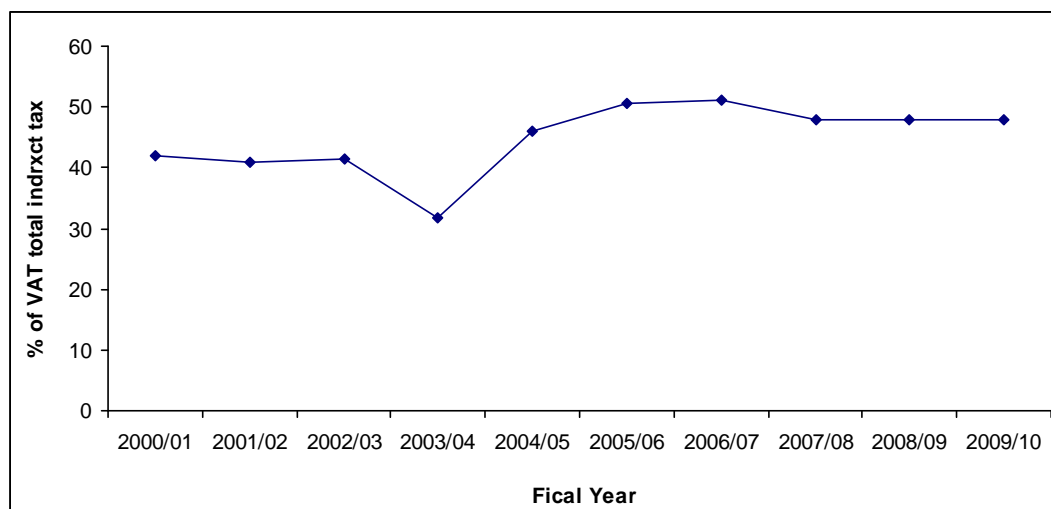
(Rs. in million)

Fiscal year	Total indirect Tax	VAT Revenue	% Contribution
2000/01	28704.50	12047.80	41.97
2001/02	29276.70	11947.98	40.81
2002/03	32481.20	13449.12	41.40
2003/04	36260.40	14478.90	31.65
2004/05	41032.90	18894.63	46.05
2005/06	43462.30	21946.0	50.49
2006/07	52146.40	26704.18	51.21
2007/08	62067.80	29703.21	47.85
2008/09	82731.17	39700.92	47.99
2009/10	114544.75	54920.85	47.95

Source : Economic survey 2010/11, MOF.

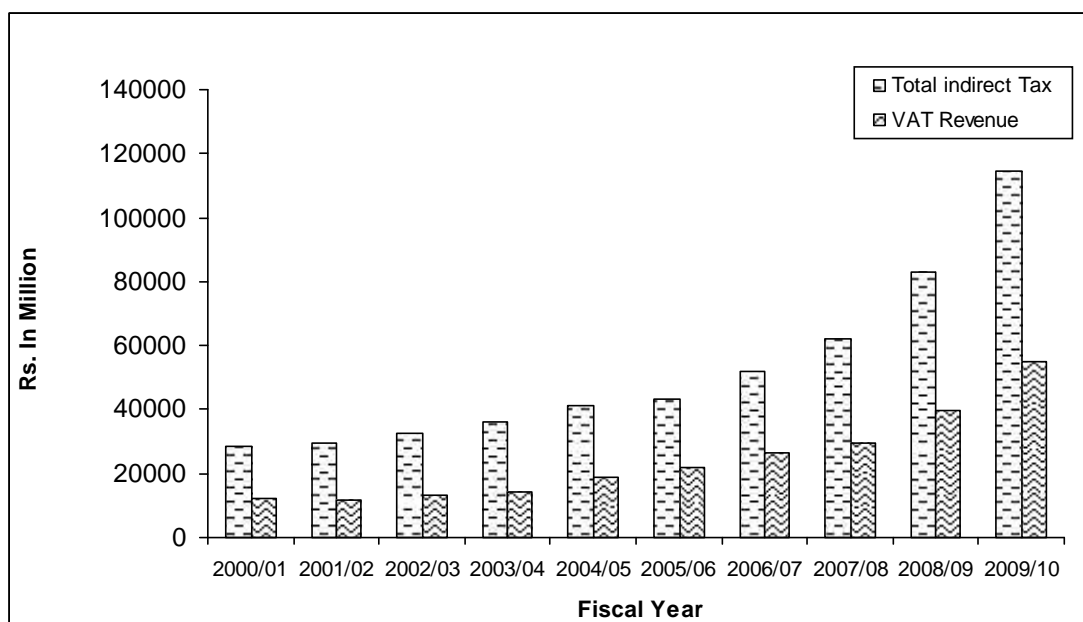
From above table, it is clear that, the contribution of VAT revenue in the total indirect tax revenue in Nepal is not so bad. Throughout the 10 years period from the fiscal year 2000/01 to 2009/10, the contribution of VAT revenue in total indirect tax revenue is between 40.81 percent to 51.21 percent with no higher reduction.

Figure :4.10
VAT as % of Total Indirect Tax Revenue



From above figure, it is clear that the contribution of VAT revenue in the total indirect tax revenue in Nepal is not so bad.

Figure: 4.11
Share of VAT Revenue in Total Indirect Tax Revenue



As depicted in the figure 4.11 share of VAT revenue in total indirect tax revenue is between Rs 11947.80 million to Rs. 54920.85 million for the period of 10 yrs.

4.2 Presentation and Analysis of Primary Data

4.2.1 Respondents Views about Awareness of VAT

VAT is the new tax system for Nepal. Nepalese people were not closed about tax. To make VAT successful it is necessary to raise the level of awareness of the consumers. The outcome of the field survey in this aspect is presented below.

Table : 4.12
Awareness of VAT

Alternatives Respondents	Highly aware		Moderately Aware		Weakly Aware		Not at All		Total
	No	%	No	%	No	%	No	%	
Tax experts	5	100	-	-	-	-	-	-	5
Tax Officers	15	100	-	-	-	-	-	-	15
Businessmen/Traders	20	66.67	5	16.67	5	26.67	-	-	30
Consumers	30	60	5	10	5	10	10	20	50
Total	70	70	10	10	10	10	10	10	100

Source: Field survey, 2012.

As depicted in table 4.12 out of total respondents, more than one-half of respondents were found to be aware of VAT. 10 percent were moderately aware while 10 percent were weakly aware of VAT. Similarly, 10 percent of respondents do not have any awareness of VAT.

4.2. 2 Billing System

Billing system is one of the most important aspects of the VAT system. All the businessmen have to receive these bills of actual transaction, price with importing and buying of goods and services. The price of the goods and services with and without VAT has to be mentioned explicitly in the bill. While selling goods, purchaser has to compulsory be give the same type of bill. The businessmen have to pay the amount of difference between tax collected in sale and tax paid on purchase to the VAT office. He has to pay the income tax as well on the profit of his transaction. Thus, the billing system plays crucial role in the field of VAT system. But in Nepal, the billing system

has been one of the major problem. The outcome of the field survey in this aspect is given below

Table : 4.13
Billing System

Alternatives Respondents	Possible		Impossible		I don't know		Total
	No	%	No	%	No	%	
Tax experts	5	100	-	-	-	-	5
Tax Officers	15	100	-	-	-	-	15
Businessmen/traders	18	60	10	33.33	2	6.67	30
Consumers	34	68	4	8	12	24	50
Total	72	72	14	14	14	14	100

Source: Field Survey , 2012.

As depicted in table 4.13, it is found that all the tax experts and officers advocate for the possibility of billing system in VAT system. 60 percent of the businessmen traders claimed that billing system is possible, at the same time 33.33 argue that it is impossible and 6.67 are unknown about it. Similarly 68 percent consumers says that there is possibility of billing system, 8 percent say impossible and 24 percent say I don't know.

4.2.3 Rate of VAT

VAT rate is very significant and sensitive for revenue mobilization. The success of VAT system stands upon the degree of VAT rate. Earlier the tax rates of sales tax which is replaced by VAT was 15 percent. Likewise other taxes i.e. contract tax, entertainment tax, hotel tax, were not below than 15 percent on average. But VAT rate is subject to 10 percent. Due to broader base and coverage, VAT was expected to have a greater revenue yield on percent rate structure. However this expectation is not achieved in practice basically due to its weak implementation aspect. In such situation, field survey was conducted to identify the rate structure of VAT. The following table shows the views on this matter.

Table : 4.14
Rate of VAT

Alternatives Respondents	Low rate		High rate		Normal / ok		I don't know		Total
	No	%	No	%	No	%	No	%	
Tax experts	-	-	1	20	4	80	-	-	5
Tax Officers	3	20	-	-	12	80	-	-	15
Businessmen/Trader	-	-	15	50	9	30	6	20	30
Consumers	4	8	18	36	18	36	10	20	50
Total	7	7	34	34	43	43	16	16	100

Source: Field Survey, 2012.

Above table shows that most of the respondents agree with the existing rate of 13 Percent i.e. normal. However, 50 percent businessmen claim that rate of VAT is high. Likewise, 36 percent consumers say that it seems high rate and some percent say it is ok 20 percent consumer has no idea at all. Three VAT officers (20%) reports that there is general increment needed in rate of VAT to generate high revenue. The study shows that the rate structure in the context of present situation is normal. Unless land until tax system is not implemented well, the rate structure is not a instrument to raise the revenue from taxation. Once the implementation is effective, it will be better to change the rate structure to some extent according to the requirement.

4.2.4 Rising Price Due to VAT System

In the beginning period of VAT implementation, there was a strong opposition from the business community. The basic argument behind it was due to raise in the price from VAT. After the implementation of VAT, there was a voice from different people on price rising on commodities. Consumers also complain that businessmen change more price without following the act of VAT. The following table presents the views of respondents on this aspect.

Table : 4.15
Price Rise Due to VAT System

Alternatives Respondents	Yes		No		I don't know		Total
	No	%	No	%	No	%	
Tax experts	1	20	4	80	-	-	5
Tax Officers	3	20	12	80	0	0	15
Businessmen/Trader	18	60	9	30	3	10	30
Consumers	35	70	5	10	10	20	50
Total	57	57	30	30	13	13	100

Source: Field Survey, 2012.

Regarding the price rise due to VAT system, 57 percent respondents reached at the conclusion that rise in price is due to VAT system, 30 percent claims that price rise is not due to VAT and 13 percent expressed that they have no idea at all. The study shows 20 percent tax experts and tax officers, 60 percent businessmen and 70 percent consumers claims that price rise is due to VAT system where as 80 percent tax experts and tax officers, 30 percent businessmen and 10 percent consumers viewed the price rise is not due that to VAT. According to the study, 10 percent businessmen/traders and 20 percent consumers did not have any idea about this question. When they were asked for the reason of the raise in the price respondents have different view due to compliance cost, higher profit, non awareness of consumer. The outcome of the field survey is given below.

Table: 4.16
Reason for Price Rising

Alternatives Respondents	Compliance cost		High profit		Non awareness of consumer		I don't know		Total
	No	%	No	%	No	%	No	%	
Tax experts	1	20	1	20	3	60	-	-	5
Tax Officers	3	20	-	-	12	80	-	-	15
Businessmen/ Traders	18	60	3	10	6	20	3	10	30
Consumers	15	30	18	37	12	24	5	10	50
Total	37	37	22	22	33	33	8	8	100

Source: Field Survey, 2012.

From above table 37 percent of respondents provided their view regarding reasons for price rise due to compliance cost. Out of compliance cost, total 22 percent, 33 percent of the respondents provided their view respectively on high profit, non awareness of consumer. Similarly, 8 percent have no idea on price rising effect.

4.2.5 Superiority of VAT over Sales Tax

VAT, a latest development of sales tax system is new innovation in the field of taxation. VAT is being preferred by many countries of world is superior over sales tax system. Without comparison with sales tax we can't say 'Vat is superior than other Sales tax system.' With base to effective revenue mobilization, the tackle to all tax evasion, wide tax base, transparent; VAT is considered as superior, than sales tax. The survey result on this aspect is summarized in the table below.

Table: 4.17
Superiority of VAT over Sales Tax

Alternatives Respondents	Yes it is		No it is not		I don't know		Total
	No	%	No	%	No	%	
Tax experts	5	100	-	-	-	-	5
Tax Officers	15	100	-	-	-	-	15
Businessmen/traders	20	66.67	8	26.67	2	6.67	30
Consumers	32	64	3	6	15	30	50
Total	72	72	11	11	17	17	100

Source: Field Survey, 2012.

According to table 4.17, 72 percent respondents provided their view regarding superiority of VAT over sales tax, 11 percent respondents off positive of its system and 17 percent respondents were unknown about this view. In the outcome, 100 percent each tax experts and tax officers argue about the superiority of VAT over sales tax. Similarly, 66.67 percent businessmen/ traders, 64 percent consumers also provided their view on superiority of VAT. But 26.67 percent businessmen said that it is not superior than sales tax. 6.67 percent businessmen and 30 percent Consumers were unknown about these questions. The outcome proof that VAT is superior than sales tax system on the aspect of revenue mobilization, coverage, broaden tax base,

transparent. But its superiority depends upon the strength of VAT administration so the VAT administration is strong, than the success of VAT system will prove its superiority.

4.2.6 Structure of VAT

Tax structure which covers basically base, rate coverage, exemptions, etc is one of the most important aspects for the successful operation of VAT in any economy. The tax structure of VAT in Nepal is designed on the VAT Act 1996 and different laws and regulations are prepared in successive years. The findings of this survey can be presented in the following table as:

Table : 4.18

Tax structure of VAT

Alternatives Respondents	It is ok		It has to be improved		I don't Know		Total
	No	%	No	%	No	%	
Tax experts	2	40	3	60	-	-	5
Tax Officers	10	66.67	4	26.67	1	6.67	15
Businessmen/traders	21	70	-	-	9	30	30
Consumers	38	76	2	4	10	20	50
Total	71	71	9	9	20	20	100

Source: Field Survey, 2012.

Above table Shows that 40 percent tax experts, 66.67 percent tax officers, 70 percent businessmen and 76 percent consumers agreed about existing tax structure of VAT. Out of the 9 samples of businessmen and 10 samples of customers were unknown about the tax structure of VAT. 60 percent tax experts and 26.67 percent tax officers supporting the opinion that is not compatible with the existing rules and regulation, so it has to be improved. Out of the total respondents 71 percent agree with the existing structure of VAT.

4.2.7 Productivity of Single VAT Rate

Because of multiple rates tax reform become much more complicated to both tax payers and tax officers. Despite this reason, different countries already implemented various tax rate according to their economic condition. But all tax administration

prefers use a single rate of VAT to effective implementation. Likewise, Nepal has preferred a single VAT rate which is 13 percent. Here the field survey has been conducted to find out "will a single VAT rate be productive or not?" the outcome is presented in the table below.

Table: 4.19
Productivity of Single VAT Rate

Alternatives Respondents	Yes it will be		No it won't be		I don't know		Total
	No	%	No	%	No	%	
Tax experts	4	80	1	20	-	-	5
Tax Officers	9	60	6	40	-	-	15
Businessmen/traders	16	53.33	8	26.67	6	20	30
Consumers	32	64	11	22	7	14	50
Total	61	61	26	26	13	13	100

Source: Field Survey, 2012.

According to the table 4.19, 61 percent of the total respondents were convened that the single VAT rate is effective to mobilize revenue. In contrast 26 percent of total respondents disagree with current single VAT rate remaining 13 percent of total respondents seemed to be ignorant to the productivity of VAT rate. 80 percent tax experts and 60 percent of tax officers satisfied with the current single VAT rate which seems productive in Nepalese environment.

4.2.8 Is the Present Threshold Enough to Secure the Small Vendors

Despite the bitter fact that small vendors are many and its role should be inevitable and dominant to the business structure of developing countries. Small vendors in the developing countries are many so government can able to include these small vendors in to the tax net. Due to this revenue should be increased by broadening and widening the tax base. But its implementation is not free from problems. The first one is the small vendors, who are illiterate and ignorant as to the VAT, cannot meet basic requirement guide by the VAT enactment to the tax payers. Secondly, the operation of VAT administration will be complicated and costlier regarding VAT enactment. Third one is, the growth of tax leakage and corruption is continuous day by day. Therefore,

the concept of threshold is kept at 2 million which is applied to tackle such kinds of problems of small vendors according to the VAT enactment, the threshold purse is 2 millions. If the turnover of small vendors is below the fixed threshold, small vendors have legal exemption from VAT. The view from respondents is presented in table below.

Table: 4.20
Is the Present Threshold Enough to Secure Small Vendors

Alternatives Respondents	Yes it will be		No it needs for enlarge		I don't know		Total
	No	%	No	%	No	%	
Tax experts	5	100	-	-	-	-	5
Tax Officers	14	93.33	1	6.67	-	-	15
Businessmen/traders	15	50	12	40	3	10	30
Consumers	31	62	10	20	9	18	50
Total	65	65	23	23	12	12	100

Source: Field Survey, 2012.

As depicted in table 4.20, 65 percent of total respondents were satisfied with present threshold kept in the VAT enactment. However 23 percent of total respondents were not satisfied with current VAT enactment and rule. They viewed it is not enough and needs to be enlarged. Besides, 12 percent of total respondents had not adequate information and knowledge about the threshold. From the above survey, present threshold limit is enough to secure the small vendors in Nepal, although, due to the lack of statistical data concerning small vendors in the market.

It is not as effective to generate large revenue sources.

4.2.9 Can VAT Secure Properly to all Small Vendors

In Nepal, there are so many small vendors and scattered throughout the kingdom. The inclusion of small vendors in the VAT base is very complicated not only with administrative constraints but also with the dominant role of small vendors and its small scale investments. Therefore, tax exemption should be given to the small vendors though the threshold, although the inclusion of small vendors may broaden role of small vendors and its small scale investments.

Therefore, tax exemption should be given to the small vendors through the threshold, although the inclusion of small vendors may broaden the tax base. There is no any statistical figure of small vendors so it is very complex questions that how much of the small vendors have tax exemption through the threshold. The opinion survey on this view is presented in the following table.

Table : 4.21
Can VAT Secure Properly to all Small vendors

Alternatives Respondents	Yes it can		No it can't		Possible		I don't know		Total
	No	%	No	%	No	%	No	%	
Tax experts	5	100	-	-	-	-	-	-	5
Tax Officers	12	80	1	6.67	2	13.33	-	-	15
Businessmen/ traders	20	66.67	8	26.67	-	-	2	6.66	30
Consumers	36	72	8	16	4	8	2	4	50
Total	73	73	17	17	6	6	4	4	100

Source: Field Survey, 2012.

From the table 4.21, 100 percent tax experts, 80 percent tax offices, 66.67 percent businessmen/ traders, 72 percent consumers calming that present threshold secure properly all small vendors. However, 26.67 percent businessmen, 26 percent consumers viewed that it can't cover all the small vendors. Out of the total respondents 73 percent voted presented threshold can secure all the small vendors, 17 percent confused about current threshold, 6 percent agreed. For possibility to secure all small vendors and remaining 4 percent respondents were ignorance by favoring I don't know. From the overall view, the present threshold can secure properly the small vendors in Nepal though there is no record of how many small vendors exist in market. Beside this, government also should develop the turnover limit for these vendors. After finding the turnover scale of these small vendors, VAT administration should fix and operate threshold provision.

4.2.10 Mal-practice of the Threshold

The purpose of threshold provision, according to VAT enactment, is to secure the small vendors by giving tax incentives but due to more to more small vendors and

lack of measurement to include them to tax base, we are ignorant about small vendors. So the threshold may be used as a tax loophole through which the businessmen can easily and largely erode the tax base. More than that, the weak VAT administration caused such types of mal-practice. If the VAT administration is strong, the possibility of mal-practice of threshold will be very lower. Therefore, we should develop the measurement to identify the turnover scale of business to control the mal-practice of threshold. The following table shows the survey result on the mal-practice of threshold.

Table: 4.22

Mal-practice of the Threshold

Alternatives Respondents	Yes it is high possible		Yes, but difficult		Lack of proper implementation and weak VAT Adm.		I don't Know		Total
	No	%	No	%	No	%	No	%	
Tax experts	4	80	1	20	-	-	-	-	5
Tax Officers	9	60	6	40	-	-	-	-	15
Businessmen/traders	12	40	10	33.33	2	6.67	6	20	30
Consumers	21	42	9	18	8	16	12	24	50
Total	46	46	26	26	10	10	18	18	100

Source: Field Survey, 2012.

The table 4.22 shows that 80 percent tax experts, 60 percent tax officers, 40 percent businessmen and 42 percent consumers were in the view that there is easy mal-practice of present threshold. However, 20 percent tax experts, 40 percent tax officers, 33.33 percent businessmen and 18 percent consumers viewed of possibility of mal-practice in hardly situation. 6.67 percent businessmen/traders and 16 percent consumer supported that mal-practice of threshold was possible due to lack of proper implementation and weak VAT administration. Considering total respondents on this view, 46 percent agreed the possibility of malpractice of threshold, 26 percent claimed it is possible but very difficult, 10 percent respondents who were businessmen and consumers voted the possibility of mal-practice due to lack of VAT administration and proper implementation. And remaining 18 percent of total respondents had not adequate information about the mal-practice of threshold. On the basis of above view, the present threshold in VAT enactment is issue on the purpose to secure small

vendors, but it remains invisible gate to the mal-practice. To reduce it, VAT administration should, monitor and control the path of implementation.

4.2.11 Tax Burden of VAT to the Tax payers

Value added tax covers the value added to each goods and services by firm during all stages of production and distribution and it is forward completely to the ultimate users. In short, the burden ultimately shifts on the tax payer. The problem on this view generally includes dislike of general people to more tax on commodities. Mainly, in Nepalese environment, general people have a lower income level. So they don't have much more purchasing power. Likewise, the government is still ineffective to give the guaranty of minimum social security to the general people in return of tax paid by them. Again the growing corruption in the government fades up the tax payers. Finally, the tax collected by the government is expended on the unproductive sectors. Therefore, Nepalese tax payers are worried about the possible tax burden level and shifting. The outcomes are presented in table below.

Table: 4.23
Tax Burden of VAT to the Tax Payers

Alternatives Respondents	Higher		Lower		Normal		Zero		I don't Know		Total
	No	%	No	%	No	%	No	%	No	%	
Tax experts	4	80	-	-	1	20	-	-	-	-	5
Tax Officers	8	53.33	1	6.67	6	40	-	-	-	-	15
Businessmen/traders	16	53.33	-	-	8	26.67	-	-	6	20	30
Consumers	38	76	-	-	3	6	-	-	9	18	50
Total	66	66	1	1	18	18	-	-	15	15	100

Source: Field Survey, 2012.

Above table shows that 80 percent tax experts, 53.33 percent tax officers, 53.33 percent businessmen, and 76 percent consumers viewed that the burden of VAT to the tax payers is higher. However, 20 percent tax experts, 40 percent tax officers, 26.67 percent businessmen and 6 percent consumers voted that the burden of VAT is normal. Out of total respondents, 66 percent opinioned about higher burden of VAT

to the tax payers, 18 percent viewed for normal burden to the tax payers and 15 percent were ignorance about this view. The outcome shows that the tax burden of VAT falling to the taxpayers may be higher.

4.2.12 Existing Exemptions

Value added tax is regressive by nature so exemptions on selected goods and services are must required. Exemption is needed theoretically as well as practically not only to cut down the burden of indirect tax but also due to the objective simplifying administrative complications. The outcome of field survey on this aspect is presented in the table below.

Table: 4.24
Existing Exemptions

Alternatives Respondents	It is ok		It should be reduced		It should be increased		I don't Know		Total
	No	%	No	%	No	%	No	%	
Tax experts	5	100	-	-	-	-	-	-	5
Tax Officers	12	80	3	20	-	-	-	-	15
Businessmen/ traders	20	66.67	8	26.67	-	-	-2	6.66	30
Consumers	40	80	6	12	2	4	2	4	50
Total	77	77	17	17	2	2	4	4	100

Source: Field Survey, 2012.

From the table 4.24, 100 percent tax experts, 80 percent tax officers, 66.67 percent businessmen/traders and 80 percent consumers provided their views regarding present exemption is satisfactory. However 20 percent tax officers 26.67 percent businessmen and 12 percent consumers agreed to reduce existing exemption criteria. Including all the respondents, 77 percent voted that existing exemption is satisfactory 27 percent supported that it should be reduced. The finding shows that current exemption is wide but due to this an opportunity for tax evasion may be increase.

4.2.13 Sufficiency of legal provision and Rules of VAT

Before the implementation of VAT, the government has enacted VAT Act 2052 B.S. and VAT regulation 2053 B.S. but the legal provision and rules, in general different to understand by all. The documents of these enactments carry all the matters such as VAT administration and its operation, the tax officers and its authorities, tax payers and its responsibility, the procedure of VAT collection, identification of new tax payers, monitoring cores checking penalties and punishment. The field survey has been conducted to find out whether the present Act and regulation are sufficient or not with reference to current system of VAT. The outcome of the respondents on this aspect is present in the table below.

Table: 4.25

Sufficiency of Legal Provisions and Rules of VAT

Alternatives Respondents	Yes		No		Moderate		I don't Know		Total
	No	%	No	%	No	%	No	%	
Tax experts	4	80	-	-	1	20	-	-	5
Tax Officers	10	66.67	2	13.33	3	20	-	-	15
Businessmen/ traders	5	16.67	12	40	10	33.33	3	10	30
Consumers	12	24	16	32	16	32	6	12	50
Total	31	31	30	30	30	30	9	9	100

Source: Field Survey, 2012.

As depicted in table 4.25, 80 percent tax experts, 66.67 percent tax officers, 16.67 percent businessmen and 24 percent consumer were in favor of present legal provisions and rules of VAT while 13.33 percent tax officers, 40 percent businessmen /traders and 32 percent consumers said that present Act is not sufficient, 31 percent claimed for its sufficiency of rules and legal provision of VAT, 30 percent were opposite of this view 30 percent had moderate view and remains 9 percent were unknown about this questions. It can be said that the present rules and legal provision are enough to implement VAT system effectively and properly.

4.2.14 Problems in the Process of VAT Implementation

The taxpayers and tax collector both have to be well-known and conscious about the record keeping and process of Vat system. Though 13 years have been already passed but still it has great challenges in this aspect. The field survey has been conducted to know the views of different respondents about to explore the problems on process of VAT records. The study shows registration, collection, tax refunds and miscellaneous are the main problems for implementation. The attitudes of different respondents are presented in the table below.

Table : 4.26

Problems in the Process of VAT Implementation

Alternatives Respondents	Registration		Collection		Tax Refund		Misc.		I don't know		Total
	No	%	No	%	No	%	No	%			
Tax experts	3	60	2	40	-	-	-	-	-	-	5
Tax Officers	3	20	9	60	1	6.67	2	13.33	-	-	15
Businessmen/ traders	12	40	10	33.33	6	20	-	-	2	6.67	30
Consumers	10	20	24	48	6	12	4	8	6	12	50
Total	28	28	45	45	13	13	6	6	8	8	100

Source: Field survey 2012.

As indicated in above table, 60 percent of tax experts, 20 percent tax officers, 40 percent businessmen/traders and 20 percent consumers seemed unsatisfied with registration problem, while 40 percent tax experts, 60 percent tax officers, 33.33 percent businessmen/traders, 48 percent consumers showed the problem on collection. Similarly, 6.67 percent tax offices, 20 percent businessmen 12 percent consumers said there is problem is an tax refund. Besides these, respondents have analyzed miscellaneous portion paper and tax collectors and so on. Out of total respondents 28 percent opined on problems of registration, 45 percent viewed problem on collection, 13 percent said problem on tax refund and 6 percent agreed on miscellaneous and 8 percent were unknown on this views.

4.2.15 Problems of VAT System in Business Sector

Businessmen/traders are the main tax payer group in VAT system. The tax payers have to prepare sales and purchase account of all transaction. They have compulsorily give and receive bills while selling and purchasing goods. Though this makes the tax system transparent, the businessmen have to employ assistants and fulfill various formalities. The outcome of survey on this aspect is presented in the table below.

Table : 4.27
Problem of VAT System in Business Sector

Alternatives Respondents	Reduce Threshold		Account Keeping		Billing System		Misc.		I don't know		Total
	No	%	No	%	No	%	No	%	No	%	
Tax experts	1	20	4	80	-	-	-	-	-	-	5
Tax officers	8	53.33	5	33.33	2	13.34	-	-	-	-	15
Businessman/traders	12	40	10	33.33	7	23.33	-	-	1	3.34	30
Consumers	20	40	14	28	8	16	3	6	5	10	50
Total	41	41	33	33	17	17	3	3	6	6	100

Source: Field Survey 2012.

According to the table 4.27, 20 percent Tax experts, 53.33 percent tax officers, 40 percent each businessmen and consumer considered that there is problem in business sector on registration process. The view of the other 80 percent tax experts, 33.33 percent tax officers, 33.33 percent businessmen and 28 percent consumers was that there is problem due to account keeping system. Likewise, 13.34 percent tax officers. 23.33 percent businessmen /traders and 16 percent consumers supported that business sector is suffered from problem of billing system. Among the total respondents views, 41 percent argued on problem on registration, 33 percent viewed problem on account keeping 17 percent opinioned billing system 3 percent said, miscellaneous and 6 percent were unknown.

4.2.16 Improvement of Revenue Mobilization Through VAT

The tax is main source of revenue of government, for developing countries the major part of the income is contribute by indirect tax. In the context of Nepal the major part of indirect tax is contributed by VAT/sales tax. Mainly, the government has moved

toward VAT system in order to increase revenue by broadening tax base and make tax system transparent. To find out whether the previous sales tax or VAT system will help to improve the government revenue, the respondents views were presented in the table below:

Table : 4.28
Improvement of Revenue Mobilization Through VAT

Alternatives Respondents	Yes		No		I don't Know		Total
	No	%	No	%	No	%	
Tax experts	5	100	-	-	-	-	5
Tax Officers	15	100	-	-	-	-	15
Businessmen/ traders	24	80	4	13.33	2	6.67	30
Consumers	38	76	3	6	9	18	50
Total	82	82	7	7	11	11	100

Source: Field Survey, 2012.

From the above table 100 percent each tax experts and tax officers, 80 percent businessmen, 76 percent customers viewed that there would be improvement of revenue mobilization through VAT. While 13.33 percent businessmen /traders, 6 percent consumers said there will no improvement in revenue generation. Similarly 6.67 percent businessmen and 18 percent consumers had no idea about its effect in revenue mobilization. Out of total respondents, 82 percent viewed that there will be improvement in revenue 7 percent said that there will not be any increase in revenue and remaining 11 percent in total had no idea on this view.

4.2.17 Major Weakness of VAT Administration

VAT system has been implemented instead of ineffectiveness of provision sales tax system because the revenue creation of it was not so much significant to the economy with respect to VAT. For the effective and successful implementation of VAT, we have to identify the current weakness of administration. It is reported that there have been various weakness behind the non-functioning of VAT system in an expected way. VAT administrative reform is weak, inadequate and incomplete which cause problems and challenges in the path of operation of Vat administration. It is found that major weakness of VAT administration in Nepal are lack of expertise, lack of

trained manpower weak financial resources, lack of physical infrastructure and miscellaneous. The outcome on this view is shown in the following table.

Table: 4.29

Major Weakness of VAT Administration

Alternatives Respondents	Lack of Experts		Lack of trained Manpower		Lack of Physical Ins.		Weak Economy		Misc.		All		Total
	No	%	No	%	No	%	No	%	No	%	No	%	
Tax experts	1	20	2	40	-		1	20	-	-	1	20	5
Tax Officers	2	13.33	2	13.33	-	-	4	26.67	3	-	4	26.67	15
Businessmen/traders	5	16.67	12	40	2	6.67	3	10	1	3.33	7	23.33	30
Consumers	4	8	20	40	3	6	4	8	6	12	13	26	50
Total	12	12	36	36	5	5	12	12	10	10	25	25	100

Source: Field Survey 2012

Above table depicts that, 20 percent tax experts, 13.33 percent tax officers, 16.57 percent traders and 8 percent consumers viewed that major weakness of VAT administration is due to lack of experts, while 40 percent tax experts, 13.33 percent tax officers, 40 percent each businessmen/traders and consumers reported due to lack of trained manpower. Similarly, 20 percent tax experts, 26.67 percent tax offices 20 percent businessmen/traders and 8 percent consumers supported major weakness due to weak economy of country. Likewise, 3.33 percent businessmen and 12 percent consumers viewed miscellaneous reasons cause weakness of VAT administration, whereas 20 percent tax experts, 26.67 percent tax officers, 23.33 percent businessmen traders and 26 percent customers viewed weakness of VAT due to all reasons mentioned above.

4.2.18 Making VAT Effectively Successful

VAT has already been in Nepalese environment however it has not year secured the expected, results and many problems still exist in the real field. it is necessary to identify the existing problems and solve them successively to make the Vat more successful in future. The opinion survey on this context of different respondents is summarized in the table below.

Table: 4.30
Making VAT Effectively Successful

Alternatives Respondents	Strengthen and improve VAT Adm.		Trained and Educated officers		Improve VAT laws and regulations		Conduct public awareness Prog.		I don't know		Total
	No	%	No	%	No	%	No	%	No	%	
Tax experts	1	20	1	20	3	60	-	-	-	-	5
Tax Officers	6	40	2	13.33	5	33.33	4	13.33	-	-	15
Businessmen/traders	6	20	8	26.67	10	33.33	4	13.33	2	6.67	30
Consumers	24	48	6	12	5	10	10	20	5	10	50
Total	37	37	17	17	23	23	16	16	7	7	100

Source: Field survey 2012.

According to the above table, out of total respondents, 37 percent viewed that to make VAT successful there is a need to enhance strength and improvement VAT administration. Similarly, 17 percent supported on trained and educated officers. Likewise 23 percent expressed their view to improve VAT laws and regulations where as 26 percent opinioned to regulate public awareness programmes and 7 percent had no idea on this view. Among total tax experts, 20 percent each viewed to improve VAT administration and educated officers remaining 60 percent reported to improve VAT laws and regulation for making VAT effectively successful. Out of total tax officers, 40 percent agreed to strengthen and improve VAT administration, 13.33 percent supported to need of trained and educated officers, 33.33 percent viewed on conduct public awareness programmes to make VAT effectively successful.

4.2.19 Current Challenging Problems of VAT

It is not a matter how much easy to introduce VAT system but how much effectively and properly to run it because VAT is complicated and advance than other taxes. The tax payers as well as the tax collectors must be more conscious for the successful implementation of VAT. In the context of Nepalese economy, there are many problem associated with the implementation aspect. The outcomes of different respondents on this aspect are presented in the table below.

Table: 4.31
Current Challenging Problems of VAT

Alternatives Respondents	Smuggling and under valuation		Lack of Proper billings		Lack of proper accounts		Weak tax administration		All		I don't Know		Total
	No	%	No	%	No	%	No	%	No	%	No	%	%
Tax experts	3	60	1	20	-	-	1	20	-	-	-	-	5
Tax Officers	6	40	3	20	1	6.67	5	33.33	-	-	-	-	15
Businessmen/traders	8	26.67	12	40	3	10	5	16.67	-	-	2	6.66	30
Consumers	19	38	11	22	5	10	10	20	1	2	4	8	50
Total	36	36	27	27	9	9	21	21	1	1	6	6	100

Source: Field survey 2012.

From the table 4.31, it is found that 60 percent tax experts, 40 percent tax officers, 26.67 percent businessmen/traders and 38 percent consumers argued that smuggling and under valuation is the most challenging problem associated with VAT. Similarly 20 percent each tax experts and tax officers 40 percent businessmen and 22 percent consumers argued that lack of proper billing is the cause of VAT implementation. While tax administration is identified as the most challenging problem by 20 percent tax experts, 33.33 percent tax officers, 16.67 percent traders and 20 percent consumers. Thus, out of total respondents, 36 percent viewed smuggling and under valuation is main challenging problem 27 percent identified that lack of proper billing system is current existing problems, whereas 9 percent argued that lack of proper accounts 21 percent following by weak tax administration and 6 percent had no idea on this view.

4.2.20 Whether the VAT be Effective in Future

According to the international experience, VAT is effective to the revenue mobilization and strong tax administration. However, it can't be said. Properly that it is advantageous and effective in future until effective implementation. In Nepalese context, the smuggling trade level is at peak point, tax leakage is at higher magnitude, the revenue collection is at the lower the effectiveness and administration is weak. So without proper implementation, there is big doubt whether VAT will be effective in future or not. The view of various respondents on this aspect is presented in the table below.

Table: 4.32
Whether the VAT be Effective in Future

Alternatives Respondents	Yes it will be		No it will not		I don't know		Total
	No	%	No	%	No	%	
Tax experts	5	100	-	-	-	-	5
Tax Officers	15	100	-	-	-	-	15
Businessmen/traders	22	73.33	2	6.67	6	20	60
Consumers	35	70	4	8	11	22	50
Total	77	77	6	6	27	17	100

Source: Field Survey, 2012.

As shown in the above table, it is clear that 77 percent of total respondents were totally optimistic the VAT will be effective in future but 6 percent of total respondents were pessimistic that VAT will be effective in future. Remaining 17 percent respondents including businessmen and consumers had no idea about this aspect. From the survey, it is found that 100 percent each tax experts and tax officers supported that VAT will be effective in future followed by 73.33 percent traders and 70 percent consumers.

4.2.21 Responsible Group of Tax Evasion

Any tax system may not provide the expected revenue yield when there exist tax evading loopholes. Evasion of tax not only loses the revenue but also creates economic distortions, market imperfection etc. However tax evading practice is a general phenomenon in any country and it cannot be solved perfectly but it must be minimized as far as possible. Generally business enterprises may not take responsibility for tax evasion but it is not true all the cases and time. There are other groups such as consumers tax administration who may be more responsible for tax evasion. The opinion survey was conducted to provide the views on most responsible group for tax evasion among business enterprise, consumers, administration or all and the outcomes is presented in table below.

Table: 4.33
Responsible Group of Tax Evasion

Alternatives Respondents	Business enterprises		Tax Adm.		consumers		All		I don' Know		Total
	No	%	No	%	No	%	No	%	No	%	
Tax experts	5	100	-	-	-	-	-	-	-	-	5
Tax Officers	8	53.33	1	6.67	1	6.67	5	33.33	-	-	15
Businessmen/traders	8	26.67	12	40	-	-	7	23.33	3	10	30
Consumers	12	24	12	24	6	12	15	30	5	10	50
Total	33	33	25	25	7	7	27	27	8	8	100

Source: Field Survey, 2012.

As depicted in the table 4.33, 100 percent tax experts, 53.33 percent tax officers 27.67 percent businessmen and 24 percent consumers supported that the most responsible group for tax evasion is business enterprises. Similarly, 6.67 percent tax officers, 40 businessmen/traders and 24 percent consumers viewed due to tax administration. Likewise 33.33 percent tax officers, 23.33 percent traders, and 30 percent consumers agreed due to the entire responsible group. Out of total respondents, 33 percent opinioned due to business enterprise, followed by 25 percent tax administration, 7 percent consumers, 27 percent by all groups and remaining 8 percent had no idea on this view.

4.2.22 Reasons for Need of VAT in Nepal

Having great pressure for development, all developing countries like Nepal, Bhutan, Bangladesh etc need higher revenue collection from internal source. For that the effective implementation of VAT has great significance for these developing countries. Almost developing countries depend upon the external resource such as foreign aid, foreign loan and financial assistance. So these countries tried to seek to stand on the internal revenue through VAT system. On the context of Nepal, the period of sales tax seems to be very unfruitful on the revenue mobilization, tax loopholes i.e. smuggling, under valuation etc. So there was no any alternative except accepting tax reform. So, increasing the popularity and the successes of VAT to the tax reform in order to eliminate all kinds of defects and problems. The following table idealized about the opinion of respondents way of VAT is needed in Nepal.

Table: 4.34
Reasons for Need of VAT in Nepal

Alternatives Respondents	Effective revenue		Transparency		Avoid Tax leakage		Borden Tax Base		All		I Don't Know		Total
	No	%	No	%	No	%	No	%	No	%	No	%	
Tax experts	3	60	-	-	-	-	1	20	1	20	-	-	5
Tax Officers	9	60	-	-	2	13.33	2	13.33	2	13.34	-	-	15
Businessmen/traders	12	40	3	10	5	16.67	2	6.67	7	20	2	6.66	30
Consumers	25	50	1	2	4	8	5	10	10	20	5	10	50
Total	49	49	4	4	11	11	10	10	19	19	7	7	100

Source: Field Survey, 2012.

Above table shows that, 60 percent each tax experts and tax officers, 40 percent businessmen and 50 percent consumers agreed that VAT is needed in Nepal due to the reason of effective revenue generation. Similarly, 20 percent tax experts, 13.33 percent tax officers, 6.67 percent businessmen/traders and 10 percent consumers reported VAT is needed due to burden tax base. Likewise 20 percent tax experts, 13.34 percent tax officers, 20 percent each traders and consumers views there is need of VAT due to all mentioned reasons where as 6.66 percent businessmen and 10 percent consumers had no idea on this opinion. Out of total respondents, 49 percent avoiding tax leakages, 10 percent broaden tax base, 10 percent due to all reasons, need of VAT in Nepal.

4.2.23 Applicability of VAT in Nepal

Tax reform has become a universal phenomenon since 1980 and still accelerating. VAT has been new innovation and its being more streamlining in 1990's. Generally, tax reforms have been triggered of by the desire to make the tax system and regime simple transparent, broad based, neutral and stable. However in Nepalese context, the economy is not yet sufficient to develop proper tax system as effective. These taxes would be very difficult to implement in Nepal. Beside this, Nepal possess a geographical constraints, open border, agriculture based economy, illiterate situation. Further, the Nepalese business is also not well organized small vendors are many and scattered all through Nepal. Therefore, the applicability of VAT in Nepal has been

very challenging task. The views on applicability of Vat can be shown in the following table:

Table: 4.35
Applicability of VAT in Nepal

Alternatives Respondents	Yes it is		No it is not		Yes but difficult		I don't Know		Total
	No	%	No	%	No	%	No	%	
Tax experts	5	100	-	-	-	-	-	-	5
Tax Officers	12	80	-	-	3	20	-	-	15
Businessmen/traders	18	60	-	-	8	26.67	4	13.33	30
Consumers	30	60	-	-	12	24	8	16	50
Total	65	65	-	-	23	23	12	12	100

Source: Field Survey 2012.

From the table 4.35, 100 percent tax experts, 80 percent tax officers, 60 percent each businessmen/ traders and consumers viewed that VAT is applicable in Nepalese environment. Similarly, 20 percent tax officers, 26.67 percent businessmen and 24 percent consumers supported that it is necessary but very difficult in reality. Likewise, 13.33 percent businessmen and 26 percent consumers had no idea on this opinion considering all respondents, 65 percent viewed, it is applicable in Nepal, 23 percent reported it is applicable but very difficult and 12 percent opinioned on unknown view i.e. I don't know response.

4.2.24 Effect of VAT on Revenue Mobilization

Presenting resource gap is one of the major characteristics for the Nepalese economy. Due to lack of sufficient revenue sources, government is not capable to operate the development activities in the country. Besides this the large amount of foreign debt is forcing the economy towards the debt- trap situation. In such circumstances, VAT was expected to have the greater revenue yield due to it broader base and other features such as catch-up effect, self-enforcing nature, transparency etc. But it has a low revenue yield due to weak implementation until the beginning year of implementation however improving in successive years. The opinion survey on this aspect is presented in the table below:

Table : 4.36
Effect of VAT on Revenue Mobilization

Alternatives Respondents	Positive		Negative		No effect		I don't Know		Total
	No	%	No	%	No	%	No	%	
Tax experts	5	100	-	-	-	-	-	-	5
Tax Officers	15	100	-	-	-	-	-	-	15
Businessmen/traders	25	83.33	-	-	2	6.67	3	10	30
Consumers	34	68	2	4	6	12	8	16	50
Total	79	79	2	2	8	8	11	11	100

Source: Field Survey 2012.

The table 4.36 shows that, 100 percent each tax experts and tax officers, 83.33 percent businessmen/traders and 68 percent consumers said that VAT will have positive effect on revenue mobilization as compared to the other replaced taxes. In aggregate, 79 percent, 2 percent 8 percent and 11 percent of the respondents provided their opinion on positive, negative no effect and I don't know option respectively.

4.2.25 Effect of VAT on Investment Sector

In real, the prevalent tax system has direct impact on the investment sector of the economy. However, the extent of the impact depends on the tax rate structure, coverage etc mainly, Nepal has two kinds of investment i.e. foreign and domestic investment. Since along back, have flown on the productive sector. The major goals are to achieve economic growth through developing productive sector and alleviate the poverty. In general, investment factor affected by the policy of the country or the taxation policy of the government. So we have to know that what kind of effects of VAT will fall on the investment sector. The effect of investment sector is evaluated by comparing it with the replaced taxes. In the case of developing countries low level of investment in different sectors cause to develop the snail pace industry so the current tax policy also needed to be direct towards encouraging the investment in the economy. The survey results is presented in the table

Table : 4.37
Effect of VAT on Investment Sector

Alternatives Respondents	Positive		Negative		No effect		I don't Know		Total
	No	%	No	%	No	%	No	%	
Tax experts	4	80	-	-	1	20	-	-	5
Tax Officers	9	60	1	6.67	5	33.33	-	-	15
Businessmen/traders	12	40	6	20	7	23.33	5	16.67	30
Consumers	34	68	6	12	3	6	7	14	50
Total	59	59	13	13	16	16	12	12	100

Source: Field survey 2012.

Above table, shows that most of the respondents were concentrated their view on positive effect in investment sector 80 percent tax experts, 60 percent tax officers, 40 percent businessmen /traders, and 68 percent consumers expressed their views on the positive effect of VAT. Similarly, 20 percent tax experts, 33.33 percent tax officers, 23.33 percent businessmen and 6 percent consumers said that VAT will no effect on investment sector, followed by 13 percent, 16 percent and 12 percent of respondents provided their opinion on negative, no effects and I don't know option respectively.

4.2.26 Effect of VAT on Economic Growth

The ultimate aim of the government is to achieve the economic development and accelerate the rate of economic growth. The main tax policy of a government is to intensify the rate of saving and investment to achieve a higher rate of economic growth thus, VAT is an ideal tax to achieve higher incremental saving ratio and thereby attain higher rate of growth in the economy. Economic growth of a country depends on the various aspect. The rate of tax system significantly affect the country's economic development. So from this view higher the revenue collection from VAT means higher will be the growth of national development. So the VAT is a major tools for accelerate the economic growth of a country. Whether the effect of VAT on economic growth, the views of respondents is positive, negative, no effect and no idea. The outcome of the survey in the aspect is summarized in the table below.

Table: 4.38
Effect of VAT on Economic Growth

Alternatives Respondents	Positive		Negative		No effect/normal		I don't Know		Total
	No	%	No	%	No	%	No	%	
Tax experts	4	80	-	-	1	20	-	-	5
Tax Officers	10	66.67	-	-	5	33.33	-	-	15
Businessmen/traders	18	60	3	10	5	16.67	4	13.33	30
Consumers	20	40	4	8	15	30	11	22	50
Total	52	52	7	7	26	26	15	15	100

Source: Field Survey, 2012.

As depicted in the table 4.38, 80 percent tax experts 66.67 percent tax officers, 60 percent businessmen/ traders and 40 percent consumers expected to have positive effect of VAT on economic growth. Similarly, 20 percent tax experts, 33.33 percent tax officers, 26.67 percent businessmen/ traders, and 30 percent consumers provide their view on normal effect of Vat on economic growth. Likewise, 13.33 percent businessmen and 22 percent consumers viewed that they had no adequate idea on this opinion. Thus out of total respondents, 52 percent, 7 percent, 26 percent, and 15 percent of the total respondents provided their view respectively on options of positive effect, negative effect, normal effect and unknown matter i.e. I don't know.

4.7.27 Effect of VAT on the Balance of Payment

The balance of payment is merely a way of listing receipts and payments in international Transactions for a country. VAT is a fiscal measure, its role is significant and sensitive to the international trade. In the context of Nepal. VAT is based on the destination principle and it is also expected to have positive impact on the balance of payment of the country. Field survey was conducted to know the view of different groups about the effect of VAT on balance of payment and following result was obtained:

Table: 4.39
Effect of VAT on the Balance of Payment

Alternatives Respondents	Positive		Negative		No effect/normal		I don't Know		Total
	No	%	No	%	No	%	No	%	
Tax experts	3	60	1	20	1	20	-	-	5
Tax Officers	9	60	-	-	6	40	-	-	15
Businessmen/traders	16	53.33	4	13.33	7	23.34	3	10	30
Consumers	25	50	4	8	14	28	7	14	50
Total	53	53	9	9	28	28	10	10	100

Source: Field Survey, 2012.

Above table depicts that, 60 percent each tax experts and officers, 53.33 percent businessmen/traders and 50 percent consumers supported that there will be positive effect of VAT on balance of payment. Similarly, 20 percent tax experts, 40 percent tax officers, 23.34 percent businessmen/traders and 28 percent consumers viewed that there will be no effect of VAT on balance of payment. Likewise, 20 percent tax experts, 13.33 percent businessmen and 8 percent consumers agreed that there will be negative effect.

4.2.28 Effect of VAT on Tax Leakage

Tax leakage is one of the most burning challenges for the tax administration. Due to the weaknesses remains in rules and regulation and non effectiveness in implementation, it is visible and invisible existed in tax system. So it is a problematic issue yet. Tax revenue has been flowing out through tax leakage since a long time period. Tax leakage have badly eroded Nepalese tax base. If tax leakage is neutralized, the revenue will definitely multiple. When it is in reality, it will be a plus point to the national economy. Tax leakage directly restricts the growth of revenue collection and causes the declining revenue collection. In the context of Nepalese economy, it is great challenges so government already introduced VAT system. One of the major objective of VAT is to tackle the existed tax leakage so as to increase the revenue collection. So how much restrict it may not be measured until the VAT will practice effectively. The outcome of different respondents is summarized in the table below:

Table: 4.40
Effects of VAT on Tax Leakage

Alternatives Respondents	Eliminative		Non Eliminative		No effect		I don't Know		Total
	No	%	No	%	No	%	No	%	
Tax experts	5	100	-	-	-	-	-	-	5
Tax Officers	15	100	-	-	-	-	-	-	15
Businessmen/traders	22	73.33	-	-	2	6.67	7	20	30
Consumers	32	64	2	4	8	16	8	16	50
Total	74	74	2	2	10	10	14	14	100

Source: Field Survey, 2012.

From above table it is clear that, 100 percent each tax experts and tax officers, 73.33 percent businessmen and 64 percent consumers satisfied with the eliminative power of VAT. Out of total respondents, 74 percent provided their view on eliminative power of VAT, following by 2 percent non eliminative, 10 percent no effect, 14 percent I don't know effect on leakages.

4.2.29 Effect of VAT on Smuggling Business

Smuggling business, main factors for tax evasion, is called the illegal business. In the context of Nepal, these types of activities are increasing due to weak administration and proper operation. It cannot operate effectively and properly under the laws and order. So it is also a burning problem exist in the country. The growth of smuggling activities can also be attributed to the trade policies adopted by the government. It is expected that VAT system helps the government to control over smuggling business. The views of different respondents on this aspect is presented in the table below

Table : 4. 41
Effect of VAT on Smuggling Business

Alternatives Respondents	Restrictive		Non Restrictive		No Effect		I don't Know		Total
	No	%	No	%	No	%	No	%	
Tax Experts	5	100	-	-	-	-	-	-	5
Tax Officers	15	100	-	-	-	-	-	-	15
Businessmen/traders	22	76.67	-	-	2	6.67	5	16.66	30
Consumers	40	80	-	-	3	6	7	14	50
Total	83	83	-	-	5	5	12	12	100

Source: Field Survey, 2012.

As depicted in table 4.41, 100 percent each tax experts and tax offices, 76.67 percent businessmen and 80 percent consumers opinioned about the restrictive nature of VAT on smuggling business. Out of total respondents, 83 percent convinced that restrictive nature of VAT on smuggling business whereas 5 percent viewed on no effect of VAT. Likewise, 12 percent respondents had no idea on this opinion.

4.3 Major Findings of the Study

On the basis of previous chapters data presentation and analysis. Some important findings can be drawn. The major findings of the study are as follows:

The revenue collection from VAT is in increasing trend, which is beneficial for sound economic development. Despite the various difficulties in the implementation of VAT, it is expected that VAT will generate more and more revenue in the coming days. VAT generated about RS.12047.80 million revenue in FY 2000/01, it reached up to RS.54920.85 million in FY 2009/10.

-) The revenue collection from VAT can be divided into two major components as domestic products and imports. The current trend shows that about one third of total VAT revenue comes from domestic product and two third from imports.
-) The registration trend in to VAT is increasing gradually. The number of registrants increased from 21093 in FY 2000/01 to 82433 in FY 2009/10 by almost tenfold.

-) The share of value added tax in the GDP in Nepal is very low. The contribution of VAT revenue as percentage of GDP remained 2.87 to 4.64 from FY 2000/01 to FY 2009/10.
-) The contribution of VAT revenue to total revenue, total tax revenue, total in directed tax revenue is not so bad its showing a improving trend.
-) Low public awareness may create problems for the implementation of VAT in Nepal. Most of the people are not aware of VAT.
-) The billing system plays crucial role in the field of VAT but it is one of the major problem exist in Nepal. Regarding the current states of possibility of billing system in purchases, 72 percent of total respondent advocate for possibility of billing system in VAT system.
-) 57 percent of the total respondents reached to the conclusion that VAT will rise of the commodities but 30 percent claimed for not rise in price due to VAT system. Most of the respondents provided their view regarding reasons for price rise due to compliance cost.
-) VAT is being preferred by many countries of the world due to superiority of sales tax. 72 percent of total respondents are in favor of VAT system
-) 71 percent of total respondents argued that current structure of VAT is sufficient to have greater revenue yield where as 9 percent claimed that it has to be improved.
-) 61 percent of the total respondents were convinced that the single VAT rate is effective to mobilize revenue. In contrast 26 percent of total respondents disagree with current single VAT rate remaining 13 percent of total respondents seems to be ignorant to the productivity of vat rate.
-) 65 percent of total respondents were satisfied with present threshold kept in VAT enactment. However 23 percent of total respondents were not satisfied with current VAT enactment and rule. Most of the respondents claiming that present threshold secure properly all small vendors.
-) Present threshold in VAT enactment is issue on the purpose to secure small vendors, but it remain invisible gate to the mal-practice.
-) 77 percent of total respondents provided their views regarding present exemption is ok,17 percent supported that it should be reduced while proves that current exemption is wide due to this tax evasion may be increase. It is also found that the present rules and legal provision are enough to implement VAT system effectively and properly.

- J) Though 13 years have been already passed but record keeping and process of VAT system has still a great challenges and problems for tax payers most of the tax payers are unknown about the record keeping and process of VAT system. 45 percent on collection process and 13 percent opinioned on problem of tax refund system. The outcome shows that tax burden of VAT to the tax payer is higher.
- J) The major problems exist in business sector are registration procedure account keeping system, proper billing system and cost of record keepings. 41 percent of the respondents provided their view on difficulties on registration, 33 percent opinioned on account keeping system and 17 percent argued on billing system.
- J) VAT administration is still weak, traditional corrupted, inadequate and incomplete with cause problems and challenges in the path of successful implementation of VAT out the major weaknesses of VAT administration, 12 percent viewed on lack of experts, 36 percent in favor of lack of trained manpower, 5 percent opinioned due to insufficient physical infrastructure and 12% complained about its weak poor economic situation.
- J) Due to broader base, catch-up effect, self-enforcing nature, transparency etc feature of VAT. VAT is expected to have the greater revenue yield. It is found that VAT has positive effect of revenue mobilization, investment sector, economic growth and balance of payment.
- J) Tax leakages have badly eroded Nepalese tax base. Tax revenue has been following out through tax leakages which directly restrict the growth of revenue collection. VAT is expected to tackle the existed tax leakages .74 percent of the total respondents were in favor of eliminative effect of VAT on tax leakages.
- J) Smuggling business activities are increasing due to weak tax administration and proper operation implementation. It is expected that VAT system help the government to control over these illegal activities. 83 percent of the respondents viewed about it's restrictive nature over smuggling business.
- J) VAT system entered into the thirteen years of its implementation in Nepal but implementation of VAT is not proceeding at a desired place. In spite of the most popular fiscal tool, Nepal is still facing number of challenges like poor administration, political instability, malpractices, corruption etc. These existing challenges in the implementation of VAT in Nepal are as VAT billing, narrow tax base /coverage, smuggling, under valuation and un authorized trade, weak tax administration, weak public consciousness level .

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Tax is a compulsory contribution to the government made without reference to a particular benefit received by the taxpayer. Taxes are levied primarily to raise revenue for government expenditures. On the basis of its nature, tax can be classified broadly into direct and indirect tax. VAT can be taken as a good example of indirect tax. VAT is definitely a new and modern tax system in comparison with other traditional taxes.

Value added tax is the latest innovation in the field of taxation. Actually VAT is considered as the most important tax reform in the 21st century, which has already been implemented popularly in more than over 125 countries in the world. VAT is multi-stage commodity and services based tax which is levied on the value added of business enterprises at the different stages of production and distribution. It affects only the added portion of price i.e. the value of goods and services added in various stages of transit. It has nothing to do with the rest of the prices. Purchasers pay VAT to the sellers and sellers transfer it to government, deducting VAT paid on their business purchase from VAT amount collected from the consumers on their sales. The ultimate burden of VAT is shifted on the consumers. In this system every person or business firm, which is above the threshold limit should compulsorily be registered in VAT office. Registered persons/business firms get credit facility on tax paid on their purchases of raw materials, semi-produced goods and overheads. Small vendors whose annual taxable turnover is below the threshold and business firms that deal with exempt goods only need not registration. The firms, below the threshold could be registered voluntarily.

VAT was first implemented in 1954 by the French government. Then after almost all countries of the world are being attracted towards this system. Due to some special features such as input tax credit system, based on accounting system, less chances of cascading and pyramiding effect, this system is very popular throughout the world. VAT is self-policing in nature, so there is less probability of tax evasion. VAT plays a neutral role on the methods of production and distribution, which is a basic need for a

good tax system. Similarly, the stepwise collection of VAT does not encourage tax evasion.

VAT the largest contributor to the national revenue basket, constitutes more than 40 percent of total indirect tax revenue. VAT system is a completely new system of taxation for Nepal. HMG of Nepal adopted this system since November 16, 1997. The international of introducing VAT was initially expressed in 1992; vat task force was created in 1993. After several years and preparation VAT act was finally passed through parliament in December 1995. VAT becomes effective through the finance bill of 1997. After that, formulation and passage of VAT Act, design of VAT regulations and its final approval preparation of VAT all has been done by Nepali standard. Due to effective VAT act and regulation make well preparation for VAT in Nepal which has made VAT successful today.

The structure of Nepalese VAT is designed in the VAT ACT, 1996 its coverage is defined with references to both taxable transactions and taxable persons. The base of VAT is the value added by each firm through its production and distribution activities. According to the VAT act 1996, the tax rate is 13 percent and exports are subject to a rate of zero percent. There are certain cases, such as, exemptions and zero rating, under which commodities are tax free. A taxpayer is all owed to deduct the tax paid on purchase for his business from the collected on sale. This deduction is known as an input tax credit. Under the, Nepalese VAT system, there is a provision for the refund of VAT. Such a situation will arises in the case of zero rated supplies such an export. Small vendors having an annual turnover up to certain amount are not required to register under VAT system. The amount fixed for this purpose is known as threshold. In Nepalese case its level is RS 2 million. The tax payers may not always agree with the assessment made by the tax officers. In that case, taxpayers may file an appeal to the revenue tribunal within 35 days against a tax assessment or penalty.

The first step towards VAT operation is registration of vendors who are legal taxpayers. Each and Every registered vendor should receive and given the bill while purchasing and selling the goods respectively. Each VAT registered person should keep records of all tax invoices they issue and receive, including the serial number and the data of the invoice, the amount changed and the VAT changed. If a registrant's output tax liability is greater than his input tax credit, he requires limiting

the difference of output tax and inputting tax to the government within specified time period. VAT is self assessed tax. Tax payers determine their tax liability themselves and pay tax. If tax payers does not assess his income himself and does not file his return within specified time, he is termed to be a non filer. In such cases VAT official may have to make a tax assessment. Penalties are designed to punish taxpayers for their VAT offences and to recoup the revenue losses due to the mal functions of taxpayers. VAT is the one of the forms of sales taxes. Actually it is the replacement of sales tax, entertainment tax, hotel tax, and contract tax. Nepal introduced a consumption type, tax credit method vat based on the destination principle with single positive rate of 10 percent.

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

In fact, the implementation of VAT was not easy in initial days; it was a matter of great debate. Even after the passage of the law, there were a lot of constraints and difficulties in introducing and implementing VAT in Nepal. A large numbers of traders and business community were against VAT. The first two years of VAT implementation were very turbulent. The FNCCI, NCC and their affiliated agencies were in the front line of opposition. Despite all this, VAT was introduced and survived because of the efforts of the small group of extremely dedicated, motivated and hard working people who never gave up their hopes of making VAT successful one day. VAT is currently well receipted by the consumers as well all business and industrial communities of Nepal, for this is account based tax that lead to transparency and accountability both on the part of tax payers and tax collectors. Despite the strong opposition to VAT from the business community, the number of VAT increasing gradually, reaching about 82433 in the fiscal year 2009/10 in the span of last ten years.

VAT, a premier indirect tax to Nepal s tax structure is composed of two components; domestic and imports. Almost two third of VAT revenue is generated from imports.

However both the domestic and imports VAT are likely to have the equal share in the total VAT in the near future. Domestic VAT revenue further consists of production, distribution and services sectors.

VAT has been in operation for last five years, but is still facing number of challenges/problems. The lack of proper billing is begins most of the challenging problem to implement VAT effectively and successfully. However, the problem is equally associated with others such as smuggling and under valuation, weak performance of tax administration, low level of public awareness, rampant corruption, political instability, geographical barriers, open b roader and un authorized trade, narrow tax base, lack of co-ordination between custom offices and VAT related offices etc. so improvements in such various areas are needed.

5.2 Conclusions

It can be concluded from the study that the Value added tax puts greater significance in revenue mobilization in Nepal. The reason behind this is that VAT system is transparent, broaden tax base and discourage tax evasion. So it is needless to say that VAT is the most important sources of the government revenue. VAT is a most important, innovative and powerful tax with built in quality of universal application for both developed and developing economics. The biggest virtue of VAT is that is revenue buoyant and highly instrumental for resources mobilization especially in an economy with acute shortage of resource. VAT would make it possible to broaden the tax base, eliminate cascading, create an investment friendly tax system, have a simple and modern tax system that exempted export and basic goods from taxation and finally increase revenue. This is a matter of great pride that the Nepal has entered in to major global tax system with the introduction of VAT.

Adopting of VAT for Nepal is both a compulsion and necessity. It cannot curtail it s development projects for which more revenue is required. The narrow tax base of the previous sales tax failed to generate the minimum required amount of revenue because it included only import and manufacturing units. Similarly, most of the goods and services were exempted from tax. The globalization and recent trend of trade and tax system has affected the Nepalese economy also, as we have just getting the membership of WTO. Consumption based tax is only an alternative to collect more

revenue, which directly helps to increase domestic resources for development works. One of the bases of the Nepalese tax system is VAT. It is based on consumption. However, the consumption related indirect taxes do not maintain equity norms but they can be considered as one of the reliable sources of revenue generation. Furthermore, this will help reduce the burden of our foreign debt, and will provide a great relief to our future generation. There is no doubt on the fact that VAT, in long run, will help to make Nepalese economy stronger. In this sense, the successful implementation of VAT system has a greater significance as well as importance in Nepal.

VAT was introduced as a part of the national tax reform program. But VAT system in Nepal from its inception has been facing innumerable problems, which curtail its merits and effectiveness. Its process has been slow, initially due to opposition from business community and subsequently to administrative problems. Even after its full-fledged implantation in 1999, the system has not been taken a considerable pace due to administrative inefficiency. Despite preliminary resistance VAT has been largely accepted by the taxpayers as well as business community of Nepal, and relied upon by the government as an important tool for mobilizing the revenue needed to finance public expenditure.

VAT regime is extremely challenging in a burgeoning economy like Nepal where, with long open broader, a large segment of economy is yet to be monetized. Resistance from the business community, ignorance of general people and the lack of full support and commitments from the politicians and government officials forced, the authority responsible for implanting, VAT to make compromises on various aspect of VAT which has weakened the process of its implantation right from the beginning. The attitude of businessmen and the tax administration also appear hostile to the effective implementation of VAT in Nepal. The culture of doing business without maintaining proper books of accounts or maintaining multiple sets of books of accounts has made implementation of VAT difficult. 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 the problem is addressed seriously.

Theoretically, the Nepalese VAT system has no weak provisions. It is one of the best models in the world. In practice, however, the system is not effective even today. Most of the problems concerning the operation of VAT in Nepal have been identified. The government needs to take necessary steps to sort out emerging problems in implementation of VAT. The government needs full co-operation from the tax administration, the taxpayers and businessmen as well as consumer in its efforts to generate more revenue. VAT must be made successful and this largely depends upon honest faith and morality of tax officials and business people. Responsibility and accountability in every section of the economy is the basic requirements as well as honesty and confidence between the business people and tax administration. There is need for well power and action. The government must be curative unnecessary hindrance to economic activities must be avoided. In the absence of growth in economic activities, revenue generation cannot be increased. Thus, it is time for action and improvements for effective and successful operation of VAT in Nepal for further perspective as well as present needs of economic development.

5.3 Recommendations

Nepal has introduced VAT system since 1997, after a long preparation and planning, despite the existing constraints and opposition. VAT act, rules and regulations have been set up in the line of international standard and its preparation had been made comprehensive and much more extensive as compared to the other taxes. This preparation has assisted towards creating a favorable environment for the implantation of VAT and VAT is not going gradual acceptance of the business community and general public at large level. It is a great challenge to Nepal in order to achieve the success. In order to create effective implantation, the empirical studies should be conducted from time to time. So ,to escape from inefficiencies, problems and constraints, VAT administration can be tackled these issues efficiently and effectively, since the implementation of VAT is a great jump from the traditional tax system to a modern system, several things are still lacking to be done for the successful implementation of VAT in Nepal in such circumstances, on the basis of major findings and conclusions, following recommendations have been made to make

VAT effective and more effective, which could be fruitful to concerned authorities while reforming Nepalese VAT system. In this light the following recommendations are suggested:

1. Revenue collection from VAT is in increasing trend which is beneficial for sound economic development. The government should increase positive perception about VAT.
2. The revenue collection from VAT can be divided in to two major components as domestic products and imports. The current trend shows that about one third of the total VAT revenue comes from domestic products and two thirds from imports. So it is necessary to increase the domestic products over imports.
3. The registration trend into VAT is increasing gradually. So the tax payers should be encourage to register their business voluntarily.
4. The share of value added tax in the GDP of Nepal is very low. So research and investigation should be concluded on various issues. For the solving VAT problems tax experts group should be recommended for implementation of VAT policies. Ongoing research also should be handled forward, for this a “VAT Research Bureau” should be established.
5. The contribution of VAT revenue to total revenue, total tax revenue, total indirect tax revenue is not so bad. The government should implement new plans and policies to increase Revenue collection of VAT in Nepal.
6. Most of the public as well as tax payers are still unknown about VAT. So VAT related information should be published regularly through advertising media journals magazines newspaper pamphlets, radio, television etc. Interview programs with professors, researcher, tax experts, and economists should be conducted and published through Medias. Similarly, the student at school level as well as college levels curriculum should be included VAT education and social obligation of paying VAT.
7. Lack of proper billing system, is being the most challenging problem in Nepalese context. So consumers should be well informed to take the real bills which they have to pay and strict warning should be given to business who use to issue false bills/invoice. So issuing invoices for every taxable sells must be made compulsory.
8. Existing threshold and tax refund are two possible gates for tax evasion. It seems that existing exemptions has a broad coverage however some exemptions are

unavoidable due to administrative complexity, and equity aspect, so exemption should be minimized gradually/successively.

9. An efficient, strong and fair administration is the most crucial for the proper implantation of VAT. But, VAT administration is still weak, traditional, corrupted in nature. In spite of these there is lack of expertise, well trained and skilled officers in the VAT administration. So informative programs such as seminars, training, discussions, souvenir, should be organized to make the tax officers skilled and capable in their field of job and services minded attitude needs to be developed in the mind of tax officers. Many rules and regulations of VAT are only limited in papers and they are not seen in practice. All the rules and regulations should be in practice. Government should make effort to discourage under valuation, including purchase of some consignments, which are imported at an unrealistically low value. Audit and investigation system need to be improved and make effective, and strictly penalize those who don't follow the rules. Strict rules should be prepared also for tax officers and it is necessary to take action against these officers who are directly or indirectly involved in collusion and corruption, without any hesitation. Also the reward system should be made effective.

10. VAT administration is still weak so an effective and efficient auditing, investigation and monitoring system should be developed. Computer system and networking programme must be developed and linked so as to make VAT simple which also helps to make data base system effective.

11. For making VAT effectively success in future it is necessary to overcome current challenging problems. VAT laws 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. There were made many agreements between VAT payer and VAT collector. Persons

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Value added tax is a twentieth century innovation in the tax system. This tax is based on goods and services. It is also considered to be a tax that is based on

consumption. Since this tax is based on consumption, the burden of this tax has to be born by the Consumers. VAT is regarded to be a member of the sales tax family, since it is imposed on the sales of goods and services. This tax is levied on the value addition at each stage of economic activities from the time of production to consumption of all goods and services. Value addition implies the difference between the purchase and sales price that has been incurred in labour, capital etc in relation to the production or distribution of goods and services. This also includes the profit amount that is due to the businessman for taking the risk. Therefore, value addition includes the entire expenses and profits incurred in the process of preparing the goods or services for sale after its purchase. Since VAT is levied only on the value addition made at each stage in the process of production and distribution, this tax system seems more neutral, efficient, elastic and fair and it also said to be an improved version of the sales tax.(Google.Com)

VAT is levied on sales of all goods and services excluding those that have been exempted by the law. Although the laws of different countries have a short or long list of tax exempted goods and services based on the experience of the past tax system, economic condition, the revenue requirement, the standard of the accounting system, political and social will etc. VAT exemption is generally granted to those goods and services, which are administratively difficult to tax or on those goods and services that are of day-to-day basic necessities of a large number of people. It is also believed that exemption list should be as short as possible in order to implement VAT more effectively.

VAT is levied on each level of sale from the production and import to distribution of all goods and services except exempt ones. But for those small business persons engaged in the sale of goods and services below the specified threshold level, it is not mandatory for them to register under VAT. However they can register voluntarily. To keep small businesspersons outside the tax purview, a threshold has been specified under the VAT system. The wholesalers' retailers, dealers, or producers who sell goods or services below the threshold level do not have to be register under VAT and neither do they have to collect VAT on their sales.

Value added tax is a general consumption tax assessed on the value added to goods and services is an indirect tax and an improve, modified form of sales tax. It levied

on value added of goods and services at each stage in the process of production and distribution chain. These stage can be import, manufacturing, whole sale and retails tread value added for a firm is sales value minus all expenditures on goods and services purchased from other firms. The value added can be obtained by adding payment of factors of production. It is borne by final consumer. But collection of VAT is now difficult. Some businessmen try to evade tax and they always stand against the existed tax system.

Developing countries like Nepal should implement VAT in proper way. In Nepal value added tax Act, 1995 enacted in 1995. VAT regulation was made in 1996. But VAT with single rate of 10 percent has been fully implemented with effect from 16 November, 1997. The government of Nepal has increased VAT to 13 percent with effect from 15 January, 2004.

Revenue collection from VAT is serious problem in Nepal due to political instability, attitude of evasion and critical economic condition may help to reduce revenue from VAT. So growing this situation may affect the national prosperity of Nepal. Different prospects in law and it's implementation prospects and problems are should be transparence. For this the tax reform with an adopting of VAT, is essential connection with the effort of many under developing countries as one of the major problem element of tax revenue source to achieve the goal of acceleration of economic development. The types of VAT are determined on the basis of treatment of capital goods of a firm. There are three types of VAT. They are:

Consumption Type VAT

under consumption type VAT, all capital goods purchased from other firms, in the year of purchase, are excluded from the tax base while depreciation is not deducted from the tax base in subsequent years. The base of tax is consumption since investment is relived from taxation under this type . Consumption type VAT is widely used .Hence, by the term VAT we basically mean the consumption type VAT.

Income type VAT

The income type VAT does not exclude capital goods purchased from others firms from the tax base in subsequent years. The tax falls both on consumption and investment. The tax base of this type is the net national income.

GNP type VAT

Under this type, capital goods purchased by a firm from other firms are not deductible from the tax base in subsequent years. Tax is levied both on consumption and gross investment. The base of This tax is gross domestic product.

VAT is a new tax system for Nepal. VAT has been justified in the light of government fiscal imbalances and need for extra revenue mobilization through an efficient tax system.

1.2 Statement of Problem

VAT is improved sales tax. It tries to reduce tax evasion and avoidance. It is the most recent innovation in the field the taxation. The concept of VAT was developed in 1919 in Germany. By the end of 1960s, only eight countries France, Brazil, Germany, Netherlands, Sweden etc had introduced VAT.

The concept of VAT in Nepal was introduced in early 1990s Nepal government indicated its minister to introduce VAT in the eight plan. Subsequently, the finance instep declared to introduce a two tier sales tax system to make the base of implementing VAT from the fiscal year 1992/93. A VAT task force was created in 1993, under the financial assistance of USAID in order to make necessary preparation for the introduction of VAT. The VAT task force prepared the draft to 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 implantation was delayed due to political instability and strong opposition from the business community. VAT with single rate of 10 percent has been fully implemented with effect from 16 November 1997. In 1999 total VAT collection was RS. 9850 million. In which Rs. 3720 million was collection from internal and Rs. 6130 from export. Government of Nepal had increased VAT to 13 percent with effect from 15 ,January,2004. After increasement of VAT rate the VAT collected RS. 18894.63 million. Out of total VAT collection Rs. 66243.33 million was from internally and rest Rs. 12270.30 million was from export. The increasing rate of collecting VAT is gradually decreasing. This is the serious problem of our nation becoming poor.(MOF)

Due to poor economic condition political instability helps to increase this problem. Every year the Revenue collection situation can't meet the Goal. This statement has been done on the basis of following research question:

-) What is the yearly revenue collection from VAT?
-) What is the current situation of VAT in Nepal?
-) What are the current problems for implementation of VAT?
-) What are the effects of VAT on revenue mobilization?
-) What are the suggestions for better collection of VAT in the future?

1.3 Objectives of the Study

Generally, the objectives of study should be related with research problems. The major focus of this study is finding revenue collection from VAT in different year and current prospects and problems in collecting VAT. However specified objectives of study areas as follows:

-) To know the yearly revenue collection from VAT.
-) To examine the current situation of VAT in Nepal.
-) To analyze the current problems for implementation of VAT.
-) To examine the effects of VAT on revenue mobilization.
-) To provide valuable suggestions for better collection of VAT in the future.

1.4 Significance of the Study

There are a lot researches on VAT but very few studies had undertaken on the topic of VAT in Nepalese context and most of the studies were related with theoretical aspect. Developing countries are facing the problem of revenue Collection. Without huge fund government can't implement development projects needs and regular expenses. So every country imposes tax to people, and this will concern to know about current Revenue collection from VAT with Its problems and prospects. It also analyzes the contribution of VAT to tax revenue. It helps to provide information about collection of VAT. So it shows the importance of VAT. Study also shows the problem and prospects which with help to policy reform to the people who are interested and confused about VAT system. It explores the problems and potentialities of the VAT implementation in Nepal. It will be useful too businessman, consumers and policy maker and any other related group. It provides information about the application of VAT under different circumstances. Thus it will encourage the government and the organization/persons who are interested about VAT. Similarly, It will be valuable references to the scholars or researcher to conduct further similar research in this field.

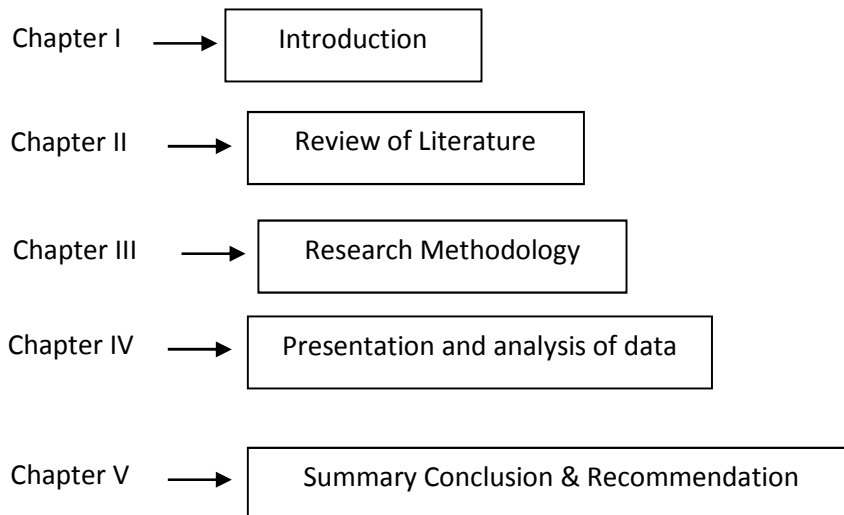
1.5. Limitation of the Study

Every study has its own limitations. The researcher shouldn't cross the limitation while conducting the study. Similarly the limitation of this study is as follows:

-) Data are based on report and field survey.
-) Reliability of data is limited on respondent answer.
-) Sampling methods based on judgmental sampling.
-) Research area is Pokhara valley only.
-) This study are covered the data of 10 years period.
-) This study has been prepared as per the requirement of partial fulfillment for degree of M.B.S.

1.6. Organization of the Study

Base on the above objectives, this study has been systemized in the following five chapters. The following figure shows the detail study process and procedure.



Chapter I contains the introduction of the study. It concludes general back ground, objectives, significant and limitation of the study.

Chapter II states the conceptual framework of value added tax and review of related studies.

Chapter III explains the methodology used this research to find the result for meeting the objectives set in chapter I. It includes research design, population and sample, sampling procedures, sources of data, data collection procedures, research variables, data processing procedures, and analyzing tools.

Chapter IV states the data presentation and analysis first section covers the presentation and analysis of secondary data. Which is collected from VAT office and the next section states the analysis of primary data. In this section states the analysis of question and major finding of survey respectively.

Chapter V states summary, conclusion and recommendation of the study.

CHAPTER - II

REVIEW OF LITERATURE

The main purpose of this chapter is to review the available literature on VAT collection, its problem and prospects in Nepal. Thus authentic and honest attempts are being made to highlight the gist relating with the concerned topic from various books, newspaper, magazines, research articles as well as past thesis. Although there are several studies on value added tax concerning different topics, very few studies have been undertaken on this topic concerning Nepal. To ensure the precise, lucid and concrete views about the stated topic. Some of the studies reviewed in this thesis have highlighted in the following section.

2.1 Conceptual Framework

A government requires sufficient resources to carry out development plans, handle day-to-day administration, maintain peace and security and launch other public welfare activities. The government collects the required resources mainly from two sources: debt and revenues. The debt can be collected either from internal or external sources. The internal debt is collected within the country while external debt is collected from outside the country. The debt financing of the government is known as deficit financing. The revenues on the other hand, come basically from two sources: tax and non-tax. Non-tax sources include different revenues like gifts, grants, revenues from public enterprises, administrative revenues such as registration fees, fines and penalties. Tax sources include custom duty, excise duty, VAT, income tax.

In general, tax can be defined as a levy or other type of financial charge or fee imposed by state or central government on legal entities or individuals. It is a compulsory levy from individuals, households and firms to central or local government. It is a kind of money of which it is the legal duty of every citizen of the country to pay honestly. It may be levied on income, property and even at the time of purchasing a commodity. Tax is computed and paid as prescribed in the law. If a person defies the tax payment, he may be punished in the court of law. A taxpayer is not entitled to compel the government, while paying taxes, to give something to him

in return of the amount he has paid. A fee charged by a government on a product, income or activity. If tax is levied directly on personal or corporate income, then it is a direct tax. If tax is levied on the price of goods or services, then it is called an indirect tax. The purpose of taxation is to finance government expenditure. One of the most important uses of taxes is to finance public goods and services, such as street lighting and street cleaning. Since public goods and services do not allow a non-payer to be excluded, or allow exclusion by a consumer, there cannot be a market in the goods or services and so they need to be provided by the government or quasi-government agency which tend to finance themselves largely through taxes. Tax can be classified in to two broad categories: direct and indirect tax.

An indirect tax is a form of tax imposed on one person but partly or wholly paid by another. It is collected by mediators who transfer the taxes to the government and also perform functions associated with filling 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. Examples include excise duty, import and export duty, VAT, etc.(Google.Com)

2.1.1 Conceptual Framework of VAT

Vat is a sales tax in advanced form. It is imposed on different stages. It is the tax imposed on added value of goods and services. Value added tax is one of the forms of indirect taxes too. Encyclopedia of taxation and tax policy says ' Value added tax is a broad based tax on business designed to measure net value generated in a country". Being a broad based tax, It is imposed on producer wholesaler retailer and consume also. It is related to both the goods and services. It is levied under industry as well as commerce. Accordingly, it measures net value generated in a country, i.e. GDP. Indian Tax Institute defines VAT as "a tax imposed on the seller of goods and services based on value added by their respective units". Value added tax is also known as goods and service tax or added value tax. It is a tax system that aims to minimize tax evasion and increase resource mobilization. It is imposed on value added amount in each stage and therefore, is equivalent to multistage sales tax. In contrasts to sales tax. VAT is imposed on added value of production and distribution. The value is added in the form of profit, rent, wage, salary etc.

The business firms adds value by processing or handling the purchased item i.e. raw materials, auxiliary raw materials and capital goods, using their labour, machinery, building or status or capital value added covers the factors payments (including the profit of the entrepreneur) which is the legal base of the value added (Shoup, 1969).

The value is added both on goods and services and the tax is collected from sellers. A simple process of VAT is depicted in the table 1 below

Table: 2.1
A Simple Process of Value Added Tax

Stage of Production and distribution	Net purchase price exclusive VAT (A)	Sales price Exclusive VAT (B)	Value added (C)= (B-A)	Value added Tax (13%)
Primary producer or importer	10,000	50,000	40,000	5200
Manufacturer	50,000	100,000	50,000	6500
Wholesaler	100,000	1,20,000	20,000	2600
Retailer	120,000	200,000	80,000	10400
Total	280,000	470,000	190,000	247,00

Source : Arbitrary figures.

VAT = Value Added tax | tax rate

for example,

) VAT at primary Production = 40,000 | 13 percent = 5200

) VAT paid by manufacturer in his production = 50,000 | 13 percent = 6500

) VAT paid by wholesaler = 20,000 | 13 percent = 2600

) VAT paid by retailer = 80,000 | 13 percent = 10400 and total VAT revenue received by the government in the economy = 190,000 | 13 percent = 24700

From this example, we can say that value added tax is tax, collected in various stages of production e.g. primary procedure i.e. farmer etc and manufactures and distribution (e.g. wholesaler and retailer) as a pie cement, on the basis of the value added, in the process of doing business.

Following are the characteristics of a full Fledged VAT system.

-) It is an indirect tax.
-) It is based on added value.
-) It is broad-based tax.
-) It is based on self-assessment system.
-) It avoids cascading and pyramiding effects.
-) It has the self-policing and catching up benefit.

Value added tax is a tax purposed on value added on goods and services by business firms at the successive stage of production and distribution. Value added is the excess of sales value over purchase by a manufacturing or trading firm during a period of time. A certain percentage of tax is levied on the "Added Value" at various levels of production and distribution. In this sense, a VAT is a multi stage sales tax (Kandel, 2007).

2.1.2 Introduction of VAT

The origin of value added tax (VAT) can be traced as far back as the writings of F. Vonsiemens, who proposed it in 1918 as a substitute for the newly established German turnover tax. Since the numerous economist have recommended it in different concepts. Also various comities have examined the in great detail. However, for its rejuvenation, the tax owes much to Maurice Lause and Carl shop. The recent evolution of VAT can be considered as the most important fiscal innovation of the present century (Purohit, 1993).

Value Added Tax (VAT) is the most recent innovation in the field of taxation. It is levied on the value added of goods and services. Theoretically, the tax is broad based as it covers the value added to each commodity by a firm during all stages of production and distribution.

VAT is considered as one form of sales taxation. It is multiple stage tax which has grown as a hybrid of turnover tax retail level sales tax. It is similar to a turnover tax in the sense that both these taxes are impose at each stage in the production and distribution process. VAT, however, differs from turnover tax as the turnover tax is impose on total value at each stage while VAT is imposed only on value added at that

stage. VAT is similar to the retail sales tax because the tax base of VAT (The consumption type VAT which is widely in several countries) and of the retail sales tax on consumer goods and services are identical. VAT, however, varies from retail sales tax in the sense that VAT is imposed at each stage of production and distribution while the retail sales tax is imposed only at one stage, the final stage.

Now a brief introduction of value added, the base of VAT is in order. Value added for a firm is nothing but its gross receipts from sales minus all expenditure on goods and services purchased from other firms. In the production and distribution process a firm buys materials from other firms. The materials may include principal raw materials, auxiliary raw materials, chemical, electricity and capital goods such as machinery, equipment, buildings, furniture, vehicles etc. The firm adds value these purchased materials by processing or handling them with the help of its own factors of production such as labour, land, capital etc. This increase in the value of output over inputs is the value added by a firm is the total of incomes paid out by the firm to factors employed. This means that value added by a firm is equivalent to its payment of wages, salaries, rent and interest plus its profit and value added is the base of VAT (Khadka, 1997)

2.1.3 Definition of VAT

VAT is shortening of Value Added Tax. VAT is a tax that is collected and settled by the selling company (of articles and services). The company subject to VAT (seller) settles the VAT to the public authority in the country where the seller is VAT registered (Google.com)

Value Added Tax (VAT) is the most recent innovation in the field of taxation and is an improved form of sales tax. The VAT is levied on the value added on goods and services at each stage in the process of production and distribution. VAT is levied on all types of goods and services except those specifically exempted by the law. Thus VAT covers all goods and services both imported and domestically produced, except those specifically exempted.

VAT is a tax not on the total value of goods being sold but only on the value added to it by the last seller. The seller, therefore, is liable to pay a tax not on its gross value, but net value, that is the gross value minus the value of inputs. The basic difference

between VAT and a sales of inputs. The basic differences between VAT and a sales tax is that the tax liability under VAT is split up into stages. Theoretically, the tax liability in the case of VAT and in the case of sales tax at the retail level should turn out to be the same. This because the total retail price is nothing but the value added to the raw material at different stages of "Production" and trade. In the case of VAT, the some total of created value is taxed in stages. The usual practice is to estimated the tax liability of the last seller on the basis of gross value of the produce and give him credit for the taxes paid by the earlier sellers (Bhatia, 1997).

The VAT, which is more broad based tax than sales tax, is operating in Nepal from Nov. 16th, 1997. Value added tax Act. 1995 didn't define the VAT. But define only tax. According to Value Added Act 1995, sec 2 (ka) tax means value added tax, which levy by this act (Value Added Act 1995). We can't say it is sufficient definition. VAT replaces the sales Tax, contract Tax, Hotel Tax and Environment Tax, which exist at that time. VAT is a modern tax system intended, when fully operational, to improve the collection of taxes, to increase efficiency and to lessen tax evasion. VAT has been designed to collect the some revenue as the four taxes it replaces. While the price of some goods and services will change, but there should not be an overall change in the price structure. Under VAT the number of taxable goods and services will increase but for the most part this tax will operate in a similar fashion to the existing sales tax. The changes that this new system introduces will, however make local business more competitive and will remove the tax from exports.

VAT is 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. In the VAT system, producers, distributors and people providing services charge VAT for the product or the services sold or provided and then claim a refund of VAT paid on the goods or services purchased to make these sales. If the tax on sales is more than the tax on purchase the person remits the differences but if tax on sales is less than the tax on purchase the person claims a refund for the difference (Shrestha, 2002).

2.1.4 Evolution of Value Added Tax

The concept of VAT was developed for the first time by Dr. Wilhelm V. Siemens in Germany 1919. The concept of VAT was developed further in 1949 by a tax mission to Japan headed by Prof. Carl S. Shoup. The VAT proposal was seriously considered by the German Government but as the tax was new and thought to be complicated, it decided to reduce the rate of turnover tax instead of introducing VAT. Despite this, VAT was considered as a improved form of turnover tax in the literature. The improvement consisted in the subtraction of previous outlays from taxable sales with the result that the tax base of each firm would be reduced to the value which it added to product (Sullivan, 1965).

In 1921 VAT was suggested by Professor Thomas S. Adams for the United States of America. Similarly, proposals are periodically made to have the federal government to adopt a VAT either as a supplementary revenue sources or as replacement of some taxes i.e. payroll or corporate income tax. In America, in 1953, the state of Michigan enacted a form of VAT as a compromise between groups seeking and opposing a state corporation income tax. The firms were required to calculate value added and apply the rate to this figure, rather than using the tax credit method regarding the tax as a change for privilege of business and, it was replaced by corporate income tax (Buchanen and Howers, 1987).

In the history of taxation, value Added Tax is the latest and emerging tax. Value added approach was discussed as early as 1918, however, this tax was firstly recommended by William Von Simens in 1919 in Germany to replace the multistage turnover tax in order to avoid the undesirable effects (Khadka, 1994).

A mission led by Professor Carl S. Shoup proposed a Value Added tax for Japan in 1949 and developed its broad structure. This mission suggested the Fuka-Kachi (VAT) for Japan in order to avoid the undesirable and unintended effects of the then Japanese enterprise and turnover taxes. However, the tax was considered very seriously. It was decided by the Japanese Government not to introduce it promptly, showing the cause of further study. Although the Michigan State of USA introduced a limited feature of VAT but the tax was not introduced by any country till 1953. In real practice, France launched the value added tax "The term value added tax on its origin

to French phrase tax *Aur La Valor Ajoutee*" The father of modern VAT is MC Maurie Laure who in his capacity as an official of French ministry of France developed the France levy. The VAT adopted in France was the result of the modification of the France production tax. The change involved two elements (a) extension of the tax through whole sale level (unit 1968, before jumping to retail level) (b) exclusion of capital equipment on a current basis instead of materials and parts alone. Thus, the French levy of this tax initially replaced the turnover tax, covering industrial sector and limited up to whole sale level. Despite this pioneer work, VAT could not cross to the boundary of France until 1959 (Subedi 1998).

2.1.5 Country Wise Implementation of VAT

After three and a half decades of the evolution of the concepts of VAT, France took the courage to put VAT into practice. France introduced VAT in 1954 at the wholesale level in the industrial sector up to 1959, this tax was confined to the boundary of France. In 1960 this tax was adopted by the Ivory Coast, in 1961 Senegal followed suit and in 1967 Brazil and Denmark adopted this tax system. There after many countries started adopting this tax.

In the 1960s, in the process of establishing the European community (EU), the policy to adopt a standard tax system among the members of the community was also adopted. In this context, it was decided that all member countries of the EU should adopt VAT by replacing their various types of indirect taxes. Since it became a precondition to adopt; VAT to become a member of the EU, the member countries started to introduce VAT into their tax system and gradually this became the standard tax system of the European countries. In the decade of the 1970s, VAT started to speared worldwide different countries of Asia, Africa, and North and South America started adopting VAT one after another. This tax system became a popular worldwide measure to bring about tax reforms and its adoption soon gathered global momentum. This fact can be justified by the increase as follows in the number of countries that adopted this tax.

Year	Countries that have started adopting VAT
1954	France
1960	Ivory Coast
1961	Senegal
1967	Brazil, Denmark
1968	Germany, Uruguay
1969	Netherland, Sweden
1970	Ecuador, Luxemburg, Norway
1971	Belgium
1972	Ireland
1973	Austria, Bolivia, Italy, United Kingdom, Vietnam
1974	Argentina, Chile, Columbia, Centrica, Nicaragua
1976	Honduras, Israel, Peru
1977	Korea, Panama
1980	Mexico
1982	Haiti
1983	Dominican Republic, Guatemala
1984	China
1985	Indonesia, Turkey
1986	Morocco, Newzealand, Niger, Portugal, Spain, Taiwan
1987	Grenade, Greece
1988	Hungary, The Philippines, Tunisia
1989	Japan, Malawi
1990	Iceland, Kenya, Pakistan, Trinidad and Tobago
1991	Bangladesh, Benin, Canada, Jamaica, Malta, South Africa, Egypt
1992	Algeria, Armenia, Azerbaijan, Cyprus, EL Salvador, Estonia, Fiji, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, Thailand, Turkmenistan, Ukraine, Uzbekistan, Moldova
1993	Burkina Faso, Czech Republic, Paraguay, Poland, Romania, Georgia, Slovak Republic, Venezuela
1994	Bulgaria, Finland, Lithuania, Singapore, Western Samoa, Maslghascar, Nigeria
1995	Gabon, Ghana, Switzerland, Zambia, Malta, Mauritania, Tobago, Latvia
1996	Albania, Guinea, Uganda
1997	Barbados, Congo Republic, Nepal
1998	Croatia, Mongolia, Srilanka, Tanzania, Vanuatu
1999	Cambodia, Cameron, Mozambique, Netherland, Antils, Papua New Guinea, Slovenia
2000	Australia, Chad, Macedonia, Namibia, Sudan
2001	Rwanda
2002	Lebanon

-) VAT was implemented fully in 1968
-) VAT was abolished soon after its implementation and reintroduced in 1999.
-) First introduced only in selected provinces and on selected goods in China, but since the achievement was not satisfactory it was implemented fully in 1994.
-) In Ghana, VAT was abolished after three months of its introduction in 1995 and was reintroduced again in 1998.
-) In Malta, VAT was introduced in 1995 and was abolished after a change in the Government in 1997 and it was reintroduced in 1999 (Khadka, 2001)

2.1.6 Value Added Tax in Nepal

VAT is a modern and scientific tax system. It is not similar to customs, excise duty, income tax or sales tax that has borne the traditional and historical heritage. It is not a tax that has been improved and amended and accordingly inserted or deleted. It is a tax of the 21st century since it is highly developed and refined. It is a tax that suits the present speed of knowledge, development and skill. Moreover, it conforms to the present context of liberalization, privatization and globalization. It is easily adoptable with the open economy system and matches with the private sector and the market economy of the present day. It is a tax that is transparent and has an inbuilt system of self control. There can be no difference of opinion on the above facts (Thapa, 2001)

Value added tax (VAT) is an important and essential tool to provide the right direction to Nepal's economy and the Government revenue policies. The need for innovative and fundamental reforms in the revenue policies of Nepal has been felt since a long time. In this regard VAT was perceived to be the most appropriate and a positive step. In the initial stages, the business community had opposed the implementation of VAT. But later on environment was created where the business community and other tax payers could accept VAT after knowing various positive aspects of VAT, including simplicity and possibilities of improvements in the other revenue policies.

It became easy to implement VAT as the coalition governments of various parties existed during the preparatory and the initial implementation stages of this tax. Finance ministers at different times expressed their commitment to implement VAT and to make it successful. This indicated that the ministers knew that VAT was a good

revenue policy. Thus, the tax payers become confident that VAT should be made successful and that improvement would be brought about in other revenue policies as well.

The reason for the opposition against VAT in the stage was not due to its weakness or any difficulty arising out of it. It was because of the three years of harassment from the tax administration, particularly the income tax and custom administrations and the fear that the revenue employees would make decision on their own will and collect taxes. It had been possible in the past, for the tax payers to reduce their liability by declaring lower value of their transactions. The apprehension towards VAT was owing to the transparency in the value of transactions, which would make it difficult to under-declare the turnover, leading to an increased income tax and customs duty as well as the possibility of more harassment by the tax administration (Joyti, 2001)

Nepal initiated a program of economical liberalization since 1990 several liberalization policies have been announced. The major thrust of these policies is to create more open, competitive and liberal economic environment in which the private sector can play leading role. In this regard, reduction in taxes rates is recent principle being adopted in many countries to promote privatization. But what Nepal is lacking is the expansion in its tax base. It has become necessary to reduce the number and level of tax rates, broaden the tax base and make the tax system more transparent in line with liberal economic policies. So Nepal should broaden the tax base along with the reduction in the tax rates. What is more important in this respect is the conversion of the existing sales tax into VAT. Selection of a good is an important step in connection with tax reform. VAT is definitely a better tax than the existing import/manufacturing level sales tax when one evaluates these taxes in the basis of revenue productivity, elasticity, neutrality, economic efficiency and administrative simplicity. VAT will bring the value added at the wholesale and retail levels under the tax net and will make it possible to further reduce the rate of other taxes, including income tax and import duties, thereby making the tax system economically more efficient. VAT will improve the efficiency the efficiency and competitiveness of domestic products in international market by relieving exports from internal commodity taxes. Furthermore, as VAT will be levied only on value added, inputs will be relieved from taxation, meaning that double taxation will be eliminated under

VAT. AS VAT will be levied right through the retail level, increases in the value of taxable commodities during the process of production and distribution would be reflected in the tax revenue which will make the tax system more elastic.

Like a sales tax, VAT can also be designed to have different forms. In this connection, there are two important varieties of VAT.

-) Consumption variety
-) Income variety

The differences between these two varieties emerge from the treatment of capital depreciation. If a firm is allowed to deduct the entire credit when the capital equipment is purchase, the system is termed as consumptions VAT. If the firm is allowed to deduct the credit as the equipment depreciates overtime; the system is term as income VAT. Nepal adopts consumption VAT (VAT Project, 2009).

2.1.7 Historical Background of VAT in Nepal

The concepts of VAT in Nepal were introduced in early 1990s. Nepal government indicated its intention to introduce VAT in the eight plans. Subsequently, the finance minister declared to introduce a two tier sales system to make the base of implementing VAT from the Fiscal Year 1992/93. A VAT task force was created on 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 it's implementation was delayed due to the political instability and strong opposition from the business community. VAT has been fully implemented with effect from 16, November, 1997. It has replaced sales tax, total 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 imbalances and need for extra revenue mobilization through an efficient tax system (Bhattarai and Koirala, 2004)

2.1.8. Objectives of VAT in Nepal

The major objective of introducing VAT in Nepal is to improve the tax system structurally, and enhancing revenue productivity. In the sense that the tax system which needs to be neutral among investment and consumption, the objectives of VAT in Nepal are specified as:

-) To encourage competitiveness in industrial production and sustainable development.
-) To make foundation for paying tax voluntarily by means of structural improvements, by reducing the cascading effects of the tax system and developing neutral tax system.
-) To increase tax export by means of zero rate in exports.
-) To introduce tax based on business transaction by reducing the discretionary power of tax administration. To collect more revenue through a board base and at a low rate.
-) To enhance revenue productivity by make the tax administration transparent and efficient (Finance minister, 1995).

The one of the bases of introduction of VAT in Nepal was because of its worldwide success. According to the value Added Tax Act 1995 the purpose of VAT in Nepal is:

-) For increasing revenue mobilization by making effective the process of collecting revenue required for the economic development of the country.
-) To impose VAT in all transactions including the sales, distributions, delivery, importation and exportation of goods services and
-) To collect revenue effectively by regulating the process of collection.
-) It is intended to increase revenue mobilization by converting broad coverage and making the process of collection effective (VAT Act 1995).

2.1.9 Need to Introduce VAT in Nepal

Nepal initiated a program of economical liberalization since 1990 several liberalization policies have been announced. The major thrust of these policies is to create more open, competitive and liberal economic environment in which the private sector can play leading role. In this regard, reduction in tax rates is recent principle being adopted in many countries to promote privatization. But what Nepal is lacking is the expansion in its tax base. It has become necessary to reduce the number and

level of tax rates, broaden the tax base and make tax system more transparent in line with liberal economic policies so, Nepal should broaden the tax base along with.

2.1.10 Preparation and Implementation of VAT Programme in Nepal

VAT Act came into Force on November 16, 1997. When the sales tax Act 1996 (The Hotel Tax Act 2018, The Contact Tax Act 2023 and the Entertainment Tax Act 2016) were also repealed on November 16, 1997. The Entertainment tax however continued to be levied until the end of 1997/98. Under the Finance Act 1997 even after the introduction of VAT was replaced. The import/manufacturing level sales tax was converted into VAT on this date.

Eight Five Year Plan (1992/93-1996/97) Adopted - A

Policy of Adopting VAT

July 11, 1993	The 1993/94 Budget stated that VAT could be introduced within a year or two.
September 1993	Formation of VAT steering committee and VAT task force, commencement of the Technical Assistance of the Harvard Institute for International Development under the USAID Financial assistance. This assistance was suspended in 1995, resumed in February 1996 and continued until September 1997.
	DANIDA has been extending technical assistance since 1997.
March 7-27, 1994	First VAT training for the tax officers was organized in Kathmandu and since then several courses on VAT have been organized in various places.
April 24, 1994	First VAT interaction program with FNCCI, several other programs have been organized since then.
May 15, 1994	First VAT interaction program with the Nepal Chamber of Commerce. Since then several interaction programs have been organized with the Nepal Chamber of Commerce and various, District Chamber of Commerce and industry all over the kingdom.
July 14-16, 1994	First VAT training program for the representatives of FNCCI. Since then several such programs have been organized.
October 30, 1995	VAT steering committee reconstituted
December 3, 1995	VAT bill was presented to the lower house of the parliament.
December 24-26, 1995	VAT bill was discussed in the economic committee of the Parliament.
December 27, 1995	Chairman of the economic committee of the parliament submitted report of the VAT bill to the Lower House of the Parliament.
December 30, 1995	VAT bill was passed by the Lower House of the parliament.

January 4, 1996	VAT bill was passed by the Upper House of the Parliament.
March 3, 1996	VAT interaction program was organized with Pharmaceutical association. Since then many interactions programs were held with almost all commodity associations.
March 11-12, 1996	VAT training Program for journalists.
March 20, 1996	Royal Assent on VAT bill.
July 16, 1996	Conversion of the sales tax and Exercise Administration into VAT administration.
August 12-20, 1996	VAT interaction programs for Parliamentarians.
September 17, 1996	VAT interaction programs for Chartered Accounts Association. Since then many VAT interaction program were organized for several other professional group.
November, 14, 1996	A VAT Task Force was set up with members from administration, FNCCI and Consumer Forum.
January 24, 1997	The Cabinet approved VAT regulations.
March 24, 1997	Formation of the National VAT steering committee consisting of representative from HMG/N, FNCCI and Donors.
August 1, 1997	Formation of VAT Task Force with members from HMG/N and industries and commerce sectors.
September 21, 1997	Approval of VAT manual by HMG/N.
September 16, 1997	VAT went live.
December 15, 1997	Formation of a VAT Technical Group in order to solve VAT Implementation problem.
February 13, 1998	Completion of 90 days period for compulsory VAT registration.
April & May 1998	Series of discussions between the government and the private sector representatives on various tax issues, including VAT.
July 10, 1998	Introduction of several new provisions relating to VAT through the Finance Bill 1998.
September 1, 1998	Agreement between the government and private sector representatives on various taxes issues including VAT. This is known as "39 points agreement".
July 11, 1999	Several proposals were introduced in the customs duties, Income tax and VAT through 1999/2000 Budget and the Finance Bill 1999 in order to create a congenial atmosphere for the smooth implementation of VAT.
August 5, 1999	Ministry of Finance simplified several procedures relating to customs duties, income tax and VAT through a notification

As per the gazette notification of the government, all sales taxes registered firms in the middle of November 1997, 2045 firms were registered for the sales tax were supposed to be converted into VAT registrants by November 16, 1997. Other firms, which were not registered under the sales tax, were required to be registered within 90 days from November 16, 1997 (Danida-RAS).

2.1.11 Revenue Policies and Implementation Strategy of VAT in Nepal

2.1.11.1 Revenue Mobilization

Essentially, government needs a huge resources in order to alleviate wide spread poverty in the country. Government involvement in various sectors like: Physical infrastructure development, social service expansion, maintenance of law and order situation guaranteeing welfare to ethnic groups, rural and remote area development etc and there by accelerating the economic growth call for adequate domestic resource mobilization. Therefore, revenue mobilization, which has become a significant part of domestic resources mobilization should be accelerated and made sustainable (Tenth plan, 2002-2007).

Mobilization of internal resources helps significantly to cover increasing government expenditure, to increase investment rate as well as to maximize the use of external assistance. In this context various policies were adopted in the eight plan to make necessary changes in the tax structure. The VAT was implemented. Custom tariffs were lowered down for bringing uniformity. Excise duties were gradually phase out. The scope of income tax was broadened and simplified and revenue administration was made more capable and efficient. Regarding the external assistance specially by obtaining loan for productive sector and grant for other development programmers.

During the plan period, revenue groups was formed with the objectives of making necessary change in the tax structure and making revenue administration more capable and efficient. Import tariffs were classified into five categories for uniformity in import tariffs rate tax. Regarding the implementation of VAT, various public interaction and publicity programmers as well as seminars were organized as a part of preparatory work and the parliament approved the bill concerning the VAT (Ninth Plan, 1997-2002).

2.1.11.2 Long Term Concept of Revenue Mobilization

With a view to mobilizing government finance, various structural improvement targets have been fixed since FY 1997/98 for the next 20 years. Following policies will be implemented to increase the share of tax on internal revenue especially direct tax and tax on internal consumption by reducing the dependency on revenue from import and for foreign assistance, especially debt:

-) Income tax, property tax and tax on internal consumption Value Added Tax (VAT) will be made transparent, effective and capable and will be integrated with over all national economy. Import duties reduced to make national economy more competitive, and will be based on market economy. In addition to making administrative machinery fully professional efforts will be made to honor tax payers.
-) Foreign investment will be gradually encouraged in the private sector. To give emphasis on institutional development, revenue policies will be adopted in a way to limit the role of government privatization of government enterprises will be accelerated and the revenue received from privatization will be utilized for dept relief.
-) The share of national saving will be increased up to 30 percent of GDP.
-) The level of recurrent expenditure will be brought down to 6 percent of GDP and the net internal borrowing will be limited to 0.5 percent. A policy will be undertaken to make government expenditure reach the targeted aspects of social and economic sector. Market economy will be encouraged through the medium of public expenditure.
-) By devising long term strategies and concept, foreign assistance will be canalized in the sectors that are indispensable and give high rate of return based on cost-benefit analysis. Emphasis will be give to increase the capacity of utilizing foreign assistance by mobilizing it in necessary areas in conformity with the concept of long-term development plan and the various aspects of national economy.
-) Revenue will be increased annually by 0.5 percent of the GDP with the identification of new sources of additional revenue mobilization.

a. Objective

The objective of the Tenth Plan are to increase revenue elasticity by broadening tax base, maximum mobilization of domestic resources and gradually reducing dependency of foreign assistance.

b. Quantitative

-) By the final year of the plan, the revenue ration is targeted to be 14 percent of GDP.
-) As percent of gross domestic product, direct tax, indirect tax and non tax are targeted to be 3.5, 8.7 and 2.8 percent respectively.
-) The number of income tax payers will be increased to 3,00,000 similarly, number of "Value Added Tax" registered tax payers will be increased to 40,000.
-) Contribution from revenue surplus to development expenditure will be maintained to minimum of 22 percent by the end of the plan.

2.1.11.3 Policy and Implementation Strategy

Mobilization of Internal Resources

-) Emphasis will be given to increasing the national saving by discouraging unproductive and wasteful expenditures. Efforts will be made to change all sectors of the country's economy into monetization and market economy. NGOs will be also be mobilized to convert household savings into financial assets for the development of financial institution especially in the rural areas. In addition to mobilizing savings, efforts with be made to have efficiency and simplicity in the activities of the financial institutions will be assured. An action plan will be implemented to increase investment of the institutional and micro credit finance. National savings will be increased through the expansion of services and quality improvement in education, health, transportation and insurance so that the tendency of capital outflow is discouraged.
-) Special attention will be given to developing the capital market. Nepal will be developed as an offshore finance centre. Investment opportunities will be created through promoting the availability of capital through financial market development.

-) As regards the revenue policies, emphasis will be laid on direct taxes, especially income tax and other related taxes. Overall improvement will be made in acts, regulations and processes relating to taxes so that the system of direct tax will be made transparent, effective, comprehensive, simple and efficient and also to win the confidence of tax payers. Feasibility study will be carried out to improve the present tax system by identifying different sources of tax and bringing them within the tax framework. A system will be introduced to discourage the tendency of tax evasion by developing a data system that will be help to identify the tax payers as well as other areas like agriculture, export, purchase or handing over of assets, capital gain, gift, donation and other such activities. Minimum alternative concept of tax based on total assets will be brought into practice. Arrangement will be made to finalize the cases of tax disputes through special judicial system. Opportunities for career development of civil servants as well as for penalty system will be based on specific job performance records. Training and skill development progress related to accountancy will be carried out so that the tax administration will become efficient, professional and fair.
-) By acceleration people's awareness on the Value Added Tax, the VAT will be explained to the entire area of internal consumption and develop as a main basis for internal revenue. Data on tax payers will be specially monitored. Tax refund system will be made more effective. Special programmers will be launched to make tax administration more efficient, professional and capable. Efforts will be made to increase tax yield by developing and integrating special computerized data system with internal import and overseas export, internal production data and the data used for income tax purpose etc. Excise duty will be developed as a reliable source of revenue and will be applied to the limited sectors of internal production.

Strategy

-) To bring about effectiveness in revenue mobilization, the tax based will be broadened through structural reforms. To develop value added tax as primary sources of domestic revenue, its scope and coverage will be expanded. Customs tariffs will be further simplified by bringing every income generating sector within the income net tax.

-) Administrative and legal reforms will be prepared to make tax administration simple, transparent and perfect. The mechanisms designed for controlling revenue leakages will be used effectively.
-) Non-tax revenue will be increased through reforms on income and dividend received from telecommunication, electricity and drinking water sector through the cost based pricing. Likewise, reforms will be made in other sectors for this purpose.

Policy

-) Broadening the tax base through institutional (related to strategy 1)
-) The direct and indirect tax will be adjusted in consonance with foreign trade structural protection of domestic industries, accession to the World Trade Organization and South Asian Free Trade Arrangement (SAFTA).
-) Areas where VAT is waived will be reviewed. Arrangements will be made to adopt the task of issuance of tax invoice up to consumer level and to implement it strictly.
-) Adjustment will be made in custom tariffs in the context of World Trade Organization Membership.
-) "Public-private sector partnership", will be promoted to increase participation of the private sector on revenue policy formulation.
-) Proceeds realized through privatization of government enterprises, will be used in clearing the liability of the government enterprises and in repaying in government loans.
-) Various awareness and promotional programs will be initial to bring potential taxpayers into the tax net.
-) An interpreted information system will be developed for the regular monitoring of revenue policy reforms and implementation.
-) A permanent revenue board will be established and activated for making institutional arrangement that assists in providing prompt understanding on current situation of the economy and assist in financial decision making.
-) Setting tax administration simple, transparent and healthy (related to strategy 2).

-) The monitoring capacity of the agencies involved in controlling revenue leakages will be extended and the effectiveness of the monitoring units that are working at the central level will be increase.
-) Professionalism of staff revenue administration will be enhanced through regular trainings.
-) Revenue laws will be made more transparent and practicable by removing impediments in the areas of custom tariffs, excise, VAT and income tax.
-) Design and implement performance indicators applicable to specific units and to staff up to executive level.
-) The monitoring process will be made more effective by setting up permanent revenue policy.
-) Revenue tribunal will be made active for early settlement of tax litigations there by reducing the tax arrears. A separate institutional arrangement will also be made for the management of the tax arrears that exist after the decisions made by the tribunal.
-) Non-tax revenue will be increased through reforms in dividends, duty and loan/investment. (related to strategy)
-) Price of goods and services to be sold by the public sector will be governed by cost and prevailing market price with a view to argument the share of non-tax revenue.
-) The dividend policy will be reviewed every two years to help realize and appropriate rate of return on investment made by the government in the public enterprises.
-) The principal, interest and royalty due from the public enterprise will be claimed, on a planned basis, as per investment made by government in that enterprise.

2.2 Review of Related Studies

It covers review of past studies conducted by other researcher such as review of thesis, research articles and project reports. The review entails name of researcher, years of research, research objectives, brief description of the methodology used and main findings of research.

In a study held in 1973, on Value added tax in developing countries (Lent, 1973), George E.Lent, Milka Casanegra and Michael Guerard state that following the adoption of value added taxes by Western Europe Countries, many developing countries have been giving increased attention to this form of tax as a means of rationalizing their sales taxes and improving their revenue.

The study was purposed to examine the applicability of VAT in developing countries. After the empirical study of VAT structure of seven countries i.e. Brazil, Equador, Ivory Coast, The Malgasy Republic, Morocco, Senegal and Uruguay in 1973 and draw the principle, features of VATS in developing countries. Applying comparative analytical methodology and covering the issues such as revenue importance of the VAT, problems of administration, comparison of the VAT with other forms of sales tax, only with a comprehensive and uniform coverage it is possible to achieve a truly natural sales tax i.e. VAT.

The government of India in 1978 appointed L.K. Jha as the chair person of the committee to examine "The adoption of VAT at retail level" (Stout, 1973). Such committee was called Jha committee. After study, Jha committee presented the report in which the VAT was Rejected by saying no need to adopt comprehensive VAT because of administrative constraints, constitutional problems and revenue consideration. But Jha committee concludes VAT can deliver better satisfactory solution of excise duty. It means VAT Should be applicable at manufacturing level.

A study held in 1988 by Se-won Chang and Ma. Lourdes B. Recente on the VAT experience in Republic of Korea (Se-Won and Recente, 1988) states that the adoption of VAT was a responses to the complex problems arising from the indirect tax structure. One of the reasons for adopting the VAT was to simplify the indirect tax structure in Korea. This was also expected on contribute to reduction of the price of commodities in the domestic and exports markets. Similarly, on the advantage of VAT expecting to eliminate cascading effect of taxation, efficiency in resource allocation, to increase revenue for the government (although it was not primarily introduce to increase government revenue) being it a broad based and built in cross-checking mechanism, VAT was introduced in Korea in 1977.

The study pictures out the VAT very precisely and detail after its implementation and visualizes the conditions of the Korean economy before and after its adaptation using, with descriptive and analytical methodology, covering various empirical studies and proposals made 'by various researcher, economists and practical men for VAT reforms in Korea. The study draws the pre-VAT scenario saying that prior to adoption of VAT. The system of indirect tax in Korea was complicated and distortionary with several taxes and rates. The study covers the issues reasons for adopting, VAT, Guidelines for adopting VAT, the VAT structure, the preparation for VAT reform, implementation, administration and problems, measures to improve it and conclusions giving various data's and illustrations.

Korea has introduced the consumption types of VAT covering all stages of production and distribution, charged on supply of goods and services including imports with 10 percent of normal rate, applying tax credit method for calculation, zero rating on exports and basic necessities with some exemptions in very small firms and supplemented the VAT by excise duty on luxuries and giving special tax payer's facilities to small business.

Due and Meyer (1988) examine that VAT is Dominican Republic. The VAT in Dominican Republic was in effect from November 1983. However, the general reaction towards the tax was hostile from the business sector. Labour unions as well as political parties opposed the tax. Much of complain rose from increased record keeping requirements because the commercial sector of economy was dominated by small and medium sized business. The other main objection was due to the belief that VAT was responsible for increase inflation but the inflation was due to other reasons. There was a general agreement that the enforcement of the tax had not been adequate mainly because of the lack of personnel. Evasion was wide spread, many firms failed to register. The overall evaluation of the tax in the country therefore remains rather negative. While the tax has brought additional revenue, the inadequate enforcement and failure to extend it to the commercial sectors as planned, and the use of make shift, distorting system in the latter, have resulted in serious failure to attain the advantage of a complete value added tax. The experience of the country with the tax provides a warning to other developing countries not to attempt to use a value added tax extending beyond the import and manufacturing sectors without careful

consideration of the ability of the wholesale and retail sector to operate the tax, and general attitude of these sectors towards the tax.

Ahmand and Ludlow (1989) identify the alternative tax reform packages on VAT for Pakistan keeping the distributional consequence in consideration. The authors have their own method for the tax reform analysis. In the first step, they describe the existing taxes and then, examine the consequences of the tax changes (and thus price changes) on households, resulting government revenue and also implications for production. They analyze and compare the consequences of different options such as the signal rate VAT with selective exercise and some exceptions (or zero ratings) and multiple VAT rate. The reform with equal revenue and the reform with additional revenue as well as the production implications of tax reform are also considered. The work shows that instrument can be designed to increase revenue and at the same time, protect the poor. A value added tax supplemented with selective excises would have made Pakistan's tax system more buoyant and reduced the production distortions inherent in Pakistan's tax system and not at the expense of the poor.

Binguang Hsiung (1991) has made an effort to assess the VAT in Taiwan, which was in effect since 1986. According to her, the VAT in Taiwan was implemented in order to increase the competitiveness of exports and improve the efficiency of business tax structure. VAT had replaced business receipt tax, stamp tax and commodity tax, which constituted 28 percent of total tax revenue. The impact of VAT showed that the business tax revenue increases considerably although the reform was aimed to be revenue neutral. Adoption of VAT did not cause price fluctuations. Another surprising impact of VAT was that the revenue from the business income tax increases significantly immediately after the adoption of VAT. This may be attributed to the cross-checking procedure provided by VAT. As for exports, there did not seem to be a direct link between VAT and exports since exports are influenced by a number of factors. The tax fell heavily on the public sector business and they were more affected by VAT than the private sector business. Generally, it can be said that the VAT system tremendously improves the efficiency of tax collection. However, there are some rooms for improvements especially in administration. The experience of Taiwan has attested to the superiority of VAT in taxing business activities.

Jantshcer and Silvani, Who have extensive first-hand knowledge of VAT in Europe, Latin America and Asia, presented their research paper entitled as "The guidelines for administering a VAT (Grahma, 1991) in the seminar on "The value added tax in Asia" organized by IME and UNDP. For effective and proper administering VAT, the emphasize registration and tax payers identification, invoicing and book keeping requirements and collection function, including the role of electronic data processing.

Due and Greany (1991) tell a successful story of VAT in Trinidad and Tobago in their paper, "Trinidad and Tobago: The development of VAT" A Value added tax of general type went into effect in Trinidad and Tobago in 1990. Development of VAT was carefully planned and it went through the several phases from 1986 to 1989. A tax performance committee was established to review the current tax system and developed a preliminary recommendation for direction of reforms. The studies showed that the existing tax system was in urgent need of revision for several respects. The value added tax was put forward as an alternative. Further, the issues such as choice of rate, structure exemption, tax administration etc. were resolved for the final adoption of VAT. The structure of VAT was drafted in the final report after a careful examination of several issues including revenue and equity with the development of analytical models. After so many details works, it was finally drafted and passes by the legislation in 1989.

The VAT was well received and also welcomed by the business community. One year's experience showed that the operation was reasonably satisfactory. It yielded the previous expected and forecasted results. For its success, there were several reasons such as careful planning of tax-structure and administration, a close co-operation between the government and business sector, the extensive publishing program, the co-ordinate reform (reduction) in purchase tax and income tax and selection of competent person in key positions. There are several things that can be taken as suggestions from Trinidad and Tobago for the introduction and operation of VAT to other developing countries as well.

On key questions considering value added tax for central and Eastern European Countries (Cnossen, 1992). Prof. Sijbren cnossen developed a model for central and eastern European countries, on the base of the observation on the value added tax in EC and OECD countries. In this article, he states that it requires nearly complete

overhaul of the tax system and in most countries the introduction of VAT is considered a corner stone of the necessary tax reform," In addition, he describes that this form of taxation is world wide, apart from that of a transaction based, accounts controlled VAT in the market economy based on the free enterprises and pricing system." At last, he has concluded that an appropriate VAT for central and eastern European countries has proceeded from the widely agreed promise that the tax should be used almost exclusively to generate revenue for government budget in as neutral and administratively feasible manner as possible. While the income tax can be employed to achieve distribution objectives and excises and imports duties to attain allocate goals, the focus of the VAT should be on revenue.

Dr. Rup Bahadur Khadka as a research fellow at Phillips University, Merberg, Germany, in his study on a review of the Nepalese sales tax (Khadka, 1993) states that it is therefore, necessary to introduce a full fledged VAT in order to streamline the sales tax system in Nepal. Briefly discussing the sales tax system of Nepal, its history and needs to introduce VAT in Nepal, the study points out the weaknesses of Nepalese sales tax system i.e. inefficient , tax evasion on sales, inequitable and complex. So, he includes a chapter "move towards a VAT" and states that the import/manufacturing level sales tax gained some features of a value-added tax in Nepal in 1985. When, an advanced sales tax system in the place of suspension system was introduced.

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

Dr. Rup Bahadur Khadka, published on article on Probability of VAT in Nepal. (Khadka, 1995) reached a conclusion that a VAT, theoretically, is the best alternatives to remove limitations of present sales tax system of Nepal .He further adds "the merits

of VAT do not appear voluntarily. For this implementation aspect of VAT must be efficient. The implementation aspect of tax depends on the capacity of the tax administration co-partnership of tax payers, accounting system of the business sector and political confidence etc. So, it needs full preparation before introducing VAT in Nepal.

Shahabuddin M. H. (1995) investigates income distributional implications of different VAT schemes in Bangladesh in his paper the equity impact of Value Added tax in Bangladesh. Applying the method developed by Ahamad and Stern and using the data of household consumption expenditure and input-output table, the results obtained indicate that a revenue- neutral uniform VAT is regressive (relative to pre-reform situation) in its impact on the income of different households. The paper also explores the income distributional impact of an alternative policy package, and the welfare consequences of the alternative package are found to be superior to those of uniform VAT. The findings of the study suggest that, among different possible VAT schemes, a selective VAT with exemption or zero ratings and additional exercise is clearly preferable than to a complete uniform VAT if the distribution issues are of dominant concern in tax reform.

Khadka has developed his experience and knowledge achieved in the study tour in Germany into small booklet named as a report on the German Tax system study tour (Khadka, 1996). This book covers all useful discussion held in Germany with policy makers and tax administrators as well as the tax payers on the various related topics. Besides, the study observes the tax administration, training center, tax rates, the existed tax system and the distribution of the collected revenue. In relation with VAT, the government of Germany includes VAT as a shared tax. In this category, the collected revenue from the various tax system are distributed among the different levels of the government. VAT is imposed on the value added at all stages of production, import and distribution. The revenue received from the VAT tax by the state government is distributed on the basis of population. Further more, when data becomes available, a sound policy can be formulated and a tax system be made on the basis of the result of introduction of VAT in Germany. When introducing VAT, the number of tax payers will increase significantly and will be difficult to do all the work manually such as checking whether the tax payers have submitted the tax forms or

not. Paid the tax or not or whether the interest is paid or not. It is essential to introduce a computer system which is suitable to the country even though the standardized system developed in countries.

Khadka R. B. (1996) in his paper A VAT for Nepal focused on the proposed structure, operation and administration set up of a VAT for Nepal and necessary steps to be taken for its early introduction. In its proposed structure, the coverage of VAT should be made as broad as possible covering all business transactions. Exemption should not be granted unless there is a specific reason to do so, such as administration and equity. Zero rating should be limited to exports, and tax rate should be single to avoid complications and inefficiencies in collection.

The proposed operation of VAT requires that the tax payers above a threshold limit should be registered, the vendor should issue an invoice for each sale, keep a clear account of his purchases and sales (separate accounts for zero-rated, exempted (and positive rated goods) and VAT liability should be calculated on its taxable sales, tax credit method should be used as a method of computation of the tax, and tax payment and refund period should be of one month. The present sales tax and excise department should be restructured drastically to administer a VAT. Officer level posts should be increased considerably and extensive training should be provided including the operation of computer system. A VAT implementation team including experts and persons from every field should be set up. A detailed preparation should be considered as a pre-requisite for the introduction of VAT. A comprehensive VAT education programme must be launched to educate the tax-payers.

In a research under title of tax reform in Singapore (Jenkins & Khadka 1998) Glenn Jenkins and Dr. Rup Khadka has made an effort to assess the VAT in Singapore, which was in effect since 1993. This working paper carries the successful story of VAT's introduction and implementation in Singapore to be a good lesson for the non-VAT countries and W-11 'i' countries. According to the authors, Singapore put forward the VAT/GST in order to make Singapore's economy internationally competitive. In this direction, government of Singapore formed a task force committee for the tax reformation. The committee recommended that the government must shift from direct to indirect taxes as its main sources of revenue.

The research papers concluded that Singapore would be facing the problem of an aging population. In such a situation, income taxes will put a greater burden on a smaller group of younger, working Singaporeans; this might inhibit growth and enterprise. It is therefore, necessary to introduce a broad-based tax like GST/VAT to distribute the burden of taxation among a larger section of the population, GST is a tax on consumption and several features. It relieves investment and saving from the tax burden and rewards enterprise and strengthens economic resilience. GST relieves exports commodity taxes through the zero rating mechanism.

Since, VAT is a fairer tax and is levied on a large section of the population, including the self-employed; it is less affected by economic cycles. GST provides more stable sources of revenue than many other taxes. The main objectives of Singapore to introduce VAT is make its economy internally competitive, to promote exports and to develop broad based and more stable sources of tax revenue.

In an article on the value-added tax and Developing countries (Shoup, 1998), Ca, Ls, S. Shoup points out that A VAT is a tax on the value that a business firm adds to things it buys from other firms in producing its own products. A VAT is comprehensive if it covers all economic activities. From the earlier stage of farming or mining right through 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 well. Considering the problem of deducting the capital goods, consumption type of VAT is superior than other forms. In calculation, tax-credit method is the universal one. In the VAT system, the tax payer's responsibility spread much better exempt's producer's goods. VAT is more revenue productive, self-enforcing and if goods and basic necessities are to be zero-rated regressively may be reduced. Similarly, on the other hand, its complexity is difficult both in the case of compliance and administration or collection, inflationary in nature, more problematic in developing countries.

2.2.1 Review of Books

Carls Shoup in his famous book 'Public Finance' considers value added tax as the latest and probably the final stage in a historical development of general sales tax, which is imposed on the 'value-added' by the business firms. VAT is the differences between sales proceeds and the cost of materials etc, purchased from other firms which are the tax base of a VAT. A firm adds value added by processing or handling these purchased items with its labour force and its own machinery, buildings or other capital goods (Shoup, 1969).

David N. Hyman in the book "The Economics of Government Activity" opines that the VAT is simply multi-stage sales tax which exempts the purchase of capital goods and services from the tax base. By exempting capital outlays at the time of purchase consumption type of VAT provides a kind of investment tax credit incentive (Hyman, 1972).

VAT in its comprehensive form is a tax on all goods and services (except export and governmental services). Its special characteristics being that it falls on the value added at each stage from the stage of the product to retail stage (John, 1976)

In the book Government Finance in Developing Countries (Richard, 1986) Richard Goode describes VAT as the most important tax innovation of the second half of the twentieth century and its classified as a form of sales tax on consumption. The tax applied to the value added at production and distribution that is to sales proceeds less purchase of material inputs and certain services.

Margaret Nicholson explains value added tax is a tax on the supply of goods and services which is eventually borne by the final customers, but it is collected at each stage of the production and distribution chain value added tax which is generally abbreviated to VAT, is charged on the supply both of goods and of services by firms who are registered and taxable for VAT. VAT is an indirect tax charged as a percentage of the selling price on certain services and commodities. The percentage rate is set by the government and is changed from time to time via the budget. Registration of VAT is compulsory for persons and firms whose turnover is in excess of the threshold limit (Margaret, 1989).

Dr. Rup Bahadur Khadka, an expert of Nepalese tax system, in his book, entitled VAT in Asia and the Pacific Region, (Khadka, 1989) writes – VAT is the most recent innovation in the field of taxation. It is levied on the value added of goods and services. The tax is broad based as it covers the value added to each commodity by a firm during all stages of production and distribution. This book has covered all aspects of VAT including the nature of VAT, reasons for the growing popularity of VAT, development of VAT, etc. This apart, the report examines the structure and operation of VAT, in the Asian Pacific Countries which also explores the possibility of introducing VAT in Nepal probably he is the person of observer of VAT abroad and the firstly proposed VAT for Nepal with micro studied of Nepalese economy and system.

Khadka, R. B. (1994) in his book 'Nepalese's Taxation: A path for Reform, has reviewed the development of Nepalese tax system, analyzed its existing problems and studied the feasibility and possibility of tax reform. He lights on the domestic and international economic scenario. Then, he states that in Nepal, tax reform has become necessary and possible due to both internal and external factors. Further, economic reforms, including tax reforms, have been taking place very rapidly in South Asian countries including India, Pakistan and Bangladesh, and they exert pressure in order countries including Nepal. In context of Nepal, he states the forgoing clarity indicates that the Nepalese tax system does not satisfy the criteria of a good tax system. Moreover, poor enforcement has only served to distort the Nepalese tax system to an even greater extent. It is therefore, necessary to rationalize the structure and operation of the Nepalese taxes and strengthen the tax administration.

VAT is levied on the basis of value-added to the value of a product at each stage of its sales in the process of production and distribution. In other words, it is assessed at each stage only on the increase in the value of a commodity since the last transaction (Sharma, 1994).

Dr. Khadka, R. B. (2000) in this latest book *The Nepalese Tax System* points out the need to introduce the VAT in Nepal. In his book, there are several reasons to introduce VAT in Nepal. One of the important reasons was to develop a stable source of revenue by broadening the tax base. Moreover, Nepal will help to become less dependent on international trade taxes for its revenue in the future. Since, it will no

be in a position to levy import duties on trade that take place within the South Asian Association for Regional Co-operation (SAARC) region after the implementation of the South Asian Free Trade Arrangement (SAFTA). Nepal has applied for the member of the World Trade; Organization (WTO), which will also have to be considered in this context.

Narayan, P. Silwal, in his book Value added tax: A Nepalese experience (1999) has expressed his practical experiences about VAT. The book covers all aspect of VAT. In writers word: VAT is an all stages non-cascading tax system. It extends to all level of production and distribution. Similarly it covers all stage and services. Any discrimination in taxing goods or services or exempting any of them renders VAT ineffective (Silwal, 2002).

The book mostly concentrates on Nepalese tax system. The book clearly analyze why the government of Nepal Introduced VAT. HMG announced retail level sales tax at the rate of ten percent covering a whole range of goods and services. There was no procedural law to administer it. 'When RST introduce in Nepal, literacy level was just meager and building and record keeping was fanciful. In this situation, required revenue cannot take place, which is turn into the development expenditure. So that, a modern efficient and neutral tax like VAT was preferred to get rid of past anomalies.

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

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

- i) Tax base issues
- ii) Rate Structure issues
- iii) Exemption issues and
- iv) Threshold issues.

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

A value added tax is a tax assessed at each steps of the production and distribution process, levied on the difference between purchase costs of an assets and the price at which it can sold (the amount of value added on it). Tax is added to a product's price each time it changes hands until delivery to the customer take place when the final tax is paid (Encyclopedia of Management, 2006)

2.2.2 Review of Articles

In an article Value Added Tax: Its problems and prospects in Nepal it is stated that most of the developing countries are now engaged in the study of VAT very seriously and most of the economist of all countries have realized that the VAT only is the source of tax revenue which has very high tax potential yield among the existing tax systems. It will not be an exception for Nepal. VAT is said to be a consumption tax, by whom the taxable goods and services are consumed will ultimately pay the tax. If any goods become spoiled before consuming it will not liable to tax. The features of VAT are stated as following:

-) Input tax credit: on tax paid on earlier stages.
-) Neutrality: VAT does not offer unnecessary burden of tax in any sector.
-) Compulsory invoice system for its good operation.
-) Wide tax coverage: Covering retailing services and others: Similarly possibility of tax evasion and cheating is also minimized.

Pointing out the problems of VAT in Nepal the author says "When retail" level sales tax was introduced firstly in 1965 there appeared several absurdities such as : very low monitoring and supervision skill of the tax administration, very informal relating system, lack of compulsory invoice system and lack of skilled and experienced administrators were seen, which are exactly remained ever today leaving very few improvements. So value added tax is problematic in Nepal."

-) Cost to administer a VAT is the next problem where administrative cost may increase.
-) Negative impact of the VAT is the problem of "rise in consumer's price."

In the Nepalese condition of very low literacy and monetization of the economy, a compulsory invoice system may prove superficial. Lastly the recommendations made about VAT in Nepal are:

We cannot ignore the merits of VAT by showing the artificial difficulty of price rise. Before introducing the VAT in Nepal some unnecessary conditions should be fulfilled. They are as follows:

-) Change in the organization of the tax administration: to monitor, handle and to make supervision of a VAT, a task Force for the necessary preparation for it is recently needed.
-) Development in personnel and staff to administer VAT: Personnel should be prepared selecting from tax administration staff and from general administration, and providing them training.
-) Sufficient information system about VAT should be developed and introduced.
-) Choice of the tactics and policies should be developed. Firstly introducing it through wholesale level setting the low rate (10 percent initially)

In conclusion it is highlighted that "there is no condition of waiting for a long period of time to introduce VAT in Nepal". But the effort is only the theoretical one.

In an "Value Added Tax: it is problems, prospects and suggestion in Nepal: VAT is considered as the mostly growing trend in the field of taxation. Discussing the merits of VAT, reasons for its growing attraction in the world are describe as following.

-) Value added tax is based on the most modern theories.
-) It is more informative.
-) It will raise considerable revenue and sustain it.
-) Increments of tax payers are also advanced in it.
-) It is less tedious.
-) It is free from cascading effect due to the input tax credit.
-) It is effective to control price rise and reduce tax evasion.

Discussing the development of tax in Nepal the author focuses the problems of Nepalese sales taxes such as administrative inefficiencies, very large numbers of small tax payers with no record keeping and issuing the invoices and sales tax concentrated only on import manufacturing level. Considering both these offences and modern context of rising need of fulfilling the deficit of the necessary capital revenue for the government, utilizing internal resource, is it the time of introducing VAT in Nepal? To answer this question he shows the need to identify such backgrounds which are preconditions for VAT system. These preconditions mentioned are:

-) Keeping in mind, the increment the number of tax payer in a VAT system it is necessary to collect, and prepare records of potential value added tax payers firstly which makes feasible to register them while introducing VAT.
-) A separate administrative unit for VAT is necessary.
-) Because of not being separate, "Revenue service's" in Nepalese tax administration creates several problems. So, this should be maintained and according to classification of revenue source "group" should be established and operation of training programs development and extension is must.
-) Computer use should be introduced to assist administration.
-) The rate system of VAT should be a single one (i.e. 10 percent) and in more dual rates (i.e. 5 percent and 10 percent) or 10 percent and 15 percent will be appropriate.
-) A threshold for very small retailers should be maintained (i.e. annual selling of Rs. 5,00,000 to Rs. 10,00,000)
-) Agriculture products, basic necessities e.g. food stuffs, clothes (cotton) and other similar goods and export should be exempted.

- J Necessary forms, ledgers should be improved, they should be simple and coverage should also be extended to services such as electricity consumption and telephone services.
- J Experiences of abroad about VAT should be studied by giving chance to the tax officials through study visit and advices from tax exports and economist.
- J Studies should be operating on aspect such as need of this tax, effects and targeted tax payers. According to studies, policy should be prepared and after a preparation period it will be appropriate to take 3 or 4 years for introduction of VAT.
- J The rates of Custom and excise duty should be re-evaluated. Most of the taxable goods under excise duty should be transferred under VAT and specific excise duty on luxuries.

It is, therefore, the time to consider a VAT as a need based on the preparation made on above preconditions in Nepal.

A report of the Taxation system Re-observation Task Force 1995 published by Ministry of Finance, in May 1995 recommended VAT on along term recommendation for the tax reforms in Nepal.

The report was the result of the study during the six month by the members of the task force. It mainly analyzed the magnitude of the Nepalese tax system and recommended various measures for tax reforms.

The study arrived at conclusion that there is no possibility of any other great measures to introducing a tax, rather than introducing VAT in Nepal. Other recommendations concerning VAT are:

a. Concerning the limitations inherent with the existing tax system of Nepal to which we preserves it for a long as the same manner the economy would bear more costs, more hazards by the tax administration as well as tax payers and generating less amount of revenue, so alternations for this system should be searched. In this sense VAT appears as the best alternation.

- J VAT is the worldwide accepted tax.
- J The need of VAT in Nepal.

-) To increase revenue collection by broadening the tax base.
 -) To make the tax system buoyant.
 -) To discourage the tendency of tax evasions.
 -) To make the tax efficient.
 -) To promote the exports.
- b. There are some aspects for consecration on VAT:
-) Price Level
 -) Equality
 -) The conditions of tax payers.
 -) Small venders
- c. Detailed preparation needs to be undertaken before implementing a VAT. In Nepalese concern they consist.
-) Making choice of the type of VAT.
 -) Determining the structures and exemptions.
 -) Choosing the best method of compulsion.
 -) Giving taxpayers information.
 -) Developing the proper administrative system.
- d. A special consumption tax on luxuries should be introduced as a supplementary tax for the VAT.

Subedi (1998) the VAT can be viewed as an important form of domestic resource mobilization in Nepal. As a bulk of tax performance to generate more revenue, increase neutrality, maintain efficiency, fairness and make self policy and as simple and equitable tax system VAT is applicable in Nepal. Focus of VAT in Nepal should be on revenue productivity and responsible to changes. A VAT should not be highly effective and progressive in paper and inefficient, iniquitous in operation. The future perspective of VAT in Nepal should be conceived in the light of following recommendation.

Legislative and Policy issues

I. Enforcement of VAT should be made on the basis of well set up legal bases. Preparation of Legal bases should frame very sincerely which will minimize the operational problems. The problems that show up later will be very costly to correct. VAT should be implemented after preparing minimum required level of infrastructure.

Proposed VAT model For Nepal

A consumption type of VAT, fully excluding procedure's goods from tax and taking many goods and services close to the consumer. Apply tax-credit method for computation tax credit should be applied on all producer's goods and services: capital goods, raw material and intermediate goods. Apply destination principle: tax all imports and relieve all exports from VAT net.

Extend VAT through retail level, covering as many goods, services as possible and covering all stages of production, importation and distribution exempting very small vendors, artisans and very small service, service entities, below a threshold on the basis of the annual turnover, (preferably, the annual turnover of 1.5 million)

-) Apply a single rate (preferably of 13 percent) (i) Exempting unprocessed food stuffs, and goods and services for basic necessities (ii) Levy "special consumption duty" for luxuries.
-) Exemptions should be directed to those goods and services for social welfare reasons and to those which are very hard to tax, exemptions should be invited in number (iii) Zero-rate for exports only.
-) Agriculture sectors should be exempted at initial stage.
-) Services should be covered as much as possible except those which are very hard to tax i.e. banking services, life insurance services.
-) Rules, Regulations, Manuals and Directives should be firstly prepared, reaction should be received from business communities and should be analyzing and be published for tax payer's information.
-) There are some high value added areas i.e. service sector and luxury imports and products which should be covered very efficiently.

Executive Works

-) Department of VAT should be recognized with small but effectively structure and information network should linked to every tax related departments of VAT office. Co-operation with custom duty department should finally be bought for.
-) Decisions for establishing District VAT offices should be promptly made preferable covering 30 districts at initial and other should be covered in second phase, the organization of district office also should be small land effective.
-) On the basis of "a" and "b" the number of tax officials should be determined.
-) The VAT organization should be grouped under "VAT sub-group" and the personnel should be competent, qualified, and from taxation background and tax careers.
-) Managerial post should be fulfilled, from existing 1st and 2nd class officers, having taxation ground and very comprehensively trained by high level VAT exports and highly qualified.
-) Other tax officials should be promptly recruited through competition from among qualified (preferably with master's degree) competent and skilled tax careers and the comprehensive training should be imported on them.
-) Existing tax official should be trained well and on opportunity of transfer should be given to those not interested to work for VAT.
-) Before implementing VAT, registration campaign should be launched to the related tax offices and tax payers training should be operated as required.
-) While implementing VAT, filling of returns, tax refund and invoice system should be based on fairness. Invoice oriented problems should be solved before and frequent checking investigating fraud and evasion should be operated frequently. VAT auditing (internally by tax officials) should be operated simultaneously, voluntarily compliance measures should be developed. Discretionary powers of tax officials should be minimized. Faculties should be fair and reasonable.

Research and Development

Research and investigation work should be handled on various issue i.e. the effects of VAT on prices economic growth, investment and regressively and measures for solving such problems should be recommended by the experts group before

implementing VAT. Ongoing researches also should be handle afterwards. For this a VAT Research Bureau should be established. This is the prompt need.

-) A VAT Training Bureau, should be established initially in VAT department including core number of very high level VAT experts to train high level VAT officials, and trainers, and to conduct research work. A training unit including VAT experts for further training should be set up. Observations and practical on the Job training also should be provided for the most competent VAT officers. Guest trainer also play very prominent role. The unit can be transferred to Revenue Administration Training centre afterward. Stage wise training should be provided for other staff and tax payers.
-) Basic VAT training should also be provided for the personnel engaged in the custom offices. Reforms and enhancement of customs duty administration is needed most for the successful operation of the VAT in Nepal.
-) Information campaign on VAT should be promptly stated by i) Arranging debates, interactions, seminars, public hearing programmes frequently ii) Educating public through media like radio, television, newspapers, pamphlets, cinema and advertisement iii) Mobilizing economists or informing people about VAT.
-) Such education include introduction of VAT, accounting system, invoice and reporting system
-) A formal education to the tax payers should be conducted just before the implement of VAT.
-) People should be encouraged to ask questions about VAT arrangements to answer prompt should be made.
-) An integrated computer networks should be established for information and operation of VAT. Central VAT networks should be established in the Department of VAT department and links should be made with other department also.
-) A prompt step should be taken for encouraging business people to improve their account-keeping and invoice system and people should be encouraged to invoice system and people should be encouraged to ask for an invoice for their purchase.
-) A prompt survey of potential tax payers should be carried out. Such surveys should be conducted frequently.

-) Business community should be convinced that VAT is not a revolutionary action but is evolutionary and it will improve the tax system.
-) VAT Auditing unit should be developed into the Office of the Auditor's General equipped with VAT experts and Charter accountants. Other auditors also should be trained.
-) Improvement in customs duty administration must be ensured. Co-operation between VAT Department and custom Duty Administration should be strengthening. And boarder oriented parallel business activities must be controlled.
-) The Fraud and evasion investigation wing should be restructured and mechanism of information system should be strengthened.
-) If more and more disputed about VAT are created, these may make the business community conscious to know about the reality, simultaneously the actual concepts of VAT also should be advertised from media.

Others

The tax officials should be well paid and highly motivated, including especially for maintaining high morality in office. And if they are found in corrupt practices they should be severely penalized.

Transfer of general officials from other services of VAT sub-group (except VAT experts) and from VAT sub-group to other services should be restricted.

The threshold system should be prepared well. If it is ill operated, it will encourage tax payers to show their turnover low resulting, no gain of VAT. Frequent investigation services should be operated. A higher but pragmatic penalty system should be established. Bargaining between tax officials and tax payers should be strictly avoided.

At the final stage of preparation, tax payers should be encouraged to register their business voluntarily.

Lastly, VAT is based on market economy, price control and discretion of the tax officials. Should be fully avoided. The accounting system should be fully transparent.

2.2.3 Review From Master's Degree Thesis

Michele Guerard (1973), in her paper adopted from her unpublished dissertation submitted to Columbia University in 1972, describes, analyses and evaluates the Brazilian VAT against the background provided by two broader issues. One as a case study of the VAT in developing country and other as an illustration of the problem posed by inter-state tax coordination in a special setting of a Federation caused by huge regional disparities. The Brazilian states adopted abroad based single rated (i.e. 15%) VAT in 1976 in the place of existing heterogeneous turnover taxes aiming to secure a greater degree of tax co-ordination among the states of the federation. The VAT was based on modified origin principle, and it extended to retail level with minimum exemptions. The administration of the tax did not appear burden some.

In the first year of its introduction, 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 sector from the exempt sector. Manufacturing accounted for 60 percent of estimated VAT although it generated less than one fourth of 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 previous have no experiences in operating a broad bases sales tax.

Babu Ram Subedi (1997), in his dissertation concludes that VAT is applicable in Nepal on the sense of tax performance. In Nepal, VAT is desired to achieve the goals of neutrality, revenue productivity, fairness and transparency. From his view, VAT is found to be the best alternative to eliminate the existing inefficiencies of tax system. VAT would generate more revenue with less distortion and will unify member of taxes producing very low amount of revenue because of its broad coverage. VAT, being member of indirect taxes is regressive in nature. Utilizing income tax, special consumption tax and some exemption for equity goals, the focus on: VAT should be on revenue generation in Nepal.

In the view of problem of acute budget deficits and foreign dependency, the preparation of VAT should be accelerated in Nepal. But VAT should be implemented in Nepal only after full and adequate preparation. In theoretical sense, VAT is the best form of sales tax, especially due to its neutrality regarding the methods of production and generative more revenue. Further, VAT having the self enforcing feature would make tax administration easier.

According to the study, VAT should not be taken as easy task, rather it is very challenging issue for Nepal. The major challenging issue for VAT implementation in Nepal is successful tax administration. The existing sales tax administration is not capable of handling VAT. Further VAT need more active administrative efforts. Other problem with VAT implementation in Nepal are: lack of account keeping system, lack of sufficient knowledge about VAT, illiteracy and low public awareness. The existing tax evading practices also seems a serious problem. More advantage of VAT can be achieved only if it is extension to the retail level but the extends so of VAT to retail level is impracticable and impossible in Nepalese context.

He recommends that a moderate single rated VAT is desirable. If VAT is implemented well, it will generate 1.5 to 2.5 folds more revenue than existing sales tax. But, however, a VAT in Nepal may not be a hen with golden eggs. And it is not a 'Panacea' for currying all its requires active efforts and commitment for all ills, sides. He further suggests that, on the one hand. VAT itself is the complex tax system and the other hand, taxation system is a part of economic ocean. Thus, we have to know our capacity of swimming and realize depth of the ocean before dividing into it.

Ghimire, Lalmani (1998), in his dissertation value added tax: key issues in Nepal explain great importance for the effective implementation's VAT administrative capability in Nepal. Organizational structure, audit and inspection system, reward and punishment, political intervention, selection of skilled and punishment, political intervention, selections of skilled and experienced manpower are needed to improve for effective implementation of VAT. VAT is considered as a board based tax and potential advantage of it can be attained fully if the tax is extended through retail level. For the period of time he suggested to improve following aspect:

- i) Administrative power and creditability
- ii) Identification of tax payer
- iii) Registration
- iv) Educational programmes
- v) Incentives for small trades.

He also finds some difficulties in implementations VAT in Nepal. These are

- i) Rate structure.
- ii) Small traders in larger proportion
- iii) Lack of accounting records
- iv) Illiteracy and high compliance cost
- v) Existence of open broader.

Strong administration, educational programme, registration programme, existence training programme, technical data base system, combination of various revenue offices, high level VAT implementation term, coordination of VAT department, close cooperation between government and private sector etc are essential pre-requisites for the successful implementation of VAT in Nepal. Focusing on the ever increasing resource gap, inefficiency in sales tax and need of revenue for handling development works, VAT should be implemented in Nepal.

Sharma, Chinta Mani (1998), examine several aspects of VAT administration such as its problems, constructions possibility, operation and other aspects. In his dissertation he has found the following findings.

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

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

-) The government should pay attention to design the strong administration.
 -) The government should try to produce gazette manpower and to train them well.
 -) Comprehensive educational programme should be launched by the government.
- At last, he concludes that VAT requires the strengthened administration for its effective and efficient implementation.

Sharma, Krishna Prasad (1998), in his dissertation, found the following:

-) The serious defect of present sales tax is very narrow tax base so the sales tax is not productive and elastic. Adaptation of full-fledged VAT replacing the sales tax would largely broaden the tax base.
-) In case of imported goods, tax base in VAT would increase about three folds of the present sales tax base.
-) The implementation of VAT would make the tax system more productive and elastic removing the unfairness of the Nepalese tax system, increasing the competitiveness of Nepalese products, removing the production distortions and other undue pressures on economic activities caused by the inherent defects of sales tax.
-) Adaptation of general type of VAT, covering the retail sales with certain exemption would increase the tax base more than two folds. It means that VAT has very high revenue potentially.

There are several issues in the applicability of VAT in Nepal. The first and most important issue is the administrative issue. Lack of administrative capability is the greatest problem in implementing VAT in Nepal. The second biggest problem for the applicability of VAT is posed by the country's undeveloped business structure, practice and distribution system. The third problem is the existence of small traders in large proportion. Other problems are the existence of open borders and a large amount of unauthorized trade from India to Nepal, existing under valuation of imports, existing tax evading practices and corrupting nature of tax administrators, lack of co-operation between the government and private business sectors.

Bista, Raghu Bir (1999), in his research, focused the need of VAT for Nepal for several reasons. They are effective revenue mobilization, industrial development, strong administration, transparency and avoiding all tax loopholes. VAT helps to reduce the resource gap by broadening the tax base and mobilizing additional resources.

by controlling tax leakage, smuggling, unofficial trade and corruption through transparency and account bases cross-checking. Positive and favorable effects of VAT on all sectors can be aliened only if government can operate the VAT administration with effectively and efficiently.

In his research, the following finding can be gained

-) The sales tax system is failure to several cases: narrow base, elasticity of tax rate, incapable and weak administration, tax leakage, corruption and political intervention. So, the entire tax reform is needed.
-) A VAT is account based, invoice based and record based, it checks the tax loopholes such as under valuation, non-recorded and unauthorized trade. It discourages such issued and problems existed in the sales tax system.
-) VAT mobilized the additional resources and the rest of internal resources by broadening tax base and by discouraging the existing tax loopholes.
-) For implementation of VAT, the public awareness level relating VAT and VAT administration should be good and it is a prerequisite in the preparation of VAT.

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

Dhakal, Arjun (2000), in his dissertation analyzed the Nepalese tax structure along with the basic emphasis and historical background and potential revenue of VAT in Nepal. The increasing trend of the resources gap of Nepal is forcing the country to debt-trap situation. Domestic resource mobilization through the properly designed tax system is the best way to uplift the situation. Domestic resource mobilization through the properly designed tax system is the best way to uplift the situation. In this process, Nepal is adopted the destination based, consumption type VAT operated by the tax-credit method. VAT encourages investment, supports economic growth and keeps price stable. Exceptions and zero rating reduced the regressively of VAT, however it makes the administration complex. The study found that VAT is unable to complete the existing, sales tax mainly due to the minimum use of invoice by sellers and as well as having no interest to obtain invoices by purchasers. Elasticity and buoyancy of Nepalese tax system very low. Further, they are decreasing in recent years. VAT, more attractive from the theoretical as well as empirical aspects, is being hot milk in

mouths from practical view point mainly due to the inefficient tax administration. Hence, the introduction of the VAT is not the fulfillment of the requirement and VAT system itself has a great need of reforming in the Nepalese context.

2.3 Research Gap

Value Added Tax Act 1995" enacted in 1995, VAT regulation was made in 1996. But VAT with single rate of 10 percent has been fully implemented with effect from 16 November, 1997. About thirteen years have already been passed since VAT came into operation but very few studies had undertaken on the topic of VAT in Nepalese context and most of the studies were related with theoretical aspect. In this study, the researcher try to evaluate Nepalese VAT by identifying existing problems in major market area of Pokhara valley by conducting field survey, in order to know somehow about the practice experiment of VAT. Further, an attempt has been made to analysis revenue pattern of VAT in government revenue and overview of the future prospects as well.

CHAPTER - III

RESEARCH METHODOLOGY

This chapter is devoted to the research methodology applied in the study for, the achievement for desired objectives both primary as well as secondary sources of data are used to conduct this study. Opinion survey technique was adopted while collecting primary data to find out the views of respondents representing different groups related to value added tax. This opinion survey was adopted to find out the practical aspects of VAT. While conducting the opinion survey, questionnaires were distributed to the tax experts, VAT officers, business and consumers in the sizeable manner.

3.1 Research Design

To achieve the stated objectives of the study the study of VAT Act 1996 made for descriptive research where as analytical research has been carried out in terms of role of VAT in generating government revenue in Nepal. For an empirical research, an opinion survey has been conducted. The opinions of various hundred respondents associated with distinct denominations i.e. tax administrators, tax experts, and tax payers were collected through structured questionnaire with reference to VAT system of Nepal, major problem of VAT system, remedy to minimize corrupt practice existed in Nepalese VAT administration, the most important factor for effectiveness of VAT including necessary suggestion for achieving effectiveness of VAT in Nepal. Hence, the research methodology follows in this study are as field survey, analytical and descriptive research design.

3.2 Population and Sample

The total population of Nepal is 26620809. Out of which the total people living in Pokhara valley is 156312. Since the study area is mainly related with Pokhara valley, researcher have selected 100 sample to collect the require data for the completion of this study. The respondents have been divided into four groups. The following table shows the group of respondents and the size of samples.

Table: 3.1
Groups of Respondents and size of Sample from Each Group

S. No.	Group of respondents	Sample size
1	Tax experts	5
2	Tax officers	15
3	Businessmen/ traders	30
4	Consumers	50
	Total	100

3.3 Source of Data

Both primary as well as secondary source of data have been collected in order to achieve the real and fact full result from this research. All the possible and useful data as far available have been collected. The major sources of data are as follows:

a. Primary Data

The major tools used for the collection of primary data are distribution of a questionnaire respondents. A set of questionnaire was developed and distributed to the selected respondents in order to get accurate and actual information. The questionnaire was distributed to tax experts, tax officers, businessmen/traders and consumers are selected from different manufacturing company, trading company, department stores, shopping center, Finance company .

b. Secondary Data

The secondary sources of data are the information service from books, journals, newspapers, reports and dissertation etc. The major sources of secondary data are collected from Inland revenue department, economic survey, and budget speeches, ministry of Finance, dissertation related to VAT available at Paschimanchal Regional Library of Pokhara, publications of VAT projects, publication of VAT department, economic review and indicators from Nepal Rastra Bank, World Development Report, published document of Nepal Rastra Bank and national planning commission, books related to VAT, national newspaper, journals, souvenir and news magazines, other relevant, records and data related to this studies.

3.4 Data Collection Procedures

A total 100 sets of questionnaire were distributed to the selected respondents in order to get actual and accurate information. Distribution work is done personally rather than sending by any means to get accurate and actual information in time.

3.5 Data Processing and Analysis Procedure

The information received from primary and secondary sources is firstly tabulate into separate formats systematically in order to achieve desire objectives. After that these data were tabulated and analyzed. For the purpose of analysis generally simple statistical tools have been used which are trend analysis, mean, standard deviation, coefficient of variation, simple percentage methods, rending methods, graphs, charts and diagrams, etc. which are as follows:

a. Trend Analysis: A series formed a set of statistical data arranged in accordance with their time of occurrence said to be a time series. A widely and most commonly method to describe the trend is the method of least square. Under this method, a trend line is fitted to the data satisfying the following two conditions.

i. $\sum (y - y_c) = 0$ and ii $\sum (y - y_c)^2$ is least where y is the actual value and y_c the computed value of y . the line obtained by this method is known as the line of best fit. Let the trend line between the dependent variable y and the independent variable x {i.e.time} be represented by $y = a + bx$.

b. Mean: mean is the most popular tool of central tendency. It is simply known as average. Simple arithmetic mean is an outcome of the sum of all observation divided by the no of observation .Denoted by \bar{X} and calculated as follows $\bar{X} = \sum X / N$

c. Standard deviation: S.D. is the measure of dispersion. It is defines as the positive square root of the arithmetic mean. It is denoted by σ .

d. coefficient of variation: The coefficient of variation{CV} is defined as the ratio of the standard deviation to the mean. It shows the extent of variability in relation to mean of the population.

e. Others: others tools can be used for presented the data which are as percentage, rending, graphs, charts, diagram which provide quick and concise in size of the subject under investigation or research.

3.6 Weight of Choice

The questionnaire asks for either to give responses on different views or to tick the best one or write their opinion.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

This chapter encompasses the analysis of information collected from secondary as well as primary. For the sake of convenience, this chapter has been divided into two sections first section contains the presentation and analysis of secondary data. Second section carries the presentation and analysis of primary data.

4.1 Presentation and Analysis of secondary Data

4.1.1 Revenue Collection From VAT

Value added tax is the best form of sales tax which is neutral regarding method of production and helpful in generation of more revenue collection. Because of its broad coverage neutrality, transparency and fairness, VAT will generate more revenue with less distortions. The revenue collection from VAT in different fiscal years is present in table below.

Table: 4.1
Trend of Revenue Collection From VAT

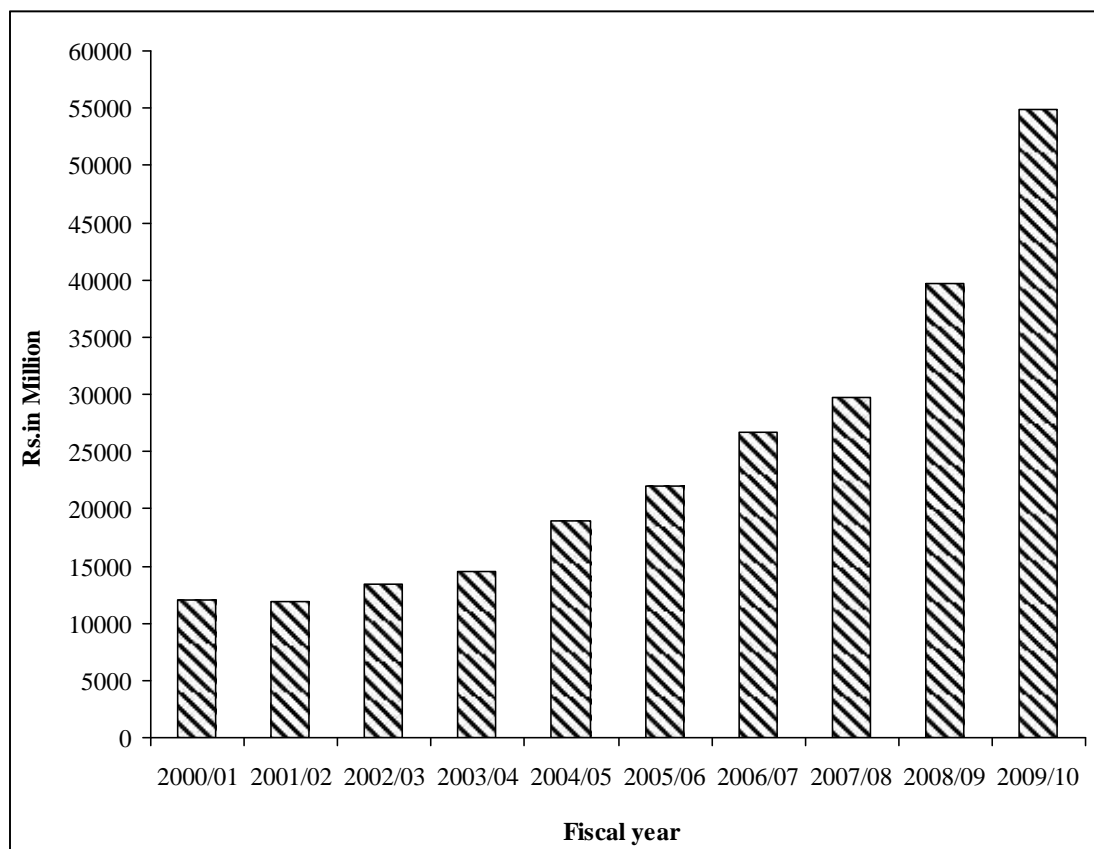
Fiscal year	Revenue collection	Percentage change
2000/01	12047.80	-
2001/02	11948.0	(0.828)
2002/03	13449.0	12.56
2003/04	14478.9	7.66
2004/05	18894.6	30.50
2005/06	21946.0	16.15
2006/07	26704.2	21
2007/08	29703.2	11.23
2008/09	39700.92	33.65
2009/10	54920.85	38.33

Source: Economic Survey 2010/11, MOF.

VAT generated about RS 12047.80 million revenue in FY 2001/02. In FY 2001/02, it increased up to Rs 11948 million as it was decreased by 0.828 Percent to previous

year 2000/01 similarly revenue collection from VAT in fiscal year 2002/03, 2003/04, 2004/05, 2005/06, 2006/07, 2007/08, 2008/09, 2009/10 are Rs 13449.1, Rs 14478.9, Rs.18894.6, Rs.21946.0, Rs. 26704.2, Rs. 29703.2, Rs 39700.92 and Rs 54920.85 million respectively. The trend of VAT collection increased percent in 2009/10 in higher than other years. Despite various Difficulties in the implementation of VAT, the collection trend of revenue through is not so bad. It is expected that VAT will generate more and more revenue in the days to come when it is implement effectively and efficiently since VAT is as broad based tax it will provide a stable base of revenue to the government.

Figure : 4.1
Revenue Collection Trend of VAT



The above figure shows that revenue collection from VAT in FY 2000/01 is Rs 12047.80 million and it has reached up to Rs 54920.85 million in FY 2009/10. It shows the collection trend of VAT is not so bad.

4.1.2 Calculation of Least Square Linear Trend of VAT

Here we are willing to analyze the trend of VAT collection for period of FY 2010/11 to 2014/15 for this purpose just statistical tools i.e. least square linear trend is used. Although there are Various intervening forces to determine the volume of VAT collection but here for simplify purpose only time period is considered, all other factor are being ignored. In the FY 2000/01 a total of about Rs. 12047.80 million revenue was generated from VAT while in the FY 2009/10 it was Rs. 54920.85 million. The trend of collection were given below in table 4.2.

Table: 4.2
Linear Trend of VAT Collection

Fiscal year	VAT(y)	X ($\sum X = 0$)	x^2	xy
2000/01	12047.80	-4.5	20.25	54214.1
2001/02	11948.0	-3.5	12.25	-41818
2002/03	13449.12	-2.5	6.25	-41818
2003/04	14478.9	-1.5	2.25	-21718.35
2004/05	18894.6	-0.25	0.25	-9447/30
2005/06	21946.0	-0.5	0.25	10973
2006/07	26704.2	1.5	2.25	40056.3
2007/08	29703.2	2.5	6.25	74258
2008/9	39700.92	3.5	12.25	1385953.22
2009/10	54920.85	4.3	20.25	2447143.82
N=10	$\phi_x=243793.57$	$\phi X=0$	$\phi x^2=82.5$	$\phi xy = 34562.79$

$$x = \left(\frac{\sum x}{N} - \frac{\sum x^2}{2N} \right) = \frac{10 \cdot 1}{2} = 5.5$$

$$Y_c = a + bx$$

$$a = \frac{\sum y}{N} = \frac{243793.57}{10} = 24379.357$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{34562.79}{82.5} = 4212.8823$$

The projected cash flow of VAT for five years were given below.

Table: 4.3
Future Prediction of VAT Collection

FY	X	$Y_c = 24379.347 + 4212.8823X$
2010/11	5.5	47550.20
2011/12	6.5	51763.09
2012/13	7.5	55975.97
2013/14	8.5	60188.85
2014/15	9.5	64401.7

The statistical tool called least square method can be used to analyze the trend of actual VAT collection and to estimate the possible future VAT collection for a given time. Time element is important factors, which determine the future VAT collection this time series can be expressed in term of straight line trend by at least square method. Here we take the derivation from the middle year thus derivation for the various year will be zero. To fit the straight line trend the time factor is consider as independent factor and VAT collection as dependent factor. Then the straight line of VAT collection upon time express by:

$Y_c = a + bx$ where x is time

The trend of VAT collection is CRS $24379.357 + 4212.8823$)

Shows positive figure of the VAT collection indicating the trend of past year continue in future. Given the value of x (i.e. relevant year) value of y (i.e. expected VAT collection) can be estimate.

4.1.3 Composition of VAT Revenue

The revenue collection from VAT can be divided into major components as domestic products and import. The current trend shows that about one third of total VAT revenue come from domestic products and two third from imports. The following table represents the composition trend of VAT revenue.

Table: 4.4
Composition of VAT Revenue

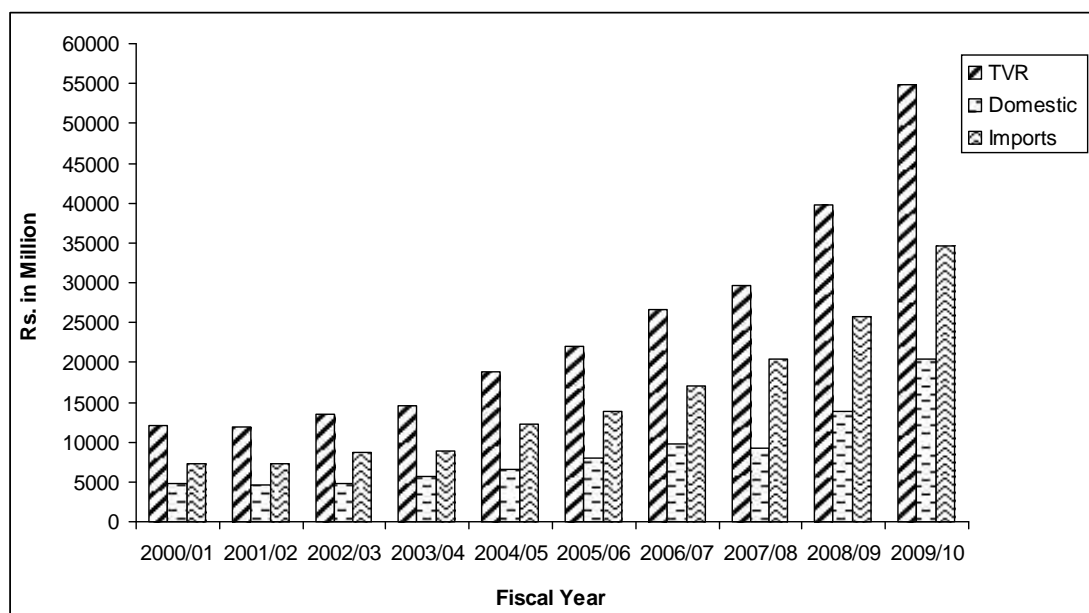
(Rs. Million)

Fiscal Year	Total VAT Revenue (TVR)	Domestic Product		Imports	
		Amount	%	Amount	%
2000/01	12047.80	4744.72	39.38	7303.3	60.2
2001/02	11947.98	4608.40	38.57	7339.58	61.43
2002/03	13449.12	4819.61	35.84	8629.51	64.16
2003/04	14478.90	5604.12	38.70	8874.78	61.30
2004/05	18894.63	6624.33	35.06	12270.30	64.94
2005/06	21946.01	8057.44	36.71	13888.57	63.29
2006/07	26704.55	9689.98	36.29	17014.57	63.71
2007/08	29703.21	9264.71	31.19	20438.50	68.81
2008/09	39700.92	13918.49	35.05	25782.43	64.95
2009/10	54920.85	20379.83	37.11	34541.02	62.89
Total	-	-	364		636
Mean			36.4		63.6
Std			2.25		2.25
C.V			6.18%		3.54%

Source: Annul Report 2010/11, IRD.

Above table depicts that VAT revenue is collected from domestic sales and from imports. The percentage of the both each year during study period shows from import business contributes more rather than domestic as mean 63.7 percent is greater than 36.4 percent. Similarly import side has more uniformity as less C.V. only 3.54 percent in comparison of domestic 6.18 percent.

Figure : 4. 2
Composition of VAT Revenue



The figure 4.2 shows that composition of VAT revenue for the 10 yrs period. The VAT revenue collected from import product is better than VAT revenue collected from domestic product.

4.1.4 VAT Registration

The operation of VAT in Nepal is started by addressing the sales tax registered in the VAT department. The registration is compulsory for that business enterprise who have taxable transaction and taxable capacity, however the traders falling below the threshold limit can register voluntarily. Under the existing sales tax system, there were nominal registrants but VAT was in existence the number of registrants increased significantly. However when VAT was introduced in 1997/98, there was strict opposition from the business community so VAT could not be implemented in full form. But after adjusting different provision and aspects of VAT business community and the government reached to an agreement in 1990/00, there after, VAT was implemented in its full form. The trend of the VAT registration is shown in the following table.

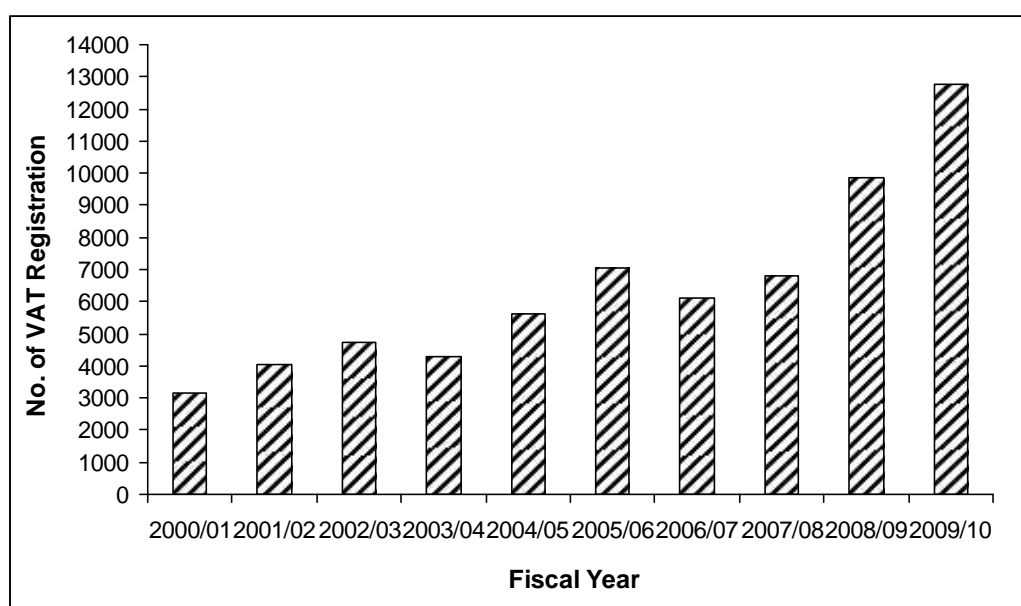
Table: 4.5
Trend of VAT Registrants

Fiscal year	No. of new VAT Registrants	Total number of VAT registrants	Percentage change
2000/01	3146	21093	–
2001/02	4056	25149	19.23
2002/03	4723	29872	18.78
2003/04	4302	34174	14.40
2004/05	5602	39776	16.39
2005/06	7055	46831	17.73
2006/07	6134	52965	13.10
2007/08	6810	59775	12.85
2008/09	9878	69653	16.52
2009/10	12780	82433	18.34

Source: Annual Report 2010/11, IRD.

The table shows that the number of VAT registrants in the fiscal year 2000/01 was 21093 and it was reach to 82433 in the fiscal year 2009/10 by almost tenfold. This shows that trend of VAT registration is impressive.

Figure : 4.3
Trend of VAT Registrants [2000/01to 2009/10]



The above figure shows that the number of VAT registrants in the FY 2000/01 is 21093 and it has reached to 82433 in FY2009/10. This shows that trend of VAT registration is impressive.

4.1.5 Least Square Linear Trend Analysis of VAT Registration

The number of sales tax registrants was 2045 at the time of the introduction of VAT in 1997. Among them, those with an annual transaction above the VAT registration threshold were converted into VAT registrants from 16, November 1997 while among those having transaction below the threshold level some registered voluntarily and others remained outside the VAT net. Other potential taxpayers that were outside the sales tax net registered for VAT over the years. Despite the negative impact on VAT registration due to compromises made from time to time the number of VAT registrants increased gradually. The registration trend analysis can be shown in the following table:

Table: 4.6
Trend Analysis of VAT Registration

F/Y	No .of VAT Registration [y]	X	X ²	XY
2000/01	21093	-4.5	20.25	-94918.5
2001/02	25149	-3.5	12.25	-88021.5
2002/03	29872	-2.5	6.25	-74680
2003/04	34174	-1.5	2.25	-51261
2004/05	39776	-0.5	0.25	-19888
2005/06	46831	0.5	0.25	-23415.5
2006/07	52965	1.5	2.25	79447.5
2007/08	59775	2.5	6.25	149437.5
2008/09	69653	3.5	12.25	243785.5
2009/10	82433	4.5	20.25	370948.5
N=10	$\phi y = 461721$	$\phi x = 0$	$\phi x^2 = 81.5$	$\phi xy = 538265.5$

$$y_c = a + b x$$

$$a = \frac{y}{N} \times \frac{461721}{10} = 46172.1$$

$$b = \frac{xy}{x^2} \times \frac{538265.5}{82.5} = 6524.430$$

$$\dots y = 46172.1 + 6524.430x$$

Table: 4.7
Future Prediction of VAT Registration

Fiscal Year	X	$Y_c = 46172.1 + 6524.430X$
2010/11	5.5	82056
2011/12	6.5	88581
2012/13	7.5	95105
2013/14	8.5	101630
2014/15	9.5	108154

To fit the straight line trend, the time factor is considered as independent factor registration customer is dependent factor. Then the straight line trend of VAT registration [y] upon time is expressed by.

$$Y_c = a + bx, \text{ where } x \text{ is time}$$

the trend line of VAT registration is the $46172.1 + 6524.430$ shows positive figure of VAT registration indication the trend of past year continue in future . However, the customer who has already registered doesn't register. So number may not increase as shown by trend line.

4.1.6 Share of VAT Revenue in GDP

The percentage contribution of value added tax VAT in GDP is presented in table below:

Table: 4.8
VAT Revenue as Percentage of GDP

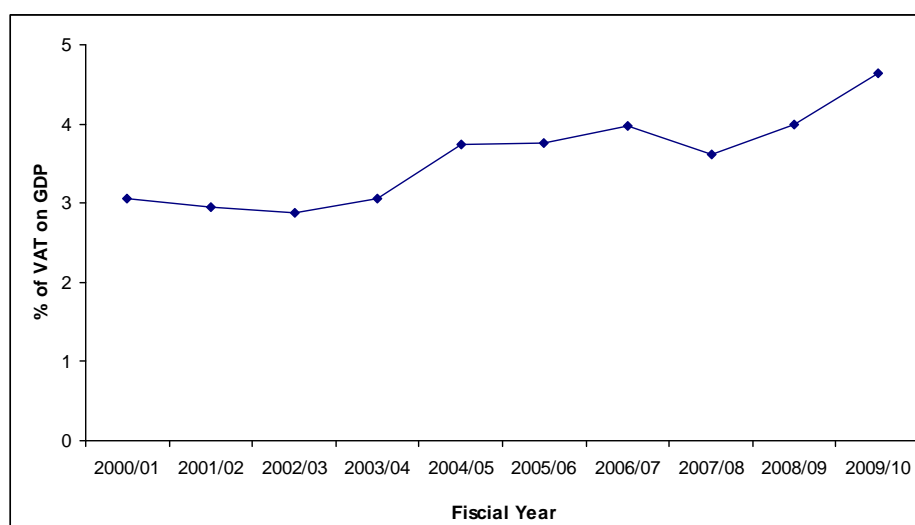
(Rs. in million)

Fiscal Year	Gross Domestic product (GDP)	VAT Revenue	Percentage
2000/01	393566	12047.80	3.06
2001/02	404482	11947.98	2.95
2002/03	468920	13449.12	2.87
2003/04	472424	14478.90	3.06
2004/05	504101	18894.63	3.75
2005/06	582950	21946.0	3.76
2006/07	670588	26704.18	3.98
2007/08	820814	29703.21	3.62
2008/09	992010	39700.92	4.00
2009/10	1182680.10	54920.85	4.64

Source : Economic survey 2010/11, MOF.

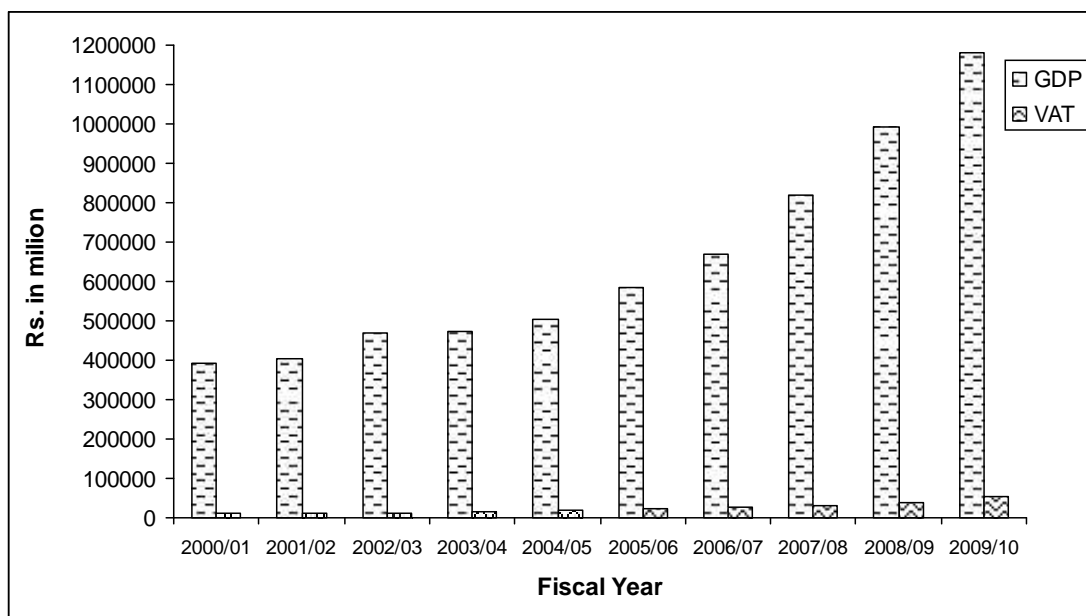
As shown in the above table it is clear that share of VAT in the GDP of Nepal is very low and it is below 5 percent throughout the 10 years period from the fiscal year 2000/01 to 2009/10. VAT revenue of Nepal as percent of GDP is between 2.87 to 4.64 percent with no higher fluctuation.

Figure: 4.4
VAT Revenue as Percentage of GDP



The above figure shows that the share of VAT revenue as percentage of GDP is between 2.87to 4.64 percent with no higher fluctuation.

Figure: 4.5
Share of VAT Revenue in GDP



The figure 4.5 shows that share of VAT revenue in the GDP of Nepal is very low.

4.1.7 Share of VAT Revenue in Total Revenue

The percentage contribution of VAT revenue in total revenue is presented in table below.

Table 4.9
VAT Revenue as Percentage of Total Revenue

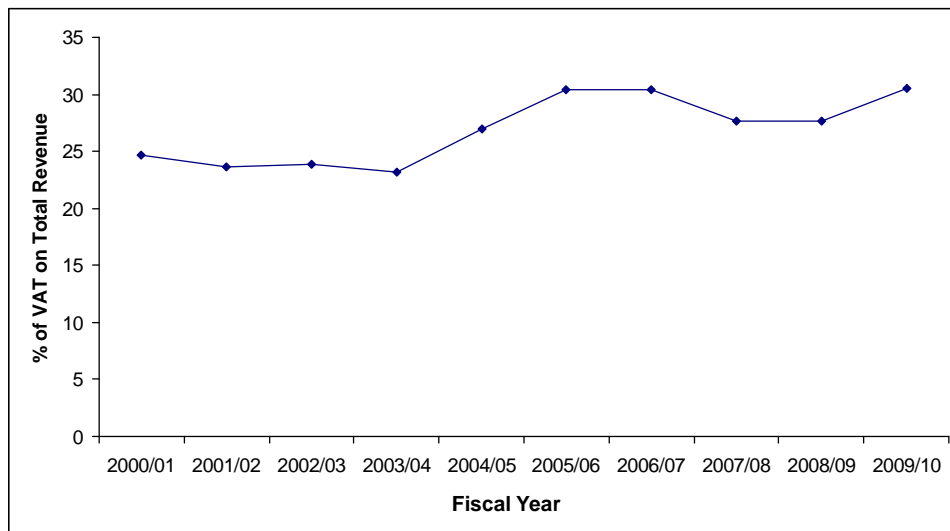
(Rs in million)

Fiscal Year	Total Revenue	VAT Revenue	Percentage contribution
2000/01	48893.60	12047.80	24.64
2001/02	50445.50	11947.98	23.68
2002/03	56229.80	13449.12	23.92
2003/04	62331.0	14478.90	23.22
2004/05	70122.70	18894.63	26.95
2005/06	72282.0	21946.0	30.36
2006/07	87712.20	26704.18	30.45
2007/08	107622.50	29703.12	27.60
2008/09	143474.49	39700.92	27.67
2009/10	179945.82	54920.85	30.52

Source: Economic Survey 2010/11, MOF.

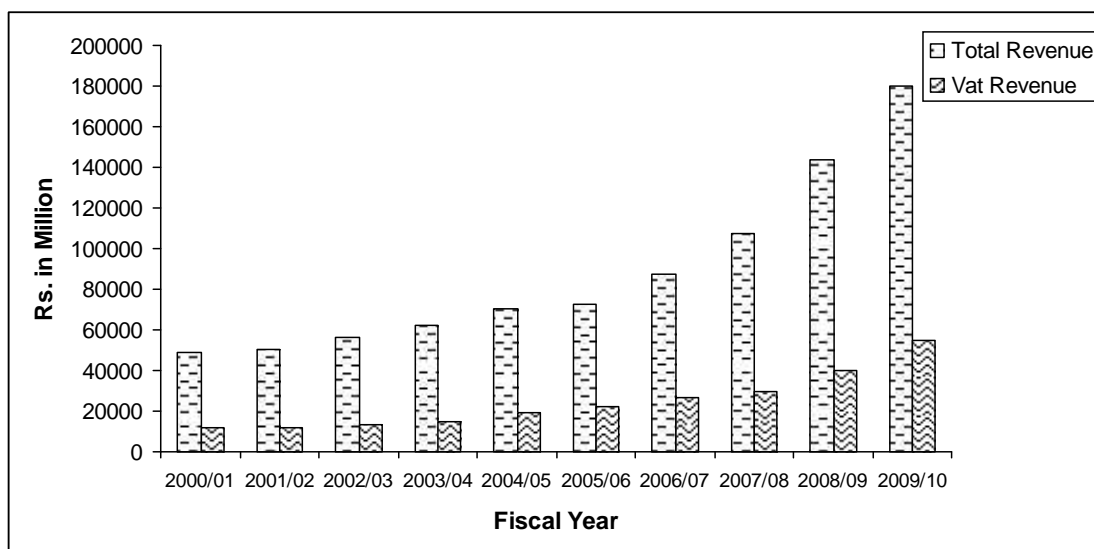
From the above table it is clear that the share of VAT revenue in total revenue increased from 24.64 percent to 30.52 percent in Fiscal year 2000/01 to 2009/10. Throughout the ten years the percentage rate of VAT is in Fluctuation trend.

Figure: 4.6
VAT Revenue as % of Total Revenue



As shown in the above figure, it is clear that share of VAT revenue in total revenue is in fluctuation trend.

Figure: 4.7
Share of VAT Revenue in Total Revenue



The figure 4.7 shows the share of VAT revenue in total revenue for the period of 10 yrs. It has decreased in FY 2001/02 then after that it is in increasing trend till FY 2009/10.

4.1.8 Share of VAT Revenue in Total Tax Revenue

The percentage contribution of VAT revenue in total tax revenue is presented in table below:

Table: 4.10
VAT Revenue as Percentage of Total Tax Revenue

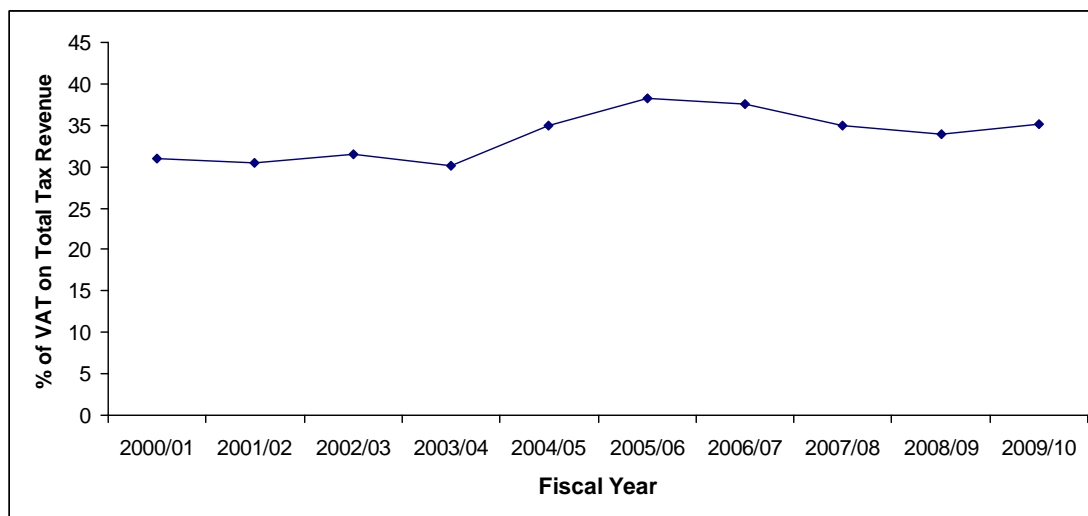
(Rs. in million)

Fiscal Year	Total Tax Revenue	VAT Revenue	% contribution
2000/01	38865.10	12047.80	31.0
2001/02	39330.60	11947.98	30.38
2002/03	42586.90	13449.12	31.58
2003/04	48173.0	14478.90	30.05
2004/05	54104.70	18894.63	34.92
2005/06	57430.40	21946.0	38.21
2006/07	71126.70	26704.18	37.54
2007/08	85155.50	29703.21	34.88
2008/09	117051.91	39700.92	33.92
2009/10	156294.92	54920.85	35.14

Source : Economic survey 2010/ 11, MOF.

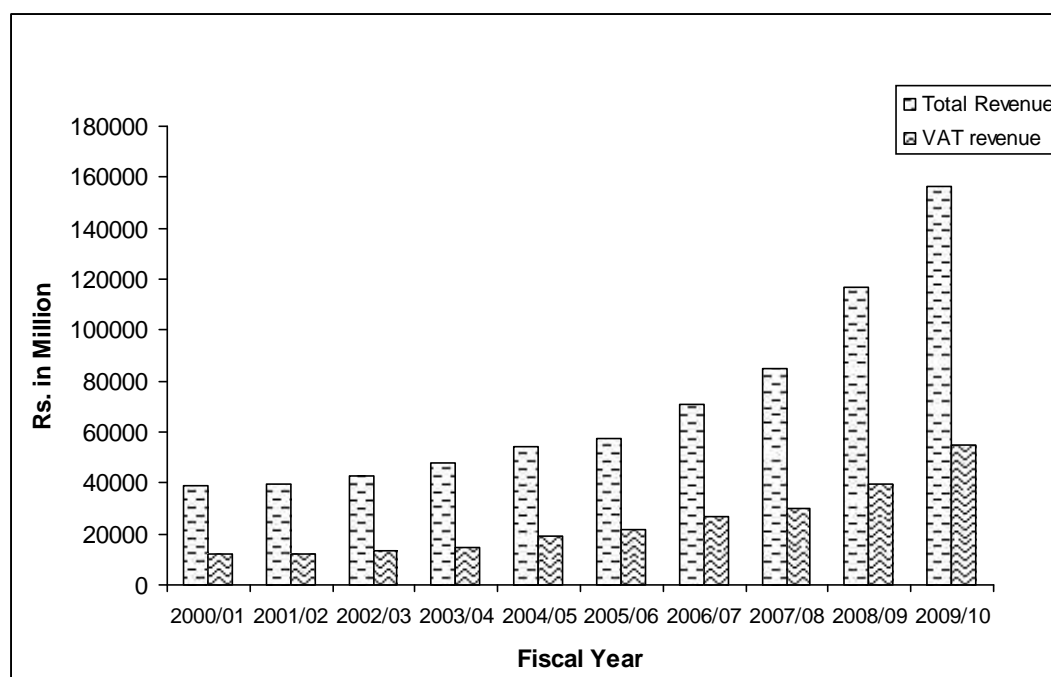
As indicated in above table , VAT Revenue was 31.0% of total tax revenue in fiscal year 2000/01. During the study period of ten years the contribution of VAT Revenue in total tax revenue is below 40 %. VAT Revenue as percent of total tax revenue is between 30. 05 percent to 38.21 percent with no higher fluctuations.

Figure: 4.8
VAT Revenue as Percentage of Total Tax Revenue



As depicted in the figure 4.8 share of VAT revenue as percentage of total tax revenue is between 30.05 percent to 38.21 percent with no higher fluctuations.

Figure: 4.9
Share of VAT Revenue in total Tax Revenue



Above figure depicts that share of VAT revenue in total tax revenue. It has decreased in FY 2001/02 than after that it is in increasing trend.

4.1.9 Share of VAT Revenue in Total Indirect Tax Revenue

The percentage contribution of VAT revenue in total indirect tax revenue is presented in table below:

Table: 4. 11

VAT Revenue as Percentage of Total Indirect Tax Revenue

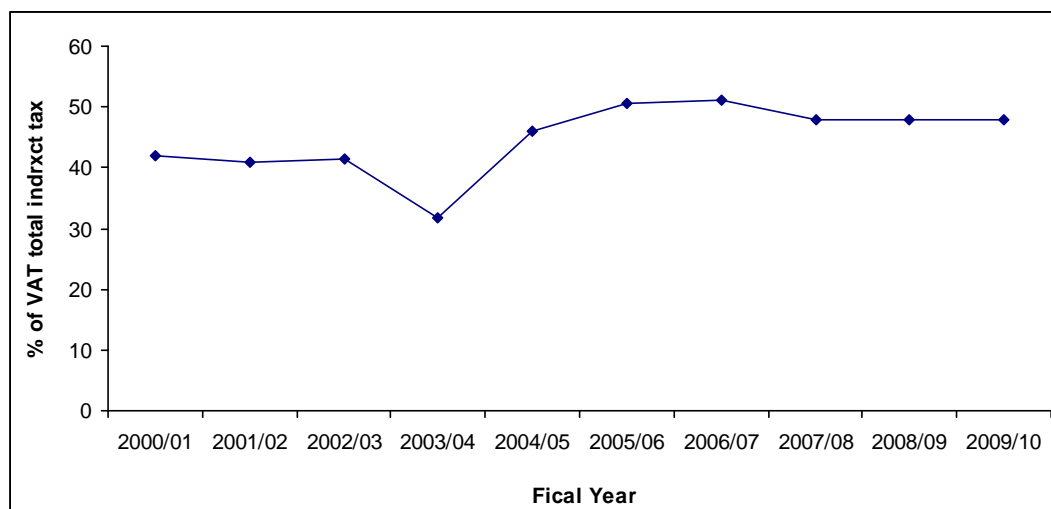
(Rs. in million)

Fiscal year	Total indirect Tax	VAT Revenue	% Contribution
2000/01	28704.50	12047.80	41.97
2001/02	29276.70	11947.98	40.81
2002/03	32481.20	13449.12	41.40
2003/04	36260.40	14478.90	31.65
2004/05	41032.90	18894.63	46.05
2005/06	43462.30	21946.0	50.49
2006/07	52146.40	26704.18	51.21
2007/08	62067.80	29703.21	47.85
2008/09	82731.17	39700.92	47.99
2009/10	114544.75	54920.85	47.95

Source : Economic survey 2010/11, MOF.

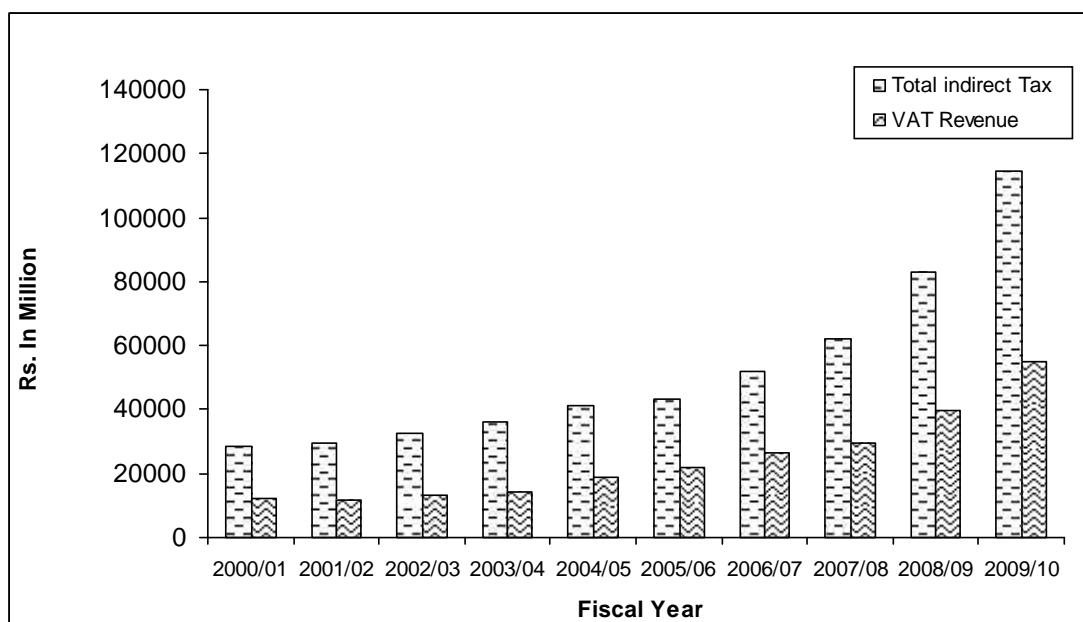
From above table, it is clear that, the contribution of VAT revenue in the total indirect tax revenue in Nepal is not so bad. Throughout the 10 years period from the fiscal year 2000/01 to 2009/10, the contribution of VAT revenue in total indirect tax revenue is between 40.81 percent to 51.21 percent with no higher reduction.

Figure :4.10
VAT as % of Total Indirect Tax Revenue



From above figure, it is clear that the contribution of VAT revenue in the total indirect tax revenue in Nepal is not so bad.

Figure: 4.11
Share of VAT Revenue in Total Indirect Tax Revenue



As depicted in the figure 4.11 share of VAT revenue in total indirect tax revenue is between Rs 11947.80 million to Rs. 54920.85 million for the period of 10 yrs.

4.2 Presentation and Analysis of Primary Data

4.2.1 Respondents Views about Awareness of VAT

VAT is the new tax system for Nepal. Nepalese people were not closed about tax. To make VAT successful it is necessary to raise the level of awareness of the consumers. The outcome of the field survey in this aspect is presented below.

Table : 4.12
Awareness of VAT

Alternatives Respondents	Highly aware		Moderately Aware		Weakly Aware		Not at All		Total
	No	%	No	%	No	%	No	%	
Tax experts	5	100	-	-	-	-	-	-	5
Tax Officers	15	100	-	-	-	-	-	-	15
Businessmen/Traders	20	66.67	5	16.67	5	26.67	-	-	30
Consumers	30	60	5	10	5	10	10	20	50
Total	70	70	10	10	10	10	10	10	100

Source: Field survey, 2012.

As depicted in table 4.12 out of total respondents, more than one-half of respondents were found to be aware of VAT. 10 percent were moderately aware while 10 percent were weakly aware of VAT. Similarly, 10 percent of respondents do not have any awareness of VAT.

4.2. 2 Billing System

Billing system is one of the most important aspects of the VAT system. All the businessmen have to receive these bills of actual transaction, price with importing and buying of goods and services. The price of the goods and services with and without VAT has to be mentioned explicitly in the bill. While selling goods, purchaser has to compulsory be give the same type of bill. The businessmen have to pay the amount of difference between tax collected in sale and tax paid on purchase to the VAT office. He has to pay the income tax as well on the profit of his transaction. Thus, the billing system plays crucial role in the field of VAT system. But in Nepal, the billing system

has been one of the major problem. The outcome of the field survey in this aspect is given below

Table : 4.13
Billing System

Alternatives Respondents	Possible		Impossible		I don't know		Total
	No	%	No	%	No	%	
Tax experts	5	100	-	-	-	-	5
Tax Officers	15	100	-	-	-	-	15
Businessmen/traders	18	60	10	33.33	2	6.67	30
Consumers	34	68	4	8	12	24	50
Total	72	72	14	14	14	14	100

Source: Field Survey , 2012.

As depicted in table 4.13, it is found that all the tax experts and officers advocate for the possibility of billing system in VAT system. 60 percent of the businessmen traders claimed that billing system is possible, at the same time 33.33 argue that it is impossible and 6.67 are unknown about it. Similarly 68 percent consumers says that there is possibility of billing system, 8 percent say impossible and 24 percent say I don't know.

4.2.3 Rate of VAT

VAT rate is very significant and sensitive for revenue mobilization. The success of VAT system stands upon the degree of VAT rate. Earlier the tax rates of sales tax which is replaced by VAT was 15 percent. Likewise other taxes i.e. contract tax, entertainment tax, hotel tax, were not below than 15 percent on average. But VAT rate is subject to 10 percent. Due to broader base and coverage, VAT was expected to have a greater revenue yield on percent rate structure. However this expectation is not achieved in practice basically due to its weak implementation aspect. In such situation, field survey was conducted to identify the rate structure of VAT. The following table shows the views on this matter.

Table : 4.14
Rate of VAT

Alternatives Respondents	Low rate		High rate		Normal / ok		I don't know		Total
	No	%	No	%	No	%	No	%	
Tax experts	-	-	1	20	4	80	-	-	5
Tax Officers	3	20	-	-	12	80	-	-	15
Businessmen/Trader	-	-	15	50	9	30	6	20	30
Consumers	4	8	18	36	18	36	10	20	50
Total	7	7	34	34	43	43	16	16	100

Source: Field Survey, 2012.

Above table shows that most of the respondents agree with the existing rate of 13 Percent i.e. normal. However, 50 percent businessmen claim that rate of VAT is high. Likewise, 36 percent consumers say that it seems high rate and some percent say it is ok 20 percent consumer has no idea at all. Three VAT officers (20%) reports that there is general increment needed in rate of VAT to generate high revenue. The study shows that the rate structure in the context of present situation is normal. Unless land until tax system is not implemented well, the rate structure is not a instrument to raise the revenue from taxation. Once the implementation is effective, it will be better to change the rate structure to some extent according to the requirement.

4.2.4 Rising Price Due to VAT System

In the beginning period of VAT implementation, there was a strong opposition from the business community. The basic argument behind it was due to raise in the price from VAT. After the implementation of VAT, there was a voice from different people on price rising on commodities. Consumers also complain that businessmen change more price without following the act of VAT. The following table presents the views of respondents on this aspect.

Table : 4.15
Price Rise Due to VAT System

Alternatives Respondents	Yes		No		I don't know		Total
	No	%	No	%	No	%	
Tax experts	1	20	4	80	-	-	5
Tax Officers	3	20	12	80	0	0	15
Businessmen/Trader	18	60	9	30	3	10	30
Consumers	35	70	5	10	10	20	50
Total	57	57	30	30	13	13	100

Source: Field Survey, 2012.

Regarding the price rise due to VAT system, 57 percent respondents reached at the conclusion that rise in price is due to VAT system, 30 percent claims that price rise is not due to VAT and 13 percent expressed that they have no idea at all. The study shows 20 percent tax experts and tax officers, 60 percent businessmen and 70 percent consumers claims that price rise is due to VAT system where as 80 percent tax experts and tax officers, 30 percent businessmen and 10 percent consumers viewed the price rise is not due that to VAT. According to the study, 10 percent businessmen/traders and 20 percent consumers did not have any idea about this question. When they were asked for the reason of the raise in the price respondents have different view due to compliance cost, higher profit, non awareness of consumer. The outcome of the field survey is given below.

Table: 4.16
Reason for Price Rising

Alternatives Respondents	Compliance cost		High profit		Non awareness of consumer		I don't know		Total
	No	%	No	%	No	%	No	%	
Tax experts	1	20	1	20	3	60	-	-	5
Tax Officers	3	20	-	-	12	80	-	-	15
Businessmen/ Traders	18	60	3	10	6	20	3	10	30
Consumers	15	30	18	37	12	24	5	10	50
Total	37	37	22	22	33	33	8	8	100

Source: Field Survey, 2012.

From above table 37 percent of respondents provided their view regarding reasons for price rise due to compliance cost. Out of compliance cost, total 22 percent, 33 percent of the respondents provided their view respectively on high profit, non awareness of consumer. Similarly, 8 percent have no idea on price rising effect.

4.2.5 Superiority of VAT over Sales Tax

VAT, a latest development of sales tax system is new innovation in the field of taxation. VAT is being preferred by many countries of world is superior over sales tax system. Without comparison with sales tax we can't say 'Vat is superior than other Sales tax system.' With base to effective revenue mobilization, the tackle to all tax evasion, wide tax base, transparent; VAT is considered as superior, than sales tax. The survey result on this aspect is summarized in the table below.

Table: 4.17
Superiority of VAT over Sales Tax

Alternatives Respondents	Yes it is		No it is not		I don't know		Total
	No	%	No	%	No	%	
Tax experts	5	100	-	-	-	-	5
Tax Officers	15	100	-	-	-	-	15
Businessmen/traders	20	66.67	8	26.67	2	6.67	30
Consumers	32	64	3	6	15	30	50
Total	72	72	11	11	17	17	100

Source: Field Survey, 2012.

According to table 4.17, 72 percent respondents provided their view regarding superiority of VAT over sales tax, 11 percent respondents off positive of its system and 17 percent respondents were unknown about this view. In the outcome, 100 percent each tax experts and tax officers argue about the superiority of VAT over sales tax. Similarly, 66.67 percent businessmen/ traders, 64 percent consumers also provided their view on superiority of VAT. But 26.67 percent businessmen said that it is not superior than sales tax. 6.67 percent businessmen and 30 percent Consumers were unknown about these questions. The outcome proof that VAT is superior than sales tax system on the aspect of revenue mobilization, coverage, broaden tax base,

transparent. But its superiority depends upon the strength of VAT administration so the VAT administration is strong, than the success of VAT system will prove its superiority.

4.2.6 Structure of VAT

Tax structure which covers basically base, rate coverage, exemptions, etc is one of the most important aspects for the successful operation of VAT in any economy. The tax structure of VAT in Nepal is designed on the VAT Act 1996 and different laws and regulations are prepared in successive years. The findings of this survey can be presented in the following table as:

Table : 4.18

Tax structure of VAT

Alternatives Respondents	It is ok		It has to be improved		I don't Know		Total
	No	%	No	%	No	%	
Tax experts	2	40	3	60	-	-	5
Tax Officers	10	66.67	4	26.67	1	6.67	15
Businessmen/traders	21	70	-	-	9	30	30
Consumers	38	76	2	4	10	20	50
Total	71	71	9	9	20	20	100

Source: Field Survey, 2012.

Above table Shows that 40 percent tax experts, 66.67 percent tax officers, 70 percent businessmen and 76 percent consumers agreed about existing tax structure of VAT. Out of the 9 samples of businessmen and 10 samples of customers were unknown about the tax structure of VAT. 60 percent tax experts and 26.67 percent tax officers supporting the opinion that is not compatible with the existing rules and regulation, so it has to be improved. Out of the total respondents 71 percent agree with the existing structure of VAT.

4.2.7 Productivity of Single VAT Rate

Because of multiple rates tax reform become much more complicated to both tax payers and tax officers. Despite this reason, different countries already implemented various tax rate according to their economic condition. But all tax administration

prefers use a single rate of VAT to effective implementation. Likewise, Nepal has preferred a single VAT rate which is 13 percent. Here the field survey has been conducted to find out "will a single VAT rate be productive or not?" the outcome is presented in the table below.

Table: 4.19
Productivity of Single VAT Rate

Alternatives Respondents	Yes it will be		No it won't be		I don't know		Total
	No	%	No	%	No	%	
Tax experts	4	80	1	20	-	-	5
Tax Officers	9	60	6	40	-	-	15
Businessmen/traders	16	53.33	8	26.67	6	20	30
Consumers	32	64	11	22	7	14	50
Total	61	61	26	26	13	13	100

Source: Field Survey, 2012.

According to the table 4.19, 61 percent of the total respondents were convened that the single VAT rate is effective to mobilize revenue. In contrast 26 percent of total respondents disagree with current single VAT rate remaining 13 percent of total respondents seemed to be ignorant to the productivity of VAT rate. 80 percent tax experts and 60 percent of tax officers satisfied with the current single VAT rate which seems productive in Nepalese environment.

4.2.8 Is the Present Threshold Enough to Secure the Small Vendors

Despite the bitter fact that small vendors are many and its role should be inevitable and dominant to the business structure of developing countries. Small vendors in the developing countries are many so government can able to include these small vendors in to the tax net. Due to this revenue should be increased by broadening and widening the tax base. But its implementation is not free from problems. The first one is the small vendors, who are illiterate and ignorant as to the VAT, cannot meet basic requirement guide by the VAT enactment to the tax payers. Secondly, the operation of VAT administration will be complicated and costlier regarding VAT enactment. Third one is, the growth of tax leakage and corruption is continuous day by day. Therefore,

the concept of threshold is kept at 2 million which is applied to tackle such kinds of problems of small vendors according to the VAT enactment, the threshold purse is 2 millions. If the turnover of small vendors is below the fixed threshold, small vendors have legal exemption from VAT. The view from respondents is presented in table below.

Table: 4.20
Is the Present Threshold Enough to Secure Small Vendors

Alternatives Respondents	Yes it will be		No it needs for enlarge		I don't know		Total
	No	%	No	%	No	%	
Tax experts	5	100	-	-	-	-	5
Tax Officers	14	93.33	1	6.67	-	-	15
Businessmen/traders	15	50	12	40	3	10	30
Consumers	31	62	10	20	9	18	50
Total	65	65	23	23	12	12	100

Source: Field Survey, 2012.

As depicted in table 4.20, 65 percent of total respondents were satisfied with present threshold kept in the VAT enactment. However 23 percent of total respondents were not satisfied with current VAT enactment and rule. They viewed it is not enough and needs to be enlarged. Besides, 12 percent of total respondents had not adequate information and knowledge about the threshold. From the above survey, present threshold limit is enough to secure the small vendors in Nepal, although, due to the lack of statistical data concerning small vendors in the market.

It is not as effective to generate large revenue sources.

4.2.9 Can VAT Secure Properly to all Small Vendors

In Nepal, there are so many small vendors and scattered throughout the kingdom. The inclusion of small vendors in the VAT base is very complicated not only with administrative constraints but also with the dominant role of small vendors and its small scale investments. Therefore, tax exemption should be given to the small vendors though the threshold, although the inclusion of small vendors may broaden role of small vendors and its small scale investments.

Therefore, tax exemption should be given to the small vendors through the threshold, although the inclusion of small vendors may broaden the tax base. There is no any statistical figure of small vendors so it is very complex questions that how much of the small vendors have tax exemption through the threshold. The opinion survey on this view is presented in the following table.

Table : 4.21
Can VAT Secure Properly to all Small vendors

Alternatives Respondents	Yes it can		No it can't		Possible		I don't know		Total
	No	%	No	%	No	%	No	%	
Tax experts	5	100	-	-	-	-	-	-	5
Tax Officers	12	80	1	6.67	2	13.33	-	-	15
Businessmen/ traders	20	66.67	8	26.67	-	-	2	6.66	30
Consumers	36	72	8	16	4	8	2	4	50
Total	73	73	17	17	6	6	4	4	100

Source: Field Survey, 2012.

From the table 4.21, 100 percent tax experts, 80 percent tax offices, 66.67 percent businessmen/ traders, 72 percent consumers calming that present threshold secure properly all small vendors. However, 26.67 percent businessmen, 26 percent consumers viewed that it can't cover all the small vendors. Out of the total respondents 73 percent voted presented threshold can secure all the small vendors, 17 percent confused about current threshold, 6 percent agreed. For possibility to secure all small vendors and remaining 4 percent respondents were ignorance by favoring I don't know. From the overall view, the present threshold can secure properly the small vendors in Nepal though there is no record of how many small vendors exist in market. Beside this, government also should develop the turnover limit for these vendors. After finding the turnover scale of these small vendors, VAT administration should fix and operate threshold provision.

4.2.10 Mal-practice of the Threshold

The purpose of threshold provision, according to VAT enactment, is to secure the small vendors by giving tax incentives but due to more to more small vendors and

lack of measurement to include them to tax base, we are ignorant about small vendors. So the threshold may be used as a tax loophole through which the businessmen can easily and largely erode the tax base. More than that, the weak VAT administration caused such types of mal-practice. If the VAT administration is strong, the possibility of mal-practice of threshold will be very lower. Therefore, we should develop the measurement to identify the turnover scale of business to control the mal-practice of threshold. The following table shows the survey result on the mal-practice of threshold.

Table: 4.22

Mal-practice of the Threshold

Alternatives Respondents	Yes it is high possible		Yes, but difficult		Lack of proper implementation and weak VAT Adm.		I don't Know		Total
	No	%	No	%	No	%	No	%	
Tax experts	4	80	1	20	-	-	-	-	5
Tax Officers	9	60	6	40	-	-	-	-	15
Businessmen/traders	12	40	10	33.33	2	6.67	6	20	30
Consumers	21	42	9	18	8	16	12	24	50
Total	46	46	26	26	10	10	18	18	100

Source: Field Survey, 2012.

The table 4.22 shows that 80 percent tax experts, 60 percent tax officers, 40 percent businessmen and 42 percent consumers were in the view that there is easy mal-practice of present threshold. However, 20 percent tax experts, 40 percent tax officers, 33.33 percent businessmen and 18 percent consumers viewed of possibility of mal-practice in hardly situation. 6.67 percent businessmen/traders and 16 percent consumer supported that mal-practice of threshold was possible due to lack of proper implementation and weak VAT administration. Considering total respondents on this view, 46 percent agreed the possibility of malpractice of threshold, 26 percent claimed it is possible but very difficult, 10 percent respondents who were businessmen and consumers voted the possibility of mal-practice due to lack of VAT administration and proper implementation. And remaining 18 percent of total respondents had not adequate information about the mal-practice of threshold. On the basis of above view, the present threshold in VAT enactment is issue on the purpose to secure small

vendors, but it remains invisible gate to the mal-practice. To reduce it, VAT administration should, monitor and control the path of implementation.

4.2.11 Tax Burden of VAT to the Tax payers

Value added tax covers the value added to each goods and services by firm during all stages of production and distribution and it is forward completely to the ultimate users. In short, the burden ultimately shifts on the tax payer. The problem on this view generally includes dislike of general people to more tax on commodities. Mainly, in Nepalese environment, general people have a lower income level. So they don't have much more purchasing power. Likewise, the government is still ineffective to give the guaranty of minimum social security to the general people in return of tax paid by them. Again the growing corruption in the government fades up the tax payers. Finally, the tax collected by the government is expended on the unproductive sectors. Therefore, Nepalese tax payers are worried about the possible tax burden level and shifting. The outcomes are presented in table below.

Table: 4.23
Tax Burden of VAT to the Tax Payers

Alternatives Respondents	Higher		Lower		Normal		Zero		I don't Know		Total
	No	%	No	%	No	%	No	%	No	%	
Tax experts	4	80	-	-	1	20	-	-	-	-	5
Tax Officers	8	53.33	1	6.67	6	40	-	-	-	-	15
Businessmen/traders	16	53.33	-	-	8	26.67	-	-	6	20	30
Consumers	38	76	-	-	3	6	-	-	9	18	50
Total	66	66	1	1	18	18	-	-	15	15	100

Source: Field Survey, 2012.

Above table shows that 80 percent tax experts, 53.33 percent tax officers, 53.33 percent businessmen, and 76 percent consumers viewed that the burden of VAT to the tax payers is higher. However, 20 percent tax experts, 40 percent tax officers, 26.67 percent businessmen and 6 percent consumers voted that the burden of VAT is normal. Out of total respondents, 66 percent opinioned about higher burden of VAT

to the tax payers, 18 percent viewed for normal burden to the tax payers and 15 percent were ignorance about this view. The outcome shows that the tax burden of VAT falling to the taxpayers may be higher.

4.2.12 Existing Exemptions

Value added tax is regressive by nature so exemptions on selected goods and services are must required. Exemption is needed theoretically as well as practically not only to cut down the burden of indirect tax but also due to the objective simplifying administrative complications. The outcome of field survey on this aspect is presented in the table below.

Table: 4.24
Existing Exemptions

Alternatives Respondents	It is ok		It should be reduced		It should be increased		I don't Know		Total
	No	%	No	%	No	%	No	%	
Tax experts	5	100	-	-	-	-	-	-	5
Tax Officers	12	80	3	20	-	-	-	-	15
Businessmen/ traders	20	66.67	8	26.67	-	-	-2	6.66	30
Consumers	40	80	6	12	2	4	2	4	50
Total	77	77	17	17	2	2	4	4	100

Source: Field Survey, 2012.

From the table 4.24, 100 percent tax experts, 80 percent tax officers, 66.67 percent businessmen/traders and 80 percent consumers provided their views regarding present exemption is satisfactory. However 20 percent tax officers 26.67 percent businessmen and 12 percent consumers agreed to reduce existing exemption criteria. Including all the respondents, 77 percent voted that existing exemption is satisfactory 27 percent supported that it should be reduced. The finding shows that current exemption is wide but due to this an opportunity for tax evasion may be increase.

4.2.13 Sufficiency of legal provision and Rules of VAT

Before the implementation of VAT, the government has enacted VAT Act 2052 B.S. and VAT regulation 2053 B.S. but the legal provision and rules, in general different to understand by all. The documents of these enactments carry all the matters such as VAT administration and its operation, the tax officers and its authorities, tax payers and its responsibility, the procedure of VAT collection, identification of new tax payers, monitoring cores checking penalties and punishment. The field survey has been conducted to find out whether the present Act and regulation are sufficient or not with reference to current system of VAT. The outcome of the respondents on this aspect is present in the table below.

Table: 4.25
Sufficiency of Legal Provisions and Rules of VAT

Alternatives Respondents	Yes		No		Moderate		I don't Know		Total
	No	%	No	%	No	%	No	%	
Tax experts	4	80	-	-	1	20	-	-	5
Tax Officers	10	66.67	2	13.33	3	20	-	-	15
Businessmen/ traders	5	16.67	12	40	10	33.33	3	10	30
Consumers	12	24	16	32	16	32	6	12	50
Total	31	31	30	30	30	30	9	9	100

Source: Field Survey, 2012.

As depicted in table 4.25, 80 percent tax experts, 66.67 percent tax officers, 16.67 percent businessmen and 24 percent consumer were in favor of present legal provisions and rules of VAT while 13.33 percent tax officers, 40 percent businessmen /traders and 32 percent consumers said that present Act is not sufficient, 31 percent claimed for its sufficiency of rules and legal provision of VAT, 30 percent were opposite of this view 30 percent had moderate view and remains 9 percent were unknown about this questions. It can be said that the present rules and legal provision are enough to implement VAT system effectively and properly.

4.2.14 Problems in the Process of VAT Implementation

The taxpayers and tax collector both have to be well-known and conscious about the record keeping and process of Vat system. Though 13 years have been already passed but still it has great challenges in this aspect. The field survey has been conducted to know the views of different respondents about to explore the problems on process of VAT records. The study shows registration, collection, tax refunds and miscellaneous are the main problems for implementation. The attitudes of different respondents are presented in the table below.

Table : 4.26

Problems in the Process of VAT Implementation

Alternatives Respondents	Registration		Collection		Tax Refund		Misc.		I don't know		Total
	No	%	No	%	No	%	No	%			
Tax experts	3	60	2	40	-	-	-	-	-	-	5
Tax Officers	3	20	9	60	1	6.67	2	13.33	-	-	15
Businessmen/ traders	12	40	10	33.33	6	20	-	-	2	6.67	30
Consumers	10	20	24	48	6	12	4	8	6	12	50
Total	28	28	45	45	13	13	6	6	8	8	100

Source: Field survey 2012.

As indicated in above table, 60 percent of tax experts, 20 percent tax officers, 40 percent businessmen/traders and 20 percent consumers seemed unsatisfied with registration problem, while 40 percent tax experts, 60 percent tax officers, 33.33 percent businessmen/traders, 48 percent consumers showed the problem on collection. similarly, 6.67 percent tax offices, 20 percent businessmen 12 percent consumers said there is problem is an tax refund. Besides these, respondents have analyzed miscellaneous portion paper and tax collectors and so on. Out of total respondents 28 percent opined on problems of registration, 45 percent viewed problem on collection, 13 percent said problem on tax refund and 6 percent agreed on miscellaneous and 8 percent were unknown on this views.

4.2.15 Problems of VAT System in Business Sector

Businessmen/traders are the main tax payer group in VAT system. The tax payers have to prepare sales and purchase account of all transaction. They have compulsorily give and receive bills while selling and purchasing goods. Though this makes the tax system transparent, the businessmen have to employ assistants and fulfill various formalities. The outcome of survey on this aspect is presented in the table below.

Table : 4.27
Problem of VAT System in Business Sector

Alternatives Respondents	Reduce Threshold		Account Keeping		Billing System		Misc.		I don't know		Total
	No	%	No	%	No	%	No	%	No	%	
Tax experts	1	20	4	80	-	-	-	-	-	-	5
Tax officers	8	53.33	5	33.33	2	13.34	-	-	-	-	15
Businessman/traders	12	40	10	33.33	7	23.33	-	-	1	3.34	30
Consumers	20	40	14	28	8	16	3	6	5	10	50
Total	41	41	33	33	17	17	3	3	6	6	100

Source: Field Survey 2012.

According to the table 4.27, 20 percent Tax experts, 53.33 percent tax officers, 40 percent each businessmen and consumer considered that there is problem in business sector on registration process. The view of the other 80 percent tax experts, 33.33 percent tax officers, 33.33 percent businessmen and 28 percent consumers was that there is problem due to account keeping system. Likewise, 13.34 percent tax officers. 23.33 percent businessmen /traders and 16 percent consumers supported that business sector is suffered from problem of billing system. Among the total respondents views, 41 percent argued on problem on registration, 33 percent viewed problem on account keeping 17 percent opinioned billing system 3 percent said, miscellaneous and 6 percent were unknown.

4.2.16 Improvement of Revenue Mobilization Through VAT

The tax is main source of revenue of government, for developing countries the major part of the income is contribute by indirect tax. In the context of Nepal the major part of indirect tax is contributed by VAT/sales tax. Mainly, the government has moved

toward VAT system in order to increase revenue by broadening tax base and make tax system transparent. To find out whether the previous sales tax or VAT system will help to improve the government revenue, the respondents views were presented in the table below:

Table : 4.28
Improvement of Revenue Mobilization Through VAT

Alternatives Respondents	Yes		No		I don't Know		Total
	No	%	No	%	No	%	
Tax experts	5	100	-	-	-	-	5
Tax Officers	15	100	-	-	-	-	15
Businessmen/ traders	24	80	4	13.33	2	6.67	30
Consumers	38	76	3	6	9	18	50
Total	82	82	7	7	11	11	100

Source: Field Survey, 2012.

From the above table 100 percent each tax experts and tax officers, 80 percent businessmen, 76 percent customers viewed that there would be improvement of revenue mobilization through VAT. While 13.33 percent businessmen /traders, 6 percent consumers said there will no improvement in revenue generation. Similarly 6.67 percent businessmen and 18 percent consumers had no idea about its effect in revenue mobilization. Out of total respondents, 82 percent viewed that there will be improvement in revenue 7 percent said that there will not be any increase in revenue and remaining 11 percent in total had no idea on this view.

4.2.17 Major Weakness of VAT Administration

VAT system has been implemented instead of ineffectiveness of provision sales tax system because the revenue creation of it was not so much significant to the economy with respect to VAT. For the effective and successful implementation of VAT, we have to identify the current weakness of administration. It is reported that there have been various weakness behind the non-functioning of VAT system in an expected way. VAT administrative reform is weak, inadequate and incomplete which cause problems and challenges in the path of operation of Vat administration. It is found that major weakness of VAT administration in Nepal are lack of expertise, lack of

trained manpower weak financial resources, lack of physical infrastructure and miscellaneous. The outcome on this view is shown in the following table.

Table: 4.29

Major Weakness of VAT Administration

Alternatives Respondents	Lack of Experts		Lack of trained Manpower		Lack of Physical Ins.		Weak Economy		Misc.		All		Total
	No	%	No	%	No	%	No	%	No	%	No	%	
Tax experts	1	20	2	40	-		1	20	-	-	1	20	5
Tax Officers	2	13.33	2	13.33	-	-	4	26.67	3	-	4	26.67	15
Businessmen/traders	5	16.67	12	40	2	6.67	3	10	1	3.33	7	23.33	30
Consumers	4	8	20	40	3	6	4	8	6	12	13	26	50
Total	12	12	36	36	5	5	12	12	10	10	25	25	100

Source: Field Survey 2012

Above table depicts that, 20 percent tax experts, 13.33 percent tax officers, 16.57 percent traders and 8 percent consumers viewed that major weakness of VAT administration is due to lack of experts, while 40 percent tax experts, 13.33 percent tax officers, 40 percent each businessmen/traders and consumers reported due to lack of trained manpower. Similarly, 20 percent tax experts, 26.67 percent tax offices 20 percent businessmen/traders and 8 percent consumers supported major weakness due to weak economy of country. Likewise, 3.33 percent businessmen and 12 percent consumers viewed miscellaneous reasons cause weakness of VAT administration, whereas 20 percent tax experts, 26.67 percent tax officers, 23.33 percent businessmen traders and 26 percent customers viewed weakness of VAT due to all reasons mentioned above.

4.2.18 Making VAT Effectively Successful

VAT has already been in Nepalese environment however it has not year secured the expected, results and many problems still exist in the real field. it is necessary to identify the existing problems and solve them successively to make the Vat more successful in future. The opinion survey on this context of different respondents is summarized in the table below.

Table: 4.30
Making VAT Effectively Successful

Alternatives Respondents	Strengthen and improve VAT Adm.		Trained and Educated officers		Improve VAT laws and regulations		Conduct public awareness Prog.		I don't know		Total
	No	%	No	%	No	%	No	%	No	%	
Tax experts	1	20	1	20	3	60	-	-	-	-	5
Tax Officers	6	40	2	13.33	5	33.33	4	13.33	-	-	15
Businessmen/traders	6	20	8	26.67	10	33.33	4	13.33	2	6.67	30
Consumers	24	48	6	12	5	10	10	20	5	10	50
Total	37	37	17	17	23	23	16	16	7	7	100

Source: Field survey 2012.

According to the above table, out of total respondents, 37 percent viewed that to make VAT successful there is a need to enhance strength and improvement VAT administration. Similarly, 17 percent supported on trained and educated officers. Likewise 23 percent expressed their view to improve VAT laws and regulations where as 26 percent opinioned to regulate public awareness programmes and 7 percent had no idea on this view. Among total tax experts, 20 percent each viewed to improve VAT administration and educated officers remaining 60 percent reported to improve VAT laws and regulation for making VAT effectively successful. Out of total tax officers, 40 percent agreed to strengthen and improve VAT administration, 13.33 percent supported to need of trained and educated officers, 33.33 percent viewed on conduct public awareness programmes to make VAT effectively successful.

4.2.19 Current Challenging Problems of VAT

It is not a matter how much easy to introduce VAT system but how much effectively and properly to run it because VAT is complicated and advance than other taxes. The tax payers as well as the tax collectors must be more conscious for the successful implementation of VAT. In the context of Nepalese economy, there are many problem associated with the implementation aspect. The outcomes of different respondents on this aspect are presented in the table below.

Table: 4.31
Current Challenging Problems of VAT

Alternatives Respondents	Smuggling and under valuation		Lack of Proper billings		Lack of proper accounts		Weak tax administration		All		I don't Know		Total
	No	%	No	%	No	%	No	%	No	%	No	%	%
Tax experts	3	60	1	20	-	-	1	20	-	-	-	-	5
Tax Officers	6	40	3	20	1	6.67	5	33.33	-	-	-	-	15
Businessmen/traders	8	26.67	12	40	3	10	5	16.67	-	-	2	6.66	30
Consumers	19	38	11	22	5	10	10	20	1	2	4	8	50
Total	36	36	27	27	9	9	21	21	1	1	6	6	100

Source: Field survey 2012.

From the table 4.31, it is found that 60 percent tax experts, 40 percent tax officers, 26.67 percent businessmen/traders and 38 percent consumers argued that smuggling and under valuation is the most challenging problem associated with VAT. Similarly 20 percent each tax experts and tax officers 40 percent businessmen and 22 percent consumers argued that lack of proper billing is the cause of VAT implementation. While tax administration is identified as the most challenging problem by 20 percent tax experts, 33.33 percent tax officers, 16.67 percent traders and 20 percent consumers. Thus, out of total respondents, 36 percent viewed smuggling and under valuation is main challenging problem 27 percent identified that lack of proper billing system is current existing problems, whereas 9 percent argued that lack of proper accounts 21 percent following by weak tax administration and 6 percent had no idea on this view.

4.2.20 Whether the VAT be Effective in Future

According to the international experience, VAT is effective to the revenue mobilization and strong tax administration. However, it can't be said. Properly that it is advantageous and effective in future until effective implementation. In Nepalese context, the smuggling trade level is at peak point, tax leakage is at higher magnitude, the revenue collection is at the lower the effectiveness and administration is weak. So without proper implementation, there is big doubt whether VAT will be effective in future or not. The view of various respondents on this aspect is presented in the table below.

Table: 4.32
Whether the VAT be Effective in Future

Alternatives Respondents	Yes it will be		No it will not		I don't know		Total
	No	%	No	%	No	%	
Tax experts	5	100	-	-	-	-	5
Tax Officers	15	100	-	-	-	-	15
Businessmen/traders	22	73.33	2	6.67	6	20	60
Consumers	35	70	4	8	11	22	50
Total	77	77	6	6	27	17	100

Source: Field Survey, 2012.

As shown in the above table, it is clear that 77 percent of total respondents were totally optimistic the VAT will be effective in future but 6 percent of total respondents were pessimistic that VAT will be effective in future. Remaining 17 percent respondents including businessmen and consumers had no idea about this aspect. From the survey, it is found that 100 percent each tax experts and tax officers supported that VAT will be effective in future followed by 73.33 percent traders and 70 percent consumers.

4.2.21 Responsible Group of Tax Evasion

Any tax system may not provide the expected revenue yield when there exist tax evading loopholes. Evasion of tax not only loses the revenue but also creates economic distortions, market imperfection etc. However tax evading practice is a general phenomenon in any country and it cannot be solved perfectly but it must be minimized as far as possible. Generally business enterprises may not take responsibility for tax evasion but it is not true all the cases and time. There are other groups such as consumers tax administration who may be more responsible for tax evasion. The opinion survey was conducted to provide the views on most responsible group for tax evasion among business enterprise, consumers, administration or all and the outcomes is presented in table below.

Table: 4.33
Responsible Group of Tax Evasion

Alternatives Respondents	Business enterprises		Tax Adm.		consumers		All		I don' Know		Total
	No	%	No	%	No	%	No	%	No	%	
Tax experts	5	100	-	-	-	-	-	-	-	-	5
Tax Officers	8	53.33	1	6.67	1	6.67	5	33.33	-	-	15
Businessmen/traders	8	26.67	12	40	-	-	7	23.33	3	10	30
Consumers	12	24	12	24	6	12	15	30	5	10	50
Total	33	33	25	25	7	7	27	27	8	8	100

Source: Field Survey, 2012.

As depicted in the table 4.33, 100 percent tax experts, 53.33 percent tax officers 27.67 percent businessmen and 24 percent consumers supported that the most responsible group for tax evasion is business enterprises. Similarly, 6.67 percent tax officers, 40 businessmen/traders and 24 percent consumers viewed due to tax administration. Likewise 33.33 percent tax officers, 23.33 percent traders, and 30 percent consumers agreed due to the entire responsible group. Out of total respondents, 33 percent opinioned due to business enterprise, followed by 25 percent tax administration, 7 percent consumers, 27 percent by all groups and remaining 8 percent had no idea on this view.

4.2.22 Reasons for Need of VAT in Nepal

Having great pressure for development, all developing countries like Nepal, Bhutan, Bangladesh etc need higher revenue collection from internal source. For that the effective implementation of VAT has great significance for these developing countries. Almost developing countries depend upon the external resource such as foreign aid, foreign loan and financial assistance. So these countries tried to seek to stand on the internal revenue through VAT system. On the context of Nepal, the period of sales tax seems to be very unfruitful on the revenue mobilization, tax loopholes i.e. smuggling, under valuation etc. So there was no any alternative except accepting tax reform. So, increasing the popularity and the successes of VAT to the tax reform in order to eliminate all kinds of defects and problems. The following table idealized about the opinion of respondents way of VAT is needed in Nepal.

Table: 4.34
Reasons for Need of VAT in Nepal

Alternatives Respondents	Effective revenue		Transparency		Avoid Tax leakage		Borden Tax Base		All		I Don't Know		Total
	No	%	No	%	No	%	No	%	No	%	No	%	
Tax experts	3	60	-	-	-	-	1	20	1	20	-	-	5
Tax Officers	9	60	-	-	2	13.33	2	13.33	2	13.34	-	-	15
Businessmen/traders	12	40	3	10	5	16.67	2	6.67	7	20	2	6.66	30
Consumers	25	50	1	2	4	8	5	10	10	20	5	10	50
Total	49	49	4	4	11	11	10	10	19	19	7	7	100

Source: Field Survey, 2012.

Above table shows that, 60 percent each tax experts and tax officers, 40 percent businessmen and 50 percent consumers agreed that VAT is needed in Nepal due to the reason of effective revenue generation. Similarly, 20 percent tax experts, 13.33 percent tax officers, 6.67 percent businessmen/traders and 10 percent consumers reported VAT is needed due to burden tax base. Likewise 20 percent tax experts, 13.34 percent tax officers, 20 percent each traders and consumers views there is need of VAT due to all mentioned reasons where as 6.66 percent businessmen and 10 percent consumers had no idea on this opinion. Out of total respondents, 49 percent avoiding tax leakages, 10 percent broaden tax base, 10 percent due to all reasons, need of VAT in Nepal.

4.2.23 Applicability of VAT in Nepal

Tax reform has become a universal phenomenon since 1980 and still accelerating. VAT has been new innovation and its being more streamlining in 1990's. Generally, tax reforms have been triggered of by the desire to make the tax system and regime simple transparent, broad based, neutral and stable. However in Nepalese context, the economy is not yet sufficient to develop proper tax system as effective. These taxes would be very difficult to implement in Nepal. Beside this, Nepal possess a geographical constraints, open border, agriculture based economy, illiterate situation. Further, the Nepalese business is also not well organized small vendors are many and scattered all through Nepal. Therefore, the applicability of VAT in Nepal has been

very challenging task. The views on applicability of Vat can be shown in the following table:

Table: 4.35
Applicability of VAT in Nepal

Alternatives Respondents	Yes it is		No it is not		Yes but difficult		I don't Know		Total
	No	%	No	%	No	%	No	%	
Tax experts	5	100	-	-	-	-	-	-	5
Tax Officers	12	80	-	-	3	20	-	-	15
Businessmen/traders	18	60	-	-	8	26.67	4	13.33	30
Consumers	30	60	-	-	12	24	8	16	50
Total	65	65	-	-	23	23	12	12	100

Source: Field Survey 2012.

From the table 4.35, 100 percent tax experts, 80 percent tax officers, 60 percent each businessmen/ traders and consumers viewed that VAT is applicable in Nepalese environment. Similarly, 20 percent tax officers, 26.67 percent businessmen and 24 percent consumers supported that it is necessary but very difficult in reality. Likewise, 13.33 percent businessmen and 26 percent consumers had no idea on this opinion considering all respondents, 65 percent viewed, it is applicable in Nepal, 23 percent reported it is applicable but very difficult and 12 percent opinioned on unknown view i.e. I don't know response.

4.2.24 Effect of VAT on Revenue Mobilization

Presenting resource gap is one of the major characteristics for the Nepalese economy. Due to lack of sufficient revenue sources, government is not capable to operate the development activities in the country. Besides this the large amount of foreign debt is forcing the economy towards the debt- trap situation. In such circumstances, VAT was expected to have the greater revenue yield due to it broader base and other features such as catch-up effect, self-enforcing nature, transparency etc. But it has a low revenue yield due to weak implementation until the beginning year of implementation however improving in successive years. The opinion survey on this aspect is presented in the table below:

Table : 4.36
Effect of VAT on Revenue Mobilization

Alternatives Respondents	Positive		Negative		No effect		I don't Know		Total
	No	%	No	%	No	%	No	%	
Tax experts	5	100	-	-	-	-	-	-	5
Tax Officers	15	100	-	-	-	-	-	-	15
Businessmen/traders	25	83.33	-	-	2	6.67	3	10	30
Consumers	34	68	2	4	6	12	8	16	50
Total	79	79	2	2	8	8	11	11	100

Source: Field Survey 2012.

The table 4.36 shows that, 100 percent each tax experts and tax officers, 83.33 percent businessmen/traders and 68 percent consumers said that VAT will have positive effect on revenue mobilization as compared to the other replaced taxes. In aggregate, 79 percent, 2 percent 8 percent and 11 percent of the respondents provided their opinion on positive, negative no effect and I don't know option respectively.

4.2.25 Effect of VAT on Investment Sector

In real, the prevalent tax system has direct impact on the investment sector of the economy. However, the extent of the impact depends on the tax rate structure, coverage etc mainly, Nepal has two kinds of investment i.e. foreign and domestic investment. Since along back, have flown on the productive sector. The major goals are to achieve economic growth through developing productive sector and alleviate the poverty. In general, investment factor affected by the policy of the country or the taxation policy of the government. So we have to know that what kind of effects of VAT will fall on the investment sector. The effect of investment sector is evaluated by comparing it with the replaced taxes. In the case of developing countries low level of investment in different sectors cause to develop the snail pace industry so the current tax policy also needed to be direct towards encouraging the investment in the economy. The survey results is presented in the table

Table : 4.37
Effect of VAT on Investment Sector

Alternatives Respondents	Positive		Negative		No effect		I don't Know		Total
	No	%	No	%	No	%	No	%	
Tax experts	4	80	-	-	1	20	-	-	5
Tax Officers	9	60	1	6.67	5	33.33	-	-	15
Businessmen/traders	12	40	6	20	7	23.33	5	16.67	30
Consumers	34	68	6	12	3	6	7	14	50
Total	59	59	13	13	16	16	12	12	100

Source: Field survey 2012.

Above table, shows that most of the respondents were concentrated their view on positive effect in investment sector 80 percent tax experts, 60 percent tax officers, 40 percent businessmen /traders, and 68 percent consumers expressed their views on the positive effect of VAT. Similarly, 20 percent tax experts, 33.33 percent tax officers, 23.33 percent businessmen and 6 percent consumers said that VAT will no effect on investment sector, followed by 13 percent, 16 percent and 12 percent of respondents provided their opinion on negative, no effects and I don't know option respectively.

4.2.26 Effect of VAT on Economic Growth

The ultimate aim of the government is to achieve the economic development and accelerate the rate of economic growth. The main tax policy of a government is to intensify the rate of saving and investment to achieve a higher rate of economic growth thus, VAT is an ideal tax to achieve higher incremental saving ratio and thereby attain higher rate of growth in the economy. Economic growth of a country depends on the various aspect. The rate of tax system significantly affect the country's economic development. So from this view higher the revenue collection from VAT means higher will be the growth of national development. So the VAT is a major tools for accelerate the economic growth of a country. Whether the effect of VAT on economic growth, the views of respondents is positive, negative, no effect and no idea. The outcome of the survey in the aspect is summarized in the table below.

Table: 4.38
Effect of VAT on Economic Growth

Alternatives Respondents	Positive		Negative		No effect/normal		I don't Know		Total
	No	%	No	%	No	%	No	%	
Tax experts	4	80	-	-	1	20	-	-	5
Tax Officers	10	66.67	-	-	5	33.33	-	-	15
Businessmen/traders	18	60	3	10	5	16.67	4	13.33	30
Consumers	20	40	4	8	15	30	11	22	50
Total	52	52	7	7	26	26	15	15	100

Source: Field Survey, 2012.

As depicted in the table 4.38, 80 percent tax experts 66.67 percent tax officers, 60 percent businessmen/ traders and 40 percent consumers expected to have positive effect of VAT on economic growth. Similarly, 20 percent tax experts, 33.33 percent tax officers, 26.67 percent businessmen/ traders, and 30 percent consumers provide their view on normal effect of Vat on economic growth. Likewise, 13.33 percent businessmen and 22 percent consumers viewed that they had no adequate idea on this opinion. Thus out of total respondents, 52 percent, 7 percent, 26 percent, and 15 percent of the total respondents provided their view respectively on options of positive effect, negative effect, normal effect and unknown matter i.e. I don't know.

4.7.27 Effect of VAT on the Balance of Payment

The balance of payment is merely a way of listing receipts and payments in international Transactions for a country. VAT is a fiscal measure, its role is significant and sensitive to the international trade. In the context of Nepal. VAT is based on the destination principle and it is also expected to have positive impact on the balance of payment of the country. Field survey was conducted to know the view of different groups about the effect of VAT on balance of payment and following result was obtained:

Table: 4.39
Effect of VAT on the Balance of Payment

Alternatives Respondents	Positive		Negative		No effect/normal		I don't Know		Total
	No	%	No	%	No	%	No	%	
Tax experts	3	60	1	20	1	20	-	-	5
Tax Officers	9	60	-	-	6	40	-	-	15
Businessmen/traders	16	53.33	4	13.33	7	23.34	3	10	30
Consumers	25	50	4	8	14	28	7	14	50
Total	53	53	9	9	28	28	10	10	100

Source: Field Survey, 2012.

Above table depicts that, 60 percent each tax experts and officers, 53.33 percent businessmen/traders and 50 percent consumers supported that there will be positive effect of VAT on balance of payment. Similarly, 20 percent tax experts, 40 percent tax officers, 23.34 percent businessmen/traders and 28 percent consumers viewed that there will be no effect of VAT on balance of payment. Likewise, 20 percent tax experts, 13.33 percent businessmen and 8 percent consumers agreed that there will be negative effect.

4.2.28 Effect of VAT on Tax Leakage

Tax leakage is one of the most burning challenges for the tax administration. Due to the weaknesses remains in rules and regulation and non effectiveness in implementation, it is visible and invisible existed in tax system. So it is a problematic issue yet. Tax revenue has been flowing out through tax leakage since a long time period. Tax leakage have badly eroded Nepalese tax base. If tax leakage is neutralized, the revenue will definitely multiple. When it is in reality, it will be a plus point to the national economy. Tax leakage directly restricts the growth of revenue collection and causes the declining revenue collection. In the context of Nepalese economy, it is great challenges so government already introduced VAT system. One of the major objective of VAT is to tackle the existed tax leakage so as to increase the revenue collection. So how much restrict it may not be measured until the VAT will practice effectively. The outcome of different respondents is summarized in the table below:

Table: 4.40
Effects of VAT on Tax Leakage

Alternatives Respondents	Eliminative		Non Eliminative		No effect		I don't Know		Total
	No	%	No	%	No	%	No	%	
Tax experts	5	100	-	-	-	-	-	-	5
Tax Officers	15	100	-	-	-	-	-	-	15
Businessmen/traders	22	73.33	-	-	2	6.67	7	20	30
Consumers	32	64	2	4	8	16	8	16	50
Total	74	74	2	2	10	10	14	14	100

Source: Field Survey, 2012.

From above table it is clear that, 100 percent each tax experts and tax officers, 73.33 percent businessmen and 64 percent consumers satisfied with the eliminative power of VAT. Out of total respondents, 74 percent provided their view on eliminative power of VAT, following by 2 percent non eliminative, 10 percent no effect, 14 percent I don't know effect on leakages.

4.2.29 Effect of VAT on Smuggling Business

Smuggling business, main factors for tax evasion, is called the illegal business. In the context of Nepal, these types of activities are increasing due to weak administration and proper operation. It cannot operate effectively and properly under the laws and order. So it is also a burning problem exist in the country. The growth of smuggling activities can also be attributed to the trade policies adopted by the government. It is expected that VAT system helps the government to control over smuggling business. The views of different respondents on this aspect is presented in the table below

Table : 4. 41
Effect of VAT on Smuggling Business

Alternatives Respondents	Restrictive		Non Restrictive		No Effect		I don't Know		Total
	No	%	No	%	No	%	No	%	
Tax Experts	5	100	-	-	-	-	-	-	5
Tax Officers	15	100	-	-	-	-	-	-	15
Businessmen/traders	22	76.67	-	-	2	6.67	5	16.66	30
Consumers	40	80	-	-	3	6	7	14	50
Total	83	83	-	-	5	5	12	12	100

Source: Field Survey, 2012.

As depicted in table 4.41, 100 percent each tax experts and tax offices, 76.67 percent businessmen and 80 percent consumers opinioned about the restrictive nature of VAT on smuggling business. Out of total respondents, 83 percent convinced that restrictive nature of VAT on smuggling business whereas 5 percent viewed on no effect of VAT. Likewise, 12 percent respondents had no idea on this opinion.

4.3 Major Findings of the Study

On the basis of previous chapters data presentation and analysis. Some important findings can be drawn. The major findings of the study are as follows:

The revenue collection from VAT is in increasing trend, which is beneficial for sound economic development. Despite the various difficulties in the implementation of VAT, it is expected that VAT will generate more and more revenue in the coming days. VAT generated about RS.12047.80 million revenue in FY 2000/01, it reached up to RS.54920.85 million in FY 2009/10.

-) The revenue collection from VAT can be divided into two major components as domestic products and imports. The current trend shows that about one third of total VAT revenue comes from domestic product and two third from imports.
-) The registration trend in to VAT is increasing gradually. The number of registrants increased from 21093 in FY 2000/01 to 82433 in FY 2009/10 by almost tenfold.

-) The share of value added tax in the GDP in Nepal is very low. The contribution of VAT revenue as percentage of GDP remained 2.87 to 4.64 from FY 2000/01 to FY 2009/10.
-) The contribution of VAT revenue to total revenue, total tax revenue, total in directed tax revenue is not so bad its showing a improving trend.
-) Low public awareness may create problems for the implementation of VAT in Nepal. Most of the people are not aware of VAT.
-) The billing system plays crucial role in the field of VAT but it is one of the major problem exist in Nepal. Regarding the current states of possibility of billing system in purchases, 72 percent of total respondent advocate for possibility of billing system in VAT system.
-) 57 percent of the total respondents reached to the conclusion that VAT will rise of the commodities but 30 percent claimed for not rise in price due to VAT system. Most of the respondents provided their view regarding reasons for price rise due to compliance cost.
-) VAT is being preferred by many countries of the world due to superiority of sales tax. 72 percent of total respondents are in favor of VAT system
-) 71 percent of total respondents argued that current structure of VAT is sufficient to have greater revenue yield where as 9 percent claimed that it has to be improved.
-) 61 percent of the total respondents were convinced that the single VAT rate is effective to mobilize revenue. In contrast 26 percent of total respondents disagree with current single VAT rate remaining 13 percent of total respondents seems to be ignorant to the productivity of vat rate.
-) 65 percent of total respondents were satisfied with present threshold kept in VAT enactment. However 23 percent of total respondents were not satisfied with current VAT enactment and rule. Most of the respondents claiming that present threshold secure properly all small vendors.
-) Present threshold in VAT enactment is issue on the purpose to secure small vendors, but it remain invisible gate to the mal-practice.
-) 77 percent of total respondents provided their views regarding present exemption is ok,17 percent supported that it should be reduced while proves that current exemption is wide due to this tax evasion may be increase. It is also found that the present rules and legal provision are enough to implement VAT system effectively and properly.

- J) Though 13 years have been already passed but record keeping and process of VAT system has still a great challenges and problems for tax payers most of the tax payers are unknown about the record keeping and process of VAT system. 45 percent on collection process and 13 percent opinioned on problem of tax refund system. The outcome shows that tax burden of VAT to the tax payer is higher.
- J) The major problems exist in business sector are registration procedure account keeping system, proper billing system and cost of record keepings. 41 percent of the respondents provided their view on difficulties on registration, 33 percent opinioned on account keeping system and 17 percent argued on billing system.
- J) VAT administration is still weak, traditional corrupted, inadequate and incomplete with cause problems and challenges in the path of successful implementation of VAT out the major weaknesses of VAT administration, 12 percent viewed on lack of experts, 36 percent in favor of lack of trained manpower, 5 percent opinioned due to insufficient physical infrastructure and 12% complained about its weak poor economic situation.
- J) Due to broader base, catch-up effect, self-enforcing nature, transparency etc feature of VAT. VAT is expected to have the greater revenue yield. It is found that VAT has positive effect of revenue mobilization, investment sector, economic growth and balance of payment.
- J) Tax leakages have badly eroded Nepalese tax base. Tax revenue has been following out through tax leakages which directly restrict the growth of revenue collection. VAT is expected to tackle the existed tax leakages .74 percent of the total respondents were in favor of eliminative effect of VAT on tax leakages.
- J) Smuggling business activities are increasing due to weak tax administration and proper operation implementation. It is expected that VAT system help the government to control over these illegal activities. 83 percent of the respondents viewed about it's restrictive nature over smuggling business.
- J) VAT system entered into the thirteen years of its implementation in Nepal but implementation of VAT is not proceeding at a desired place. In spite of the most popular fiscal tool, Nepal is still facing number of challenges like poor administration, political instability, malpractices, corruption etc. These existing challenges in the implementation of VAT in Nepal are as VAT billing, narrow tax base /coverage, smuggling, under valuation and un authorized trade, weak tax administration, weak public consciousness level .

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Tax is a compulsory contribution to the government made without reference to a particular benefit received by the taxpayer. Taxes are levied primarily to raise revenue for government expenditures. On the basis of its nature, tax can be classified broadly into direct and indirect tax. VAT can be taken as a good example of indirect tax. VAT is definitely a new and modern tax system in comparison with other traditional taxes.

Value added tax is the latest innovation in the field of taxation. Actually VAT is considered as the most important tax reform in the 21st century, which has already been implemented popularly in more than over 125 countries in the world. VAT is multi-stage commodity and services based tax which is levied on the value added of business enterprises at the different stages of production and distribution. It affects only the added portion of price i.e. the value of goods and services added in various stages of transit. It has nothing to do with the rest of the prices. Purchasers pay VAT to the sellers and sellers transfer it to government, deducting VAT paid on their business purchase from VAT amount collected from the consumers on their sales. The ultimate burden of VAT is shifted on the consumers. In this system every person or business firm, which is above the threshold limit should compulsorily be registered in VAT office. Registered persons/business firms get credit facilities on tax paid on their purchases of raw materials, semi-produced goods and overheads. Small vendors whose annual taxable turnover is below the threshold and business firms that deal with exempt goods only need not registration. The firms, below the threshold could be registered voluntarily.

VAT was first implemented in 1954 by the French government. Then after almost all countries of the world are being attracted towards this system. Due to some special features such as input tax credit system, based on accounting system, less chances of cascading and pyramiding effect, this system is very popular throughout the world. VAT is self-policing in nature, so there is less probability of tax evasion. VAT plays a neutral role on the methods of production and distribution, which is a basic need for a

good tax system. Similarly, the stepwise collection of VAT does not encourage tax evasion.

VAT the largest contributor to the national revenue basket, constitutes more than 40 percent of total indirect tax revenue. VAT system is a completely new system of taxation for Nepal. HMG of Nepal adopted this system since November 16, 1997. The international of introducing VAT was initially expressed in 1992; vat task force was created in 1993. After several years and preparation VAT act was finally passed through parliament in December 1995. VAT becomes effective through the finance bill of 1997. After that, formulation and passage of VAT Act, design of VAT regulations and its final approval preparation of VAT all has been done by Nepali standard. Due to effective VAT act and regulation make well preparation for VAT in Nepal which has made VAT successful today.

The structure of Nepalese VAT is designed in the VAT ACT, 1996 its coverage is defined with references to both taxable transactions and taxable persons. The base of VAT is the value added by each firm through its production and distribution activities. According to the VAT act 1996, the tax rate is 13 percent and exports are subject to a rate of zero percent. There are certain cases, such as, exemptions and zero rating, under which commodities are tax free. A taxpayer is all owed to deduct the tax paid on purchase for his business from the collected on sale. This deduction is known as an input tax credit. Under the, Nepalese VAT system, there is a provision for the refund of VAT. Such a situation will arises in the case of zero rated supplies such an export. Small vendors having an annual turnover up to certain amount are not required to register under VAT system. The amount fixed for this purpose is known as threshold. In Nepalese case its level is RS 2 million. The tax payers may not always agree with the assessment made by the tax officers. In that case, taxpayers may file an appeal to the revenue tribunal within 35 days against a tax assessment or penalty.

The first step towards VAT operation is registration of vendors who are legal taxpayers. Each and Every registered vendor should receive and given the bill while purchasing and selling the goods respectively. Each VAT registered person should keep records of all tax invoices they issue and receive, including the serial number and the data of the invoice, the amount changed and the VAT changed. If a registrant's output tax liability is greater than his input tax credit, he requires limiting

the difference of output tax and inputting tax to the government within specified time period. VAT is self assessed tax. Tax payers determine their tax liability themselves and pay tax. If tax payers does not assess his income himself and does not file his return within specified time, he is termed to be a non filer. In such cases VAT official may have to make a tax assessment. Penalties are designed to punish taxpayers for their VAT offences and to recoup the revenue losses due to the mal functions of taxpayers. VAT is the one of the forms of sales taxes. Actually it is the replacement of sales tax, entertainment tax, hotel tax, and contract tax. Nepal introduced a consumption type, tax credit method vat based on the destination principle with single positive rate of 10 percent.

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

In fact, the implementation of VAT was not easy in initial days; it was a matter of great debate. Even after the passage of the law, there were a lot of constraints and difficulties in introducing and implementing VAT in Nepal. A large numbers of traders and business community were against VAT. The first two years of VAT implementation were very turbulent. The FNCCI, NCC and their affiliated agencies were in the front line of opposition. Despite all this, VAT was introduced and survived because of the efforts of the small group of extremely dedicated, motivated and hard working people who never gave up their hopes of making VAT successful one day. VAT is currently well receipted by the consumers as well all business and industrial communities of Nepal, for this is account based tax that lead to transparency and accountability both on the part of tax payers and tax collectors. Despite the strong opposition to VAT from the business community, the number of VAT increasing gradually, reaching about 82433 in the fiscal year 2009/10 in the span of last ten years.

VAT, a premier indirect tax to Nepal s tax structure is composed of two components; domestic and imports. Almost two third of VAT revenue is generated from imports.

However both the domestic and imports VAT are likely to have the equal share in the total VAT in the near future. Domestic VAT revenue further consists of production, distribution and services sectors.

VAT has been in operation for last five years, but is still facing number of challenges/problems. The lack of proper billing is begins most of the challenging problem to implement VAT effectively and successfully. However, the problem is equally associated with others such as smuggling and under valuation, weak performance of tax administration, low level of public awareness, rampant corruption, political instability, geographical barriers, open b roader and un authorized trade, narrow tax base, lack of co-ordination between custom offices and VAT related offices etc. so improvements in such various areas are needed.

5.2 Conclusions

It can be concluded from the study that the Value added tax puts greater significance in revenue mobilization in Nepal. The reason behind this is that VAT system is transparent, broaden tax base and discourage tax evasion. So it is needless to say that VAT is the most important sources of the government revenue. VAT is a most important, innovative and powerful tax with built in quality of universal application for both developed and developing economics. The biggest virtue of VAT is that is revenue buoyant and highly instrumental for resources mobilization especially in an economy with acute shortage of resource. VAT would make it possible to broaden the tax base, eliminate cascading, create an investment friendly tax system, have a simple and modern tax system that exempted export and basic goods from taxation and finally increase revenue. This is a matter of great pride that the Nepal has entered in to major global tax system with the introduction of VAT.

Adopting of VAT for Nepal is both a compulsion and necessity. It cannot curtail it s development projects for which more revenue is required. The narrow tax base of the previous sales tax failed to generate the minimum required amount of revenue because it included only import and manufacturing units. Similarly, most of the goods and services were exempted from tax. The globalization and recent trend of trade and tax system has affected the Nepalese economy also, as we have just getting the membership of WTO. Consumption based tax is only an alternative to collect more

revenue, which directly helps to increase domestic resources for development works. One of the bases of the Nepalese tax system is VAT. It is based on consumption. However, the consumption related indirect taxes do not maintain equity norms but they can be considered as one of the reliable sources of revenue generation. Furthermore, this will help reduce the burden of our foreign debt, and will provide a great relief to our future generation. There is no doubt on the fact that VAT, in long run, will help to make Nepalese economy stronger. In this sense, the successful implementation of VAT system has a greater significance as well as importance in Nepal.

VAT was introduced as a part of the national tax reform program. But VAT system in Nepal from its inception has been facing innumerable problems, which curtail its merits and effectiveness. Its process has been slow, initially due to opposition from business community and subsequently to administrative problems. Even after its full-fledged implantation in 1999, the system has not been taken a considerable pace due to administrative inefficiency. Despite preliminary resistance VAT has been largely accepted by the taxpayers as well as business community of Nepal, and relied upon by the government as an important tool for mobilizing the revenue needed to finance public expenditure.

VAT regime is extremely challenging in a burgeoning economy like Nepal where, with long open broader, a large segment of economy is yet to be monetized. Resistance from the business community, ignorance of general people and the lack of full support and commitments from the politicians and government officials forced, the authority responsible for implanting, VAT to make compromises on various aspect of VAT which has weakened the process of its implantation right from the beginning. The attitude of businessmen and the tax administration also appear hostile to the effective implementation of VAT in Nepal. The culture of doing business without maintaining proper books of accounts or maintaining multiple sets of books of accounts has made implementation of VAT difficult. 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 the problem is addressed seriously.

Theoretically, the Nepalese VAT system has no weak provisions. It is one of the best models in the world. In practice, however, the system is not effective even today. Most of the problems concerning the operation of VAT in Nepal have been identified. The government needs to take necessary steps to sort out emerging problems in implementation of VAT. The government needs full co-operation from the tax administration, the taxpayers and businessmen as well as consumer in its efforts to generate more revenue. VAT must be made successful and this largely depends upon honest faith and morality of tax officials and business people. Responsibility and accountability in every section of the economy is the basic requirements as well as honesty and confidence between the business people and tax administration. There is need for well power and action. The government must be curative unnecessary hindrance to economic activities must be avoided. In the absence of growth in economic activities, revenue generation cannot be increased. Thus, it is time for action and improvements for effective and successful operation of VAT in Nepal for further perspective as well as present needs of economic development.

5.3 Recommendations

Nepal has introduced VAT system since 1997, after a long preparation and planning, despite the existing constraints and opposition. VAT act, rules and regulations have been set up in the line of international standard and its preparation had been made comprehensive and much more extensive as compared to the other taxes. This preparation has assisted towards creating a favorable environment for the implantation of VAT and VAT is not going gradual acceptance of the business community and general public at large level. It is a great challenge to Nepal in order to achieve the success. In order to create effective implantation, the empirical studies should be conducted from time to time. So ,to escape from inefficiencies, problems and constraints, VAT administration can be tackled these issues efficiently and effectively, since the implementation of VAT is a great jump from the traditional tax system to a modern system, several things are still lacking to be done for the successful implementation of VAT in Nepal in such circumstances, on the basis of major findings and conclusions, following recommendations have been made to make

VAT effective and more effective, which could be fruitful to concerned authorities while reforming Nepalese VAT system. In this light the following recommendations are suggested:

1. Revenue collection from VAT is in increasing trend which is beneficial for sound economic development. The government should increase positive perception about VAT.
2. The revenue collection from VAT can be divided in to two major components as domestic products and imports. The current trend shows that about one third of the total VAT revenue comes from domestic products and two thirds from imports. So it is necessary to increase the domestic products over imports.
3. The registration trend into VAT is increasing gradually. So the tax payers should be encourage to register their business voluntarily.
4. The share of value added tax in the GDP of Nepal is very low. So research and investigation should be concluded on various issues. For the solving VAT problems tax experts group should be recommended for implementation of VAT policies. Ongoing research also should be handled forward, for this a “VAT Research Bureau” should be established.
5. The contribution of VAT revenue to total revenue, total tax revenue, total indirect tax revenue is not so bad. The government should implement new plans and policies to increase Revenue collection of VAT in Nepal.
6. Most of the public as well as tax payers are still unknown about VAT. So VAT related information should be published regularly through advertising media journals magazines newspaper pamphlets, radio, television etc. Interview programs with professors, researcher, tax experts, and economists should be conducted and published through Medias. Similarly, the student at school level as well as college levels curriculum should be included VAT education and social obligation of paying VAT.
7. Lack of proper billing system, is being the most challenging problem in Nepalese context. So consumers should be well informed to take the real bills which they have to pay and strict warning should be given to business who use to issue false bills/invoice. So issuing invoices for every taxable sells must be made compulsory.
8. Existing threshold and tax refund are two possible gates for tax evasion. It seems that existing exemptions has a broad coverage however some exemptions are

unavoidable due to administrative complexity, and equity aspect, so exemption should be minimized gradually/successively.

9. An efficient, strong and fair administration is the most crucial for the proper implantation of VAT. But, VAT administration is still weak, traditional, corrupted in nature. In spite of these there is lack of expertise, well trained and skilled officers in the VAT administration. So informative programs such as seminars, training, discussions, souvenir, should be organized to make the tax officers skilled and capable in their field of job and services minded attitude needs to be developed in the mind of tax officers. Many rules and regulations of VAT are only limited in papers and they are not seen in practice. All the rules and regulations should be in practice. Government should make effort to discourage under valuation, including purchase of some consignments, which are imported at an unrealistically low value. Audit and investigation system need to be improved and make effective, and strictly penalize those who don't follow the rules. Strict rules should be prepared also for tax officers and it is necessary to take action against these officers who are directly or indirectly involved in collusion and corruption, without any hesitation. Also the reward system should be made effective.

10. VAT administration is still weak so an effective and efficient auditing, investigation and monitoring system should be developed. Computer system and networking programme must be developed and linked so as to make VAT work simple which also helps to make data base system effective.

11. For making VAT effectively success in future it is necessary to overcome current challenging problems. VAT laws 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. There were made many agreements between VAT payer and VAT collector. Persons of each sector blaming to another. Due to lack of understanding between them, there is loss of revenue taxable amount is arbitrarily fixed by the tax authorities in many cases which is beyond the current features of vat system. Hence, it is necessary to co operate the private sector with government. A proper co-operation between both sectors should be established confidently.

12. VAT has positive effect of revenue mobilization, investment sector, economic growth and balance of payment. So the government should focused their attention towards reforming the tax system, by realizing the poor designed tax structure in order

to mobilize higher volume of resources for the development purpose and make the economy health, efficient, and self dependent to a greater extent.

13. Tax leakages have badly eroded Nepalese tax base. The tax administration should be very watchful to prevent any kind of mal practice, fraud and tax evasion. Furthest care should be taken to prevent any kind of bribing and corruption. Tax officials should effectively be monitored.

14. The existing long open broader is the main cause of smuggling trade, under valuation system. So broader should be effectively control to prevent the illegal trade. There should be a effective checking system to prevent any kind of illegal trade in broader side.

15. Many rules and regulations of VAT are only limited in papers and they are not seen in practice. All the rules and regulations should be in practice. Government should make effort to discourage under valuation, including purchase of some consignments, which are imported at an unrealistically low value. Audit and investigation system need to be improved and make effective, and strictly penalize those who don't follow the rules. Strict rules should be prepared also foe tax officers and it is necessary to take action against these officers who are directly or indirectly involved in collusion and corruption, without any hesitation. Also the reward system should be made effective.

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a. Yes , it is [] b. No it needs to enlarge []
c. I don't know []
- 9 Can VAT secure properly to all small vendors?
a. Yes it can [] b. No it can't []
c. Possible [] d. I don't know []
- 10 Do you think that the possibility of the mal-practice of threshold?
a. Yes it is high possible [] b. Yes but difficult []
c. Lack of implementation and vat administration []
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- 11 What do you think about the tax burden of VAT to the tax payers?
a. Higher [] b. Lower [] c. Normal []
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- 12 What is your view on the existing exemption of VAT?
a. It is ok [] b. It should be reduced []
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- 13 Do you think that current legal provision and rules of VAT is sufficient in Nepal?
a. Yes [] b. No [] c. Moderate [] d. I don't know []
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- 16 Will VAT system in Nepal improve revenue mobilization?
a Yes [] b No [] c I don't know []
- 17 What is the major weakness of VAT administration?
a. Lack of experts [] b. Lack of trained manpower []
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e. Miscellaneous [] f. All []
- 18 What kind of efforts are needed to make VAT effectively successful?
a. Strengthen and improve VAT administration []
b. Trained and educated officers []

- c. Improve VAT laws and regulation []
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19 What are the current challenging problems of VAT in Nepal?

- a. Smuggling and undervaluation []
 b. Lack of proper billings []
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20 Do you think that VAT will be effective in future?

- a. Yes, it will be [] b. No, it will not [] c. I don't know []

21 In your opinion who is the most responsible group for tax evasion?

- a. Business enterprises [] b. Tax administration []
 c. Consumer [] d. All []

22 What are the main reasons for need of VAT in Nepal?

- a. Effective revenue [] b. Transparency []
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23 Do you think that VAT is applicable in Nepal?

- a. Yes it is [] b. No it is not []
 c. Yes but difficult [] d. I don't know []

24 What effect will VAT have on revenue mobilization?

- a. positive [] b. Negative [] c. No effect [] d. I don't know []

25 What effect will VAT create on investment sector?

- a. Positive [] b. negative [] c. No effect [] d. I don't know []

26 What effect will VAT have in the nation's economic growth?

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29 What effect will have VAT on smuggling Business?

- a. Restrictive []
- b. Non-restrictive []
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- d. I don't know []

30 Do you have any comments on VAT system?

- a. Yes []
- b. No []

If yes,

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