

CONTRIBUTION OF VAT IN NATIONAL REVENUE IN NEPAL WITH IT'S PROBLEMS AND PROSPECTS

Submitted By:

BINDESHWARI BHATTARAI
CENTRAL DEPARTMENT OF MANAGEMENT

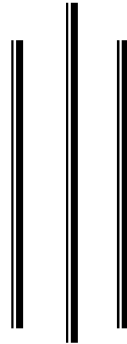
TU Regd. No:-7-2-427-6-2005

Roll No. 480/065

Exam Roll No.:- 280014

A Thesis Submitted to:

Office of the Dean
Faculty of Management
Tribhuvan University



In partial fulfillment of the requirement for the degree of
Master of Business Studies (M.B.S)

Kritipur , Kathmandu

August, 2012

RECOMMENDATION

This is to certify that the thesis

Submitted by:

BINDESHWARI BHATTARAI

Entitled:

**"CONTRIBUTION OF VAT IN NATIONAL REVENUE IN NEPAL WITH IT'S
PROBLEMS AND PROSPECTS"**

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

.....
Dr. Gopi Nath Regmi
Thesis Supervisor
Central Department of
Management, Kritipur

.....
Prof. Dr. Bal Krishna Shrestha
Chairperson, Research Committee
Central Department of
Management, Kritipur

.....
Prof. Dr. Dev Raj Adhikari
Department Head,
Central Department of
Management, Kritipur

Date.....

VIVA-VOCE SHEET

We have conducted the viva-voce examination of the thesis

Submitted by
BINDESHWARI BHATTARAI

Entitled:
**"CONTRIBUTION OF VAT IN NATIONAL REVENUE IN NEPAL WITH IT'S
PROBLEMS AND PROSPECTS"**

*And found the thesis to be the original work of the student and written
according to the prescribed format. We recommend the thesis
to be accepted as partial fulfillment of the requirement for*

Master Degree in Business Studies (M.B.S.)

Viva-Voce Committee

Head of Research Committee
Head of Department
Member (Thesis Supervisor)
Member (External Expert)

DECLARATION

I here by declare that the work reported in this thesis entitled "**CONTRIBUTION OF VAT IN NATIONAL REVENUE IN NEPAL WITH IT'S PROBLEMS AND PROSPECTS**" submitted to Central Department of Management, T.U.,Kritipur, is my original work done in the form of partial fulfillment of the requirement for the Master's Degree in Business Study (M.B.S.) under the supervision of **Dr. Gopi Nath Regmi**.

Date.....

.....

Bindeshwari Bhattarai
(Researcher)

T.U. Regd. No. :- **7-2-427-6-2005**

Exam No.:- 280014

Roll NO:-259/062

ACKNOWLEDGEMENT

This is such a mind-blowing opportunity for M.B.S. students, which has been provided by T.U. As for as thesis in concerned, it really increases the knowledge of the student in the course of analysis in their respective work. It helps the students to show their capacity as well as practical experience for future works.

I attempt to prepare a thesis based on Taxation. I would not have accomplished this thesis without the help of several hands. However, the thanks would be insufficient for them. However, I would like to express my grateful gratitude to all those respondents for their help and support.

To prepare this thesis the regular inspiration has been provided by my supervisor Dr. Gopi Nath Regmi, and who gave me the valuable time and suggestion for preparation of my thesis. The co-operation and co-ordination in providing information and data by staff of IRD cannot be overlooked. I am grateful to Central library.

I would like to express my hearties gratitude to my all teachers, parents:- Laxmi Bhattarai and Ghanashyam Bhattarai (Mom and Dad), my supportive hand Devendra Subedi (Husband), Gopal Chandra Subedi (Dad) and all My Family members and beloved friends too.

Bindeshwari Bhattarai

Central Department of management

Date:

CONTENTS

Recommendation	
Viva-voice sheet	
Declaration	
Acknowledgement	
List of Tables	
List of Figures	
List of Abbreviations	

Chapter One

Introduction

1.1	Background	1
1.2	Statement of Problems	3
1.3	Objectives of the Study	6
1.4	Significance of the Study	6
1.5	Methodology of the Study	7
1.6	Limitations of this study	8
1.7	Organization of study	9

Chapter Two

Review of Literature

2.1	Concept of Value Added Tax (VAT)	10
2.2	Historical Background of VAT	11
2.3	Types of VAT	17
	2.3.1 The Consumption type	17
	2.3.2 Income Type	17
	2.3.3 Gross Product Type	18
2.4	Method of Computation of Consumption of type of VAT	18
	2.4.1 Additional Method	19
	2.4.2 Subtract Method	19

2.4.3 Tax Credit Method	20
2.5 Exemption and Zero Rating	21
2.5.1 Exemption	21
2.5.2 Zero-Rating	22
2.6 Operation	23
2.6.1 Registration	23
2.6.2 Tax Invoices	24
2.6.3 Accounting	25
2.6.3.1 Purchase Book	25
2.6.3.2 Sales Book	25
2.6.4 Audit of VAT	26
2.6.5 VAT Number	26
2.6.6 Tax Return and Payment	27
2.6.7 Penalties	27
2.7 Review of related studies	28

Chapter Three

Research and Methodology

3.1 Types of Research	36
3.2 Population and Sample	36
3.3 Sources of Data	37
3.4 Data Collection Processing and Analysis Procedure	38

Chapter Four

Data Analysis and Presentation

4.1 Performance and Analysis of Secondary Data	39
4.1.1 Registration	40
4.1.2 Non-Filers	41
4.1.3 Trend of VAT Collection	43
4.1.4 Contribution of VAT in government revenue	45
4.1.4.1 Contribution of Direct and Indirect Tax on Total Revenue	46

4.1.4.2 Contribution of VAT on Total Revenue	47
4.2 Empirical Investigation of VAT in Nepal	49
4.2.1 An Empirical Investigation	49
4.2.2 View of Billing System	50
4.2.3 Demanding of VAT bill	52
4.2.4 Problem in the process of VAT implementation	53
4.2.5 Major Weakness of VAT implementation	54
4.2.6 Responsible for Tax Evasion in Nepal	55
4.2.7 Most Important Factor for Effectiveness of VAT	56
4.2.8 Major Problem of VAT in Nepal	58
4.2.9 View on Rising in Price due to VAT system	59
4.2.10 View of Single VAT rate	60
4.2.11 Effective of VAT in future	61
4.2.12 Knowledge about VAT	62
4.3 Problem faced by the government in effective implementation of VAT	63
4.4 Major Findings	70

Chapter Five

Summary, Conclusion and Recommendation

5.1 Summary and Conclusion	73
5.2 Recommendation	75

Bibliography

Questionnaire

LIST OF TABLES

2.1	Value Added Tax in the world years countries	14
2.2	Calculating VAT liability under Additional Method	19
2.3	Calculating VAT liability under Subtraction Method	20
2.4	Calculating of VAT liability under Tax credit Method	21
3.1	Group of Respondents and size of sample from each group	37
4.1	Trend of VAT registration	40
4.2	Status of Non Filers	42
4.3	Trend of VAT collection	44
4.4	Composition of Tax and Non Tax	46
4.5	Contribution of VAT in Total Revenue	48
4.6	View of Billing System	51
4.7	Percentage of Customers Demanding VAT bill	52
4.8	View on Problem in Process of VAT	53
4.9	Major Weaknesses of VAT implementation	54
4.10	Responsible for Tax Evasion	56
4.11	Important Factor for Effectiveness of VAT in revenue collection	57
4.12	View on Problem of VAT in Nepal	58
4.13	View on Rising in Price due to VAT system	60
4.14	View of Single VAT Rate	61
4.15	Effectiveness of VAT in Future	62
4.16	Knowledge about VAT	63

LIST OF FIGURES

4.1	Trend of VAT registrations	43
4.2	Trend of VAT collection	45
4.3	Composition of Total Revenue	47
4.4	Contribution VAT in Total Revenue	49

ABBREVIATIONS

B.S.	Bikram Sambat
CEDA	Central of Economic Development Administration Company
EU	European Union
FNCCI	Federation of Nepal Chamber of Commerce and Industry
GNP	Gross National Product
i.e.	That is
IMF	International Monetary Fund
IRD	Inland Revenue Department
MODVAT	Modified Value Added Tax
MoF	Ministry of Finance
NCC	Nepal Chamber of Commerce
No.	Number
NRB	Nepal Rastra Bank
SAARC	South Asian Association for Regional Co-operation
TR	Total Revenue
TU	Tribhuvan University
USAID	United States Aid
VAT	Value Added Tax