

**COLLECTION OF VAT FROM MECHI ZONE AND ITS  
CONTRIBUTION TO TOTAL VAT REVENUE**

**By**

**PUSHPA NARAYAN DAHAL**

**Shanker Dev Campus**

**Campus Roll No.: 1260/061**

**T.U. Regd. No.: 7-1-1-752-98**

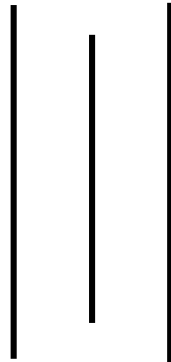
**2<sup>nd</sup> Year Symbol No.: 3769**

**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**

**February 2011**

## **RECOMMENDATION**

This is to certify that the thesis

Submitted by:

**PUSHPA NARAYAN DAHAL**

**Entitled:**

### **COLLECTION OF VAT FROM MECHI ZONE AND ITS CONTRIBUTION TO TOTAL VAT REVENUE**

*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:

**PUSHPA NARAYAN DAHAL**

Entitled:

### **COLLECTION OF VAT FROM MECHI ZONE AND ITS CONTRIBUTION TO TOTAL VAT REVENUE**

*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 “**Collection of Vat from Mechi Zone and Its Contribution to Total VAT Revenue**” 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 **Prof. Dr. Kamal Deep Dhakal** of Shanker Dev Campus, T.U.

.....  
**Pushpa Narayan Dahal**

**Shanker Dev Campus**

**Campus Roll No.: 1260/61**

**T.U. Regd. No.: 7-1-1-752-98**

## **ACKNOWLEDGEMENT**

The present study entitled '*Collection of VAT from Mechi zone and its Contribution to Total VAT Revenue*' has been carried out for the partial fulfillment for the Degree of Masters of Business Studies (MBS). It is my great opportunity to complete this thesis under the supervision of Prof. Dr. Kamal Deep Dhakal of Shanker Dev Campus, Tribhuvan University. I am very much indebted for his suggestions and advices and would like to express my sincere gratitude to him.

I would like to express my gratitude to all of my family members for their direct and indirect contribution and encouragement to complete my thesis.

Finally I would like to thank the respondents of the questionnaire from Mechi zone for their valuable response.

**Pushpa Narayan Dahal**

# TABLE OF CONTENTS

Recommendation

Viva Voce Sheet

Declaration

Acknowledgement

Table of Contents

List of Tables

List of Figures

Abbreviations

**Page No.**

## **CHAPTER - I INTRODUCTION**

1.1 Background of the Study	1
1.2 Statement of the Problem	3
1.3 Objectives of the Study	5
1.4 Significance of the Study	5
1.5 Research Methodology	6
1.6 Limitations of the Study	6
1.7 Organization of the Study	7

1.1.1

**1.1.2 CHAPTER – II CONCEPTUAL FRAMEWORK AND**

**1.1.3 REVIEW OF LITERATURE**

1.1.4 2.1 Origin and Development of VAT

8

**1.2 2.2 Introduction of Value Added Tax (VAT)**

12

1.3	2.2.1 Types of VAT	12
1.4	2.2.2 Nature of Value Added Tax (VAT)	15
1.5	2.2.3 Features of Value Added Tax (VAT)	15
1.6	2.2.4 Objective of Value Added Tax (VAT)	16
1.7	2.2.5 Methods of Computing VAT	17
1.8	2.2.6 Principles of VAT	20
1.9	2.2.7 Tax Base	20

1.10	2.2.8 <i>Freeing From VAT</i>	
	22	
1.11	2.2.9 <i>Tax Rate</i>	
	24	
1.12	2.2.10 <i>Operation of VAT</i>	
	26	
1.13	2.2.11 <i>Obligations to VAT Registrants</i>	
	28	
1.14	2.2.12 <i>Invoicing</i>	
	28	
1.15	2.2.13 <i>Accounting</i>	
	29	
	2.2.14 <i>Offences</i>	30
	2.2.15 <i>Administrative Review</i>	30
	2.2.16 <i>Tax Plate</i>	30
	2.2.17 <i>Conscious Consumer Lottery Programme</i>	31
	2.2.18 <i>Proxy Criteria</i>	33
	1.16 2.3 <i>Historical Development of VAT in Nepal</i>	
	33	
2.4	The Existing Problems with VAT	36
2.4.1	Problems Regarding Issuance and Receiving of Invoices	36
2.4.2	Consumer's Unwillingness for Paying VAT	38
2.4.3	Large Number of VAT-Exempted Goods and Services	38
2.4.4	Large Numbers of Non-Registered Potential Taxpayers	
	Promoting Unhealthy Competition	39
2.4.5	Delay in Tax File Procession	39
2.4.6	Problem and Disputes Concerning the Thresholds	39
2.4.7	Open Boarder and Unauthorized Trade	40
2.4.8	Increasing Outstanding Amount and Total Tax Credit Amount	40
2.5	Review of Related Literature	41
2.6	Research Gap	48



## **CHAPTER – III RESEARCH METHODOLOGY**

1.16.1 3.1 Research Design	49
3.2 Population and Sampling	49
1.16.2 3.3 Nature and Sources of Data	50
3.4 Data and Information Collection Procedure	50
1.16.3 3.5 Data Processing and Analysis Procedures	51
1.16.4 3.6 Presentation and Analytical Tools	51

## **CHAPTER – IV DATA PRESENTATION AND ANALYSIS**

1.16.5 4.1 Presentation and Analysis of Secondary Data	52
1.16.6 4.1.1 Revenue Structure of Nepal	52
4.1.2 Tax Revenue Structure of Nepal	54
4.1.3 Composition of Direct Tax Revenue	56
4.1.4 Composition of Indirect Tax Revenue	58
4.1.5 Contribution of VAT to Total Revenue, Total Tax Revenue and Total Indirect Tax	60
4.1.6 Contribution of VAT Collected from Mechi Zone to Total VAT	61
4.2 Presentation and Analysis of Primary Data	62
4.2.1 Opinion Towards “Existing Rate of VAT”	62
4.2.2 Opinion Towards “VAT as the Best Instrument for Mobilizing Revenue”	63
4.2.3 Opinion Towards “View about Billing System”	63
4.2.4 Opinion Towards “VAT is Well Functioning in Nepal”	64

4.2.5 View Towards “Problems Facing by the Government to Collect VAT”	64
4.2.6 View Towards “The Most Haunting Problem on Effectiveness of VAT in Nepal”	65
4.2.7 Opinion Towards “Existing Laws and Regulation of VAT are Sufficient”	65
4.2.8 Opinion Towards “Single Rated VAT Good Enough than Multi Rated VAT”	66
4.2.9 Opinion Towards “The Most Specific Objectives of VAT”	66
4.2.10 Opinion Towards “Types of Effort Needed to Make VAT System Successful”	67
4.2.11 Opinion Towards “The Most Effective Effort to Collect VAT”	68
4.2.12 Opinion Towards “Impact Created by VAT System in Business Organizations”	68
4.2.13 Opinion Towards “The Most Responsible Group for Tax Evasion”	69
4.2.14 Opinion Towards “Whether Tax Personnel Check all the Books of Account or Not”	70
4.2.15 Opinion Towards “Superiority of VAT Over Sales Tax”	70
4.2.16 Opinion Towards “Price Rise Due to VAT System”	71
4.2.17 Opinion Towards “The VAT been Discouraging Illegal Business”	72
4.2.18 Opinion Towards “VAT Collected from Mechi Zone is Significant for the Structure of Total VAT”	72
4.3 Major Findings of the Study	73
4.3.1 Findings from Secondary Data	73
4.3.2 Findings from Primary Data	74

**CHAPTER - V      SUMMARY CONCLUSION AND RECOMMENDATIONS**

1.16.6.1.1.1.1.1	5.1 Summary	77
1.16.6.1.1.1.1.2	5.2 Conclusion	78
1.16.6.1.1.1.1.3	5.3 Recommendations	80

**Bibliography**

**Questionnaire**

## LIST OF TABLES

<b>Table No.</b>	<b>Title</b>	<b>Page No.</b>
2.1	Adaptation of Value Added Tax in the World	11
2.1	Office wise registration status on VAT As of 2065 Mangshir End	27
4.1	Trend Showing Revenue Collection in Nepal	53
4.2	Trend Showing Composition of Tax Revenue	55
4.3	Composition of Direct Tax Revenue	57
4.4	Composition of Indirect Tax Revenue	59
4.5	Contribution of VAT to Total Revenue, Total Tax Revenue and Total Indirect Tax	60
4.6	Contribution of VAT from Mechi Zone to Total VAT	61
4.7	Opinion Towards “Existing Rate of VAT”	62
4.8	Opinion Towards “VAT as the Best Instrument for Mobilizing Revenue”	63
4.9	Opinion Towards “View about Billing System”	63
4.10	Opinion Towards “VAT is Well Functioning in Nepal	64
4.11	View Towards “Problems Facing by the Government to Collect VAT”	64
4.12	View Towards “The Most Haunting Problem on Effectiveness of VAT in Nepal”	65
4.13	Opinion Towards “Existing Laws and Regulation of VAT are Sufficient”	65
4.14	Opinion Towards “Single Rated VAT Good Enough than Multi Rated VAT”	66
4.15	Opinion Towards “The Most Specific Objectives of VAT”	66
4.16	Opinion Towards “Types of Effort Needed to Make VAT System Successful”	67
4.17	Opinion Towards “The Most Effective Effort to Collect VAT”	68
4.18	Opinion Towards “Impact Created by VAT System in Business Organizations”	68

4.19	Opinion Towards “The Most Responsible Group for Tax Evasion”	69
4.20	Opinion Towards “Whether Tax Personnel Check all the Books of Account or Not”	70
4.21	Opinion Towards “Superiority of VAT Over Sales Tax”	70
4.22	Opinion Towards “Price Rise Due to VAT System”	71
4.23	Opinion Toward “The VAT been Discouraging Illegal Business”	72
4.24	Opinion Towards “VAT Collected from Mechi Zone is Significant for the Structure of Total VAT”	72

## LIST OF FIGURES

<b>Figure No.</b>	<b>Title</b>	<b>Page No.</b>
4.1	Trend Showing Revenue Collection in Nepal	54
4.2	Trend of Direct Tax and Indirect Tax Revenue	56
1.16.6.1.1.1.1.4		
1.16.6.1.1.1.1.5		

## **ABBREVIATIONS**

CBS	:	Central Bureau of Statistics
CEDA	:	Centre for Economic Development and Administration
DG	:	Director General
FNCCI	:	Federation of Nepalese Chamber of Commerce and Industry
FY	:	Fiscal Year
GDP	:	Gross Domestic Production
HMG/N	:	His Majesty of Government Nepal.
IMF	:	International Monetary Fund.
IRD	:	Inland Revenue Department
IRD/N	:	Inland Revenue Department Nepal
IRO	:	Inland Revenue Office
MoF	:	Ministry of Finance
NCC	:	Nepal Chamber of Commerce
NRB	:	Nepal Rastra Bank
PAN	:	Permanent Account Number
VAT	:	Value Added Tax
WTO	:	World Trade Organization