

CHAPTER – I

INTRODUCTION

1.1 General Background

VAT is an advance form of sales tax. It is imposed on difference stages. It is the tax imposed on added value of goods and services. Value added tax is one of the forms of indirect tax. It is imposed on producer wholesaler, retailer and consumer also. It is related to both the goods and services. In Japan 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. Indian tax institute define VAT as "A tax imposed on the seller of goods and services based on the seller of goods and services value added by their respective units". VAT is not a charge on companies. It is charged as a percentage of prices, which means that the actual tax burden is visible at each stage in the production and distribution chain. It is an indirect tax in the tax is collected from someone other than the person who actually bears the cost of the 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 contrast to sales tax, VAT is imposed on added value of production and distribution. The value is added in the form of profit, rent, wages, salary etc.

VAT has also been referred to as a sort of sales tax, though it functions very differently. Sales tax imposed on the total retail price of the item sold while VAT is imposed on the value added at each stage of production and distribution and though more complicated than sales tax, value added tax system have more checks against tax fraud because the tax is assessed at more than one point in the distribution process. The following are the primary objective for the applying this VAT.

-) It is an indirect tax.
-) It is based on added value.
-) To increase the tax base for the growth of the revenue.
-) To strengthen the tax system.
-) Establishment of healthy tax system.

1.2 Statement of the problem

Nepal is the undeveloped land lock country, the system of mixed economy for achieving development goals. Like other developing countries of the world. Nepal is also suffering from rapid population growth, increasing unemployment, resource constraints and high dependency on an agriculture, low living standard. The government expenditure is increasing but government revenue is not growing equivalently as per expenditure so the government is facing deficit financing year by year. The deficit financing increase share for external as well as internal and foreign aids. For the payment of external as well as internal loan and financing the government expenditure, internal revenue is the main source tax revenue is one of the main sources of government revenue. VAT is a strong component of tax revenue. But lack of proper implementation of tax policies, lack of knowledge, lack of public awareness, lack of support from business community and lack of efficient management are problem and revenue collection still government has not been able to implement full fledged VAT system in Nepal. Under invoicing by sellers, not issuing tax invoice by registered sellers, ineffective tax administration, can summer misconception about VAT that it increase price of goods and services etc, are major problematic issues about VAT.

- ❖ Who is responsible for the successful implementation of VAT?
- ❖ What is the coordination between government and taxpayers?

- ❖ Why there is uniform of VAT, in domestic product as well as imported goods?
- ❖ What is percentage adopted VAT in Nepal?

1.3 Objectives of the Study:

The basic objective of this study is to examine the effectiveness of implementation aspect of VAT in Nepal. The study also encompasses the problem faced by business sectors and consumer after implementation of VAT system in Nepal. The specific objectives of this study are listed below.

-) To study the effectiveness of implementation aspect of VAT in Nepal.
-) To find out problem faced by the business community and consumer.
-) To test the level of understanding of VAT amongst business community.
-) To find out the level of success of VAT in Nepal.

1.4 Significance of the Study

This study will be basically useful for the readers who interested in the field of taxation; policy makers, researcher, tax officials and especially the student who are engaged in the research works on value added tax as well as in the field of Nepalese tax system as a whole. It will provide a lot of information, idea and knowledge to those people who are interested to know about VAT. It also clears the role of VAT in total revenue collection, the probability of VAT implementation in future, VAT impact in Nepalese economy, problem with regard to implementation collection procedure and other important information.

1.5 Research Methodology

Research can be conducted on the basis of primary and secondary data. But the study is mainly base on secondary sources of information i.e. published reports,

journal booklets, brochures and other magazine providing information relating to VAT. Primary data has also collected from businessmen and consumers directly related to VAT practice.

1.5.1 Research design

Research design is the specification of method and procedures for acquiring the information needed. It deals with what information is to be collected from which sources and by what procedures. If research design is good, it ensures that the information obtained is relevant to the research questions and collected by objective and economic procedures. To achieve the specific objective of the study, descriptive and analytical research has been carried out in term of implementation aspect of VAT in Nepal.

1.5.2 The Population and Sample

Businessmen, tax authorities, intellectuals and general public are considered as the total population. Out of them 35 businessman 35 general public (customers) are randomly selected as the target sample for the study.

1.5.3 Data collection procedure

Primary and secondary data are used in data collection procedure.

1.5.3.1 Primary Sources:

Primary data are those fresh and original data, which are collected and recorded by the investigator or researcher. Unpublished data collected from mail questionnaire and interviews are primary sources.

1.5.3.2 Secondary sources:

Published data like articles, news, thesis, books are secondary data. The major sources of secondary data for the study are:

) Published journals form Nepal Rastra Bank.

-) Published document of World Bank's reports, national planning commission and central bureau of statistic's report.
-) Other related data records like economic journal tax journal business age, VAT act 2052 and rules 2053, Himalayan times and the rising Nepal.

1.5.3.3 Data presentation and Analysis

The main objective of this study is to examine the present practice of implementation of VAT in Nepal. To achieve, this objected collected data are analyzed and interpreted. Collected primary and secondary data are analyzed with the help of statistical tools and techniques.

1.5.4 Statistical tools

There are many statistical tools that can be used for research but the researchers have used the following tools.

-) The trend analysis
-) t^2 Ztest
-) Mean and S.D

1.6 Limitation of the study

As every study has its own limitation so as this study is not away from this limitations. Basically the study has been conducted as partial fulfillment of the requirement of the master of business studies, so this study has the following limitations.

- a) Lack of time and resources.

- b) This study covers and depends only on limited data.
- c) There are limited publications of books, journal, articles, paper etc. regarding VAT.
- d) Primary data is collected from Chitwan so it does not represent country as a whole.

1.7 Organization of the study

The whole study and finding has been divided into five different chapters for easy follow up.

Chapter 1: Introduction: This chapter contains introduction of the study. It is about the background of the study, statement of the problem, objectives of the study, significance of the study and limitation at the study

Chapter 2; Review of Literature: This chapter deals with the review of literature. It contains conceptual review of the study and review of related study.

Chapter 3: Research Design: It deals with research design nature and sources of data, population and sample data collection procedure and the financial and statistical tools used in the study.

Chapter 4: Data Presentation and Analysis: Data so collected would be carefully examined and conclusion would be drawn so that it could be presented. It deals with the presentation of related data collection in figure or table and its analysis using statistical tools and interpretation of the result.

Chapter 5: Summary, Conclusion and Recommendations: On the basis of the data analyzed the research would reach and final phase after providing recommendation on implementation aspect of VAT.

CHAPTER -II

REVIEW OF LITERATURE

2.1 Concept of Value Added Tax

Value added Tax (VAT) is "a type of indirect tax. It is the most recent innovation in the field of the taxation. It is Levied On the value added of the goods and the services, it is theoretically, the tax is broad based as it covers the value added to each commodity by a firm during all stages of production and distribution.

Value Added Tax (VAT) is tax based on goods and services. This tax is levied on the sale, exchange, transfer, import etc. of all goods and services apart from those specified by the law as tax-exempt. This means that this tax encompasses all types of goods and services produced in or imported into the country apart from those listed as tax-exempt by the law. The Value Added Tax (VAT) is a broad based tax. It is a modern tax system intended, when fully operational, to improve the collection of taxes, to increase efficiency and to lessen tax evasion.

VAT is considered as an improvised form of sales tax. This tax is imposed on different levels of value addition in the production and distribution process of goods and services. In short, the difference between the purchase price and the sales price of any firm is the value added. For example, any furniture manufacturer in the process of making furniture has to purchase woods, nails, paints etc. from the market. Furniture is prepared from such purchased goods by using the assistance of carpenters, laborers, and machines. It is but natural for the sales price of the furniture thus produced to be higher than the total purchase price from different firms of the goods required to make the furniture. The value added by the manufacturer and the sales price of the finished furniture is value addition and VAT is levied on this.

2.1.2 Origin of VAT

VAT is the youngest member of sales tax family. The concept of VAT was first proposed by Wilhem Von Siemens in Germany in 1919 to replace the 'Umasatzeller' (Multistage sales tax) in order to avoid the undesirable effect, particularly cascading and vertical integration of the latter tax (MST). The German Government debated a lot on this and held many discussion but since this was a totally a new concept and had not been implemented anywhere in the world. The government was not confident about its implementation aspect. Hence, instead of adopting this new system, it took measures to reduce the negative impacts of the Multi-Level sales tax system by reducing rates. The concept of VAT was developed further in 1949 by a mission assigned to propose reforms in the tax system of Japan under the chairmanship of Professor Carl, S, Shoup. The mission recommended the adoption of VAT to replace the prevailing enterprise and turnover taxes that were causing undesirable and unintended distortion. But like in Germany, it was not implemented in Japan. After three and half decades of the evaluation of the concept of VAT, France took the courage to put VAT into practice. France introduced VAT in 1954 at the wholesale level in the industrial sector. Up to 1959, this tax was confined to the boundary of France. In 1960 this tax was adopted by the Ivory, in 1961 Senegal followed it and in 1967 Brazil and Denmark adopted this tax system. The Netherlands and Sweden imposed this tax in 1969 while Luxemburg adopted it in 1970, Belgium in 1971, Ireland in 1992 and Italy, The United Kingdom and Austria in 1973. Out of the ELI, Portugal and Spain introduced VAT in 1986, Greece in 1987 and Finland in 1999; VAT has been spreading in the Asia region as well. Vietnam adopted VAT briefly in 1973. South Korea introduced VAT in 1977, China in 1973, Indonesia in 1985, Taiwan in 1986, Philippines in 1988, Japan in 1989, Thailand in 1992 and Singapore in 1994 while Mongolia has been implementing this tax since 1998.

In the SAARC region, India introduces VAT in different way under the name of Modified Value Added tax (MOD VAT) in 1986. Many of the other members of the SAARC countries Pakistan adopted VAT in 1990, Bangladesh in 1991 and Nepal in 1997. while Sri' Lanka introduced VAT in 1998. As VAT is less distort and more

revenue productive. It has been spreading all over the world. In present situation, about 124 and more countries have adopted VAT and it is concerned in many countries. In fact VAT has become popular topic for tax reform in recent years. (Khadka, 2001: 10-17)

2.1.3 VAT in Nepal

As the adoption of VAT program in Nepal was at the heart of worldwide policies, Nepal was also no exception. So in Nepal Vat system is adopted quite late than others countries because it was new concept and most recent innovation in the field of taxation. The Nepalese government adopted it to convert the sales tax into VAT and to promote the oriented economy in the eight five years plan (1992-1997). After the restoration of democracy in 1990s, the- government adopts to liberalize the trade, investment and financial system. Then state 1992/1993 budget speech that VAT on domestic production would be applied as an experiment basis. A two tiger sales tax system was in function at that period (1992/1993).

As a parts of it's liberal economy policy, HMG asked donors study the VAT system. VAT tasked force committee was formed in 1993. United State Agency for International Development (US AID), Harvard Instituted for International Development (HIID) was agreed to provide financial and technical assistance. The government of Nepal requests the Danish International Development Agency (DANIDA) as donors to continuity the VAT. The two-tiger sales tax was declared to remove in its 1994/95 budget. The parliament of Nepal enacted Value Added Tax Act 2052 from 1995 and regulation in 1996 from the budget speech 1992/93 and then government tried to implement the VAT system in Nepal, From the Budget speech announced the principles and rate of VAT and tried to levy from domestic productions. (Except some listed items). At mat period VAT rate was 10% but now it has changed into 13% from 1st Magh 2061, under this system manufactures, deludes, distributors were required to register in this system. Actually, VAT was introduced on 16 November, 1997 (1st Magh, 2054) in Nepal.

After enacted the ACT 2052, VAT was fully responsible by the VAT administrator. Trading Program of VAT organized by Federation of Nepal Chamber of Commerce and Industry (FNNCI), Nepal Chamber of Commerce (NCC), Chartered Accountant Association and others professional groups.

VAT was levied in the replacement of existing sales tax act 2023; Hotel Tax ACT-2018, contract Tax 2023 and Entertainment Tax Act 2017 were repealed along with implementation of VAT. After implementation of VAT it has created many problems and could not be implemented fully until the fiscal year 2062/063 due to the political instability and full co-operation of business community. The main problems whereas trading group was against the VAT. But industrialist was favor several new provisions relating to VAT were introduced through the finance Bill 1998. After then the situation becomes so bad that the several of VAT were put on stake. Ultimately, both sides agreed in 39 points on September 1998 and become favor. The Vat replaced the old taxing system. It is a broad based tax and covers the value added in good and services and at every stage of production and distributions. It is a modern and improving tax system of collection revenue. So it is called the back bone of revenue collection of the government. Dr. Rup Bahadur Khadke, published an article in 1984 "VAT in Asia and Pacific Region." After analyzing the Nepal has greater scope. Maybe, he is the one who firstly proposed system for Nepal, by observed the experience of VAT system in nation and abroad. Nepal has been considering VAT system since 1992. A commitment to implement the VAT system in Nepal was in 1995/96 budget and scheduled from April 1997. But it was postponed till November 1997 due to some reasons. After implemented the VAT in Nepal, the obstacles were created in private sector.

At last HMG/N implemented VAT since 16th Nov. 1997. The budget speech of F.Y. 2005/06 government has emphasized the implementation the VAT in Nepal. For good implementation, it would have increased the rate of 3% (i.e. 10% to 13%), by this cause, the government increased is not applying good road map to implementation of VAT in Nepal (Panthi, 2006)

2.2 Types of VAT

The types of VAT can be determined on several bases. The most important thing to be considered for the classification of VAT is on the basis of treatment of capital good. The precious treatment of deductibility of tax on durable capital goods is of great concern in distinguishing VAT of various types. From these angles, types of VAT can be classified as follows:

2.2.1 Income or Net National Income

Under the income type, VAT does not exclude capital goods purchased from other firms from the tax base in the year of purchase whereas depreciation is included from the tax base in the subsequent year. It is not the output of the consumption goods only which is taxed but also capital goods from which depreciation is deductible. Thus, it becomes a tax on net national product and the taxes base in the same as that the personal income tax without exemptions. So, the tax income under this type is regarded as national income.

The base of the tax income types

GNP-Depreciation - Net National Income (NNI)

Under this, tax base equals to private personal income. Most of countries do not prefer practice of this type cause that it faces the same problem as we face in calculating income for a certain period.

2.2.2 Gross National Product

Under this type, the purchase of capital goods are neither deductible from, the tax base in neither the year of purchase nor the depreciation is allowed to deduct from the tax base in the subsequent years. Tax is levied both on consumption and gross investment when the firms are not permitted to deduct even the amount of depreciation on capital goods tax is imposed on, The base of tax is total consumption goods plus all final product capital goods.

The base of tax in GNP types = Gross investment + consumption = GNP

This type of VAT is very difficult to calculate the tax base, "This tax is against some of the equity criteria that it is unlikely to be used. (Shoup: 1969)

2.2.3 Consumption Type

Under consumption type of VAT, all goods purchased from other firms in the year of Purchases are excluded from the tax base while depreciation is not deducted from the tax base in subsequent year. This type is considered as neutral because in this type no discrimination is done, with respect to capital and consumable goods. The producers are free from the liability of paying tax to concern the tax office in the purchasing years, since investment is not received from the taxation under this variant; the base of tax is consumption. It is really superior of VAT system. It would help the trader in investment of capital goods for production.

"The consumption variant is attractive from the point of view that tax administration as mere is needed to distinguish between the purchase of the intermediate goods and the capital goods under this variant as is necessary under the other two variants" (Khadka: 2000).

The base of tax in consumption types = Gross national production - Gross investment = GNP-GI = Total consumption

This consumption type is also called full- fledged VAT because the coverage is very wide. This type is also known as comprehensive VAT.

Among these three types of VAT's, consumption type has been widely used in several countries in Europe and elsewhere. The consumption type of VAT is most popular" and widely recognized because it is attractive from the point of view of tax administration as well as from the consideration of foreign trade. The GNP type of VAT can be taken as best-one from the point of view of government but from the point of view of taxpayers it will make double affect to the tax payers .So it is not good in comparison to income and consumption type. Both income and GNP types of

VAT are theoretically defective and practically difficult to implement. So, in comparison to others consumption type of VAT has been accepted and successfully implemented. It is also compatible with the destination principle of taxation. (Jamuna Maharjan, 2006)

Shrestha, (2008), submitted a dissertation entitled "A study on Implementation Aspect of VAT in Nepal". In his research he has highlighted the problems of implementation of VAT in Nepal. In his study he found different shorts of difficulties to implement VAT. The tax administration which took the responsibility of implementing VAT was not found free from the traditional mentality and attitude. He further mentioned that serious consideration was not given to the impact that smuggling from the long open borders with India and Tibet would have and no steps were taken to address this while implementing VAT in Nepal. He further suggested the VAT administrators to concentrate on accurate and compulsory invoicing at all stages including in retail sales level, effective steps must be taken for implementing the threshold.

Foreign trade association of Nepal (FTAN) has asked to implement multiple rates of value added tax (VAT). For this, the association has argued that the existing single rate VAT is encouraging smuggling. Multiple VAT that is in practice in other countries as well has helped reduce such anomalies.

Addressing the inaugural session of the 33rd AGM of the association, FTAN president Ashok Kumar Agrawal criticized the government's lack of attention to the report to this effect presented long ago by a task force.

In other suggestions to the government, Argawal asked for arrangement to start using the Vishakhapatnam port for Nepal's international trade as the existing port at Kolkata is becoming very costly. (Business age April, 2010)

2.3 Methods of Computation of VAT

Value Added Tax can be collected by using different methods of computation. The VAT can be computed by Addition Method, Subtraction Method, and Tax Credit Method (Subedi, 1998). The detail information about these methods is given below:

2.3.1 Addition Method

This method is also known as the direct value-added the income produced by firm. In other words, the base is computed by adding the payments made by the firm to the factors of production employed in turning out the product, such as wage, interest, rent, royalties and profits. This method is appropriate for the income type of VAT that includes in its base its reward to all factors. We can express the addition method in equation from is:

$$\text{VAT (t)} = f (\text{wage} + \text{rent} + \text{interest} + \text{profit})$$

Where's indicates tax and 'f' indicates function.

The example of calculating VAT under this method has been presented in following

Table:

$$\text{Hint } t = f (\text{wage} + \text{rent} + \text{interest} + \text{profit})$$

Table 2.1: Calculation of VAT liability under Addition Method

Stages of Production & Distribution	Primary Producer	Producer	Wholesaler	Retailer	Total
Wages	1000	160	300	200	1660
Rent	400	100	200	350	1050
Interest	200	40	100	250	590
Profit	400	200	100	200	900
Value Added	2000	500	700	1000	4200

VAT liability	260	65	91	130	546
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Source: Estimated arbitrary figured during the study

2.3.2 Subtraction Method

In this method, the taxable base of VAT, or value added is calculated by subtraction of gross purchase from gross sales of business enterprise during a taxable period. In other word the deviation between purchase and sales is value added and this value added is the base for the VAT. In this method, tax base is determined as net turnover, which is obtained by subtracting the cost of materials from sales proceeds. This method is also known as a direct subtraction technique or account method. It is most appropriate for consumption type of VAT; we can express the addition method in equation form as:

$$\text{VAT (1)} = f (\text{Sales Value} - \text{Purchase Value})$$

Where 't' indicates tax and 'f' indicates function.

The example of calculating VAT under this method has been presented in following table:

Hint: $t = f (\text{Sales Value} - \text{Purchase Value})$

Table 2.2: Calculation of VAT liability under Subtraction Method

Stages of Production & Distribution	Net Purchase (a)	Sales Price (b)	Value Added (a-b)	VAT @ 13%
Primary Producer	—	2000	2000	260
Producer	2000	2500	500	65
Wholesaler	2500	3200	700	91
Retailers	3200	4200	1000	130
Total	7700	11900	4200	546

Source: Estimated arbitrary figured during the study

2.3.3 Tax Credit Method

This method is also known as the invoice method or indirect subtraction technique. Under the tax credit method, tax on purchases is subtracted from the tax on sales. VAT liability of a firm paid on total purchases is deducted from VAT levied on those sales, which is the net tax liability. In other words, the net from VAT levied is calculated by deducting tax on inputs from, the tax of outputs during a taxable period. It is considered as a tool for self-enforcing (cross-checking) measure due to tax credit under a VAT system. Among the three methods, the credit method is almost widely used universally. It is more successfully used in all OECD countries, EU member countries, Japan, Korea and elsewhere. It provides the merit of handling exemptions and rate differential as well as reducing cascading effects. This method can be expressed in equation form as:

$$\text{VAT (t)} = f (\text{Tax paid on Sales} - \text{Tax paid on Purchase})$$

$$\text{Or } t = f (\text{Input Tax} - \text{Output Tax}) \text{ Hint: } t = f (\text{Output}) - f (\text{Input})$$

Table 2.3: Calculation of VAT liability under Tax Credit Method

Stages of production & distribution	Primary Producer	Producer	Wholesaler	Retailers	Total
Purchase	—	2000	2500	3200	7700
Tax on Purchase	—	260	325	416	1001
Sales	2000	2500	3200	4200	11900
Tax on Sales	260	325	416	546	1547
Net VAT	260	65	91	130	546
Liability					

Source; Estimated arbitrary figured during the study

2.4 Characteristics of VAT

The main characteristics of VAT are stated as follows:

1. It is a form of indirect taxation.
2. It is a broad-based tax as it covers the value added to each commodity by a firm during all stages of production and distribution.
3. It is based on value added principle. Value added can be obtained either by adding payments to factors of production or deducting cost of inputs from sales value,
4. It is a substitute for sales tax, hotel tax, contract tax and entertainment tax.
5. It is based on self-assessment system and provides the facility of tax credit, and tax refund.
6. It avoids cascading effect existed in sales tax and catch up effect. (Bhattarai and Koirala, 2062)

2.5 The Superiority of VAT over Sales Tax

After studying the following reasons, we can say that the VAT is superior to sales tax (Basnet, 1998).

1. Transparent Taxation System

Compulsory invoice system and the need to submit the VAT account every month to the tax office makes VAT a fairer taxation system. VAT ensures transparency in accounting system. It makes under invoicing' less attractive. As VAT provides an invoice and audit trail, it makes tax evasion more difficult.

1. A sequential identification number
2. The data of the information
3. The data of issue of all invoices, if it is different from the data of the transaction
4. The name, address and PAN of the vendor
5. The name, address and PAN of the buyer, if registered
6. The type of transaction.

7. A description sufficient to identification the goods and services supplied.
8. The quality of the goods of the extent of services for corresponding description.
9. The rate of VAT and the amount of payable, excluding VAT, for each description of goods and services
10. The value of any goods or services provided in part exchange
11. The total amount payable, excluding VAT
12. The rate and amount of tax charged
13. The total amount charged including VAT

A minimum of three copies of each invoice is essential. The original copy must be given to the buyers and remains two copies must retain by vendor. These copies must be available at any reasonable times for inspection a tax office. The invoices must be issued in a sequential numerical order. However, invoices can be prepared with different serial numbers for branches of different sections with prior approval of the VAT office. (such as restaurants, bars, laundry etc. incase of Hotel).

2.6 Debit/Credit Note

As per the provision laid out in the VAT Law of Nepal, when selling any product, even if the amount has not been received, the tax returns and tax submission has to be based on whichever takes place first between the time of the transfer of goods and the time when the invoice is issued. If a difference in the pries quoted in the first issued invoice is detected later, then as per Rule 20 the seller has to adjust the price by issuing a debit or credit note. If the price quoted in the first invoice is to increase than a debit note with increased amount and if it is to decrease than a credit note with the amount to be decreased should be issued. Rule 20 also requires that the note issued should clearly state whether it is a debit note or a credit note and a monthly record should be maintained by illustrating the following,

1. Serial number and the date of issue
2. The seller's name, address and identification number

3. The buyer's name, address and identification number if registered.
4. The serial number and date of the invoice associated with the transaction,
5. Particulars of goods or service and the reason why the debt or credit was made
6. The debit or credit amount
7. The debit or credit tax amount

2.7 Necessary Accounts

Clause 16 of the VAT Act requires all taxpayers to keep their accounts up to date and show such records to the Tax Officer wherever and whenever he/she wishes to inspect them. The account should include the following: (Kliadka, 2001:6)

1. The date of transaction and the amount of the transaction.
2. If the party with whom the transaction has taken place is registered man the identification number of that party.
3. Other points that are specified in the rules that is related to the kind of transaction that has been undertaken.

A registered taxpayer has to have the sales book and the pmclia.se book that have been maintained for the purpose of keeping accounts certified by the concerned Tax office. Similarly, registered persons have to maintain the following documents and records of particulars as per Rule 23 of the regulation. According to the provision made under Clause 16, these records have to be updated and made available for audit as and when requested by Tax Officer.

- * The Purchase and Sales books
- * The value added tax accounts
- * The invoices and abbreviated invoices issued by oneself.
- * The invoices and abbreviated invoices received by oneself.
- * The entire documents related, with the imports or exports made by oneself.
- * All the debit and credit notes issued or received that prove the increase or decrease in the price in the sale or purchase of services or goods and documents associated with them.
- * Records related to business accounts, can receipt and payments.

Purchase Book

Among various popular accounting systems practiced in various countries worldwide regarding the maintenance of accounts related to value added tax and as per Nepal's legal system regarding those the most, important accounts are the value added tax. Accounts as per Schedule 9 of the regulation. Among these the Purchase Book should be in the following format:

Format of a. Purchase Book

Taxpayer Identification Number

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Period of Purchase: Month..... Year

Invoice				Total Purchase Value	Purchase value of nontaxable	Taxable Purchase		Taxable imports	
Date	Invoice number	Supplier's Name	Supplier's Identification Number			Value	Tax Amount	Value	Tax Amount
Total									

A registered taxpayer has to enter all records regarding his/her imports or purchases of goods or services into the Purchase Book, When maintaining such records, the date when the goods or services are purchase, the invoice number, and the seller's or supplier's name and identification number should be entered in specified columns. Under the heading of Total Purchase Value, the sum of the price of taxable imports or purchase minus the tax amount and the purchase price of tax-exempted goods and services should be entered. Similarly, under the heading of Purchase Value of non-taxable, the purchases made from an unregistered person including purchases made

through abbreviated tax invoice should be included. His salaries to staff and wages to labors as well as the cost involved in the production of a new product after purchasing any product or services or any other cost involved up to the point of making the sale should not be included in this. These costs will be calculated as value additions and will be included in the sales prices. But in the case of direct purchase of any goods and services, the amount should be entered under the taxable purchase if it is taxable and under tax exempted purchase if it is exempt from tax. For example, payments made toward, the charges of electricity or to advertisement agencies etc should be entered as per the amount on the invoice into the purchase book. Similarly under taxable purchase and taxable imports, particulars regarding taxable goods and services purchased within the country of taxable goods and services should be entered respectively. When entering such details, the particulars of one invoice can be entered at once. Even if many goods have been purchased through one invoice instead of separate details of each they have to be entered at once, at one place and together.

Sales Book

The account in which a registered taxpayer maintains all his records regarding the sales of all his goods and services is referred to as the Sales Book. According to the definition given in Value Added Tax Act, sale or supply refers to the sale, exchange or transfer of any goods or services by taking a return or a price. However, since it also refers to the act of giving permission to or taking up contracts related to the same, in all such transactions the actual transaction price should be clearly included in the Sales book. An example of Sales Book is given below:

Format of a Sales Book

Taxpayer Identification Number

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Period of Sales: Month..... Year

Invoice				Total Sales	Sales of non taxable	Zero rated Sales (export)	Taxable imports	
Date	Invoice number	Buyer's Name	Buyer's Identification number				Value	Tax Amount
Total								

The sales book should be maintained similarly as the purchase book. When maintaining the sales record, the date when the goods or services were sold, the invoice number and buyer's name, address and if registered, his/her identification number should be written in the specified, place. Under the column total Sales, the price of tax exempt, zero rated, and taxable goods or services should be summed up minus the tax amount. Under Tax Exempted Sales, the sales of tax exempted goods as per annex 1 of the Act should be entered and under zero rated sales, the sale and export price of goods as listed in annex 2 of the act should 'be entered. Apart from, these, the details of all sales made by collecting tax should be entered under the column of Taxable Sales.

Value Added Tax Accounts

The value added tax account is the monthly summary record of the purchase and sales books. This account reveals the total monthly tax paid on purchase and imports and 'the tax collected from, sales. It also shows the status of the tax amount to be the Government by the tax payer or to be refunded to the taxpayer by the Government. An example is given below:

VAT Account

Purchase/Imports					Sales/Exports				
Date	Particulars	Purchase	Tax Rate	Tax Amount	Date	Particulars	Sales	Tax Rate	Tax Amount

In entering this account, the year and month should be entered under the heading of 'Date', the purchase and import or sales and export under the heading of 'Particulars', either 13% or 0% under the heading of Tax Rate and the tax amount paid on purchases and the amount collected from sales should be entered under the heading Tax amount, This account should be maintained for each month.

2.8 Tax Credit and Refund

The tax payer allowed deducting then collected tax from paid tax which is known as tax credit. A VAT refund is a statement of amount of VAT they have charged, paid and differ of both amount. Tax paid on purchase is more man tax collected by sales; the taxpayer can adjust in next month's tax amount. If not adjust can be done up to next six month, then it can be refunded according to the section 24(3) of value added tax act 2052.

2.9 Submission of Return

Everyone who is required to collect VAT" must file VAT return for each reporting period. The return period pointed is within 25 days of next month in internal revenue office. (An introduction to Value Added Tax with practice & Regulation on Nepal, Shambhu Man Shrestha2062, 2005

2.10 VAT Administration system in Nepal

Administration refers to the management of VAT implementation, planning and controlling. For this motto implementation network should be skilled and strong between lower levels to top level i.e. up to decision making level.

For this motto of the implementation government simplified the tax administration into two functional heads:

- * Inland Revenue Department
- * Inland Revenue Affairs

The structure of Inland revenue Department divided into various division and section like policy making division, operation division, internal monitoring division, expert division,

2.10.1 Policy Making Division

The policy making division consists the excise section, information technology section, investigation section, tax-payers service section and tax auditing section.

2.10.2 Operation Division

The Operation division consists of large no. of tax-payers section, refund section, investigation section, tax-payers service section and tax auditing section.

2.10.3 Internal Monitoring Section

The section is responsible for reviewing the function of the inland revenue of center level and districts level.

2.10.4 Expert Section

This group consists of lawyer, specialist, economist, liquidators and other related exports.

Tins section provides the specialists services in the IRD department.

2.10.5 Inland Revenue Department Offices

HMG/N merged the tax offices and VAT offices into one office from Shrawan 2059, These merged offices are called Inland Revenue Department.

2.11 Review of Related Studies

The researcher earned out the literature surveys of thesis, research reports, various book and articles. VAT is a newly innovated system in the whole tax system. Several studies and experiments have been undertaken on VAT. But very few studies have been done on the topic concerning Nepal. Realizing the fact, an attempt has been made in this chapter to review various literatures on VAT.

2.11.1 Review of Books

Some books are more important and relevant for these studies that are as follows: **Carl S. Shoup (1969)**, in his famous book 'Public Finance' explains that value added tax is the latest and probably the final stage in a historical development of sales tax, which is imposed on the value added by the business firms. VAT is imposed on the difference between sales proceed and the cost of materials etc, purchased from other firms. A firm adds value increased by processing or handling these purchased items with its labor force and its own, machinery, buildings or other capital goods.

Khadka, (1989), published a book "VAT in Asia and the Pacific Region". In this book it is said that VAT is the must recent innovation in the field of taxation. It is levied on the value added of goods and services. The tax is broad based as it covers and distribution.

This book has covered, all aspects of VAT including the nature of VAT, reasons for the growing popularity of VAT; development of VAT, etc, this apart, the report examines the structure and operation of VAT in the ASIAN pacific countries which also exports the possibility of introducing VAT in Nepal, Probably he is the person of

observer of VAT abroad and the firstly proposed. VAT for Nepal with micro studied of Nepalese' economy and. system.

Khadka, (2000), in his book "Nepalese Tax System" points out the need to introduce VAT in Nepal. In his book, there are several reasons to introduce VAT in Nepal. One of the important reasons was to develop a stable source of revenue by broadening the tax base. Moreover, Nepal will help to become less dependent on international trade taxes for its revenue in the future. Since it will not in a position to levy import duties, on trade that take place within the South Asian Association for Regional Co-operation (SAARC), region after the implementation of south Asian Free Trade Agreement (SAFTA). Nepal has applied for the member of the World Trade Organization (WTO), which will also have to be considered in this context,

Danida, (2001) has published a book named "Value Added Tax Hand Book" in this book it is said that that, Value added tax is a multiple stage consumption tax. It is in principle introduced at all stages of production and sales. It is a modern type of consumption tax. It intends to collect taxes on the consumption by private consumers (end users). Inland

Revenue Department administers VAT in Nepal. VAT is collected from each and every distribution stage from production to final sales to consumers. Each distribution stage collects VAT from the value added at its own stage. Practically it is arranged that the supplier collects output tax from the total value of the supplied goods or services and deducts the VAT he has paid when purchasing the goods or services. By using this principle each distribution stage collects the VAT from the value added at its own stage.

Khadka (2001), VAT expert, has explained the concepts of VAT and application of the same in Nepalese context in Mrs. Book entitled "VAT in Nepal". Value added tax is the most recent innovation in the field of taxation. VAT is levied on the value added to goods and service. The value added for a firm is the gross receipts from sales minus all expenditure on goods and services purchased from other firms. In the production and distribution process, a firm buys materials from other firms. These materials may

include principal raw materials, auxiliary raw materials, chemicals, electricity and, capital goods such as machinery, equipments, building, furniture, vehicles etc. The firm adds value to these purchased materials by processing or handling with the help of its own factors of production such as labor, land, capital etc. This increase in the value of output over inputs is value added by the firm and this value added is the base of VAT.

Silwal, (2002) has written a book entitled "Value added tax: A Nepalese experience" incorporating his practical experiences and all aspects of VAT. The book mostly concentrates on Nepalese VAT system. According to the writer "VAT is an all stages non cascading tax system. It extends to all levels of production and distribution. Any discrimination in taxing goods or services or exempting any of them proves VAT ineffective."

Silwal suggests that factors affecting VAT design should also be taken into consideration. A poorly designed VAT accompanied by weak administration would just drain the treasury. So, utmost care is crucial while designing VAT system. According to him the following issues have been considered while designing VAT in Nepal:

- i) Tax base issues, ii) Rate structure issues, iii) Exemption issues, and IV) Threshold issues. Finally Mr. Silwal has reached a conclusion that "the introduction of VAT provides an opportunity to revamp a substantial part of the tax administration. In every country where VAT has been implemented efficiently, it has proved itself as a major revenue productive instrument of tax.

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

Encyclopedia of Management(2002) defines a value added tax as a tax assessed at each step of the production and distribution process, levied on the difference between

purchase costs of an. assets and the price at which it can sold (the amount of value added on it). Tax is added, to a products price each time it changes hands until delivery to the customer takes place, when, the final tax is paid.

Kandel, (2005) published a book entitled "Tax Laws & Tax Planning in Nepal" in the year 2005. This book is according to the curriculum for MBS of T.U. In this book Value Added Tax is properly defined. The origin and development aspect of VAT is properly mentioned. Legal aspect of VAT and terminologies used in VAT are also defined in his book. We can also get some Numerical problems relating to VAT in this book.

Shrestha, (2008), submitted a dissertation entitled "A study on Implementation Aspect of VAT in Nepal". In his research he has highlighted the problems of implementation of VAT in Nepal. In his study he found different shorts of difficulties to implement VAT. The tax administration which took the responsibility of implementing VAT was not found free from the traditional mentality and attitude. He further mentioned that serious consideration was not given to the impact that smuggling from the long open borders with India and Tibet would have and no steps were taken to address this while implementing VAT in Nepal. He further suggested the VAT administrators to concentrate on accurate and compulsory invoicing at all stages including in retail sales level, effective steps must be taken for implementing the threshold.

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Addressing the inaugural session of the 33rd AGM of the association, FTAN president Ashok Kumar Agrawal criticized the government's lack of attention to the report to this effect presented long ago by a task force.

In other suggestions to the government, Argawal asked for arrangement to start using the Vishakhapatnam port for Nepal's international trade as the existing port at Kolkata is becoming very costly. (Business age April, 2010)

2.11.2 Review of Articles and Journals:

In a study held in 1973, on "Value Added tax in developing countries", George E, Lent, **Milka Casanegra** and Michael **Guerard** stated that "following the adoption of value added taxes by Western European countries; many developing countries have been giving increased attention to this form of tax as a means of rationalizing their sales taxes and improving their revenue." The study was purposed to examine the applicability of VAT in developing countries. After the empirical study of VAT structures of seven countries i.e. Brazil, Equator, Ivory Coast, The Malagasy Republic, Morocco, Senegal and Uruguay in 1973 and draw the principal features of VAT in developing countries. Applying comparative analytical methodology and covering the issues such as revenue importance of the VAT, problems of administration, comparison of the VAT with other forms of sales tax, only with a comprehensive and uniform coverage it is possible to achieve a truly neutral sales tax i.e. VAT. ("Value Added Tax in Developing Countries", IMF, Fiscal Affairs Department Washington D.C. 1973.)

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

Chang, (1988), stated that the VAT experience in Republic of Korea states that the adoption of VAT was a response to the complex problems arising from the indirect tax structure. One of the reasons for adopting the VAT was to simplify the indirect tax structure in Korea. This was expected to contribute' to reduction of price of

commodities in the domestic and exports markets. Similarly, on the advantages of VAT expecting to eliminate cascading effect of taxation, efficiency in resource allocation, to increase revenue for the government(although it was not primarily introduced to increase government revenue) being it a broad based and built in cross-checking mechanism, VAT was introduced in Korea in 1971,(Chang: 1988)

Due and Meyer examined VAT in Dominican Republic. The VAT in Dominican Republic was in effect since November 1983. However, the general reaction towards the tax was hostile from the business sector. Labor unions as well as political parties opposed the tax. Much of the complain rose from increased record keeping requirements because the commercial sector of economy was dominated by small and medium. Sized, business. The other main objection was due to the belief that VAT was responsible for increasing inflation. There was a general agreement that the enforcement of tax had not been adequate mainly because of the lack of skilled personnel in VAT. Evasion was wide spread, many firms failed to register. The overall, evaluation of the tax in the country, therefore, remains rather negative. While the tax has brought additional revenue, the inadequate enforcement and failure to extend it to the commercial sector as, planned, and the distorting system in the latter have resulted in serious failure to reap the full benefit of value added tax. The experience of the country with the tax provides a warning to other developing countries not to attempt to use a value added tax extending beyond the import and manufacturing sectors without careful consideration of the ability of the wholesale and retail sector to operate the tax, and general attitude of these sectors towards the tax. ("Dominican Republic Value Added Tax", Bulletin for the international Bureau of fiscal Documentation Vol.42, No. 1, Amsterdam: IBFD)

Ahmand and Ludlow identified the alternative tax reform packages on VAT for Pakistan keeping the distributional consequences in consideration. The authors have their own method for the tax reform analysis. In the first step, they describe the existing taxes and then, examined the consequences of the tax changes (and thus price changes) on households, resulting government revenue and also implications for production. They analyzed and compared the effects of different options such as the

single rate VAT with selective exercise and some exemptions and zero rating and multiple rate VAT, The reform with equal revenue and the reform with additional revenue as well as the production implications of tax reform are also considered. The work shows that instruments can be designed to increase revenue and at the same time, protect the poor. A value added tax supplemented with selective excises would have made Pakistan's tax system more buoyant and reduced the production distortions inherent in Pakistan's current tax system and not at the expense of the poor. ("Tax Reform packages on VAT for Pakistan", Institute of policy studies, working paper Vol. 20)

In an article on "The Value Added Tax and Developing Countries", **Carl S. Shoup (1998)** points out that A VAT is a tax on the value that a business firm adds to things it Buys from other firms in producing its own products. A VAT is comprehensive if it covers all the economic activities from the earlier stage of farming or mining right, through to the retail. The speed, with which the VAT has spread around the world, is unmatched by that of any other tax in the modern time. VAT reduces vertical integration because of its

Nature, which is taxed on the value added but not on turnover, VAT offers more revenue and coverage than other forms of sales tax. It exempts exports. Considering the problem of deduction of the capital goods, consumption type VAT is superior to other types. In calculation, tax-credit method is universal; VAT is more revenue productive, self-enforcing and if foods and basic necessities are to be zero-rated regressively may be reduced. On the other hand, it results into complexity in the case of compliance and administration or collection, inflationary in nature and more problematic in developing countries."(Research Observer, Vol.3, No 2, The world Bank, Washington D.C, 1998)

Khadka, (2051/54), his book is collection of different articles published in various newspapers and written "by Dr. Rup Bahadur Khadka during 2051/54. The main objective of this book is to bring public awareness regarding the implementation of VAT. It cites the examples of India, China and Bangladesh where VAT had been

already introduced. It has made an attempt to justify the rationale for introducing VAT in Nepal; The legal, procedural and structural aspects of VAT are also covered in the book. The success story of Singapore and the failure story of Ghana and implication to Nepal are delineated in the study (Khadka: 051/54).

Pandit, (2053), in this book *Kardata ko Guide*, Mr. Pandit gives glimpses of different forms of taxes and their provisions. He tries to make aware about the general terminology of VAT and its application in Nepal. He clearly defines every term of VAT that is associated with the VAT system and the procedure that the business community has to follow if it falls under the threshold (Pandit: 2053 BS).

Khadka, (1996), has developed his experience and knowledge achieved in the study tour in Germany into the small booklet named as "a report on the Germany Tax system study tour" in order to distribute its lessons and usefulness. This book covers all useful discussions held in Germany with policy makers and tax administrators as well as tax payers on various related topics. Besides, the study observes the tax administration, training center, tax rates, the existing tax system and the distribution of the collected revenue. In relation with VAT, the government of Germany includes VAT as a shared tax. In this category, the collected revenue from various tax systems is distributed among the different levels of the government. VAT is imposed on the value added at all stages of production, import and distribution. The revenue received from the VAT tax by the stage government is distributed on the basis of population. Furthermore, when data becomes available, a sound policy can be formulated and a tax system is made on the basis of the results of the introduction of VAT in Germany. When introducing VAT, the number of taxpayers will increase significantly and will be difficult to do all the work manually such as checking whether the tax payers have submitted the tax forms or not, paid the tax or not or whether the interest is paid or not. It is essential to introduce a computer system, which is suitable to the country even though the standardized system developed in other countries.

Dhakal, (1999), has published a book named. "Income Tax and House and Compound Tax Law and Practice with VAT". He had described the legal provision relating to VAT with numerical example. This book is very useful to know about, the legal provisions on VAT, He was fully based on the syllabus of BBS and. MBS prescribed by TU. His book was informative rather than analytical. He had not analyzed the role of VAT and the structure of VAT.

Thapa, (2001), has published an article named "Implementation of VAT in Nepal: An Evaluation" on book VAT: four years of Implementation. In his article he has stated, that VAT is a modern and scientific tax system. It is not similar to customs, excise duty, income tax or sales tax that has borne the traditions or historical heritage. It is not a tax that has been improved and. amended, and. accordingly inserted or-deleted. It is a tax of 21st century since it is highly developed and refined. It is a tax that suits the present speed of knowledge, development and skill. Moreover, it conforms to the present context of liberalization, privatization and globalization. It is easily adopted with the open economy system and matches with the private sector and the market economy of present day. It is a tax that is transparent and has an in-built system of self-control.

An article authored by **Khadka** (2001) entitled "VAT: The Concept, International Experience and Its Application in Nepal" states that VAT is a transparent tax system that is based on taxpayer's transaction. VAT is not only transparent in it but also demands transparency in other tax systems as well. Unless such an environment is created VAT cannot be implemented effectively. In order to implement this tax effectively the system of creating an artificial price for the purpose of customs duty and assessing the income tax on the basis of negotiation have been replaced by the provision to levy customs duty in actual transaction value and the acceptance of VAT accounts for the purpose of income tax. These have not only been accepted in principle and in legal terms but have also started being translated into practice to some extent. These issues might not have appeared feasible at the time of the implementation of VAT but have now been widely accepted and like any other accepted system it will, sooner or later, come into full and effective practice. Only

then, the fact that VAT is not only a good tax in itself but also helps improve the structure and operation process of other taxes, will be illustrated in our context.

In order to make VAT effective, it is essential to create an environment in which invoices are issued properly, accounts are maintained accurately, tax is based on transactions, there is acceptance of the taxpayer's correct accounts, and a fair competition among industrialists and businessmen is established with respect to tax. Until and unless such a situation is created, VAT implementation will not be easy and pressure will be created in some or other way. For example, a demand is being made by the industrialists, businessmen and professionals currently carrying out genuine transactions in the formal sector of the economy to make VAT effective. This is a golden aspect of VAT.

Roop Jyoti, (2002), VAT: Analysis and Suggestion, New Business Age, Feb 2002 issue contains this article by famous industrialist and intellectual personality called Dr. Roop Juoti. According to him VAT was introduced in Nepal in response to a realization that a fundamental change was necessary in the country's revenue policy. The business community was strongly against the VAT in the beginning but they gradually withdrew the opposition as they went on being clearer about the positive aspects of the VAT and also its simplicity. Government went through many negotiations with business communities before implementing VAT in the Kingdom on Nepal Tax payers were opposed to VAT not because of any defect in VAT as a system. Rather they were afraid of frequent contacts with revenue officials who were historically notorious for a behavior that exploited the tax payers. The success of the VAT is dependent on some prerequisites, such as

-) Acceptance of the correct invoices
-) Self-assessment of taxes
-) Refund of the tax amount in a speedy and simple manner when the conditions for a tax refund are met.

VAT is useful in the context of Nepal too because of these reasons.

-) Limited scope for revenue officials
-) Honest tax payers have practically no need to have contacts with tax officials
-) Due to the self-enforcing mechanism of VAT, the tax payers are forced to become honest.

According to him VAT system will fail not because of any defect in it but because of these reasons:

-) Inadequate and incorrect step taken to ensure billing and/or billing at the correct prices. » Failure to enforce VAT threshold in an effective way (Jyoti: 2002).

Adhikari, (2003), Value Added Tax in Nepal: Theory and Practice is written by Chandra Mani Adhikari which comprises of three chapters. The first chapter deals with theoretical concept of VAT which includes historical background, objectives, merit and demerit of VAT. The second chapter comprises Practice of Nepalese VAT which deals with introduction of VAT in Nepal, different terminologies associated with VAT, Tax administration system -and legal provision made for the VAT implementation in the Kingdom of Nepal The third chapter consists of different model question of TU on VAT, specimen of VAT related forms and Accounts and Value Added Tax rule 1997 and Value Added Tax Act 1995, (Adhikari: 2003).

Bhattarai and Koirala, (2005), have published a book named tax laws and tax planning. They had explained the legal provisions relating to Income Tax Act 2058 and Value Added Tax Act 2052 with illustrative examples. They have reviewed and emphasized important concept in boxes entitled note to remember and key terms are given at the end of the chapter. This book is very useful to know the idea of income Tax act 2058 and Value Added Tax 2052. It gives general ideas about tax planning.

2.11.3 Review of dissertation

Shartna, (1998), in his dissertation, found, the serious defect of present sales tax is very narrow tax base so the sales tax is not productive and elastic. Adoption of full

fledged VAT replacing the sales tax would largely broaden the tax base. In case of imported goods, tax base in VAT would increase about three folds of the present sales tax base. The implementation of VAT would make the tax system more productive and elastic removing the unfairness of the Nepalese tax system, increasing the competitiveness of Nepalese products, and removing the production distortions and other undue pressures on economic activities caused by the inherent defects of sales tax. Adoption of general type of VAT, covering the retail sales with certain exemption would increase the tax base mere than two folds. It means that VAT has very high revenue potentiality.

There are several issues in the applicability of VAT in Nepal the first and most important issue is the administrative issue. Lack of administrative capability is the greatest problem in implementing VAT in Nepal the second biggest problem for the applicability of a VAT is posed by country's undeveloped business structure, practice and distribution system. The third problem is the existence of small traders in large numbers. Other problems include existence of open boarder -and a large amount of unauthorized trade from India to Nepal, existing under valuation of imports, tax evading practice, wide spread corruption in tax administration, lack of cooperation between the government and private business sectors and so on.

Ghimire, (1998), in his dissertation explains great important for the effective implementation of VAT administration capacity in Nepal Organizational structure, audit and inspection system, reward and punishment, political intervention, selection of skilled and experienced manpower and needed to improve for effective implementation of VAT. VAT is that considered as a broad based tax potential advantages of it can attained fully if the tax is extended through retail level. For the period of time, he suggested to improve following aspects;

- i) Administrative power and credibility
- ii) Identification of tax payer
- iii) Registration

- iv) Educational programs
- v) Incentives for small trades

He also found some difficulties in implementation of VAT are:

- i) rate structure
- ii) small traders in large proportion
- iii) lack of accounting record
- iv) illiteracy and high compliance cost
- v) existence of open broader

Strong administration, educational program, registration program, existence training program, technical data base system, combination of various revenue offices, high level VAT implementation term, coordination of VAT department, close cooperation between government and private sector etc are essential prerequisites for the successful implementation of VAT in Nepal Forcing on the even increasing resource gap, inefficiency in sales tax and need of revenue for handling development works, VAT should be implemented in Nepal. (Chimera, 1998)

Bista, (1999), in his research has focused the need of VAT for Nepal for several reasons. They are defective revenue mobilization, Industrial development, strong administration, transparency and avoiding tax loopholes. The VAT helps to reduce the resource gap by broadening the tax base and mobilizing additional resource by controlling tax leakage, smuggling, unofficial trade and corruption through unproved accounting system and transparency. The following are the major findings of his study:

- The sales tax system failed to put light on several issues such as tax base, tax rate, tax administration, tax leakage, corruption control etc. So the tax system is needed reform.
- VAT is account and record based. It checks the tax loopholes like under valuation, unauthorized trade and non-recording. It discourages such issues existed in the sales tax system.

- VAT mobilizes the additional resources and the rest of internal resources by broadening tax base and by discouraging the existing tax loopholes.
- For implementation of VAT, the public awareness level relating VAT and VAT administration should be good and it is prerequisite in the preparation of VAT.

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

Dhakal, (2000) in his dissertation analyzed the Nepalese tax structure along with the potential revenue from VAT in Nepal. The increasing trend of the resources gap of Nepal is forcing the country to debt trap situation. Domestic resources mobilization through the properly designed tax system is the best way to uplift the situation. In this process, Nepal has adopted the destination based, consumption type VAT operated by the tax credit method. VAT encourages investment, supports economic growth and keeps price stable. Exemptions and zero rated VAT reduce the regressivity of VAT but it makes the administration complex.

The study found that VAT is unable to beat the sales tax as most of the sellers do not use invoices and reluctance of the consumers to have invoices after they buy the goods and or service. VAT is more attractive from theoretical and empirical aspects but has proved a hard nut to crack from practical aspect because of administrative problems.

Chowhan, (2003) presented a dissertation entitled "Value Added Tax and Its revenue Potential in Nepal" in his research he has tried to examine the revenue collected from VAT by the government of Nepal. He found that the collection of revenue from VAT is not efficient and VAT collection procedure is not becoming effective. He has suggested that the VAT administration should develop effective Checking system of Account of business.

Kandel (2004) wrote thesis namely "Tax System in Nepal". He pointed that VAT puts greater significance in revenue mobilization in Nepal because VAT is a most scientific

innovation and powerful tax system. It built qualitative application for both-developed and developing countries. VAT is main virtue for such economy. VAT is that revenue collecting instrument which has highly resource mobilization power. According to him, VAT is the best alternative to eliminate the existing inefficiency of tax system. He found VAT is the integrated form of tax, which leads to revenue enhancement and sustainable economic development. In Nepal, VAT is playing a pioneer role for internal resources Mobilization. The contribution of Value Added Tax (VAT) in GDP of Nepal is not satisfactory. The major problems exist in business sectors are iteration between business communities and government, account keeping system. VAT education in Nepal is poor. The taxpayers are still unknown about its threshold, exemption limit, and zero rates. There are a lot of tax leakages whole in Nepal.

He suggests that the government should pay attention of design the strong administration system, Comprehensive VAT education program should be launched by the government, Rules and regulation related VAT must be applied strictly, Open border should be effectively control to prevent the illegal trade, There should be close co-ordination between government and business sector.

Pathak (2004) has submitted a dissertation on "Implementation of VAT in Nepal". He pointed that VAT system has many challenges for successful implementation of VAT in Nepal like traditional according to system, consumer behavior, tax administrative structure etc. he found that the contribution of Value Added Tax (VAT) in GDP not satisfactory of Nepal. VAT education in Nepal is poor. The taxpayers are still unknown about its threshold, exemption limit, zero rates; there are more leakages in Nepal from indirect tax.

He suggests to the government for implement of VAT successfully in Nepal as government should pay attention its designed strategy with administration system. Comprehensive VAT education program should be launched by the government. Rules and regulation related VAT must be applied strictly. There should be close co-ordination between government and bit is needed to make awareness about VAT and-

other tax system for all consumers and to develop the curriculum from school level to college level

Thapa (2005), in his article "Value Added Tax in Nepalese context" concludes that, VAT is implemented in Nepal from Mansir-1, 2054 but it is not implemented yet proper rate and area, VAT rate was in initial period 10% but now increased to 13% from 1st Magh 2061, which increased is not favor of consumers. Further he pointed that government could not increased its area till now but government has increased the rate. It is not favorable for collecting more revenue.

Ail article entitled, "The Equity Impact of Value Added Tax in Bangladesh", by Shahbuddin M. Hussin in June 1995 wrote that the government of Bangladesh introduced VAT at the time of manufacturing import stage on July 1, 1991. The finding of the study suggest that among the different possible VAT scheme with some exemptions and additional exercises is likely to be more acceptable to the general public and policy makers than a uniform which is in contradiction with the Brazilian experience (Russian: 1995).

An article entitled " Tax System and its Reform in Nepal" written by Dr. Govinda Bd. Thapa, was published in the Business Age in December 2003 views that VAT as an important element of tax return program. Mr. Yadav Prasad Dhungana has scrutinized the legal aspects of VAT in "Value Added Tax and its Legal scrutiny" published in the same magazine. He concludes that as other areas of economy that are heavily influenced by political instability, corruption, bad governance,, frequent change in government and Maoist revolution; VAT also witnesses weak implementation owing to these hurdles (The Business Age: 2003).

In an article on "The Value Added Tax and Developing Countries" Carls S Shoup (1969), points out that "A VAT is a tax on the value that a business firm adds to things it buys

Shrestha, (2008), submitted a dissertation entitled "A study on Implementation Aspect of VAT in Nepal". In his research he has highlighted the problems of implementation

of VAT in Nepal. In his study he found different sorts of difficulties to implement VAT. The tax administration which took the responsibility of implementing VAT was not found free from the traditional mentality and attitude. He further mentioned that serious consideration was not given to the impact that smuggling from the long open borders with India and Tibet would have and no steps were taken to address this while implementing VAT in Nepal. He further suggested the VAT administrators to concentrate on accurate and compulsory invoicing at all stages including in retail sales level, effective steps must be taken for implementing the threshold.

Foreign trade association of Nepal (FTAN) has asked to implement multiple rates of value added tax (VAT). For this, the association has argued that the existing single rate VAT is encouraging smuggling. Multiple VAT that is in practice in other countries as well has helped reduce such anomalies.

Addressing the inaugural session of the 33rd AGM of the association, FTAN president Ashok Kumar Agrawal criticized the government's lack of attention to the report to this effect presented long ago by a task force.

In other suggestions to the government, Agrawal asked for arrangement to start using the Vishakha pattnam port for Nepal's international trade as the existing port at Kolkata is becoming very costly. (Business age April, 2010)

2.12 Research Gap

As to the research gap is concerned there are many changes taken place in the implementation of VAT. Many years have already been passed since it came into implementation but less study had undertaken on the topic of VAT in Nepalese context and most of the studies were related with theoretical aspects. So, this fresh study related to implementation aspect of VAT in Nepal, has been done in this research. The researcher has tried to analyze the existing problems which are facing by the government and problems faced by the business sectors. When I read the different types of book review, Journal, I does not found some things:

) Actual data are not given, the artificial data are given.

) Does not go to field to find out the actual revenue collection.

) The researcher does not go to tax office (VAT office) to find out the actual data.

Shrestha, (2008), submitted a dissertation entitled "A study on Implementation Aspect of VAT in Nepal". In his research he has highlighted the problems of implementation of VAT in Nepal. In his study he found different shorts of difficulties to implement VAT. The tax administration which took the responsibility of implementing VAT was not found free from the traditional mentality and attitude. He further mentioned that serious consideration was not given to the impact that smuggling from the long open borders with India and Tibet would have and no steps were taken to address this while implementing VAT in Nepal. He further suggested the VAT administrators to concentrate on accurate and compulsory invoicing at all stages including in retail sales level, effective steps must be taken for implementing the threshold.

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CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

Research Methodology is the combination of two words research and methodology. Research means a careful investigation or inquiry specially, through search for new facts in any branch of knowledge. It is systematic and organized effort to inquire about specific problems that need answer. Methodology is a systematic rules and procedures up on which research is based.

3.2 Research Design

Research design is the specification of method and procedures for acquiring the information needed. it deals with what information is to be collected from which sources and by what procedures. If research design is good, it ensures that the information obtained is relevant to the research questions and collected by objectives and economic procedures. To achieve the specific objectives of the study, descriptive and analytical research has been carried out in terms of implementation aspect of VAT in Nepal for an empirical investigation; an opinion survey has been conducted. The opinion of 70 respondents including 35 businessmen and 35 consumers have been collected for presentation and analysis of data.

3.3 Nature and Sources of Data

Data can be collected from primary sources and secondary sources. Data are collected in order to fulfill the objective of the study. Descriptive abstracts are taken from books, booklet, articles, news papers, magazine, reports etc.

The source of data can be divided into two parts:

3.3.1 Primary Sources

Primary data are those fresh and original data, which are collected and recorded by the investigator or researcher. Unpublished data from field by questionnaire, mail, direct visit etc are primary sources. The major tools used for collection of primary data are distribution of questionnaire to different groups of respondents. A set of 70 questions were developed and distributed to the respondents in order to make accurate and actualization.

3.3.2 Published data like articles, news, thesis, books are secondary data. The major sources of secondary data for the study are:

-) Published journals from Nepal Rastra Bank.
-) Published reports of IRD and its Web side (www.ird.gov.np)
-) Published documents of world Bank's reports, National planning commission and central bureau of statistic's report.
-) Published documents of Ministry of Finance like Budget speech, economy survey etc.
-) Other related data records like economic journal, business age, new business age, VAT Act 2052 & rules 2053, Kantipur daily, Kathmandu post, the Himalayan Time, The Rising Nepal, Gorkhapatra, website etc.

Data Collection Procedure

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

Data processing and Analysis procedure.

The information revived from primary and secondary sswrces are firstly tabulate into separate for male systematically in order to active the desived objectives. After that there data are tabulated and Analyzea. For the purpose of analysis generally simple stastical tools have been used which are simple percentage methods graphs, charts.

Statistical tools

i) Measurement of trend analysis

The time series shows that relation two variable one being the time. It helps in future forecasting and planning with helps of past and presented data and factor effecting them will make possible to forecast the future. Magnitude and indicated that comparison can be made between the behaviors of different time series.

Symbolically

Represented by

$$Y_C = a + bx$$

a = y intercept of value of y when $x = 0$

b = slope of the trend of amount of change that comes in year from a unit change in x

II) Measurement of χ^2 Ztest

The χ^2 Ztest shows that relation two variable success or unsuccess. It helps the Null Hypothesis will be selected.

Symbolically,

Represented by

$$\chi^2 = \sum \frac{(O - E)^2}{E}$$

$$E = \frac{EO}{n}$$

O = Observed frequency.

E = Expected Frequency.

HO (Null Hypothesis)! There are differences between observed frequency and expected frequency.

HI (Alternative Hypothesis) There are not difference between observed frequency and expected frequency.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

The main objective of this study is to examine the present practice of implementation scenario of VAT in Nepal. To achieve the stipulated objective, collected data are analyzed and interpreted. Collected primary and secondary data are analyzed with the help of statistical tools and techniques.

On the basis of primary data which related with field research, annual report of IRD, Economic survey of current year and the budget speech of current year, the researcher have tried to explore deeply the existing problem of VAT and its implementation. And the researcher has analyzed and diagnosed the collected data to come up the favors of conclusion.

4.1 implementation scenario of VAT in Nepal

In accordance with the policy of 8th plan, VAT came after the law of VAT Act 2052 and regulation 2053, it was implemented as the replacement of existing sales tax, hotel tax, contract tax and entertainment tax only but not as an others tax.

The most significant point of its implementation is to increasing the revenue and to develop the sustainable development of economy in Nepal. It can be seen and analysis the implementation scenario of VAT in Nepal as following.

4.1.1 Analysis of Secondary Data

Analysis of secondary data has been done in following heads:

4.1.1.1 Trend of VAT Revenue Collection

The trend of VAT revenue collection has been depicted by follow

Table 4.1: Trend of VAT Revenue collection

(Rs in thousands)

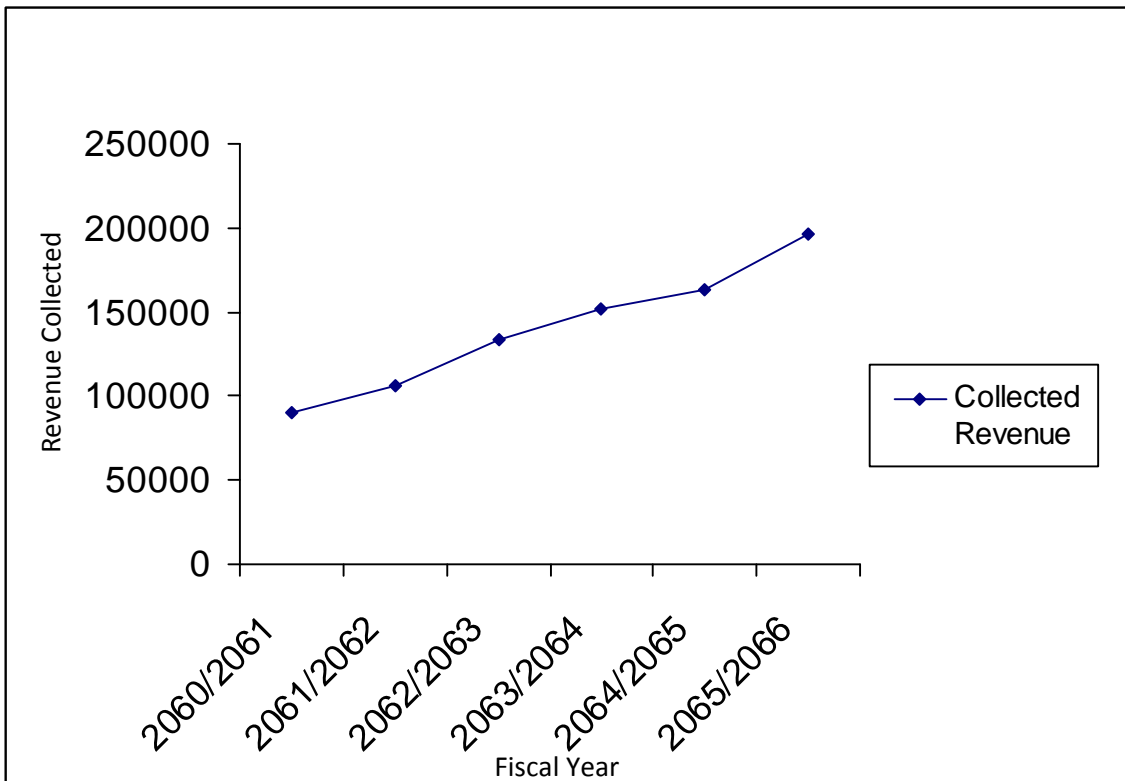
Fiscal year	Collected Revenue	Percentage
2060/2061	89618	10.66
2061/2062	106381	12.65
2062/2063	133063	15.82
2063/2064	151963	18.07
2064/2065	163008	19.38
2065/2066	196651	23.39

Source: Inland Revenue Department, Chitwan

The above table shows that the scenario of VAT revenue collection is gradually increasing. The increasing the fluctuating due to some obstacles on its implementation. In Fiscal year 2060/2061 the collected revenue was 89618 thousands and its increasing trend reached in 1996651 thousands up to F.Y 2065/2066. So the revenue collection from VAT is encouraging though the country has been suffering from economic regression, peace and security and affected with the globalization. Therefore, it can be concluded that the implementation aspect of VAT is satisfactory till now due to gradual increment trend revenue collection.

Collection of revenue through VAT can be shown by following trend

Figure 4.1: Trend of VAT Revenue Collection



4.1.1.2 Trend of Tax-Payers registration on VAT

The numbers of sales tax registrant's tax were converted into VAT from 16 Nov 1997. Those taxpayers, who do the taxable transaction of VAT above threshold, are required to compulsory register in VAT. But those customers, who having transaction below the threshold level, are not registrant compulsory. If they are interested they can go into VAT net. Following table can show this number of registrants.

Table No 4.2: Trend of taxpayer's registration on VAT

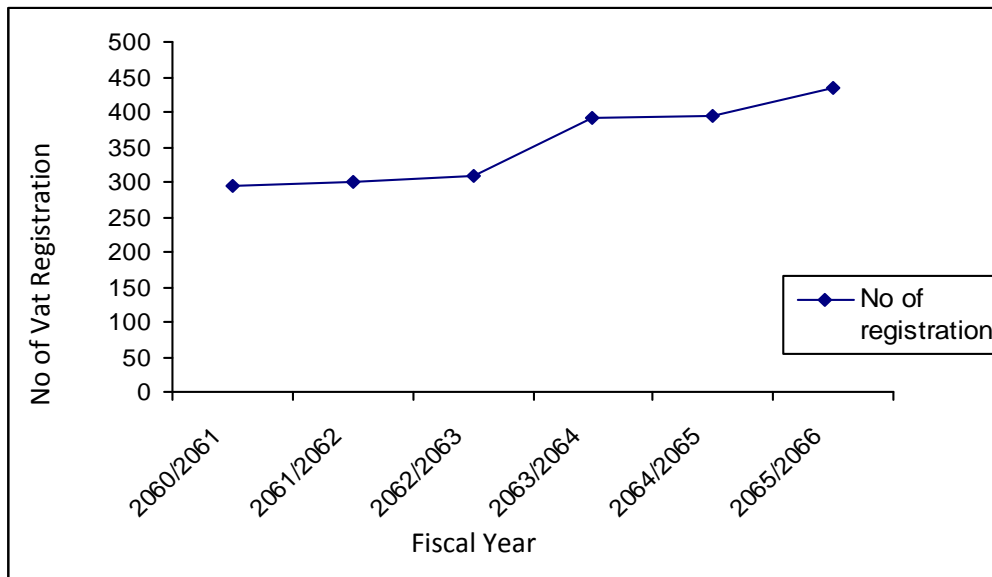
Fiscal year	No of registration	Percentages
2060/2061	295	13.89
2061/2062	301	14.17
2062/2063	308	14.5
2063/2064	391	18.41
2064/2065	395	18.6
2065/2066	433	20.39

Source: Inland Revenue Department, Chitwan

Above the table shows that the number of registered tax payers were less in the initial stage but the number has significantly increased in the all later years. It was only 1959 in the beginning year but now came out 450 in the Fiscal Year 2066/2067. Thus, the number of registrants on VAT is increasing trend. It indicates that the registrant's trend is going on good track and sound ward. Above table also show that the businessmen are interested to come into VAT net and problems are going to minimize. In every year for increasing registrants in future there should be improved in information technology and registrants in future there should be improved information and registration process.

It can be shown by following trend.

Figure 4.2: Trend of taxpayer's registration on VAT



4.1.1.3 Trend of Tax Returns

The taxpayers are required to file the tax returns of each tax period at the concerned tax office within 25 days of the next month. Only these registrants can apply who submitted their tax statement. These returns can classify F.Y into four heads: debit, credit, zero, and suspended. If the tax collected by taxpayers on sales is more than tax paid on purchase then excess amount should be submitted to the IRD, which is known as a debit returns. On the contrary, if sales are less than purchase then the taxpayers should get excess amount, which is called credit return. Sometimes, there are no sales or purchase transaction as such movement also the taxpayers should submit the file statement at the concerned tax office. Such tax return is known as zero returns. If the taxpayers has not been pointed in the taxpayers' accounts due to incorrect figures such return is known as suspended return.

For details, given in the following table

Table 4.3: Trend of Tax returns

Fiscal year	Total Registrants	Debit Note	Credit Note	Zero Note	Suspended
2061/2062	301	125	145	11	20
2062/2063	308	135	135	20	18
2063/2064	391	155	145	61	30
2064/2065	395	165	155	51	24
2065/2066	433	172	163	55	43
2066/2067	450	185	165	100

Source: Inland Revenue Department, Chitwan

In the above table it can be seen that the implementation scenario of VAT in Nepal is not satisfactory because most of tax returns should be debit note in general. In the above table among the total return, the credit and zero note returns are more which is higher than the global general standard. But no of registrants are increasing it is good. In another suspended returns are increasing which is not good for the national economy. So there may have so many problems on its implementation, yet while decreasing also. Therefore government should apply new strategy tools and techniques for its better implementation.

4.1.1.4 Revenue Collection Ratio through VAT

Increasing or decrease revenue depends upon its effective implementation. If it is fully implemented it can collected more revenue. Therefore, here is trying to show implementation scenario of revenue collection ratio through VAT i.e. internal and export collection ratio of last five years. This can be shown by following table.

Table 4.4: Revenue collection through VAT

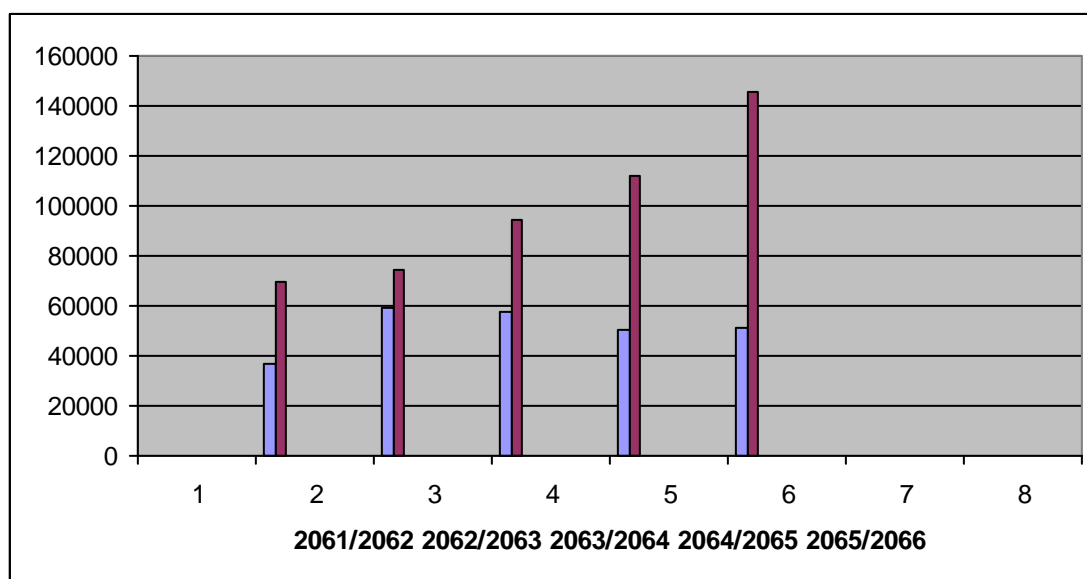
Fiscal year	Total VAT collected	Collected from internal	Collected from import	Ratio between Internal & import
2061/2062	106381	37150	69231	35:65
2062/2063	133063	58860	74203	45:55
2063/2064	151963	57455	94508	38:62
2064/2065	163008	50708	112300	32:68
2065/2066	196651	51421	145230	27:73

Source: Inland Revenue Department, Chitwan

Above table shows that revenue collection from import is golden than internal. Both ratio and revenue collection from import business is higher. So it can be concluded that Nepalese economic depends upon the import business, which is not well for the country. Therefore, the government needs to correct its implementation structure and should promote internal business environment as well as apply new strategy policy for its implementation.

Trend analysis of VAT collection ratio of last five years through internal & external collection source can be shown by figure.

Figure 4.3: Revenue collection ratio through VAT



4.1.2 Analysis of Primary Data

Primary data has been collected by putting forward questionnaires to respondents and analyzed and presented as follow.

4.1.2.1 Views on implementation aspect of VAT in Nepal

Table 4.5: Implementation aspect of VAT in Nepal

Respondents	Sound		Unsound		Medium		Total
	No	%	No	%	No	%	
Businessman	9	26	0	0	26	74	35
Consumer	3	9	3	9	29	82	35
Total	12	17	3	4	55	79	70

Source: Field study, 2010

From the above table it is clear that 74% businessman 82% and consumer agreed that implementation aspect of VAT in Nepal is medium. Similarly 9% consumer viewed it

is as unsound where as 26% businessman and 9% consumer expressed it as sound. In conclusion, we can say that the implementation aspect of VAT in Nepal is medium.

4.1.2.2 Views on the best way to increase base of VAT in Nepal

Table 4.6: Best way to increase the base of VAT

Responds	Reducing threshold		Including Service sector		Incorporating Agricultural Sectors		Other		Total
	No	%	No	%	No	%	No	%	
Businessman	22	63	10	26	3	11	0	0	35
Consumer	18	51	9	26	7	20	1	3	35
Total	40	57	19	27	10	14	1	2	70

Source: Field survey, 2010

On analysis of above table, 63% businessman and 51% consumer opined that reducing threshold is the best way to increase the base of VAT 26% of businessman and consumers are in favors of including service sectors whereas 11% businessman and 20% consumers are in favors of incorporating agricultural sectors. One of the respondents expressed that the base of VAT can be increased by educating consumers and businessman about VAT. Hence it is concluded that the base of VAT can be increase by reducing threshold.

4.1.2.3 Views on superiority of VAT over sales tax

Table 4.7: Views on superiority of VAT over sales tax

Responds	Yes		No		I don't know		Total
	No	%	No	%	No	%	
Businessman	35	100	0	0	0	0	35
Consumer	31	88	2	6	2	6	35
Total	66	94	2	3	2	3	70

Source: Field survey, 2010

The above table shows that all businessmen are in favor of VAT while 88% consumers supported VAT is superior to sales tax but 6% consumers are against this statement. In conclusion we can say that VAT is superior to sales tax.

4.1.2.4 Views on reason of problem in effective implementation of VAT in Nepal

Table 4.8: Problem in effective implementation of VAT in Nepal is due to

Response	Businessman		Consumer		Total	
	No	%	No	%	No	%
Administrative incapability	20	57	4	11	24	34
Under invoicing	10	29	24	68	34	49
Frequent change in Act/ Rules	0	0	2	6	2	3
Lack of public awareness	1	3	2	6	3	4
Lack of long term policy and strategy	1	3	1	3	2	3
Lack of knowledge and information to taxpayers about VAT	3	8	2	6	5	7
Others	0	0	0	0	0	0
Total	35	100	35	100	35	100

Source: Field survey, 2010

Above table shows that 57% businessman and 11% consumers viewed that administrative incapability is the main problem in effective implementation of VAT in Nepal where as 29% businessman and 68% consumers are in favor of under invoicing. Thus, businessman and consumers have different view regarding problem in effective implementation of VAT in Nepal.

4.1.2.5 Views on improvement & effective implementation of VAT in Nepal

Table 4.9: Suggestions for improvement and to make more effective implementation of VAT in Nepal

Response	Businessman		Consumer		Total	
	No	%	No	%	No	%
11	31	14	40	25	36	
3	9	3	9	6	9	
1	3	2	6	3	4	
5	14	3	9	8	11	
1	3	0	0	1	1	
5	14	1	3	6	9	
0	0	1	3	1	1	
6	17	6	17	12	17	
0	0	1	3	1	1	
Need of training program	2	6	3	9	5	8
Others	1	3	1	1	2	3
Total	100	35	35	100	35	100

Among 35 businessmen, 31% of them suggest that VAT can be improved and made more effective through strengthening and improving VAT administration, 17% of them suggest that VAT can be improved through improving auditing and 14% of them are in favor of developing information technology and political commitment. Majority 36% of the total respondents are in favors of strengthening and improving VAT administration. Among 35 consumers, majority (36%) suggested that VAT can be

improved and made more effective through strengthening and improving VAT administration.4.1.2.6 Views on awareness of price effect due to VAT

Table 4.10: Price rises due to VAT

Respondents	Yes		No		I don't know		Total
	No	%	No	%	No	%	
Businessman	0	0	35	100	0	0	35
Consumer	2	6	30	86	3	8	35
Total	2	3	65	93	3	4	70

Source: Field survey, 2010

Among 70 respondents, the total businessmen opined that price does not rise due to VAT where as only 86% of consumers are aware that price does not rise due to VAT.

4.1.2.7 Views on rate of VAT in Nepal

Table 4.11: Views on rate of VAT in Nepal

Respondents	Yes		No		I don't know		Total
	No	%	No	%	No	%	
Businessman	9	26	24	69	2	5	35
Consumer	10	29	15	43	10	28	35
Total	19	27	39	56	12	17	70

Source: Field survey, 2010

The above table shows that only 26% of businessman and 29% of consumers have positive view regarding the single VAT rate (13%) in all types of products where as 69% businessmen and 43% consumers are against the rate of VAT.

4.1.2.8 Views on effect of VAT in the Economic Development

Table 4.12: Views on effect of VAT in the Economic Development

Respondents	Positive		Negative		Moderate		Total
	No	%	No	%	No	%	
Businessman	28	80	0	0	7	20	35
Consumers	25	71	0	0	10	29	35
Total	53	76	0	0	17	24	70

Source: Field survey, 2010

Among 70 respondents, 80% businessman and 71% consumers expressed that the effect of VAT in the economic development is positive where as 20% businessmen and 29% consumers viewed it as moderate.

4.1.2.9 Views on attitudes of Tax-Payers on VAT Implementation

Table 4.13: Reasons for not showing positive attitudes towards VAT implementation by the tax payers

Response	Businessman		Consumers		Total	
	No	%	No	%	No	%
Lack of value added tax education	12	34	11	31	23	33
To hide transaction/tax	3	9	7	20	10	14
Increase the working capital	20	57	15	43	35	50
Others	0	0	2	6	2	3
Total	35	100	35	100	70	100

Source: Field survey, 2010

On the question, 57% businessman and 43% consumers expressed that tax payers are not showing positive attitudes towards VAT implementation to increase the working capital, 34% businessman and 31% consumers gave its reason as lack of value added tax education and 9% businessman and 20% consumers expressed their opinion on it as to hide transaction/ tax.

4.1.2.10 Views on VAT leakage in Nepal

Table 4.14: Existence of VAT leakage in Nepal

Respondents	Yes		No		I don't know		Total
	No	%	No	%	No	%	
Businessman	35	100	0	0	0	0	35
Consumers	35	100	0	0	0	0	35
Total	70	100	0	0	0	0	70

Source: Field survey, 2010

Total businessman and consumers expressed that there is VAT leakage in Nepal.

4.1.2.11 Views on taking bill on purchase

Table 4.15: Frequency of bill taking on purchase

Respondents	Businessman		Consumers		Total	
	No	%	No	%	No	%
Yes, on all purchase	1	3	4	12	5	7
Yes, on most of my purchase	16	46	6	17	22	31
Yes, but not regular	18	51	25	71	43	62

No, I don't get any bill	0	0	0	0	0	0
Total	35	100	35	100	70	100

Source: Field survey, 2010

Among 70 respondents, 51% businessman and 71% consumers used to take bill on purchase but not regular, 46% businessmen and 17% consumers used to take bill on most of their purchase and only 3% businessman and 12% consumers used to take bill on all purchase.

4.1.2.12 Views on purchase threshold limit

Table 4.16: Views on purchase threshold limit

Respondents	Low		Moderate		High		Very high		Total
	No	%	No	%	No	%	No	%	
Businessman	0	0	28	80	5	14	2	6	35
Consumer	3	9	25	71	5	14	2	6	35
Total	3	4	53	76	10	14	4	6	70

Source: Field survey, 2010

About the present limit for effective implementation of VAT in Nepal, 80% businessman and 71% consumer viewed it as moderate, each 14% businessman and consumers expressed it as high, each 6% businessman and consumers expressed it as very high and 9% consumers viewed it as low.

4.1.2.13 Views on role of billing system

Table 4.17: Views on role of billing system

Respondents	Yes		No		I don't know		Total
	No	%	No	%	No	%	
Businessman	35	100	0	0	0	0	35
Consumers	31	88	0	0	4	12	35
Total	66	94	0	0	4	6	70

Source: Field survey, 2010

Among 70 respondents, total businessman and 88% consumers expressed their view that billing system plays vital role in the implementation of VAT in Nepal.

4.1.2.14 Views on open border system

Table 4.18: Opinion on the boarder system as a main hindrance for the successful Implementation of VAT in Nepal

Respondents	Yes		No		I don't know		Total
	No	%	No	%	No	%	
Businessman	27	77	2	6	6	17	35
Consumers	22	63	5	14	8	23	35
Total	49	70	7	10	14	20	70

Source: field survey, 2010

Here 77% businessman and 63% consumers accepted that open boarder is a main hindrance for the successful implementation of VAT in Nepal where as 6% businessman and 14% consumers are against it.

4.1.2.15 Views on reason for need of VAT in Nepal

Table 4.19: Main reasons for need of VAT in Nepal

Respondents	Businessman		Consumers		Total	
	No	%	No	%	No	%
Effective revenue	3	9	3	9	6	9
Transparency	2	6	2	6	4	6
Avoid leakage	0	0	2	3	2	3
Increase tax base	0	0	2	3	2	3
All	30	85	26	73	56	79
I don't know	0	0	0	0	0	0
Others	0	0	0	0	0	0
Total	35	100	35	100	70	100

Source: field survey, 2010

Among 70 respondents, 85% businessman and 73% consumers expressed their view that VAT is needed in Nepal for effective revenue, transparency, to avoid leakage and increase tax base.

4.1.2.16 Views on problem in the process of collecting VAT in Nepal

Table 4.20: Views on problem in the process of collecting VAT in Nepal

Respondents	Businessman		Consumers		Total	
	No	%	No	%	No	%
Registration	2	6	2	6	4	6
Account keeping	3	9	4	11	7	10
Billing	27	77	24	69	51	73
Tax refunding	3	8	4	11	7	10
Others	0	0	1	1	1	1
Total	35	100	35	100	70	100

Source: Field survey, 2010

On this question 77% businessman and 69% consumers viewed billing system as problem in the process of collecting VAT. Similarly, 9% businessman and 11% consumers indicated account keeping, 8% businessman and 11% consumers argued on tax refunding and each 6% businessman and consumers viewed registration as the problem in the process of collecting VAT.

4.2 Major Finding of the study

4.2.1 General Finding

- ❖ Since calculated value is t^2 greater than tabulated value of t^2 . So H_0 (Null Hypothesis) is rejected. Hence we conclude that the observed data are not fitted with expected data. Thus we should choose the Alternative Hypothesis selected.

- ❖ The trend value of VAT Revenue Collection and No of VAT registration would be increase. The trend value would be decrease because variable cost per unit is negative. Thus the trend value would be decrease.
- ❖ VAT is most scientific, modern and new innovation in the field of taxation
- ❖ VAT has been most essential alternative of different tax reform programs for developing countries like Nepal. It leads to revenue enhancement, transparent and scientific tax system. There will be vital scopes for increasing the revenue from VAT in coming days.
- ❖ Most of the customers, traders/businessman are lacked with the concept of VAT. They are facing billing, accounting problem.
- ❖ Due to different reasons the operating of VAT is extremely geographical structure, open under boarder, traditional business system, and low public consciousness level, under valuation of pricing, corruption and accountability.
- ❖ VAT is more efficient tax avoid the cascading and pyramiding effects.

4.2.2 Finding from Secondary Data

-) The trend of revenue collection through VAT is gradually increasing except in the year 2060/2061. The revenue through VAT on F.Y2060/2061 was rs 89618 thousands which gradually increase to Rs 106381 thousands Fiscal Year 2063/2064.And VAT revenue is increase year by year.F.Y 2065/2066 collected is 196651 thousands.
-) The trend of tax payers registration is increasing year by year. The VAT registrants in F.Y 2060/2061 were 295 and the figure has continuously increased to 433 in F.Y 2065/2066.

- J The trend of tax return is not satisfactory because of tax returns should be debit note in general. But in Nepal, credit note registrants are greater than debit note registrants.
- J The revenue collection from internal source and import is in increasing trend. On comparison, the revenue collection from import is very much higher than from internal source. So it can be concluded that Nepalese economic is depending upon import business, which is not well for the country. Therefore, the government needs to correct its implementation structure and should promote internal business environment as well as apply new strategy policy for its implementation.

4.2.3 Findings from the primary Data

- J The opinion survey shows that the implementation aspect of VAT in Nepal is medium. Among 70 respondents, majority (74% businessmen and 82% consumers) argued that implementation aspect of VAT in Nepal is Medium.
- J According to survey, the base of VAT can be increased by reducing the threshold. 63% businessmen and 51% consumers opined that reducing threshold is the best way to increase the base of VAT. 26% of businessmen and consumers are in favor of including service sectors where as 11% businessmen and 20% consumers are in favor of incorporating agricultural sectors.
- J Most of the respondents are in favor on the view of superiority of VAT to sales tax. All businessmen are in favor of VAT while 88% consumers supported that VAT is superior to sales tax but 6% consumers are against the superiority of VAT over sales tax.
- J The VAT implementation process is not satisfactory in Nepal. Opinion survey shows that the main problems in the effective implementation is administrative incapability and under invoicing. Opinion survey shows that 57% businessmen and 11% consumers viewed that administrative incapability is the main

problem in effective implementation of VAT in Nepal where as 29% businessmen and 68% consumers are in favor of under invoicing. Thus, businessmen and consumers have different view regarding problem in effective implementation of VAT in Nepal

) From the study it had been found that VAT can be effectively implemented through strengthening and improving out of the total respondents (31% businessmen & 36% consumers) suggested that VAT can be improved and made more effective through strengthening and improving VAT administration.

) Opinion survey shows shows that single rate of VAT is not acceptable. 26 % of businessmen and 29% of consumers have positive view regarding the single VAT rate (13%) in all types of products where as 69% businessmen and 43% consumers are against the single rate of VAT.

) VAT has positive effective on the economic development of country. Among 70% respondents, 80% businessmen and 71% consumers expressed that the effect of VAT in economic development is positive where as 20% businessmen and 29% consumers viewed it as moderate.

) Tax payers are not showing positive attitude towards VAT implantation. The given reasons are not to increase working capital, due to lack of VAT education and to hide tax and transaction. Out of the total respondents, 57% businessmen and 43% consumers expressed that tax payers are not showing positive attitudes toward Vat implementation to increase the working capital, 34% businessmen and 31% consumers give its reason as lack of value added tax education and 9% businessmen and 20% consumers expressed their opinion on it as to hide transaction /tax.

) There is VAT leakage in Nepal. Total business men and consumers that there is VAT leakage in Nepal

-) Most of the businessmen and consumers take bills on purchase but not regular.
-) Among 70 respondents, 51% businessmen and 71% consumers used to take bill on purchase but not regular, 46% businessmen and 17% consumers used to take bill on most of their purchase and only 3% businessmen and 12% consumers used to take bill on all purchase
-) The present threshold limit is moderate for the effective implementation of VAT. 80% businessmen and 71% consumers viewed it as moderate, each 14% businessmen and consumers expressed it as high, each 6% businessmen and consumers expressed it as very high and 9% consumers viewed it as low.
-) Billing system plays vital role in the effective implementation of VAT in Nepal. Among 70 respondents, total businessmen and 88% consumers expressed their view that billing system plays vital role in the implementation of VAT in Nepal.
-) Open boarder is a main hindrance for the successful implementation of VAT in Nepal. 77% businessmen and 63% consumers accepted that open boarder is a main hindrance for the successful implementation of VAT in Nepal where as 6% businessmen and 14% consumers are against it.
-) Effective revenue, transparency, to avoid leakage and increase tax base are main reasons for which VAT is needed in Nepal. Among 70 respondents, 85% businessmen and 73% consumers expressed this view.
-) Finally billing system has been found as the main problem in the process of collecting VAT in Nepal. 77% businessmen and 69% consumers viewed billing system as problem in the process of collecting VAT. Similarly, 9% businessmen and 11% consumers indicated account keeping, 8% businessmen and 11% consumers argued on tax refunding and each 6% businessmen and consumers viewed registration as the problem in the process of collecting VAT.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

VAT is the most recent innovation in the field of taxation. VAT was introduced first in the World by Dr. Wishlom V. Simens in 1919 in German. That, it was introduced in France in 1994. Then after, it has been spread all over the world with in a short span of time. It became effective in Nepal since 16th November, 1997.

Nepal has adopted a consumption type, tax credit method, Principle of destination with international standard, provision of exemption and zero rate goods and service, tax refund facility with single rate (currently 13%) of VAT.

VAT is modified and improved from of sales tax. It is and indirect tax and new tax system. It is a scientific taxing system. It is a progressive and best source of collection revenue on taxation in Nepal. VAT is levied on value added goods and services at each stage in the process of production and distribution chain. VAT is one of the most important tools, element and component of indirect tax.

It is broad base tax system. The government of Nepal has been charging 13% VAT rate at present. The level of threshold of is Rs 20 Thousand. That means, only the business having turnover exceeding the stipulated limit has to be registered compulsory, but less than the limit can also get registered voluntarily.

Around ten years have already been passed since VAT has come into implementation in Nepal but it has not brought satisfactory result. There where a lot of problems when VAT was implemented. Among those problems some were reduced and some of then are exist up to now. The existing problems of government and problems faced by the business sector are still hindrance for the successful implementation of VAT in Nepal. Due to lack of proper billing, scientific data resources, transparency, unsupportive behavior by business sector, knowledge about VAT of consumer, investigation trained

and skilled manpower, information of network and soon make unable to implement VAT effective in Nepal.

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

In fact, the implementation of VAT was not easy in the initial says. It was a matter of great debate. Even after the passage of the law, there were a lot of constraints and difficulties in introducing and implementation of VAT in Nepal. A large number of traders and business communities were against VAT. The first 2 years of VAT implementation were varying turbulent. The FNCCI, NCC and their affiliated agencies were in the front line of opposition. Despite all this, VAT was introduced and survived because of the efforts of a small group of extremely making VAT successful one day. VAT is currently well receipted by the consumers as well as business and industrial communities of Nepal. For this is account based tax that lead to transparency and accountability both on the part of tax payers and tax collectors. Despite the strong opposition to VAT from the business community, the number of VAT registrants has been increasing gradually. year by year in the span of last nine years.

VAT, a premier indirect tax of Nepal's tax structure, is composed to two components, domestic and imports. Almost two thirds of VAT revenue is generated from imports. However both the domestic and imports VAT are likely to have the equal share in the total VAT in the near future. Domestic VAT revenue future consists of production, distribution and services sectors.

The present VAT administration may be assimilated into two functional needs, Department and VAT offices. The VAT department and field offices under this department are responsible for administering VAT. The organizational structure of the VAT administration is based on functional line. Large tax payer, tax refund, tax

payers services, tax audit and investigation, internal monitoring, collection and registration are important section of VAT department and divided into four categories depending upon their work load.

In the empirical study, the analysis has been done about VAT on the basis of information collected from tax experts, the officers and business/traders. The tools that is basically used is the questionnaire. The questions were asked to 200 different respondents related filed. Out of total respondents, 10 are tax experts, 30 are tax officers, 60 are businessmen and remaining 100 are consumers.

5.2 Conclusion

Being better economic developed country is the objective of every country of this world. To meet the object it is essential to have sufficient revenue generation. Generally tax revenue plays the great role for development of nation's economy. Tax revenue consists of direct tax and indirect tax. Value added tax (VAT) is a type of indirect tax. It is the most recent innovation in the field of the taxation. It is levied on the value added of the goods and the services. It is theoretically, the tax is broad based as it covers the value added to each commodity by a firm during all stages of production and distribution. Value added Tax (VAT) is tax based on goods and services. This tax is levied on the sale, exchange, transfer, import etc. of all goods and services apart from those specified by the law as tax-exempt. VAT is most scientific, modern and new innovation in the field to taxation. VAT has been most essential alternative of different tax reform programs for developing countries like Nepal. It leads to revenue enhancement, transparent and scientific tax system. There will be vital scopes for increasing the revenue from VAT in coming days. Most of the customers, traders/ businessmen are lacked with the concept of VAT. They are facing billing, accounting problems. Due to different reasons the operating of VAT is extremely geographical structure, open border, traditional business system, and low public consciousness level, under valuation of pricing, corruption and accountability. VAT is more efficient tax to avoid the cascading and pyramiding effect. On reviewing registration trend, people are being more conscious toward the advantages of

registering in VAT and the implementation scenario of VAT is going on sound wards. The revenue collection from import is very much higher than from internal source.

It is needless to say that tax is the most important sources of the government revenue in which the indirect tax has occupied two third place of total tax revenue. At present, the role of custom duty is gradually decreasing and its place is only one third of the total tax revenue, through during 1960s. It has occupied about 50 percent place. The major reasons behind this, Nepal has reduced its important tariff in line with liberal economic policies adopted sine 1992/93 in line with the customs duties reforms taking place around the world in general and in particular to India.

After the implementation of VAT system in 1999, contract tax, hotel tax, sales tax, and entertainment taxes have been replaced by it. Looking at the contribution of these replaced tax revenue and gross domestic product, the contribution was generally increasing before, the implementation (mainly VAT) is again being increased.

The conducted field survey shows that there will be improvement in revenue mobilization due to VAT system. The reasons behind this claim are that theoretically VAT system is transparent, it broadens the tax base and discourages tax evasion. According to the survey, the main problems for business houses are account keeping and billing and the weaknesses of VAT administration are lack of motivation and service minded attitude among tax officials, lack of honesty in VAT officers. The view of most of the respondents is that the VAT system has positive effect in nation's economic growth.

Nepal is landlocked country and there is open boarder with India and India has not adopted fully VAT system. While brings serious problems in foreign trade with third countries. Small retailers who are scattered from Terai to Himlayan are illiterate and it brings them problems to maintain proper records. Which needs proper administrative efforts for successful VAT. It is found to be the best alternative for reducing such problems mentioned above self-policing features of VAT discourage

them who are in the activities of tax evasion and avoidance. On the other hand VAT facilities for income tax assessment and helps to collect more revenue from income tax also rise in more revenue helps to improve accurate deficits in budget and dependency of the economy on foreign loan.

VAT itself not more revenue generator. It needs more administration efforts. The planning, braiding and corruption is widely spreading in political as well as administrations. People are less conscious and can not play decisive role whether to implement VAT or not. Taxpayers have not expressed theoretically concept of VAT. It is necessary to convince the taxpayers with its advantages. Education programs for taxpayers as well as general public are required to aware them about it, which helps to bring more, tax payers in the tax net. The such, decision in implementation before its proper management has poor result and visualized that the VAT is effectively implemented in Nepalese context.

5.3 Recommendation

Despite various controversies in the introduction of VAT, The government has been able to enforce a broad based value added tax. There are still so many obstacles to implement it successfully. On the basis of the research study, the implementation aspect of VAT in Nepal is progressive though it has not achieved its objective as intended. So there are still so many problems which are facing by the government and business sector to implement VAT successfully. On the basis of major findings and conclusion, following recommendation have been made for reformation of VAT:

-) Billing system plays vital role in implementation of VAT in Nepal. So efforts should be made for actual billing system by adopting following measures:
-) Conduct monitoring and follow up of the market to check whether or not invoices are being issued properly as stipulate in the Act and regulation.
-) Expanding audit and investigation.

-) Government of Nepal should launch consumer education campaign regarding the importance of issuing and receiving invoices.
-) There should be made billing software and entered in computer, there by tax payers would not be able to delete the transaction file.
-) Government should create an environment of strong and full political commitment
-) for successful implementation of VAT.
-) Open boarder is also a main hindrance for a successful implantation of VAT. So, it should effectively be controlled to prevent the illegal trade and checking should be in practiced.
-) The VAT administration training centre should be made well with modern net of VAT.
-) The Tax refund procedure should be simplified and provide in time.
-) The training should be given to the registered businessmen in order to make them able to maintain the books records and accounts as per the legal provisions.
-) The VAT should be implemented to make the corporate sector transparent.
-) The current fine and penalty is strong to keep its same.
-) Training program must be provided to tax officers to develop skilled manpower and improve administration with current information technology.
-) The existing threshold limit is high for considering registration. So it should be reduced to submit the potential registrants tax payer with VAT net.
-) There are large number of exempted goods and services. So it should be reduced.
-) VAT system of Nepal is not standing on real ground. It is challenges to create the environment in which tax system. So it should be stand on real ground.

-) There must be the management of reward and punishment who may be either it may be employee of tax payee who pay tax sincerely, they must be rewarded otherwise they must be strongly fined.
-) The IRD should conduct regular seminars, meetings and interaction with good co-ordination business sector to create position attitudes toward VAT.
-) It should, make the provision of temporary registration of the transaction
-) Concerning fair, circus shows and tax refund to the tourist.
-) There is contradiction for current

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APPENDIX - I

Questionnaire

Dear Sir/Madam,

I am doing my Research on "Implementation VAT in Nepal" in partial fulfillment of the requirement for Master of Business Studies from associate college of Tribhuban University. In this regards I have prepared a Questionnaire to seek the views. I shall be defiantly obtained for your prompt and responsible response.

Respondents

Name:

Position:

Institution:

1. What do you think about the implementation aspect of VAT in Nepal?
 - a) Sound
 - b) Unsound
 - c) Medium
2. What can be the best way to increase the base of VAT in Nepal?
 - a) Reducing threshold
 - b) Including service sector
 - c) In comporting agriculture sector
 - d) Other
3. Do you think that the VAT is superior to Sales Tax?
 - a) Yes
 - b) No
 - c) I don't know

APPENDIX - II

List of VAT exempted goods and services

1. Basic agriculture product

- a) Paddy, rice, wheat, maize, barley, millet, pulses, flour and similar unprocessed food materials.
- b) Green and fresh vegetable, fresh eggs, fresh fruits and similar products (except used in hotels, restaurant, bar, guest house and other similar organization).
- c) Unprocessed cereals (such as sugarcane, tea, leaf, tobacco, cotton).
- d) Herbs.

2. Goods of basic needs

- a) Unprocessed edible oil
- b) Piped water including water supplied by tanker.
- c) Fuel wood and coal.
- d) Kerosene.
- e) Salt.

3. Live animals and animal product

- a) Goat, sheep, yak, buffalo, pigs, rabbit and similar other animals, their fresh milk and uncooked or unprocessed varieties.
- b) Ducks, hens cocks, turkey and similar other birds and other fresh meat.
- c) Fresh and dried fish.

4. Agriculture input

- a) Seed of any plants listed in group 1.
- b) Manure, fertilizer and soil conditioners.
- c) Agriculture hand implements.
- d) Pesticides made mainly for use of crops.
- e) Agriculture equipments including tractor.

f) Bird and animal feed.

5. Medicine, medical and similar health service

a) Medical or surgical service provided by government institutions.

b) Human blood and product derived from human blood.

c) Supply of goods made for and suitable only for the use of disabled persons.

d) X-ray film and oxygen gas to be used for treatment.

APPENDEX - III

Let the χ^2 Ztest is represented by.

Null hypothesis: The observed data are fitted the expected Data.

Alternative hypothesis: The observed Data are not fitted with the expected data.

Test of statistics (Under HO)

$$\chi^2 = \sum \frac{(O - E)^2}{E}$$

Where, $E = \frac{EO}{n} = \frac{2123}{6} = 353.8333$

Calculation of χ^2 Ztest

<u>O</u>	<u>E</u>	<u>(O-E)</u>	<u>(O-E)²</u>	<u>$\frac{(O - E)^2}{E}$</u>
295	354	-59	3481	9.8
301	354	-53	2809	7.9
308	354	-46	2116	5.9
391	354	37	1369	3.8
395	354	41	1681	4.7
433	354	79	6241	17.6
				49.7

Level of significance $\alpha = 0.05$

Degree of freedom $n - 1 = 6 - 1 = 5$

Critical value 5% for 5df = 11.07

Decision: since calculated value is χ^2 greater than tabulated value of χ^2 . So H_0 is rejected. Hence we conclude that the observed data are not fitted with expected data.

II) From the trend value:

$$x = -3 \quad Y_c = 140114 + (-3072) \times -3 = 149330$$

$$x = -2 \quad Y_c = 140114 + (-3072) \times -2 = 146258$$

$$x = -1 \quad Y_c = 140114 + (-3072) \times -1 = 143186$$

$$x = 0 \quad Y_c = 140114 + (-3072) \times 0 = 140114$$

$$x = 1 \quad Y_c = 140114 + (-3072) \times 1 = 137042$$

$$x = 2 \quad Y_c = 140114 + (-3072 \times 2) = 133970$$