

CHAPTER I

INTRODUCTION

1.1: Background of the Study

Today, the government has to spend a lot of money to fulfill the responsibility towards the public. The matter of responsibility may be in the field of development, health, education etc. The trend of government expenditure is becoming high as compare to previous few sessions. To meet the demanded public expenditure, the government has to manage its funds from internal as well as from external sources. Developing countries does have the negative experience and impact from external sources mainly. Nobody becomes ready to provide grants and loan without attaching conditions therewith on the other hands. Thus, it is better to mobilize internal sources rather than external sources.

With the beginning of the 21st century, the new millennium economic development has been aroused as one of the formidable challenges for the developing countries like Nepal. These types of countries are in direct need of funds to initiate development projects for national Integration. The nation will be able to achieve maximum social welfare, if it has sufficient financial resources. In this context, a government needs to mobilize a lot of internal resources to fulfill its responsibility towards its nation and people.

Being a developing country, the role of government of Nepal is still vital to build up infrastructure, to provide social service and to alleviate vigorous poverty. In this perspective, government needs to expand the expenses for various sector of the country. Mostly the government sources base on the Foreign aid and assistance.

At the existing context Nepal is facing the deficit budget .The major cause of persisting fiscal deficit is inadequate mobilization of resources. Besides this, the poor and defective structure of taxation priestly defines the variation between income and expenditure. Same proportion of Income is generalized by low GDP revenue ratio. (Khadaka, 2000)

Taxation has become one of important sources of resources mobilization to meet the financial requirement of the government. The tax system should be helpful in income redistribution ,to combat inflation, alleviate poverty, reduce the gap between rich and

poor, narrow the national economy, mobilize the domestic resources and save the domestic economy.

The direction and tax reform structure in developing countries established that, among other things, the value added tax (VAT) is the most important choice and ingredient. Since, the VAT is one of the component of indirect taxes developed in the past, is probably the best tax system that had never been at the top of the tax system. VAT may be adopted by developing countries with no extra difficulties. It's an important instrument for mobilization of internal resources, and this leads to decrease the pressure in overall economic activities. Since VAT is an indirect tax, no one can deny it because of its illusiveness and tax payer's direct burden can be optimized. Indirect tax is a major source of the tax revenue in Nepal .It covers about 80% of tax revenue. The custom duty and excise duty as a kind of narrow based sales tax. Custom duty is followed by sales tax (now it is called VAT). The tax reform and adoption of VAT is, therefore, essentially connected with the efforts of many underdeveloped countries to achieve the persisting economic growth.

VAT is recent and an important innovation in the field of modern taxation system. It is the popular tool of collection of revenue of the government.VAT is the modified structure of the previous sales tax, Because of cascading and vertical integration problem of sales tax, economist has thought about new concept of Dr.wilhem von Siemens in France, first developed the concept of VAT 1919A.D.(Khadaka, 1989)

VAT is the most important innovation of the second half of the 20th century .It is a scientific tax system, which was first introduced in 1954 A.D. in France .It has been spreading all over the 1960's and now this tax has become one of the ministry's of the tax system in over 140 countries. In Nepal VAT has come into consideration to replace of old indirect taxes for this purpose, a mission was established in Bhadra 2050 for study, suggestion and implementation process about VAT, but the process of VAT could start since 2052, onwards only when the parliament passes VAT ACT and declared its enactment from Mangsir, 2054.(Khadka, 1989)

VAT is the popular tool of collection of revenue of the government .VAT is the supplementary of sales tax, entertainment tax, contract tax and hotel tax. Each step of goods and the services are levied to tax on its added value .It is the tax imposed on value added by business firms on goods and services at the successive stage of production and

distribution, VAT is the transparency tax system that is based on the tax payer's transition. VAT is not only transparent in it but also demands transparency in other tax system as well. VAT is the youngest member of the sales tax family, which is on broad based. Since the base of the VAT is extensive, under this scheme more revenue can be collected through lower rates .The effective implementation of this tax can help in reducing the rates of custom duties and income tax along with reducing smuggling of imported goods and hence improves that balance of payments, reduces the unintended distortions, services horizontal equity in a greater degree and makes the tax system, simple and natural. In similar manner, VAT has many provisions to correct it's regressive.

To conclude, VAT has been the most essential choice for the most developing countries as an ingredient of their tax reforms because, it is the most improved form of sales tax, which leads to revenue enhancement and economic efficiency. It is an important instrument for the mobilization of internal resources. There is tremendous scope for increasing the revenue from VAT. The implementations of VAT will obviously increase its contribution in coming days. The tax reform with adoption of VAT is, therefore, essentially connected with the efforts of many underdeveloped countries as one of the major elements of tax revenue to achieve the goal of country's economic development. (Khadka, 2002)

1.2: Statement of the Problem

Economic development is considered as basic need for welfare to fulfill the aspiration of its people. Nepal as a developing country facing growth challenges to the life standards of its 39% of citizens living below the poverty line. In such a parameter, the problem of resources gap and dependency of foreign aid and loan comes to the attention. The widening resource gaps such as revenue expenditure, saving investments, and import-export further affected the level of macro-economic stability of the country. To reform the existing tax system the government has to make a plan to adopt the VAT as the services base taxes. The actual implementation of VAT in Nepal was scheduled to begin from 16th November 1997. According to economic survey of Nepal, the tax revenue share 80% while non- tax revenue 20% as a whole. The percentage of VAT on total tax revenue is nearly 30% to 34% (IRD report, 2069/070).

However, there is one certain limitation in reforming the VAT in Nepal. The scope of direct tax is rather limited because of the low income of the people. There is also low revenue due to the existence and dominance of the income from illegal business and lack of basic accounting in various economic activities, further the direct tax is very difficult to collect effectively because of very low administration expertise resulting in the large scale tax evasion on the other hand, the rates of direct tax are also gradually lowered. Government is lowering import tariff because of its trade liberalization policy. In such situation, the only revenue raising device may be the taxes on internal transaction of goods and services. It is, thus, there is a strong need of reforming existing taxes on internal commodity transaction. So an additional volume of resources could be mobilized effectively.

After the liberalization and adopting open economic system in the country, a large number of traders, and consumers have appeared at the market, after introducing the VAT system in Nepal. The government suggested the seller to issue bills on each sale of goods or services to consumers. However some traders are misusing this billing system and embossing of tax along times. They are not issuing the bills at sales or if the bills are issued, they issued fake bills. Economy is the back bone of nation on development field, without having strong economy, we can't imagine the development of nation. A clear and suitable policy must develop and introduce by the government, after partial implementation of VAT to full implementation, the government is playing a dual policy. For the successful implementation of VAT, The environment of favorable understanding between the government and the taxpayers is must, but till now they are opposite pole, which is the main barrier to implement, VAT successfully.

The main important positive point of VAT is to provide reliability to tax payer about tax refund. The beauty of VAT is tax credit and refund. Which the tax credit is an adjustment, refund is a tax outflow.

In order to ease the refund process, two strategies were adopted, for regular exporters; a refund verification mechanism was introduced where by VAT would be refunded in 30 working days prevailed. But the implementation on tax refund is not so easy. The gap between revenue estimated and collection are widening each year since introduce of VAT. Government seems fail to achieve the target prefixed in all years. Economist

believes that the estimated amount could be collected after introduce of VAT but gap between estimated and actual collections are in increasing trend.

The implementation of VAT in Nepal completed 18 years only. VAT is systematic and modern tax system and need qualified and enough number of trained administrations. Effective administration is the basic requirement for the successful implementation of VAT but it has been lacked with trained administrative personnel. VAT has not been successful implemented due to the weak administration and untrained manpower. Gazette and trained manpower is not enough as need for effective tax administration. ¹Danida VAT project in its progress report has underlined that implementation of VAT in Nepal depends on very few persons.

Nepal and India has open boarder system. Open boarder creates many problems such as corruption, unauthorized trade, political instability etc. It is also claimed that only little amounts of goods from India import through customs. There are difference forms of illegal imports i.e. hiding, under invoicing, manual supply etc. Goods imported illegally are sold through taxable channel. The goods that are taken through illegal way may be marketed through small exempted shops or through registered traders without misusing invoice, which can develop black economy and corruption. So, out of many problems open boarder is also main problem.

The government at first applied VAT without any formal public agreement hoping positive result. But various problems have been appeared on the process of implementation of VAT. Almost all people, customer, industry owners and traders have not got required important information, as a result the outcome of implementation and experimentation of VAT will not be prosperous as it was expected earlier. Its problematic issue on the other hand, is the unawareness of public for the related mended for VAT policy and performance. AS a result whatever the government had targeted is not fulfilled. The majority of people knowingly or unknowingly opposing it, few members of people who have knowledge about VAT, have accepted it. This is major issue in the implementation of VAT to approach on its targeted aim (Laudari, 2001)

It is necessary to reform all above prevailing problem in the implementation of VAT and Government should make almost all the people aware and well informed about it.

¹ DANIDA-- Danish International Development Agency

However Government is trying to earn best support from private sector to make this system more transparent. It is pervasive problem to research historical background and evolution of VAT implementation. Similarly, it is big problem to take the alternative way of sales tax. Below raised issues is the center of this study.

- a. Is the tax office facing difficulties to implement VAT Act and rules effectively?
- b. What is the level of knowledge on concerned parties about VAT and its impact on them?
- c. What are the problem and obstacles in the implementation of VAT in society?
- d. What are suggestions measures for effective implementation reflected by society?

1.3: Objectives of the Study

The general objective of the study is to examine issues pertinent to VAT in Nepal and suggest the useful alternative solution to the wide range of problems. The major objectives of the study are:

- a. To assesses and analyze the challenges for implementation of the VAT in Nepal.
- b. To analyze the problems faced by the Government to collect vat.
- c. To conduct an empirical investigation regarding to effectiveness and problems of VAT in Nepal.
- d. To provide some suggestions for the implementation of the VAT.

Few past years have been backed by introducing VAT system in Nepal but still few people are able to understand the core matter of it, general public are unaware the centre fact of VAT system prevailing in NEPAL. VAT being itself a complicated and modern tax system more efforts should be made on actual circumstances. Theoretical and practical knowledge are required to implement VAT properly .So, this study analyzes the current problems of VAT, implementing parameter and its effectiveness in Nepalese scenario. The study priestly benefited to the businessmen, policy makers, consumers and other related groups. It will also provide a clear idea and knowledge to those persons who are interested about VAT system. Likewise, it will be valuable reference to the further researchers, who wants to carry on future research in this field.

1.4: Importance of the Study

VAT can play an important role in the process of development. Developing countries like Nepal need higher revenue to fulfill various responsibilities. VAT provides various financial needs, if it is properly implemented. More revenue is possible through VAT by broadening the tax base, introducing new area, reducing tax evasion through good management. For the successful implementation of VAT co-ordination between government and business community is must, but experience shows that government department are not responsible and business are against VAT system in Nepal.

VAT is the newest form of sales taxation. It has implemented since 1997 in Nepal. There is need of deeper and wider study about VAT in Nepal. In this context many empirical and theoretical studies has been conducted to examine the various problems, prospect of VAT in Nepal. Many studies that have been undertaken at different period of time will be directly beneficial to policy maker, private sector, researcher, and general people. Policy makers will be able to identify the areas needed for improvement and it will provide a clear idea and knowledge to those persons. Similarly it will help the researcher to carry out their research a step ahead about VAT. For such stand points the studies have great significance about VAT.

1.5: Limitation of the Study

In this study investigation are limit as under:

- a. This study has been performed in limited time and resources.
- b. Due to lack of time and other many difficulties, the study has been kept of certain place under the Kathmandu valley.
- c. Both the primary and secondary type of data is used on the basis of availability.
- d. VAT implementation is based on both theory and country's reality also. So, that the study are based on both theory and practice.
- e. It covers the VAT aspect only.
- f. Administrators, experts, businessmen, taxpayers, consumes etc have been taken for the primary sources of data.

1.6: Scheme of the Study

The whole research will be carried on the following ways:-

Chapter I: Introduction.

This chapter includes general background, statement of the problem, objective of the study, limitation of the study.

Chapter II: Conceptual Framework and Review of literature.

This chapter concerns about the conceptual aspects of VAT and review of literature to highlight the related terms and to present the available information about previous related studies.

Chapter III: Research Methodology

This chapter includes introduction, research design, nature and sources of data, data collection and procedures, statistical tools that are used for the study.

Chapter IV: Data Presentation and Analysis

In this chapter, the data collected are presented, tabulated as required by the research objectives. Data are here interpreted and analyzed with the help of various analytical tools and techniques.

Chapter V: Summary, Conclusion and Recommendations.

This is the last chapter of this research. In this chapter, Summary and conclusions are drawn from the study. It also includes valuable suggestions and recommendations on the basis of the study

CHAPTER II

CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE

Review of literature means the study of relevant topics in the related field of research or reviewing related research studies and findings such that all part studies their conclusions and deficiencies may be known and further research could be done. This chapter is basically divided into conceptual framework, which includes the meaning, objectives, types, principle etc of VAT, highlighting the literatures that are available in concerned object. The other part is related with reviews of books , journals, articles, web search, research paper, workshop and some master's degree thesis done at past on the relevant topics, as every study is very much based on the past knowledge.

2.1: Conceptual Framework:

2.1.1: Meaning of VAT

Tax is a compulsory contribution to the Government from a person without expectation of special benefits. There are two types of tax direct tax and indirect tax. Income tax, property tax, gift tax etc are the examples of direct tax. The person who is legally imposed directly pays it. Value added tax- hotel tax, entertainment tax, custom duty, excise duties are the example of indirect tax. It is imposed by one person but paid partly or wholly by another. It means that indirect tax is imposed on person who transfers the liability by collecting it from customer by adding it to the goods and services sold or distributed. Thus indirect tax is indirectly collected from the ultimate customer. Value added tax is the modern innovation indirect tax in the field of taxation. It is a most powerful tool of the revenue generation. Value added tax is the improved and modified sale tax and it avoids cascading effect existed in sales tax. Value added tax is levied on value added at each stage of the production and distribution activities (Amatya, Pokhrel Dahal, 2060).

Value added means sales value minus purchase value on conversion cost. Conversion cost may include wages, interest, rents, depreciations and taxes excluding income tax and VAT. "Value added tax is a tax imposed on value added on goods and services by business firm at the successive stage of production and distribution value added tax is the

excess of sales value over purchase by the manufacturing or trading firms during a period of time” (Subedi, 1998).

This definition emphasis as the tax is imposed on value added on goods and services at each stage of production and distribution value added is the added value in sales from purchase simplification of meaning and structure of VAT is cleared from the following equation and tables.

Value added (Tax base) = Sales –Purchase

Or

Value added (Tax base) = ²Conversion cost

Where conversion cost = wages, salaries, interest, rent, depreciation, profit etc.

2.1.2: Origin of VAT in the World

The concept of VAT introduce in Germany in 1919 A.D. by Dr. Wilhelm von Siemens. VAT is the develop form of sales tax family. In the First World War, Germany was active participant and a huge amount of resources had been needed for war in order to mobilize more resources. German Government introduces Umsatzsteuer (Multistage sales tax) as a temporary measure to mobilize the much – needed resources in wartime only. But revenue generate through this system was encouraging the Government. The Government did not abolish this system even after the war is over. Under this tax system tax was levied on the tax inclusive total sales price at each stage of reduction and distribution of goods and services, which increases the cost of production and decreases the competitive advantage of German firms. In order to solves this problem, Dr Wilhelm von Siemens recommended VAT in Germany in 1919 A.D. to replace the German Umsatzsteuer (Multistage sales tax) to avoid the problem, including cascading the vertical integration. Huge debate and discussion took place in Germany regarding this newly born tax system. At last German Government decided to reduce the negative impact of multilevel sales tax system by reducing the rates rather than implement the newly born tax system. (M.L. weinden Baulm and David G. Raboy (1989)

In the chairmanship of famous economist Carls S. Shoup, a mission had prepared a report of VAT for Japan. This mission recommended the VAT for Japan in order to

² Conversion cost—It includes the transforms cost like wages and overheads to make the goods and services available to the market.

avoid the undesirable and unintended effects of Japanese enterprises and turnover taxes in place at that to implement this serious discussion were held and even the law passed in the parliament. But the implementation of VAT introduced first time in France in 1954 A.D. The VAT was limit in France from 1954 to 1959. (Gautam, 2003)

Concept of new tax system came from Germany and after making heavy debate and discussion in Japan; this new tax system was really becoming the possible tax reform program all over the World. Until 1953 A.D. any country hadn't applied this tax system. France took risk of adopting the newly born tax system (VAT) in 1954 A.D. In the 60s decade VAT had been adopted by I countries. Ivory coast and Senegal are the second and third countries that adopted VAT in 1960 A.D. and 1961 A.D. respectively, Brazil and Denmark in 1967 A.D. and Germany and Uruguay had been adopted VAT in 1968 A.D. since 1968 A.D. VAT been introduced by at least one country each year except 1974, 1978, 1979 and 1881 A.D. At the late 2013 A.D. almost 150 countries had been adopted VAT. The countries adopting VAT in the World can be seen in the Table NO 2.1 as discussed in chapter II.

2.1.3: Historical Development of Tax in Nepal

Before the introduced of VAT, Nepal has had experience in indirect tax from late cos. Land revenue , customs and excise duties were the main source of Government since past several decades, income, business and remuneration tax were first introduced in 1959-A.D. The first time Government announced its finance bills of 1965 (2022B.S) the retail level sales tax at the rate of 2% covering whole range of goods and services. There was no procedural law to administer it. The announcement through the Government budget was the only document. The sales tax act, 1966 came into existence only after the announcement of tax.

Sales tax was the main stays of the tax system in Nepalese economy before the introducing of VAT. Through sales tax in some form was collected from 1965 A.D. its contribution had never exceeded 3% of GDP. But later sales tax as Government revenue has very important place as it contributes over 20% of the total revenue collected by Government. If its share in tax revenue alone is compared, it has contributed over one

fourth of the collected tax revenue. But its share in indirect tax is composed its contribution has been up by over one third of the tax.

Sales tax was neglected in the last but later this source of revenue is of utmost importance, when Government's total tax effort hasn't been over 11% of GDP. The share of sales tax couldn't be expected to grow at faster pace. This indicates that there are structural problems in the revenue collection, such as problem of tax cascading and vertical. So, to improve such problems the concept of VAT was introduced.

2.1.4: Development of VAT in Nepal

As the adoption of VAT programmed was at the heart of worldwide policies. Nepal was also no exception. Because of several, problems on previous tax system, such as cascading and vertical integration, Nepal has also introduced VAT in 1997 A.D by replacing sales tax, hotel tax, contract tax and entertainment tax. The Nepalese Government adopted VAT to promote the oriented economy in the eight year plan (1992-1997). As a part of its liberal economic policy, Government, asked donors to study the VAT system. A study supported through United States agency for international development (USAID) consultancy assistance for economic reform (CAER) commended in September 1993. The Harvard Institute of international Development (HIID) took up the study because of political instability. The HIID study got a set back and the USAID suspended its support. In the implementation phase were to be needed and Government made a request to donors. The Danish International Development Agency (DANIDA) accepted the Government request and pledges to support the VAT project. The parliament of Nepal enacted value added tax 2052 from 1995 and regulation in 1996 from the budget speech 1992/93 and then GOVERNMENT tried to implement the VAT system in Nepal. Besides the VAT act and regulation. The ministry of finance approved eight volumes of manuals in 1997. (Khadka Rup Bahadur, 1989)

Government had initially set the date of introducing VAT as July 1997. As the VAT law was designed to handle a single standard rate, the multiple rate of sales tax was unified in 1996 at 15% from the rate of 10 and 20%. As to fulfill the legal requirement of the VAT ACT, a gazette notification to enact the law was put out on AUGUST 17, 1997. The final date of the introducing of the VAT was thus set for November 16, 1997. VAT was levied in the replacement of existing sales tax ACT 2013. Hotel tax ACT 2018. Contract tax ACT 2023 and entertainment tax ACT 2017 was reputed along with implementation of

VAT. After implementation of VAT, it has created many problems and could not be implemented fully until the fiscal year 2062/63 due to political instability and full incorporation of business community. The main problem whereas trading groups was against the VAT. But industrialist was favor in several new provisions relating to VAT were introduced through the finance bill 1998. (khadka, Rup Bahadur, 2004)

The VAT registration couldn't progress as anticipated again its run up to the budget for the fiscal year 1998/99 several exemptions were demanded and provided in the budget. The sentiment of the whole business communities was divided between "No VAT and Yes VAT". After then the situation becomes so bad that the several of VAT were put on stake. Finally, Government entered into a 39 points agreement with federation of Nepal chamber of commerce and Industry (FNCCI). It included several reforms, noted among them was rising of threshold level from 3 million to 4.5 million rupees; a concession for 1.2 Millions of import from India and Tibet without VAT certificate; no compulsory Invoices for unregistered traders; a reduction in tax deducted at source; and so on . The process of implementing a full fledge of VAT was thus slowed down , taking into account the Government's election mood, a plethora of demand for exemptions in the VAT were put up some of them was fulfilling without any logic . Again the real spirit of the VAT was compromised.

This way the Government implemented VAT since 16th Nov 1997. The budget speech of fiscal year 2005/06 Government has emphasized the implementation the VAT in Nepal; for good implementation. It would have increased the area and decreased the rate. But Government increased the rate by VAT 3%. By this cause the Government isn't applying good road map to implementation of VAT in Nepal till now.

2.1.5: Rate of Structure of VAT in the World

Value added tax is adopting more than 150 countries around the World. All kinds of countries (Under developing, Developing and Developed) are enforcing it. But the rate of adopting VAT is difference from country to country. There are mainly three types of rate are prevailing.

- a. Single rate
- b. ³Dual rate

³ Dual rate—Two types of rate prevailed

c. ⁴Multiple rates.

Many countries included America, Brazil, Canada, Denmark, Finland, New Zealand, Pakistan, South Africa, Thailand, United Kingdom etc have adopted single rate of VAT. Some of them countries attempted to introduce progressively in the VAT structure by having low rate of tax on necessities and high rate on luxurious goods. Single rate of VAT is simpler. Many countries exempted few basic items such as food, medicines, cloth etc. The single rate of VAT is simplest than dual and multiple rate system because dual and multiple rates make tax administration more complicated. Under this dual and multiple system commodities need classify into different groups according to their rates. Most parliaments would probably be inclined to disregard the theoretical arguments and to the actual situation in the European countries member states. Moreover, they would argue, a dual rate structure, comprising a lower rate of food products, medicines, household fuel, books, news paper and public transportation and stand rate on all other goods and services. This has been explicitly advocated by the EC commission as the basis for VAT rate harmonization in the community. There are three ways to the tax essential consumer items lower than other items if a dual rate structure is desired (Sijbren Enosen, 1992; 240)

- a. A lower than stand but positive
- b. An exemption and
- c. A zero rate.

Table 1: % of VAT Rate throughout the world

<u>A</u>	VAT adaption date	Standard Rate	Reduced Rate	Tax System	Notes
Afghanistan		2% 5%		Sales Tax	
Albania	1996	20%	0%	VAT	
Algeria	1992	17%	7%	VAT	
Angola		10%	2%	Consumption Tax	Goods from 2 to 30%. Telecom, water and electricity 5%
Antigua and		15%	12.5%	VAT	

⁴ Multiple rate—More than two rate prevailed

Barbuda						
Argentina	1975	21%	10.50%		VAT	Special high rate of 27% applied to telecoms, domestic gas supplies, water and industrial energy users.
Armenia	1992	20%	0%		VAT	
Australia	2000	10%	0%		GST	
Austria	1973	20%	0%	10% 12%	VAT	
Azerbaijan	1992	18%			VAT	
<u>B</u>		Standard Rate	Reduced Rate		Tax System	Notes
Bahamas		N/A			N/A	VAT to be introduced on 1 July 2014 at a standard rate of 15% and a reduced rate of 10%
Bahrain		N/A			N/A	
Bangladesh	1991	15%	0%	1.5% 2.25% 5% 9%	VAT	15% VAT is applicable for all business or industrial units with an annual turnover of Taka 2 million and above
Barbados	1997	17.50%	0%	7.5%	VAT	
Belarus	1992	20%	10%		VAT	24% white sugar, 0.5% diamonds from Russia and 0%
Belgium	1971	21%	0%	6% 12%	VAT	
Belize		12.5%			GST	
Benin	1991	18%			VAT	
Bhutan		5% 50%			Sales Tax	Most common rate is 20%
Bolivia	1973	13%			VAT	
Bosnia and Herzegovina		17%	0%		VAT	
Botswana		12%	0%		VAT	
Brazil	1967	17%			ICMS	Multiple-rate system with tax levied at State and Federal levels. Brazilian State VAT (ICMS) levied at rates ranging from 7% to 25%, with average rate of 17% (e.g. rate in Sao Paulo is 18%). National VAT (IPI) also levied with average rate of 20%.
Brunei Darussalam		N/A			N/A	
Bulgaria	1994	20%	0%	9%	VAT	
Burkina Faso	1993	18%			VAT	
Burundi		18%			VAT	
<u>C</u>		Standard Rate	Reduced Rate		Tax System	Notes
Cambodia	1999	10%			VAT	
Canada	1991	5%	0%		GST	
Cape Verde		15%	6%		VAT	
Central African Republic		19%	5%		VAT	
Chad	2000	18%			VAT	
Chile	1975	19%			VAT	
China	1994	17%	0%	13%	VAT/Business Tax	VAT essentially applicable to supplies of goods together with a small number of services related to manufacturing processes. Business Tax applies to supplies of services.
Colombia	1975	16%	0%	1.6% 10%	VAT	

Comoros		0%			VAT	
		3%				
		5%				
		15%				
		25%				
Congo, Democratic Republic of the		0%	3%		Sales Tax	Main sales tax rate is 13%
		6%	9%			
		13%				
		15%				
		18%				
		30%				
Congo, Republic of the	1975	16%			VAT	
Costa Rica	1975	13%	5%	10%	VAT	
Croatia	1998	25%	5%	13%	VAT	
Cuba		2.5%	5%		Sales Tax	
		7.5%				
		10%	15%			
		20%	25%			
Cyprus	1992	19%	0%	5%	9%	VAT
Czech Republic	1993	21%	15%			VAT
<u>D</u>		Standard Rate	Reduced Rate		Tax System	Notes
Denmark	1967	25%	0%			VAT
Djibouti		1%	13%			Sales Tax
		26%				
Dominica		15%	10%			VAT
Dominican Republic	1983	18%	0%			VAT
<u>E</u>		Standard Rate	Reduced Rate		Tax System	Notes
Ecuador	1970	12%	0%			VAT
Egypt	1991	10%	5%			Sales Tax
						Certain items taxed at 5%-30%
El Salvador	1992	13%				VAT
Equatorial Guinea		15%	6%			Sales Tax
Eritrea		3%	5%			Sales Tax
		10%	12%			
Estonia	1992	20%	0%	9%		VAT
Ethiopia		15%				VAT
<u>F</u>		Standard Rate	Reduced Rate		Tax System	Notes
Fiji	1992	15%	0%			VAT
Finland	1994	24%	0%	10%	14%	VAT
France	1968	20%	2.1%	5.5%	10%	VAT
<u>G</u>		Standard Rate	Reduced Rate		Tax System	Notes
Gabon	1995	18%	10%			VAT
Gambia		15%				Sales Tax

Georgia	1992	18%			VAT		
Germany	1968	19%	0%	7%	VAT		
Gibraltar		N/A			N/A		
Greece	1987	23%	0%	6.5%	13%	VAT	
Grenada		15%	0%	10%	VAT		
Guam		4%			Sales Tax		
Guatemala	1983	12%	0%		VAT		
Guernsey		N/A			N/A		
Guinea	1996	18%			VAT		
Guinea-Bissau		15%			VAT		
Guyana		16%			VAT		
<u>H</u>		Standard Rate	Reduced Rate		Tax System	Notes	
Haiti	1992	10%			Turnover tax		
Honduras	1976	15%	0%		Sales tax	There is a VAT rate of 18% on certain goods (alcoholic beverages and tobacco).	
Hong Kong		N/A			N/A		
Hungary	1988	27%	0%	5%	18%	VAT	
<u>I</u>		Standard Rate	Reduced Rate		Tax System	Notes	
Iceland	1990	25.50%	0%	7%	VAT		
India		12.50%	0%	1%	4%	VAT	VAT applies to goods and was introduced in 21 states on 1 April 2005. Sales tax and other local taxes to be phased out. Service tax is a federal levy and applies to the sale of services.
Indonesia	1985	10%			VAT		
Iran		5%			N/A		
Iraq		N/A			N/A		
Ireland	1972	23%	0%	4.8%	9%	VAT	The 9% VAT rate on tourism-related activities was due to expire on 31 December 2013, however this has now been postponed.
Isle of Man		20%	0%	5%		VAT	The rate of VAT follows that of the United Kingdom
Israel	1976	18%	0%			VAT	
Italy	1973	22%	0%	4%	10%	VAT	
Ivory Coast		18%				VAT	
<u>J</u>		Standard Rate	Reduced Rate		Tax System	Notes	
Jamaica	1991	16.50%	0%	10%		VAT	20% on telephone services
Japan	1989	5%	0%			VAT	A proposal to rise the consumption tax rate from 5% to 8% in April 2014, and to 10% in October 2015, has been accepted.
Jersey		5%				GST	
Jordan		16%	0%	4%	8%	Sales Tax	
<u>K</u>		Standard Rate	Reduced Rate		Tax System	Notes	
Kazakhstan	1992	12%				VAT	
Kenya	1990	16%				VAT	
Kiribati		0%	10%			Sales Tax	
Korea (North Korea)	1992	2%	15%			Turnover tax	

Korea (South Korea)	1977	10%	0%		VAT	
Kuwait		0%			N/A	
Kyrgyzstan		20%			VAT	
<u>L</u>		Standard Rate	Reduced Rate		Tax System	Notes
Laos		10%			VAT	
Latvia	1992	21%	0%	12%	VAT	
Lebanon		10%			VAT	
Lesotho		14%	5%		VAT	
Liberia		7%			N/A	
Libya		N/A			N/A	Stamp duty payable at 2% of contract value, plus 5 per thousand (Libyan dinars).
Liechtenstein		8.00%	2.5%	3.8%	VAT	
Lithuania	1994	21%	0%	9% 5%	VAT	
Luxembourg	1970	15%	0%	3% 6% 12%	VAT	
<u>M</u>		Standard Rate	Reduced Rate		Tax System	Notes
Macau		N/A	0%		N/A	
Macedonia	2000	18%	5%		VAT	
Madagascar	1994	20%			VAT	
Malawi	1989	16.50%			VAT	
Malaysia		6%	10%		Sales tax	GST to be introduced on 1 April 2015 at a standard rate of 6%.
Maldives		N/A			N/A	There is a Tourism Goods and Service Tax (T-GST) with a rate of 3.5%
Mali	1991	18%			VAT	
Malta	1995	18%	0%	5% 7%	VAT	
Marshall Islands		5%	10%		Sales tax	
Mauritania	1995	14%			VAT	The 18% rate only applies to petroleum products and telecommunication services.
Mauritius	1998	15%	0%		VAT	
Mexico	1980	16%	11%		VAT	
Micronesia		3-5%.			Sales tax	Each region levies own sales tax at rates between 3%-5%.
Moldova	1992	20%	0%	6% 8%	VAT	
Monaco		20%	2.1%	5.5% 10%	VAT	Monaco is treated as part of France for VAT purposes.
Mongolia	1998	10%			VAT	
Montenegro		17%	0%	7%	VAT	
Morocco	1986	20%	0%	7% 10% 14%	VAT	
Mozambique	1999	17%	0%		VAT	
Myanmar		5%	30%		Sales tax	
<u>N</u>		Standard Rate	Reduced Rate		Tax System	Notes
Namibia	2000	15%			VAT	
Nauru		N/A			N/A	
Nepal	1997	13%			VAT	
Netherlands	1969	21%	0%	6%	VAT	
Netherlands	1999	3%	5%		Turnover tax	

Antilles					
New Zealand	1986	15%	0%		GST
Nicaragua	1975	15%			VAT
Niger	1986	19%			VAT
Nigeria	1994	5%			VAT
Niue		5%			VAT
Norway	1970	25%	0% 8% 15%		VAT
Q		Standard Rate	Reduced Rate		Tax System Notes
Oman		N/A			N/A
P		Standard Rate	Reduced Rate		Tax System Notes
Pakistan	1990	16%	0%		VAT
Palau		N/A			N/A
Panama	1977	7%			VAT An additional rate of 10%-15% may exceptionally apply
Papua New Guinea	1999	10%	0%		VAT
Paraguay	1993	10%	5%		VAT
Peru	1973	18%	0%		VAT
Philippines	1988	12%	0%		VAT
Poland	1993	23%	0% 5% 8%		VAT
Portugal	1886	23%	0% 6% 13%		VAT In the Azores the rates are 18%, 10%, 5% and 0% In Madeira the rates are 22%, 12%, 5% and 0%
R		Standard Rate	Reduced Rate		Tax System Notes
Romania	1993	24%	0% 5% 9%		VAT
Russia	1992	18%	0% 10%		VAT
Rwana	2001	18%			VAT
S		Standard Rate	Reduced Rate		Tax System Notes
Saint Kitts and Nevis		17%	0%		VAT
Saint Lucia		5%	40%		Consumption tax
Saint Vincent and the Grenadines		15%	0-10%		N/A
San Marino		N/A			N/A
Sao Tome and Principe		6%	10%		Sales tax
Saudi Arabia		N/A	0%		VAT VAT system expected to be introduced
Senegal	1980	18%			VAT
Serbia		20%	0% 10%		VAT
Seychelles		12%	0% 7% 10%		VAT
		15%			
Sierra Leone		15%			GST
Singapore	1994	7%	0%		GST

Slovak Republic	1993	20%	0% 10%	VAT	
Slovenia	1999	22%	0% 9.5%	VAT	
Solomon Islands		5% 10%		Sales tax	
		15%			
Somalia		14%		Sales tax	
South Africa	1991	14%	0%	VAT	
Spain	1986	21%	0% 4% 10%	VAT	
Sri Lanka	1988	12%	0%	VAT	
Sudan	2000	10%		VAT	
Suriname		8% 10%		VAT	
Sweden	1969	25%	0% 6% 12%	VAT	
Swaziland		14%		Sales tax	
Switzerland	1995	8%	0% 2.5% 3.8%	VAT	
<u>T</u>		Standard Rate	Reduced Rate	Tax System	Notes
Taiwan	1886	5%	0%	VAT	
Tajikistan	1992	20%		VAT	
Tanzania	1998	18%		VAT	
Thailand	1992	7%	0%	VAT	
Timor-Leste		2.5% 5%		Sales Tax	
Togo	1995	18%		VAT	
Tonga		15%		Sales Tax	
Trinidad and Tobago	1990	15%		VAT	
Tunisia	1988	18%	0% 6% 12%	VAT	
Turkey	1985	18%	0% 1% 8%	VAT	
Turkmenistan	1992	15%		VAT	
Tuvalu		5%		Sales Tax	
<u>U</u>		Standard Rate	Reduced Rate	Tax System	Notes
Uganda	1996	18%		VAT	
Ukraine	1992	20%	0%	VAT	
United Arab Emirates		N/A	0%	N/A	VAT system expected to be introduced
United Kingdom	1973	20%	0% 5%	VAT	
United States		Varies		Sales Tax	Most states, countries, and cities levy sales taxes. These are cumulative & rates vary across the country.
Uruguay	1968	22%	10%	VAT	
Uzbekistan	1992	20%		VAT	
<u>V</u>		Standard Rate	Reduced Rate	Tax System	Notes
Vanuatu	1998	12.50%		VAT	
Venezuela	1993	12%	8%(temporary)	VAT	For luxury goods applies rate of 19 percent
Vietnam	1999	10%	0% 5%	VAT	
<u>Y</u>		Standard Rate	Reduced Rate	Tax System	Notes
Yemen		5%		Consumption	

tax					
<u>Z</u>		Standard Rate	Reduced Rate	Tax System	Notes
Zambia	1995	16%	0%	VAT	
Zimbabwe		15%	0%	VAT	

Sources: - Global indirect tax rate, 2013 & the modern VAT system by IMF Economy survey, 2013

Under the dual system, design of a rate structure is mainly influenced by revenue requirement. However, all the requirements cannot be achieved simultaneously as may be contrasting to another. Similarly multiple rates give an incentive to produce to divert their resource from higher to lower rated industries to save on tax payment even when other economic points of views as well as they stimulate a consumer to divert some of his purchase from higher rated commodities. Thus multiple rates create scope for tax evasion that may result in consideration revenue loss. (Khadka, 2006) Three types of VAT presented new the question arises here that which tax rate is essential? The rate of tax would be essential according to country and their experience. At the initial stage of its introduction, particularly in developing countries, a single rated is essential because they have low experience and expertise is gradually achieved , dual and multiple rates is desirable since the single rated. More countries have adopted single rated of VAT but large numbers of countries have adopted dual and Multiple rated VAT. The difference rate of VAT in the World can be seen in the table given above.

2.1.6: Types of VAT

The types of VAT may be classified on several basis most of the important base for the classification of VAT are as follows.

- a. Consumption type
- b. Income type
- c. Production type

2.1.6.1: Consumption Type

If all capital goods (investments) bought from other firms are excluded from the tax base (Value added) in the year of purchase but the depreciation is included in the tax base it is

known as consumption type VAT (Amatya Pokhrel Dahal, 2004). Consumption type of VAT can be explained in the following equation

Value Added (Tax Base) = wages + interest + rents + depreciation + profit-capital.

Goods purchased from outside (in the year of purchased)

Or

Value added (tax base) = sales –purchase (including purchase of capital goods from outside in the year of purchase)

2.1.6.2: Income Type

Capital goods purchased from the outside suppliers are included in tax base in the year of purchase but depreciation is excluded from the tax base.

Income type of VAT can be explained in the following equation.

Value added (Tax base) = Wages + Interest+ Rents+ Profits+ Capital goods purchased from outside (in the year of purchase).

2.1.6.3: Production Type

The production type VAT includes capital goods purchase from the other firm in the tax base in the year of purchase and also included depreciation in the tax base (Amatya, Pokhrel, Dahal, 2004) consumption type VAT can be expressed in the following equation .

Value added = wages + interest + rents + depreciations + profits + capital goods purchased from outside (in the year of purchase)

Or

Value added (Tax base) = sales- purchase (excluding purchases of capital goods from outside in the year of purchase)

2.1.7: Features of VAT

Value added tax is the most recent innovation in the field of taxation but not appreciated new one also. It is the refined form of traditional sales tax. The main features of VAT are as follows:

- a. Indirect tax in nature
 - b. Free from cascading effect
 - c. Based on value added principle
 - d. Timely tax realization
 - e. Provision of tax credit facilities
 - f. Provision of refund in case of over-payment
 - g. Based on self assessment system
 - h. Separate treatment of capital goods
 - i. Zero rates for social & economic purpose
 - j. Provision of tax exempts goods and services
- (Amatya, Pokhrel, Dahal, 2004)

2.1.8: Advantages and Disadvantages

2.1.8.1: Advantages

As compared other taxes there is less chance of tax elation due to its catch up effect.

- a. It is simple to administer as compared other tax.
- b. It is transparent and has minimum burdens consumer.
- c. Price does not increase as a result of VAT.
- d. Less participation of taxpayer. (Bhattraï and koirala 2004)
- e. There is mass particular of taxpayers.

2.1.8.2: Disadvantages

- a. It is costly to implement as it is based on full billing system.
- b. It is relatively complex to understand. The calculation of VAT in every stage is not easy work.
- c. To implement the VAT successfully consumer need to conscious otherwise tax evasion will be widespread tax evasion will be widespread. (bhattraï and Koirala ,2004)

2.1.9: Methods of VAT Calculation

Using different methods of computation can collect value added tax. Followings are the methods of VAT calculation (Subedi, 1998)

2.1.9.1: Additional Method

This method is also known as the direct value added on 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 very close to income type of VAT that includes the rewards to all the factor of production in its base. We can express the addition method in equation form is

$VAT(t) = f(\text{wage} + \text{rent} + \text{interest} + \text{profit})$, where t indicates tax and f indicates function.

This method is rarely found in practice because of complexity in computation. In this method VAT seeks to avoid capital goods from its base. This method is practically applied in Argentina and Israel, in third selected economic activities such as banking and finance, where value of inputs and outputs are difficult to measure. The example of calculating value added tax under this method has been presented in the following table.

Table 2: Calculation of VAT Liability under Addition Method

Stage of production and distribution	Primary Producer	Producer	Wholesaler	Retailer	Total
Wage	1500	200	300	400	2400
Rent	400	150	200	350	1100
Interest	400	150	150	250	950
Profit	500	300	250	300	1350
Value added	2800	800	900	1300	5800
VAT Liability (13%)	364	104	117	169	754

Source: Estimated arbitrary figured during the study.

2.1.9.2: 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 taxable period. In other word, the deviation between purchase and sales is value added and this value added is the base for the VAT. Tax base is determined as net turnover in this method, 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. Apparently, this method looks simple and easy, but it is not so, problems like ascertaining the value in accounting period may arise. Similarly, if there are exit multiple rates of VAT, tax burden at the consumer and becomes more difficult to calculate. We can express the subtraction method in equation form is

$VAT(t) = f(\text{sales value} - \text{purchase value})$, where t indicates tax and f indicates function.

The example of calculating value added tax under this method has been presented in the following table.

Table 3: Calculating of VAT Liability under Subtracting Method

Stages of Production and Distribution	Net Purchase	Sales price	Value added	VAT@13%
Primary producer	-	5000	5000	650
Producer	5000	6000	1000	130
Wholesaler	6000	8000	2000	260
Retailer	8000	11000	3000	390
Total	19000	30000	11000	1430

2.1.9.3: Tax Credit Method

This method is also known as invoice method and uses an indirect subtraction technique to compute the liability. Under the tax credit method, tax on purchase is subtracted from the tax on sales. VAT liability of a firm paid on total purchase is deducted from VAT levied on that sale, which is the net tax liability. In other words the net 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 the tax carried under a VAT system. Among the three methods, the tax credit method is almost widely used universally. It is successfully used in all OEDC countries, EU number countries, Japan, Korea, and elsewhere. Under tax credit method, tax evasion and under valuation of tax is not possible due to its catch up effect, which could not achieved under addition and subtraction method. The tax credit method for calculating VAT liability is technically and legally superior in controlling tax evasion as well as reducing affects with efficient administration system and creates a well audit. Nepal has also adopted this

tax credit method to calculate VAT payable. We can express tax credit method in equation form is

$$\text{VAT (t)} = f (\text{tax paid on sales} - \text{tax paid on purchases})$$

or

$$\text{VAT (t)} = f (\text{input tax} - \text{output tax})$$

Where t indicates tax and f indicates function.

The example of calculating value added tax under, this method has been presented in the following table.

Table 4: Calculation of VAT Liability under Tax Credit Method

Stages of Production and distribution	Primary Producer	Producer	Wholesaler	Retailer	Total
Purchase	-	5000	6000	8000	19000
Tax on Purchase	-	650	780	1040	2470
Sales	5000	6000	8000	11000	30000
Tax on Sales	650	780	1040	1430	3900
Net VAT Liabilities	650	130	260	390	1430

Source: Estimated Arbitrary Figured During the Study.

2.1.10: Coverage of Value added tax

Value Added Tax ACT, 2052 is law having territorial jurisdiction. Any law having territorial jurisdiction can be enacted within geographical boundaries of the nation only. According to Sec. 5 all transaction within Nepal are covered by VAT. Explaining this section, VAT is imposed on the transactions as:

-) Goods services imported into Nepal (transaction place is deemed in custom frontiers of Nepal for goods and person receiving services for service)
-) Goods or services transacted within Nepal (transaction place is as per Rule 15 and 16)
-) Goods services export from Nepal (transaction place is deemed in custom frontiers of Nepal)

If any person, whether registered in Nepal, having permanent inhabitant of Nepal or citizen of Nepal or otherwise similar; dealing goods or services beyond above 3

geographical territorial cases are not charging any VAT on its transaction. But any person having transaction outside Nepal, later take goods into Nepal (example EXW purchase) place of transaction is deemed is custom frontier.

2.1.10.1: Taxable Goods and Services

Taxable goods and services are further classified as standard rated goods and services and zero rated goods and services.

i. Standard Rate Area

Standard rated areas consist of the goods and services that are taxed at the standard rate of 13%. The vendor supplying standard rated goods and services are entitled to recover the input tax paid in the purchases used to make standard rated supply. All goods and services exempt those, which are specified as taxed at the rate of 13% on tax exempt, are included under standard rated areas. (Amatya, Pokhrel and Dahal , 2004)

ii. Zero Rated Area⁵

Zero rated area consists of certain goods and services that are taxed at zero rates the rate of zero percent. It means that VAT is not lived on zero rated goods and services but they are otherwise registered as taxable goods or services. The VAT registrant's supply zero, rated goods and services are allowed to take full credit for VAT paid on his purchases used to make a zero rated supply. Conditions for zero rate of tax as follows:

- a. Export of goods
- b. Services provided to any person belonging to outside Nepal
- c. Diplomatic supply
- d. Prior exempt project
- e. Economic zone supply
- f. Power sector supply.

⁵ Zero rated area—the goods and services taxed at a zero rate instead of 13%, (prescribed in schedule 2 of VAT ACT, 2052.

2.1.10.2: Exempted Goods and Services⁶

Value added tax is levied on all goods and services that are produced within the country or are imported into the country. However some goods and services specified by the law are exempt from value added tax. The purchase is not required to value added tax on exempt goods and services and the supplier is not allowed to input tax credit on purchases related to these goods and services. Mainly following types of goods and services purposed for exemption.

Group-1 Basic agriculture products

It includes- paddy, wheat, maize, millet, cereals and vegetables.

Group-2 It includes- rice, pulses flour, fresh fish, meat, eggs, fruits, flowers, edible oil, piped water, wood fuel, salt etc.

Group-3 animals and its production

This includes live animals such as goats, cows, buffalos, birds, fishes etc.

Group-4 Machinery & equipments for agriculture

It includes agriculture inputs like machinery, equipments, manure, fertilizer, seeds, and pesticides.

Group-5 Medical treatment & health services

All health services except these services by Vat registrant vendors, human blood, vaccine, medicines, X-Ray film, Oxygen gas, testing kits & veterinary services etc

Group-6 Education

Educational services provided by university and colleges, research conducted by university & college, professional trainings by Nepal Government & its corporations.

Group-7 Books, newspapers & printed materials

Books, newspaper, & its publication, paper of newspaper etc.

Group-8 Cultural & artistic services

⁶ Exempted goods and services—No vat on goods and services(Prescribed in schedule 1 of VAT ACT,2052)

Artistic goods, cultural programmers, non- professional sporting events and admissions to educational and cultural facilities etc

Group-9 Transportation services

Passenger transportation services like air transport, vehicle transportation for passengers, export cargo, excluding cable car etc

Group-10 Professional services

Actor, other entertainer, sportsmen, writers, ⁷translators and ⁸manpower supplier etc.

Group-11 Other goods &services

Goods made for the use of disabled persons, personal services, financial and insurance services, postage and revenue stamps, bank notes, cheque books, gold, silver, passport, tickets of excise duty etc.

Group-12 Land & Building

Rent of land &building, sales & purchase of land and building except business entity.

Group-13 Betting, Casino and Lotteries

Facility to be provided for playing bets, games of chance, and lottery.

2.1.10.3: Place of Supply (VAT Rule 15, 2053)

VAT is, as explained earlier, imposed in the transactions in territorial basis, hence place of transaction is important. Similarly, VAT requires paying within prescribed time-frame whether the consideration received or not, and hence timing of supply is important.

Following are the place of supply for any goods under Rule 15 or services under Rule 16 for any transaction:

Sale of Movable Goods: In the case of movable goods transferred by sale, the place where such goods were sold or transferred.

⁷ Translators—Professional language translation service

⁸ Manpower supplier—Agent of manpower between organization and efficient individual

Immovable Goods: In the case of any immovable goods whose location can't be transferred even if their ownership is changed, the place where such goods are located,

Imported Goods: In the case of imported goods, the customs point in Nepal through which such goods are imported,

Self- consumption: In case any producer or vendor supplies the goods to itself, the place where the producer or vendor of such goods resides.

Service: The place of supply of a service shall be the place where the benefit of that service is received.

Supply of goods or services, based on above principle, if the location is in Nepal, then the transaction is covered by VAT.

2.1.10.4: Time of Supply (VAT Rule 15, 2053)

In case of supply of goods, earliest of following shall be time for under Sec.6 (2):

- a. Date of invoice
- b. Date of possession on goods/date of removal of goods.
- c. Date of consideration.

In case of supply of services, earliest of following shall be time for supply under Sec.6 (2):

- a. Date of invoice
- b. Date of rendering service.
- c. Date of consideration.

Sec.6(4) empowers DG, in the of a transaction for more than one provisions as prescribed above are applicable at once, the supply time shall be as prescribed by DG.

For the purpose of Sec.6 (2), following services shall be included as supply of services:

- a. Copyright, patent, license, trade mark, and other similar rights.
- b. Advertisement services.
- c. Technical services, engineering services, services of suppliers of technical services, legal services, services relating accounts, services relating to data

collection and analysis, services of information and other services of similar nature.

- d. When providing the services as mentioned above, or entering into a contract for the services, putting practice fully or partially the terms of the contract , or conducting business activities using the rights.
- e. Services of insurance or reinsurance otherwise than the services of safe deposit vaults.

There are few exception given in Sec.6 (3), regarding timing of supply as explained earlier are as follows:

- a. In the case of services which are continuously provided, namely, telecommunication services or similar other public services, when the invoice issued.
- b. Where there is a contractual provision for paying partially the value goods or services in more than one day on an installment basis, the supply time shall be the earliest day on which the payment is made or the day on which the payment is to be made according to the contract.
- c. In the case of used goods or services for which an offset is not allowed under this ACT, the time when such goods or service are used.

2.1.10.5: Rate of Tax (VAT Act 2052, Sec, 7)

According to Sec. 7, there shall be single rate for VAT, which is 13% chargeable in the transaction value.

VAT exempted goods or services as per Schedule- 1, by the name exhibits, is not subject of VAT.

-) In case of transaction covered by Schedule- 2, the rate of tax is 0%.
-) In summarized form, there are three types of VAT incidence on the transaction:
 -) Single Rate – 13%
 -) No VAT- Items of Schedule 1
 -) Zero Rated –Transactions of Schedule

2.1.10.6: Collection of Tax (VAT Act 2052, Sec. 21)

Registered person need to pay tax on the due date of filling the VAT return. In case of assessment by tax officer, according to Rule 30, the assessed amount need to pay tax including any fee, additional duty, interest, fine etc, within 7 days of such assessments. In case, the person did not pay the tax on time, tax officer, according to sec.21, can collect the due amount from any or all of following methods.

-) By offsetting the amount , if any, to be refunded to the taxpayer,
-) By seizing movable or immovable property of the taxpayer;
-) By selling through sealed tender or public auction all or part of the assets at one time or in a series of times;
-) By causing, to deduct amounts from the taxpayer's bank account or other financial institutions.
-) By causing to deduct amounts due the tax payer by Nepal Government, or a corporate body owned by Nepal Government or local bodies.
-) By deducting with the pre-approval of the taxpayer, the amounts a third owes to the taxpayer; or
-) By withholding import, export or transaction of the taxpayer.

2.1.11. Tax Administration

2.1.11.1: Registration in VAT (VAT Act 2052, Sec. 10)

All the firms or vendors carrying on taxable transaction must be registered for VAT. Registration must not necessary for small vendors having annual return below the threshold. Nepal Government introduces a new provision for registration procedures are given below. Fill in VAT application fit form

- a. Fill in VAT registration application fit form.
- b. In case of partnership, fill also next form designed for partnership firms.
- c. Attach is with the copes of business and income tax registration
- d. Submit it to the concerned VAT office so that office gives a temporary certificate and allocate tax payer identification (TPIN) and forwards the details to the VAT department

- e. By processing the information VAT department prepares. The VAT certificate with in TPIN and provides it to the concern taxpayer through the corresponding VAT office.
- f. Tax payer has to display the original certificate at main place of his transaction and certified copies at other places so that intended person can see easily
- g. In the process taxpayer has to furnish information within 15 day in case of changes in the information mentioned in the VAT application form
 -) Tax invoice/abbreviated invoice.
 -) Purchase & sales book.
 -) Documents for the correspondence to the VAT office
 -) Documents relating to custom duties
 -) Documents relating to obtain a loan from a bank or any financial Institutions exceeding Rs 100,000
 -) The taxpayer has to furnish information within 15 days, in case of change in the information maintained in the VAT application form.

2.1.11.2: De- Registration (VAT ACT, 2052; Sec-11(1))

Any registered person who desires not to continue his taxable business due to any reason may apply deregistration from VAT. Section 11 has specified certain conditions under which the VAT registration obtained may be deregistered.

Deregistration of VAT registration is effective only in case the tax officer notices the person for the cancellation. Submission of application for deregistration is not sufficient to say that the VAT registration is cancelled. Conditions for deregistration; According to Sec. 11(1), tax officer may deregister the VAT registration under any one of the following conditions:

-) In the case of an incorporated body, if the incorporated body is closed down, sold or transferred or if it otherwise ceases to exist;
-) In the case of an individual ownership, if the owner dies;
-) In the case of a partnership firm, if it is dissolved or any of the partners expires;
-) If a registered person ceases to be engaged in taxable transactions;

2.1.11.5: Sales Book (VAT Rules 33, 2053)

A taxpayer has to maintain a sales book comprising a complete record of all the sales or supplies of goods and services throughout the month the sales books is similar to purchase book and has to be included the following contents

-) Invoice date.
-) Invoice number.
-) The customer's name and PAN.
-) Total sales value.
-) The sales value of taxable goods or services.
-) The amount of output tax etc.

2.1.11.6: VAT Account (VAT Act 2052, Sec. 16)

A registration person is also required to maintain a VAT account through the tax period VAT account is an integrated and abbreviated form of the purchase and sales book and most contain the information about the purchase, sales input tax, output tax and the amount of self assess tax that has to be paid to the Government by the person. VAT account is monthly summary and it has to be shown to the tax official.

i. Tax Invoice (VAT Rule 17, 2053)

VAT registrants must issue VAT bill while selling or supplying goods and services such bill is known as tax invoice. It is the key documents for VAT because it establishes liability of tax for the seller and entitlement of input tax for the seller and entitlement of input tax credit for tax purchasers. So, issuing and receiving invoice is one of the prime duties of the registered person and if a tax invoice is not issued the registered person and if a tax invoice is not issued the registered person and if a tax invoice is not issued the person has to face penalty and will forgo the facilities of put tax credit. Tax invoice has following of put tax credit. Tax invoice has following contains.

-) Invoice number.
-) Seller's TPIN.
-) Seller's name and address.
-) Buyer's name and address.
-) Buyer's TPIN (tax payer's other them retail sales)

-) Transaction date.
-) Date of issue of invoice.
-) Mode of payment.
-) Description the sale.
-) Quantity and cost of sales.
-) Taxable value tax rate.
-) Signature of seller.

ii. Consumer Level Tax Invoice

Inland Revenue Department can direct any person to publish the retail price of specified goods for specified period as per Sec.14 (6). In case of such notice is issued, the respective person should not sell or transfer such goods without publishing the retail price of the specified goods. In this case, according to Sec. 14(7), person while selling such goods to any unregistered person (even to distributor or whole seller or retailers) shall have to issue the invoice at the consumer price and VAT shall be charged on the consumer price. Distributor or whole sellers or retailer's commission or discounts to be deducted after charging VAT. Such sales to be billed under format given in Schedule 5B of VAT Regulation, 2053, the sketch function of this invoice shall be as:

S.N	Particulars	Rate per unit (Consumer price Rs.)	Total Rs.
		Total	
		VAT	
		Net	
	Rs.		
	<u>@.....%</u>		
	Discount		
	Amount		

It is also provided that in case the person desires to issue such invoice voluntarily while selling such goods to registered person also, it may do so.

iii. Abbreviated Tax Invoice (VAT Rule 18, 2053)

In case a retailer request tax officer to issue Abbreviated tax invoice and if tax officer allowed, the retailer can issue such abbreviated tax according to Rule 18 in the form prescribed in Schedule 6. In case registered retailer authorized for issuing an Abbreviated Tax Invoice, it shall not be issued for amount more than Rs 5000 including VAT and other duties. In Abbreviated Tax Invoice, name of each goods or rate or VAT amount need not be shown and be issued as miscellaneous good's or similar. There is a barrier to buyer buying goods or services through Abbreviated Tax Invoice is that, input tax credit cannot be claimed by use of Abbreviated Tax Invoice. In case buyer requires tax invoice, retailer supplier has to issue the tax invoice as required by the buyer. VAT collected on the sales through abbreviated tax invoice shall be computed as follows:

$$\text{Sales amount} = \frac{\text{Sales including VAT} \times 100}{(100 + \text{Rate of VAT})}$$

$$\text{VAT Collected} = \frac{\text{Sales including VAT} \times \text{Rate of VAT}}{(100 + \text{Rate of VAT})}$$

iv. Electronic Cash Register & Computerized Billing

According to Rule 18a, Inland Revenue Department may direct any person to issue invoices using electronic cash register machine or computerized billing procedure. In both cases, individually permission for use of prescribed machine is required.

Under this power, IRD prescribed 10 business complexes and 22 business for which ECR is compulsory.

v. Debit or Credit Note

If there is any difference in value of after the commodity or service has been supplied based on the tax invoice then a debit or credit note has to be issued. Registered person has to maintain a monthly record or debit or credit notes along with the following information.

-) Serial number.
-) Date of issue.
-) Name address and registration number of the supplier.

-) Recipients name address and registration number (if he is registered person)
-) Number and date of the tax invoice connected with the transaction.
-) Particulars of the goods or services and reasons of credit or debit.
-) Amount credit on debited.
-) Tax amount credited on debited

2.1.11.5: Rate of Tax

In order to make a VAT system simpler, it is better to levy VAT with the single positive rate because multiple rates make tax administration more completed under multiple rated VAT. There is need to classify commodities into different groups according to their rate. Multiple rates make tax system in efficient and businessman has to keep separate record. So, it is complex and credit scope for the tax evasion, on the other hand, a single rate makes VAT less costly and easy to administer. Now in Nepal, according to value added tax act2052, VAT rate is levied with single positive rate 10%, but now increased to 13% from 1st Magh 2061.

2.1.11.6: Submission of Return

Each registered person has to submit the tax return to the concerned tax officer within 25 days after the expiry of tax period. According to VAT rules 26.3 the tax period of small vendor who has registered voluntaries and whose annual turnover is of value up to 2 million may be fixed at 4 months. In case any registered person dies or becomes mentally or physically in capacitated to submit the tax return the tax official may require the person's hire or legal representative to submit a tax return for the period till the day of the person's death or becoming mentally or physically unable . In case any taxpayer becomes in capable to submit a tax return or dies the person's heir or guardian are individually or jointly required to submit the tax return. If any tax payer is a legal person any director, executive chief, on any employee appointed by the management they are required individually or jointly to submit the tax return on behalf of such tax payer. In case any taxpayer is a legal person and is dissolved or liquidated the liquidator is required to submit the tax return. (VAT ACT, 1995)

2.1.11.7: Assessment of Tax

The procedure of ascertaining tax liability of a person and tax payable by the person is known as tax assessment. Nepalese value added tax is based on self assessment system. There are also other methods of tax assessment. (VAT ACT, 1995)

i. Self- Assessment

If a taxpayer on self determines the taxpayer's tax liability such assessment is known as self tax assessment. In this method the taxpayer has to fill tax return and ascertain the taxpayer's tax liability and submit it to the tax officer along with the tax the as per return mentioned above within specified time each taxpayer is allowed to self assess the amount of tax required to pay every period.

ii. Jeopardy assessment

The tax official may make jeopardy assessment in case of doubtful situation. Whenever there is a reason to believe that the collection of tax is in risk because any person is about to leave in Nepal or to transfer the person's property to anybody or to remove or conceal assets, a tax officer with the approval of the director general may immediately asses and collect the tax due or about to become due.

iii. Management Assessment

Grounds and conditions for assessment by tax officer (Sec.20 (1): Under the following grounds and conditions tax officer can make assessment:

-) If a return is not submitted within the time limit;
-) If an incomplete or erroneous return is filed;
-) If a fraudulent return is filed;
-) If the tax officer has a reason to believe that the amount of tax is understated or otherwise incorrect;
-) If the tax officer has a reason to believe that the taxpayer has caused under-invoicing;
-) If under-invoicing within group companies;
-) In case person required to get registered operated business without registration;
-) In case of sales without issuing invoices; and

) In case unregistered person collects the tax.

2.1.11.8: Tax Credit

The registrants are allowed to deduct the input tax paid or payable. The amount paid or payable by a registered person while purchasing or importing goods and services is known as input tax. The recovery of input tax from the output tax is known as input tax credit. The facility of input tax credit is the main features of VAT. If the amount of output tax is less than input tax, the balance amount can be adjusted against the tax due in following tax period. If the amount cannot be adjusted over six consecutive months then the claim can be made for the balance amount to be refunded. (VAT ACT, 1995) (IRD)

i. Full Credit

Under the full credit, a registered person gets credit of all amount of tax paid on purchases on imports. Under this category the entire input tax incurred in the purchase of goods and services for taxable transact can be claim to deduct from the tax collected through the selling and distribution of goods or services. To utilize tax deduction facility the goods on services have to be exclusively used only for purpose of taxable transactions (Amatya, Pokhrel and Dahal, 2004)

ii. Partial Credit

Under the partial credit, a registered person cannot get all credit for the amount of tax paid on purchases of goods or services even if that is exclusively used in the business activity.

iii. Proportionate Credit

A taxpayer can supply both taxable and tax exempt goods and services. In such case the taxpayer may deduct only the tax paid on purchase directly related to the taxable goods or services. In such case a taxpayer fails to establish the direct relationship of the purchased or imported goods with the taxable goods or services, such tax payer may deduct the amount of tax paid on his purchases or imports by calculating the proportion of taxable transaction value out of his total sales value.

iv. No Credit

Some goods are difficult to determine whether they are used for business purpose or personal purpose, in such goods input tax can't be deduct. The tax paid on purchase of alcohol mixed beverages fuel for vehicles, goods on services for entertainment can't be deducted.

2.1.12: Tax Payment

The excess of tax collected during a tax period (output tax) over tax paid on purchases (input tax) during the same tax period shall be paid to revenue within 25 days of the end of the tax period. Such payments should be made at respective tax office in case or may be deposited at a bank account specified by IRD. In case of delay, there is an interest of 15% per annum plus additional duty of 10% per annum for unpaid amount. There are some persons who collect VAT without registering in VAT (GON, local Government, International organizations & Missions, wood sellers). The act unclear on the date and method of payment of VAT so collected. Without clarity, we should say, they need to deposit tax amount as other registered person do, means within 25th day of closure of month of collection of VAT.

2.1.13: Tax Refund

A registered person needs to pay VAT at the amount which is over then input tax credit available to it.

VAT Payable = Output – Input tax credit

There shall be the cases, when the input tax might be higher than output tax in any month. These over credit are carried forwarded to next tax period. According to sec.24 (1), these carried forward credits can be set off with output of next tax period. By this way, there shall be continuous credits for a person too.

VAT Credit (carried forward) = Opening Credit + Input tax – Output tax

There are the cases, where such over credit is, possibly, cannot set off with output tax in the future periods too. In such situation registered person can claim a refund of VAT. Similarly, in some cases, person paying VAT is not exactly require to pay for it and need refund of VAT.

2.1.13.1: Refund for Registered Person

There are two cases, where refund to registered person is allowed in regular conditions:

- J **Continuous six month credit**- In case any person registered with VAT has continuous credit of VAT for six months; the credit is eligible for VAT refund as per Sec.24(3). After lapse of continuous six month person can claim the refund; but claim should be made within 3 years of month of so credit as per Sec.25A. Continuous six months may starts from any month, because VAT has not concept of year-end or cut-off date.
- J **Significant Exporter**-In case any registered person has export during the month at least 40% of total sales in that month, the credit is eligible for VAT refund as per Sec.24 (4).
- J **Effect of claim of Refund**-when a person applied for the refund of the tax under either method, cannot claim for set- off against the tax payable even the refund were not done. In case, IRO refuses the refund claim, it issues a credit note for crediting in VAT return.

2.1.13.2: Refund for Persons other then Registered

According to Sec.25, VAT paid by following person or paid for following event may be refunded, upon request for refund within 3 years from the date of transaction which the claim for refund is based:

- J ⁹**Diplomats**- Diplomat, privileged on a reciprocal basis from ministry of foreign Affairs; person engaged in Regional or International organization or missions having diplomatic privileges. This refunded shall not be allowed for diplomats for purchase of goods or services at a time for less than Rs1500 as per Sec.25 (1a).
- J **International institution**- Institution or VAT paid by such institution on which Ministry of finance, has granted the privileges of tax exemption;
- J **Projects under bilateral or multilateral agreement**- Tax exemption project by Ministry of finance under bilateral and multilateral agreement; and
- J **Collection by mistake**-Any tax collected by mistake.

⁹ Mutual co-operating agency between two country in terms of political mended or for other purpose

-) **Tax refund to a foreign tourist**-Foreign tourist visiting in Nepal, if purchased and take goods away from Nepal via air transport shall refund VAT paid on those assets, if the cost paid is higher than Rs15000. A service charge of 3% of refund is charge on refund.

2.1.13.3: Square off

Schedule 1 is the list of VAT exempted goods and services. But, in later years, some of the items imposing VAT to buyers and getting refund by way of square off are also mentioned in this schedule.

Collection of VAT on sale of goods or service, but same not required to deposit in revenue accounts or need to deposit and gets refund is square off arrangements. There are many items tested and imposed VAT under square off arrangement. For the year 2066.67 followings are square off refund:

Name of Items	Proportion of square off Refund
Cloth, Matches (wooden), Tires, Tubes sales by Concern Industry	100% Refund
Maida sale by Maida industry	25% Refund
Cellular mobile phone set sales by importer or industry	60% Refund

2.1.13.4: Limitations for Refund

Refund has some limitations those to be positively achieved by a person getting refund. Here are some limitations:

-) Small purchase by diplomats- diplomats purchasing any item less than Rs.1500 at a time cannot claim for refund.
-) Small purchase by tourist- Tourist purchasing and taking any item Rs.15000 or less cannot claim for refund.
-) Duty MEAL-VAT paid for inputs of duty meal for staff cannot be claimed as credit or refund for any registered person vide circular dated 2056.12.3.

-) Relevant person – In case of any refund is granted to any person or institution , only obliged person can claim for refund as per Sec.25(2) and circular dated 2056.12.3
-) Used goods Dealer – VAT paid by used goods dealers cannot be claimed for refund.

2.1.14: Rights and Duties of Taxpayer

The VAT laws has committed that each taxpayer is treated with due respect and honor and was assured the following rights to each taxpayer in general.

2.1.14.1: Rights of Taxpayer

-) Rights to get certificate
-) Right to get copy
-) Right to get accounts certificated
-) Right to get initials
-) Right to get refund along with interest
-) Right to get information

2.1.14.2: Duties of Taxpayer

There are several obligations of a registered person or a taxpayer generally the taxpayer has the following duties to be performed.

-) To pay tax in time
-) To issue tax invoice
-) To maintain records and keep accounts
-) To preservation records
-) To notify the change of place
-) To put certificate accessible
-) To allow to enter and examine.

2.1.15: Penal Provisions

- a. Fine of NRs 10,000 per tax period for the non registration with VAT though the taxpayers are compulsory for VAT registration.

- b. When a registered person who fails to use registration number or to clearly display the registration certificate or to information the changes, if any, regarding business transactions within 15 days of such change, such taxpayer is liable to pay NRs 1,000 for each offence.
- c. If tax plate is not display. Penalty will be NRs 2,000 per week and not placed in the in front office penalty will be NRs 1,000.
- d. If any registered person does not issue an invoice to the recipient, such person is liable to pay NRs 5,000 for each offence. If a person, who is not registered, issues the tax invoice or other documents showing the collection of tax or collects the tax, such person is liable to pay 100% of the tax amount as penalty.
- e. If any taxpayer who is unable to keep an up-to-date account of transactions of the tax period, such taxpayer is liable to pay NRs 10,000. The taxpayer who obstructs the tax officer to observe the transactions is liable to pay NRs 5,000 for each offence.
- f. The taxpayer, who fails to include the information such as the date of transactions, the value of each transaction and other prescribed matters related to transactions, is liable to pay as penalty up to NRs 5,000.
- g. A penalty of NRs. 10,000 is imposed on a registered person who does not use the certified purchase book and sales book for the purpose of keeping accounts or does not preserve the account of transactions for a prescribed period.
- h. Non registered person who conducts the taxable transactions shall maintained the sales and purchase register by self approving, otherwise fine of NRs 1,000 for each offence.
- i. If a taxpayer fails to assess, file return and pay the tax within due dates, the taxpayer is liable to pay 0.05% per day of the due date of tax amount or NRs 10,000 whichever is higher as penalty for each tax period.
- j. If a taxpayer makes obstacles or objections regarding the investigation and audit of his business tax related matters by the tax officers, such taxpayer is liable to pay a penalty of Rs.500 each time.
- k. If a taxpayer is found to have issued an invoice by under invoicing, the tax officer may impose a penalty of Rs. 2000 for each invoice or 100% tax or a maximum of 6 months' imprisonment or both whichever is higher.
- l. If a taxpayer violates VATACT or Rules made under this ACT, the taxpayer should pay Rs, 1000 each time.

- m. Fine of NRs. 500,000 has been introduced for that tax payer who has obtained the approval for the use of computerized billing system, but found using editing and deletion features.
- n. If tax liability is reduces by not applying the laws, liable for the fine of 25% of tax liability determined by the tax officer.
- o. If a person commits any of the following offences, a tax officer may impose a fine not exceeding 100% of the amount of tax or an imprisonment of up to 6 months or penalize with both the fine and the imprisonment.
 -) On preparing the false accounts, invoices or other documents.
 -) On committing a fraud or an evasion of tax.
 -) If an unregistered person acts as if he was if he were a registered person.
 -) Carrying out a transaction by infringing the suspension of business transaction for a maximum of 7days.

2.1.16: Appeals

A taxpayer may not always agree with the assessment made by the tax officers. In that case, he may appeals against such assessments. Such a provision has been made under various taxes. In the case of VAT, taxpayer may file an appeal to the revenue tribunal within 35 days against a tax assessment or a penalty order by a tax office or an order by the director general relating to the suspension of his place of transaction. However, before filing an appeal , the tax payers must deposit the disputed amount of the assessed tax due, the rest of the amount of tax due plus the whole amount of the fine shall have to be deposited or a bank guarantee of the same has to be provided.

2.2: Review of Literature

2.2.1: Review of Relevant Books

B. R. Subedi (1997) found that VAT is neutral regarding the methods of production and generation of more revenue and hence best form of sales tax. The self –enforcing feature of VAT would make the administrative works easier. The existing sales tax seems to be inefficient and less productive that has created cascading. So, VAT is found to be best alternative for reducing such inefficiencies, because of, its broad coverage.

According to the study, the most important problem for implementing of VAT is administrative inefficiency. The present sales tax administrative is not capable of handling VAT. Other problems associated with the application of VAT are; lack of account keeping system, lack of knowledge about VAT. Lack of co-operation between the Government and private sector, illiteracy and low public awareness, the full advantage of VAT cannot be achieved without extending it to the retail level but the extension of VAT to the retail level is impossible and impractical in Nepalese context.

In 2004, Mr. Puspa Raj kandel, published a text book entitled “Tax laws and tax planning in Nepal”. The book was designed to fulfill the needs of MBS level under Tribhuwan University. This book was very useful to the students and teachers to know the legal provision of the income tax ACT 2058. The book has attached acts, rules related to value added tax and income tax. (Kandel, tax laws & planning in Nepal; 2004) R. B. Khadka (2000) published a book entitled, “The Nepalese tax system”. He pointed out the need to introduce of VAT in Nepal after analysis of review the Nepalese tax system. The main reason to introduce VAT in Nepal is to develop a stable source of revenue by broad base tax. After enactment of SAFTA and WTO agreement, the broad base internal tax system of VAT is required.

In 2009, the book named, “Tax laws and tax planning” by Mr. Ishwor Bhattarai and Mr. Girija Prasad Koirala describes the Income tax system in depth. This book describes VAT practice in Nepal with several theoretical as well as with examples. This book specifically designed for the study of MBS 2nd year under Tribhuvan University. However, the book has not mention about the legal provisions. (Bhattarai and Koirala, Tax laws and Tax planning; 2010)

Further the author stresses on the proper implementation of VAT in Nepal. But it isn't so easy to implement due to most of business vendors don't want to register under it. So, the writer goes in conclusion that will generate more revenue in future when it becomes fully implement.

2.2.2: Review of Relevant Studies

In 1997, Subedi, in his thesis concludes that VAT is applicable in Nepal on the sense of tax performance. In Nepal, VAT is desired to achieve the goals of neutrality, revenue productivity, fairness and transparency. From his view, VAT is found to be the best

alternative to eliminate the existing ineffective tax system. VAT would generate more revenue with less distortion and will unify member of taxes producing very low amount of revenue because of its broad coverage, VAT, being member of indirect taxes is regressive in nature, utilizing income tax, special consumption tax and some exemption for equality goals, the focus of VAT should be on revenue generation in Nepal. (Subedi, 1997)

In 1998, Ghimire in his thesis “Value added tax; key issues in Nepal” explains great importance for the effective implementation of VAT administrative, capability in Nepal. Organizational structure, audit and inspection system, reward and punishment political intervention, selection of skilled and experienced manpower are needed to improve for effective implementation of VAT. VAT is considered as a broad tax and potential advantages of it can be attained fully if the tax extended through retail level. He also finds some difficulties in implementation of VAT in Nepal, such as rate structure. Small traders in large proportion lack of accounting record, illiteracy and high compliance cost etc. Strong administrative and educational programmed, technical data base system, combination of various revenue offices, high level Vat implementation terms etc are essential prerequisites of the successful implementation of Vat in Nepal. (Ghimire, 1998)

In 1999, Bista in his research focused the “Need of VAT for Nepal for several reasons “They are effective revenue mobilization, industrial development, strong administration, transparency and avoiding all tax loopholes.” VAT helps to reduce the resource gap by broadening the tax base and mobilizing additional resource by controlling tax leakage, smuggling, unofficial trade and corruption through transparency and account based crosschecking. In his research, the major findings were about a VAT being account based, invoice based and record based; it checks the tax loopholes such as under valuation, on recording and unauthorized trade. It discourages such issues and problems existed in the sales tax system. (Bista; 1999)

In 2000, Dhakal in his thesis has analyzed the Nepalese tax structure along with the basic emphasis and historical background and potential revenue of VAT in Nepal. The increasing trend of the resources gap of Nepal is forcing the country to debt trap station. Domestic resource 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 methods. VAT encourages

investment, supports economic growth and keeps price stable. Exceptions and zero-rating reduced the regressivity of VAT however it makes the complex. The study found that VAT is unable to complete the existing sales tax mainly due to the minimum use of invoices by sellers and as well having no interest to obtain invoices by purchasers. Elasticity and buoyancy Nepalese tax system are very low further; they are decreasing in recent years. VAT more attractive from the theoretical as well as empirical aspects hence, the introduction of the VAT is not the fulfillment of the requirement and VAT system itself has a great need of reforming in the Nepalese context. (Dhakal, 2000)

In 2004 Pathak in his thesis, VAT system had a lot of challenges for the successful implementation of the VAT. There should be correction on traditional accounting system behavior of tax authority etc. he has recommended that VAT and other types of taxing education must be given to all consumers. Department of VAT should be re-organized with the effective structure prize system should be given more priority to taxpayers and consumers also. He has also recommended that research and investigation should be developed for effectiveness of VAT, surveys should be done to drag the potential taxpayers and finally special priority should given to backward places of country. (Pathak, 2004)

In 2006, Neupane in his thesis "Resource mobilization through Value Added Tax in Nepal" has examined historical background of VAT and analyze mobilization of revenue through VAT. He has also provided the bird eye view of the practicing scenario of VAT in the foreign countries. He concludes that VAT is most scientific innovation and modern in sales tax family. The collection of revenue is always moral than the regular expenditure in each and every fiscal year. Tax administration has to begin its program package very strictly and immediately to register the traders who are supposed to get registered in the VAT in order to control the leakage of revenue and tax evasion so that the number of the taxpayers would increase and hence the revenue collection would also increase. According to him, implementation of VAT as a tax reform system is not enough to collect more revenue. Though attempt was made to inform the public about the some non-VAT including commodities through the public the public media of communication. But as a result, the business man raised the price of daily consumption goods and in the other hand-Government could neither reduce price nor punish those businessman against such acts. He has given some recommendation on increasing the boundary of VAT instead of increasing the rates, also the concentration should be given

to bring use of billing system and consumer should be made educated regarding the aspects and benefits of VAT. So, there should be co-ordination between Government, taxpayer and tax administration to achieve better result. (Neupane, 2006)

Chamlagain Binda Prasad (2008), in his dissertation submitted to Nepal Commerce Campus faculty of management T.U entitled “Public awareness about VAT system in Nepal “ has analyzed the historical background of VAT, revenue collection from VAT in different year. Contribution of VAT in national revenue, trend of revenue from VAT and empirical investigation regarding to awareness of VAT in Kathmandu valley etc, in his view the revenue collection trend from VAT is increasing year by year and its contribution is positive in national revenue. He also found some empirical studies about VAT and finds some problems about VAT they are weak administrative; lack of proper billing system weak public consciousness. Political instability etc one the main problems of effectiveness of VAT, He also find out the awareness level of people about VAT is very low, which is increasing smoothly.

In 2009, Joshi Asistha on her thesis ‘Current practical issues on VAT system’ writes the ultimate goal of every country of this world including Nepal is to get better economic development and to ensure the rapid rate of economic growth. To get the pace of economic development it is essential to have sufficient revenue generation, particularly revenue collection through taxation is a primary source and it plays the great role form development of nation’s economy. In which the indirect tax has occupied two-third place of total tax revenue.

Bhatta Prem Prasad (2009), in the thesis of MBS focuses that VAT is on encouraging the registration trend in Nepal. According to him VAT is more efficient tax to avoid the cascading and programming effects on reviewing registration trend. People are being more conscious toward the advantages of registration in VAT and the implementation scenario of VAT is going on sound world. Revenue collation from import is very much higher than from internal sources.

Finally he recommended that proper publicity for all related person is fundamental tools for success of VAT, tax related information should be published, seminar should be done from different consult to the public. Peoples are not clear about VAT law so it should be simplify in the VAT laws.

2.2.3: Review of Relevant Articles

In 2002, an article “VAT Refund system” published in The Kathmandu post made a point that Nepalese industries and businessman do not have any faith on VAT refund system before four or five years most of them used to say that it would be impossible to industries on refund system. Refund is one of the important features of VAT system. The possibility of refund arises when the tax paid by tax payers on his purchase, imports exceeds the tax collected on his output. Tax refund is granted after verifying the export declaration form, letter of credit its/bills of entry and proof of payment to authenticate the export and the import declaration forms or purchase invoices to authenticate the tax paid on inputs. In the absence of these conditions, refund mechanism is likely to be grossly misused by the taxpayer. Internal experience indicated that provide refund without verification of expenses and payment of input tax. So in order to avoid such, the system of verification has been introduced in Nepal. (The Kathmandu post; 2002)

In 2004, a published article on “VAT ACT 2052” by Mr. Upreti, he has written that VAT has become relevant to illustrate the impractical and difficult aspects regarding the structure use and implementation of this act in today’s context. The highlighting points are the impractical and misuse aspects observed in the process of the implementation of this act, delays regarding the tax refund activities, policy review regarding how much should the burden of thus tax be added to the levels of transactions. (Upreti, VAT ACT 2052; 2004)

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

Another article in 2009 by Vidhayadhar Mallik “Value Added Tax and the practice of issuing and receiving invoices in the context of market economy” has attempted to highlight activities to guarantee the benefits of all business people and consumers the

negative aspects of vested interests and the belief that positive thoughts and endeavors of the business community, consumers and the administrators will highly support the market system for this purpose various suggestions have been recommended which are concerned to various communities of the society. There is always room for improvements in an open society and market economy. So importance has to be given for the improvement that needs to be made today and secure the opportunities for tomorrow. There should be development in VAT system by adopting automatic billing system today and open the doors for tomorrow's economic well being. (Vidhyadhar Malik, Value Added Tax and the practice of issuing and receiving invoices in the context of market economy; 2009)

2.3: Research Gap

The VAT is strong source of indirect tax revenue. It plays important role in revenue collection for the enhancement of the registration trend of VAT; different public awareness program must be held. If the VAT system is sufficient, the Government will meet the target goal. VAT system depends on its legal provisions and its popularity also depends on its transparency. About 18 years have already been passed since VAT came into operation but very few studied were related with theoretical aspect. In this study, the researcher tries to examine process of implementation, problems of VAT and its effectiveness in the Nepalese economy. To make this research different from others, the researcher used different technique i.e. statistical tools, future prospective or forecasting, legal provisions, different views of respondents etc.

CHAPTER III

RESEARCH METHODOLOGY

3.1: Introduction

This chapter is devoted to the research methodology applied in the study for the achievement for desired objectives. The study is based in both primary and secondary data. For the primary data, opinion survey techniques were adopted to find out the views of respondents representing different group related to value added tax. The empirical investigation was inducted to find out the practical aspect to VAT. Secondary data have been collected from the Inland Revenue department, budget speech of GON, newsletters and publications of different authorities and so on. Other necessary data and information have been collected from books, articles etc. Different statistical and mathematical tools such as bar diagram, trend line, percentage etc, have been used to analyze the collected data.

3.2: Research Design

Value added tax is the new concept of tax in Nepalese economy. It has completed only 18 years time duration, so that is lack of availability of historical data as needed. It is based on theoretical as well as practical experience of seventeen years in Nepal. This study has tried to analyze the system by its own procedure. There are three types of research; descriptive, analytical and empirical. The study of VAT ACT, 2052 VAT rules and regulations, Government's plans etc, are done as a part of descriptive research. It includes the evolution and development of VAT. The study of literatures concerning the VAT system and the classification of concepts allocate with VAT are also conducted during the mean time of research. Analytical research is conducted to analyze the trend and contribution of VAT in Government revenue .It is done mainly through the secondary source of data from various publications. Therefore to achieve the specific objectives of the study, descriptive and analytical research has been carried out.

3.3: Nature and Sources of Data

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

I: Primary Data:

The major tools used for the collection of primary data are distribution of a questionnaire to a responsive of persons. A set of questionnaire was developed and distributed to the selected respondents in order to get accurate and actual information. The questionnaire was distributed to different tax group i.e. tax experts, tax officers, businessmen and consumers. Tax experts and tax officers are selected from tax department, various sectors of tax officers in Kathmandu and ministry of law and justice, reputed lawyers, auditors, and intellectuals who have knowledge and ideas about VAT. Tax payers i.e. businessmen and consumers are selected from different manufacturing company ,trading company , department stores, shopping center, finance company etc.

II. Secondary Data

The study is based on secondary data and the source of secondary data is as follows:

- a. Published document from ministry of finance as economic survey.
- b. Publication of ministry of finance, Budget speech.
- c. Publication of Inland Revenue Department, Annual Report.
- d. Other relevant data for the study are Economic journal, Rajaswa Bajar, Abstracts Article, Newspaper etc.
- e. Dissertation related to VAT available at library of Nepal commerce campus.

3.4: Data Collection Procedures

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

3.5: Populations and Sample Size

In order to benefit these study 75 sizes from Kathmandu valley is selected. Persons included in the samples are selected by consultation with the professors, tax experts (i.e. tax officer, tax teachers, auditor etc) and businessman, customers and lectures judgment of the researcher. The respondents have been divided into three groups. The following table shows the groups of respondents and size of samples.

Table 5: Groups of Respondents and Size of samples from Each Group

S.N	Group of Respondents	Sample size
1.	Arts	15
2.	Customers	25
3.	Businessman	35
	Total	75

Source: Field Survey, 2014

3.6: Procedure of Data Collection

Sources of data have been divided into primary and secondary data. In the primary data, the major tools used for collection is through the questionnaires for the concerned people. A set of questionnaires was developed and distributed to different groups of people like tax experts, customers, businessman, teachers and so on to find out their views on various issues and provisions of VAT act and regulation as well as some practical aspects of VAT system. On the other hand, for secondary data, following were collected through different sources.

- a. Budget speeches and economic surveys.
- b. World Bank report.
- c. Publications of Inland Revenue department.
- d. Newspaper such as Gorkhapatra, the Rising Nepal, the Himalayan times, Kantipur daily etc.
- e. Published reports, articles and research studies.
- f. Dissertation related to VAT.
- g. Published documents of National planning, Commission and Nepal Rastra bank.

- h. Various books.

The collected data through secondary sources were obtained from different ways according to the demand of the study. Data have been taken from Inland Revenue office and others have been collected from published and unpublished articles, books, magazines, and websites of various institutions.

3.7: Data Processing and Analysis Procedure

The information revived from primary and secondary sources is firstly tabulated in to separate formats. Systematically, in order to achieve desire objectives. After that these data are absolute and analyzed. For the purpose of analysis generally simple statistical tools have been used which are

-) Simple percentage methods.
-) Ranking methods.
-) Graphs.
-) Charts and
-) Diagrams.

3.8: Data Processing and Analysis Procedure

The data collected from above mentioned various sources have been tabulated so as to obtain desired outcome. The collected information has compiled and tabulated in different headings. Hence, the data are processed by using relevant statistical tools.

3.9: Weight of Choice

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

3.10: Tools for Analysis

To make research objective practicable, to find accurate result different statistical tools are used. The different statistical, tools in the process of analysis are

- a. Simple percentage methods.
- b. Ranking methods.
- c. Graphs.

- d. Charts and Diagrams.
- e. Trend line and Pie charts.
- f. Analysis of time series and Coefficient of Correlation.

3.11: Assumptions and Limitation

- a. All the works are based on certain assumptions and limitation .So is the case with this study.
- b. VAT rate is not change drastically.
- c. This study is based on the published secondary data and information and no attempts have been made to examine the reliability of data.
- d. It is costly to implement as it is based on full billing system.
- e. It is relatively complex to understand. The calculation of value added in every stage is not an easy task.
- f. To implement the VAT successfully, customers need to be conscious, otherwise tax evasion will be widespread.

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

4.1: Role of VAT in Revenue Collection

4.1.1: Revenue Structure in Nepal

Taxation is one of the key internal sources of total Government revenues. It is also the pillar of the fiscal policy. It contributes more than 70%, to total internal resources of revenue. In this situation the tax structure stands as a mirror of the fiscal policy. Revenue plays an important role in nation building. The image of the Government proofs by the Government activities, which enhance the economic and social status of people. Revenue increases the Government desire and ambitions and increases the mobility power also. In order to perform such social oriented activities, Government needs huge amount of resources. Such types of revenue are collect either from internal or external sources. The tax revenue and non- Tax revenue are two main factors of total revenue. Tax revenue consists of direct tax and indirect tax and non tax revenue consists of charges, fees, fines, and forfeiture, received from sale of commodities and services, divided from different Government firms, royalties and sales of fixed assets, principle and interest payments and other miscellaneous income, contribution of tax revenue and non-tax revenue, and the percentage description is presented below in the form of table and diagram.

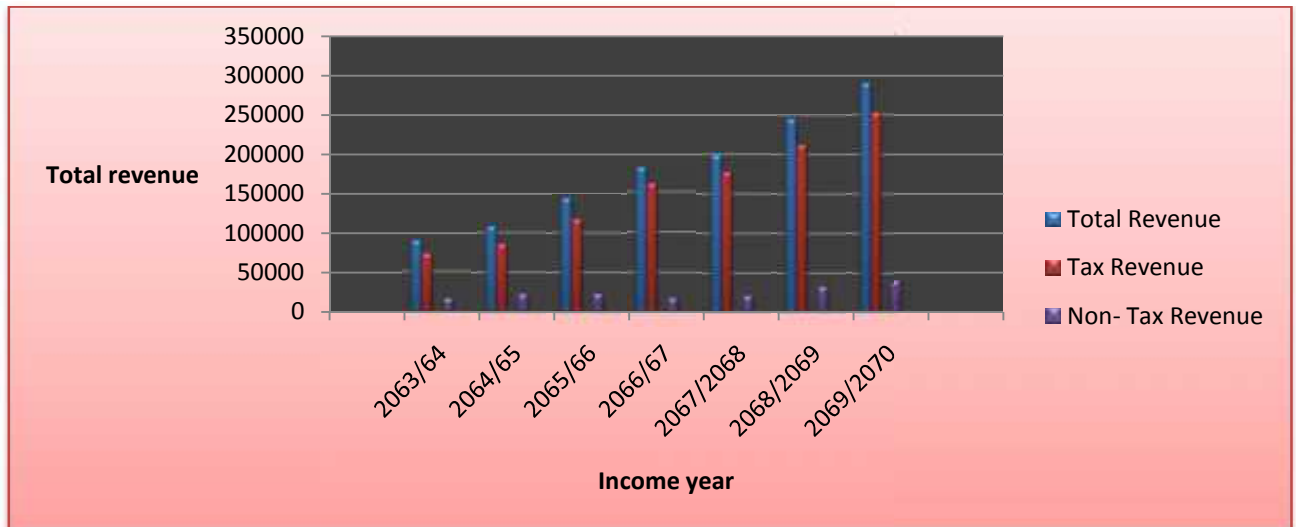
Table 6: Revenue Structure in Nepal

(Rs. In millions)

Fiscal Year	Total Revenue	Tax Revenue		Non- Tax Revenue	
		Amount	% as Total	Amount	% as Total
2063/64	87717	71127	81.1	16590	18.9
2064/65	107623	85155.5	79.1	22467	20.9
2065/66	143465	117052	81.6	22892.1	18.4
2066/67	179940	159785.53	86.9	18205.6	13.1
2067/2068	198375.8	177227.1	89.34	21148.7	10.66
2068/2069	244374.1	211722.6	86.64	32651.5	13.36
2069/2070	289604.9	252572.5	87.21	37032.4	12.79

Source: Economic survey of various years, MOF 2069/70

Figure 1: Revenue structure in Nepal



The composition of tax revenue and non- tax revenue in total revenue structure has been shown in above table. It can be seen that revenue collection in Nepal has increasing trend from the beginning and the share of tax revenue has always been greater than the share of non- tax revenue. The study parameter of the research prolong with initiation from financial year 2063/2064. (*According to VAT act, 2052 and Income tax Act, 2058— financial year is recognized as Income year which is started from 1st of shrawan and ending to the last of ashad of next calendar year.*)The composition of tax and non tax revenue in the income year 20063/2064 adhered as 81.1% to 18.9%. The same structure varied in next year as 79.1% to 20.9%, which instantly change in small acoustic. After the sanction year, the percentage forms between these sources similarly inclined to tax revenue and ipsofacto for non tax revenue. The income year 2068/2069 has brought attentive formation to articulate the same information which is slightly changed to opposite intuitive. The ratio can be illustrated as 86.64% to 13.36%. The last year of my survey again hit the same phrenology with the structural function, which states the proportion as 87.21% to 12.79%. Simply, total revenue constantly increasing from the initiation, the first year of my study disclose the same fact as 87717, and at the ending result of Income year 2069/2070, the total revenue proactively diagnose for 289604.9.

From this, we can conclude that Nepal did not properly apply such reform program which can increase collecting power of tax. After implementation of VAT in 2054/55, the contribution of tax revenue has not increased. The contribution percentage of VAT is almost same and the collection from non-tax revenue is not in increasing trend also. So, in conclusion, tax revenue and non-tax revenue of Nepal is not increased rapidly.

4.1.2: Tax Revenue Structure in Nepal

Nepalese total tax revenue is divided broadly into direct tax revenue and indirect tax revenue. Direct tax revenue includes income tax, property tax, interest tax, gift tax, vehicle tax, expenditure tax, contract tax etc, where as indirect tax revenue is composed of taxes like sales tax (VAT), entertainment tax, passenger tax, Hotel tax, import tax, export tax, excise duty etc. (The same classification of TAX as Direct and Indirect has been omitted from the Income year 2067/2068 but the core fact generalized by Same class does not make any variation to the spot of collection.) The absolute and relative share of direct and indirect tax revenue is presented in table.

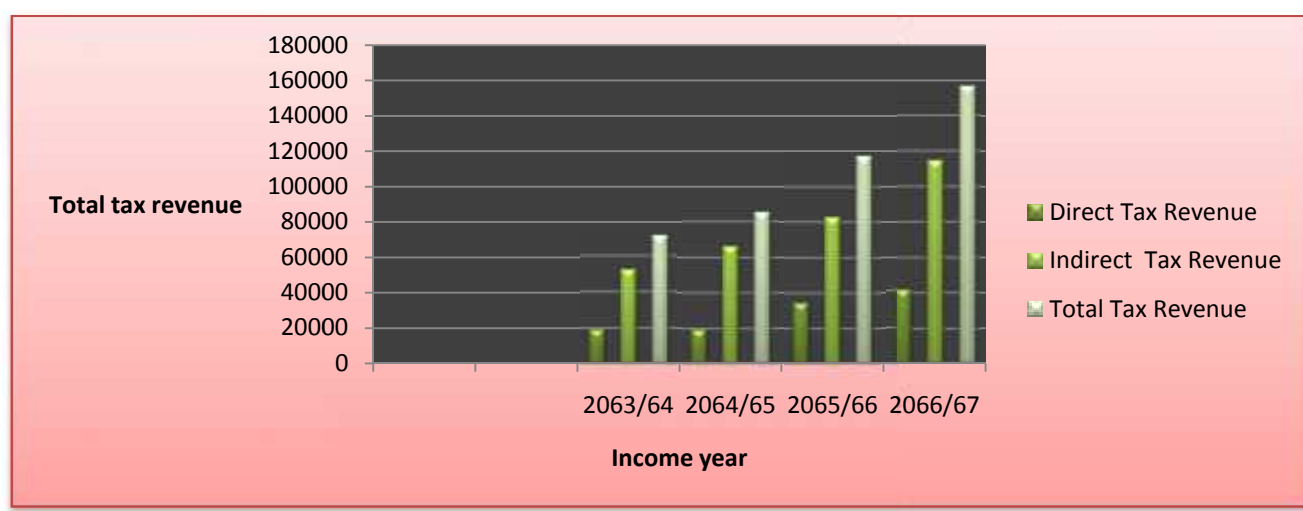
Table 7: Tax revenue Structure in Nepal

(Rs. In millions)

Fiscal Year	Direct Tax Revenue		Indirect Tax Revenue		Total Tax Revenue
	Amount	%	Amount	%	
2063/64	18980.5	26.69	52146.5	75.68	71127.0
2064/65	19077.7	22.40	66077.65	72.89	85185.5
2065/66	34320.7	29.32	82731.2	70.68	117051.9
2066/67	41760.5	26.08	114530.1	73.92	156290.6

Source: Economic Survey of various Years, MOF 2066/67

Figure 2: Tax Revenue Structure in Nepal



The above table analyzes the information up to the income year of 2066/2067. After the said forth year the implacable difference between Direct and Indirect tax has been omitted by finance ordinance but the core matter relating to the subject does not varied in identification. The information relating to the later period comes under purview after all.

As comparison mended above, the indirect tax structure plays important over direct collecting sources. In the income year 2063/2064, the proportion adhered that 75.68% has been collected from indirect sources whereas 26.69% is accumulate through direct sources. Like in the next few years little variation obviously takes place in the structure but the role fetch by indirect tax sources never be optimizes before direct tax sources. Income year 2066/2067 also placed the same manner as above, the said forth proportion varies as 73.92% to 26.08%. The increasing trend of direct tax revenue is constraint than indirect tax revenue. Indirect tax revenues increasing trend is very fluctuated than direct tax revenue.

Table 8: Sources of Revenue income

“In millions”

Description	2010/2011(2067/2068)		2011/2012(2068/2069)		2012/2013*(2069/2070)	
	Amount	Percent	Amount	Percent	Amount	percent
Tax on Income, Profit and Capital Gains	4135.0	20.8	5130.3	21.0	6168.1	21.3
Tax based on Remuneration	71.0	0.4	155.5	0.6	178.6	0.6
Property tax	357.2	1.8	358.8	1.5	421.2	1.5
Tax based on goods and services	9479.3	47.8	11056.1	45.2	13525.1	46.7
Tax based on foreign trade	3571.4	18.0	4339.1	17.8	4744.5	16.4
Other taxes	108.8	0.5	132.4	0.5	219.8	0.8
Total tax revenue	17722.71	89.3	21172.3	86.6	25257.2	87.2
Income from Assets	1296.4	6.4	1765.3	7.2	2096.5	7.2
Income from sale of goods and services	244.8	1.2	691.3	2.8	746.8	2.6
Penalties, fines and confiscation	13.4	0.1	31.6	0.1	34.4	0.1

Voluntary handover except grant	0.2	0.0	0.1	0.0	0.1	0.0
Miscellaneous revenue	560.1	2.8	776.9	3.2	825.3	2.8
Total non tax revenue	2114.9	10.7	3265.1	13.4	3703.2	12.8
Total revenue	19837.59	100.00	24437.4	100.00	28960.4	100.00

*Estimated figure
(2012/2013)

Sources: - MOF Economy survey

The MOF report assigned above does not make any difference between the sources as direct tax revenue or indirect tax revenue. It clearly identified the tax sources in various headings but we can make a difference whether the heading should include to direct or indirect by focal judgment. The Direct sources include the matter—Tax on income, profit and capital gains, Tax based on remuneration, Property tax. Likewise indirect sources promptly identify – Tax based on goods and services, Tax based on foreign trade. The government basically depends upon major three heading for tax revenue sources, which have a greater ratio as compared to other. These sources generalized the pattern for government income. (Tax on income, profit and capital gains, Tax based on goods and services, Tax based on foreign Trade)

In this way, Nepalese tax structure has heavily dominated by indirect tax. Direct tax has plays an important role in revenue collection and it is the best tax for revenue collection. Indirect tax does not generate in developed and underdeveloped countries. It is considered as regressive in nature, so attention should be given in mobilizing additional financial resources through direct tax.

4.1.3: Indirect Tax Revenue, Structure in Nepal

An Indirect tax is imposed on one person partly or wholly paid by another. The tax, which pays to the Government through different mediator, is known as indirect tax. Convenience to pay mass participation and limited evasion are main features of indirect tax. VAT, sales tax, entertainment tax, hotel tax, exercise duty, import duty, export duty are the examples of indirect tax. Large portion of tax revenue is collected by indirect tax in Nepal. Among the indirect tax, custom duty on imports and export take share of huge amount of indirect tax revenue. Share of Vat (sales tax) and excise duty is second and

third position in total tax revenue. The different indirect taxes are shown in the following table.

Table 9: Indirect Tax revenue Structure in Nepal

(Rs. In

millions)

Fiscal Year	Customs Duties	Sales tax/ VAT	Excise Duty	Other Taxes	Total
2063/64	16708.0	26095.6	9342.9	0	52146.5
2064/65	21062.5	29815.7	11189.6	0	66077.6
2065/66	26792.9	39700.9	16220.8	0	82731.2
2066/67	24315.1	54896.5	24315.5	0	114530.1

Source: Economic survey of various years, MOF, 2066/67

Custom duties: import, export, Indian excise refund and other.

Excise duty: Sum of taxation of industrial product and liquor contract.

Other Tax: Entertainment tax, hotel tax, air flight tax, contract tax, road and maintenance tax and others.

The finance bill 2067/2068 has changed the form of presentation of indirect tax structure Mainly of Value added tax. Same can be stated here for user understanding.

4

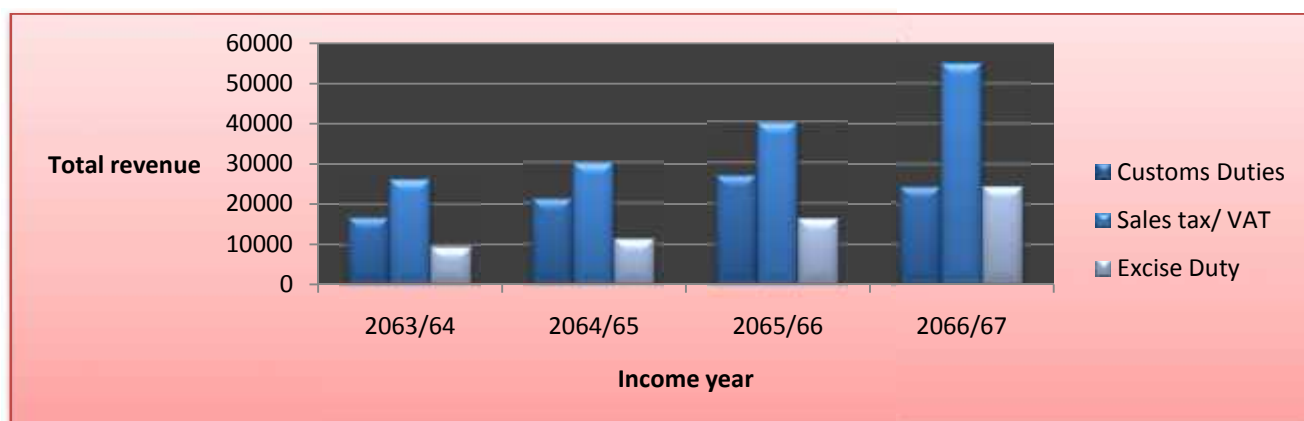
Table 10: VAT structure in recent years

“In crores”

Sources(<i>Internal sources only</i>)	2064/2065	2065/2066	2066/2067	2067/2068	2068/2069	2069/2070
Reverse charge	0/00	0/00	0/00	0/00	0/73	1/32
Tourism industry	0/73	0/84	0/94	1/12	1/05	1/20
Miscellaneous	3/73	5/05	6/65	7/13	5/10	4/34
Contract	1/30	1/60	2/19	3/12	4/80	5/48
Sales	1/92	2/37	3/30	4/25	5/56	6/37
Production	3/43	4/06	6/02	6/77	8/40	9/77
Total VAT	11/11	13/92	19/10	22/39	25/65	28/49

Sources: Inland Revenue department (IRD) Report (2012/2013)

Figure 3: Indirect Tax Revenue Structure in Nepal



4.1.4: Revenue Collection from VAT

Out of the total revenue collected by the government of Nepal, VAT profusely plays important role in total collection. My study period shown below added the instant review for vat collection on total revenue with yearly wise percentage change.

Table 11: Revenue Collection from VAT

(Rs. Millions)

<i>Fiscal Year</i>	<i>Revenue Collection from VAT</i>	<i>Percentage Change</i>
2063/64	26095.6	20.75
2064/65	29815.7	12.48
2065/66	39700.9	13.50
2066/67	54920.9	27.68
2067/2068	61692.9	10.97
2068/2069	72188.2	14.54
2069/2070	83505.9	13.56

Source: Economic survey of various years, MOF, 2069/70

This study is based on VAT; a source of indirect tax .So focus goes mainly to indirect tax. Indirect tax is imposed to person but paid wholly or partially by another person. Indirect tax has been dominant role in tax revenue. Similarly, sales and value added tax has dominant position in indirect tax. For the comparison purpose taxes from contract, hotel tax and entertainment have been included in sales/value added tax because after the adoption of VAT all these taxes were replaced.

Figure 4: Revenue Collection From VAT



The income year 2063/2064 disclose the total revenue collection from VAT as 26095.6 which is 20.75% changed as compared to previous year. In the same manner, the percentage change and revenue collection for next two years quit interesting, the same fact stated as, 12.48%, 13.50%, Rs.29815.7, and Rs.39700.9. The percentage change on total revenue has again inclined in income year 2066/2067 by 27.68%, which is almost top up to. In the last year of my study this change meets the 13.56% on Rs.83505.9 Vat revenue.

4.1.5: Contribution of VAT to Total Revenue

Government revenue is collection mainly as tax revenue and non-tax revenue, the direct tax and indirect comes as the major composition and VAT falls under the category of indirect tax revenues. The following table shows the contribution of VAT in total revenue.

Table 12: Contribution of VAT to Total Revenue

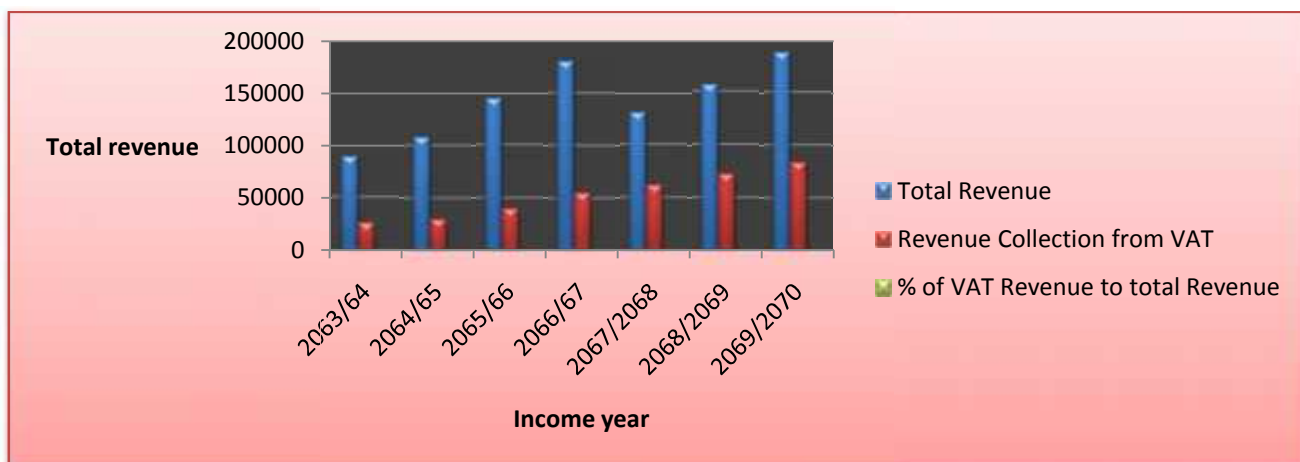
(Rs. Millions)

Fiscal Year	Total Revenue	Revenue Collection from VAT	% of VAT Revenue to total Revenue
2063/64	87717.0	26095.6	29.75
2064/65	107622.5	29815.7	27.70
2065/66	143465.5	39700.9	27.67
2066/67	179940.3	54920.9	30.51
2067/2068	129877.0	61692.9	47.50

2068/2069	156097.7	72188.2	46.25
2069/2070	187510.4	83505.8	44.54

Source: Economic survey of various years, MOF, 2069/70

Figure 5: Contribution of VAT to Total Revenue



From the above table it can be seen that the contribution of VAT revenue to total revenue in Nepal is very less. In fiscal year 2063/64, contribution from VAT to total revenue was 29.75%. The trend was slightly lower in next two years. Again Income year 2066/2067 brings the upward adjustment for 30.51%; thereafter it takes the forms for inclined manner. In income year 2069/2070, the total revenue from vat is 83505.8 which is 44.54% of total revenue collected. So, we can say that VAT contribution in total revenue collection is very low as compared to other nation or the world.

4.1.6: Contribution of VAT to total Tax Revenue

The share of VAT in total tax revenue is shown in the following table.

Table 13: Contribution of VAT to Total Tax Revenue

(Rs. In

Millions)

Fiscal Year	VAT Revenue	Total Tax Revenue	Percentage of VAT
2063/64	26095.6	71127.0	36.69
2064/65	29815.7	61152.3	32.67
2065/66	39700.9	117051.9	33.97
2066/67	54920.9	113048.3	35.12

2067/2068	61692.9	129877.0	47.51
2068/2069	72188.2	156097.7	46.25
2069/2070	83505.9	187510.4	44.54

Source: Economic survey of various years, MOF 2069/70 and Annual report of IRD

Figure 6: Contribution of VAT to Total Tax Revenue



The contribution of VAT to total revenue is not smooth. It is fluctuating from the Initiation to end (Income year 2063/64 to 2069/70). Firstly it was increased, then decreased in the income year 2064/2065 and increased again by end of 2065/66. This continues up to the income year of 2067/2068 by 47.51% which is 12.39% more as compared to last year. Likewise 2068/69 and 2069/70 attentively declined the percentage by 1.26% and 1.71% respectively. There is highest contribution in the fiscal year 2067/68 of 47.51% and lowest in the fiscal year 2064/65 of 32.67%.

4.1.7: Ratio of internal and import VAT

The government shall collect the vat from both internal sources and imports. The study period which I adhered here analyze the Proportion between internal collected vat with import collection.

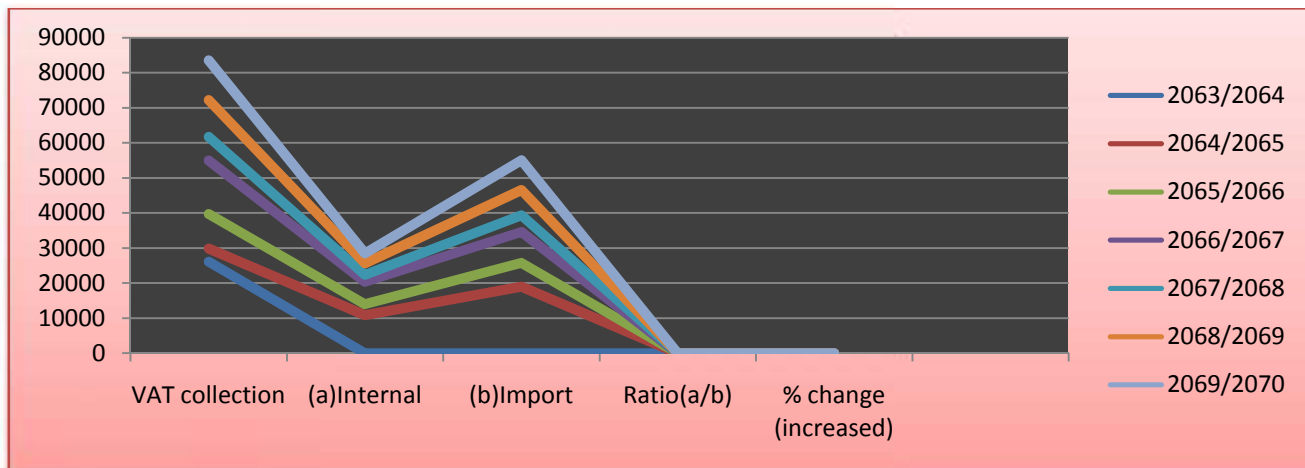
Table 14: Ratio of Internal and import VAT

“Rs.In millions”

Sources	2063/2064	2064/2065	2065/2066	2066/2067	2067/2068	2068/2069	2069/2070
VAT collection	26095.6	29815.7	39700.9	54920.9	61692.9	72188.2	83505.9
(a)Internal	--	10808.241	13918.493	20379.831	22386.275	25650.831	28498.858
(b)Import	--	19007.462	25782.428	34541.025	39306.573	46537.311	55011.971
Ratio(a/b)	--	36:64	35:65	37:63	36:64	36:64	34:66
% change (increased)	--	17	33.15	38.34	12.33	17.01	15.68

The above table presents the circumstances of proportion between internal sources and import imposition. In income year 2064/2065, the ratio has come to attention as 36:64. Likewise in later period same acoustic as 35:65, 37:63, 36:64, 36:64, and 34:66 for income year 2065/66,2066/67,2067/68,2068/69,2069/70 respectively. Thus, we come to conclusion that the proportion does not bring large fluctuation in any income year. The highest % change was identified by income year 2066/67 whereas the lowest optimum is generalized by immediately following year i.e., 2067/68.

Figure 7: Proportion of VAT collection between Internal and Import sources



4.1.8: Contribution of VAT to GDP

The contribution of VAT in gross domestic production is presented in the following table.

Table 15: Contribution of VAT to GDP

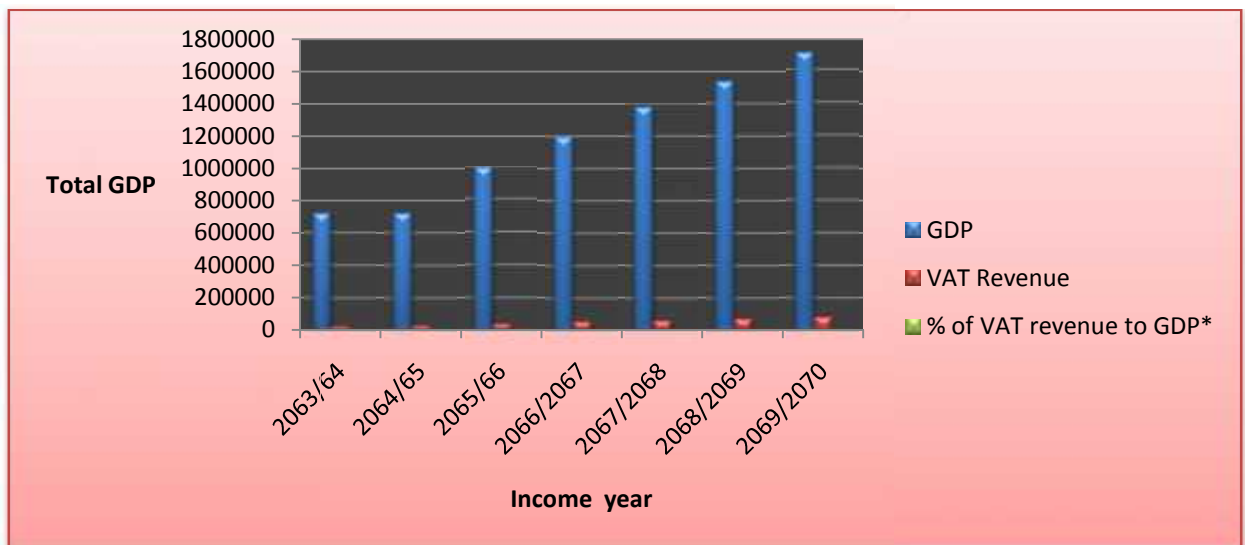
(Rs. In millions)

Fiscal Year	GDP	VAT Revenue	% of VAT revenue to GDP*
2063/64	718887.0	26095.6	3.63
2064/65	720186.0	29815.7	4.14
2065/66	988272.0	39700.9	4.02
2066/2067	1192774.0	54920.9	4.61
2067/2068	1374953.0	61692.9	4.49
2068/2069	1536000.0	72188.2	4.70
2069/2070	1701194.0	83505.9	4.91

*Current price (Noting point: - The GDP of 2069/2070 is based on estimation as disclosed by report of economic survey 2069/70)

Source: Economic survey of various years, MOF, 2069/70

Figure 8: Contribution of VAT to GDP



From the above table the percentage of VAT to GDP constantly manual within line of 4 to 5 percent. The earlier year 2063/2064 has disclosed the same information in line of 3 which was least among the all. Except in the income year 2065/66 the ratio has been slightly inclined in every year, which shows the pattern of more generation with National GDP.

4.2: Findings from the Secondary Data

The findings have been derived on the basis of previous chapters and data presentation and analysis. Nepal being a developing country facing financial crisis, on the overwhelm Government expenditure is increasing day by day in comparison to that of revenue trend. However share of indirect tax in total tax revenue is found increasing. Following are the major findings from the secondary data based on 7 years data.

- a. The revenue is collected as tax and non- tax revenue. From the Income year 2063/2064 to Income year 2069/2070, the total revenue is absolutely increasing. So, the analysis of revenue trend of past 7 years, it can be conclude that the revenue is in increasing manner. In income year 2063/64 total revenue was 87717.0. Likewise in next couple of years the same trend was – Rs.107622.5, 143465.5, 179940.3, 129877.0, 156097.7and 187510.4 (from income year 2064/65 to 2069/070 respectively).
- b. The amount of tax revenue is also increasing throughout the study period but the revenue from non-tax source had decreased in some instance.
- c. After the study of the data collected, it can be say that the tax revenue has the major contribution in total revenue. The average percentage of tax revenue in the total revenue stands as79.49% to 86.86%.
- d. The tax revenue includes direct tax revenue and indirect tax revenue. The portion of direct tax revenue is smaller than the portion of indirect tax revenue, i.e. in Income year 2063/2064, direct tax is Rs. 18980.5 m and indirect tax is Rs. 52146.5 and similarly on the further year 2066/67 the portion of direct tax revenue is Rs. 41760.5 m and indirect tax Rs. 114530.1m
- e. During the study of 7 years period i.e. from fiscal year 2063/2064 to 2069/70, the VAT ratio has been increased gradually in each income year.
- f. The share of VAT revenue in total revenue is from 25% to 45%.
- g. The tax revenue is one of the major sources of revenue of the Government; the percentage of contribution in total tax revenue during the study period is from 31.86% to 35.12%.
- h. The share of VAT revenue in indirect tax revenue is from 43.14% to 47.93%.
- i. The relationship between tax and GDP is known as VAT/GDP ratio. This is an indication of the utilization of taxable capacity. The VAT/GDP ratio is 3.63, 4.14,

4.23, 4.61, 4.49, 4.70&4.91 in the fiscal year 2063/64, 2064/65, 2065/66, 2066/67, 2067/68, 2068/69, and 2069/70 respectively.

4.3: Primary Data Analysis

There have been various empirical studies after implementation of VAT system in Nepal. It is viewed that this system has not been implemented effectively as expected. There was a strong opposition from the business community during the earlier period of VAT implementation. In that time there was a negotiation between private sector and Government on the different aspects and provision of VAT. After that VAT was expected through the real level and thus implemented in its full- fledged form. In the beginning period of VAT implementation, there was lack of skilled and trained manpower and administrative officer .But currently different informative programs, seminars and meeting were held to make the business man consumers and people known to the VAT.

4.3.1: Present Threshold Limit for Effective Implementation of VAT

The question about present threshold limit for effective implementation of VAT was as asked to 75 respondents but only 65 respondents were responded as below in the following table.

Table 16: Views on Present Threshold Limit for Effective Implementation of VAT

S.N	Response	Total	Percentage	Rank
1	Low	10	15.38	III
2	Moderate	35	53.84	I
3	High	18	27.70	II
4	Very high	2	3.08	IV
	Total	65	100	

Source: Field survey, 2014

Above table shows that there were four alternatives answers i.e. low, moderate, high and very high in above question , 15.38% respondents expressed low, 53.84% respondents moderate, 27.7% respondents expressed high and 3.08% respondents express their view very high about present threshold limit for effective implementation of VAT. From this it can be concluded that tax payers are not satisfied about present threshold limit. So, it is

better to divide present threshold limit into domestic goods and services, import business and export business and others if any special for its effective implementation.

4.3.2: Billing System

Billing system is one of the most important aspects of the VAT system. The entire businessman has to receive the bills of actual transaction price while importing and buying of goods and services. The price of the goods and services with and without VAT has to be mentioned explicitly in the bill, while selling goods purchaser has to compulsory been given the same type of bill. The businessmen have to pay the amount of difference between tax collected in sale and tax paid on purchase to the VAT office he has to pay the income tax as well on the profit of his transaction. Thus the billing system plays crucial role in the field of VAT system. But in Nepal billing system has been one of the major problems. So, the question is designed to show the comments on billing system of VAT. The outcome of the field survey in this aspect is given below.

Table 17: Views on Billing System

Respondents	Possible		Impossible		I don't Known	
	No	%	No	%	No	%
Tax Experts	15	100	-	-	-	-
Customers	12	60	8	40	-	-
Businessmen	15	50	10	33.33	5	16.67
Total	42		18		5	

Source: Field survey in, 2014

From the field survey it is found that all the tax experts and tax officers advocate for the possibility of billing system in VAT system. 60% of customers claimed that billing system is possible, 40% argue that it is impossible and, similarly 50% businessman said that there is possibility of billing system, 33.33% said impossible and 16.67% are unknown about the billing system.

4.3.3: Most Important Factor for Effectiveness of VAT in Nepal

The view of the respondents is shown in the following table.

Table 18: Views on Most Important Factor for Effectiveness of VAT in Nepal

S.N	Response	No.	Percentage	Rank
1	Honest tax officers	12	18.46	IV
2	Honest Tax payers clear ACT rules	15	23.08	III
3	Clear ACT rules, regulation	18	27.70	II
4	Effective, VAT administration	20	30.78	I
	Total	65	100	

Source: Field survey, 2014

In order to know the most important factor for effectiveness of VAT in Nepal, respondents were requested to express their view about the most important factor for effectiveness of VAT in Nepal. As compared to other taxes, there is less chance of tax evasion. VAT minimizes tax evasion due to its catch-up effect. It is transparent and has minimum burden to consumers as it is collected in small fragments at various stages of production and distribution.

The above table shows that 30.78% respondents focused on need of effective VAT administration for effectiveness of VAT. There after 27.70% respondents focused on clears ACT Rules, regulation 23.08% respondents focused on honest tax payers and 18.46% respondents focused on honest tax officers. So, it can be concluded that clear ACT, RULES and regulation are the most important factors for the effectiveness of VAT.

4.3.4: Superiority of VAT over Sales Tax

VAT is the new innovation in the field of taxation. It is developed from sales. VAT is being preferred by many countries of the world is superior over sales tax system. Without comparison, we can't say VAT is superior over sales tax with base to effective revenue mobilization, the tackle to all tax evasion, wide tax base, transparent VAT is

concerned as superior than sales tax. The survey result on this aspect is summarized in the table below.

Table 19: Views on Superiority of VAT over Sales Tax

Respondents	Yes		No		I don't Known	
	0	2-3	2.4	2.5	12.6	12.7
Tax experts	10	100	-	-	-	-
Businessmen	20	66.67	10	33.33	-	-
Consumer	15	60	5	20	5	20

Source: Field survey in 2014

According to the survey result 100% tax officers, 66.67% businessmen and 60% consumer provides their arguments VAT is superior to sales tax, 33.33% businessman and 20% consumer say VAT is not superior to sales tax. They argue that VAT is not different then sales tax it is also a kind of sales tax. And 20% consumer is not clear whichever is best. They are unknown about sales tax and are not clear about the VAT system. According to the aggregate study VAT is superior than sales tax on effective revenue collection and mobilization, the tackle to all tax evasion wide tax base and transport.

4.3.5: Suggestion to Broaden the VAT Base

Broadening, the VAT base means including as much as sector into VAT net. Even in the low rate high revenue can be collect through expanding VAT base. The opinion survey about the views on, expanding base of VAT, different respondents are shown in following table.

Table 20: Views on expanding the base of VAT

Respondents	In Favor of reducing threshold (%)		In favor of all Services		In favor of certain services		In Favor of Agriculture Sector		Unknown	
Tax Experts	3	20	8	53.34	2	13.33	2	13.33		
Businessmen	11	33.33	4	12.12	4	12.12	6	18.18	8	24.24
Consumers	5	23.81	5	23.81	2	9.52	3	14.29	6	28.57

Source: Field Survey, 2014

From the above opinion survey 20% tax experts 33.33% , businessmen and 23.81% , consumer are favors to reduce the existing threshold of VAT to expand the VAT base. While 53.34% tax experts, 12.12%, businessmen and 23.81% consumer favors for including all the service in to the tax net 13.33%. Tax experts, 18.18%, businessmen and 14.29%, consumer are favors of incorporate agriculture sector 24.24% businessmen and 28.57% consumers are unknown about it.

4.3.6: Existing Problems, Which are Facing by the Government and Business Sector after Implementation of VAT in Nepal

There were many problems, when VAT becomes, implemented, since 1997 in Nepal. Among those problems, some are reduced and some exist up to now. So, the implementation side of VAT is yet weak. It should be made stronger and progressive than its present status. The implementation of VAT also affects to other taxes like income tax, custom duty, and excise duty etc. So, it is essential to analyze the problems of VAT with its implementation side. An opinion survey was collected from different sectors to find out the problems after implementation of VAT. Out of 50, 45 respondents were expressed their view for this question. The existing problems, which are facing by the Government and business sector after implementation of VAT, are shown in the following table.

Table 21: Existing Problems, Which are facing by the Government and Business Sector, after Implementation of VAT

S.N	Response	Total	Percentage	Rank
1	Open boarder of Nepal	15	23.08	I
2	Weakness of tax administration	7	6.15	IV
3	Lack of public awareness	5	7.69	V
4	Complex accounting	2	3.08	VIII
5	Lack of VAT education	4	10.78	VI
6	Unclear VAT rules & regulations	10	15.38	III
7	Tax refund process	3	4.62	VII
8	Billing system	5	7.69	V
9	Registration process	11	16.92	II
10	Lack of trained and skilled manpower	1	1.54	IX
	Total	65	100	

Source: Field survey, 2014

This table shows that open border of Nepal is main problem for VAT implementation. The Government should apply effective boarder control system and policy. The above table also shows that most of respondents focused on problem of complex registration process. There should be needed further improvement with making suitable policy and strategy for registration process. The long and complex registration process should be revised.

Likewise, under VAT rules & regulation is one of the main problems for VAT implementation. The tax administration is very weak to perform the work well and still traditional nature and corruption motivated. There is weakness in well- defined kick of public awareness and billing system. So, VAT administration hasn't sufficiently been able to bring efficiency, transparency and accountability in its operation, political intervention and powerful relations have also affected it. Therefore, VAT administration should accomplish the several reforms in its overall implementation parts in time with transparent, responsible, efficient, effective, non-corrupt, political intervention free administration with modern and global pole. And also there are problems in tax refund process, lack of public awareness, complex accounting system lack of VAT education, under VAT rules and regulations etc.

4.3.7: Problems Faced after Introduced of VAT system

VAT system was introduced in 1997 A.D. However the concept of this tax in Nepal was introduced in early years of 1990s. Before the introduction of VAT, sales tax was in operation. The respondents were asked for their views toward the problems faced after introduction of VAT system, which is shown in following table.

Table 22: Problems Faced after Introduction of VAT System

S.N	Response	No	Percentage	Rank
1.	Problems in accounting system	5	7.69	V
2.	Increase in compliance cost	15	23.08	II
3.	Problems in tax refund	3	4.62	VII
4.	Problems in administration	20	30.78	I
5	Decrease in competitive cost	10	15.38	III
6.	Problems in trade and tariff	7	6.15	IV
7.	Problems in credit transaction	5	7.69	VI
	Total	65	100	

Source: Field survey, 2014

The above table shows that 30.78% respondents focused on problems in administration after introduction of VAT system. Likewise 23.09% respondents focused on problems of increase in compliance cost, 15.38% respondents focused on decrease in competitive capacity, 6.15% respondents focused on problems of trade and tariff, 7.69% respondents focused on problems in credit transaction, and respondents focused on problems in accounting system and 4.62% respondents, Focused on problems in tax refund process.

4.3.8: Views on “is the Present Threshold Secure all the Small Vendors”

Despite the bitter fact that small vendors are many and its role should be inevitable and dominant to the business structure of developing countries. Small vendors in the developing countries are many so Government can able to include these small vendors in the tax net. Due to this revenue should be increased by broadening and widening the tax base. But its implementation is not free from problems. This one is the small vendors who are illiterate and ignorant as to the VAT, can't meet basic requirement guide by the VAT incentive to the taxpayers, secondly the operation of VAT administration will be complicated and costlier regarding VAT enactment. Third one is the growth of tax leakage and corruption is continuous day by day. Therefore, the concept of threshold is kept at 2 million, which is applied to tackle such kinds of problems by avoiding adverse effect on revenue accumulated and also on the business of small vendors. According to the enactment the threshold rupees is 2 million if the turnover of small vendors is below the fixed threshold small vendors have legal exemption from VAT. So, the questionnaire was asked to find out view about it “whether present threshold is enough to secure the small vendors”. Views from respondents are presented in table below.

Table 23: views on Sufficiency of Present Threshold to Secure Small Vendors

Respondents	Yes it is		No it needs to enlarge		I don't know	
	No	%	No.	%	No	%
Tax experts	15	100				
Businessmen	20	60.61	5	15.15	8	24.24
Consumers	10	47.62	8	38.1	3	14.29
Total	45		13		11	

Source: Field survey, 2014

The finding shows that 100% tax experts, 60.61%, businessmen and 47.62% consumers are satisfied with present threshold keep in the VAT enactment. However 15.15%

businessmen and 38.1% consumers are not satisfied with current VAT enactment and rule .Beside 24.24% businessmen and 14.29% consumers have not educate information and knowledge about it , from the above survey present threshold limit is enough to secure the small vendors in Nepal.

4.3.9: Measures to Establish VAT as a Major Source of Public Revenue

VAT is the most popular taxation system. VAT can be as a major source of public revenue, when the tax administration will be efficient and effective. The respondents were asked for their views toward the measures to establish VAT as a major source of public revenue, which is shown in following table.

Table 24: Measures to Establish VAT as a Major Sources of Public Revenue

S.N	Response	No	Percentage	Rank
1.	More trained &qualified officers	12	18.46	II
2.	Minimize personal contract with the tax payers	9	13.85	IV
3.	Computerized system for the payment of VAT	30	46.15	I
4.	Collection of VAT should be given to private	10	15.38	III
5.	Quick & hassle free service	4	6.15	V
	Total	65	100	

Source: Field survey, 2014

The above table shows that 46.15% respondents focused on need of computerized system for the payment of VAT to establish VAT as a major source of public revenue. Likewise 18.46% respondents focused on need of more trained and qualified manpower , 15.38% respondents focused on need of private sector’s participation in collection of VAT,13.85% respondents focused on to minimize personal contract with the taxpayers and 6.15% respondents focused on need of quick and hassle free service.

4.3.10: View on Sufficiency of Legal Provisions and Rules of VAT

Before the implementation VAT, the Government has prepared VAT ACT 2052 BS and VAT regulation 2053 BS. But the legal provision and rules, in general different to understand by all, the documents of these enactments carry all the matters, such as VAT administration and its operation, the tax officers and its authority’s tax payers and its responsibility, the procedure of VAT collection, Identification of new tax payers,

monitoring, cross checking, penalties and punishment. The field survey has been conducted to find out whether the present act and regulations are sufficient or not with reference to current system of VAT. The attitude of the respondents on this aspect is present in the table below.

Table 25: Views on Sufficiency of Legal Provisions and Rules of VAT

Respondents	Yes		No		I don't know		Moderate	
	No	%	No	%	No	%	No	%
Tax experts	12	80	-	-	-	-	3	20
Businessmen	15	45	5	15.15		18.18	7	21.21
Consumer	8	38.1	5	23.81		28.57	2	9.52

Source: Field survey, 2014

The field survey 80% tax experts 45.45% businessmen and 38.1% consumer are in favors of present legal provisions and rules of VAT. While 15.15% businessmen and 23.57% consumer said that present legal provision is not sufficient 18.18% businessman and 28.57% consumer are unknown about it. And 205 tax experts 21.21%businessman and 9.52% consumer have moderate view about this question. It can be said that the present rules and legal provision are enough to implement VAT system effectively and properly.

4.3.11: Views on Improvement of Revenue Mobilization through VAT

The tax is main source of revenue of Government for developing countries. The major part of total tax income is contributed by VAT/sales tax. Mainly the Government has moved toward VAT system in order to increase revenue by broadening tax base and make tax system transparent. To find out whether the previous sales tax or VAT system will help to improve the Government revenue the respondent's views were presented in the table below.

Table 26: Views on Improvement of Revenue Mobilization through VAT

Respondents	Yes		No		I don't know	
	No	%	No	%	No	%
Tax experts	15	100	-	-	-	-
Businessmen	25	75.75	-	-	8	24.25
Consumer	15	71.43	-	-	6	28.57

Source: Field survey 2014

From the above table 100% tax experts 75.75% businessmen and 71.43% consumer viewed that there will be improvement of revenue mobilization through VAT. While 24.25% businessmen and 28.57% consumers are unknown about it. And 28.57% consumers are unknown about it.

4.3.12: Effectiveness of VAT in Future

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

Table 27: Views on Effectiveness of VAT in Future

Respondents	Yes it will be		No it won't		I don't know	
	No	%	No	%	No	%
Tax experts	15	100				
Businessmen	17	51.51	8	24.24	8	24.24
Consumer	13	61.90	3	14.29	5	23.81

Source: Field survey 2014

According to the field survey 100% tax experts 51.51% businessmen and 61.9% consumers are totally optimistic that VAT will be effective in future but 24.24% businessmen and 14.29% consumers are pessimistic the VAT won't be effective in future remaining 24.24% business-men and 23.81% consumer are unknown about it. From the survey it is found that majority of effective in future.

4.4: Findings from the Primary Data

From the survey of consumers opinion (Ultimate tax payer as per VAT ACT, 2052) following conclusions can be illustrated.

- a. The billing system plays the crucial role. In the current scenario one of the major problem existed is unauthentic billing system proceed by concerned assesses.¹⁰ Regarding the current status of possibility to improvement of billing system, 50%

¹⁰ Assesses— person who pays the tax. or the person on whom the burden is mended for Payment.

consumers, 60% businessmen and 100% tax experts advocate for possibility in favor of improvement.

- b. The consumers are also not actively participating to demand the valid bills while pertaining transaction. They have no real idea behind the billing benefits for the nation.
- c. The administration staffs are not legible in ethics. The main reason behind this would be keen financial interest for their personnel benefits. On the other hand, person¹¹ atomize their benefits from staff of tax department too.
- d. In comparison to other countries, Nepal remains to utilize all the means and resources. Large numbers of taxpayer are outside the scope of the net VAT. The rules and regulation does not suffice to compliment each taxpayer in a clear manner.
- e. Value added tax of Nepal is not stand in real ground up to this stage. The imported goods and services does not correctly valued at the custom point. The controlling mechanism for the commodities, charged by excise duty isn't good so far and difficult to knows the actual production always existed thereof.
- f. Tax revenue trend is not satisfactory that's why the most of tax return should be debit note in practice of world. But same prevailed in Nepal as for credit note.
- g. High possibility of forgery and offend is increasing. The general trader, businessperson and manufacturer always want to conceal the real wealth of their revenue. Infact they are deceiving and coercing. Lack of proper knowledge and education always attempts to optimize tax burden.
- h. Open boarder is a main problem for successful implementation of VAT.
- i. For improvement and effective implementation of VAT, there must be fully trained and skill manpower available to the tax administration. Besides this, coordination with private sector, reward management system and punishment system, keeps utmost important for successful implementation.
- j. Many of the respondent are in favor of existing legal rules and regulation (VAT act, 2052, VAT regulation, 2053, Annual finance Act in each year etc) but the general public does not know even the surface matter of regulating system.
- k. The suitable legalize system is there but the study survey based on various people do not give full satisfaction to the effectiveness on it. The businesspersons are against the increasing rate of VAT.
- l. The future of VAT is progressive.

¹¹ Person—Natural person and Entity

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1: Summary

This research entitled “A study on VAT: Assessment, Challenges and Effectiveness in Nepalese economy” has been carried out to think into the theoretical knowledge as well as the practice of VAT in Nepal.

VAT has come of 18 years in Nepal, but it has completed 57 years in the international arena of taxation as it was firstly introduced in France in 1954. VAT in Nepal has witnessed many ups and downs and twists and turns so far. Despite all the odds, it has been able to prove itself as a strong and healthy backbone of the internal revenue by outstripping custom duties from FY 2002/03 onward and now stands as the largest contributor to the state coffer. At the time of its introduction, there were only 2045 taxpayers converted into VAT from the then sales tax regime, but by the end of FY 2010/11, registration toll has reached to almost 97,664, registering a phenomenal annual average growth of 126.42 percent. Thus, it is in increasing trend.

Improving compliance behavior of taxpayer has been a utopia in Nepal. The registered taxpayers too are not effective and instrumental to the tax generation. Average of FY (2010/11-2012/13), around 49% returns were of credit returns with a mammoth credit amount of Rs. 109 billions and around 18% are debit returns with meager tax of Rs. 19 billions followed by 33% zero returns. The credit volume is alarmingly skyrocketing recording almost 5.62 times of debit amount payable to the treasury and 1.73 times of total VAT collection of the year. Another saddening aspect is huge number of non-filers. Around 21.25% taxpayers are not filing their returns that reflect higher filing risk in VAT administration. The self-policing and catch-up effect of VAT has turned out to be like an oasis in a far-off desert. Taxpayers are barely interested in observance of law in regards to issuing tax

An Overview of Microfinance Service Practices in Nepal invoices in market prices. A sizeable amount of tax is getting fading away by aggressive tax avoidance and evasion. It is further aggravated due to weak enforcement of the law by both the Custom and Inland Revenue Administration at the time of under declaration at custom point, under billing

and no billing in the consumer markets. Some criminal-type taxpayers are hell-bent on issuing sham invoices to the fraudulent taxpayers collusively that have resulted in fake input tax and refund claims. Tax refund is no longer able to retain its beauty to the amount it is supposed to; it has rather virtually turned out to be a nightmare in getting back money from treasury to the fraudulent taxpayers by preparing forgery tax invoices and export documents. Though Inland Revenue Department (IRD) had achieved notable success in reducing VAT dues last year, there is a huge amount of dues yet to be collected in this year. The taxpayers are loath to pay assessed taxes either by lingering the payment date or by following formal means of appeal to the Revenue Tribunal that contribute to the further increase in the amount of dues. IRD has been able to figure out the problems and the vulnerable areas of the system. IRD should buckle down to handle such problems avidly along with the desired professionalism. The newly introduced performance based incentive system (PBIS) has a high bearing on the overall productivity of IRD and it has been effective in motivating and making employees accountable to their performances. The Government has encouraged using fiscal printers, electronic cash machines to address the issues of tax invoice, but taxpayer are adamant to such initiatives. Tax administration has been launching 'Tax Enforcement Campaign Year' to intensify tax enforcement, but the demonstration effects have been minimal. Given the poor enforcement capability, Nepal's porous borders have been grey areas to breed illegal and fraudulent economic activities. The customers are largely oblivious of VAT system. They are indifferent and do not even bother to ask for bills at the time of their purchases. The malignant taxpayers cash in illegal benefits from the unawareness of the innocent taxpayers to manipulate their transaction. IRD has been pursuing two-pronged strategies, namely (i) increasing of services delivery with high quality to lure taxpayers towards tax administration and (ii) administering stringent legal actions to the tax dodger. Establishment of Taxpayers Service Offices (TSOs) at the doorstep of the taxpayers will go a long way in focusing on: registration, taxpayer education, tax collection, frequent and friendly visits, market survey and monitoring to enhance the service quality. On the other side, the Inland Revenue Offices (IROs) and Large Taxpayers Office (LTO) have developed an in-built system to detect phony transactions.

IRD

The Journal of Nepalese Business Studies has been lean on taxpayer education and consumer awareness campaign. Apart from this, procedural simplification through

application of e-based system, scaling up investment for ICT sophistication, restructuring and reengineering of the organization, decentralization of service delivery, and centralization and specialization of audit and investigation are some lofty initiatives of the IRD. Some policy changes look urgently desired at the moment. The gargantuan exemption list must be trimmed down to reduce distortion in system and to increase tax base keeping single minimal tax rate. Businessmen want the government to introduce multiple tax rates to make it more progressive and comprehensive. But, wrangling over multiple rates is neither distortion-free nor is it administratively feasible for both taxpayers and tax administration. "An increase in the standard VAT rate may increase informal sector trade and cross-border shopping"(Brys, 2011) any escalation in VAT rate could generate negative spillover effect to the VAT system. Emphasis should be put on the need to maintain the good qualities of VAT (uniformity, a broad base, no cascading, buoyant revenue) by having very few exemption, zero-rating only for export and only one (or at most, two) rate (Tait, 1991). A policy of increasing threshold and introducing annual turnover tax for the non- registered taxpayer could be a viable option for structural reform in VAT. The ever-changing nature and dynamics of service business is also a potential area for VAT administration. A policy of increasing threshold and introducing annual turnover tax for the non- registered taxpayer could be a viable option for structural reform in VAT. The ever changing nature and dynamics of service business is also a potential area for VAT administration. The most challenging aspect of VAT is to address no-billing and under-billing malpractices of the vendors head-on. For this, custom administration should enforce the law to buy all the goods being declared on under-valuation and simultaneously the Inland Revenue administration should also purchase under-invoiced goods and should not spare anybody to bring them under the purview of law. The tax administration and business communities, who were once at loggerhead over the introduction of VAT in Nepal, are now on the same boat to sail through the challenging job.

Opinion survey technique has been used in this study to collect primary data on effectiveness of VAT. Primary data have been collected from three respondent groups i.e. consumers, businessman/accountants and group of expert people. In the empirical study the analysis has been done about VAT on the basis of information collection from different sectors. The information collection tools are use questionnaire. The question are

asked 70 different respondents i.e. 10 tax experts 5 tax offices 25 business men and 30 consumers.

Despite having too many challenges regarding in the implementation of VAT, it has been generating public revenue. The revenue structure shows that the contribution of indirect tax to the total tax revenue has increased with some fluctuation. Although the amount of VAT revenue has been increasing but it is unable to achieve its potential. The main problems lie on the proper invoicing system. Likewise administrative inefficiency, lack of knowledge, lack of skilled manpower is also main problem in VAT system on the other hand problems like lack of proper implementation of rules and regulation unclear VAT laws and regulations lack of tax education, broad coverage and lack of effectiveness of tax administration are arisen in the process of VAT collection system. Other problems relating to the effectiveness of VAT are lack of awareness about VAT, existence of corruption, smuggling and under valuation, open boarder and unauthorized trade, lack of coordination between tax payer and tax administration, inability to maintain accurate and proper accounts, non issuance of invoice in the sales of goods etc.

It has been years since the implementation of VAT ACT, there have been legal changes made; rates were increased for the effectiveness of VAT, but still there are many problems hurdles ahead to simply the whole system. Regarding this the study has been conducted with the objective to know the opinion of various stakeholders of this filed along with motive of and examining their level of knowledge on some critical issues. Likewise study was aimed to examine the problem areas of revenue administration and allied sector and also to explore possible areas that could be brought under the net of VAT. Further, study was also carried on to review the some new changes (e.g. tax plate-TDS and compulsory sales register) made on this sector by the revenue administration.

To fulfill the above mentioned objectives, secondary as well as primary data are used in this study. Economic survey has been used as the major secondary data. Data has been analyzed by presenting the relevant data into tables and figure. Percentages and averages have been computed for the 7 year's period i.e. from *income year* 2063/64 to 2069/070.

5.2: Conclusion:

The ultimate goal of the developing countries like Nepal is to achieve the economic development and ensure the rapid rate of economic growth. It calls for a huge amount of

investment in economic overheads and other development activities for which taxation is undoubtedly a primary source of Inland Revenue for the government. Taxation may be considered as a basic tool in the path of economic development for the under developed countries.

Recently, developing as well as developed countries in the world have increasingly focused their attention towards reforming the tax system by standardizing and improving the poorly designed tax structure in order to mobilize high volume of resources for the development purposes and make the economy healthy, efficient and self sufficient to a larger extent. In this regard, VAT has become a point of attraction for about 150 countries in the world including Nepal. Existed sales tax along with contract tax, entertainment tax and hotel tax were replaced by VAT since 1997 in Nepal. VAT was initially expected to have a high revenue yield due to its broader coverage and basis. Elimination economic distortions caused by tax system, elimination of cascading and pyramiding effects, creation of the competitive business environment, strengthening foreign trade etc, as it were, are other features of VAT theoretically, expected to be fulfilled in the real practice.

It was not easy for the Nepalese government to implement VAT easily as there were many objections and complaints from the business community. But after some dialogue and negotiations, the government was able to implement it to the satisfaction of all. However, there are several issues in the applicability of VAT in Nepal. One of the key issues is administrative capability and situation which definitely are of great importance for the effective implementation of VAT in Nepal. Actually VAT was introduced in Nepal in an ambitious hope to increase the revenue and particularly stop the leakage made through other forms of taxes. But history has shown that the government has already tried many reforms in the field of taxation but no alternative have effectively materialized because it lacked proper planning and in other words leading to administrative failure. Indeed, this is true in the case of VAT also, Nepalese businessmen are generally found to avoid the frequent contacts with the tax officials because they are widely known for unofficial benefits. Even in the administrative area, there is a widespread corruption. From the survey, it is clear that it is difficult for the customers to get the job done by officials without sufficiently bribing them. There is also a red tapism everywhere. So, for the government, administrative capability and transparency are the

serious concerns. In order to make VAT applicable, following things should be considered:

- i. Administrative power and credibility
- ii. Tax payer identification
- iii. Registration and educational program
- iv. Incentives for small traders
- v. Co-ordination with private sector
- vi. Feasibility of refund system
- vii. Electronic media

Currently DANIDA and GTZ have jointly established a VAT project in order to assist the implementation of VAT in Nepal. While the numbers of registrants are increasing but the tax collection has not been satisfactory when compared to the number of registrants. Public awareness is very low. The salesmen are not used to issuing bills and the consumers to receiving them. Undervaluation and smuggling of goods are mostly found. The problem seems to be aggravated by the government's increasing the VAT rate to 13% which immensely discourages the customer in demanding bills on their purchases.

Truly, recent increment in VAT rate has a fairly negative influence on general people. Their viewpoint is to broaden the tax base instead of increasing the tax rate. Tax rate has been increased time and again for nothing, but this does not get reflected in real revenue mobilizations. Rates should be continued for a long time for transparency and must be incorporated in VAT Act itself. So, the government has to pay serious heed in increasing the tax base instead of increasing the tax rates. International experience tells us that the gradual lowering of duties or tax rate is an effective tool in achieving the desired goals rather than increasing it.

Periodical policy has also been obstacles for its speedy enforcement, and a major hurdle that has hurt revenue generation. Excise duty is an important source for VAT, but it has not been effectively administered. Custom officials are more worried on customs duty than VAT collection. Widespread leakages are normal practices due to lack of professionalism, integrity, technically competent, and international orientation. Tax auditors have been auditing without basic knowledge and academic background. As it's weakly enforced, many sectors are out of tax net. Taxpayers complain that the procedures are complicated and time consuming during the decision-making process.

The current modality of the raffle tickets has been designed so as to seize the original bills from eighty percent of taxpayers, who pay only twenty percent of revenue. The system is not new; many countries have already tried with the lottery system, and failed gaining from it. It means, we have no valid mechanism to bring potential payers into net, and no valid mechanism has been developed on bringing them into the tax net.

The April 2005 movement (also known as the second janandolan) is a harbinger of new hope in Nepal. It was intended to overthrow the old feudal regime replacing it with the new sovereign and people-ruled system. Nepalese people are beginning to dream of different New Nepal following the constituent assembly. Under such situation, the old status quo in the administrative field also must change. Surely, this is a real challenge to the administrators and the policy makers of Nepal. In other words, this is not happening at the moment. If that status quo could not be broken, no matter whatever big changes take place, they would have no influence at all. This is a real paradox. However, if the nation is to march fast enough to keep pace with the momentum of development and political change; it must come out with a new inventory of concepts and strategies as opposed to the old stereotyped ones. It is a well known fact that the industrialization of Japan, Hong Kong and South Korea was possible because of their tax policies. So under the changed system in the country, a tax system definitely could play a crucial role in course of nation-building. Sweeping and radical reforms on VAT system with a comprehensive incentive package based on VAT concept would help the economy boom.

A bold vision, evolutionary leadership, efficient bureaucrats, honest taxpayers plus collectors and graft-free society are the invisible infrastructures required. So, all must think from a long-term perspective rather than weighing up immediate pros and cons. The Inland Revenue Department must come up with a forward-moving process, concrete action plan and policies to cope with the global challenges in order to accelerate the reform process.

5.3 Recommendations

On the basis of research, the following corrective measures are recommended for the better administration and implementation of VAT system in Nepal.

1. A proper co-ordination between IRD and MOF should be established. Unpractical Acts, Rules and Regulations should be amended. VAT laws needs to

review on the basis of experience gained so far VAT laws should be effectively implemented.

2. Unproductive, corrupted, inefficient staff lacking practical and specialized training is a serious problem. So, providing training to such staff is highly essential.
3. The tax administration should be very watchful to prevent any kind of malpractice, fraud and tax evasion. Utmost care should be taken to prevent any kind of bribing and corruption. Tax officials should effectively be monitored.
4. Taxpayers, customers are clearly ignoring the VAT system and taking it for granted. They have lack of proper knowledge about computation of tax liability, taking invoice or bill on their purchases. So, emphasis should be given in educating the tax payers. The issuance of proper bill for every taxable sells must be made mandatory.
5. The success of VAT system is not only the success of the IRD, but also the success of nation as a whole. The role of general media, radio, TV, newspaper plays an important one. Emphasis should be given on mass media. Awareness towards VAT system should be created among general public, non-governmental and government organization.
6. Computer system and networking program through online service must be developed and linked so as to make the work simple and easy. Computer links between tax officer and custom offices should be maintained.
7. Government has been providing tax refund facility to business organization and foreign diplomacy and foreign aided project. Tax refund is one of the sources of tax leakage. Therefore, tax authority should manage tax refund facility properly.
8. Research and investigation should be conducted on various issues, such as the effect of VAT on price, economic growth, investment and measures for solving VAT problems should be recommended by the expert group. VAT law needs to be reviewed on the basis of experience gained so far.
9. The accounting system should be transparent. Taxpayers should be encouraged to register their business voluntarily. Instead of forcefully coercing tax payers, providing various facilities to them can increase VAT compliance. The tax administration can select genuine business persons and reward them.

10. Border should be effectively controlled to prevent the illegal trade. Warehouse and highways checking should be done effectively to prevent any kind of illegal trade.
11. VAT collection on import is remarkably higher than domestic production. Government should take effective steps to encourage domestic production.
12. Lots of efforts should be made to reestablish a functionally well-organized organization where the tasks are carried out in a modern, effective, efficient, transparent and service-minded manner.
13. Most of the national economic activities are dependent upon agriculture and large portion of GDP coming from agricultural sector remains out of the tax net. Thus VAT should also be levied on agriculture sector with sufficient exception for generating more tax revenue. This will increase VAT/GDP ratio.
14. Most of the taxpayers are not satisfied with VAT administrators. They always have complaints against the administrators who do their jobs rather slowly, harassing the customers unnecessarily. The work that is to be finished today is postponed for the next day. This is their habit. Therefore it is suggested that tax administrators should be consumer-focused and result oriented.
15. Lastly, the periodic information about VAT is now available on the website as well. For the researcher this is a great privilege. But the websites are not updated and doesn't have the older reports. So, the website must be updated from time to time and must be kept up-to-date. And all backup copies of the old (old fiscal years') annual reports and Economic surveys must also be available on the website. This facilitates the researchers greatly and other concerned bodies, even the consumers, because for minor information, they would not have to frequent the Inland Revenue Department and Ministry of Finance.

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APPENDIX

ANNEX I: Survey Questionnaire

Dear Sir/Madam,

I would like to introduce myself as the student of MBS final year studying in Nepal commerce campus. I am engaged in a research work in order to fulfill, the partial requirement of Master in Business Studies (MBS) of Tribhuvan University of Nepal. I am going to prepare a dissertation on “*A study on VAT:-Assessment, challenges and Effectiveness in Nepalese Economy*”.

I humbly request for your valuable comments, suggestions and information on this issue which would very useful for my study. That’s why, I request you to fill up the following questionnaire. I would be very much appreciated if you could provide your time for filling this questionnaire.

I assure that, the information you provide me will solely be utilized in research work. I hope for your kind co-operation and support with many thanks as soon as possible.

A study on VAT: - Implementation, Problems and Its effectiveness in the Nepalese economy

Name of Respondent:

Office/Organization:

Occupation:

1. Did you know properly about VAT?
 - a) Yes ()
 - b) No ()
2. How do you know about VAT?
 - a) News ()
 - b) Radio/TV ()
 - c) Lectures/seminar ()
 - d) Others ()
3. What is your billing system?
 - a) Possible ()
 - b) impossible ()
 - c) I don't know ()

4. What type of impact does VAT system create on business enterprises?
 - a) Neutral
 - b) positive
 - c) Negative
 - d) Others
5. How do you think about the existing rate of VAT in Nepal?
 - a) High rate
 - b) Low rate
 - c) Moderate/normal rate
 - d) I don't know
6. Will price rise due to VAT system?
 - a) Yes
 - b) No
 - c) I don't know

If yes why?

 - a) Compliance cost
 - b) High profit
 - c) Non awareness of consumer
 - d) All
 - e) I don't know
7. Do you think that VAT is superior to sales tax?
 - a) Yes, it is
 - b) No; it is not
 - c) I don't know
8. What do you think about the existing tax structure of VAT?
 - a) It is ok
 - b) It has to be improved
 - c) I don't know
9. Which way of VAT does increase the base of VAT?
 - a) Reduce threshold
 - b) Include all service sector
 - c) Incorporate agriculture sector
 - d) All
 - e) I don't know
10. Is the present threshold is enough in Nepal?
 - a) Yes, it will
 - b) No, at all
 - c) I don't know
11. What do you think about present threshold limit for effective implementation of VAT?
 - a) Low
 - b) Moderate
 - c) High
 - d) Very high
 - e) Don't know
12. Do you think that the productivity of single VAT ratio is effective?
 - a) Yes, it will be
 - b) No; it won't be
 - c) I don't know

13. Is the present threshold enough to secure the small vendor?
- a) Yes it is ()
 - b) No it need to enlarge ()
 - c) I don't know ()
14. Can VAT secure properly to all small vendors?
- a) Yes it can ()
 - b) No, it can't ()
 - c) Possible ()
 - d) I don't know ()
15. Do you think that the possibility of the mal-practice of the threshold?
- a) Yes, it is high possible ()
 - b) Yes, but difficult ()
 - c) Lack of implementation and VAT administration ()
 - d) I don't know ()
16. What do you think about the tax burden of VAT to the tax payer?
- a) Higher ()
 - b) Lower ()
 - c) Normal ()
 - d) Zero ()
 - e) I don't know ()
17. What do your view on the exiting exemption of VAT?
- a) It is ok ()
 - b) It is should be reduced ()
 - c) It should be increased ()
 - d) I don't know ()
18. Do you think that current legal provision and rules of VAT is sufficient in Nepal?
- a) Yes ()
 - b) No ()
 - c) Moderate ()
 - d) I don't know ()
19. What are the problems in the process of VAT implementation?
- a) Registration ()
 - b) Collection ()
 - c) Tax refund ()
 - d) Miscellaneous ()
 - e) I don't know ()
20. What are the main problems of present VAT system in business sector?
- a) Registration ()
 - b) Account keeping ()
 - c) Billing system ()
 - d) miscellaneous ()
 - e) I don't know ()
21. Will VAT system in Nepal improve revenue mobilization?
- a) Yes ()
 - b) No ()
 - c) I don't know ()
22. What are the major weaknesses of VAT administration?
- a) Lack of exports ()
 - b) Lack of trained manpower ()

- c) Lack of physical infrastructure ()
 - d) Weak economy ()
 - e) Miscellaneous ()
 - f) All ()
23. What kind of efforts is needed to make VAT effectively successful?
- a) Strengthen and improve VAT administration ()
 - b) Trained and educated officers ()
 - c) Improve VAT laws and regulation ()
 - d) Public awareness programmer ()
 - e) All ()
 - f) I don't know ()
24. What are the major challenging problems of VAT in Nepal?
- a) Smuggling and under Valuation ()
 - b) Lack of proper billings ()
 - c) Lack of proper account ()
 - d) Weak tax administration ()
 - e) All ()
 - f) I don't know ()
25. In your opinion, who is the most responsible group for the tax evasion?
- a) Business enterprises ()
 - b) Tax administration ()
 - c) Consumer ()
 - d) All ()
26. What are the main reasons for need of VAT in Nepal?
- a) Effective ()
 - b) Transparency ()
 - c) Avoid tax leakage ()
 - d) Borden tax base ()
 - e) All ()
 - f) I don't know ()
27. What effect will create on investment sector?
- a) Positive ()
 - b) Negative ()
 - c) Normal/No effect ()
 - d) I don't know ()
28. What effect will VAT have in the nation's economic growth?
- a) Positive ()
 - b) Negative ()
 - c) Normal/No effect ()
 - d) I don't know ()
29. What effect will VAT have on tax leakage?
- a) Eliminative ()
 - b) Non-eliminative ()
 - c) No effect ()
 - d) I don't know ()
30. What effect will have VAT on balance of payment?
- a) Positive ()
 - b) Negative ()
 - c) Normal/No effect ()
 - d) I don't know ()

31. What effect will have VAT on smuggling business?
- a) Restrictive ()
 - b) Non- restrictive ()
 - c) No effect ()
 - d) I don't know ()
32. What are the most important factors for effectiveness of VAT in Nepal?
(Please rank)
- a) Honest tax officers ()
 - b) Honest tax payers ()
 - c) Clear act, rules and regulations ()
 - d) Effective VAT administration ()
 - e) Others (please specify)..... ()
33. What is your suggestion to broaden the VAT base?
- a) Reduce custom rate ()
 - b) Regulation promotional campaign ()
 - c) Increase co-ordination between public and private sector ()
 - d) Reducing exemption goods ()
 - e) Include all sector ()
 - f) Reduce threshold ()
 - g) Others (please specify) ()
34. What are the major existing problems of VAT for its implementation in Nepal?
(Please rank)
- a) Open boarder of Nepal ()
 - b) Weakness of tax administration ()
 - c) Lack of public awareness ()
 - d) Complex accounting system ()
 - e) Lack of VAT education ()
 - f) Unclear VAT rules and regulations ()
 - g) Tax refund process ()
 - h) Billing system ()
 - i) Registration process ()
 - j) Lack of trained and skilled manpower ()
 - k) Others (please specify) ()
35. What types of problem have you faced after introduction of VAT system?
(Please rank)
- a) Problems in accounting system ()
 - b) Increase in compliance cost ()
 - c) Problems in tax refund ()
 - d) Problems in administration ()
 - e) Decrease in competitive capacity ()
 - f) Problems in trade and transit and tariff ()
 - g) Problems in credit transaction ()
 - h) Others(please specify) ()
36. To establish VAT as a major source of public revenue, what measures are needed?
(Please rank)
- a) More trained and qualified officers ()
 - b) Minimize personal contract with the taxpayers ()
 - c) Computerized system for the payment of VAT ()
 - d) Collection of VAT should be given to private sector ()

- e) Quick and hassle free service ()
- f) Others(please specify)

37. Have you ever visit by the tax offices for tax purpose?

- a) Yes ()
- b) No ()

38. Has any person appointed for VAT work specially?

- a) Yes ()
- b) No ()

39. Do you think that public awareness programmed is good?

- a) Yes ()
- b) No ()
- c) I don't know

40. Do you think that VAT will be effective in future?

- a) Yes, it will be ()
- b) No, it will not ()
- c) I don't know ()

41. Do you have any comments on VAT system?

- a) Yes ()
- b) No ()
- c) If yes..... ()

42. If you have any suggestion, please specify

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