

# **VALUE ADDED TAX IN NEPAL: PAST AND PRESENT**

**A Thesis Submitted to  
Office of the Dean  
Faculty of Management  
Tribhuvan University  
Kirtipur, Kathmandu**

**Submitted By:  
Bishnu Prasad Bhandari  
Central Department of Management  
Campus Roll No.: 80/064  
Exam Roll: 280497  
T.U. Regd. No. : 7-1-304-83-97**

**In Partial Fulfillment of Requirement for the degree of Master  
of Business Studies (MBS)**

**Kirtipur, Kathmandu, Nepal  
October, 2012**

# **RECOMMENDATION LETTER**

This is to Certified that the Thesis

**Submitted by:**

**Bishnu Prasad Bhandari**

**Entitled**

**VALUE ADDED TAX IN NEPAL: PAST AND PRESENT**

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

-----  
Dr. Gopi Nath Regmi  
(Supervisor)

-----  
Prof. Dr Krishna Shrestha  
(Head of Research Department)

-----  
Associate Prof. Ajay Prasad Dhakal  
(Ass. Head of Department)

Date: .....

# VIVA-VOCE SHEET

We have conducted the Viva-voce Examination of the Thesis

Submitted by

**BISHNU PRASAD BHANDARI**

Entitled

**VALUE ADDED TAX IN NEPAL: PAST AND PRESENT**

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

**Viva - Voce Committee:**

Head of Research Department : -----

Member (Head of Department) : -----

Member (Thesis Supervisor) : -----

Member (External Expert) : -----

Date: .....

## DECLARATION

I hereby declare that the thesis entitled "Value Added Tax in Nepal: Past and Present" submitted to Central Department of Management, T.U. is my original work done in the form of partial fulfillment of the requirement for the degree of master of Business studies under the supervision of Dr. Gopi Nath Regmi of central department of management.

-----  
Bishnu Prasad Bhandari  
Central Department of Management  
Tribhuvan University

## **ACKNOWLEDGEMENT**

I would like to express my deep gratitude towards my supervisor Dr. Gopi Nath Regmi of central department of management for enthusiastic and regular guidance. It would not have been possible for me to complete this research work without his unflagging supervision, trenchant advice and direction. So, I owe great debt of gratitude to him first.

My thanks also go to all the respondents who gladly and quickly gave their valuable views and purpose. I am also thankful to the personnel of Inland Revenue Department, Nepal Rastra Bank and Central Bureau of Statistics for their kind and indefatigable co-operation in providing me the necessary data and supportive materials.

I would also like to express my sincere thanks to all the members of library who help me a lot. Last but not the least I would like to thanks my family, colleagues and friend who directly or indirectly helped me to complete this thesis. Without their support and help, it would be difficulty for me to prepare and complete this thesis in time.

Date: 2069/

Bishnu Prasad Bhandari  
Central Department of Management  
T.U. Regd. No. : 7-1-304-83-97  
Campus Roll No.: 80/064  
Exam Roll No. : 280497

# Table of Contents

	<b>Page No.</b>
RECOMMENDATION LETTER	i
VIVA-VOCE SHEET	ii
DECLARATION	iii
ACKNOWLEDGEMENTS	iv
TABLE OF CONTENTS	v
LIST OF TABLES	viii
LIST OF FIGURES	ix
ABBREVIATIONS	xii

## **CHAPTER I**

### **INTRODUCTION**

1.1	General Background	1
1.2	Statement of Problems	3
1.3	Objectives of the Study	4
1.4	Importance of Study	5
1.5	Limitation of Study	6
1.6	Organization of the Study	7

## **CHAPTER II**

### **CONCEPTUAL REVIEW OF LITERATURE**

2.1	Meaning of VAT	8
	2.1.1 Evaluation of Value Added Tax	9
	2.1.2 Types of VAT	13
	2.1.3 Method of Calculating VAT	14
	2.1.4 VAT and International Trade	15

2.1.5	Freeing from VAT	16
2.1.6.	Tax Rates	20
2.1.7	Tax Refund	21
2.2	Review of Related Past Studies	22

### **CHAPTER - III**

#### **RESEARCH METHODOLOGY**

3.1	Introduction	33
3.2	Research Design	33
3.3	Nature and Sources of Data	34

### **CHAPTER -IV**

#### **PRESENTATION AND ANALYSIS OF DATA**

4.1	Nepalese Tax Structure	36
4.1.1	Total Revenue Structure	36
4.1.2	Structure of tax revenue	40
4.2	Analysis of different aspects of VAT	52
4.2.1	Sales tax/VAT on GDP before and after VAT	53
4.2.2	Sales tax/ VAT on Total Revenue and Indirect Tax	56
4.2.3	Replacement of Sales, Entertainment, Hotel tax and Contract Tax by VAT	58
4.2.4	Trend of VAT registration and Cancellation	61
4.2.5	VAT revenue collection	63
4.2.6	Estimation of VAT for Next Ten Years	66
4.3	Empirical Study	69
4.3.1	Result for Empirical Investigation	70
4.4	Major Findings	79

## **CHAPTER -V**

### **SUMMARY, CONCLUSION AND RECOMMENDATION**

5.1	Summary	82
5.2	Conclusion	83
5.3	Recommendation	85

<b>BIBLIOGRAPHY</b>	<b>88</b>
---------------------	-----------

<b>APPENDICES</b>	<b>90</b>
-------------------	-----------



## LIST OF TABLES

	<b>Page No</b>
Table 2.1 : Process of Calculating of VAT	9
Table 4.1 : Structure of Total Revenue before and after VAT	38
Table 4.2 : Structure of Total Tax Revenue	41
Table 4.3 : Percentage Increase of Direct tax Revenue and Indirect tax revenue as Compared to previous year	43
Table 4.4 : Structure of Direct Tax Revenue	47
Table 4.5 : Structure of Indirect tax Revenue	51
Table 4.6 : Sales Tax/VAT on GDP	54
Table 4.7 : VAT on total tax revenue and indirect tax revenue before and after VAT	56
Table 4.8 : Replacement of Sales, Entertainment, Hotel and Contract tax by VAT	60
Table 4.9 : Trend of VAT Registration	62
Table 4.10 : Trend of Revenue Collection from VAT	64
Table 4.11 : Projection of VAT Next Ten Years	67
Table 4.12 : Projection of VAT for Next Ten Years	69
Table 4.13 : Group of Respondents and Number	70
Table 4.14 : Help of VAT in Economic Growth	71
Table 4.15 : It is Possible to Stop Leakage of Tax through VAT	72
Table 4.16 : Has the VAT been leaking in Nepal?	73
Table 4.17 : Major Problems and Challenges in VAT System	74

Table 4.18	: Effect of Higher VAT rate and Higher Boundary (i.e. Coverage Area) of VAT in Economy	75
Table 4.19	: Quick Effectiveness and Unbiased, the VAT Administration of Nepal in Business Sector	76
Table 4.20	: Provision of the VAT act are Effective and Sufficient in Nepal?	77
Table 4.21	: Does the VAT affect in Profit of Business?	78
Table 4.22	: Condition of Effectiveness and in Implementation of VAT in Nepal	79

## LIST OF FIGURES

	<b>Page No.</b>
Figure 4.1 : Structure of Total Revenue before and after VAT	39
Figure 4.2 : Structure of total Tax revenue Bar graph	42
Figure 4.3 : Structure of Indirect Tax Revenue	52
Figure 4.4 : Sales tax/VAT on GDP Trend Line	55
Figure 4.5 : VAT on Total Revenue and Indirect Tax Revenue Before and After VAT	57
Figure 4.6 : Trend for VAT Registration	63
Figure 4.7 : Trend of Revenue Collection from VAT	65

## ABBREVIATIONS

A/C	:	Account
ADB	:	Asian Development Bank
Amt.	:	Amount
ASSO	:	Association
B.S.	:	Bikram Sambat
CDM	:	Central Department of Management
CPN(UML)	:	Communist party of Nepal (United Marxist and leninist)
Dr.	:	Doctor
F/Y	:	Fiscal Year
FNCCI	:	Federation of Nepalese Chambers of Commerce and Industry
GDP	:	Gross Domestic Product
GON	:	Government of Nepal
I.e.	:	That is
IMF	:	International Monetary Fund
IRD	:	Inland Revenue Department
ITA	:	Income Tax Act
Ltd.	:	Limited
MBS	:	Master of Business Study
MOF	:	Ministry of Finance.
NCC	:	Nepal Chambers of Commerce
NGO	:	Non Government Organization.
PAN	:	Permanent Account Number

Prof	:	Professor
R&D	:	Research and Development.
SAARC	:	South Asian Association to Regional Co-operation
SAFTA	:	South Asia Free Trade Arrangement
T.U.	:	Tribhuvan University.
UDC	:	Under Developed Country.
UK	:	United Kingdom
USA	:	United States of America
VAT	:	Value Added Tax.
Vol.	:	Volume.
WTO	:	World Trade Organization

# **CHAPTER I**

## **INTRODUCTION**

### **1.1 General Background**

Every country has the responsibility to fulfill the people's needs. That responsibility may be either for security or for health, for education or development activities or for peace or to make secure from other states etc. Without resource the state would be constant. Citizens, army, police, teacher are dependent on state's fund. To spend lot of money, government needs fund, which is raised by internal and external way. The government's revenue comes from different sources like grants, administrative income, business income, tax and foreign aid and loans. Among these, most important sources of government revenue are taxation. Customs, excise duties, value added tax, corporate and personal income taxes are the examples of the sources of tax revenue. The main objective of the taxation is to find out income source and to collect revenue.

Nepal is an under developing and poor country. Education, health, per capita income are low. The distribution of the resources and return is not balanced. Political instability, unionization of workers under different political parties and strikes are the cause of low developing countries and low economic growth.

Development, freedom and democracy depend on national revenue. The history of systematic tax management in Nepal has not been so long. The sensitivity of revenue mobilization was realized only after popular movement of 1950 AD. Prior to that the Rana rulers used the national property and revenue of the government as their own individual property. During that time excise duty, customs duty and land tax were the sources

of National income. After the success of popular movement of 1950, the national Budget was prepared for nation and tax system was started to much more transparently and systematically.

The government passed the act for getting tax revenue and collecting the tax as per the act. There are different methods adopted to collect the tax. Tax was divided into two parts direct and indirect tax. Income tax, gift tax, interest tax, property tax, vehicle tax, house and land tax are the examples of direct tax. Sales tax, entertainment tax, excise duty, customs, values added tax are the examples of indirect tax. Among different indirect tax, the value added tax is the most important of taxation.

The value added tax is based on indirect tax. It is nearest form of the French word added value tax. In some states, the VAT is preferred to say as goods and services tax. VAT is general consumption tax which is based on the value added to goods and services. VAT was introduced in Germany in 1919 AD to improve the multistage sales tax in order to avoid the undesirable effects. The first country introducing the concept of VAT in the world is Germany. The first country implementing in the concept of it word is France. Vietnam is the first country introducing VAT in Asia. Vietnam introduced VAT in 1973 A.D. Our neighboring country China introduced VAT in 1984. India also has used for full VAT from 2005 A.D.

Nepal introduced VAT in B.S. 2054 Mansir 1 (16 November 1997). The government of Nepal included the concept of VAT in Nepal in its 8<sup>th</sup> plan. VAT task force was formulated in 1993 (B.S. 2050) in technical assistance of USAID, which suggested the steps to be followed while implementing the VAT in Nepal.

In Nepal, VAT was brought to replace sales tax, contract tax, Hotel tax, and entertainment tax. VAT is modern tax system to improve the collection of taxes to increase efficiencies for the administration and to do interlink among customs, income tax and excise duty.

In present, VAT is most important to increase the revenue and transparency in the accounting system. Value added tax helps to Government, business man, and consumer. Government mobilizes much more revenue to this tax system. Consumer pays VAT to government and get opportunities of actual or fixed rate of goods and services. Government administration can control leakage of revenue and black market.

## **1.2 Statement of Problems**

Nepal is a land locked and underdeveloped country in Asia. More than 80 percent of Nepalese people are dependent on agriculture which contributes only 37.43% GDP according to fiscal years 2067/68. The per capita income of Nepal is Rs. 19261 according to the economic survey of Nepal in Fiscal year 2067/68. The country's total annual import is more than annual export which shows trade imbalance and poverty in the country. In this condition, government of Nepal decided to introduce VAT in Nepal from the fiscal year 2054/055 B.S. with replacement of sale tax, entertainment tax, hotel tax, contract tax. Preliminary work was started since the fiscal year 2050/51 B.S. to introduce VAT. After the midterm election 2051 B.S., there was frequent change in the government in Nepal. This government instability disturbed its smooth function for a certain period. However, the coalition government of CPN (UML), Rastriya Prajantra Party and Sadhbhavana Party did commitment to introduce VAT from Mansir 1, 2054 (16 November 1997). For this



purpose, VAT registration work had been already started from Baishak 2054 B.S.

When the VAT was introduced in Nepal, at that time many private sector had been in its opposition. The government of the Nepali, congress in the budget speech of the fiscal year 2054/055 decided to implement VAT system in spite of the objection of the business community. VAT is directly related with good and services. It makes the relation with seller, distributor, dealer, retailer and customer. According to the view of consumer, it can be said that there are some difficulties in VAT system of Nepal.

According to the business community of Nepal, VAT is not applicable in Nepalese context because it increased tax burden to consumer and created difficulties to administration as a problems of skilled manpower in tax system. However, the government claims that VAT is a modern and scientific tax system which does not increase unnecessary tax burden.

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

- ) Change in revenue structure after and before implementation of VAT.
- ) The share of VAT in total revenue GDP and tax revenue.
- ) The member of tax payers registered under VAT system.
- ) How much amount will be collected through VAT for coming 10 years.

### **1.3 Objectives of the Study**

Value added tax is directly related with collection for revenue. Revenue is the blood of nation which is necessary to any activities. Value added Tax was introduced in 1 Mansir 2054 B.S (16 November 1997) in

Nepal with replacement of sales tax, entertainment tax, hotel tax and contract tax. There was not much more exercise to apply VAT in Nepal. This study is focused to analyze the value added tax in Nepal in past and present. The basic objectives of this study are as follows.

- ) To examine the change in revenue structure after and before implementation of Value Added Tax system in Nepal.
- ) To analyze the contribution of VAT in total revenue, GDP and Tax revenue.
- ) To examine the numbers of tax payers registered under VAT and cancelled the registration under VAT.
- ) To forecast the VAT collection for coming 10 years.
- ) To give appropriate suggestions and recommendations to improve VAT administration in Nepal.

#### **1.4 Importance of Study**

No country can run without revenue. Whether it is to pay salary to government employees, security person and constitutions head or pay loan or to run development activities the government needs money. The sources of money collection for the government is the tax. Within different types of taxes, indirect tax is basically designed to collect revenue. Among indirect taxes, value added tax has the main objectives of collecting the money needed to run the government. The national plan of Nepal also emphasizes on developing value added tax as the main source of revenue.

The concept of value added tax is still new in Nepalese community. Our 49 percent people are illiterate (tenth plan 059-064). That is why, it is not easy to apply in both consumer and business side. It is the latest model of sales tax. VAT was introduced in Nepal before 15 years (2069 B.S.), replacing sales tax, hotel tax, entertainment tax and contract tax. When VAT was introduced, private sector and business

community had been seen against it because they opined that the tax burden affects directly to consumers.

In the introducing period, the business community used to claim that AT would create many kind of negative impact in economy. Now it is necessary to assess all the positive and negative impact of VAT system and put it in front of business community and other interested persons. It is also necessary to know what will be the condition of VAT system after some year and how it is important in Nepalese context. Now it is necessary to undertake research to find out the key areas where certain change and correction is necessary. Therefore, this study will help the researcher, citizens, civil society, business men and consumers etc.

Policy makers also may get help from this study. Policy makers will be able to identity the important areas needed for the proper implementation of VAT at present in Nepal. Bureaucrats will improve its weakness. Business community will contribute from their own side. They could compare tax system before and after the implementation of VAT.

### **1.5 Limitation of Study**

Any subject could not be studied with out limit time frame. Every study has own limitation. Like this, VAT has also some limitation. The main limitations of the study are as follows.

- ) The information and data are collected from inland revenue, department, ministry of finance and other concerned officers.
- ) Due to time and resources limitation mainly secondary data are used in this study.
- ) Only twenty seven years data from fiscal years 1984/85 to 2010/2011 are used for study.
- ) All the aspect of VAT is not examined in this study.

## **1.6 Organization of the study**

The organization of the study are divided in five chapter. They are:

Chapter - I            Introduction

Chapter - II            Conceptual framework and Review of literature.

Chapter - III            Research methodology

Chapter - IV            Presentation and Analysis datas

Chapter - V            Summary, conclusions and Recommendation

The first chapter included general introduction of VAT, statement of problem, objective of study, importance of the study, limitation of study and organization of study. The second chapter included about literature survey of books, journals, thesis and dissertations. The third chapter deals with the research methodology including research design, nature and sources of data, procedure of analysis and presentation of data. The fourth chapter deals with the presentation and analysis of collected data using some statistical tools like table, diagram, percentage, average and trend line. The unit fifth chapter deals with summary ,conclusion and recommendation. At the end of this thesis, bibliography and annex are also incorporated.

## **CHAPTER II**

### **CONCEPTUAL REVIEW OF LITERATURE**

#### **2.1 Meaning of VAT**

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

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

The process of calculation of VAT can be show as the following table.

**Table 2.1**  
**Process of Calculating of VAT**

<b>Stage of Sales</b>	<b>Net Purchase Price (A)</b>	<b>Sales Price (B)</b>	<b>Value Added</b>	<b>VAT 13%</b>
Manufacture	100	200	100	13
Wholesaler	200	350	150	19.50
Retailer	350	500	150	19.50
<b>Total</b>	<b>650</b>	<b>1050</b>	<b>400</b>	<b>52</b>

Sources: Arbitrary Figure Estimated During the Study.

From this example, researcher can say that the value added tax is collected in various steps in the process of doing business. Again VAT = value added tax. Let value added be Rs. 400 and tax rate is 13 percent than VAT = 13 percent of 400 = 52.

### **2.1.1 Evolution of Value Added Tax**

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

In Asia, Vietnam introduced VAT in 1973 but avoided in the same year and again used in 1999 A.D. Out of seven countries of the SAARC region, five countries have implemented VAT system. Republic of Pakistan introduced the system on November 1, 1990 A.D. For the first time in the region. VAT in Pakistan is applicable in transaction up to

wholesale stage only. Bangladesh introduced the system in 1991. But there, VAT is applicable in transaction of production and import stage only. The Nepal and Sri-Lanka too introduced the system in 1997 and 1998 respectively. Nepal introduced VAT in 16 November 1997 with replacement of sales tax, contract tax hotel tax and entertainment tax. As like Nepal has implemented full VAT system i.e., VAT is require in retail transactions also. India has introduced the system in some prescribed regions of the country on April 1<sup>st</sup>, 2005, (Shrestha, 2005).

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

Nowadays, around 130 countries have introduced VAT system across the world. The system has been chief sources of revenue of the government of those countries. About 70 percent of people of the world live in VAT. IMF, UNIDO, WTO, WCO, etc organization are focusing on political, social policy. After liberalization of the decide of the 1970s, VAT started to spread worldwide. Good result of VAT in the implemented countries attracted to apply VAT in the virgin countries. From this fact research holders find out some more countries are in process to adopt the system.

Nepal introduced VAT in November 1997. However the concept of this tax in Nepal was introduced in early years of 1990s. Government of Nepal in its 8<sup>th</sup> plan. Finance act 1992 and 1994 introduced two tier sales

tax to make the base of implementing VAT. VAT task force was formulated in 1993 in technical assistance of USAID which suggested the steps to be followed while implementing VAT in Nepal. It drafted the VAT law as well as high level tax system review task force headed by Prof. Madan Dahal suggested implementing VAT in Nepal in 1995.

VAT related act and rules were enacted by the following countries from the years of as below.

<b>VAT Adopting Year</b>	<b>Countries</b>
1954	France <sup>1</sup>
1960	Ivory coast
1961	Senegal
1967	Brazil, Denmark
1968	Germany, Uruguay
1969	Nether land, Sweden
1970	Equador, Luxemburg, Norway
1971	Belgium
1972	Ireland
1973	Austria, Bolivia, Italy, United Kingdom Vietnam <sup>2</sup>
1974	Argentina, Chile, Columbia, Costa Rica, Nicaragua
1976	Honduras, Israel, Peru
1977	Korea, Panama
1980	Mexico
1982	Haiti
1983	Dominican, Republic Guatemala.
1984	China <sup>3</sup>
1985	Indonesia, Turkey
1986	Morocco, New Zealand, Niger, Portugal Spain, Taiwan
1987	Greneda, Greece,
1988	Hungary, Philippines, Tunisia.
1989	Japan, Malawi
1990	Iceland, Kenya, Pakistan, Trinidad And Tobago



1992	Algeria, Armenia, Azerbaijan, Cyprus, Belarus Elsalvador, Estonia, Fizi, Kazakhstan, Kirgiz Republic, Russia, Tajikistan, Thailand, Turkmenistan, Ukraine Uzbekistan, Moldova
1993	Burkina Faso, Check-republic, magnolia, Paragway, Patagua, Poland, Rumania, Georgia, Slovakia, Venezuela.
1994	Bulgaria, Finland, Lithonia, Singapore, Tanzinia, Western Samowa, Madagascar, Nigeria
1995	Gabon, Ghana, Switzerland, Zambia Malla <sup>5</sup> , Mauritania, Togo, Latvia.
1996	Albania, Gayana, Uganda
1997	Bar Bados, Congo Republic, Nepal
1998	Croatia, Mangolia, Sri Lanka, Tanzania Vanuatu.
1999	Cambodia, Camerun, Mozambique, Antilas Netherlands, Slovenia
2000	Australia, Chaad, Macedonia, Namibia Sudan
2001	Ruwanda
2002	Lebanon
2005	India

Source: VAT for your of implementation, taxation in Nepal, Bhattari and Koirala, 2065.

1. VAT was implemented fully in 1968.
2. VAT was abolished soon after its implementation and reintroduction in 1999.
3. VAT was first introduced only in selected provenance and selected goods but since the achievement was not satisfactory it was implemented fully in 1994.
4. VAT was abolished after three month of its introduction in 1995 are was reintroduced again 1998.
5. VAT was introduced in 1995 and was abolished after change in the government in 1997 and it was reintroduced in 1999.

### **2.1.2 Types of VAT**

The types of VAT are determined on the basis of treatment of capital goods of a firm. Input tax paid for capital goods is allowed or not is the fundamental questions in the study of types of VAT. Basically there are three (i.e., consumption type, Income types and Gross National Product (GNP types) of VAT. They are described below.

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

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

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

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

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

Income type VAT = Gross receipt – lost of intermediate goods – depreciation

#### **C) Gross National Product (GNP) type**

Under this type capital goods purchase by a firm from other firms are not deductible from the tax base in the year of purchase. It also does not allow the deduction of depreciation from the tax base in subsequent years. Tax is lived both on consumption and gross investment. The tax base of this type is gross domestic product.

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

### **2.1.3 Method of Calculating VAT**

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

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

In production or distribution, there are some processes and activities involved in it. Tax base is obtained by adding the payments made by the firm to the factors of production employed in production processes such as wages, rent, interest and profit. This method is suitable for income type of VAT. (Bhattraai and Koirala, 2007)

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

Under this method, tax base is determined through the means of subtraction by its name. Very simply value added is found out by subtracting purchases amount from sales amount. Under this method, value added is determined as net turnover, which is obtained by subtracting the cost of materials from sale proceeds. Thus, VAT is levied on the amount, which is derived by subtracting purchase from sales (Bhattarai and Koirala, 2009).

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

Under this system tax is impressed on total value of sales and tax payers are allowed to deduct from their gross tax liability the taxes already paid by their suppliers and pass on to them. In the very beginning, tax payer deposit the tax of goods over purchase important than collection from sells credited the tax amount. In this method, registrant is to prove the payment or collection of tax by the invoice. Purchase and sales

evidence with invoice must be available to get credit facility. The method is also known as the invoice method.

The credit method is almost universally preferred at least for one comprehensive VAT. In fact, it is clearly necessary if multiple rates are used. A firm pays tax based on its sales value and claims a deduction for the VAT paid on its supplies of goods and services. In this case, the tax paid on inputs services is an important record and not the specific value of purchase. This tax is then credited against taxes due on the sales made by the enterprises. (Subedi, 1998). The tax credit method is also called indirect subtract method in that it calculates the value added indirectly while calculating the tax.

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

#### **2.1.4 VAT and International Trade**

When Nepal was entered in WTO Government of Nepal made major commitment to economic liberalization with the view to adopting international trade. Globalization made the world in a small village. Foreign investment, trade, tourism are affected by the policies of nation. Fiscal policy, monetary policy, commercial policy, revenue policy etc. affect the trade and development. In the case of international trade, for applying VAT, these are two alternative for applying VAT. These are principles and the policies of nation. These two alternatives are found regarding international trade in the system.

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

Under this principle, goods and services produced in a country are taxed at the place where they are produced or rendered in respective of whether they are consumed there or not. A country applying this principle taxes all exports and free imports. VAT is charged in the country where goods are originated and goods, imported are not free of VAT under this principle. Export is taxable and import is received from tax liability under

the origin principle. Addition, Subtraction and tax credit are three methods of consumptions of VAT. They can be applied equally. Under this system tax credit method is not suitable because tax credit can be gained only import goods not from origin goods.

**ii) Destination Principle**

Under this principle, tax for import and tax free exports, is known as destination principle of VAT. Under a destination principle of VAT all export are allowed to free tax and all imports are tax paid. On the basis of destination rule, tax would be collected at import level and the firm would receive credit for this tax refund where the products are exported. (Bhattarai and Koirala, 2007).

**2.1.5 Freeing from VAT**

Some goods and services are left free from VAT. They are non-taxable goods and services. Such good and services are known as tax-free goods. Such provision makes the tax administration simple and promotes equality among tax payers. There are mainly three provisions of freeing from VAT. They are as below:

- i) Exemption
- ii) Zero Rating
- iii) Threshold

**i) Exemption**

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

In Nepal, several goods and services are exempted from VAT. Exemptions are particularly administrative and societd etc. The list of

goods and services which are tax exempted are given below (schedule 1 of the act, amended by finance act 2063) are as follows.

- ) Basic agricultural products.
- ) Goods of basic needs like water, fuel, wood and coal, kerosene and salt.
- ) Live animal and animal products,
- ) Agricultural inputs such as seeds, fertilizers pesticides, agriculture equipment, birds and animal feeds etc.
- ) Medicine, medical and similar health services.
- ) Education including the provision of research in a school or university the provision or professional or vocation training or researcher training and the provision of education in a school or university and supply of goods made in connection with such services.
- ) Books Newspaper etc including books, news papers newsletters and periodicals and news print.
- ) Artistic and cultural goods and services, carving services, painting etc. cultural program etc.
- ) Passengers and goods transportation services covering air transport non-tourist passengers, trains partition (except cablecar) and goods.
- ) Personal or professional services, including personal services rendered by artistic, sportsman, authors, writers designers or individually.
- ) Other goods or services including postal related services, financial and insurance services, printing related services, ornaments electricity, raw wool battery operated tempo, their

chassis and battery, alternative energy related items and imported which it once of tariff due to personal belongings.

) Land and building.

) Betting, casinos, lotteries (Kandel, 2007).

**ii) Zero Rating**

Zero rating means taxing goods or services with zero rate. In this model, the goods and services are taxable but the government defines the criteria of zero rating. The zero rate is a tax rate of Nil. Zero rate is equivalent to complete exemption. The zero rate is applied to goods supplied for export. No tax is charged on a supply. The input tax paid on it is available for credit. It is opposite of exempt supply because the tax paid on input in case of exemption is not credited. Zero rated items according to the value added tax act 2052, are:

1. Goods or services purchased or imported by his majesty king, her majesty queen, his majesty crown prince, and other member of the royal family. (Abolished by the declaration of parliament of Jetha 2055)
2. Export of goods
  - ) Goods exported outside the kingdom of Nepal or,
  - ) Goods shipped for use as stores on a flight to an eventual destination outside the kingdom of Nepal or,
  - ) Goods loaded for use as stores on aircraft to a destination outside the kingdom of Nepal or as merchandise for sale by retail or supplied to persons in the cause of such a flight.

3. Export of services

A supply of services by a person resident in the kingdom of Nepal and having no business establishment agent or legal representative acting on his behalf in the kingdom of Nepal.

4. Medical industries can get zero rate facility if they intended.

5. Local purchase from those which were provided exemption from sales tax as per the agreement made previously. (Kandel 2007)

**iii) Threshold**

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

i) Provided that any person who imports in to the kingdom of Nepal goods value at 10,000 rupees or more at one time for commercial purpose shall have to register its transaction.

ii) In case any person has reason to presume that his transaction shall exceed twenty million rupees in the coming three months he shall submit an application setting out such conditions to the



concerned tax officer in the format as set forth in schedule one for the registration of the transactions.

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

### **2.1.6 Tax Rates**

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

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

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

### **i) Multiple VAT Rate**

In concept, multiple VAT rate means more than two kinds of VAT rate which are fixed on the basis of the commodities and the services nature. The multiple tax rate system encourages the tendency of the tax evasion and difficulty to administrator. The multiple VAT rate system is economically inefficient as well multiple rate has to classify the goods and services into groups. For example suppose VAT rates are 1%, 2%, 3% for first, second and third goods respectively for VAT purpose. Those fixed VAT rates are known as multiple VAT rate.

### **2.1.7 Tax Refund**

If the input tax is excess than the output tax, the balance should be carried forward to tax payer, it is known as tax refund. Income tax act 2058 has dealt with refund and set off the tax as per the provision of that section. If a person has paid the tax in excess of the tax liability IRD will recover the tax payable by the person at first. After

recovering that amount, if there is still the tax excess of the liability, the remaining amount will be refunded to the tax payer. The interest payable against the amount of tax which is not payable will also be refunded. However, the IRD obliged to refund the amount of tax to a person with interest at the standard rate for period filling the return and retuning the amount in case of tax deposited with retained filed. Tax credits related to medical and foreign tax for an income year may not be set off or retuned under this section. The tax payer should apply in department for refund of tax in specified form. He/She should also submit the documents related to excess payment of the tax (Income tax rule 2059)

## **2.2 Review of Related Past Studies**

Review of literature covers review of past studies conducted by other researcher such a review of books, thesis research articles and project reports. They are considered as relevant to right study are review here is.

### **Shoup (1988)**

He analyzed the implementation of VAT in developing countries and suggested some advantages and disadvantages of VAT- According to his research, the advantages of VAT are as follows.

- i) VAT reduces vertical integration because of its nature which is tax on the value added not turnover.
- ii) VAT is more revenue productive and than other tax.
- iii) Its coverage is also more than other forms of sales tax.

- iv) It exempts exports well considering the problem of deducting the capital goods.
- v) It is self-enforcing.
- vi) If foods and necessities are to be zero rated regression may be reduced.

**The disadvantages pointed out by the author are:**

- i) Difficulty is the case of both compliance and administration and collection.
- ii) Inflationary in Nature.
- iii) It creates more and more problems in developing countries.

**iv) It is regressive**

Comparing VAT with turnover tax and retail sales tax, he recommended VAT to be superior to them but it needs caution in implementation. Consumption type of VAT is superior to other forms. Tax credit method of VAT is universally practiced. A VAT is comprehensive it covers all economic activities from the earlier stage of farming or mining right through to the retail.

His main findings in this study are

- i) VAT is not dealt for all developing countries.
- ii) There is lack of basic accounting and efficient and empirical tax administration, which are the main obstacles to implement it.

- iii) The choice between turnover taxes and the VAT becomes a matter of weighing the pros and cons.
- iv) No generation seems justified on the suitability of the VAT for developing countries as a group. This means circumstance is important.
- v) VAT is now a principal source of revenue for many developing countries.

### **John, F Due and Friedlander**

In Government Finance (1994), he evaluated the VAT that, is additional to avoid the adverse consequences of turnover tax and greater revenue raiser, a proper cross audit is possible. The possibility of cross checking is considered as a beauty of VAT. In their view, tax reported as paid by the firm to its suppliers for which it takes credit against its own tax liability, should appear as the tax paid by the suppliers. This cross checking is not automatic but it can be made by auditors, ultimately by computers. So, VAT is the most monotonous one, whose uses have extended rapidly.

Due and Fried Lander also showed the tax principle that the VAT is somewhat more complex than the retail sales tax, particularly in its concept. The number of taxpaying firms is somewhat larger, since not only retailers but all manufactures and wholesale firms must also be registered and must file their return. According to them, the tax is somewhat less adaptable to exemptions than other sales taxes. Since the exemptions must be handled throughout production and distribution channels, former pose a serious problem. To register them all as taxpaying firms would greatly add to administrative and

compliance tasks. If they are not registered they would not receive credit for the tax paid on purchase for firm use. Research accepted that “The administrative complexity” is the main visualized problem of VAT in developing countries. However, they conclude that it is undoubtedly the ideal form of sales tax in many countries.

### **Nepal Chamber Of Commerce 1997**

Nepal Chamber Of Commerce organized a national wide discussion programme on VAT. On the discussion it gave the mixed arguments on the supporting side and against side. In the discussion, mainly the business community stood against the VAT. The main summary of the discussion are:

- ) Government machinery is not capable for implementing VAT.
- ) Business community has not confidence in the administration because it has failed to implement many other taxes effectively and fulfill its own commitments even previously.
- ) Price will be high and it hampers to domestic industry and also brings difficulty to exports in the competition markets.
- ) Illegal trade can prosper as of VAT collection on the custom offices. Import and re-export of imported goods will get a negative impact leading to decline in government revenue.
- ) VAT will inhibit the growth of newly developing trade and industrial activities in the country.

- ) VAT has to keep the accounting system but the Nepalese business community is not able to keep modern tax system so it increases costing.
- ) If a VAT is introduced it will increase consumer price burden. Markets will dry up and transferred the consumers in the Indian markets.
- ) If a VAT is introduced, it will increase consumer price and reduce the trade and on the other hand Nepalese border markets will dry up and transfer the consumer in the Indian markets.

### **Sharma (1998)**

Sharma (1998), has presented a dissertation to Tribhuvan University named 'Value Added Tax In Nepal, Issues And Options' (1998) for a degree in Economics. In this study paper, he has provided the finding as Nepal has been under going through a several fiscal crisis due to limited sources of revenues and increasing government expenditure. Due to narrow tax base, sales tax is not productive and elastic. Adoption of full fledged VAT replacement would be helpful in removing the production distortions on other undue pressures economic activities caused by the interest defects of sales tax. The VAT would increase the competitiveness of Nepalese is greatest problem of implementing a VAT in Nepal. Underdeveloped business structure practices and distribution system is the second biggest problem for the applicability of a VAT in Nepal. Due to the existence of large proportion of small traders in trading activities unfavorable business structure and practices and weak administration there would be anarchy in the tax system. The existence of open boarder and a

large amount of unauthorized trade from India to Nepal poses a great threat to success for implement a VAT in Nepal. The existing under valuation of imports is another big obstacle for implementation a VAT. A VAT is bound to have poor result then expected due to the varies applicability problems.

### **Dhakal (2001)**

In this dissertation, he analyzes the different aspects of Nepalese VAT system being focused on revenue potentiality. The main objective of this research was to examine the historical background of the VAT and to analyze Nepalese tax structure and estimate the potential of revenue yield from VAT. The major findings of the studies are:-

- ) Nepal has adopted the destination based consumption type VAT operated through the tax credit method.
- ) Nepal has followed the destination principle to adjust the international trade.
- ) The primary reason for growing popularity of the VAT is its broad coverage without distorting economic efficiency.
- ) The stepwise collection of VAT discourages the evasion of VAT.
- ) VAT has somehow equity nature as compared to other kind of sales tax.
- ) Exemption and zero rating reduce the repressiveness of VAT However it makes the administration complex.



- ) VAT is more efficient tax to avoid the cascading and pyramiding effects.
- ) VAT is not immune from the fault of regressive nature. Single positive rate creates regressiveness with respect to expenditure but not necessarily with respect to incomes.
- ) From the administrative point of view VAT cannot be attractive alternative to other kinds of sales tax.

Due to administrative complexity as well as maintain the equity norms exemption and zero rating are principally proposed out such provision makes the tax base limited.

The recommendations of the study were:

- ) Value added tax should be extended through retail level as a bulk of tax performance to generate more revenue.
- ) The important sectors of VAT offices like as tax refund, tax audit, tax payers service investigation return processing and registration should be separated for successful operation.
- ) The existing destination based consumption type of VAT operation through the tax credit method should remain continuous.
- ) There should be created awareness in consumers for taking invoice for every taxable purchase by comprehensive advertisement program.

### **Khadka (2002)**

Khadka (2002), in his book, *The Nepalese Tax system (2002)*, has pointed out the need to introduce VAT in Nepal. One of important reasons was to develop a stable source of revenue by boarding the tax bare. Moreover, Nepal will have become less dependent on international trade taxes for its revenue in the future. It will not be a position to levy import duties on trade that takes place within the South Asian Association for Regional Co-operation (SAARC) region after the implementation of the South Asia Free Trade Arrangement (SAFTA). Nepal is a the member of the World Trade Organization (WTO) which would also have to be considered in this context. The base of the sales tax was narrow, as sales tax used to be collected at the political grounds and weak tax administration only aggravated the problems. Apart, from this, it has been necessary to transfer some of the national level taxes such as land revenue, house and land tax and make them financially more autonomous. In such condition, Khadka stresses that “there was no choice but to introduce VAT in Nepal to generate revenue required for improving its deteriorating more economic performance.”

### **Gurung (2002)**

In this study, many believed that the VAT would not service but the fact is that it brought such the outcomes which were unexpected. Today, Nepalese VAT system has a fairly comprehensive base including goods and service or consumption based and have a reasonable threshold that renders VAT administration practicable. The point that needs to stress VAT is a modern system of taxation that pre suppose the existence of a certain economic order comprising of

business standers and ethics, documentation (technology) and simplified regulation that are simple, respected and complied with. Therefore, successful application of VAT will require assessment of their fundamental pillars. In our context, with a view to gradually overcome inherent deficiencies in each sector with a positive approach. Today every where there is an overall economic downturn VAT is flourishing. It is going to remind the mainstay of revenue.

#### **Khadka (2004)**

Khadka (2004), in an article “Overview Of VAT In Nepal” concludes that VAT in Nepal was introduced as a major part of the overall tax reform programme initiated in the early 1990s. A detailed preparation was made for the implementation encountered varies obstacles due mainly to the political instability and the opposition from the business community. Despite this the number of VAT registrant and the VAT revenue collection has been increasing gradually. The tax refund system is also becoming institutionalized. The tax has been accepted by the business community and others and is well established. The implementation of VAT will broaden the tax base and develop a stable and reliable source for future revenue generation

#### **Poudel (2004)**

Poudel (2004) has submitted a dissertation to T.U. for degree of management entitled “Effectiveness Of Value Added Tax In Nepal”. General objective of the study is to examine the major issues involved in the process of implementation and effectives of value added tax in Nepal. The study was based on descriptive research design. He found that there may be various key challenges persisting to effective

implementation of VAT system. The major finding of this study are following given:

- ) There may be weakness owing to the lack of practice of issuing and receiving invoices. Similarly there may be problem of under invoicing as the custom has not been reduced.
- ) There may be misunderstanding between tax payer and tax administrator for refund of tax. One blames that VAT system has not been put into proper practice while other complain that there is delay in refund owing to the fact that the tax payers don't even comply with simple formalities.
- ) There may be the lack of publicity and effective monitoring. In the implementation of VAT, the main glitch has been in terms of the lack of public awareness.
- ) The fragile political situation and economic slowdown may be the cause of implementation VAT effectively. There was a change in 15 times in the period of 17 years. (2046 up to 2065).
- ) Lack of proper book keeping has resulted in a discouraging status of returns, which can be seen from the excessive number of credit return.
- ) The difficulties to implement may be the merger of VAT and income tax administration in 2001. Merged entity was dominated by the management of the former tax administration.

### **Bhatta (2005)**

In this dissertation entitled 'Value Added Tax System In Nepal.' the researcher found many numbers of positive and negative comments about value added tax system in Nepal. To fulfill his objective, he used descriptive types of analysis. The major findings of searcher are as follows.

1. Administrative capability is great important for the effective implementation of VAT in Nepal. Some aspects of private sector, organizational structure and inspection system, reward and punishment, political intervention, selection of skilled and experienced man power are needed to improve for effective implementation of VAT.
2. The implementation of VAT in Nepal is a cause case for other countries to study when considering the reform of their indirect tax system. But the culture of doing business without maintaining multiple sets of book of account have made implementation of VAT difficult.
3. From the study about VAT system in Nepal “It is found that there are lots of problems in VAT existing now. Most of the businessman and general public do not have obstacles in understanding the idea about VAT. They have been facing many problems, such as pricing problem maintaining accounting problem and more over billing problem. Business man and traders are not encouraged by the government and tax administration, However now the government has started to introduce special package programmers, but it is not enough.
4. The functional structure and comprised administration made it possible not only to monitor revenue but also each and every functional target. Enforcement become more effective during this period, However, the level of proper enforcement and staff attitude problems still had a negative influence on compliance.

## **CHAPTER - III**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

Methodology states the method in which data have been extracted and discoursed. It refers to the tool that has been used in interpretation of such data to fulfill the objectives. This study is undertaken to examine the condition of value added tax in Nepal, past and present. Actually, this is a review of past and present situation of VAT system in Nepal. More specifically its objective is give objective the description about research design, nature and sources of data and tools, procedure of presentation and analysis etc.

#### **3.2 Research Design**

A research design is a plan for the collection and analysis of data. It is not possible for a researcher to conduct the present research without a research design. Normally, research design becomes either primary data or secondary data or both. Most of data and information of the study are concerned with past phenomena of the performance either they are numerical or opinions. The studies have made the base of past movements of VAT. After collection of past data and experience, this study uses its own procedure. Therefore, this study also followed analytical as well as descriptive research design which has been given below.

- a) Descriptive analysis, tabulation.
- b) Data analysis, statistical and mathematical tools
- c) Interact with resource persons

### **3.3 Nature and Sources of Data**

In order to achieve good result of this research, the researcher collected primary as well as secondary data from different sources.

#### **Sources of Primary Data**

The primary data have been collected through field visit in Inland Revenue Department with different concerned persons and according to necessary other places and offices also.

#### **Sources of Secondary Data**

The secondary sources of data and information are derived from Inland Revenue Department, different budget speech of government ministry of finance, public and un public books, newspapers, magazines, articles etc.

- a) Publication of Inland Revenue Department.
- b) Publication of VAT Project.
- c) Publication of VAT Department.
- d) Publication of books, reports and seminar paper of FNCCI and NCC.
- e) Public documents of national planning commission and Nepal Rastra Bank
- f) Budgeted speech of government of Nepal and economic survey.
- g) Publication of central Bureau of statistics.
- h) Various books written by tax officers and scholars.

## **Procedure of Presentation and Analysis**

The information collected from different sources i.e. primary and secondary is processed for tabulation and analysis. For the purpose of analysis, generally simple statistical tools have been used which are as follows.

- a) Simple percentage
- b) Simple Average
- c) Graphs, chart, and diagrams.
- d) Other statistical tools.
  - Time series
  - Trend line etc



## **CHAPTER -IV**

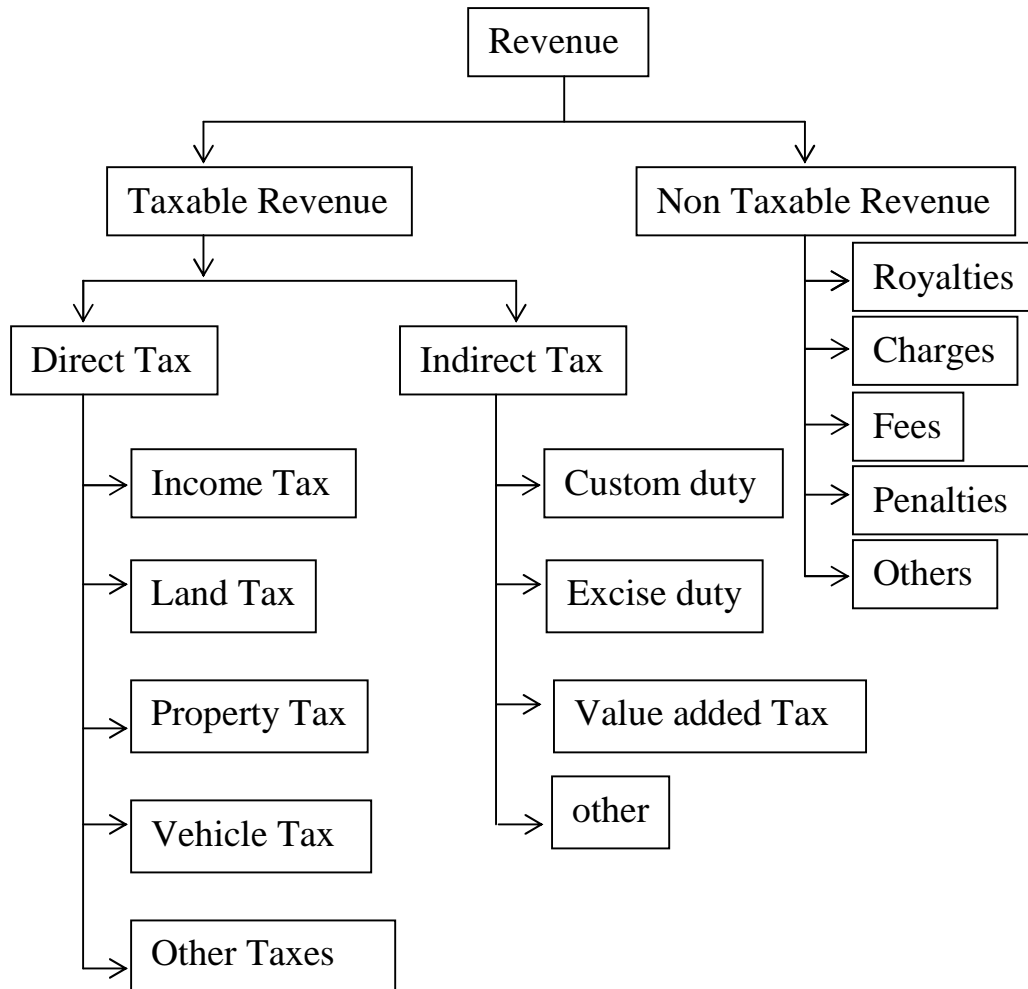
### **PRESENTATION AND ANALYSIS OF DATA**

#### **4.1 Nepalese Tax Structure**

##### **4.1.1 Total Revenue Structure**

Every Government need revenue to conduct the foundation of country. Government requires sufficient revenue to carry out development plans, to maintain peace and security to do day-to-day administrative function and other public welfare activities. A modern democratic government has to perform different social welfare programs. For this purpose government collects revenue from different source such as tax revenue, from public enterprise, fees, fines, grants etc. or tax revenue is the sum of custom duty, excise duty, value added tax, corporate and personal income tax, property tax, interest tax and other non tax revenue. Some non taxable income are royalties, telephone charge, water charge, electricity charge school fees, registration fee, renew charge, tickets etc.

For this, researcher can say that revenue is divided into two parts: taxable and non taxable. They are given below:



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

In Nepalese economy, amount of tax revenue is generally higher than that of non tax revenue. The following table shows the total taxable and non taxable revenue of country.

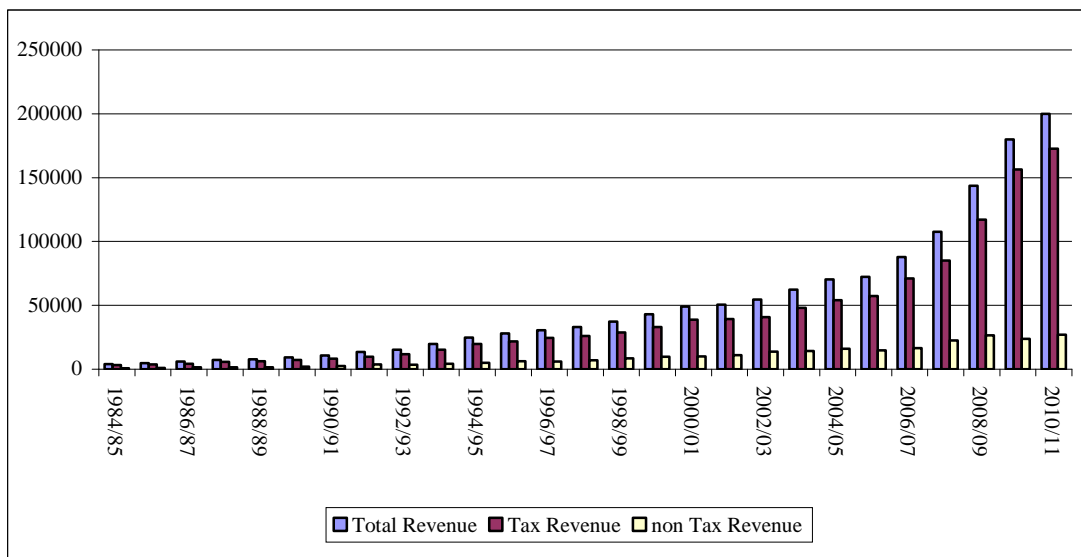
**Table 4.1**  
**Structure of Total Revenue before and after VAT**

(Rs in millions)

	Fiscal Year	Total Revenue	Tax Revenue		Non-Tax Revenue	
			Amount	Percent	Amount	Percent
<b>Before VAT</b>	1984/85	3916.8	3151.2	80.45	765.6	19.54
	1985/86	4644.5	3659.3	78.78	985.2	21.21
	1986/87	5973.4	4371.7	73.18	1601.7	26.81
	1987/88	7350.4	5752.8	78.26	1593.5	21.73
	1988/89	7780.7	6287.2	80.80	1493.5	19.19
	1989/90	9312.8	7283.9	78.21	2028.9	21.78
	1990/91	10729.5	8176.3	76.20	2553.2	23.79
	1991/92	13585.8	9875.6	73.1	3637.1	26.9
	1992/93	15225.3	11662.5	76.9	3485.9	23.1
	1993/94	19659.8	15371.5	78.9	4209.4	21.5
	1994/95	24685	19660	79.9	4945.1	20.1
	1995/96	27970.8	21668	77.7	6225.1	22.3
	1996/97	30453.9	24424.3	80.4	5949.2	19.6
	<b>After VAT</b>	1997/98	33016.9	25939.8	78.7	6998.4
1998/99		37328.5	28752.9	77.2	8498.4	22.8
1999/00		42971	33152.1	77.3	9741.6	22.7
2000/01		48973.3	38865	79.5	10028.8	20.5
2001/02		50524.6	39330.6	78	11116	22
2002/03		54613.8	40896	74.9	13642.9	25.1
2003/04		62408.3	48173	77.3	14158	22.7
2004/05		70199.9	54104.7	77.2	16018	22.8
2005/06		72361.4	57430.4	79.5	14851.5	20.5
2006/07		87793.2	71126.7	81.1	16585.4	18.9
2007/08		107701.7	85155.5	79.2	22467	20.8
2008/09		143556.1	117051.9	81.6	26422.6	18.4
2009/10		180032.7	156294.9	86.9	23650.9	13.1
2010/11		199905.1	172777.6	86.4	27041.1	13.6
Total		1372675	1110395	2127.58	260694	572.75
Average	98048.23	79313.96	78.79	18621	40.91071	

Source: Economic Survey 2010/11, Ministry of Finance, Kathmandu.

**Figure 4.1**  
**Structure of Total Revenue before and after VAT**



The above table 4.1 and bar graph show the structure of total revenue before and after implementation of VAT and taxable and non taxable income from 1984/95 to 2010/11. The contribution of tax revenue on total revenue in year 1984/85 is 80.4%. This slightly increased upto the year 1996/97. In year 1996/97, it reached up to 80.4%. On the other hand, the contribution of non-tax revenue on total tax is 19.6% in year 1994/95 which is decreasing order. It reached to 19.6% in year 1996/97. It proves that tax revenue is in increasing order and non tax revenue is in decreasing order before the implementation of VAT. But after implementation of VAT in year 1997/98 the contribution of tax revenue comes down to 78.7% and does not cross 80% till 2066/07 and Tax Revenue increase upto 86.4 percent in year 2010/11. On the other hand the contribution of non tax revenue increase to 21.3% in year 1997/98 and fall upto 13.6% till 2010/11 which proves that the role of tax revenue is very much important in revenue mobilization of Nepal and to meet the

increasing government expenditure. Tax revenue has been placed as a major source of government revenue in Nepal.

#### **4.1.2 Structure of Tax Revenue**

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

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

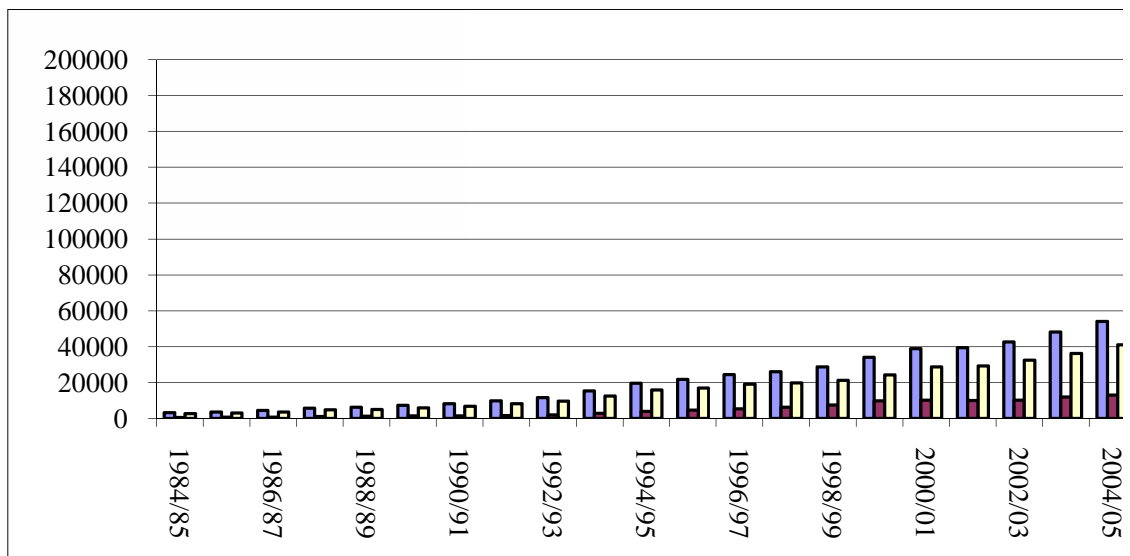
**Table 4.2**  
**Structure of Total Tax Revenue**

(Rs in millions)

	Fiscal Year	Total Tax Revenue	Direct Tax Revenue		Indirect -Tax Revenue	
			Amount	Percent	Amount	Percent
<b>Before VAT</b>	1984/85	3150.7	559.7	17.76431	2591	82.23569
	1985/86	3656.8	661.8	18.09779	2995	81.90221
	1986/87	4371.7	768.7	17.58355	3603	82.41645
	1987/88	5752.8	1010.2	17.56014	4742.6	82.43986
	1988/89	6287.2	1331.4	21.17636	4955.8	78.82364
	1989/90	7280.9	1435.1	19.71048	5845.8	80.28952
	1990/91	8176.1	1368.4	16.73659	6807.7	83.26341
	1991/92	9891.753	1595.2	16.15294	8280.4	83.84706
	1992/93	11679.96	2036.2	17.45938	9626.3	82.54062
	1993/94	15390.08	2855.3	18.57529	12516.2	81.42471
	1994/95	19679.58	3849.3	19.57935	15810.7	80.42065
	1995/96	21689.49	4655.9	21.48745	17012.1	78.51255
	1996/97	24446.16	5340	21.86347	19084.3	78.13653
	<b>After VAT</b>	1997/98	25983.64	6187.9	23.83647	19771.9
1998/99		28778.34	7515.4	26.13852	21236.8	73.86148
1999/00		34081.13	9851.5	28.93058	24200.7	71.06942
2000/01		38931.32	10199.4	26.2161	28705.7	73.7839
2001/02		39356.12	10037.8	25.5216	29292.8	74.4784
2002/03		42610.63	10105.7	23.7296	32481.2	76.2704
2003/04		48197.73	11912.6	24.72879	36260.4	75.27121
2004/05		54128.86	13071.8	24.16019	41032.9	75.83981
2005/06		57454.72	13968.1	24.32179	43462.3	75.67821
2006/07		71153.39	18980.3	26.6852	52146.4	73.3148
2007/08		85182.51	23087.7	27.11243	62067.7	72.88757
2008/09		177105.2	94320.7	53.27291	82731.2	46.72709
2009/10		156321.6	41750	26.71232	114544.9	73.28768
2010/11		172805.9	48655.1	28.16052	124122.6	71.83948
	<b>Total</b>	1173544	347111.2	633.2741	825928.4	2066.726
	<b>Average</b>	83824.59	24793.66	23.45	58994.89	76.5454

Source: Economic Survey 2010/11, ministry of finance, Kathmandu

**Figure 4.2**  
**Structure of total Tax revenue Bar graph**



The above table 4.2 and figure 4.2 shows the total tax revenue under the direct tax revenue and Indirect tax revenue of the government before and after implementation of VAT. The contribution of direct tax revenue is very low. Contribution of direct tax revenue in year 1984/85 is 17.76% and thus after it is increase and reached to 48655.1 in the year 2010/11. On the other hand contribution of indirect tax revenue is very high and it is in decreasing order. Although value added tax belongs to indirect tax family introduction of this tax does not increase the share of indirect tax on total tax revenue. VAT is the transparent, fair, catch up affected of tax system. Customs, VAT and income tax are interconnected tax. After implementation of VAT, it helps to increase income tax and other direct tax due to its catch up effect. The trend of the revenue, direct tax, indirect tax shows the confidence with VAT the amount collection as direct tax and indirect tax are increasing order.

**Table 4.3**

**Percentage Increase of Direct tax Revenue and Indirect tax revenue  
as Compared to previous year**

(Rs in millions)

	Fiscal Year	Direct Tax Revenue		Indirect Tax Revenue	
		Amount	Percent	Amount	Percent
<b>Before VAT</b>	1984/85	559.7	-	2591.5	-
	1985/86	661.8	18.24	2997.5	15.67
	1986/87	768.7	16.15	3603	20.20
	1987/88	1010.2	31.45	4742.3	31.62
	1988/89	1331.4	31.79	4955.8	4.49
	1989/90	1435.1	7.78	5845.8	18
	1990/91	1368.4	- 4.64	6807	16.45
	1991/92	1595.2	16.57	8280.4	21.63
	1992/93	2036.2	27.64	9626.3	16.3
	1993/94	2855.3	40.2	12516.2	30.3
	1994/95	3849.3	34.8	15810.7	26.3
	1995/96	4655.9	21	17012.1	7.6
	1996/97	5340	14.7	19084.3	12.2
	<b>After VAT</b>	1997/98	6187.9	15.9	19751.9
1998/99		7515.4	21.5	21236.8	7.5
1999/2000		89515.5	19.1	24200.7	14
2000/01		10199.4	13.9	28705.7	18.6
2001/02		10597.6	3.9	29292.8	2.1
2002/03		10105.6	0.7	32481.2	10.9
2003/04		11912.6	17.9	36260.4	11.6
2004/05		13071.8	9.7	41032.9	13.2
2005/06		13968.1	6.9	43462.3	5.9
2006/07		18980.3	35.9	52146.4	20
2007/08		23087.7	21.6	62067.7	19
2008/09		34320.7	48.6	82731.2	33.3
2009/10		41750	21.6	114544.9	38.45
2010/11		48655.1	16.53	124122.6	8.36
	<b>Total</b>	367334.9	509.41	825910.4	427.17
	<b>Average</b>	26238.21	37.73	58993.6	31.64222

Source: Economic Survey 2010/11, ministry of finance, Kathmandu



From the above table 4.3 researcher can say that the increase percentage of direct tax revenue is decreasing order in beginning years. In the year 1990/91 direct tax revenue decreased upto 4.64. After implementation VAT it is going increasing order upto 21.5 the year 1998/1999 and than after in the year 2002/03 the increasing percentage of direct tax revenue is 0.7%. After this in the year 2009/10 it is in decreasing order.

In the other hand the increasing percentage of indirect tax revenue is increasing and decreasing order. In the year 1985/86 the increasing percentage in 15.67. Then after in the year 1997/98 increasing percentage is decreased upto 3.5. After implementation the VAT in the year 2001/02 the increasing order is 2.1% then after in the year 2010/11 it is reached in 8.36 percent.

Nepal is an under developing country. A lot of people are under the absolute poverty line. Per capita income of Nepalese people is very low. In this economic condition; limited people are able to pay direct tax. Direct tax is an instrument of social justice. Indirect tax covers all people but the level of income determines the consumption. Indirect tax is helpful to decrease the luxuries and socially undesirable consumption. Taxes on income, profit and social security contribution are more important in industrial countries than in developing countries conversely domestic taxes on goods and services and taxes on international trade are important for latter groups of countries.

Tax policy has varies objective among them

- a) To increase growth rate in relatively short period to the maximum possible extent.

- b) Flexibility in tax structure and maximum revenue productivity.
- c) To have equitable distribution of income and property.
- d) To increase the employment, saving and investment.
- e) To minimize regional disparity.

### **Structure of Direct Tax Revenue**

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

### **Merits**

- a) It is equitable as it is imposed on person as per the property or income.
- b) Time procedure and amount of tax to be paid is known with certainty.
- c) It is elastic, the government can change tax rate with the change in the level of property or income.
- d) It enhances the consciousness of the citizen. Tax payers feel burden of tax and so they can insist the government to spend their contributions for the welfare of the community

## **Demerits**

- a) It gives mental pinch to the tax payers. They try to curtail their income to pay less tax to the government.
- b) Tax payers fell in convenience as the government imposes tax progressively.
- c) Tendency to avoid tax may increase to avoid tax burden.
- e) Tendency to evade tax may increase to avoid tax burden.
- f) It is expensive for the government to collect tax individually.

In Nepal direct tax revenue is the sum of income tax, land tax and registration tax, property tax vehicle tax and other. Nepal is levying for different type of income tax namely individual income tax, corporate income tax, house rent and interest tax. Individual tax included all forms of income and the government has given exemption. corporate income tax is levied on the net profit of the corporation (company). House rent tax levied on the house rent received by the individual and housing company and the interest tax is levied on the interest received on deposit and investment (bond). Property tax levied on each real property at low rate. Wealth tax is levied on person's wealth in the progressive way. Registration tax is levied on the registration of ownership or the right of use of immovable property. Following table shows the structure of direct tax revenue in Nepal.

**Table 4.4**  
**Structure of Direct Tax Revenue**

(Rs in millions)

	Fiscal Year	Total Direct Tax	Land Revenue and Registration				Tax on Property Profit and Income				
			Land Revenue	House and Registration	Total	% of Direct Tax	Income Tax	Taxation on Property	Others	Total	% Direct Tax
Before VAT	1984/85	559.7	76.9	141.7	218.6	39.05	307.3	27.4	6.4	341.1	60.94
	1985/86	661.8	74.2	170.1	244.3	36.91	364.4	28.4	24.7	417.5	63.08
	1986/87	768.7	72.4	211.6	284	36.94	437.5	36.2	11	484.7	63.054
	1987/88	1010.2	80.7	286.2	366.9	36.31	579	45.7	18.6	643.3	63.68
	1988/89	1331.3	80.4	320.6	401	30.12	861.1	50	19.2	930.3	69.87
	1989/90	1435.1	74.6	377.1	451.7	31.47	919	51	13.4	983.4	68.52
	1990/91	1368.2	82.1	456.6	538.7	39.37	746	24.1	59.4	829.5	60.62
	1991/92	1595.2	64.8	571.3	636.1	39.88	855.5	67.7	35.9	959.1	60.12
	1992/93	2036.2	69.4	685.5	754.9	37.07	1124.8	80	76.5	1281.3	62.93
	1993/94	2855.3	61	772.2	833.2	29.18	1824.5	49.8	147.8	2022.1	70.82
	1994/95	3849.3	34.9	902.8	937.7	24.36	2711.8	88.2	111.6	2911.6	75.64
	1995/96	4655.9	18.2	1048.4	1066.6	22.91	3311.6	157.9	119.8	3589.3	77.09
	1996/97	5340	5.9	1009.5	1015.4	19.01	3969	201.2	154.4	4324.6	80.99
After VAT	1997/98	6187.9	3.6	1000.6	1004.2	16.23	4685.9	285.6	212.2	5183.7	83.77
	1998/99	7516.1	1.4	1001.8	1003.2	13.35	5850.7	342.7	319.5	6512.9	86.65
	1999/00	8951.5	4.6	1011.3	1015.9	11.35	7006.2	515	414.4	7935.6	88.65
	2000/01	10159.4	5.1	607.8	612.9	6.033	8650.1	432.5	463.9	9546.5	93.97
	2001/02	10597.5	0.8	1131	1131.8	10.68	8436	562	467.7	9465.7	89.32
	2002/03	10881.9	0	607.8	607.8	5.585	8811.8	432.5	1029.8	10274.1	94.41
	2003/04	10912.6	0	1697.5	1697.5	15.56	7512.5	700.6	1002	9215.1	84.44
	2004/05	13071.8	0	1799.2	1799.2	13.76	9402.4	806.5	1063.7	11272.6	86.24
	2005/06	13968.1	0	2181.1	2181.1	15.61	9598.8	847.6	1340.6	11787	84.39
	2006/07	18980.3	0	2253.5	2253.5	11.87	13979.1	995	1752.7	16726.8	88.13
	2007/08	23087.7	0	2940.7	2940.7	12.74	16223.3	1069.2	2854.5	20147	87.26
	2008/09	33320.7	0	5223.3	5223.3	15.68	23457.3	1850	2790.1	28097.4	84.32
	2009/10	41750	0	5511.1	5511.1	13.2	28819.2	2417.9	5001.8	36238.9	86.8
2010/11	48655.2	0	3572.5	3572.5	7.34	34738	3022.6	7322.1	45082.7	92.66	
Total	285507.6	811	37492.8	38303.8	591.57	205182.8	15187.3	26833.7	247203.8	2108.364	
Average	10574.36	30.03	1388.62	1418.65	21.91	7599.36	562.49	993.84	9155.69	78.087	

Source: Economic Survey 2010/11, ministry of finance, Kathmandu

From the above table 4.4 shows that land revenue is continuously decreasing from fiscal year 1994/95 to 2001/02 then after it is nil. In another hand house registration is increasing slowly but it is decreased in 2002/03. House and land registration increasing rate is low. The total income is Rs. 3572.5 million from land and house revenue registration in the fiscal year 2010/11 it is about 7.34% of total direct tax revenue. The

data maintained that the total land revenue and registration is Rs 811 in the fiscal year 2010/11.

In another side the income tax is in increasing order. 307.3.5 million is in the year 1984/85 After 26 year it reached in 34738 million. Tax on property is increasing in decreasing order and reached from 67.7 million to 3022.6 million like wise other tax amount is increasing in decreasing order and reached from 35.5 to 7322.1 million. In total, tax on property, profit and income shows increasing order and cover 855.5 million in the fiscal year 1991/92 to 34738 million in 2010/11.

### **Structure of Indirect Tax Revenues**

An indirect tax is a tax imposed on one person but partially or wholly paid by another. It is that type of tax where a person who pays tax and the person bearing the tax are different. An indirect tax is a tax on goods and services. The main features of indirect tax are convenient to pay, mass participation, limited evasion, shifting of incidence. The consumer pays the tax to the business person, not the government etc. The example of indirect taxes are customs, excise value added tax and so on. The merits and demerits of indirect tax revenue are:

#### **Merits**

- a) It is convenient as the tax payer does not have to pay lumpsum amount for tax.
- b) There is mass participation; each and every person getting goods or services has to pay tax.
- c) There is less chance of tax evasion as the tax payers pay the tax collected from consumers.

- d) The government can check on the consumption of harmful goods by imposing higher taxes.

### **Demerits**

1. It is uncertain, as demand fluctuates, tax will also fluctuate.
2. It is a regretful as the tax burden to the rich and poor same.
3. It has bad effect on consumption, production and employment. Higher taxes will reduce all of them
4. Most of the taxes are included in the price of goods and services as a result, taxpayers do not know how much tax they are paying to the government.

Custom duties are composed of import duties export duties and export service charges countervailing duties and Indian excise refund. Customs duty is one of the most ancient types of taxes. It is as old as the international trade itself. Customs duties is levied either on adore (on the basis of value) or on specific basis (on the basis of quantity)

Custom duties can be divided in to two parts. Import duty and export duty. The customs imposed on imported goods is called import duty whereas the same imposed on exported goods are called export duty. In Nepal customs duty covers around one third of total tax revenue right now.

Excise duty is also important part of indirect tax revenue. Taxes levied on the manufacturing, sale, or consumption of goods or service injurious to health or luxurious goods is called excise duty. It is narrow based indirect tax. Excise duty is also an ancient tax. In Nepal excise duty

was introduced at the time of King Surendra Bikram Shah, excise duty provide around 9 % of total tax revenue in Nepal.

A major contributing item on indirect tax revenue of Nepal is sales tax or VAT. The basic objective of sales tax or VAT is to collect revenue. It is the tax that imposed on the value addition in each stage of production or sales. IN Nepal value added tax was introduced in 1997 replacing the sales tax, entertainment tax, hotel tax and contract tax. Right now the rates of value added tax in Nepal is 13 % the contribution of this tax to Nepalese tax is around 42.3 percent. The following table shows the structure of indirect tax revenue.

**Table 4.5**  
**Structure of Indirect tax Revenue**

Rs in Million

	Fiscal Year	Total of Direct Tax	Custom Duty		Sales Tax as VAT		Excised Duty		Other Tax	
			Amount	%	Amount	%	Amount	%	Amount	%
<b>Before Tax</b>	1984/85	2591.5	1064.5	41.07	845.8	32.63	479	18.48	202.2	7.80
	1985/86	2997.5	1231	41.06	985.9	32.89	555.4	18.52	225.2	7.51
	1986/87	3603	1505.1	41.77	1143.8	31.74	675.4	18.74	278.7	7.73
	1987/88	4742.6	2214.6	46.69	1300.5	27.47	822.4	17.34	405.1	8.54
	1988/89	4955.8	2289.9	46.20	1379.7	27.84	870.9	17.57	415.3	8.38
	1989/90	5803.8	2684.9	46.26	1605.1	27.65	1094.9	18.86	418.9	7.21
	1990/91	6807.7	3044.3	44.71	2026.1	29.76	1199.6	17.62	537.7	7.89
	1991/92	8280.4	3358.9	40.57	2840.7	34.1	1414.1	17.54	666.5	8.05
	1992/93	9626.3	3945	40.98	3438.2	35.7	1452.4	15.09	790.3	8.21
	1993/94	12516.2	5255	41.99	4693.1	37.5	1592.2	12.72	975.6	7.79
	1994/95	15810.7	7018.1	44.39	6031.7	38.1	1657.3	10.48	1103.6	6.98
	1995/96	17012.1	7327.4	43.07	6431.3	37.8	1944.3	11.43	1309.1	7.7
	1996/97	19084.3	8309.1	43.54	7126.5	37.3	2298.1	12.04	1350.6	7.08
<b>Avert Tax</b>	1997/98	19771.9	8502.2	43.04	7122.6	36	2885.8	14.6	1241.3	6.28
	1998/99	21236.8	9517.7	44.82	8765.9	41.3	2953.2	13.91	0	0
	1999/00	24200.7	10813.3	44.68	10259.7	42.4	3127.6	12.92	0	0
	2000/01	28705.7	12552.1	43.73	12382.4	43.1	3771.2	13.14	0	0
	2001/02	29292.8	1265	7.296	12267.3	41.9	3807	13	0	0
	2002/03	32481.2	12783.2	42.59	13459.7	41.4	3771.2	11.61	0	0
	2003/04	36260.4	15554.8	42.9	14478.9	39.9	6226.7	17.17	0	0
	2004/05	41032.9	15701.6	38.27	18885.4	46	6445.9	15.71	0	0
	2005/06	43462.3	15344	35.3	21610.7	49.7	6507.8	14.97	0	0
	2006/07	52146.4	16707.6	32.04	26095.6	50	9343.2	17.92	0	0
	2007/08	62067.7	21062.4	33.93	29815.7	48	11189.6	18.03	0	0
	2008/09	82731.2	26792.9	32.39	39700.9	48	16220.9	19.61	16.5	0.02
	2009/10	114544.9	35150.8	30.69	54920.9	47.9	24306.1	21.22	167.1	0.15
2010/11	124122.6	35711.6	28.77	61663.6	49.7	26542.9	21.38	204.5	0.16	
	<b>Total</b>	<b>825889.4</b>	<b>286707</b>	<b>1062.74</b>	<b>371277.7</b>	<b>1055.78</b>	<b>143155.1</b>	<b>431.62</b>	<b>10308.2</b>	<b>107.48</b>
	<b>Average</b>	<b>30588.5</b>	<b>10618.78</b>	<b>39.36</b>	<b>13751.03</b>	<b>39.10296</b>	<b>5302.041</b>	<b>15.98</b>	<b>381.78</b>	<b>3.98</b>

Source: Economic Survey 2010/11, ministry of finance, Kathmandu

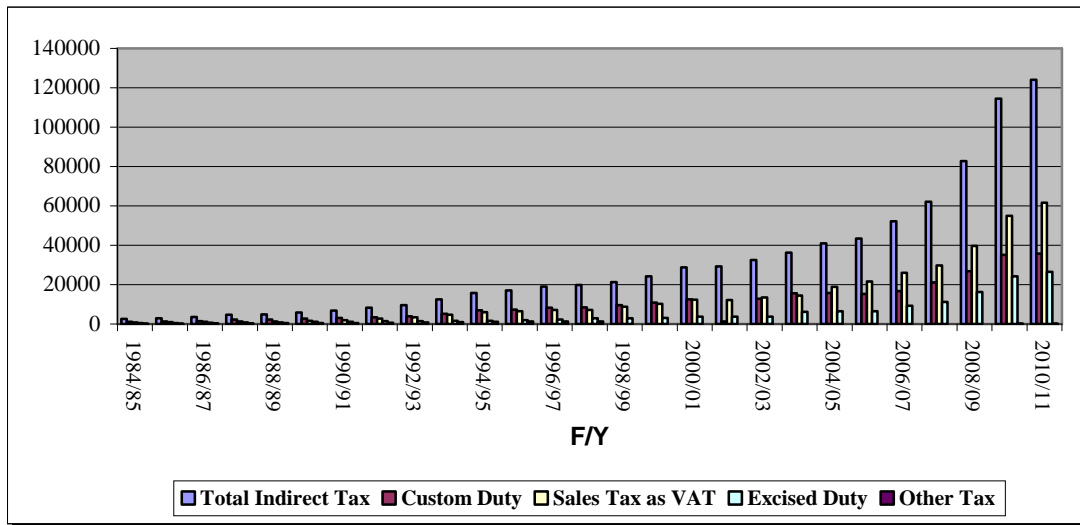
Note : Custom Duty = imports + export + indian excise refund + others

Other Tax = entertainment tax + hotel tax + air flight tax + contract tax + road and bridge mentioning tax & others



**Figure 4.3**

**Structure of Indirect Tax Revenue**



From the above table 4.5 and figure 4.3, the researcher know that the custom duty is increased in slightly. In the year 1984/85 custom duty is 1084.5 million and reached in 35711.6 million in the year 2010/11. Likewise sales tax, excise duties and other tax is increasing. In the fiscal year 1984/85 the amount of custom duty, sales tax as VAT, Excise duty and other Tax was 1064.5, 845.8, 479 and 202.2 million respectively. The situation of other tax is somehow difference then other type taxes. It was increased up to year 1996/97 (before implement of VAT) and start to decrease after implementation of VAT and it is nil in latest fiscal year. The main reason of its decline after implementation of VAT is replacement of entertainment, hotel and contract tax by VAT.

**4.2 Analysis of different aspects of VAT**

Value added tax is general consumption tax, assessed on the value added to goods and services. In some countries including Australia, Canada, New Zealand and Singapore this tax is known as "goods and service tax" and in Japan it is known as "Consumption tax". It is a general

tax that applies in principle, to all commercial activities involving the production and distribution of goods and the provision of services. It is a consumption tax because it is borne ultimately by the final consumer. It is not charge on companies. It is charged as a percentage of price, which means that the actual tax burden is visible at each stage in the production and distribution chain. It is an indirect tax in that the tax is collected from someone other than the person who actually bears the cost of the tax (Bhattraï and Koirala 2007)

The concept of VAT is still new in Nepali community. This year (2069 B.S) is the fifteenth year of implementation of VAT. VAT was introduced in Nepal with replacement of sales tax, hotel tax, entertainment tax and contract tax.

#### **4.2.1 Sales tax/VAT on GDP before and after VAT**

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

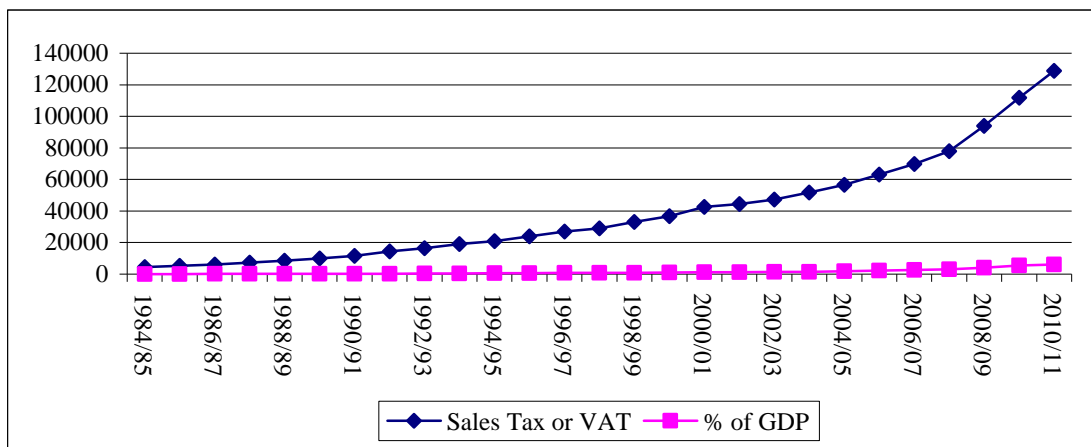
**Table 4.6**  
**Sales Tax/VAT on GDP**

(Rs 10 millions)

	<b>Fiscal Year</b>	<b>GDP</b>	<b>Sales Tax or VAT</b>	<b>% of GDP</b>
<b>Before VAT</b>	1984/85	4444.1	84.58	1.903197
	1985/86	5321.5	98.59	1.852673
	1986/87	6114.0	114.38	1.870788
	1987/88	7317.0	130.05	1.777368
	1988/89	8583.1	137.97	1.607461
	1989/90	9970.2	165.01	1.655032
	1990/91	11612.7	202.61	1.744728
	1991/92	14493.3	284.07	1.960009
	1992/93	16535.0	343.82	2.079347
	1993/94	19159.6	469.31	2.449477
	1994/95	20997.4	603.17	2.872594
	1995/96	23938.8	643.13	2.686559
	1996/97	26957.0	712.65	2.643655
	<b>After VAT</b>	1997/98	28979.8	712.26
1998/99		33001.8	876.26	2.655189
1999/00		36625.1	1025.97	2.801276
2000/01		42545.4	1238.24	2.910397
2001/02		44405.2	1226.73	2.762582
2002/03		47354.5	1345.97	2.842328
2003/04		51799.4	1447.89	2.795187
2004/05		56657.9	1888.54	3.333233
2005/06		63033	2161.07	3.428474
2006/07		69736.4	2609.56	3.742034
2007/08		77944.2	2981.57	3.825262
2008/09		93889.0	3970.09	4.228493
2009/10		111857.9	5492.09	4.909881
2010/11		128851.7	6166.36	4.785626
		<b>Total</b>	<b>1062125</b>	<b>37131.94</b>
	<b>Average</b>	<b>39337.96</b>	<b>1375.257</b>	<b>2.762246</b>

Source: Economic Survey, 2010/11, Ministry of Finance, Kathmandu.

**Figure 4.4**  
**Sales tax/VAT on GDP Trend Line**



The above table 4.4 shows that the sales tax or VAT is increasing from the fiscal year 1984/85 to the year 2010/11. After implementation of VAT the increasing order of VAT is high. In the fiscal year 1984/85 the sales tax or VAT revenue was 1.95% of GDP that reached to 2.64 % in the year 1996/97. The contribution of sales tax or VAT on GDP reaches to 4.78 percentage in the Fiscal year 2010/11. In average the contribution of sales tax/VAT increase after implementation VAT.

#### **4.2.2 Sales tax/ VAT on total revenue and indirect tax**

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

The following table indicates the share of sales tax/VAT on total revenue and indirect tax revenue before and after VAT.

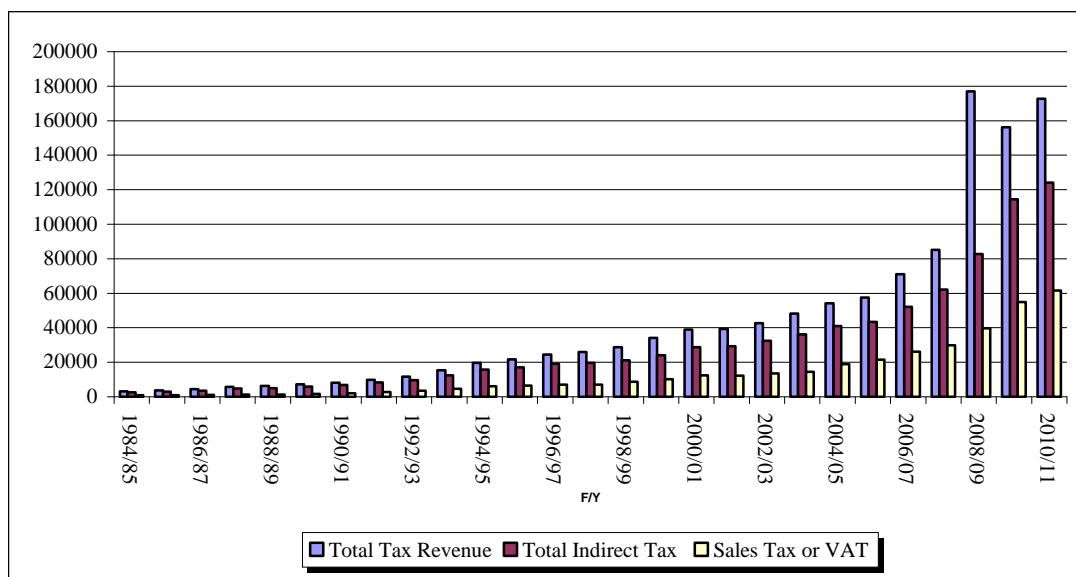
**Table 4.7**  
**VAT on total tax revenue and indirect tax revenue before and after VAT**  
Rs. In million

	Fiscal Year	Total Tax Revenue	Total Indirect Tax	Sales Tax or VAT		
				Amount	% of Total Tax	% of Indirect tax
Before VAT	1984/85	3151.2	2591.5	845.8	26.84	32.63
	1985/86	3659.3	2997.5	985.9	26.94	32.89
	1986/87	4371.7	3603	1143.8	26.16	31.74
	1987/88	5752.8	4742.3	1300.5	22.60	27.4
	1988/89	6287.2	4955.8	1379.7	21.94	27.84
	1989/90	7283.9	5845.8	1605.1	22.03	27.45
	1990/91	8176.3	6807	2026.1	24.78	29.76
	1991/92	9875.6	8280.4	2840.7	28.76	34.31
	1992/93	11662.5	9626.3	3438.2	29.48	35.72
	1993/94	15371.5	12516.2	4693.1	30.53	37.5
	1994/95	19660	15810.7	6031.7	30.68	38.15
	1995/96	21668	17012.1	6431.3	29.68	37.8
	1996/97	24424.3	19084.3	7126.5	29.18	37.34
After VAT	1997/98	25959.8	19751.9	7122.6	27.44	36.06
	1998/99	28752.2	21236.8	8765.9	30.49	41.28
	1999/00	34052.2	24200.7	10259.7	30.13	42.39
	2000/01	38905.1	28705.7	12382.4	31.83	43.14
	2001/02	39330.6	29292.8	12267.3	31.19	41.88
	2002/03	42586.9	32481.2	13459.7	31.61	41.44
	2003/04	48173	36260.4	14478.9	30.06	39.93
	2004/05	54104.7	41032.9	18885.4	34.91	46.03
	2005/06	57430.4	43462.3	21610.7	37.63	49.72
	2006/07	71126.7	52146.4	26095.6	36.69	50.04
	2007/08	85155.4	62067.7	29815.7	35.01	48.04
	2008/09	177051.9	82731.2	39700.9	22.42	47.99
	2009/10	156294.9	114544.9	54920.9	35.14	47.95
2010/11	172777.7	124122.6	61663.6	35.69	49.68	
	<b>Total</b>	1173046	825910.4	371277.7	799.864	1056.15
	<b>Average</b>	43446.14	30589.27407	13751.03	29.62459	39.11666

Source: Economic Survey 2010/11, ministry of finance, Kathmandu

**Figure 4.5**

**VAT on Total Revenue and Indirect Tax Revenue Before and After VAT**



From the above table 4.7 researcher can say that the sales tax/VAT is the important sources of government revenue, which occupy more than one fourth of total tax revenue and more the one third of total indirect tax revenue of the government of Nepal. The contribution of sales tax/ VAT on total tax revenue in the year 1984/85 was 26.84% and on indirect tax revenue in the same year was 32.63 %. The contribution of sales tax or VAT on total tax revenue and indirect tax revenue in the year 1996/97 was 29.18% and 37.34% respectively. In the year of VAT implementation the tax revenue and indirect tax revenue is in decreasing order. Now after few years, in the year 2010/11 the contribution of sales tax/VAT on total tax revenue and indirect tax revenue are 35.69% and 49.68% respectively after implementation of VAT the contribution of VAT sales tax on total tax revenue and indirect tax revenue is in increasing order.

**4.2.3 Replacement of Sales Tax, Entertainment Tax, Hotel tax and Contract Tax by VAT**

Sales tax is the important part of indirect tax. A tax based on the sale of goods and services imposed for generating revenue is sales tax. Entertainment

tax, hotel tax and contract tax are imposed separately with different laws. VAT was introduced with replacement of existing sales tax, entertainment tax, hotel tax and contract tax. Mainly sales tax converted in to value added tax and others are subsidiary.

Generally these are three types of sales taxes, namely multiple stage sales tax, single stage sales tax and value added tax. The tax imposed on each stage of sales is multi stage sales tax, where as the tax imposed on only one stage is single stage sales tax. In other words if tax is imposed on manufacturer, wholesaler and retailer, it is multistage sales tax. In contrast, to whom the tax is imposed either on manufacture, wholesaler or retailer, it is single stage sales. The nature of sales tax is that the tax in case of sales is levied on total amount of cost of sales and the tax amount of earlier stage becomes the cost of the goods and services for next stage. Value added tax in opposite, is levied not on the total amount of cost of sale but on the amount of value added in each stage. (Kandel 2007)

In Nepal, sales tax was introduced in 2022 B.S. At first sales tax in Nepal was levied on retail stage only. However in 2025 B.S it was levied on whole sale stage. In 2031 B.S. The system was again changed and the sales tax was imposed on manufacturing stage. Since Mansir 1, 2054 B.S sales tax was replaced by value added tax in Nepal. Before implementation of VAT, the rate of sales tax was 15 % whereas after implementation of VAT, the rate is fixed at 10%. Now the tax rate is 13 %.

Sales tax is completely replaced by VAT but hotel, entertainment and contract tax have not been replaced in such way. A small amount of revenue used to be collected under the name of entertainment, hotel and contract tax but their contribution on total is remarkable reduced after the implementation of VAT. Now all the above taxes are being completely replaced by value added tax.

**Table 4.8**  
**Replacement of Sales Tax, Entertainment Tax, Hotel Tax and**  
**Contract Tax by VAT**

(Rs in million)

	Fiscal Year	Total		Sales Tax/VAT		Contract Tax		Hotel Tax		Entertainment Tax	
		Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Before VAT	1984/85	1012.6	100	845.8	83.53	103.6	10.23	38.8	3.83	24.4	2.41
	1985/86	1173	100	985.9	84.05	117	9.97	47.8	4.07	22.3	1.90
	1986/87	1363.6	100	1143.8	83.88	126.3	9.26	66.6	4.88	26.9	1.97
	1987/88	1612.5	100	1300.5	80.65	199.1	12.35	80.6	4.99	32.3	2.00
	1988/89	1698.9	100	1379.7	81.21	193.2	11.37	93.2	5.48	32.8	1.93
	1989/90	1908.8	100	1605.1	84.09	170.5	8.93	99.7	5.22	33.5	1.75
	1990/91	2354.4	100	2026.1	86.06	173.3	7.36	115.6	4.91	39.4	1.67
	1991/92	3283.6	100	2840.7	86.19	213.3	6.5	191.3	5.83	38.3	1.17
	1992/93	4007.7	100	3438.2	85.51	293	7.31	223.4	5.57	53.1	1.32
	1993/94	5380.9	100	4693.1	87.22	356.5	6.52	219.1	4.01	112.2	2.05
	1994/95	6857.1	100	6031.7	87.96	505.2	7.37	229.1	3.34	91.1	1.33
	1995/96	7429.3	100	6431.3	86.57	613.4	8.26	284.2	3.83	100.4	1.35
	1996/97	8163.5	100	7126.5	87.3	621.3	7.61	301.1	3.69	114.6	1.4
	After VAT	1997/98	8020.4	100	7122.6	88.81	761.3	9.49	45.9	0.57	90.6
1998/99		8765.9	100	8765.9	100	0	0	0	0	0	0
1999/00		10259.7	100	10259.7	100	0	0	0	0	0	0
2000/01		12382.4	100	12382.4	100	0	0	0	0	0	0
2001/02		12267.3	100	12267.3	100	0	0	0	0	0	0
2002/03		13459.7	100	13459.7	100	0	0	0	0	0	0
2003/04		14478.9	100	14478.9	100	0	0	0	0	0	0
2004/05		18885.4	100	18885.4	100	0	0	0	0	0	0
2005/06		21610.7	100	21610.7	100	0	0	0	0	0	0
2006/07		26095.6	100	26095.6	100	0	0	0	0	0	0
2007/08		29815.7	100	29815.7	100	0	0	0	0	0	0
2008/09		39700.9	100	39700.9	100	0	0	0	0	0	0
2009/10		54920.9	100	54920.9	100	0	0	0	0	0	0
2010/11		61663.6	100	61663.6	100	0	0	0	0	0	0
	<b>Total</b>	378573	2700	371277.7	2493.03	4447	122.53	2036	60.22	811.9	23.38
	<b>Average</b>	14021.22	100	13751.03	92.33	164.7	4.53	75.4	2.23	30.07	0.86

Source: Economic Survey 2010/11, Ministry of Finance, Kathmandu.

Value added tax is implemented to replace the sales tax, entertainment tax, hotel tax and contract tax. In total of four sector is 1012.6 million where the amount of sales tax, contract tax, hotel tax and



entertainment tax contribute serially are Rs. 845.8, Rs. 103.6, Rs 38.8 and Rs 24.4 in the Fiscal year 1984/85 respectively. In the year 1997/98 the sales tax, contract tax hotel tax and entertainment tax was 7122.6, 761.3, 45.9 and 90.6 respectively. When VAT was introduced the sales tax was completely replaced by it. After VAT, contribution of contract tax, hotel tax and entertainment tax on total of four sector is zero after the year of implementation of VAT to 2010/11. Their contribution is zero. Which shows that value added tax completely replace these four taxes in year 1998/99. Now VAT is able to replace sales tax entertainment tax, hotel tax and contract tax completely.

#### **4.2.4 Trend of VAT registration and Cancellation**

Registration and getting VAT certificate is the first function of both tax administration and business person. The number of sales tax registrant were 2045 at the time of introduction of VAT in 1997 who were the above of threshold in annual transaction. Out of the threshold are registrant voluntary in VAT. Business community was opposition in the beginning and they discouraged to register in the VAT. By commitment of government, the registrants are increasing yearly and the private sector also favord it. There were two departments in the time of introduction of VAT. VAT department and revenue department. To improve the revenue collection, refund, registration, audit, data management both revenues department and VAT department merged with the re-structurally inland revenue department. Total registrants in PAN (Permanent Account Number) are 447669 and VAT are 97467 till 2010/11. Registration cancellation are 1853 upto 2067/68 B.S. The registration and registration cancellation can be seen from the following table.

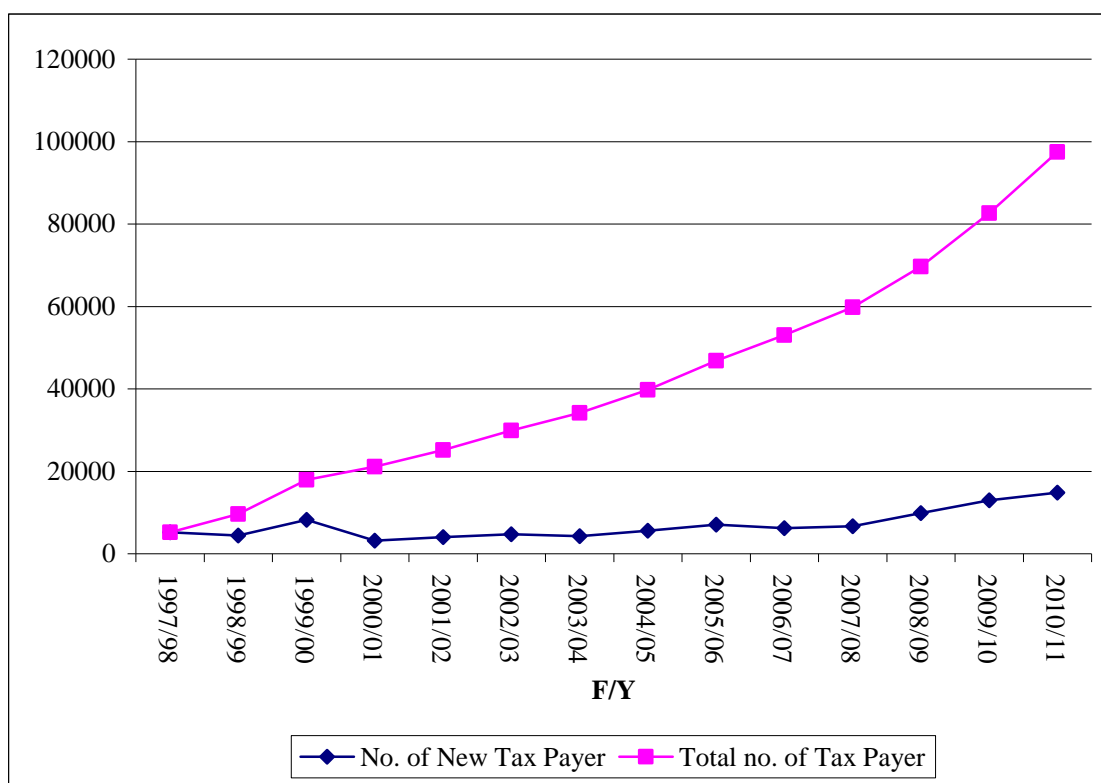
**Table 4.9**  
**Trend of VAT Registration**

<b>Fiscal Year</b>	<b>No. of New Tax Payer</b>	<b>Total no. of Tax Payer</b>	<b>Increasing Percent of Tax Payers</b>
1997/98	5237	5237	-
1998/99	4405	9642	84.11
1999/00	8205	17947	86.13
2000/01	3146	21093	17.53
2001/02	4056	25149	19.23
2002/03	4723	29872	18.23
2003/04	4302	34174	14.40
2004/05	5602	39776	16.39
2005/06	7055	46831	17.73
2006/07	6240	53071	13.32
2007/08	6710	59781	12.54
2008/09	9872	69653	16.51
2009/10	13005	82658	18.57
2010/11	14809	97467	17.91

Sources: Inland Revenue Department Kathmandu.

**Figure No. 4.6**

**Trend for VAT Registration**



Source:- Inland Revenue Department Kathmandu.

From the above table 4.9 researcher can say that the total no of tax payer is in increasing order because the total number of new tax payer or total no of tax payer are 5237 in the Fiscal year 1997/98 (i.e. VAT implementation period) After this now the total number of new tax payer and total numbers of tax payer are 14809 and 97467 respectively.

**4.2.5 VAT revenue collection**

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

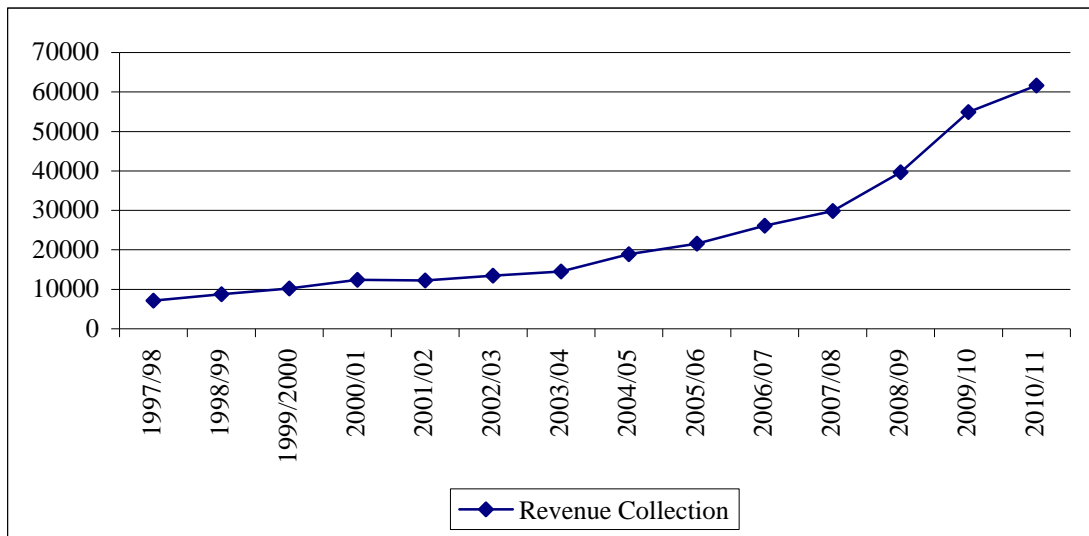
**Table 4.10**  
**Trend of Revenue Collection from VAT**  
(Rs in Millions)

<b>Fiscal Year</b>	<b>Revenue Collection</b>	<b>Percentage</b>
1997/98	7122.6	-
1998/99	8765.9	23.07
1999/2000	10259.7	17.04
2000/01	12382.4	20.7
2001/02	12267.3	-0.91
2002/03	13459.7	9.71
2003/04	14478.9	7.6
2004/05	18885.4	30.4
2005/06	21610.7	14.4
2006/07	26095.6	20.8
2007/08	29815.7	14.2
2008/09	39700.9	33.1
2009/10	54920.9	38.32
2010/11	61663.6	12.28
<b>Total</b>	331429.3	
<b>Average</b>	44190.57	

Source: Economic Survey 2010/11, Ministry of Finance, Kathmandu.

**Figure - 4.7**

**Trend of Revenue Collection from VAT**



From the above table 4.11 researcher can clear that the value added tax revenue is increasing year by year. VAT generated about 7122.6 million in the fiscal year 1997/98. In the year 1998/99 it reached up to 8765.9 million that is 23.07% more than previous year. Similarly it is increasing year by year. In the year 2010/11 it is increased by 33.1% than previous year. Though VAT collection has reached Rs. 29815.7 million in the fiscal year 2007/08. Despite the various difficulties in the implementation of VAT the collection trend of revenue through VAT is not bad. Value added tax is increasing radically except in the fiscal year 2001/02. There are lots of facilities in value added tax i.e. minimum rate, tax credit, tax refund, deregistration zero tax rate, threshold, exemption facilities in value added tax, now tax rate is 13 percent. It is expected that VAT will generate more and more revenue in the days to come when it is implemented effectively and effectively. Since VAT is broad based tax. It will provide a stable base of revenue to the government.

#### 4.2.6 Estimation of VAT for Next Ten Years

Nepal introduced VAT with the various difficulties in the fiscal year 1996/97. At that time all business men were in opposition of this, sales tax mainly replaced with value added tax. The last fifteen years trend of sales tax/VAT shows many ups and downs in VAT collection. Whole economy of Nepal is affected by political instability and home war. Due to such unfavorable situation internal resource mobilization aspect of Nepal is quite unsatisfactory. Resource generation through sales tax and value added tax is also unsatisfactory in Nepal than previous years. Now, Nepal is in peaceful process. Nepal adopted full democratic process. Revenue collection of government is affected by many variables. If these variables are in favor of nation more revenue is collected otherwise not. The forecast of VAT collection depends on previous fifteen years data for coming ten years. The forecast does not consider the effect of environmental variable for forecasting purpose a popular statistical tool (time series) is used.

Estimation of VAT for coming next 10 year.

Let, the straight line trend be represented

$$\text{By } Y = a + bx \dots \dots \dots (1)$$

Fitting the trend line

**Table 4.11**  
**Projection of VAT Next Ten Years**

(Rs in millions)

Year	Sales Tax/VAT (Y)	X = (x-2002)	X <sup>2</sup>	XY
1992	2840.7	-10	100	-28407
1993	3438.2	-9	81	-30943.8
1994	4693.1	-8	64	-37544.8
1995	6031.7	-7	49	-42221.9
1996	6431.3	-6	36	-38587.8
1997	7126.5	-5	25	-35632.5
1998	7122.6	-4	16	-28490.4
1999	8765.9	-3	9	-26297.7
2000	10259.7	-2	4	-20519.4
2001	12382.4	-1	1	-12382.4
2002	12267.3	0	0	0
2003	13459.7	1	1	13459.7
2004	14478.9	2	4	28957.8
2005	18885.4	3	9	56656.2
2006	21610.7	4	16	86442.8
2007	26095.6	5	25	130478
2008	29815.7	6	36	178894.2
2009	39700.9	7	49	277906.3
2010	54920.9	8	64	439367.2
2011	61663.6	9	81	554972.4
<b>Total</b>	<b>361990.8</b>	<b>dx = -10</b>	<b>dx<sup>2</sup> = 670</b>	<b>dXY = 1466107</b>

Source:- Computed by Researcher

Let the base year = 2002

$$A = \frac{y}{n} = \frac{361990.8}{20} = 18099.5$$

$$B = \frac{\sum xy}{\sum x^2} = \frac{1466106.9}{670} = 2188.2$$

Now, substituting the value of A and B in equation (i). The equation of the trend line be.

$$Y = 18099.5 + 2188.2 X$$

For the estimation of VAT For coming 10 years.

When,

$$Y = 2012, \quad X = 11$$

$$Y = 2013, \quad X = 12$$

$$Y = 2014, \quad X = 13$$

$$Y = 2015, \quad X = 14$$

$$Y = 2016, \quad X = 15$$

$$Y = 2017, \quad X = 16$$

$$Y = 2018, \quad X = 17$$

$$Y = 2019, \quad X = 18$$

$$Y = 2020, \quad X = 19$$

$$Y = 2021, \quad X = 20$$

Expected amount of revenue generated through VAT for coming 10 years.

2012	$18099.5 + 2188.2 \times 11 = 42169.7$
2013	$18099.5 + 2188.2 \times 12 = 44357.9$
2014	$18099.5 + 2188.2 \times 13 = 46546.1$
2015	$18099.5 + 2188.2 \times 14 = 48734.3$
2016	$18099.5 + 2188.2 \times 15 = 50922.5$
2017	$18099.5 + 2188.2 \times 16 = 53110.7$
2018	$18099.5 + 2188.2 \times 17 = 55298.9$
2019	$18099.5 + 2188.2 \times 18 = 57487.1$
2020	$18099.5 + 2188.2 \times 19 = 59674.8$
2021	$18099.5 + 2188.2 \times 20 = 61863.5$



**Table 4.12**  
**Projection of VAT for Next Ten Years**  
Rs in million

Fiscal Year	Estimated VAT
2011/12	42169.7
2012/13	44357.9
2013/14	46546.1
2014/15	48734.3
2015/16	50922.5
2016/17	53110.7
2017/18	55298.9
2018/19	57487.1
2019/20	59674.8
2020/21	61863.5

Source: Computed by researcher

From the above table 4.13, it shows that the revenue collection projection of coming ten years. In fiscal year 2011/12 the revenue collection will be Rs 42169.7 million. This shows the increasing in revenue in the years. The revenue collection projection is Rs 61863.5 million in the fiscal year 2020/21.

### **4.3 Empirical Study**

An empirical investigation was conducted in order to find out the varies aspects of value added tax from the experience of the real world. In this empirical study, the analysis has been done about value added tax on the basis of information collected from the tax expert, tax administrators

(tax officer) and tax payers. The major tool used for this purpose is questionnaire.

In this study, the questions were asked to 50 different individuals related to this field i.e. tax experts, tax administrators (tax officers) and tax payers, the questionnaire has covered various aspects of value added tax in Nepal past and present situation (see the format of questionnaire in appendix) . Information received from the respondents are tabulated and analyzed in the proper way. The following table shows the groups and no. of respondents.

**Table 4.13**  
**Group of Respondents and Number**

S.N.	Group of respondents	Number
1	Value added tax Experts	10
2	Value added Tax Administrators (officer)	20
3	Tax payers	20
	<b>Total</b>	<b>50</b>

Source: Opinion Survey.

### **4.3.1 Result for Empirical Investigation**

#### **1. Help of VAT to Increase Economic Growth**

To know the opinion about the help of VAT in economic growth in VAT administration in Nepal, questions were asked to respondents "Does the VAT help to increase Economic growth?" The responses received from the respondents are tabulated as follows.

**Table 4.14**  
**Help of VAT in Economic Growth**

Responses  Respondents	Yes		No		If any Other		Total	
	No.	%	No.	%	No.	%	No.	%
Tax experts	8	80	2	20	-	-	10	100
Tax administrator	15	75	3	15	2	10	20	100
Tax payers	6	30	14	70	-	-	20	100
Total	29	58	19	38	2	4	50	100

Source: Opinion Survey, 2012.

From the table 4.15 it is found that the responses from respondents are received in the following ways. 58 percent respondents agree about the help of VAT in Economic growth of Nepal whereas 38 percent respondents disagree that the VAT helps economic growth and 4 percent respondents have other view. On the basis of above table, researcher can say that the VAT can help in Economic Growth the of Nepal.

## **2. Opinion about Leakage of Tax Revenue through VAT**

To know the opinion about to stop the leakage of Tax revenue through VAT in Nepal. Researchers requested to select one among the three alternatives (Yeas, NO, and If any other). The question was asked "Is it possible to stop leakage of Tax revenue through VAT?" The responses received from the respondents are tabulated as follows:

**Table 4.15**

**Is It Possible Stop Leakage of Tax through VAT**

<b>Responses</b>	<b>Yes</b>		<b>No</b>		<b>Any Other</b>		<b>Total</b>	
	<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>
Tax experts	4	40	4	40	2	2	10	100
Tax administrator	12	60	6	30	2	10	20	100
Tax payers	20	100	-	-	-	-	20	100
Total	36	72	10	20	4	8	50	100

Source: Opinion Survey, 2012.

From the above table 4.16, it was found that. 72 percent respondents agreed that the leakage of tax revenue can stop through VAT. 20 percent respondents were disagree about the opinion and 4 percent respondents agreed with any other.

**3. Opinion about the chance of Tax Evasion through VAT**

To know the opinion of the chance of Tax Evasion through VAT in Nepal, questions was asked with respondents "Is there any chance of tax evasion through VAT?" The responses receive from respondents are tabulated below.

**Table 4.16**  
**Has the VAT been leaking in Nepal?**

Responses Respondents	Yes		No		Total	
	No	%	No	%	No	%
Tax experts	6	60	4	40	10	100
Tax administrator	6	30	14	70	20	100
Tax payers	-	-	20	100	20	100
Total	12	24	38	76	50	100

Source: opinion survey, 2012.

From the above table 4.17 is was found that 76 percent respondents were disagree about the Tax evasion through VAT and 24 percent respondents were agree about the tax evasion through VAT.

From the above table, there is low chance of tax evasion through VAT by low billing.

#### **4. Major Problems and Challenges in VAT System**

To know the major problems and challenges of VAT system in Nepal, Question was asked to respondents with four alternatives. "What are the major problems and challenges in VAT system?" The responses received from respondents are tabulated below.

**Table 4.17**  
**Major Problems and Challenges in VAT System**

Responses Respondents	High Tax Rate		Difficult to maintain A/C		Lack of Monitoring		Low Amount Bill		Total	
	No	%	No	%	No	%	No	%	No	%
Tax experts	4	40	-	-	4	40	2	20	10	100
Tax administrator	2	10	2	10	12	60	4	20	20	100
Tax payers	12	60	8	40	-	-	-	-	20	100
Total	18	36	10	20	16	32	6	12	50	100

Source: opinion survey, 2012.

The above table 4.18 shows that 36 percent respondents agreed with high tax rate,, 20% respondents agree with difficult to maintain the account for tax purpose. 32 percent respondents feel that there is low account billing problems in Nepal.

### **5. Effect of Higher VAT rate and Higher Boundary (i.e. Coverage Area) of VAT in Economy**

To know that the effect of higher VAT rate and higher coverage area of VAT in economy of Nepal, question was asked with 3 alternative. Alternatives were, (a) negatively impact (b) positively impact (c) no effect.

The responses received from the respondents are tabulated below:

**Table 4.18**  
**Effect of Higher VAT rate and Higher Boundary (i.e. Coverage Area)**  
**of VAT in Economy**

Responses Respondents	Negative Impact		Positive Impact		No Effect		Total	
	No	%	No	%	No	%	No	%
Tax experts	10	100	-	-	-	-	10	100
Tax administrator	2	10	15	75	3	15	20	100
Tax payers	10	50	5	25	5	25	20	100
Total	22	44	20	40	8	16	50	100

Source: Opinion Survey.

From the above table 4.19 it was found that 44% respondents agreed with negative impact. 40 percent agreed with positive impact and 16 percent respondents agreed with no effect of higher VAT rate and higher boundary (i.e. coverage Areas) of VAT in Nepalese Economy.

## **6. Quick Effectiveness and Unbiased, the VAT Administration of Nepal in Business Sector**

To know the VAT administration of Nepal, quick effectiveness and unbiased in business sector, question was asked to respondents. The question was "Is the VAT administration of Nepal, Quick effective and unbiased in whole business sector?" The responses received from respondents are tabulated below.

**Table No. 4.19**  
**Quick Effectiveness and Unbiased, the VAT Administration of Nepal**  
**in Business Sector**

Responses Respondents	Yes		No		Total	
	No	%	No	%	No	%
Tax experts	8	80	2	20	10	100
Tax administrator	20	100	-	-	20	100
Tax payers	2	10	18	90	20	100
Total	30	60	20	40	50	100

From the above table 4.20, it was found that 60 percent respondents agreed about the VAT administration of Nepal is quick effectiveness and unbiased in business sector and 40 percent respondents disagreed about the VAT administration of Nepal is quick effectiveness and unbiased in business sector.

## **7. Provision of the VAT Act**

To know the provision of the VAT act in Nepal, the question was asked to respondents with four alternatives. The question was "Do you agree, provision of the VAT act are effective and sufficient in Nepal?" tabulated below.



**Table 4.20****Provision of the VAT Act are Effective and Sufficient in Nepal?**

<b>Responses</b>  <b>Respondents</b>	<b>Yes</b>		<b>No</b>		<b>Lack of effective Rule</b>		<b>Any other</b>		<b>Total</b>	
	No	%	No	%	No	%	No	%	No	%
Tax experts	5	50	2	20	21	20	1	10	10	100
Tax administrator	16	80	2	10	1	5	-	-	20	100
Tax payers	18	90	-	-	-	-	2	10	20	100
Total	39	78	4	8	3	6	3	6	50	100

The above table 4.21 shows that, 78 percent respondents agreed about provision of the VAT act of Nepal. 8 percent respondents disagreed about provision of the VAT act of Nepal. 6 percent respondents agreed with lack of effect rule for provision of VAT act in Nepal and 6 percent respondents agreed to with other and they told that the government should take scientific and reasonable VAT act.

### **8. Effect on Business Profit by VAT**

To know the effect of Business profit by VAT in Nepal, the questions was asked to respondent with 3 alternative. The question was "Does the VAT effect in profit of Business?" The responses received from respondents are tabulated below.

**Table 4.21**  
**Does the VAT affect in Profit of Business?**

<b>Responses</b> <b>Respondents</b>	<b>Negative Impact</b>		<b>Positive Impact</b>		<b>Any Other</b>		<b>Total</b>	
	<b>No</b>	<b>%</b>	<b>No</b>	<b>%</b>	<b>No</b>	<b>%</b>	<b>No</b>	<b>%</b>
Tax experts	4	40	6	60	-	-	10	100
Tax administrator	2	10	18	90	-	-	20	100
Tax payers	7	35	13	65	-	-	20	100
<b>Total</b>	<b>13</b>	<b>26</b>	<b>37</b>	<b>74</b>	<b>-</b>	<b>-</b>	<b>50</b>	<b>100</b>

The above table 4.22 shows that 74 percent respondents disagreed with the effect on Business profit by VAT and 26 percent respondents agreed with the effect on Business profit by VAT.

## **9. Condition of Effectiveness and in Implementation of VAT in Nepal**

To know the condition of effectiveness and implementation of VAT in Nepal, the question was asked to respondent with 3 alternative. The question was "What is the condition of effectiveness and implementation of VAT in Nepal"? The responses received from respondents are tabulated below.

**Table 4.22****Condition of Effectiveness and in Implementation of VAT in Nepal**

<b>Responses</b>	<b>Strong</b>		<b>Medium</b>		<b>Weak</b>		<b>Total</b>	
	<b>No</b>	<b>%</b>	<b>No</b>	<b>%</b>	<b>No</b>	<b>%</b>	<b>No</b>	<b>%</b>
<b>Respondents</b>								
Tax experts	2	20	5	50	3	30	10	100
Tax administrator	15	75	3	15	2	10	20	100
Tax payers	18	90	2	10	-	-	20	100
Total	35	70	10	20	5	10	50	100

The above table 4.23 shows that 70 percent respondents agreed with the condition of effectiveness and implementation of VAT is strong. 20% respondents agree with the condition of effectiveness and implementation of VAT is medium and 10 percent respondents agreed with weak condition of implementation of VAT.

#### **4.4 Major Findings**

After presentation and analysis of the data in this chapter some important findings are gained. The major finding are given below.

- a) Value added tax system has been implementing in Nepal has for 19 years. It had the target to increase 0.25 percent GDP per year but due to various complexities and problems, this tax system has not been able to achieve the expected level of success.
- b) The government expenditure is increasing continually but a revenue resource is very limited which led to the country to

fiscal crises. The major cause of persisting fiscal deficit in Nepal is due to the poorly designed and defected tax system which cause inadequate mobilization of resource.

- c) Contribution of indirect tax revenue is large in government fond where the flow of indirect tax revenue is more than 70 percent. The value added tax is seemed positive after custom in indirect tax revenue.
- d) In Nepalese tax structure indirect tax is more important than direct tax from the point of view of revenue generation. Before implementation of VAT the contribution of direct tax ratio was around 17 percent but after VAT is around 22%. Automatically indirect tax contribution before implementation VAT was around 35 percent and after VAT it is around 39%.
- e) Structure of indirect tax revenue has, three main tax revenue. These are custom duties, sales tax/VAT and exercise duties. In average custom duties is the main one and sales tax is the second position in indirect tax revenue. But in the years 2006/07 fifty percent of indirect tax revenue covered the VAT revenue. The VAT contributed the 50 percent in total indirect tax revenue.
- f) The contribution of sales tax was 1.95 on GDP in fiscal year 1984/85. Value added tax contribute in average around 3 percent of GDP in Nepal. Its contribution on GDP reached to 4.78 percent in year 2010/11.
- g) There is no significant change in revenue structure before and after implementation of value added tax.

- h) Before implementation of VAT three types of tax those were hotel tax contract tax, entertainment tax and sales tax having different tax rates. Either the tax rate were less or more than VAT. Hotel tax was between 10 to 14 percent, sales tax was 15 percent, contract tax was more than 100 percent the flat rate 10 percent of VAT replaced and made simplicity and easier.
- i) Number of tax payers registered under VAT has been increasing year after year but their increasing ratio in latest year seen unsatisfactory. The total number of registered tax payers (under VAT) reached to 97467 in the year 2010/11.
- j) Import generate more VAT revenue than domestic production. Thus import is the main base of VAT in Nepal.
- k) Projection of VAT in coming 10 years shows the optimistic future by the base of implementation of the past sales tax and VAT.
- l) Status of transaction reports shows the debit taxpayers are less than credit and zero tax payers. The debit tax payers are about 25 percent.
- m) The value added tax revenue for the year 2020/21 is estimated as Rs 61863.5 million.

## **CHAPTER -V**

### **SUMMARY, CONCLUSION AND RECOMMENDATION**

#### **5.1 Summary**

Taxation has played an important role in the economic development of each country. Value added Tax is modern Tax system. It is a kind of indirect tax imposed on value added on goods and services by business firm at the successive stage of production and distribution. Value added tax was brought to replace sales tax, contract tax, hotel tax and entertainment tax. VAT is scientific system of taxation. This type of value added tax is classified in three forms such as a. consumption type as invoice/Tax credit method b. Income type as subtraction method in connection with deducting facility in subsequent then addition method and c. Gross national production of addition method.

VAT has been regarded as one of most of important innovations in the field of taxation the evaluation of VAT is the most significant event in the history of commodity tax. German scholar Dr William Von Siemens, father of VAT, was the founder of value added tax. He developed the concept of VAT 1919 AD. The concept of VAT was developed further in 1949 by a tax mission to Japan led by earls S, soup. Any country did not introduced VAT until 1953. In 1954 VAT was first introduced by France to covered the industrial sector alone limiting the tax up to the wholesale level. In 1960, this tax was adopted by Ivory Coast. In 1967 Brazil and Denmark adopted this tax system. Thereafter many other countries started adopting this tax. Now more than 130 countries of the world have been implementing VAT in their economy up to now.

In Nepal 1996/97 budget announced that VAT would be implemented from Manshir 1/2054, however full fledged VAT was effective from Bhadra 1/2056. Value added tax act has already been enacted in 1996 to regulate actual practice of VAT. According to value added tax Act 1996, the tax rate is 10 percent and export is subject to a rate of zero percent. There is provision of threshold and exception in VAT Act 1996. Single positive rate of 10 percent is now changed to 13 percent from Magh I 2061.

VAT is considered important not only in the economy but also in the other related portion because it may be easier than replaced tax system. The method are available to compute VAT. There are addition method subtraction method and Tax credit method. Addition method includes salary wages, interest, profit etc. Under the subtraction method value is determined as not turn over, which is obtained by subtracting the cost of material from sales procedures. Tax credit method is popular among these there method in practices. Invoice is the important document in tax credit method. Comparatively easier and simple tax credit method is also adopting for computing VAT in Nepal.

There are two principles of VAT origin principle and destination principle. Origin principle advocates the theme that “Tax all goods and services where they are originated or produced relieve those goods from taxes which are imported from abroad. Under a destination principle of VAT all exports are allowed to free tax and imports subject to tax. Nepal has been adopting destination principle of VAT.

## **5.2 Conclusion**

As per the study of objective from this research work, following conclusion are drawn:

- J There are two types of tax in Nepal, i.e. direct, tax and indirect tax .Direct tax is paid by a person on whom it is legally imposed and indirect tax is a tax imposed on one person but partly or wholly paid by another under developed country like Nepal.
- J In whole tax revenue, indirect tax has contributed more in Nepal. The share of direct tax is more than 23 percent customs duty VAT, excise duties are main source of indirect tax.
- J After implementation of VAT, the share of direct and indirect tax are changed. Value added tax contributed about 39 percent o total indirect tax revenue, 29 percent of total tax revenue and contribution of VAT in GDP is 2.76 percent in average.
- J VAT is regarded as one of the important source of government revenue in which import is the main base. Around 68 percent of VAT is contributed by import in Nepal.
- J VAT is popular tax system in the world. It is broad, having exemptions on goods and services. Neutrally role on the methods of production, distribution as well as customer choice, justifiable for the consumer to pay the tax to government are facilities on VAT system.
- J In Nepal, VAT system is more effective for the collection of tax. In coming 10 years, about Rs.61863.5 million will be collected from VAT.
- J For the improvement of VAT administration, coordination of administration with the tax payers, rules for transparency of invoices, stepwise collection of VAT, reward and punishment system to good and bad tax payers, publicity to the people about the positive aspect of VAT helps the administration to improve and to collect more tax under VAT system.



### 5.3 Recommendation

1. It is necessary to launch a comprehensive tax payer education program in order to give ideas about various aspects of value added tax to the existing and potential tax payers and others.
2. The contribution of tax revenue near about 80 percent and non tax revenue is about 20 percent. Increasing rate is not high of VAT revenue. In the 15 years it is increase more than three times in the amount. In this situation mainly the VAT revenue collection is unsatisfactory. The Inland Revenue Department should celebrate “Registration Month” as like as “PAN Saptaha”
3. Both direct and indirect tax is increasing in low percentage in recent years. So tax authority should identify the reason believed it and should take corrective action.
4. Value added tax is implemented for the replacement of sales tax, entertainment tax, hotel tax and contract tax. Therefore the government should increase economic growth to make the balance of tax and to increase the VAT revenue. In this way the ratio of VAT will be increased.
5. The increasing rate of registrant tax payer is not satisfactory because it is in decreasing order. Therefore the tax authority should pay attention toward it.
6. VAT collection on import is remarkably higher than domestic productions. Such high dependency on import is not the good signal for the government. Therefore authority should take an effective step to encourage domestic production.

7. Thresholds zero rating and exemption provision are limiting the scope of VAT. Our economy is not so large while the large economy of India has IC Rs 1000000 (ten million) threshold. Furthermore zero rating and exemption provision are large which are not suitable for Nepalese context. These provisions are also the course of tax evasion. Therefore tax authority should properly monitor over these provision to increase the revenue collection through VAT. Government should facilitate to small business person to register under the VAT. The exempted list should be limited and it helps to increase the registration and collection.
8. The administration should be watchful to discourage any kind of mis-practice, fraud evasion and avoidance of Tax. Reward and punishment system should be strictly followed according to performance.
9. The government should apply the "Rasan Card" For the people who are living under the poverty line. By this provision it makes easier to the reduction/minimization of tax exemption goods and services. Most essential goods and services have to exempt. In this situation VAT will cover the broad base and increases the revenue collection.
10. The boundary of value added tax should be increased instead of increasing the rate of VAT. Unfortunately the government increased the rate of VAT from 10 percent to 13 percent in I Magh 2061 after seven years of VAT implementation.
11. Facilitate to the small business person to register under the VAT and develop economic growth. They have to get credit facilities

and yearly reporting systems. By this kind of provision the coverage of VAT will be increased.

12. It is known that double and multiple rate of VAT is difficult to administer but it is better to introduce double and multiple rate of VAT instead of increasing single rate. High rate in luxuries and imported goods and low rate in essential goods should be levied.
13. An effective computer program for invoicing and record keeping should be developed by the Inland Revenue Department and should provide particularly to retailers at nominal cost.
14. The existing destination based consumption types of VAT operation through the tax credit method should remain continuous.
15. This is the age of public private partnership for the development of nation. When the co-partners are a way from their objectives it arises the problems. Without the coordination of private sector with government, the mission could not be kissed. In this way coordination is the compulsory function of government and private sector.

## BIBLIOGRAPHY

- Adhikari, Chandra Mani (2003), *Value Added Tax in Nepal*, Kathmandu, Pairavi Pralashan.
- Annual Report (2006/07), Kathmandu, Inland Revenue Department.
- Bhatia, M. L. (1999). *Public Finance*, New Delhi, Vikas publishing house Pvt. Ltd.
- Bhatta, Gauri Dutta, (2005), *Value added tax system in Nepal*. Kathmandu, A Dissertation Submitted to Central Department of Management TU.
- Bhattra, Ishwar and Koirala, Girija Prasad. (2007), *Taxes in Nepal with tax planning and VAT*, Kathmandu, Asmita Publication.
- Dhakal, Arjun (2001), *"VAT and its Revenue potential in Nepal*. Kathmandu, A Dissertation submitted to Central Department of Economics TU.
- Dhakal, K. D. (2059), *Income tax and House and compound Tax Law and practice*. Kathmandu, Arjun Parkashan,
- Economic survey (2006/07), Kathmandu, Ministry of Finance.
- Economic survey (2007/08), *Government of Nepal, Ministry of Finance*, Kathmandu.
- Economic survey (2008/09), Kathmandu, Ministry of Finance.
- Gautam, Ghanshyam (2002). *VAT in Nepal Problems and Prospects*. Kathmandu, A Dissertation Submitted to Central Department of Economics, T. U.
- Gupta, S. C. (1990), *Fundamentals of Statistics*, Bombay, Himalayan publishing house.

- Gurung, Kul Bahudur (2002). *VAT Implementation in Nepal*. Kathmandu, A Dissertation submitted to Central Department of Management TU.
- Income tax Act (2058). *Ministry of justice and parliamentary affairs*. Kathmandu.
- Income tax Regulation (2059), *Ministry of Justice and Parliamentary affairs*, Kathmandu.
- Joshi, Puspa Raj (2005), *Research Mythology*. Kathmandu, Buddha Academic Enterprise Pvt. Ltd.
- Kandel, Puspa Raj (2007), *Tax law and tax planning in Nepal*. Kathmandu, Buddha Academic Enterprise Pvt. Ltd.
- Khadka, Rup Bahadur (2002), *Sales tax in Nepal*. Kathmandu, Ratna Pustak Bhandar.
- Khadka, Rup Bahadur (2004), *Sales tax in Nepal*, Kathmandu, Ratna Pustak Bhandar.
- Khadka, Rup Bhandar (2004), *Overview of VAT in Nepal*. Kathmandu, Ratna Pustak Bhandar.
- Poudel, Ratna prasad (2004), *Effectiveness of value added tax in Nepal*. Kathmandu, MBS dissertation T.U.
- Sharma, Krishna Prasad (1998), *Value added tax in Nepal: issued and options* MA. Dissertation. (Economics) T.U.
- Shoup, Carls (1988), *Value added tax and Developing country*. Washington D.C, World Bank, Vol 23 No 2.
- Thapa, Govinda Bahadur (1994), *VAT in Nepalese context*. Kathmandu, Mirmire Banker's Club, Nepal Rastra Bank.
- Value added tax Act (2058) *Ministry of Finance*, Kathmandu.
- Value added tax Regulation (2059) *Ministry of Finance*, Kathmandu.



