

**VAT IN NEPAL: CHALLENGES IN
ITS IMPLEMENTATION**

By

DEEPAK PRASAD NEUPANE

Shanker Dev Campus

Campus Roll No. : 1327/062

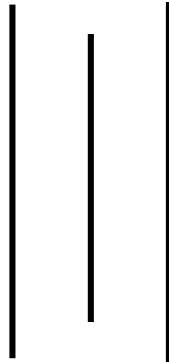
T.U. Regd. No.: 7-1-25-479-98

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 (MBS)

Kathmandu, Nepal

October 2010

RECOMMENDATION

This is to certify that the thesis

Submitted by:

DEEPAK PRASAD NEUPANE

Entitled:

VAT IN NEPAL: CHALLENGES IN ITS IMPLEMENTATION

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

.....
Prof. Dr. Kamal Deep Dhakal
(Thesis Supervisor)

.....
Prof. Bishweshor Man Shrestha
(Head, Research Department)

.....
Prof. Dr. Kamal Deep Dhakal
(Campus Chief)

VIVA-VOCE SHEET

We have conducted the viva –voce of the thesis presented

By

DEEPAK PRASAD NEUPANE

Entitled:

VAT IN NEPAL: CHALLENGES IN ITS IMPLEMENTATION

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 the degree of

Master of Business Studies (MBS)

Viva-Voce Committee

Head, Research Department

Member (Thesis Supervisor)

Member (External Expert)

DECLARATION

I hereby declare that the work reported in this thesis entitled “**VAT In Nepal: Challenges in its Implementation**” submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (MBS) under the supervision of **Professor Dr. Kamal Deep Dhakal** of Shanker Dev Campus, T.U.

.....

Deepak Prasad Neupane

Shanker Dev Campus

Campus Roll No. : 1327/062

T.U. Regd. No.: 7-1-25-479-98

ACKNOWLEDGEMENTS

This thesis is prepared for the partial fulfillment of the requirements for the Master's Degree course in Business Studies. It analyzes implementing challenges on value added tax system in Nepal from the viewpoint of its resource mobilization from theoretical as well practical experience.

I am thankful for Tribhuvan University for providing me such adventurous opportunity to accomplish and fulfill inquisitiveness on knowledge on VAT as my subject. While preparing the field work, I was encountered with different realities and facts of real field.

First of all I would like to express my great sense of gratitude to my respected Sir, Professor Dr. Kamal Deep Dhakal (Campus Chief of Shanker Dev Campus TU). For providing me necessary guidance for making my study successful, without my respected sir's support this could do not be possible. I would like to extend my thanks to the entire librarian, Inland Revenue Department, librarian of Nepal commerce campus, librarian of Tribhuvan University, librarian of legislature parliament and all the staff for their kind co-operation for helping to search various materials related to my subject and all the friends and my parents for helping me out and their support during my study period.

I also want to pay my hearty thanks to all the respondents and finally I would like to say that I am entirely responsible for any errors, of any, in this thesis work. Suggestions for the improvements of this project work report will be heartily welcome.

Deepak Prasad Neupane

ABBREVIATIONS

A. D.	:	Anno Domini
CDC	:	Central Department of Economics
CEDA	:	Central for Economic Development and Administration
CIG	:	Cost of Intermediate Goods
Dr.	:	Doctor
EEC	:	European Economic Community
FNCCI	:	Federation of the Nepalese Chamber of Commerce and Industries
FY	:	Fiscal Year
GAAT	:	General Agreement of Tariff and Trade
GDP	:	Gross Domestic Product
GI	:	Gross Investment
GNP	:	Gross National Product
Govt.	:	Government
IMF	:	International Monetary Fund
IRD	:	Inland Revenue Department
IRO	:	Inland Revenue Office
MBS	:	Master of Business Studies
MOD	:	Modification
MoDVAT	:	Modified Value Added Tax
MoF	:	Ministry of Finance
MST	:	Multi-Stage Sales
NNI Net	:	National Income
SAARC	:	South Asian Association for Regional Cooperation
SAFTA	:	South Asian Free Trade Arrangement
TR	:	Total Revenue
TU	:	Tribhuvan University
UNDP	:	United Nations Development Program

UNO : United Nations Organization

VAT : Value Added Tax

WST : Wholesale Level Sales Tax

WTO : World Trade Organization

TABLE OF CONTENTS

Recommendation
Viva Voce Sheet
Declaration
Acknowledgements
Table of Contents
List of Tables
List of Diagrams
Abbreviations

Page No.

CHAPTER – I INTRODUCTION

1.1 Background of the Study	1
1.2 Statement of the Problem	4
1.3 Objectives of the Study	7
1.4 Significance of the Study	7
1.5 Limitations of the Study	8
1.6 Organization of the Study	8

1.1.1.1.1

1.1.1.1.2 CHAPTER – II CONCEPTUAL FRAMEWORK AND

1.1.1.1.3 REVIEW OF LITERATURE

2.1 Conceptual Framework	9
2.1.1 Basic Features of the Nepalese VAT System	11
2.1.2 VAT as a Substitute of Sales Tax	12
2.1.3 Types of VAT	13
1.2 2.1.4 Comparison of VAT with a Sales Tax	15
2.1.5 Introduction of VAT	18
2.1.5.1 Exemption	20
2.1.5.2 Zero – Rating	22
2.1.5.3 Threshold	23
2.1.5.4 Tax Rate	24
2.1.5.5 Single VAT Rate	24
2.1.5.6 Multiple VAT Rate	24

2.1.5.7 Imported Goods Taxed	25
2.1.5.8 Exports Goods Taxed	25
2.1.5.9 Obligations of VAT Registrants	26
2.1.5.10 Books of Account	26
1.2.1.1 2.1.5.11 VAT Account	
27	
2.2 Reviews of Related Studies	28
CHAPTER – III RESEARCH METHODOLOGY	
3.1 Concept of Research Methodology	39
3.2 Research Design	39
3.3 Population and Sample	40
3.4 Nature and Sources of Data	40
3.4.1 Primary Data	40
3.4.2 Secondary Data	40
3.5 Data Collection Procedure	41
3.6 Data Processing and Analysis	41
3.7 Tools for Analysis	41
CHAPTER – IV PRESENTATION AND ANALYSIS OF DATA	
4.1 Revenue Structure of Nepal	42
4.1.1 Composition of Tax Revenue	45
4.1.2 Tax GDP Ratio in Nepal	46
4.1.3 Contribution of VAT in Total Revenue	47
4.1.4 Contribution of VAT in Total Tax Revenue	48
4.1.5 Share of VAT in Total Indirect Tax	49
4.1.6 Share of VAT in Total GDP	50
4.1.7 The Composition of VAT Revenue	51

4.2 Analysis of Primary Data	53
4.3 Major Findings	61
CHAPTER – V SUMMARY, CONCLUSION AND RECOMMENDATIONS	
5.1 Summary	62
5.2 Conclusion	65
5.3 Recommendations	67
5.3.1 Some Useful Recommendations on Administrative Reform for Better Implementation of VAT in Nepal	67
5.3.2 Some Useful Recommendations on Legal Reform for Better Implementation of VAT in Nepal	68
Bibliography	
Appendix	

LIST OF TABLES

Table No.	Title	Page No.
2.1	Simple Process of Calculating Vat	20
3.1	Groups of Respondents and Size of Samples from Each Group	40
4.1	Composition of Tax Revenue	45
4.2	Tax GDP Ratio in Nepal	46
4.3	Contribution of VAT in Total Revenue	47
4.4	Contribution of VAT in Total Tax Revenue	48
4.5	Share of VAT in Total Indirect Tax	49
4.6	Share of VAT in Total GDP	51
4.7	Composition of VAT Revenue	52
4.8	Knowledge about VAT	53
4.9	VAT Paid to Whom	54
4.10	Challenges Being Tackled in Implementation of VAT in Nepal	54
4.11	View at Billing System	55
4.12	Price Rise Due to VAT System	55
4.13	Tax Burden of VAT to the Tax Payers	56
4.14	Sufficiency of Current Legal Provisions and Rules of VAT in Nepal	57
4.15	Suggestion offered for the better implementation of VAT in Nepal	57
4.16	Main Problems of Present VAT System in Business Sector	58
4.17	Major Weaknesses of VAT Administration	59
4.18	Efforts Needed to Make VAT Effectively Successful	59
4.19	Major Challenging Problems of VAT System	60

LIST OF DIAGRAMS

Diagram No.	Title	Page No.
4.1	Composition of Tax Revenue	46
4.2	Tax GDP Ratio in Nepal	47
4.3	Contribution of VAT in Total Revenue	48
4.4	Contribution of VAT in Total Tax Revenue	49
4.5	Share of VAT in Total Indirect Tax	50
4.6	Share of VAT in Total GDP	51
4.7	Composition of VAT Revenue	52