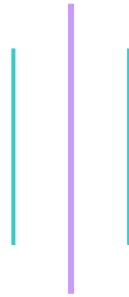


# **CONTRIBUTION OF VAT FROM LALITPUR DISTRICT TO TOTAL VAT REVENUE**



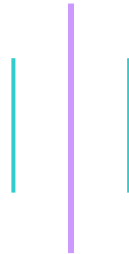
Submitted By:

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**A Thesis Submitted To:**

Office of the Dean

Faculty of Management

Tribhuvan University

**In the Partial Fulfillment of the Requirement for  
Degree of Masters in Business Studies (M.B.S.)**

Kathmandu, Nepal

April, 2010

**RECOMEDATION LETTER**

This is certify that the Thesis

Submitted by

**Arjun Babu Tiwari**

Entitled

**CONTRIBUTION OF VAT FROM LALITPUR DISTRICT  
TO TOTAL VAT REVENUE**

Has been Prepared as approved by this Department in the prescribed format of Faculty of  
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**VIVA-VOCE SHEET**

We have conducted the viva-voce examination of the thesis presented

By

**Arjun Babu Tiwari**

Entitled

**CONTRIBUTION OF VAT FROM LALITPUR DISTRICT  
TO TOTAL VAT REVENUE**

And found the thesis to be original work of the student writing according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of requirement for **Master's Degree in Business Studies (M.B.S.)**

**Viva-Voce Committee**

Head of the Research Department	.....
Member (Thesis Supervisor)	.....
Member (External Experts)	.....

**DECLARATION**

I hereby declare that the work reported in this thesis entitled "**CONTRIBUTION OF VAT FROM LALITPUR DISTRICT TO TOTAL VAT REVENUE**" submitted to Shanker Dev Campus, Faculty of Management, Tribhuvan Univesity, is my original work. It is doe in the form of partial fulfillment of the requirement for the Master's Degree in Business Studies under the supervision of Prof. Dr. Kamal Deep Dhakal of Shanker Dev Campus.

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## **ACKNOWLEDGEMENT**

I am pleased to present this thesis entitled "**Contribution of VAT Collection of Lalitpur District to Total VAT Revenue**" in the partial fulfillment of requirement for the degree of

Master's Degree in Business Studies (MBS). I chose this topic mainly because of my curiosity to know why VAT is falling short of target in spite of its implementation more than 13 years ago. In fact, VAT promises a great change in the revenue structure of any country and is said to be more efficient and superior to sales tax in revenue generation. I am thankful for T.U. for providing me such opportunity to experience the fieldwork. I was encountered with different realities and facts of real field.

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I hope this study will be helpful for those who want to gain knowledge related to the Contribution of VAT Collection of Lalitpur District to Total VAT Revenue and one can easily see weather the contribution are sufficient or not make VAT successful in Nepal and I hope this study will definitely helpful for academicians, students, and researchers and other interested person regarding this topic. At last, I am indebted to those who have directly and indirectly assisted me to make this study wrathful.

Needless to say, the error is of human kind and I am also not exception. So I alone am responsible for any deficient that may have remained in this work.

April, 2010

Arjun Babu Tiwari  
Chiti-8, Lamjung

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## **LIST OF ABBREVIATION**

A.D.	:	Anne Domino
A/C	:	Account
BBS	:	Bachelor of Business Studies
B.S	:	Bikram Sambath
CBS	:	Central Bureau of Statistic
CDE	:	Central Department of Economic
CDM	:	Central Department of Management
CEDA	:	Central for Economic Development and Administration
CO	:	Company
CPI	:	Cost of Purchase Input
DANIDA:		Danish International Development Agency
DG	:	Director General
EC	:	European Country
EU	:	European Union
FNCCI	:	Federation Nepalese Chamber of Commerce & Industry
FY	:	Fiscal year
GDP	:	Gross Domestic Product
GNP	:	Gross National Product
GOVT	:	Government
i.e.	:	that is
INVT	:	Investment
IRD	:	In Land Revenue Department
IRO	:	Inland Revenue Office
LTD	:	Limited
MBA	:	Masters in Business Administration
MBS	:	Master of Business Studies
MIS	:	Management Information System
MODVAT:		Modified Value Added Tax
MOF	:	Ministry of Finance
MST	:	Manufacturer Sales Tax
NCC	:	Nepal Chamber of Commerce
NIDC	:	Nepal Industrial Development Corporation
NNP	:	Net National Product
NRB	:	Nepal Rastra Bank
RID	:	Revenue Investigation Department
Rs.	:	Rupees (Nepalese Currency)
S.No.	:	Serial Number
SAARC	:	South Asian Association for Regional Co.
SV	:	Sales Value
TPIN	:	Tax Payer Identification Number
TR	:	Total Revenue
TU	:	Tribhuvan University
UN	:	United Nations
USAID	:	United States Agency for International Development
VAT	:	Value Added Tax
Vol.	:	Volume
Vs	:	Versus
WB	:	World Bank

ନାମାଂଶୁର

# **CHAPTER I**

## **INTRODUCTION**

### **1.1 Background of the Study**

#### **1.1.1 Introduction to Tax**

Economic development has been one of the most popular slogans in almost all the developing countries all over the world. Similarly, achievement of high rate of economic growth rate, reduction of income disparities and poverty and improvement of living standard of people are some development strategies towards which most of the government efforts have been directed in developing countries. It is known that government needs more revenue mobilization for overall economic development and state welfare. Besides this, for meeting day-today expenditure, the government also requires some sources of income which is called revenue.

The role of revenue in the development of a country is not less important than the role of oxygen for the existence of human body. In this context, a government needs to mobilize a lot of internal resources to fulfill its responsibility towards its nation and people. In the developing country like Nepal, there is a necessity for raising a larger volume of funds for the development and administration expenses. The revenue collection is a challenging task in itself which demands increasing necessity of regular expenditure in general and development expenditure in particular. However, resource mobilization is very low compelling the government to rely heavily on foreign assistance. Development expenditure has been dependent almost entirely on the foreign aid. External assistance is uncertain, precarious, inconvenient and not conducive to the healthy and overall development should there be heavy dependence on it. The foreign aids are not bad for economic development of the nation per se. But the experience of the most of the developing countries shows that there are negative effects of increasing international grants and loans to finance the public development activities. Thus the government should depend on its own resources for generating revenue in order to finance these regular and development activities.

The government can collect revenue from taxable and non taxable sources. Tax is a key source for revenue generation and mobilization. Different persons have defined taxation in different ways. In this respect, it would be better to take the definition given by Prof. Seligman says that Tax is the compulsory contribution from a person to the government to defray expenses incurred in the common interest of all without reference to special benefit conferred.

From the definition given above, it can be said that firstly, a tax is a compulsory levy and those who are taxed have to pay it without getting corresponding benefit of services or goods from the government. The taxpayer does not have any right to receive the direct benefit from the tax paid. Due to this compulsory nature, people have expressed different views in satirical way about the taxation. In this respect, some say “Nothing is certain in this world but death and taxes”, some say “Death and taxes are both certain but death is not annual”; while others say “Death means stopping to pay tax”. Here, it should be noted that all compulsory payments are not taxes. For example, fines and fees are also compulsory payments without having direct benefit to the payer but they are not taxes because the objective is not to collect revenue but to curb certain types of offences. Secondly, the taxpayer cannot receive any quid pro quo for the payment of tax. The taxpayer does not receive equivalent benefit from the government. A tax is not a price paid by one for which he can claim for goods and services. The charge of price for goods and services by public authority is not a tax. Thirdly, the tax is paid to the government for running it. Fourthly, the amount is spent for common interest of the people. The tax is collected from haves and basically, spent for the interest of have-nots in the society. Fifthly, a natural or an artificial person pays the tax. (Kandel, 2004:3)

In conclusion, it can be said that a tax is a liability to pay an amount to the state on account of the fact that the assesses have income of a minimum amount from certain specified sources or that they own certain tangible or intangible property or that they carry on certain economic activities or they consume certain goods and services which have been chosen for taxation. (Kandel, 2004:3)

Taxes are major fiscal policy instruments and important government policy tools have an important role in increasing the rate of capital formation and thereby a high rate of economic growth can be achieved. Increase in taxes may be directed to increase in saving through the postponement of consumption. The increase in saving means a higher volume of resource is available for making useful and productive investments. Taxation may also play a dual role. On the one hand, it may be used to make the maximum volume of resource available to public sector. On the other hand, taxation may be used to promote useful investment in the private sector and to prevent the resource from being dissipated over speculative and unproductive investment as well as over lavish and luxurious consumption. Thus, taxes in developing countries serve as the severe means of raising revenue. Therefore, Taxation may be utilized by the government as an effective tool for giving incentive to the proper growth of saving, investment and gross domestic product. But, in Nepal the tax policy is mostly guided towards the revenue generation.

#### **1.1.1.1 Classification of Tax**

Because there are so many effects of taxation, no single tax is completely perfect. Consequently, there must be a structure of taxation, combining a number of taxes, which the government can vary from time to time according to changes in emphasis on different objectives. Depending on the methods of payment of taxes, taxes can be classified into two major categories, viz. direct taxes and indirect taxes.

##### **A. Direct Taxes**

Under direct taxes the person makes payment direct to the revenue authorities - the Inland Revenue Department (IRD) or the local authority. In the words of Dr. Dalton, "A direct tax is really paid by the person on whom it is legally imposed". (Dhakal, 2001:2) Usually each individual's tax liability is assessed separately. Some examples of direct taxes are briefly described below individually.

##### **i. Income Tax**

Under income tax, taxable income, which is subject to a basic tax rate, is arrived at after allowing deductions depending on circumstances from



chargeable incomes. For natural person, taxable income is derived by deducting allowable deductions depending on marital status and other personal circumstances from admissible incomes and is subject to a basic rate with increasing rates above Rs. 200,000.

## **ii. Other Taxes**

These consist of stamp duties (payable on financial contracts), vehicle tax, property tax, house and land tax etc.

Direct taxes yield more than two-thirds of total revenue. Their great merit is that being progressive and assessed according to the individual's circumstances; they ensure that the heaviest burdens are placed on the broadest backs. Their progressive character also gives additional weight to their role as built-in-stabilizers.

## **B. Indirect Taxes**

Indirect taxes on goods and services are so called because the revenue authority (the Department of Customs/Excise) collects them from the seller, who, as far as possible, passes the burden on to the consumer by including the duty in the final selling price of the good. In the words of Dr. Dalton, "An indirect tax is imposed on one person but paid partly or wholly by another". (Dhakal, 2001:4). In other words, such tax is levied on one person who does not bear it from his/her own income. Instead, the tax liability is transferred by collecting it from customers by adding it to the price of goods or services. Indirect taxes may be specific or ad valorem.

The Indirect taxes may be:

### **i. Customs Duty**

As per Section 2 (c) of Custom Duty Act 2019, customs duty means the customs duty payable at rates prescribed by Nepal Law from time to time on exports or imports.

## **ii. Excise Duty**

As per Section 3 of the Excise Duty Act 2058, excise duty is charged on import and production of those goods and services, which are specifically mentioned in the schedule forming part of the Act. Those goods or services not covered by the Schedule are free from the boundary of the Act.

## **iii. Value Added Tax (VAT)**

Value Added Tax is one of the indirect taxes which constitute the main topic and focus of the present research as well. What is VAT and how it is levied forms the main concern of the subject. So, this section obviously does not need any description in that the introductory description follows in the next section below.

### **1.1.1.2 Objectives of Tax**

Tax is a permanent instrument for collecting revenues. It is a major source of revenue in developed world and has been appearing as an important source of revenue in the developing world like Nepal as well. It has been an instrument of social and economic policy for the government. However, the objective of taxation has been different for different periods. In ancient times, its objective was to strengthen the muscle of the state by raising more revenues for mobilizing these in security to an individual and society from violence, invasion, injustice and maintaining public institutions which can never be for the interest of an individual.

In modern days, the objective of tax is shifted from the security perspective to the economic development. The modern objective of taxation is not only to main peace and security, but also to conduct development activities.

From the above facts, we can enumerate the objectives of tax as given below:

- To raise revenue for ensuring resource mobilization,
- To distribute equally wealth and income in the society,
- To encourage the production of certain products,

- To encourage employment,
- To ensure saving and investment,
- To contribute to the enforcement of government policy,
- To remove regional disparities and imbalances. (Bhattarai & Koirala, 2007:2)

### **1.1.2 Value Added Tax**

In the least developed countries like Nepal, the role of indirect tax is seen to be more important. Of the Indirect taxes, VAT is probably the best tax system and the most important innovation of the second half of the twentieth century, which is considered as an effective means to collect revenue as a reformed sales tax of indirect tax system.

VAT is a broad based tax as it also covers the value added to each commodity by a firm during all stages of production and distribution. It is a modern tax system which enables to efficient collection system, to increase efficiency and to reduce tax evasion. It is also referred as the backbone of income tax system in Nepal.

VAT plays great role in the revenue mobilization in Nepal. The reason behind VAT system, it makes transparency in all kinds of transaction, helps to make the wide area of tax and discourages tax evasion. So it is needless to say that VAT is the most important sources of the government revenue.

VAT is intended to be levied – or charged – whenever there is some value addition to raw material. The taxpayers on the other hand, will get credit for the amount of tax paid off at the stages of procurement. The value added tax system has proven to be effective in avoiding problems that normally might arise out of the double taxation of goods and services.

The lesson learnt of tax reforms in developing countries proves that VAT is the most important choice and ingredient of tax reform. It may be adopted by a developing country with no difficulty and is an important instrument for the mobilization of internal resources and the reassurance of VAT on economic activities is minimal or not at all. The tax

reform and adoption of a VAT, is therefore, essentially connected with the efforts of many underdeveloped countries to achieve the goal of economic development.

## **1.2 Focus of the Study**

Nepal has adopted VAT since 1st Marga 2054 B.S. (November 16, 1997). In the present situation of Nepal, A Contribute of VAT Collection of IRO Lalitpur to Toalal VAT Revenue. The sales tax system is very narrowly based and less productive. It is also putting much pressure on economic activities by its distorted character. By contrast, VAT would broaden the tax base and increase the revenue elasticity. Hence the main focus of the study is to find out how VAT is superior to sales tax and what is its share in the GDP (Gross Domestic Product), thereby showing a substantial change between the two periods i.e. before implementation of VAT and after its implementation. The study also critically assesses the administration of VAT in Nepal, analyzing the lapses and problems with necessary measures for improvement.

## **1.3 Statement of Problem**

Economic development is the prime concern of every nation of the world. Nepal is also not an exception to this condition. The majority of people have not been able to get even basic facilities. The government wants to fulfill the basic needs of the people and accelerate development activities one at a time. Thus, every nation of the world is accomplishing various activities to fulfill these objectives. It needs huge amount of capital. Despite the various measures adopted by the government to boost revenue collection, there is still a substantial resource gap between expenditure and revenue. The rate of government expenditure is exceeding the rate of growth revenue almost every year. In other words, Nepal has been facing persistent budget deficit from the beginning of her development phase. The mobilization of revenue has not increased to the level in which the level and speed of our expenditure is rising. To raise the government revenue, this helps to overcome from the serious bottleneck of resource gap in the process of economic development program. In this VAT collection can be taken as means for resolving this problem by mobilizing additional resources from domestic sources.

VAT is one of the component of taxation and major sources of government revenue. Income tax in developing nations has been regarded as an instrument of growth and social justice. Government of Nepal is being unable to mobilize the expected income tax from personal as well as corporation. The research questions are as follows:

- From which media you know about VAT?
- In Nepalese economy what impact does VAT play?
- How much percentage of the total customer's demand for the bill?
- Which of the following factor is responsible to make VAT ineffective in Nepal?
- What problem have you faced after VAT regime?
- Do you think there is any correlation between VAT and political instability?
- Do you think it is suitable time to increase VAT Rate?
- What we need to Establish VAT as a backbone of revenue collection?

#### **1.4 Objective of the Study**

Nepal is facing major financial problem. VAT has been implemented in Nepal with a view to increase government revenue through indirect tax inform program. The basic objective of this study is to analyze the "**Contribution of VAT From Lalitpur District to Total VAT Revenue**" after its introduction in Nepal. However, the sub objectives of this study are as follows.

- ☞ To review theoretical aspects of VAT.
- ☞ To evaluate trend of VAT collection in IRO of Lalitpur District.
- ☞ To identify the effectiveness and major problem of implementation of VAT.
- ☞ To provide suggestions on the basis of this to the concern authorities.

#### **1.5 Significance of the Study**

Nepal is an agro-based developing country with low speed in industrialization process. Every year, Nepalese government has been presenting deficit budget, there is increment in resource gap. Most of the development activities depend on bilateral and multilateral

grants and loans. The nation is hardly bearing the burden of the loan and the internal source of revenue is not sufficient even to meet the ordinary expenses. In this context, the easy and long lasting way to increase revenue to strengthen the internal source in which VAT collection is one of the major components.

This study will discuss a lot about the nature, history and the from Lalitpur District to the Total VAT Revenue. Eleven years have just been passed since VAT became effective. The analysis of data from multiple sources in this study justifies that the contribution of VAT has really been good for the Government revenue

This study will be useful contribution of VAT to Total overall VAT system of Nepal. It will also provide the information about trends and projection of Contribution of VAT From Lalitpur District to Total VAT Revenue.

The study will be beneficial for to students, academician, economists, planners, tax administrators, government and other interested person about the policy maker, private sectors and researchers as it provides idea and knowledge about VAT in illustrative data and figures. This study will state about the problem in the VAT system also, and this will generalize this problem to the common consumers, businesspersons and the tax administrators too.

## **1.6 Limitation of the Study**

There are some boundaries, which cannot be ignored. These boundaries are called as limitation of the study. The study will aim to find the facts, trends and the Contribution of VAT From Lalitpur District to Total VAT Revenue in Nepal. The limitations of the study are as follows:

- Primary Data by questionnaire collected from Lalitpur District only
- The study is mainly base on secondary data collection from various sources.
- The study will mainly concern with the Contribution of VAT from Lalipur District to Total VAT Revenue, other area will not touch.
- There will be limitation of time to conduct the study.

- This study is not covering the administrative efficiency and its collection procedure.
- This study will cover the data not more than five years which is period only from 2000/01 to 2007/08.
- The sample is small in study may not represent as whole.

## 1.7 Organization of the Study

The study has been organized into five chapters. The title of each of the chapters is as follows.

Chapter One : Introduction

Chapter Two : Review of Literature

Chapter Three : Research Methodology

Chapter Four : Data Presentation and Analysis

Chapter Five : Summary, Conclusion and Recommendation

The contents of each chapter are briefly mentioned below.

**The Introduction chapter** of the study is including the following topics.

- Background of the study
- Focus of the study
- Statement of the problems
- Objectives of the study
- Significance of the study
- Limitation of the study &
- Organization of the study

**The second chapter** is review of the literature, which is contain conceptual framework, review of the previous thesis, research paper as well as different journals related to VAT.

**The third chapter** consists with the research methodology, which is apply to collect the data and will analyze them in this study. It is contain of the following topics.

- Introduction,
- Research design,
- Population and Sampling
- Nature and source of data
- Data & information collecting procedure
- Data processing and Analysis procedure

**The fourth chapters** in this chapter, the data are presented, tabulated, as required by the research objectives. Data are here interrupted and analyzed with the help of various analytical tools and techniques.

**The fifth chapter** is the last chapter of the study, which is concern with the summary of the data, conclusion and recommendation of the study for the implementation in the future.

And at the end of the study bibliography, questionnaire and appendix is included.



## **CHAPTER II**

### **REVIEW OF LITERATURE**

#### **2.1 Conceptual Framework**

##### **2.1.1 Introduction to Value Added Tax (VAT)**

Value Added Tax is the most recent innovation in the field of taxation. Actually, VAT is considered one of the most important tax reforms of the second half of the twentieth century. It is a scientific tax system, which was first introduced in 1954 in France. VAT is a family member of indirect tax. Indirect tax is primarily so called because the real burden of tax under this type can be shifted forward to the consumers or in other words, it is not borne directly by the person who pays it. As long as the burden of the tax can be shifted forward, it is indirect. To obtain the exact definition of VAT, the following section gives its practical and precise meaning as implicit in the definition of various experts and institutions.

##### **2.1.2 Meaning of VAT**

Different experts and institutions have attempted to give the meaning of VAT according to their own interpretations. Here some of their definitions may be studied. In the words of Ishwar Bhattarai & Girija Koirala,

VAT is a general consumption tax assessed on the value added to goods and services. It is a general tax that applies, in principle, to all commercial activities involving the production and distribution of goods and the provision of services. It is a consumption tax because it is borne ultimately by the final consumer. It is not a charge on companies. It is charged as a percentage of prices, which means that the actual tax burden is visible at each stage in the production and distribution chain. It is an indirect tax, in that the tax is collected from someone other than the person who actually bears the cost of the tax

(namely the seller rather than the consumer). As VAT is intended as a tax on consumption, exports (which are, by definition, consumed abroad) are usually not subject to VAT or VAT is refunded. (Bhattarai & Koirala, 2007: 321)

According to economy watch website,

Value Added Tax, popularly known as ‘VAT’, is a special type of indirect tax in which a sum of money is levied at a particular stage in the sale of a product or service.

(Source: [www.economywatch.com/business-and-economy/vat.html](http://www.economywatch.com/business-and-economy/vat.html))

According to Wikipedia Website,

Value added tax (VAT), or goods and services tax (GST), is tax on exchanges. It is levied on the added value that results from each exchange. It differs from a sales tax because a sales tax is levied on the total value of the exchange. For this reason, a VAT is neutral with respect to the number of passages that there are between the producer and the final consumer. A VAT is an indirect tax, in that the tax is collected from someone who does not bear the entire cost of the tax. To avoid double taxation on final consumption, exports (which by definition, are consumed abroad) are usually not subject to VAT and VAT charged under such circumstances is usually refundable.

(Source: [en.wikipedia.org/wiki/Value\\_added\\_tax](http://en.wikipedia.org/wiki/Value_added_tax))

Value Added Tax is not an additional tax, but has replaced taxes such as sales tax, hotel tax, contract tax and entertainment tax that used to be levied on the sale of goods and services. (Khadka, 1997: 11)

From the above definitions, it is obvious that VAT is an indirect tax which is the newest and significant experiment done on the modern tax system. Like its predecessor, i.e. the sales tax, VAT is also levied on the sale of goods and services (GST). VAT is a broadbased tax as it also covers the value added to each commodity by a firm during all stages of production and distribution. It is a modern tax system to improve the collection of taxes, to increase efficiency and to lessen tax evasion.

VAT is a modern and scientific tax system. It is not similar to customs, excise duty or sales tax that has borne the traditions or historical heritage. It is not a tax that has been improved and amended and accordingly inserted and deleted. It is a tax of the 21st century since it is highly developed and refined. It is a tax that suits the present speed of knowledge, development and skill. Moreover, it confirms with the present context of liberalization, privatization and globalization. It is easily adaptable with the open economy system and matches with the private sector and the market economy of the present day. It is a tax that is transparent and has an in-built system of self-control. There can be no difference of opinion on the above facts.

In summary, the value added tax system is designed to address various problems associated with the conventional sales tax system. It is a tax that has developed as an alternative for the traditional sales tax. That's why it is also called improvised version of sales tax (*IRD & VAT Project, 2001: 95*). As clarified by Chandra Mani Adhikari, It is also an improved and reformed sales tax (*Adhikari, 2003:6*). In sales tax, there is no provision for input tax credit, which means that the end consumer may pay tax on an input that has already been taxed previously. This is known as cascading and leads to increases consumer tax and price levels, which increases the rate of evasion and can be detrimental to economic growth. In contrast, the VAT that has been levied in the previous level can be deducted while paying taxes on the later levels. It has a special system where a person trying to deceive tax will be caught on either one of the subsequent levels. Therefore, the trend of tax evasion is highly discouraged.

### **2.1.3 Types of VAT**

There are three types of VAT. They are:

- Consumption type of VAT.
- Income type of VAT.
- Gross National Product (GNP) type of VAT.

### **Consumption Type of VAT;**

Under consumption type VAT, all capital goods purchased from other firms, in the year of purchase are excluded from the tax base while depreciation is not deducted from the tax base in subsequent years. The base of tax is consumption since investment is relieved from taxation under this type.

### **Income Type of VAT;**

The income type of VAT does not exclude capital goods purchase from the tax base in the year of purchase. This type, however, excludes depreciation from the tax base in subsequent years. The tax falls both as consumption and net investment the tax base of this type is the net national income.

### **Gross National Product Type of VAT (GNP);**

Under this variant, capital goods purchased by a firm from other firms are not deductible from the tax base in the year of purchase. This variant does not allow the deduction of depreciation from the tax base in the subsequent year. Hence the tax is levied both on consumption and gross investment and the conceptual tax base of this variant is a gross domestic product. Here the principle of neutrality of tax is defected that is the way, of all the types this is uncommon and is rarely practice in any country.

Among those three types of VAT, the consumption variant has been widely used in several countries in Europe and Asia where in recent year. The reason for the popularity of this type is that this variant does not affect decision regarding investment and growth, since it relieves investment from any tax burden. Since the tax does not discriminate against capital investment techniques in favour of labour intensive techniques there is no need for a firm to switch over firm capital to labour intensive production. On the other hand since the gross national product variant creates substantial distinctive for saving investment and capital investment production. It is not likely to be a member tax family of any country.

#### 2.1.4 Methods of Computation of VAT

There are three basic methods by which VAT can be calculate. They are: A. Tax Credit Method, B. Subtraction Method and C. Addition Method. The first two methods are frequently used while the third method, Addition Method, is rarely used.

##### A. Credit Method

This method is also called the Invoice Method. Under this method, tax is levied on the total value of sales and it requires that the amount of VAT charged be explicitly stated on the invoice associated with any taxable transaction. The amount of tax merchant submits of tax authorities is simply the difference between the tax collected on his sales and the tax he paid on his purchases (Khadka, 1997: 6). Since the value added (VA) is sale value (SV) minus cost of purchased inputs (CPI), a given tax rate, say (t), the tax revenue (T) will be-

$$T = t.SV - t.CPI$$

Since business is required to state the tax on invoices under the tax credit method, it facilitates border tax adjustments. This implies that the amount of tax that levied on export can be refunded to exporters. Similarly, this method is effective under the destination principle where exports are zero-rated and the tax credit chain is not broken. It also provides the facility of cross checking.

This method is particularly useful if it is desired to reduce the rate of value added tax at certain stage in the process of production and distribution. Since this mechanism puts an equal burden of taxation on both imports and domestic products, it is further preferred. The tax credit method, thus, is desirable for several reasons and has been adopted by many countries of the world.

Nepal has adopted the tax credit method.

The following example may help understand the subtraction method in a better way. Let's suppose an importer imported a cooler for Rs. 20,000.00. VAT was paid on its import. This product passes through three stages before reaching to the final consumer. The value added (profit) by each businessman on the cost price are:

Importer - 30%, Manufacturer - 50%, Wholesaler - 20% and Retailer - 10%. The VAT is calculated in the following table with all the given information.

**Table 2.1**  
**Calculation of VAT under the Credit Method**

(In Rs.)

Stages	CPI-VAT	Added Value	SV-VAT	SV@13%	SV+VAT	VAT
Imported Cooler	20000	-	-	2600	-	2600
Importer to Manufacturer	20000	6000	26000	3380	29380	-
Manufacturer to Wholesaler	26000	13000	39000	5070	44070	1690
Wholesaler to Retailer	39000	7800	46800	6084	52884	1014
Retailer to Customer	46800	4680	51480	6692.4	58172.4	608.4

### **B. Subtraction Method**

Under this method, each merchant's tax liability is computed by applying the applicable VAT rate to the difference between his total sales (inclusive of the VAT element in his sales price) and his total purchases (inclusive of the VAT element in his purchase price). Hence, unlike the credit method, the amount of VAT connected with a taxable transaction is not required to be explicitly stated on the associated invoice (Howell, 1995: 94). This method is appropriate for the consumption variant of VAT. The tax revenue under this method can be calculated by using this formula.

$$T = t (SV - CPI)$$

**Table 2.2**

### Calculation of VAT under Subtraction Method

(In Rs.)

Phases of Production and Distribution	Net Purchase Price(CPI)	Net Sales (SV)	Value Added (SV-CPI)	SV@13%
Raw Material Producer	-	3000	3000	390
Producer	3000	4500	1500	195
Wholesaler	4500	5800	1300	169
Retailer	5800	6500	700	91
<b>Total</b>	13300	19800	6500	845

#### B. Addition Method

Under this method, the tax base is obtained by adding the incomes produced by the firm or by adding the payment made by the firm to the factors of production employed in turning out the product, such as wages, interest, rent, royalties and profits. This method is appropriate for the income type of VAT.

#### 2.1.5 Principles of VAT

VAT can be implemented under either the origin or the destination principle.

##### A. Original Principle

Under this method, the tax base is obtained by adding the incomes produced by the firm. This implies that all exports are taxable and all imports are non-taxable. Where there is a border and cross-country trade, this principle gets important to imported goods or services over domestic production. Countries with international boundaries do not prefer to have this principle. But in European community (EC) where there is a common border this principle of taxation is essential. The main reason behind not following this principle is of revenue loss. It also discourages the export either directly or indirectly.

##### B. Destination Principle

The most popular form of principle adopted by a large number of countries is destination principle. Under this principle, goods or services are taxed on at the place where they are produced but the place where they are consumed. This means all imports are taxed while all kinds of goods and services are free to taxation. The main advantage of this principle is non-discrimination between import and internal production. This principle is favorable for promoting export. Many countries follow this principle because they are eager to boost export. Nepal's VAT system is also characterized by the Destination Principle.

### **2.1.6 History and Development of VAT**

Tax is collected by government to meet the need of budget. Among the various types of tax, the sales tax is one of the major sources. VAT is the most scientific system of sales tax. In the early days, the tax from the consumption and production is collected as sales tax. But now, it is almost completely replaced by the VAT. The concept of VAT was introduced in 1919 by Dr. Wilhelm Von Sieman in Germany. This concept was brought to replace the "Usnatzsterller" (multi stage sales tax) due to its undesirable effects, particularly cascading and vertical integration of the latter tax (MST) for the first time. The Germany knew the administrative complication of the VAT system. So, it has the fear to implement. Therefore, the rate of unsatzsteuer is reduced instead of the implementation of VAT. In 1921, the America was implementing the corporate income tax. Pro.Thomas S Admas suggested the tax for the United State of America to replace the existing tax system. Until early 50s the development of VAT remained limited only in the theory.

France was the first implementer of VAT in 1954 covering only in the industrial sector. The VAT was limited to only up to whole level. But these countries limited the VAT only on import and manufacturing stage.

In late 60s, VAT started to become popular. Countries like Denmark and Brazil adopted this system of tax in 1967. France, the first implementer of VAT, extended it to the retail level for the first time. And Germany also adopted VAT in the same year. In 1969, the



countries like Netherlands and Sweden also adopted VAT in their countries. In 1970, 1971 and 1973, Luxembourg, Belgium and Ireland introduced the VAT respectively.

In Asia, Vietnam was the first country to introduce this most scientific tax system. The country adopted VAT in 1973. The trend being VAT popular was increasing all over the world. In 1977, 1984, 1985, 1986, South Korea, China, Indonesia and Taiwan introduced VAT respectively. Similarly, VAT was introduced by Philippine in 1988, Japan in 1989, Thailand in 1992 and Singapore in 1994.

In SAARC region, Pakistan was the first adaptor of VAT. It implemented VAT in 1990. India introduced VAT first as modified value added tax (MOD VAT) in 1996. But actually in India, VAT replaced sales tax on 4 January 2005. Though some state did not opt for VAT (for political reasons), majority of the state embraced VAT, states like Andhra Pradesh and Maharashtra taking the lead. The Empowered Committee, constituted by Government of India, provided the basic framework for uniform VAT laws in the states but due to the federal nature of Indian constitution, States do have a liberty to set their own valuations for the VAT levied in their own territory. India introduced the full VAT in some prescribed regions of the country on April 1, 2005. Around 130 countries have introduced VAT system across the world. The list below shows the chronology in which VAT was implemented in different countries.

**Table 2.3**  
**Implementation of VAT in different countries in the chronological order.**

Year	Name of the Countries
1954	France
1960	Ivory Coast
1961	Senegal
1967	Brazil, Denmark
1968	Germany, Uruguay
1969	Netherlands, Sweden
1970	Ecuador, Luxemburg
1971	Belgium
1972	Ireland
1973	Austria, Bolivia, Italy, United Kingdom, Vietnam

1975	Argentina, Chile, Columbia, Costa Rica
1976	Honduras, Israel, Peru
1977	South Korea, Panama
1980	Mexico
1981	Haiti
1983	Dominican Republic, Guatemala
1984	China
1985	Indonesia, Turkey
1986	Morocco, New Zealand, Niger, Portugal, Spain, Taiwan
1987	Grenada, Greece
1988	Hungary, The Philippines, Tunisia
1989	Japan, Malawi
1990	Iceland, Kenya, Pakistan, Trinidad and Tobago
1991	Bangladesh, Benin, Canada, Jamaica, South Africa, Egypt
1992	Algeria, Armenia, Azerbaijan, Belarus, Salvador, Estonia, Fiji, Kazakhstan, Kyrgyzstan, Moldavia, Russia, Tajikistan, Thailand, Turkmenistan, Ukraine, Uzbekistan
1993	Burkina Faso, Czech Republic, Mongolia, Paraguay, Poland, Romania, Slovakia, Venezuela
1994	Bulgaria, Finland, Lithuania, Singapore, Tanzania Western Samoa, Madagascar, Togo, Latvia
1996	Albania, Guinea, Uganda
1997	Congo Republic, Nepal
1998	Croatia, Mongolia, Vanuatu
1999	Cambodia, Cameroon, Mozambique, Papua New-Guinea, Slovenia
2000	Australia, Chad, Macedonia, Namibia, Sudan
2001	Rwanda,
2002	Lebanon
2005*	India

(Source: Inland Revenue Department, IRD, Kathmandu)

India\* Source: The VAT Project Office (Revenue Administration Support), IRD, IRD/DANIDA, 2001: 3-4) \*India has implemented Modified VAT since 1986. This system is not exactly a VAT system. The system was introduced to refund excise duty paid on inputs.

### 2.1.7 Reasons for the increasing popularity of VAT

VAT is definitely a new and modern tax as compared with other traditional tax systems. Actually, VAT is thought of being the most important tax reform in the 21st century. Of all the indirect taxes that evolved in the past, VAT is by far the best tax system. By contrast, other tax system had never risen into prominence in such a short span of period.

Ever since its introduction in France around 1954, VAT has gradually and promisingly won the heart of people and is currently implemented in about one hundred and thirty countries.

Several other countries, which so far have not adopted VAT are trying to make necessary changes in their fiscal policies and laws to assimilate and accommodate this scientific tax system into their economic set up.

Although VAT is out and out a new system as compared to other traditional tax system, its popularity is growing fast. It is a precondition that any European countries must have already adopted VAT to become a member of EEC. This precondition plays a vital role in the popularization of VAT. In addition to them, there are some factors that are attributed to its growing popularity.

1. VAT is neutral with respect to the choice of method of production and distribution. Since the tax is levied only on the value. It is efficient too. An efficient tax system is one that does not cause any distortions in production and consumption. In other words, such a tax system does not bring any unintended and undesirable effects in the methods of production and distribution or in consumption.

Added at each stage in the system, tax liability remains the same regardless of the system of production and distribution. Total tax paid on a given commodity depends on the rate of tax and on the total value added (i.e. the final price) of the commodity but not on the number of states through which it has passed. Since VAT does not interfere with the optimal allocation of means of production, it is considered neutral. All other forms of sales tax are distorted since they bring unnecessary and intended changes in the method of production and distribution. VAT is, thus, superior to other

forms of sales tax on the ground of efficiency since this tax is neutral with respect of method of production and distribution.

Likewise, VAT is neutral with respect to consumer's choice too. VAT does not affect the relative price. Consequently, there is no need for the consumer to shift from one commodity to the other as responsive to tax.

Thus VAT does not affect the preference of the consumer. It also avoids probable distortions of the optimum allocation of resources. All other form of sales taxes is not neutral in respect to consumer's choice.

2. Another feature of an ideal tax system is equity. VAT is more equitable in the sense that it falls equally on all goods that gather a different proportion of value added at various stages.

VAT is also attractive from the point of view of foreign trade considerations. Exports are commonly relieved from taxation in order to maintain the competitive power of domestic manufacturers in the international market. This promotes exports and increase global competitiveness. That is why; the tax levied on exports is refunded to exporters. It is possible to refund the exact amount of tax levied on exports under VAT. It is difficult to refund the exact amount of tax levied on exports under other form of sales tax system except the retail tax.

Another reason for the growing popularity of VAT is that this tax avoids the problem of cascading or pyramiding. Under VAT system especially when the invoice method is adopted, the exact amount of tax can be shifted forward to the consumer.

3. One of the desirable features of a good tax system is the revenue productivity. VAT is popular from the revenue point of view. VAT is well known in the world for its effective revenue generation. It is important instrument for the mobilization of recourses. There is tremendous scope for increasing the revenue from VAT. It offers greater revenue potentiality as compared to other forms of sales taxes. VAT is an improved version of sales tax, which has the virtue of mobilizing substantial amount

of revenue. Hence, VAT has become an important source of revenue on many developing as well as developed countries. It yields more than 20 percent of tax revenue.

- 4 Furthermore, VAT is favorable from the administrative point of view also. VAT is favored on the ground that, as the base of this tax is broad; a relatively low rate can produce the required revenue. Low rate reduce the possibility of tax evasion. Since the tax burden is distributed among a large number of taxpayers under the VAT system, it does not put a heavy burden on a taxpayer and hence avoids the chance of considerable tax evasion. The built-in control nature of VAT makes tax evasion more difficult. VAT is thus, better in this respect than other forms of sales taxes.

In summary, VAT is a modern and transparent tax. It is less distorted and more revenue productive. That is why this tax has become a popular topic for tax reform and has been spreading all over the world since the late 1960s. The attractiveness for VAT across the nation has proved that it is preferred not merely for raising revenue but also its avoiding multiple distortions as created by other forms of sales tax. In the process of economic liberalization and globalization. VAT makes the tax system flexible and the bracket widen. All this indicates that the VAT is the tax system of the present day.

## **2.2. VAT in Nepal**

### **2.2.1 History and Development of VAT in Nepal**

In the eighties, various countries, to maintain a sound macroeconomic policy, adopted various takes of reform programs. This program was in swing in 1990's. As the adoption of reform program was at the heart of worldwide policies. Nepal was no exception. The Nepalese government revealed its intention for the adoption of various reform programs to promote market oriented economy in the Eighth Plan (1990-1995) document. In a process to reform task policy, it has mentioned that some time in the mid-plan period a VAT will be introduced in the country. Before that VAT was completely unknown word to the general people of

Nepal. After a restoration of democracy in 1992/93, a two-tier sales tax system was in function at that period.

Under this system dealers and distribution of nine-selected items were required to register for sales tax purpose and collect tax on their sales. It was extended further to five more items in 1993/94. Only the amount of tax paid to manufactures was allowed to credit. Further, sole distribution or agents of the foreign firm or companies and their wholesalers were also required to register for the purpose of collection of sales tax.

As a part of its liberal economic policy, the government of Nepal asked donors to study the VAT system. Finally a VAT task force was created in the Sales Tax and Excise Department in 1993. United States Agency for International Development (USAID) and Consultancy Assistance for Economic Reform for International Development (HIID) started the study in order to makes the necessary preparation for the introduction of VAT. The task force was fully devoted to accomplishing preparatory work. It prepared the draft for VAT legislation, organization, staffing and exemptions. Due to political instability and frequent changes in the priority for the implementation of VAT, the task force could not continue its job. At the time of creation of task force, the Nepali congress was in absolute majority in the parliament.

A mid-term poll changed the political scenario. The United Marxist-Leninist (UML) party created a minority government whereas the Nepali congress became the opposition party. The government led by UML could not reveal its positive attitude towards the implementation of VAT. In the contrary, the two-tier sales tax was declared to be removed in its 1994/95 budget. This negative step hurt the donor agencies and consequently the USAID suspended it support and Harvard Institute for International Development's experts returned. The VAT task force was dismantled.

Soon after the verdict of the Supreme Court to re-install the dissolved parliament, a coalition government led by Nepali congress, formed and it showed as earlier, a firm commitment to introduce VAT in its F/Y 1996/97 budget. The USAID resumed its support but is allocated for the study of VAT had already been transferred to other projects. Again, scarcity of fund is realized by the government and search of the donor who can provide the necessary fund and technical assistance for the implementation of VAT. After all, the DANIDA supported the VAT project. It is continuously supporting till now.

As a part of preparatory work, the VAT Act was passed in 1996 by the parliament. The government in 1997 approved VAT Regulations. In the same year, the department of sales Tax and Excise were renamed as the Department of Value Added Tax (VAT). After a year, the Ministry of Finance approved nine volumes of manuals. Furthermore, VAT Taskforce organized a various discussion and interaction program related to VAT in different parts of the country. Various introductory brochures were published and distributed to the potential taxpayers, businessmen and the administrative staffs.

The VAT was initially scheduled to be effective form July 1997. The government was planned to register the potential taxpayer in VAT from this period. In support of VAT, the government decided to rationalize the tax structure by educating the rate of income tax, sales tax and custom duties in advance. The VAT was to replace the Hotel Tax, the entertainment Tax and the Contract Tax. For this purpose the VAT task force was preparing its work in accordance with the schedule. Meanwhile the private sector of business field opposed the government policy on adoption of VAT. Nepal Chamber of Commerce held a nationwide discussion program among traders, businessmen, industrialists and their representative association in March 1997 to collect the attitude towards the introduction of VAT in Nepal. Most of the business community showed their dislike to the VAT which was scheduled to be operated form two month later.

Business persons protested the decision of the adopting of VAT with the slogan “NO VAT” issue of VAT resulting in a conflict between the government and the private sector. Confrontation continued for a long time. Accepting the increasing pressure of business sector, finally the government decided to postpone the date of application for four months. The government also announced the date for the VAT to be effective from November 16, 1997. With a view to facilitating the functioning of VAT the government made an arrangement in the budget for F/Y 1997/98 to convert the Hotel tax into the Sales tax. The rate of the sales tax reduced from 15 percent to 10 percent. Further the rate and the slab of income tax and customs duty were also lowered. The government took a heavy revenue risk by curtailing the rate and structures of various taxes without prior demand of the taxpayers.

Whatever reasons were laid for the postponement of the effective date of VAT, the preparatory team got a very valuable time for the preparation of VAT. The government and its associated body tried to convince the business community in favor of VAT. It was really a very hard work to implant VAT without the dull cooperation of business community. The VAT project, Ministry of Finance as well as Department of VAT devoted the extended period of making friendly relations by providing more training, information campaign meetings, talk program and interaction program between different groups of people.

In the mean time the business group was also divided into two groups. Industrialist was in favor of VAT whereas the trading group was against it. Despite heavy protest by the trading group, the government implemented the VAT from the scheduled date of November 16, 1997.

Even after the adoption of VAT the days were not as easy as expected. Trading businessmen were completely against the VAT whereas industrialists were in favor of it with heavy concession on various taxes. The government announced all the concessions without prior plan in budget speech four month before the date of VAT implementation, which could not motivate the businessmen. On the one



hand the businessmen enjoyed the privilege provided by the government for the successful enforcement of VAT, on the other they continued to protest against VAT.

Political situation was also volatile. The government was in a pressure to quit. As usual, the businessmen were against VAT. Industrialists were in favor of further concession in tax regime that was against the principle of VAT. VAT administrators were not fully aware of its system. Due to various reasons VAT could not function as expected. The business community demanded the continuation of all exemptions and incentives granted under the sales tax system.

Businessmen were also very angry at the function of octroi, a local tax. FNCCI, an apex body of private sector, decided on February 4, 1998 that they would not sit for negotiations with the government regarding the implementation of VAT unless the government scrapped out octroi.

On March 1998, the government and the private sector reached an agreement regarding the modalities of the implementation of VAT. Exemption of industrial machinery and tractors, soft behave towards the retailer, acceptance of the bill value in import point, set up a committee in order to review the VAT law and establishment of permanent revenue board where the main agreement. Since most of the agreed points were not activated the businessmen again began to oppose VAT. A series of discussion took place before the presentation for the F/Y 1998/99 budget. The demands of Businessmen were increasing considering the volatile situation of the political party. The government requested for the agreement but the businessmen rejected the proposal and did not sign in agreement. Even though the government addressed few issues that were asked by the businessmen, Finance Bill 1998 incorporated following changes.

- The threshold was increased from Rs. 1 million to Rs. 2 million.
- Cottage industry got relief from the registration in VAT.

- A special arrangement to be provided to settle the old stock of businessmen.
- The rate of interest was reduced to 15 percent from 18 percent.
- The rate of penalty of the late filing of return fixed at 0.1 percent per day instead of 100 percent.
- Tax offices were empowered to issue a tax assessment if tax payer cannot justify the reason for under invoicing.
- Firms, companies and industries are required to issue serially numbered invoice with their names and addresses. The VAT administration may inspect, with prior approval of the DG of the VAT Department, the books of accounts of unregistered vendors in connection with VAT, and may penalize if the books of accounts are not maintained properly.
- A list of exempted items increased.

Despite above mentioned provision, the government also announced the several measures in the field of income tax, customs duty and revenue investigation with a view to rationalize the tax in accordance with VAT principle. Provision of some curative measures provided for the simplification of tax collection irritated businessmen more than were attracted towards it. They continue to oppose the VAT system vigorously.

Finally both parties agreed not to implement the provisions provided by the Finance Act until they reached an agreement. Ultimately, both parties agreed on 39 points on September 1998. Most of the agreement was in connection with the further exemptions and concessions in various fields VAT as well as to the taxes. Few of them were in adverse direction of VAT principle.

VAT administration had allocated a TPIN (taxpayer identification Number) consisting of nine digits to registered taxpayer with a view to process data in computer. It was developed as per international standard. Last ninth digit was for checking the accuracy of the number, which is called check number. All the records of taxpayer are stored in the computer in database format. As the

computer processed all the data of taxpayer, it has become an integral part of VAT administration. Before that all the records were kept manually.

In accordance with the purpose of integrating VAT and Tax department into one department from coming year a provision was made in Finance Act, 1999 that “A PAN (Permanent Account Number) was allocated to the registrant of income tax from the next fiscal year”. For this purpose a Taxpayer service center established under the department of Tax. PAN was also similar to TPIN. Those tax payers who have already received the TPIN were converted to PAN with same number. The service of this center was only confined to nine offices of Kathmandu valley.

Issuance of PAN was accessed to all tax payers of the country from December 16, 1999 after the establishment of Inland Revenue Department (IRD). For the simplification of management of date, a database computer system has been developed since the inception of VAT in Nepal.

With a view to provide all the services from the same window and to make effective mobilization of internal resource, the government decided to integrate the Department of VAT and department of Tax. The department of VAT merged into department of Tax on April, 2000.

Through the budget speech for F/Y 2001/02, the government announced to establish “Inland Revenue Department” from July 2000. Before the merger, there were 17 offices under the VAT Department and 41 offices under the Tax Department. To over the whole in Nepal, all those offices merged together and established 21 offices on the basis of including geographical region, number of taxpayer, taxpayer services and potentially of tax collection.

Out of them, four offices were classified into “A” class, tow into “B” lass, and five into “C” class, five into “D” class and Five into “E” class. Officials and staffs wee reorganized according to its work load. The newly established department will administer the following taxes from the same window.

- Income tax (individual and corporate income tax, Remuneration income tax, interest tax, house rent tax.)
- Value added tax.
- Non-tax (dividend, principal and interest payment, royalty, charges and fees)
- Other related charges and fees related to excisable goods.

VAT has been justified in the light of government fiscal imbalances and need for extra revenue mobilization through an efficient tax system. The Government of Nepal has increased VAT to 13% effective from Magh 1, 2061.

### **2.2.2 Basic Features of Nepalese VAT system**

The type of VAT adopted by Nepal is conventional similar to that implemented over 130 countries around the world, it has injected some special features in to vat system to make it uniquely Nepalese. The following are the main features of the Nepalese vat system:

The adoption of consumption type of VAT because VAT is finally borne by the consumer

- The consumption of VAT through tax credit method.
- The principle of destination.
- The level of threshold is Rupees 2 million.
- The facility of tax refund.
- The application of VAT to all business turns over through the retail stages.
- The rate of VAT is single and positive @ 13%.
- The provision of exemption and zero rate for the goods and services.
- The allowance of tax credit for taxable supplies including the zero rate supply.
- Small entrepreneurs are exempted to register in VAT office.
- Self assessment system.

### **2.2.3 Coverage of VAT in Nepal**

VAT is a tax on goods and services consumed in Nepal. The tax is based on the principle that each producer or distributor adds value, in some way, to the materials they have

purchased and it is this added value that is taxed at each stage of the production and distribution. The coverage of VAT in Nepal is based on transfer, sales, supply, import and export of goods and services except some special provisions. It is levied on the value added at each stage of the production or distribution. Every persons or firms or companies who are involved in such transaction liable to pay and collect tax. The actual coverage is structured by the standard and zero rates as well as tax exempted provisions. In other words, tax coverage is guided by tax invoice system. VAT is administered by invoice method.

#### **2.2.3.1 Standard Rated Areas**

Nepal has adopted “Inclusive Basket System” which means board-based tax coverage. Under this system all transactions regarding transfer, sales, supply, imports and exports of goods and services, where value added exists are taxable, except some special provisions. The Value Added Tax Act 1995 has made provision for exempted goods and services under special law. Unless this provision, all the value added economic transactions are taxable and tax is collected at the rate of 13 percent. This is called standard rated area.

#### **2.2.3.2 Zero Rated Areas**

Under the VAT systems some goods and services are, or may be, taxed at zero-rate. The objective of this zero rate is to relieve some goods and services from taxation working under regular VAT system and net for the purpose of promoting and encouraging export and maintaining diplomatic behaviors. Under this, purchaser is allowed to credit the tax paid on inputs or purchase in concern. However, one has to maintain all records regarding VAT. The VAT is meant to apply only to the consumption of goods and services in Nepal. Supplies made in Nepal that are exported are taxable at zero-rate. Exporters are allowed to claim input tax credits for VAT paid or payable on purchases of goods and services relating to their commercial activities. Exports taxed at zero percent (0%) include exports of both goods and services.

### **2.2.3.3 Exempted Goods and Services**

Under VAT system all goods and services are divided into two basic categories: taxable and tax-exempt. Goods and services are either taxed at the standard rate of 13 percent or they are taxed at zero percent. Those taxed at the standard tax include all goods and services except those that are specified as taxed at zero percent or tax-exempted. According to VAT Act 1996, the purchaser will not pay VAT on tax-exempt goods and services and the supplier is not allowed input tax credits on purchases related to the following goods and services.

### **2.2.4 Tax Administration**

In general the prime goals of VAT administration are to promote voluntary compliance and to promote the VAT revenue by effective, efficient and economic way. Identification of tax payers, tax registration, processing of returns, tax audit, assessments, collection, credit, refund and control of stop filers are main functional areas of tax administration.

In the Nepalese periphery, Ministry of Finance is the main responsible body for collecting financial resources and managing the public expenditure. Department of Customs, Revenue Administration Training Centre, Department of Revenue Investigation and Inland Revenue Department are the wings of Ministry of Finance. Previously the VAT was administered by Department of Value Added Tax. By 2001/2002, the government merged the Department of Taxation and the Department of Value Added Tax and named it "Inland Revenue Department (IRD). IRD is currently responsible for the administration of the taxes like Income Taxes, Corporate Taxes, Value Added Tax, Excises and certain fees and duties like Entertainment fee, Film Development Fee, Tourism Development Fee, Liquor control duty, Smoking liquor duty, special fee, etc. Likewise the department is also responsible for monitoring the non-tax revenue of the Government. This Department is located in the Kathmandu Valley. Under IRD there are 21 Inland Revenue Offices through the country. These offices and department jointly administer the VAT as well as income taxes. The Government of Nepal has the authority to appoint Tax officers in required numbers. Similarly, the jurisdiction of a Tax officer should also be prescribed by the Government. All the tax officials are the civil servants

under the revenue service. Thus, IRD is the authority to mobilize inland revenues including VAT.

The IRD has functional organizational structure. From operational point of view it has been divided into two wings. One is policy related and other is operational wing. The operational wing contains six functional works and these are taxpayer service, tax audit, investigation, collection, tax refund and others. Similarly policy related wing contains the sections related to personnel administration. The Government of Nepal may delegate tax administration related authority to other government officer. Similarly the VAT Act has provided the authority to the Government to define the jurisdiction of tax officers. Thus the department carries out the functions such as tax administration, making tax policy, tax treaty and International taxation, review and appeal related tax matters, advance ruling, tax enforcement and investigation, tax audit, tax refund, excise and liquor administration, tax payer services. (Adhikari, 2003: 30-31).

#### **2.2.4.1 Registration (VAT Act 2052: sec 10)**

For the implementation of VAT it is essential that producers and suppliers liable to taxation register themselves in time. According to VAT Act and VAT related other laws of Nepal, the persons (the suppliers or distributors or producers dealing with taxable goods and services) are required to register in the concerned Inland Revenue Office and obtain the TPIN. In other words, the person who gets involved in commercial activities having the turnover that exceeds the given threshold is required to register for the VAT purpose.

A person means an individual, firm, company, association, cooperative, institution, joint business, partnership, trust, government body or religious organization. Similarly those persons who fall below the defined threshold don't necessarily have to register. But if they want, they can register and take TPIN. A non-registrant is not entitled to collect VAT and utilize the facility of tax credit and refund. The TPIN refers to the Taxpayer Identification Number that is to be allocated to each registrant during the registration process. For the registration,

first of all the taxpayer should get the prescribed form (in Nepali) from any Inland Revenue Office. The TPIN or PAN is very important regarding the Inland Revenue administration. The taxpayer should include his TPIN in the documents related to VAT office, income tax, customs, imports and exports, and banks. Registration is required for any business with annual taxable sale of more than Rs. 1 million.

Regarding the calculation of turnover zero-rated sales if from it is impossible to identify the purchase, sales, stock, the tax officer may treat all these transactions as turnover and may assess the tax. This mean if the zero rated sales exceed the threshold, taxpayer is liable to register. VAT registrants are required to pay VAT on or before the 25th day following the end of each month. Every taxpayer that is involved in taxable sales exceeding the prescribed threshold is liable to register for VAT before starting their business or 30 days after starting their business. They must provide their customers with a tax invoice and should maintain records and keep their VAT records for a period of 6 years. It is required to give notice and advice to the concerned Inland Revenue Office if any changes to the business such as new address, telephone number or a reorganization of the partnership. They post their Certificate of Registration at their principal place and copies of it at all branches where the customers may easily notice and observe it. They should allow tax officers to enter the business to examine the business records and the stock at hand. (Adhikari, 2003: 31-32)

#### **2.2.4.2 Deregistration (VAT Act 2052: sec 10-2)**

A VAT registration may be cancelled by anyone whose total taxable sales for consecutive calendar quarters is not more than Rs. 1000000 and who has been registered for a full fiscal year or by persons who no longer have commercial activities. Regarding the cancellation of registration the VAT Act has mentioned the following conditions:



- If the organization is closed or transferred or collapses in case of corporate body.
- If the business is running under proprietorship with the owner dead.
- If the partnership is dissolved.
- If the distributor or producers stops selling or producing taxable goods and services.
- If the business was registered by mistake.

Regarding the cancellation, the tax officer collects the tax on the capital and other goods that the tax credit facility has been taken by taxpayer previously. The categories falling under this ground neither are required to collect VAT nor allowed to claim a refund of the VAT that they have in producing their goods and services for sale. (Adhikari, 2003: 34).

#### **2.2.4.3 Accounting (VAT Regulation Act 1996: Annex 8-9)**

The effectiveness of VAT depends on the VAT accounting system. It should neither contain unnecessary details nor is inadequate so that it cannot provide appropriate and useful information. The VAT accounting should be information-based as well as less costly. The accounting in VAT consists in the process of maintaining purchase, sales book, VAT account and stock. Thus Purchase and Sales books are the main part of VAT accounting. The Purchase book contains such information as TPIN, the supplier's name with TPIN, The customer's name with TPIN. Similarly in the sales book date, invoice number, name and number of the supplier, purchase price and taxable price of the import, taxable value and the amounts of VAT should be recorded. The Purchase book is a certified register. The registrants should maintain or record all the purchases during the period, all the goods and services either taxable or non-taxable appearing in separate columns. Likewise, the sales book is another main part of VAT accounting. It should be posted on the basis of sales invoices chronologically showing the amount of standard and zero-rated sales amount and the tax amount. At the end of tax period it should be totaled while mentioning the amounts in the VAT account.

The VAT account is monthly summary showing the sources of the figures used in the VAT return. In order to complete the VAT return, a taxpayer should need to ensure that the amount of VAT paid on purchase, the amount of VAT collected on sales, a method of distinguishing between taxable and exempt sales, the time of goods and services supplied and proof that goods were exported. (Adhikari, 2003: 35)

#### **2.2.4.4 VAT Invoices (VAT Regulation Act 1996: Annex 8-9)**

Every registrant is required to issue a tax invoice to the recipient in supplying any goods and services. The specimen of an invoice has been prescribed in schedule 5 and 6 of VAT regulation 1997. It is necessary to mention seller's PAN, buyer's PAN whether it is registered in VAT or not, address of sellers and buyers, date of transaction, date of invoice issue, description and price of goods and VAT amount on the tax invoice. The invoice must be issued in sequential order for the starting of every fiscal year. A minimum of three copies of each invoice must be raised. First copy must be provided to purchase mentioning tax invoice.

Only retailers are facilitating to issue abbreviated invoice with prior approval of tax officer. It is not necessary to mention details in abbreviated invoice as shown in tax invoice. It can't be issued for transaction exceeding Rs. 5000 including VAT. It also must be issued in sequential order. It shall be the duty of a registered person to provide a tax invoice who asks for. A recipient who receives and abbreviated tax invoice shall not be allowed to edit the input tax. In an abbreviated tax invoice, tax is calculated by multiplying the sales value by rate of tax divide by adding 100 to rate of tax.

#### **2.2.4.5 Return Filing (Sec 18)**

VAT is based on self-assessment system. Tax payer himself calculations all taxes. Every registered taxpayer required submitting the return to a tax officer within

twenty-five days after the close of tax period. Such return all have to be submitted whether or not a taxable transaction was carried out in that tax period.

Failure to submit return in specified time is penalized;

Nil return or credit return Rs. 1000 flatly.

Debit return 0.05 percent per day of due amount or Rs. 1000 whichever is higher.

#### **2.2.4.6 VAT Collection**

The producers and suppliers are the agents for tax collection on behalf of the Department or VAT administration. Usually they collect VAT on sales and deposit the collected amount after crediting the tax (if any amount remains) in prescribed public treasury account. Tax should be collected in selling price that comprises the costs related to transportation and distribution expenses as well as profit. Excise duty, custom and other tax except income taxes are also included under the selling price. But the trade discount and trade commission are not included. A person who is not registrant is not entitled to collect tax. The collection of VAT is not the responsibility only of the business community but also of the Revenue Offices. In Nepalese context, if the taxpayer fails to deposit collected tax by regular system, the tax officer may implement various methods and measures to collect the tax arrears. These methods they may employ are as follows:

- Deducting the tax from the refundable tax amount.
- Possessing the taxpayer's fixed and current account.
- Auctioning the property owned by the taxpayer.
- Deducting from the bank account deducting from the amount payable to taxpayers by Government offices or Government owned enterprises.
- Deducting from the amount payable by the third person with the prior approval of the taxpayer.
- Blocking the taxpayers' export-import business. (Adhikari, 2003: 40-41)

#### **2.2.4.7 Tax Credit**

VAT is grounded on tax credit method. All the tax paid on purchase of goods and services, including assets, stationery and other expenses, related to business are allowed to credit full amount from the output tax collected on sales. There are some good, which is very difficult to ascertain whether stated in rule 41(1), tax may not be deducted in respect to the following goods and services.

- Beverages;
- Alcohol or alcohol mixed beverages such as liquors and beers;
- Petrol, Entertainment expenses.

Some goods are used for the both purposes of the business and personal use. Tax paid to the following goods may be deducted on the following proportions.

- On all aircraft, 40 percent of purchase value;
- On automobiles (any motor vehicle with three or more wheels used on a road for carriage of passenger, 40 percent of purchase value);
- On computer, 60 percent of purchase value;

#### **2.2.4.8 Assessment**

VAT is self assessed tax. Taxpayers assessed their liability themselves. They are self allowed to get credit tax paid on purchase. Self-assessment system is developed in the assumption does not satisfy. Taxpayer may assess wrongly o may fail to pay correct tax. To correct this situation there is a provision of management tax assessment, which is done by the tax officials. Following criteria has been fixed for management tax assessment.

- It tax is not field
- If tax return is filed lately
- If tax return contains incomplete information or
- If tax official has reason to believe the tax is not genuine.

#### **2.2.4.9 Refund**

Excess of input tax over output tax in any tax period can be adjusted in the following tax period by carrying forward to next period or can claim for refund to the tax office. Two major criteria have been fixed in VAT law for the claim of refund by taxpayer. IT is allowed to claim either by regular export basis or by regular six months credit basis. Exporter having more than fifty percent export to total sales is treated as regular exporters.

There is also a separate provision of refund for the diplomat and foreign aided projects. They are allowed to claim refund immediately.

#### **2.2.4.10 MIS (Management Information System)**

The tax system should be backed by good and effective information technology which must be taxpayers friendly and conducive to the tax administration as well. A scientific information system provides highly sophisticated and standardized services to the tax payers, providing them with needed and adequate information at the right time and also to the management and the decision makers. To meet this very purpose, a separate department called “Information Technology Section (IT Section), is separately installed. Management Information System (MIS) does the following functions:

- Processing of tax application form and related information.
- Updating the taxpayers’ individual accounts.
- Entering, Processing and preservation of the central data.
- Preparing of master record in database format regarding tax collection, refund, tax credit, registration, de-registration and the business closure.
- Managing of integrated information between department and field offices.
- Managing and preservation of data and information for a long period.

The IRD posts the data in taxpayers’ account and sends the result to the related Revenue offices. The information of taxpayer is kept confidential according to

VAT Act. DANIDA VAT Project has contributed a lot to systematization of the MIS in Nepal (Adhikari, 2003: 54)

#### **2.2.4.11 Appeal**

A taxpayer may file an appeal to the Revenue Tribunal within 35 days against tax assessment or penalty charged by a tax officer or an order by the Director General relating to the suspension of this place of transaction. A provision of appeal to director general has also been included in first amendment in VAT act as a choice to taxpayer.

Before filling the appeal the taxpayer must deposit the disputed amount of the assessed tax due the rest of the amount of the 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.

#### **2.2.4.12 Offences and Penalties**

In the VAT Act, there is a special provision for the offences and penalties too. The registrant is liable to fine or penalties if he fails to use the registration number or does not clearly display his registration certificate, fails to file a return, does not issue invoices, fails to keep an up-to-date account of transaction, obstruct the visit by tax officer, prepare false accounts and invoices or attempts to evade tax. According to VAT Act, action is taken in case of the following:

- Non-registration (those falling under taxable criteria)
- Non filers or stop filers
- Who has tax due/arrears
- Who has no VAT accounts and records as prescribed by the Law?

The Act also has the provision of punishment to tax officers. If the tax officer is found to have made the assessment quite negligently or maliciously, the Director General has a full authority to take action against such a culprit.

#### **2.2.4.13 Rewards**

According to VAT Act, if a person provides information with solid evidence showing that a tax payer has evaded or attempted to evade all or some portions of tax, he will be rewarded with the amount equal to 20% of the amount of tax collected on that basis of such information. The DG himself is responsible for rewarding the informants.

### **2.3 Review of Related Studies**

Since the period of introduction of income tax in Nepal, many individuals as well as some institutions have made efforts on study of taxation for finding the ways for the improvement of income taxation. Many books, research reports and articles have been written and published in this respect. The researcher had consulted books, theses and some articles concerning with income taxation during the thesis writing. Some of them are presented in brief below.

#### **2.3.1 Review of Books**

The Value Added Tax does not have a long history even in the global context; admittedly, there are not as much literatures available on this topic as other forms of tax system. So in other words, very few studies have been done on this particular topic with special reference to Nepal. An attempt, thereby, has been made to review the theory of tax reform as well as the recent literature on VAT.

Shoup (1969) in his famous book "Public Finance Considers value added tax latest and probably the final stage in a historical development general sales tax, which is imposed on the 'value-added' by the business firm. VAT is the difference between sales proceeds and the cost of material etc, purchased from other from which is the tax base of a VAT. A firm adds value added by processing or handling these purchased items with its labour force and its own machinery, buildings of other capital goods.

The famous pair of modern economics Musgrave and Musgrave (1976) in their book *"Public Finance in theory and practice"*, suggests that in among three types of VAT, i.e. GNP income and consumption types, the latest types of for practical consideration for both efficiently and equity criterion and tax based on consumption similar to the retailer sales tax especially for the poor counties. The invoice method for calculation is more preferable and advantage of the value added approach.

The book *Nepalma Mulya Abhibridhhi Kar: Siddhanta ra Byabahaar* is collection of different articles published in various newspapers and written by Dr. Rup Bahadur Khadka during 2051/54. The main objective of this book is to bring public awareness regarding the implementation of VAT. It cites the examples of India, China and Bangladesh where Vat had been already introduced. It has made an attempt to justify the rational for introducing VAT in Nepal. The legal, procedural and structural aspects of VAT are also covered in the book. The success story of Singapore and the failure story of Ghana and implication to Nepal are delineated in the study.

Narayan Prasad Silwal in his book *Value Added Tax: A Nepalese Experience* discloses the empirical finding of VAT after its implication. He was actively associated in VAT administration from the very beginning. He regarded sales tax system as.

- Narrow tax base and low rate.
- Low elasticity and buoyancy.
- Parochial administration.
- Abundance of tax but lot of evasion.

Taxpayers were initially scheduled to register in VAT from the July 17, 1997 and VAT was scheduled to effect from the beginning of F/Y 1996-97. At the time of its announcement he realizes that the preparatory work was not complete. In his own words,

- The computer system was not ready.



- The staffing was not complete.
- The manuals were not approved.
- The business community strongly resisted the introduction.

He further added “taking into account all these factors, it was quite reasonable to postpone the scheduled date from April 16 to November 16, 1997 because the VAT being a modern a voluntary tax had to rely on the computerized information system as well as the cooperation of the business community” Tax base, rate structure, exemption and the threshold issues were major factors affecting VAT design in Nepal. According to his study staff recruitment, issue of retention and issue of attitudes of staff are crucial problems in administration front.

In the book *Kardatako Guide* by Shakti Prasad Pandit (2053), Mr. Pandit gives the glimpses of different forms of taxes and their provision. He tries to make aware about the general terminology of Vat and its application in Nepal. He clearly defines the every term of Vat that is associated with VAT system and the procedure that business community has to follow if falls under the threshold.

Khadka (2000) in his latest book *"The Nepalese tax system"* point out the need to introduce VAT in Nepal. In his book, there are several reasons to introduce VAT in Nepal. One of the important reasons was to develop a stable source of revenue by broadening the tax base. Moreover, Nepal will help to became less dependent on international trade taxes for its revenue in the future. Science if not will be in a position to level important duties on the trade that takes place within the South Asian Association for regional co-operation (SAARC) region after the implementation of the South Asian Free Trade Arrangements (SAFTA)

Another book entitled *Value Added Tax in Nepal: Theory and Practice* (2003) is written by Chandra Mani Adhikari which comprises of three chapters the first chapter deals with theoretical concept of VAT which includes historical background, objectives, merit and demerit of VAT. The second chapter comprises practice of Nepalese VAT which deals with introduction of VAT system in Nepal,

different terminologies associated with VAT, Tax administration system and legal provision made for the VAT implementation in Nepal. The third chapter consists of different model question of TU on VAT, specimen of VAT related forms and Accounts and Value Added Tax Rule 1997 and Value Added Tax Act 1996.

Puspa Raj Kandel published a text book entitled "*Tax Laws & Tax Planning in Nepal*" in 2004. The book was designed to fulfill the needs of MBS and BBS levels under T.U. This book was very useful to the students and teachers to know the legal provisions of Income Tax Act 2058. The book has attached unofficial translation of the tax laws –both Acts and Rules – related to value added tax and income tax. This book was more informative rather than analytical.

In 2004, Mr. Surendra Keshar Amatya, Dr. Bihari Binod Pokharel and Mr. Rewanta Kumar Dahal published a book entitled "Taxation in Nepal (Income Tax, Property Tax & Value Added Tax)". This book has exclusively been designed for the subject "Taxation in Nepal" as per the syllabus prescribed by the Faculty of Management, Tribhuvan University for 3rd year of Bachelor of Business Studies (BBS). Unlike other books available on this subject, this book makes an in-depth approach to the study of income tax, property tax and value added tax in Nepal in order to meet the specific requirements of those students who are studying taxation as a concentration/elective subject at BBS 3rd year. This book was very useful to know the legal provisions of Income Tax Act 2058 and Value added Tax Act 2052. Theoretical aspects as well as numerical problems of income tax and value added tax are shrewdly presented in this book. However the book was failed to analyze legal provisions with numerical examples on the topic of income taxation of insurance business.

The book named "*Tax Laws and Tax planning*" written by Mr. Ishwor Bhattarai and Mr. Girija Prasad Koirala published in 2006 described the income tax system in depth. This book includes the separate chapter on Value Added Tax. It describes VAT practices in Nepal with several theoretical aspects and numerical examples. This book was specifically designed for the students of MBS 2nd years

under Tribhuvan University. However, the book was failed to mention legal provisions with examples regarding taxation of income from insurance business in detail.

### **2.3.2 Review of Journals and articles**

Marasini (the seventh article): He is a director at the land revenue department, advocates for increasing publicity campaigns based in Radio, T.V., FM programs they are popular in the cities where most of the tax payers reside. He also adverse for the sudden inspection of goods on the road to check tax evasion.

Anhmad and Wallow (1989) Paper vol. 20: They identify the alternative tax reform packages on VAT for Pakistan keeping the distributional consequence in consideration. The authors have their own method for the tax reform analysis. The first step, they describe the existing taxes and then examine the consequence of the tax change and thus price change on households, resulting government revenue and also implication for production. They analyzed and compared the consequence of different options such as the single rate VAT with selective exercise and some exemption (or zero rating) and multiple VAT rate. The reform with equal revenue the reform with additional revenue as well as the production implication of tax reform are also considered. The work shows that instrument can be designed to increase revenue and at the same time. protect the poor. A value added tax supplemented with selective excise would have made Pakistan tax system more beyond and reduced the production distortions.

Khadka Documentation VAT Monitor Feb. (1991). He has as research fellow at Philips university, Merbery Germany in his study on "a review of the Nepalese sales tax" state that it is therefore, necessary to introduce a full Hedged VAT in other to streamlining the sales tax system in Nepal. Briefly discussing the sales tax system of Nepal its history and need to introduce VAT in Nepal, the study points out the weakness of Nepalese sales tax system i.e. inefficient, tax evasion on sales, inequitable and complex. So he includes a chapter "move towards VAT" and safe

that " the import/manufacturing level sales tax gained some features of a value-added tax in Nepal in 1985, when an advance sales tax system in the place of suspension system was introduced.

Gleen Jenkins and Khadka "Tax reform in Singapore (1998 Vol. 9, Nov. 2). In a research under this title they had made an effort to assess the VAT in Singapore, which was in effect since 1993. This working paper carries the successful story of VATs introduction and implementation in Singapore to be a good lesson for the non-VAT countries and VAT countries. According to the authors, Singapore put forward the VAT/GST in order to make Singapore formed a task force committee of the tax reformation, The committee recommended that the government must shift from direct to indirect taxes as its main source of revenue.

The research papers concluded that Singapore would be facing the problem of an aging population. In such a situation, income tax will put a greater burden on a smaller group of younger, working, Singaporeans; this might inhibit growth and enterprises. It is therefore necessary to introduce a broad-based tax like GST/VAT to distribute the burden of taxation among a large section of the population GST is a tax on consumption and several features. It relieves investment and saving from the tax burden and rewards enterprise and strengthens economic resilience. GST relieves export commodity tax through the zero rating mechanism.

Since VAT is a fairer tax and is levied on a large section of the population, including the self-employed, it is less affected by economic cycles. GST provides more stable sources of revenue than many other taxes. The main objective of introducing VAT is to make its economy to introduce VAT is to make its economy internally competitive, to promote exports and to develop a broad-based and more stable source of tax revenue.

VAT: Analysis and Suggestion (Roop Jyoti, New Business Age: 2002) - New Business Age, Feb 2002 issue contains this article by famous industrialist and

intellectual personality called Dr. Roop Jyoti. According to him VAT was introduced in Nepal in response to realization that a fundamental change was necessary in the country's revenue policy. The business community was strongly against the VAT in the beginning but they gradually withdrew the opposition as they went on being clearer about positive aspects of the VAT and also its simplicity. Government went through many negotiations with business communities before implementing VAT in the Kingdom of Nepal. Taxpayers were opposed to VAT not because of any defect in VAT as a system. Rather they were afraid of frequent contacts with revenue officials who were historically notorious for a behavior that exploited the taxpayers. The success of the VAT is dependent on some prerequisites, such as:

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

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

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

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

- Inadequate and incorrect step taken to ensure billing and /or billing at the correct prices.
- Failure to enforce VAT threshold on an effective way.

VAT Refund System (The Kathmandu Post: 2002) - The article published in the November 15, 2002 issue made a point that Nepalese industrialist and business

did not have any faith in the VAT refund system before four or five years. Most of them used to say that it would be impossible to institutionalize a refund system in Nepal. While refund is one of the important features of Vat system, it was a big challenge for those who were involved in designing the Nepalese VAT system to create a refund mechanism that can be implemented smoothly under the Nepalese circumstances. The possibility of refund arises when the tax paid by a taxpayer on his purchase/imports exceeds the tax collected on his output. Tax refund is granted after verifying the export declaration forms, letter of credits/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 taxpayers, which does not become sustainable. International experience indicates that provided refund without verification of export and payment of input tax. So, these countries later on stopped granting refunds even to the genuine exporters. In order to avoid such situation, the system of verification has been introduced in Nepal.

On the other hand, refund mechanism has been misused by the tax official in those countries which made full audit mandatory for the refund. This is because resources allocated for audit generally limited. But in case of Nepal problem of allocating budget and realizing the long term process of budget and approving refund , a system of refund directly through the VAT revenue collected on imports has been introduced. It was a dream of the designers of the refund system to implement it in a proper and effective manner in real life. In the first year of introduction of VAT, no one claimed for the refund.

After publicity regarding the tax refund system the trust of taxpayers gradually increased and claimed for refund. VAT refund figure indicated that the refund system is becoming increasingly effective in real life but there is still long way to go.

Value Added Tax and Its Legal Scrutiny (Mr. Yadav Prasad Dhungana, Business Age: 2003) - Mr. Yadav Prasad Dhungana has scrutinized the legal aspects of

VAT in Value Added Tax and Its Legal Scrutiny. He concludes that as other areas of economy that are heavily influenced by political instability, corruption, bad governance, frequent change in government and Maoist revolution. VAT also witnesses weak implementation owing to these hurdles.

### **2.3.3 Review of Previous Researches and Dissertations**

There are quite a few dissertations relating to Value Added Tax Nepal undertaken by various individuals and some institutions. Some of them are reviewed below:

Nepal Chamber of Commerce also made a study to analyze the possible effects of VAT in Nepalese economy in 1997: Dr. Pushpa Raj Rajkarnikar headed the team, the main findings of the study according to report is as follows:

- VAT effects adversely in price level.
- It increases the price of imported goods. Ultimately increase the cost of production there by reduces the export business.
- Requirement of book keeping is complicated.
- It would finally affect the small traders.
- It is untimely to implement.
- It would be unjustifiable on social ground.
- Present administration is incapable for handling VAT.
- Computerization system is not sufficient and it is new concept for the tax administrator.

The report suggested for a partial VAT on some commodities. It was in favor of phase wise implementation of VAT. The study analyses negative impact of VAT neglecting its positive impact.

Ghimire, (1998) in his dissertations "value added tax: key issues in Nepal" explain great importance for the effective implementation of VAT administration capability in Nepal. Organization structure, audit and inspection, system, reward and punishment, policy intervention, selection of skilled and experienced man power

are needed to improve for effective implementation of VT. VAT is considered as a board based tax and potential advantage of it can be attained fully if the tax is extended through retail level. For the period of time, he suggested improve following aspects: (i) Administrative power and creditability (ii) identification of tax payer (iii) registration (iv) education/programmes (iv) incentive for small trades.

He also find some difficulties in implementation VAT in Nepal Those are (i) Rate structure (ii) Small traders in large proportion (iii) Lack of accounting records (iv) Illiteracy and high competency cost (v) Existence open boarder, strong administration, educational programme, registration programme, technical data base system, combination of various revenue offices, high level VAT implementation team, coordination of VAT department, close co-operation between government and private sector etc are essential prerequisites for the success for implementation of VAT in Nepal. Focusing on the ever increasing resources gap, inefficiency in sales tax and need of revenue for handling developmental works, VAT should be implemented in Nepal.

Raju Chaudhari (2001), in his dissertation, *VAT in Nepal: An Analysis of its problems and prospects*, having the objective to review historical background of VAT, to examine the structure of VAT in Nepal, to observe the contribution of VAT to resource mobilization and to analyze the existing problems of VAT in Nepal through the primary and secondary data and information, has concluded that the main problems for business houses are account keeping and billing and the weakness of VAT administration are lack of motivation and service minded attitude among tax officials lack of honesty in VAT officers.

Though from the theoretical point of view it is sure that VAT system is the best and advanced fiscal tool, its effect in the context of Nepal is not as expected because of the lack of strong and honest tax administer, lack of motivation and service minded attitude among the tax officials, lack of the cooperation of business community, lack of strong coordination between tax collectors and tax



payers, lack of strong political commitment and weak public consciousness. He has further recommended some suggestion for better solution of these problems. Tax related information should be published regularly. Interview programs with professor, researchers, tax experts, and economists should be conducted and published through advertising media. Often escape away from actual custom duty, as under valuation of the goods has been a tradition. Thus to overcome these problems, the government either has to collect the custom duty of the actual price of the goods or it has to fix the actual price of the goods in the market. Enforcement should be effective through more audits, investigation and collection visits and integrated approach to total tax system should be introduced for successful implementation of VAT.

Hem Chandra Basnet (2002), in his dissertation, *VAT present status and future prospects n Nepal*, by suing the analytical and explanatory research design and having the objective to ass the present status and future prospect of VAT and its effects on various aspects of economy, has concluded that the implementation of VAT in Nepal would have very poor results than expected due to poor planning and poor implementation. But VAT implementation has been becoming more and more effective and VAT net has been spreading and revenue collection is on the constant rise establishing it firmly in Nepal. It is expected that positive impact can be seen in tax collection as code of conduct announced recently includes all the required ingredients, such as, utilization of tax revenue, respecting the taxpayers, simplification in the service and improvement in the behavior of the tax administrators. Moreover, he recommended that tax related newspapers, pamphlets, radio, and television tec. Interview programs with professors, researchers, tax experts, and economists should be conducted and published through advertising media. Similarly the students at school campus level curriculum should include tax education and social obligation of paying tax. Border should be effectively controlled to prevent the illegal trade. There should be a broader tax adjustment checking and highway checking should be practical

effectively to prevent any kind of illegal trade. The accounting should be transparent and VAT officers should control auditing as far as possible.

A research study made by Khapung (2002) on the topic "Effect on revenue collection from indirect taxes" have found the following major findings of his study.

**a.** Taxation is the backbone of the countries economic development. VAT being the latest innovation in the field of indirect tax system. VAT system has been accepted globally at an increase rate as a part of tax reform with the strong motivation of bringing out simplicity in the tax system.

VAT is more scientific so it enhances the optional of tax by broadening tax base and minimizing the tax leakage. It reduces smuggling, unofficial trade and corruption through transparency and account based cross checking. If government operates the VAT, administration effectively and efficiently outcomes of VAT are to be positive and favorable on all sections.

**b.** Although the comparative importance of direct tax revenue is increasing, indirect tax still contributes three fourth of government revenue.

Relative importance of custom duties to Nepalese revenue structure is increasing trend. Custom duties contribute the largest portion of indirect tax. Share of excise duty is decreasing smoothly in the low income developing countries, the share of excise increase as economy expands and diversities. However decreasing rate of excise duty of our revenue structure indicates the negative side of economy and industrialization.

Contribution of sales tax/VAT to the total tax revenue/total revenue/indirect tax revenue is relatively study after introduction of VAT system, share of VAT has been decreasing indicting the unhealthy practice of VAT.

However, the share of indirect tax in total tax revenue is smoothly decreasing and that of direct tax is smoothly increasing, it indicates the beginning of the betterment of Nepalese economy.

**c.** Trend indirect tax could not rise even after the implementation of VT systems. It was expected increase of indirect tax revenue at a decreasing rate is rather steep after implementation of VAT. It Indicates the administrative inefficiency and ineffectiveness. However VAT is not being able to improve the tax system due to various reasons.

**d.** After implementation of VAT, the different between estimated and actual tax revenue has substantially been increased. It shows the ineffectiveness of VAT system in our system in our country due to various reasons.

Yet even taking into account low degree of resource mobilization, sluggish economic development and growth and problems of revenue collection in the country where many areas are inaccessible and the movement of people and goods over open border difficult to control, the progress made in this direction is far from satisfactory level.

Padam Raj Paudel (2004), in his dissertation, *A Study on VAT: implementation, Problems and its Effectiveness in the Nepalese Economy*, by suing the analytical and Explanatory research design and having the objective to examine the historical background of VAT in general, to examine the implementation, problems, and effectiveness of the VAT in Nepal concluded after using different statistical and financial tools that the revenue collection from VAT is lower in Nepal than expected due to various problems related to VAT. In his findings, Nepalese VAT law is inappropriate and the administration is worse. He suggests the VAT laws and administration in Nepal be deeply scrutinized. There is shortcoming in the implementation. For the efficiency of tax system, in his view, there must be strong commitment, manpower development planning within the

administration. Apart from them, Tax education packages are to be made and initiated hence, tax administration and tax compliance could be improved. He is too optimistic about the prospect of revenue collection from VAT if the problems relating to VAT system in Nepal can be solved and resources fully and effectively utilized. For this, as he recommends, Tax related information should be published regularly through journals, magazines, newspapers pamphlets, radios, television, and cinema. Interview programs with professors, researchers, tax experts and economists should be conducted and published through media. Timely revision should be made in the matter of VAT policy. The most important thing, the members involved in formulating VAT policies must have deep knowledge about VAT.

Deb Raj Dhakal submitted his MBS thesis on *A Study on Practices of Value Added Tax in Nepal* in 2004. His thesis was guided by the primary objectives like reviewing Nepal's overall tax structure for the period 1009/91 to 2001/2002, examining the theoretical background of VAT, analyzing the existing VAT system of Nepal with special emphasis on revenue mobilization and identifying the major problems of VAT in Nepal. His study is also chiefly based on the secondary sources and the research design descriptive in nature with the use of figures, ratios, percentages, tables and graphs whenever and wherever necessary. He also concluded that the implementation of VAT system has a greater significance in Nepal. However he comments that the VAT system in Nepal from its inception has been facing innumerable problems, which curtail its merits and effectiveness.

According to him, its progress has been slow, initially due to opposition from the business community. He also admits there do exist the immense administrative problems. Even after its full-fledged implementation in 1999, the system has not been taking a considerable place due to administrative inefficiency. VAT regime is extremely challenging in a burgeoning economy like Nepal where, with long open border, a large segment of the economy is yet to be monetized. Resistance

from the business community, ignorance of general people and the lack of full support and commitment from the politicians and government officials forced the authority responsible for implementation VAT to make compromises on various aspects of VAT which has weakened the process of implementation right from the beginning.

To overcome these problems he put forth his recommendation which include the establishment of proper co-ordination between Inland Revenue Department and Ministry of Finance, the amendment of Unpractical acts, rules and regulations, the need to review the VAT laws on the basis of experience gained so far, cutting down of the existing labyrinth of VAT exemption, adoption of dual rate VAT system: a lower rate of tax on the goods and services of general consumption and higher rate on luxurious goods & services, installation of computer and networking system and so on.

The unpublished dissertation entitled *Resource Mobilization. Through Value Added Tax in Nepal* undertaken by Pawan Kumar Neupane in 2006 has the basic objective to examine historical background of Value Added Tax and to analyze mobilization of revenue through VAT. Mr. Neupane also provided the bird eye view of the practicing scenario of VAT in the foreign countries. He conducted a research applying secondary data to analyze simple ratio and also use of observation method. He concluded that VAT 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 to control tax evasion so that the number of the taxpayers would increase and hence the revenue collection would also increase exponentially. He complains that in Nepal, after the implementation of VAT, the government has hardly paid any attention to the consumers. He gave several reasons behind this. According to him, after the implementation of VAT, attempt was made to inform the public about some non-VAT including commodities through the public means of

communications like radio, television and newspapers, but it could not prove effective.

As a result, the consumers are on the other hand, as he argues, the businessmen opposing the VAT had raised the prices of daily consumption goods like rice, vegetable etc, which had added future burden to the consumers. The government, he observed, could neither reduce the price nor punish those businessmen against such act. Instead, the government compromised with those businessmen. These are some of the grievances articulated by Neupane in the conclusion of the thesis, but he also gives some recommendations. His constructive recommendations were **1.** The boundary of Value Added Tax (VAT) should be increased instead of increasing the rate of VAT in order to increase the tax amount under VAT, **2.** The concentration must be given to bring the use of billing in all trading concern, **3.** The most important one, the consumer should be comprehensively educated about the nature and beneficial aspects of VAT.

Gautam (2006), in this dissertation "revenue collection from VAT and its problems" explain great importance in total revenue. From his view, Vat is found to the best alternative for revenue collection. The share of VAT revenue is increasing trend in every fiscal year from 1997/98. VAT is a essential choice for revenue collection, VAT became in power point of attraction of many countries and gained popularly day by day, the structure of VAT administration is still weak, traditional, corrupted and incomplete, most of the taxpayers are not conscious about the Vat system, smuggling business activities are increased due to the tax administration are major finding of his study. HE indicates the major problems in revenue collection from VAT that are VAT billing, narrow tax base, smuggling under valuation and unauthorized trade, weak tax administration, weak public consciousness level and geographical barriers.

According to the study, VAT should not be taken as easy task rather it is very challenging issue for Nepal. The major challenging issue for VAT implementation in Nepal is successful tax administration.

He recommended that implementation of the proper billing system to avoid the problem of revenue collection in Nepal and consumers to be informed to take the real bill which they have paid the value of goods and service. Rules and regulation of VAT carry out in real practice.

## **2.4 Research Gap**

There are not sufficient study/reports conducted in such a particular topic that revenue collection of VAT in Nepal. A few works have done earlier but they are not able to explain explicitly the real picture of revenue collection and problems of VAT in Nepal. They have shown the revenue collection form VAT in our country Nepal along with problem and prospects, but those studies try to show real condition. This study, specially focused on the evaluate Nepalese VAT by identifying existing problems related to revenue collection from VAT. Further, an attempt has been made to analyze revenue collection from VAT and this study try to find out about the recent problems which was not shown by previous studies.

## **CHAPTER-THREE**

### **RESEARCH METHODOLOGY**

This chapter is devoted to the research methodology applied in the study for the achievement of desired objectives. Both primary as well as secondary sources of data are used to conduct this study. Opinion survey techniques were adopted while collection the primary data to find out the views of respondents representing different groups related to VAT. The survey visualized the opinion of different respondents regarding various aspects of VAT and tries to describe and analyze the views. There are six parts as introduction, research design, population and sampling, sources of data, procedure of data collection, data processing technique and analytical tools.

#### **3.1.1 Research Design**

To make the study meaningful research design is some carefully. It is design by right type of data into right place. The data and information in this study are collected from both primary and secondary sources. The data and information of the study are concerned with past phenomena of the performance. An opinion survey has been conducted for an empirical research. The opinion of the various 70 respondents, associated with businessman, traders, consultants, entrepreneurs, chartered accountants, academicians, consumers, students, auditors and the person those who are attach with VAT related field collected through structured questionnaire. The study has tried to find out the result of objective by its own procedure. Thus, the research methodology followed in the study can be termed as analytical as well as descriptive research design.

#### **3.2 Population and Sampling**

Lalitpur District is used as area of the present research work, The respondent persons including businessman, traders, consultants, entrepreneurs, chartered accountants, academicians, consumers, students, auditors and the person those who are attach with VAT related field have been taken as its population by using stratified sampling method



and best judgment of researcher. Out of the total population questionnaire were distributed to sample of 80 selected respondents, out of which 87.5 % ( i.e.70) of the respondents give their views regarding various aspects of VAT. The respondents were categorized in two categories i.e. category A and B, which category A includes 41 respondents while category B included 29 respondents. The table below clearly about the composition of the total respondents and their sample size.

**Table 3.1**  
**Groups of Respondents and Size of Sample from Each Category**

Category	Group of respondents	Sample size
<b>A</b>	Businessman, Consultants, Entrepreneurs, Traders	<b>41</b>
<b>B</b>	Chartered Accountants, Auditors, Academicians, Consumers and Students	<b>29</b>
<b>Total</b>		<b>70</b>

### **3.3 Nature and Sources of Data**

Nature and Sources of Data Both primary as well as secondary data were collected in order to achieve the real and factual result out of this research. Since the nature of these primary and secondary data is different, collection procedure also tend to vary. A set of questionnaires was designed and distributed to the selected respondents well-learned in and at least familiar to VAT and its implications. Information and data were also collected from respondent through field visit by the researcher. The secondary data were collected through annual reports, different books and publications. The sources and data collection procedure is explained below.

#### **A. Primary Sources**

The primary data were collected through following techniques: The respondents were Businessman, Consultants, Entrepreneurs, Traders Chartered Accountants, Auditors, Academicians, Consumers and Students were selected different parts of Lalitpur.

- Interview
- Questionnaire
- Telephone queries
- Discussion with resource persons
- Field Survey

## **B. Secondary Sources**

The secondary data of this research were collected from the following sources: a Published and unpublished reports, articles and dissertations on the concerned subject.

- Annual report of IRO of Lalitpur & IRD of different years.
- Economic survey & Budget Speech of various years, published by MOF.
- Nepal Rastra Bank's Economic Bulletin of various times.

## **3.4 Data and Information Collection Procedure**

A structured questionnaire were developed and distributed to the selected respondents. Distribution was done personally through field visits rather than sending by any means to get accurate and actual information in time. The questionnaires were administered in personal meeting with the respondents and additional information was also collected from interview with the respondents. Various numerical data and information are collected as per the objective of the study and research questions. Firstly, laws, rules, regulations and policies related to income tax and corporate tax are studied to get more information about corporate income tax including book related to public finance. Secondly, different libraries such as Chamber of Commerce, FNCCI, and NRB are also consulted. Thirdly, the numerical data are collected from the publication of annual reports of IRD/N, economic bulletin of NRB, Economic survey of MOF, publication of security board, CBS, publication of CEDA, T.U., Budget speech etc. Lastly, various journals, national newspapers are also reviewed. Respective parties are consulted while analyzing the research questions.

### **3.5 Data Processing and Analysis Procedures**

The collected data and information from different sources of income tax was processed for tabulation and analysis. According to the subject matter and requirement, the data were tabulated into separate tables and format. Then simple statistical tools such as percentage, average, correlation, trend analysis, etc were calculated and used where necessary. They have been presented and analyzed in descriptive way. Graphs, charts and diagrams are also presented to interpret the findings of the study.

## CHAPTER IV

### DATA PRESENTATION AND ANALYSIS

#### 4.1 Revenue Structure of Nepal

Revenue Structure of Nepal The total revenue of government of Nepal is collected from tax and non-tax sectors. The tax revenue, which is compulsory sacrifice of the peoples, can divide into two components i.e. direct tax and indirect tax. Those revenues collected as income tax, land tax, property tax, etc are direct tax and those revenues collected as sales tax, value added tax (VAT), customs and contract tax etc are an indirect tax. Another sides, the government has received other kinds of revenues, e.g. postal service charge, fees fines and forfeiture etc are non-tax revenues. Non-tax revenue are not imposed specially views of revenue collection. In Nepalese economy amount of tax revenue is generally higher than that of non-tax revenue.

The trend and composition of tax revenue and non-tax revenue in different fiscal years are presented below:

**Table 4.1**  
**Revenue Collection in Nepal**

(Rs. in million)

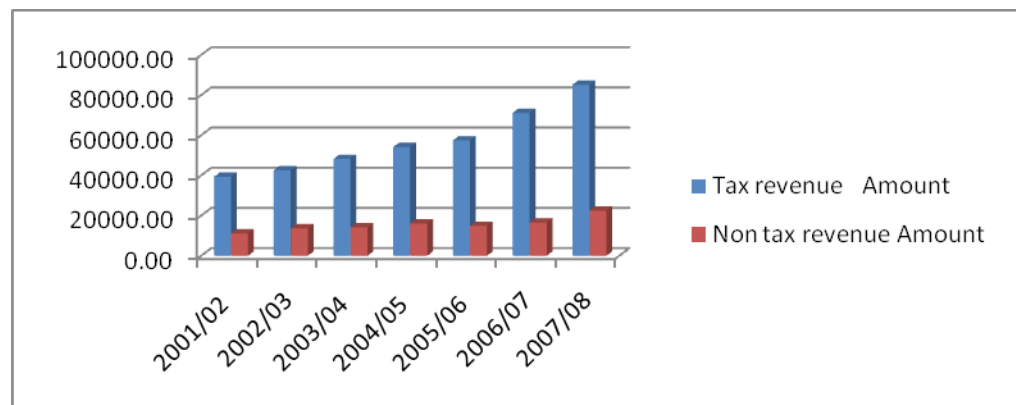
Fiscal Year	Total Revenue	Tax revenue		Non tax revenue	
		Amount	%	Amount	%
2001/02	50445.60	39330.64	77.97	11114.96	22.03
2002/03	56229.80	42586.92	75.74	13642.88	24.26
2003/04	62331.00	48173.00	77.29	14158.00	22.71
2004/05	70122.70	54104.70	77.16	16018.00	22.84
2005/06	72282.00	57430.40	79.45	14851.60	20.55
2006/07	87712.10	71126.60	81.09	16585.50	18.91
2007/08	107622.50	85155.54	79.12	22466.96	20.88

*Source: Economic Survey, 2007/08, Annual Report, MOF*

Above table shows that revenue collection trend is in increasing trend, since the year 2001/02 to the year 2007/08 the total revenue has increased from Rs. 50445.06 million to Rs. 107622.50 million. Similarly, tax revenue as well as non-tax revenue is also in

increasing trend. Total tax revenue has increased from Rs. 39330.64 million to Rs. 85115.54 million in the year 2001/02 to the year 2007/08. It is the main source of revenue collection. It has contributed very much in national revenue. Similarly, non-tax revenue has also increased from Rs. 11114.96 million to 22466.96 million in the year 2001/02 to the year 2007/08. The tax revenue contributes the third-fourth share in the total revenue of the government. It helps to improve the economic condition of the country. Amount of tax revenue is increasing position but percentage of it's in decreasing position every year. Amount of non-tax revenue is increasing but percentage of its decreasing position every year.

**Figure 4.1**  
**Tax and Non-tax Revenue in Nepal**



From the fiscal year 2001/02 to the year 2007/08, the percentage of tax revenue in total revenue was increased up to 77.97 to 79.12 percent, in the same year percentage of non-tax revenue decreased from 22.03 percent to 20.88 percent. Increasing in collection of revenue is a reliable means to fulfill the increasing demand of the country. It is a source to fulfill the responsibilities of the government towards the people and country.

#### **4.2 Tax Revenue Structure of Nepal**

Taxes are not a voluntary contribution by the tax payer but it is compulsory in nature. Generally a tax is a compulsory contribution imposed by public authority; taxation is a main source of income of the government excluding foreign aid. Tax revenue comprises compulsory, unrequited, non-payable receipt collected by government for public purposes.

It includes interest collected on tax arrears and penalties collected on non-payment or late payment of taxes. Tax revenue is the principle source of the government revenue; however its contribution differs significant, in different countries. In the context of Nepalese economy, tax revenue is major source of government to mobilize internal source of government to mobilize internal effectively and properly as it has been dominating the government revenue contributing around three quarters of total revenue.

Tax revenue, one of the principle sources of the government revenue, is a compulsory contribution imposed by public authority, irrespective of the extra amount of service rendered to the tax payer in return. It covers theoretically and practically includes following heads such as persons, organization business firms and even foreigners who are doing business of consuming goods or using service in Nepal. In the fiscal trend of Nepal, tax revenue structure is a combination of two tax elite. They are namely direct tax and indirect tax. The trend and composition of tax revenue for the fiscal year 2001/02 to the year 2007/08 are given below:

**Table 4.2**  
**Composition of Tax Revenue**

**(Rs. in million)**

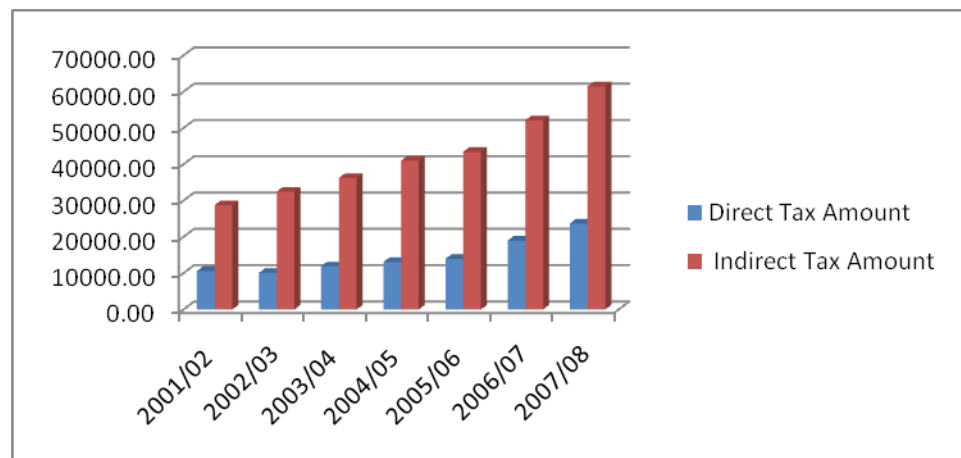
Fiscal Year	Tax Revenue	Direct Tax		Indirect Tax	
		Amount	%	Amount	%
2001/02	39330.64	10597.54	26.94	28733.10	73.06
2002/03	42586.92	10105.67	23.73	32481.25	76.27
2003/04	48173.00	11912.60	24.73	36260.40	75.27
2004/05	54104.70	13071.80	24.16	41032.90	75.84
2005/06	57430.40	13968.10	24.32	43462.30	75.68
2006/07	71126.70	18980.30	26.69	52146.40	73.31
2007/08	85155.54	23687.72	27.82	61467.82	72.18

*Source: Economic Survey, 2007/08*

From the above table find out that share of the indirect tax as percentage of the total tax revenue is decreasing continuously but amount of the indirect tax is increasing continuously. In the similar manner direct tax to share of the direct tax to total tax revenue is increasing in subsequent years. The average share of direct tax revenue in total revenue for the period 2001/02 to the year 2007/08 was 25.48 and the share of indirect tax revenue

was 74.51 percent. The volume of direct and indirect tax was Rs. 10597.54 million and 28733.10 million that is 26.94 percent and 73.06 percent of total revenue respectively in the fiscal year 2001/02. The amount of direct tax is increasing every year as it is from Rs 10597.54 million 23687.72 million on 2001/02 to the year 2007/08. The contribution of direct tax revenue in total revenue was minimum 23.73 percent in 2002/03 and maximum 27.82 percent in 2007/08.

**Figure 4.2**  
**Trend of Direct Tax and Indirect Tax Revenue**



The amount of indirect tax revenue is also in increasing trend. It has increased from Rs. 28733.10 million in year 2001/02 to Rs. 61467.82 million in 2007/08. The percentage contribution of indirect tax revenue in total tax revenue was minimum 72.18 percent in 2007/08 and maximum 76.27 percent in 2002/03. From the above analysis, it seems that the amount of both tax revenue was in increasing trend and percent of direct tax was in increasing trend but percent of indirect tax was in decreasing trend. It shows that it is necessary to try to increase both tax revenue in amount and percent. To increase in percent and amount tax it is necessary to controlling system systematically.

#### **4.1.2 Composition of Indirect Tax Revenue**

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 and entertainment have been included in sales / value added tax because after the adoption of VAT all these taxes were replaced.

**Table 4.3**  
**Composition of Indirect Tax Revenue**

**(Rs. in million)**

<b>Fiscal Year</b>	<b>Custom Duties</b>	<b>Sales/VAT</b>	<b>Excise Duty</b>	<b>Total Indirect Tax</b>
<b>2001/02</b>	12658.75	12267.30	3807.05	28733.10
<b>2002/03</b>	14236.43	13459.70	4785.12	32481.25
<b>2003/04</b>	15554.80	14478.90	6226.70	36260.40
<b>2004/05</b>	15701.60	18885.40	6445.90	41032.90
<b>2005/06</b>	15344.00	21610.70	6507.60	43462.30
<b>2006/07</b>	16707.60	26095.60	9243.20	52146.40
<b>2007/08</b>	21062.50	29815.80	11189.52	62067.82

*Source: Economic Survey, 2007/08*

**Note:-**

**Excise duty = Industrial product + liquor contract**

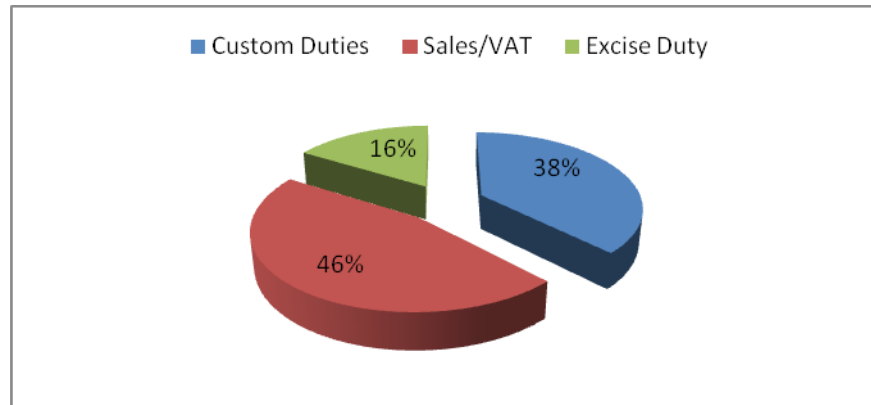
**Tax based or international trade = imports + exports + Indian excise returned + others**

**Sales Tax / VAT = Sales / VAT + Entertainment tax + Hotel tax + Contract tax**

Table no 4.3 shows that, its share in FY 2001/02 was Rs. 12658.75 million and it reached up to Rs. 21062.50 million. But after the implementation of VAT the revenue received through this tax decreased from Rs 15701.60 million to 15344.00, then increased at 21062.50 million in year 2007/08 .This shows that VAT collected less revenue than the four taxes that it displaced. The cause of decreasing revenue may be newly implemented VAT system which has not been well come from the business community at initial stage. It may effect from supervision and administrative capacity of tax office and not proper billing system from businessman.



**Figure 4.3**  
**Share of VAT in Indirect Tax**



From above figure share of VAT is highest and then excise duty and custom duty respectively which is 46 %, 38% and 16 % share in Indirect Tax Revenue.

#### **4.1.6 Registration in VAT**

Registration is the entry point of the tax system. Participants of tax payers to the tax system can be assessed by the trends of registration. All vendors whose taxable transaction is above the threshold are required to register for VAT. VAT registration began on 16 November 1997 when the sales tax registered manufactures were required to convert in to VAT registrations if they had an annual turnover of more than Rs 2 million. In mid Nov. 1997, 2045 manufacturers were registered under the imports / manufacturing level sales tax. There is no provision of registration threshold under this tax. According to tax office other vendors, who were not registered under the sales tax were required to register for VAT within 90 days from 16 Nov. 1997. This rule is not applicable to them who th deal with exempted goods and services only. Similarly, small vendors falling below the threshold limit are exempted from VAT registration. VAT registrants are issued a registration certificate as well as tax payer identification number (TIN). In the mean time it has made compulsion to all concern to state the TIN on all specified documents including the tax invoice. The trend of vat registration is shown in Table 4.4.

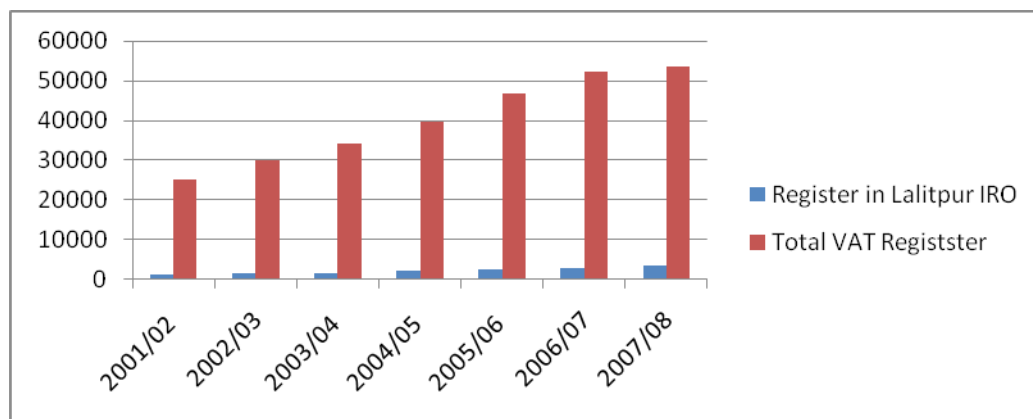
**Table 4.4**  
**Trend of VAT Registration**

<b>Fiscal Year</b>	<b>Register in Lalitpur IRO</b>	<b>Total VAT Register</b>	<b>Share in Total of IRO Lalitpur</b>	<b>Growth Rate %</b>
<b>2001/02</b>	1237	25149	4.92	0.00
<b>2002/03</b>	1487	29872	4.98	15.81
<b>2003/04</b>	1739	34174	5.09	12.59
<b>2004/05</b>	2125	39776	5.34	14.08
<b>2005/06</b>	2578	46831	5.50	15.06
<b>2006/07</b>	2978	52365	5.69	10.57
<b>2007/08</b>	3444	53707	6.41	2.50

*Source: Annual Report of IRO Lalitpur, 2007/08*

In the table no. 4.4 showed that the number of registered in VAT has an increasing trend. It is only 25149nos in 2001/02, which is reached to 53707nos in 2007/08. The growth rate of registrants is satisfactory. Compromise made by government with registrants has also helped to VAT registrants' number gradually. There may be potential tax payer still outside from the tax net. According to businessman, the registration process and service provide by tax office is not satisfactory. The operation of VAT in Nepal was started by advertising the sales tax registrants to register in the VAT department. The registration is compulsory for those business enterprises who have taxable transition and taxable capacity, however the traders falling below the threshold limit can register voluntarily. Under the existing sales tax system, there were nominal registration but VAT was in existence, the number of registrants increased significantly.

**Figure 4.4**  
**Trend of VAT Registration**



In above figure trend of VAT registration of IRO Lalitpur increase FY 2001/02 to 2007/08 with 4.92% to 6.41 % respectively and total VAT Registration is also growing up FY 2005/06 then grow slowly

#### 4.1.7 Revenue Collection from VAT

Value added tax is the best form of sales tax, which is natural regarding method of production and helpful in generation of more revenue collection. Because of its broad coverage, naturally, transparency and fairness, VAT will generate more revenue with less distortion. The revenue collection from VAT in different fiscal years is presented in table below:

**Table 4.5**  
**Trend of Revenue Collection from VAT**  
(Rs. in million)

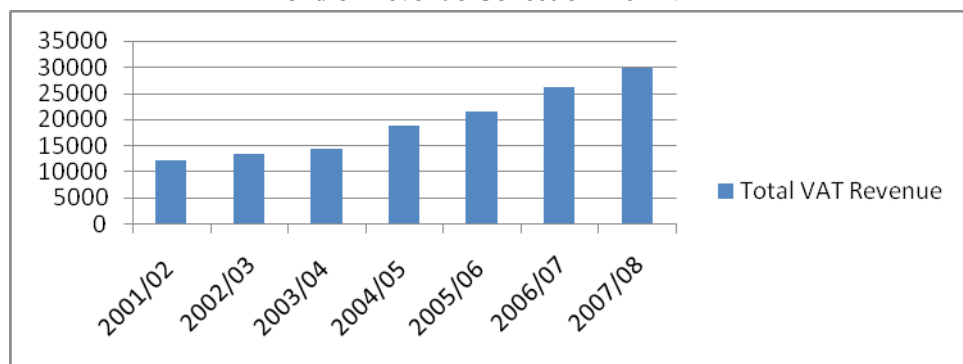
Fiscal Year	Total VAT Revenue	% Change
2001/02	12267.3	0
2002/03	13459.7	8.86
2003/04	14478.9	7.04
2004/05	18885.4	23
2005/06	21610.7	12.61
2006/07	26095.6	17.19
2007/08	29815.8	12.48

Source: Economic Survey, 2007/08

VAT generate about Rs. 12267.3 million in fiscal year 2001/02 up to 2007/08. The percentage in revenue collection was higher in fiscal year 2004/05. Revenue collection

from VAT in fiscal year 2000/01, 2001/02, 2002/03, 2003/04, and 2004/05, are Rs. 12267.3 millions, Rs. 13459.7 million, Rs. 14478.9 million and 18885.4 million respectively. Revenue collection from VAT has reached Rs. 229815.8 million in fiscal year 2007/08 from Rs. 12267.3 million in fiscal year 2000/01. VAT contributes its share in revenue collection of government, but it has problems in practice, due to the illiteracy of people, poor economic condition of the people, people don't have the sufficient knowledge regarding VAT and its procedures. For the effective collection of revenue with VAT, the government should organize the seminars, conferences, meeting, and publicity of journals about VAT time to time which will help to encourage the active participation of producers, businessman and final consumers.

**Figure 4.5**  
**Trend of Revenue Collection from VAT**



Source: Annual Report of IRD 2007/08

#### 4.1.8 Composition of VAT Revenue

The revenue collection from VAT can be divided into two major components as domestic and imports. The current trend shows that about one third of the VAT revenue comes from domestic product and two third form imports. The following table and figure represent the composition trend of VAT revenue.

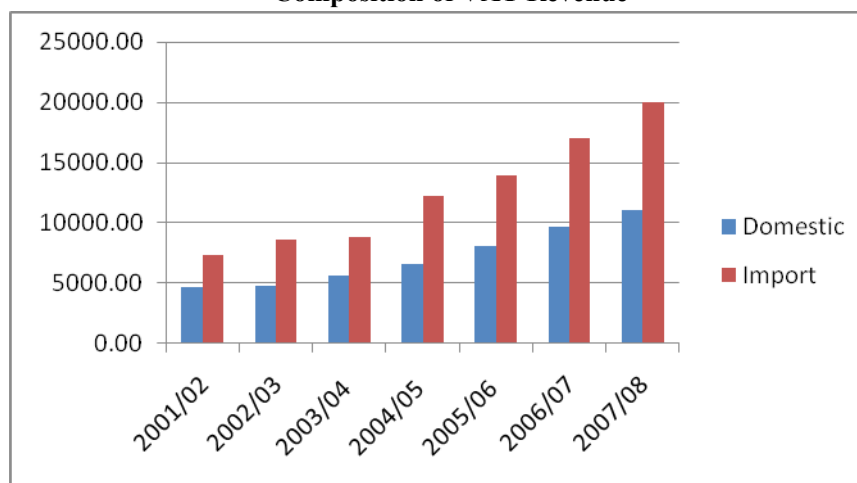
**Table 4.6**  
**Composition of VAT Revenue**

(Rs. in million)

Source/FY	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Total VAT Revenue	11964.00	13449.12	14478.90	18894.63	21946.01	26704.18	31154.633

Domestic	4666.00	4819.61	5604.12	6624.33	8057.44	9689.98	11109.74
Import	7298.00	8629.51	8874.77	12270.29	13888.58	17014.20	20044.893
Ratio	39:61	36:64	39:61	35:65	37:63	37:63	36:64
GR %		12.56	7.66	30.5	16.14	21	17

**Figure 4.6**  
**Composition of VAT Revenue**



#### 4.1. Share of VAT Revenue

**Table 4.7**  
**Share of VAT Revenue in GDP**  
(In Rs. Million)

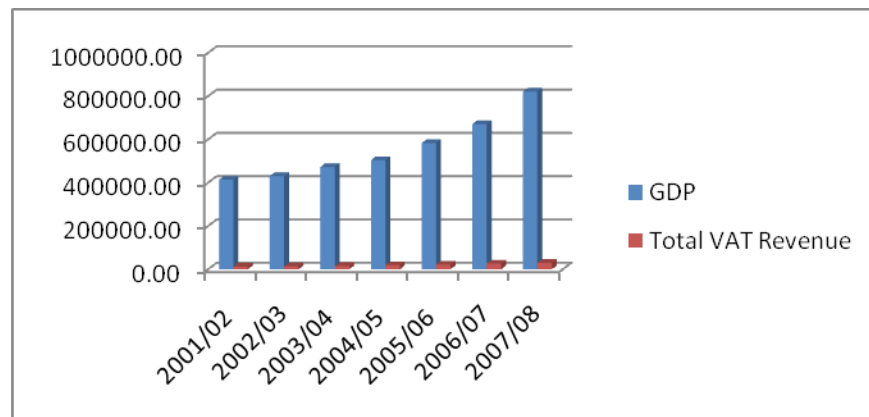
Fiscal Year	GDP	Total VAT Revenue	% in GDP
2001/02	413429.00	12267.3	2.97
2002/03	430397.00	13459.7	3.13
2003/04	472424.00	14478.9	3.06
2004/05	504101.00	18885.4	3.75
2005/06	582950.00	21610.7	3.71
2006/07	670588.70	26095.6	3.89
2007/08	820814.00	29815.8	3.63

Source: Economic Survey, 2007/08

Table no. 4.7 and diagram shows that on average the share of VAT revenue as percentage

of GDP was 3.45%. The percentage trend of VAT revenue to GDP is in increasing trend. According to GDP, and revised estimated of VAT revenue, the share of VAT in GDP is 2.97%, 3.13%, 3.06%, 3.75%, 3.71%, 3.89% and 3.63 respectively in fiscal year 2001/2002, 2002/03, 2003/04, 2004/05, 2005/06, 2006/07 and 2007/08 respectively. To increasing the contribution of VAT in GDP, it is necessary to promote the gross domestic product.

**Figure 4.7**  
**Share of VAT Revenue in GDP**



#### 4.1.11 Share of VAT Revenue in Total Revenue

The percentage of VAT revenue in total revenue is presented in table below:

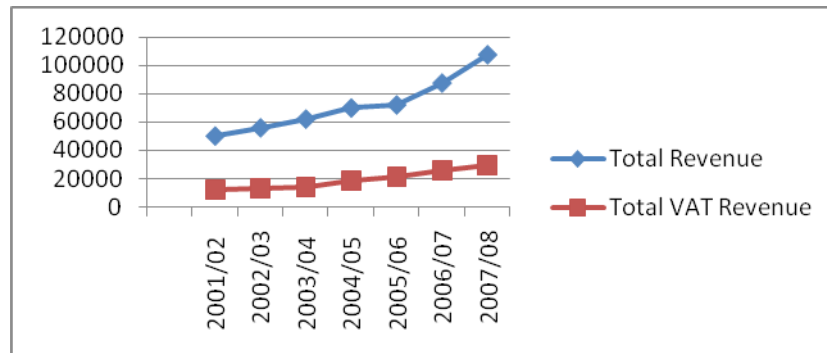
**Table 4.8**  
**Share of VAT Revenue in Total Revenue**  
**(In Rs.Million)**

Fiscal Year	Total Revenue	Total VAT Revenue	% of Total Tax
2001/02	50445.60	12267.3	24.32
2002/03	56229.80	13459.7	23.94
2003/04	62331.00	14478.9	23.23
2004/05	70122.70	18885.4	26.93
2005/06	72282.00	21610.7	29.90
2006/07	87712.10	26095.6	29.75
2007/08	107622.50	29815.8	27.70

Source: Economic Survey, 2007/08

Above table 4.8 shows that on average VAT revenue to total revenue is 26.54%. The total revenue has increased each year but the % of VAT has increased each year but the % of VAT revenue with total revenue has increased and decreased slightly each year. The decreasing trend of VAT revenue to total revenue may be because VAT is new concept in Nepal. There is lack of co-ordination between business community and government, lack of proper home work before introduction VAT. Businessman views that having to go through great burocratic hassle to pay taxes. Tax payers are still deprived of using all banks to pay the taxes. Only RBB and NBL have been allowed to make collection. Private Banks would serve effectively if they were allowed to do the job.

**Figure 4.8**  
Share of VAT Revenue in Total Revenue



#### 4.1.12 Share of VAT Revenue in Total Tax Revenue

The percentage contribution of VAT revenue in total tax revenue is presented in table below:

**Table 4.9**

**Share of VAT Revenue in Total Tax Revenue**

(Rs. in million)

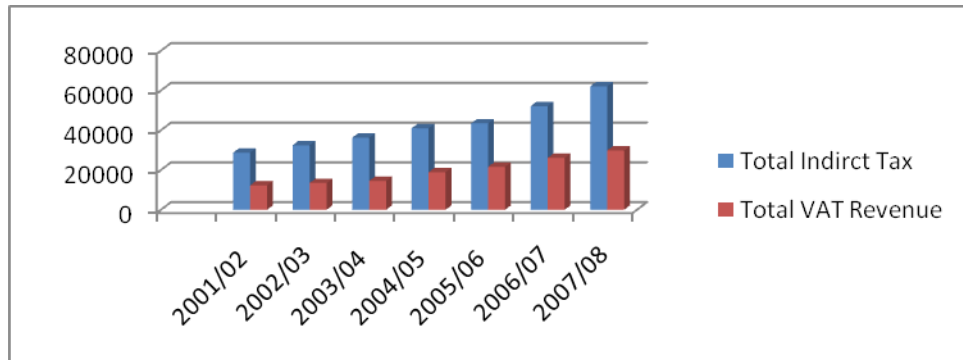
Fiscal Year	Total Tax Revenue	Total VAT Revenue	% of Total Tax
2001/02	39330.64	12267.3	31.19
2002/03	42586.92	13459.7	31.61
2003/04	48173.00	14478.9	30.06
2004/05	54104.70	18885.4	34.91
2005/06	57430.40	21610.7	37.63
2006/07	71126.60	26095.6	36.69
2007/08	85155.54	29815.8	35.01

*Source: Economic Survey, 2007/08*

Table no. 4.9 shows that on an average the VAT revenue is 33.87% of total tax revenue. The ratio of VAT collection with tax revenue is in increasing trend after implementation of VAT and it was significant in 2004/2005 and 2005/2006, and decreasing trend in 2001/02, 2003/04, 2006/07, and 2007/08. This may be due to economic slowdown. The slowdown in economy has definitely had an impact on both planned and luxurious shopping. The selling activities are in low scale the VAT revenue % is in decreasing trend.

It shows that the government was unsuccessful to increase amount as well as percent of VAT revenue's contribution in total tax revenue.

**Figure 4.9**  
**Share of VAT Revenue in Total Tax Revenue**



**4.1.13 Share of VAT Revenue in total Indirect Tax Revenue**

The percentage contribution of VAT revenue in total indirect tax revenue is presented in



table below:

**Table 4.10**  
**VAT Revenue as Percentage of Total Indirect Tax Revenue**  
 (Rs. in million)

Fiscal Year	Total Indirect Tax	Total VAT Revenue	% of Total Tax
2001/02	28733.10	12267.3	42.69
2002/03	32481.25	13459.7	41.44
2003/04	36260.40	14478.9	39.93
2004/05	41032.90	18885.4	46.03
2005/06	43462.30	21610.7	49.72
2006/07	52146.40	26095.6	50.04
2007/08	62067.82	29815.8	48.04

*Source: Economic Survey, 2007/08*

**Figure 4.10**  
**VAT Revenue as Percentage of Total Indirect Tax Revenue**

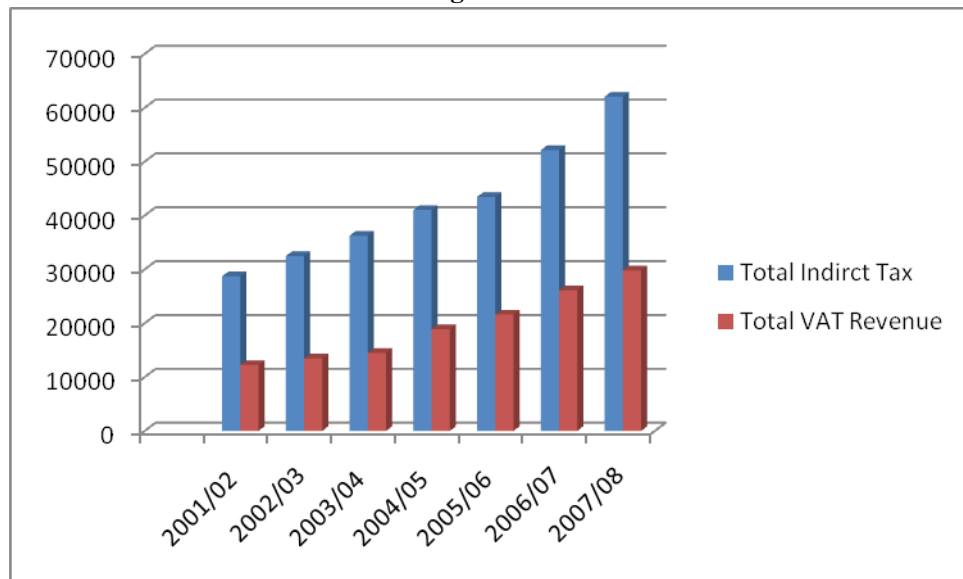


Table no. 4.10 shows that the share of VAT revenue in total indirect tax. On an average share of VAT in total indirect tax is 45.41%. The ratio between VAT revenue and indirect tax was satisfactory in each year except in fiscal year 2003/2004. It may cause of the

initial time of VAT Implementation. When VAT was implemented there were many problems in VAT revenue collection. Experts view that private sector development has been the key to maintain competitiveness after accession to WTO. In the open economy, private sector has a great role to play because they produce goods and services and they perform well, the country also gets benefits. The changes in the tax structure will not make and significant difference. The tax structure has been maintained to make the system compatible. The whole system is more flexible and tax payer friendly. At the end, it is concluded that the amount of total indirect tax was increasing trend but share of VAT revenue is very low in percent. Percent share of VAT revenue in indirect tax was increasing and decreasing trend. The decreasing percentage trend is not effective in collection government revenue. It is necessary to improve VAT collection procedure and promote to production sector. When the production is increased contribution share of VAT revenue also automatically increase.

#### 4.1.14 VAT Revenue From Lalitpur District

The IRO office of Lalitpur presents only the area in Lalitpur District. The VAT Revenue trend from Lalitpur is given below:

**Table No. 4.11**  
**VAT Collection Trend from Lalitpur District**  
(Rs. in million)

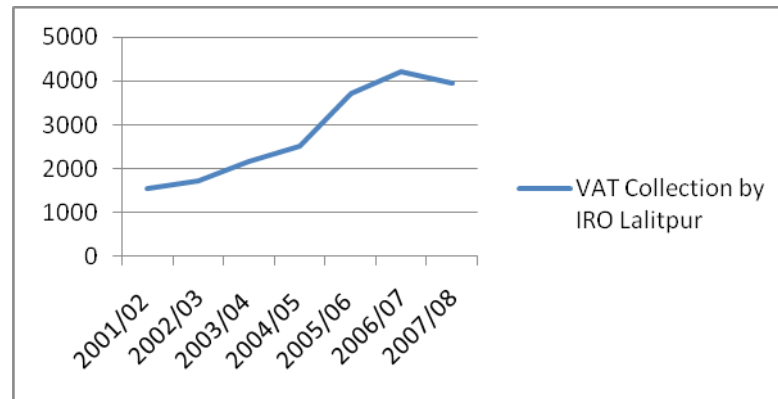
Fiscal Year	VAT Collection by IRO Lalitpur	% Growth Rate
2001/02	1534.01	0.00
2002/03	1724.35	11.04
2003/04	2140.68	19.45
2004/05	2492.93	14.13
2005/06	3720.1	32.99
2006/07	4210.23	11.64
2007/08	3938.35	6.90

*Source: Annual report IRD, Kathmandu*

Above table shows that the amount of VAT revenue through IRO of Lalitpur is increasing. In the year 2001/02, it was Rs. 1534.01 million but in the year 2007/08, it is Rs. 3938.35. This shows that people are being quite alert about VAT that is why they are paying VAT properly. The maximum percentage of change in collection is found to be in the year

2006/07 i.e. about 11.64%. Above data can be represented through give curve which is as follows:

**Figure No. 4.11**  
**VAT Collection Trend in IRO of Lalitpur**



Above chart show that collection of VAT from Lalitpur District is in increasing trend from 2001/02 to 2007/08. It is continuously increasing. But increase in revenue is not in same ratio.

#### **4.1.15 Share of VAT Revenue from Lalitpur District to Total Revenue**

IRO of Lalitpur used to collect VAT from Lalitpur district only. The VAT collected by this office used to contribute certain percentage in Total Revenue of a country. Actually how much share of VAT revenue from Lalitpur IRO is there in Total Revenue in different fiscal years is shown below:

**Table No. 4.12**  
**Share of VAT Collected from Lalitpur District to Total Revenue**  
**(Rs. in million)**

<b>Fiscal Year</b>	<b>Total Revenue</b>	<b>VAT Collection by IRO Lalitpur</b>	<b>% Share</b>
<b>2001/02</b>	50445.60	1534.01	3.04
<b>2002/03</b>	56229.80	1724.35	3.07
<b>2003/04</b>	62331.00	2140.68	3.43
<b>2004/05</b>	70122.70	2492.93	3.56
<b>2005/06</b>	72282.00	3720.1	5.15
<b>2006/07</b>	87712.10	4210.23	4.80
<b>2007/08</b>	107622.50	3938.35	3.66

*Source: Annual report, IRD, Kathmandu.*

According to above table the maximum share of VAT collected from IRO of Lalitpur in Total Revenue is in year 2005/06 i.e. about 5.15%. The maximum percentage of share is 5.15 in the year 2005/06 and minimum in 3.04% in the year 2001/02. Its share in national revenue is in fluctuating trend in every fiscal year. In an average, the share of VAT collected from Lalitpur District to total revenue is 3.81%.

#### **4.1.16 Share of VAT Revenue from Lalitpur District to Tax Revenue**

The contribution made by Vat Revenue from Lalitpur District in different fiscal year i.e. share of its VAT revenue in total tax revenue is as follows:

**Table No. 4.13**  
**Share of VAT Revenue from Lalitpur District to Tax Revenue**  
**Rs. in million)**

<b>Fiscal Year</b>	<b>Total Tax Revenue</b>	<b>VAT Collection by IRO Lalitpur</b>	<b>% Share</b>
<b>2001/02</b>	39330.64	1534.01	3.90

<b>2002/03</b>	42586.92	1724.35	4.05
<b>2003/04</b>	48173.00	2140.68	4.44
<b>2004/05</b>	54104.70	2492.93	4.61
<b>2005/06</b>	57430.40	3720.1	6.48
<b>2006/07</b>	71126.60	4210.23	5.92
<b>2007/08</b>	85155.54	3938.35	4.62

*Source: Annual report, IRD, Kathmandu.*

According to above table, the maximum percentage of share of VAT collected from IRO of Lalitpur in tax revenue is in the year 2005/06 which was about 6.48% and minimum on the year 2001/02 which was 3.90%. In an average according to above data, the share of VAT collected from IRO of Lalitpur in tax revenue is 4.86%.

#### **4.1.17 Share of VAT Revenue from IRO of Lalitpur in Indirect Tax Revenue**

The actual share of VAT revenue from IRO of Lalitpur in indirect tax revenue in different fiscal years are as follows:

**Table No. 4.14**  
**Share of VAT Revenue from Lalitpur District to Indirect Tax Revenue**  
**(Rs. in million)**

<b>Fiscal Year</b>	<b>Indirect Tax Revenue</b>	<b>VAT Collection by IRO Lalitpur</b>	<b>% Share</b>
<b>2001/02</b>	28733.10	1534.01	5.34
<b>2002/03</b>	32481.25	1724.35	5.31
<b>2003/04</b>	36260.40	2140.68	5.90
<b>2004/05</b>	41032.90	2492.93	6.08
<b>2005/06</b>	43462.30	3720.1	8.56
<b>2006/07</b>	52146.40	4210.23	8.07
<b>2007/08</b>	62067.82	3938.35	6.35

*Source: Annual report, IRD, Kathmandu.*

According to above table, the maximum share of VAT revenue from IRO of Lalitpur in indirect tax revenue is on the year 2005/06 which is about 8.56% and minimum on the year 2002/03 which is 5.31%. According to above data, VAT revenue is in increasing trend. An average share of VAT revenue from Lalitpur District to total indirect tax revenue is about 6.52%. Looking above data, it can be said that percentage of share will

go on increasing in near future.

#### 4.1.18 Contribution of VAT From Lalitpur District to Total VAT Revenue

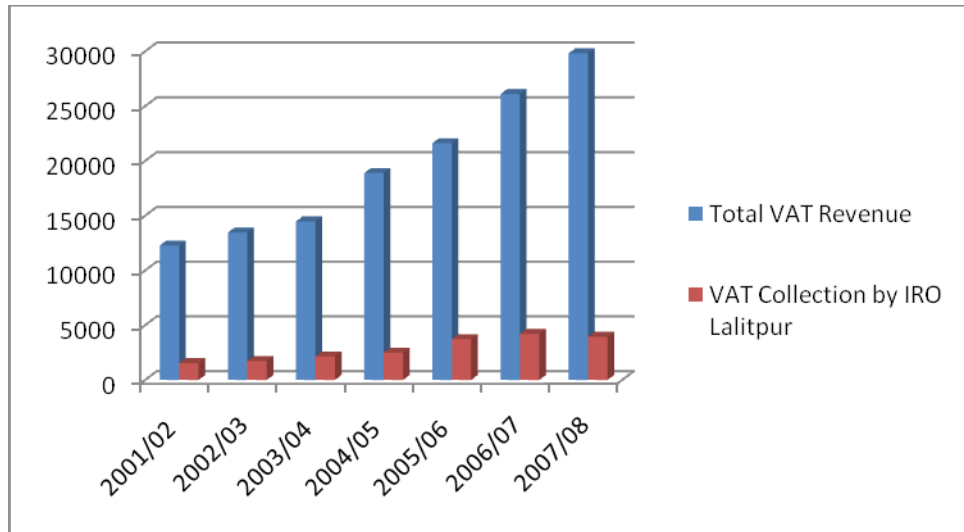
IRO of Lalitpur is one which is contributing in total VAT revenue. The actual share of Vat Revenue from IRO of Lalitpur in Total VAT revenue in different fiscal year are as follows:

**Table No. 4.15**  
**Contribution of VAT From Lalitpur District to Total VAT Revenue**  
**(Rs. in million)**

<b>Fiscal Year</b>	<b>Total VAT Revenue</b>	<b>VAT Collection by IRO Lalitpur</b>	<b>% of Share</b>
<b>2001/02</b>	12267.3	1534.01	12.50
<b>2002/03</b>	13459.7	1724.35	12.81
<b>2003/04</b>	14478.9	2140.68	14.78
<b>2004/05</b>	18885.4	2492.93	13.20
<b>2005/06</b>	21610.7	3720.1	17.21
<b>2006/07</b>	26095.6	4210.23	16.13
<b>2007/08</b>	29815.8	3938.35	13.21

*Source: Annual report, IRD, Kathmandu.*

**Figure No. 4.15**  
**Contribution of VAT From Lalitpur District to Total VAT Revenue**



According to above table and figure shows that the maximum share of VAT revenue from IRO of Lalitpur to total VAT revenue is in the year 17.21% in 2005/06 and minimum on the year 12.50% in the year 2001/02. According to above data and average share of VAT revenue from IRO of Lalitpur in Total VAT Revenue is about 14.27%. The percentage of share of VAT revenue in VAT revenue is in fluctuating trend.

## 4.2 Empirical Finding

### 4.2.1 Opinion Survey about VAT in Nepal

An empirical investigation has been conducted in order to find out various aspect of VAT from the experience of real life situations. The major tool used for this purpose is an opinion questionnaire. A total of 80 sets of questionnaire were distributed to the Businessman, traders, consultants, entrepreneurs and other respondents are chartered accountants, academicians, consumers, students, auditors and the person who are attached with VAT related fields. But currently different informative programmes, seminars and meeting were held to provide knowledge for the businessmen, consumers and people about the VAT.

### Category A

This category includes total 41 respondents; those are businessmen, traders, consultants and entrepreneurs.

### **Category B**

This category includes total 29 respondents, those are chartered accountants, academicians, students, auditors, and consumers and the person related with VAT field,

#### **4.2.2 Views on media for Vat Advertisement**

Advertisement plays a crucial role for any business to know about the product, quality, price etc; Govt. has made various efforts on VAT advertisement through various media(Radio, TV, FM and Hoarding Board).

**Table No. 4.16**  
**Views on media for Vat Advertisement**

Choice	Respondents				Total	
	Category A		Category B		No	%
	No	%	No	%		
a. Radio/FM	10	24.4	2	6.9	12	17.1
b. T.V	13	31.7	5	17.2	18	25.7
c. Hoarding Board	2	4.9	0	-	2	2.9
d. Pamphlets	4	9.8	2	6.9	6	8.6
e. Daily Newspaper	12	29.3	20	69.0	32	45.7
<b>Total</b>	<b>41</b>	<b>100.00</b>	<b>29</b>	<b>100.00</b>	<b>70</b>	<b>100.00</b>

*Source: Field Survey, 2009*

#### **4.2.3 Views on Impact of VAT Nepalese Economy**

VAT is an indirect and consumption tax. Direct tax in Nepal is limited and confined. So to increase the revenue Govt. implemented VAT with a view to positive impact on Nepalese economy and develops as a sustainable source of revenue. Regarding the impact in Nepalese economy views of respondent are presented on the table below:



**Table 4.17**  
**Views on impact of VAT on Nepalese Economy**

Choice	Respondents				Total	
	Category A		Category B		No	%
	No	%	No	%		
a. Positive	16	39	24	82.8	40	57.1
b. Negative	15	36.6	4	13.8	19	27.1
c. I don't know	10	24.4	1	3.4	11	15.7
<b>Total</b>	<b>41</b>	<b>100.00</b>	<b>29</b>	<b>100.00</b>	<b>70</b>	<b>100.00</b>

From th Source: *Field Survey, 2009*

Opinion survey, 82.5% of category A gives views on positive while 39.% of category B. On the total respondent 57.1% gives views on positive impact following 27.1% in Negative and 15.7% on don't know about the impact in Nepalese economy.

#### 4.2.4 Views on Correlation between VAT and Political Instability

Whatever may be the govt. effort if there is no political stability, and then there is definitely effect on the entire working environment. The political parties of different nature have their own views regarding various systems. However govt. bureaucrats are the same but due to political instability the compromises has to made which is the main cause of weakness the effective functioning of any system. The views regarding about correlation between VAT and political instability is presented in the table below; Effective

**Table 4.18**  
**Views on Correlation between VAT and Political Instability**

Choice	Respondents				Total	
	Category A		Category B		No	%
	No	%	No	%		
a. Yes	20	48.8	7	24.1	27	38.6
c. No	8	19.5	14	48.3	22	31.4
It is not related	3	7.3	5	17.2	8	11.4
d. A little bit	10	24.4	3	10.3	13	18.6
<b>Total</b>	<b>41</b>	<b>100.00</b>	<b>29</b>	<b>100.00</b>	<b>70</b>	<b>100.00</b>

Source : Field Survey, 2009

From the opinion survey taken from the total 70 respondents, 36.6% of the total respondent gives their views on YES, i.e. they are agree with correlation between VAT and political instability, while 31.4% of the respondents gives views on NO, 11.4% views that the correlation between VAT and political instability is not related and 8.6 % of the respondents gives their views on Little bit. On the other hand category wise 48.8% of the respondents of category A and 24.1% of the category B gives their views on YES, following 19.5% and 48.3% gives views on No respectively. 7.3% and 17.2% of the respondents gives views on it is not related while 24.4% and 10.3% gives views on little bit in category A and B.

#### 4.2.5 Views on VAT ineffective in Nepal

Govt. hope implementation aspect of this tax is gradually becoming stronger and implemented with the long term perspective of developing an appropriate tax system. It was implemented before 7 days with a view to increase in revenue collection and implementation of this tax will not only increase revenue generation, but will reduce distortion and mal-practices that is crated in the economy through the tax system and will develop a positive impact toward the overall economy development and their by establish a sound tax system. Even after seven day of its prime principle. So the reason for its ineffectiveness is various, however the opinion survey from the 70 respondents is presented in the table below:

**Table 4.20**  
**Views on VAT Ineffective in Nepal**

Choice	Respondents				Total	
	Category A		Category B		No	%
	No	%	No	%		
a. Lack of consumer awareness	9	22	11	37.9	20	28.6
b. Weakness of Government	6	14.6	11	37.9	17	24.3
c. Administrative inefficiency	12	29.3	5	17.2	17	24.3
d. Open boarder problem	5	12.2	0	0	5	7.1
e. All	4	9.8	0	0	4	5.7
g. I don't know	5	12.2	2	6.9	7	10.0
<b>Total</b>	<b>41</b>	<b>100.00</b>	<b>29</b>	<b>00.00</b>	<b>70</b>	<b>100.00</b>

Source : Field Survey, 2009

From the opinion survey, 28.6% of the total respondent gives views on lack of consumer awareness, 24.23 and 24.3% gives views on weakness of govt. and administrative inefficiency and 1. % on I don't know. Likewise, 7.1 and 5.7% gives views on open border and all respectively. While highest percentage form category A i.e. 29.3 gives views on administrative inefficiency and 22, 14.6, 12.2, 12.2, and 9.8% on lack of consumer awareness, weakness of government, open border problem, I don't know and all respectively. Similarly, the highest percentage from category B i.e. gives views 37.9, 37.9% on lack of consumer awareness and weakness of govt. respectively and 17.6 and 6.9% on administrative inefficiency and I don't know respectively. There is no response in the opinion open border problem and all from the category B.

#### 4.2.6 Views on problem after a VAT regime

VAT is implemented in the substitute of sales tax, hotel tax, entertainment tax and contract tax. So the contribution of VAT should be more then contribution of those four taxes before the implementation of VAT. In comparison to various other method of revenue generation the economic cost of administering VAT is relatively less. The questionnaire collected from the respondent and their views are presented in the table below:

**Table No. 4.21**  
**Views on Problem after VAT Regime**

Choice	Respodents				Total	
	Category A		Category B		No	%
	No	%	No	%		
a. Increase compliance cost	6	14.6	5	17.2	11	15.7
b. Decreased in business competitive power	5	12.2	3	10.3	8	11.4
c. Encourage unauthorized trade	10	24.4	8	27.6	18	25.7
d. Problem in custom valuation	9	22	2	6.9	11	15.7
e. Tax refund process	11	26.8	5	17.2	16	22.9
f. I don't know	0	0	6	20.7	6	8.6
<b>Total</b>	<b>41</b>	<b>1.00</b>	<b>29</b>	<b>100.0</b> <b>0</b>	<b>70</b>	<b>100.00</b>

Source : Field Survey, 2009

From the opinion survey, 25.7% of the total respondent gives views in encouraged unauthorized trade, 22.9% on tax refund process, 15.7 on increase in compliance cost, 11.4% on decrease in competitive power, 15.7% on problem in custom valuation and 8.6% on I don't know. While the highest 26.8% of the respondent from the category A gives views on tax refund prices following 24.4% on decreased on competitive power 14.6% on increase in compliance cost and no response in I don't know. Similarly highest 27.6% of the respondent from the category B gives views on encouraged on unauthorized trade and lowest 6.9% of the respondents give views on problem in custom valuation. While 17.2% on tax refund prices and 20.7% on I don't know

#### 4.2.7 Views on Demanding Bill

VAT system is based on the consumption. The essence of VAT system is depending on the receiving and issuance of bill in the purchase of goods and services. This not only has a negative impact on the implementation of VAT but also prevents fair competition between businessmen and the professionals therefore the joint form Govt. and private sector and the consumer to establish a system of issuing and receiving invoice is essential. In the current situation of the market is quite complex, because some businessmen issue invoice and some don't want to issue invoice. On the other hand consumer who demand bill has to pay extra amount and which get harassed and don't want to take invoice. Definitely every consumer wants the goods and serviced in the cheaper. The main cause after implementation of VAT is no uniformity if price in the market. Option survey of 70 respondents is presented in the table able below:

**Table No. 4.22**  
**Views on Demanding Bill**

Choice	Respodents				Total	
	Category A		Category B		No	%
	No	%	No	%		
a. Less than 20%	4	9.8	10	34.5	14	20
b. between 20% to 50%	14	34.1	8	27.6	22	31.5
c. More than 50%	20	48.8	5	17.2	25	35.7
d. I don't know	3	7.3	6	20.7	9	12.9
<b>Total</b>	<b>41</b>	<b>100.00</b>	<b>29</b>	<b>100.00</b>	<b>70</b>	<b>100.00</b>

*Source : Field Survey, 2009*

From the opinion survey, 35.7% of the total respondents gives their views on those customer who demand bill is more than 50% while 31% views on between 20 to 50 %, 20 % and 12.9% gives views on I don't know. Of the total respondents, from category A gives views more than 50% on 48.8% and 7.3% views on I don't know. While in the category B highest percentage 34.5% gives views on less than 20% following 27.6% in between 20% to 50%, 17.2% on more than 50% and 20.7% on I don't know.

#### 4.2.8 Views on VAT Rate

According to the VAT act, the rate is prescribed as 10%. The rate is lower than the other nations. Multiple VAT rate is applied in various countries'. But single rate of VAT is applicable in case of Nepal. Govt. with 10% however the sales tax before implementation of VAT was 15%. Now the revenue deficit of Nepal respondents to relate to the various fields are given in the table below;

**Table No. 4.23**  
**Views on Tax Rate**

Choice	Respodents				Total	
	Category A		Category B		No	%
	No	%	No	%		
a. Yes	-	-	-	-	-	-
c. No	35	85.4	24	82.8	59	84.3
I don't know	6	14.6	5	17.2	11	15.7
<b>Total</b>	<b>41</b>	<b>100.00</b>	<b>29</b>	<b>100.00</b>	<b>70</b>	<b>100.00</b>

*Source : Field Survey, 2009*

From the option survey, no one of the total respondent gives views Yes to increase the VAT rate in current situation. While in the total respondent 84.3% gives vies to No and 15.7% have no idea to increase Vat rate or not. Category wise analysis knows that 85.4% and 82.8% from A & B gives views on No respectively following 14.6% and 17.2% from A & B have no idea. From the survey it reveals that no one is accepted to increase the VAT rate.

#### 4.2.9 Views on Establish VAT as a Backbone of Revenue

VAT is the most popular taxation system and established VAT as backbone of revenue only when the tax administration will be efficient and effective.

**Table No. 4.24**  
**Views on Establish VAT as a Backbone of Revenue**

Choice	Respondents				Total	
	Category A		Category B		No	%
	No	%	No	%		
a. More trained and qualified officers	5.0	12.2	11.0	37.9	16.0	22.9
b. Minimize contact with other tax officers	7.0	17.1	0.0	0.0	7.0	10.0
c. Computerized system for the payment of VAT	10.0	24.4	7.0	24.1	17.0	24.3
d. Collection of VAT should be given to private sector	8.0	19.5	1.0	3.4	9.0	12.9
e. Quick and hassle free survive	9.0	22.0	10.0	34.5	19.0	27.1
f. don't know	2.0	4.9	0.0	0.0	2.0	2.9
<b>Total</b>	<b>41.0</b>	<b>100.0</b>	<b>29.0</b>	<b>100.0</b>	<b>70.0</b>	<b>100.0</b>

*Source : Field Survey, 2009*

From the opinion survey of the 70 respondent, the highest 27.1% of the respondent from the total respondent gives views on quick and hassle free services, 24.3% on computerized system for payment of CAT, 22.9% on more trained and qualified officers, 10% on minimum contact with tax offers, 12.9% on collection of VAT should be given to private sector and 2.9% gives views on I don't know. The highest 37.9% of the respondent from the category B gives views on more trained and qualified officers following, 34.5% on quick and hassle free service 3.4% on collection of VAT should be given to the private sector, 24.1% on computerized system for payment and no response in the minimum contact with tax officers and I don't know. Similarly, highest 24.4% from the category A gives views on computerized system for payment, and lowest 4.9% on I don't know. While 22.5% on quick and hassle free services, 19.5% on collection of VAT should be given to the private sector and 17.1% and 12.2% of the respondent gives views on minimum contact with tax officers and more trained and qualified officers respectively.

### **4.3 Major Findings of the Study**

On the basis of previous chapter, data presentation and analysis, various important findings were obtained. By deeply analysis of the above chapter it was finding as below:

#### **4.3.1 Findings from Secondary Data**

- VAT has been most essential choice as ingredient of tax reforms of developing countries like Nepal which leads to revenue enhancement and sustainable economic development. There is tremendous scope for in
- Increasing the revenue from VAT will obviously increase its contribution in coming days.
- VAT has been very effective mechanism to collect the revenue than earlier sales tax because it has broad scope. It has been contributing a significant amount in total tax revenue and total revenue in Nepal. VAT Collected from IRO of Lalitpur has contributed 11.04, 19.45, 14.13, 32.99, 11.64 and 6.90 percent in total revenue since in Nepal 2001/02 to 2007/08.
- The trend of VAT registrants in IRO of Lalitpur is in increasing trend which shows that people are being quite aware regarding VAT system and its advantage due to which VAT revenue in VAT office is also increasing which also proves that VAT administration is successful to some extent.
- The government expenditure is increasing continuously but revenue resources are very limited which lead the country to fiscal crisis. The major cause of persisting fiscal deficit in Nepal is due to the poorly designed and defective tax system which cause in adequate mobilization of resource.
- Future of VAT is bright in Nepal because of the increasing trend in revenue collection from VAT. Despite the various difficulties in the implementation of VAT. The collection trend of revenue through VAT is not so bad. It is expected that VAT will generate more

and more revenue in the coming days. VAT generated about Rs. 1534.01 million revenue in fiscal year 2001/02 from IRO Lalitpur. It reached up to Rs. 3938.35 million in fiscal year 2007/08.

- Overview the current revenue structure of Nepal, the share of tax revenue has been greater than the share of non-tax revenue. About three quarters of revenue comes through tax revenue and one-third from non-tax revenue which shows the dominant role of tax revenue. Due to this reason, government heavily depends upon tax revenue and the foreign grants and aids, which leads country's situation towards fiscal crisis and resource gap.
- The share of value added tax in GDP in Nepal is very low with comparison to other developed countries. The contribution of VAT revenue as percentage in GDP remained 2.97, 3.13, 3.06, 3.75, 3.71, 3.89 and 3.63 from fiscal year 2001/02 to 2007/08 respectively, however showing a improving trend likewise the registration into VAT is also increasing day by day. The number of registrants increased from 25149 to 53707 and VAT Registration of IRO Lalitpur also increased from 1237 to 3444 from the fiscal year 2001/02 to 2007/08 respectively.
- The structure of VAT administration is still weak traditional corrupted, in adequate and incomplete which current problems and challenges in the path of successful implementation of VAT out of the major weakness of VAT administration.
- Billing system is one of the major aspects of the effective implementation of VAT businessmen hardly issue bill to consumer. Consumers too are not interested in taking bill due to miss-concept of increasing in price of goods such practice has discouraged the consumers to demand VAT bill and it is the root cause of the failure of billing system.
- VAT can be entrenched as an integral part of the Nepalese tax structure in long run if its implementation should be successful. VAT has brought prospects in future but prospect of VAT entirely depend upon its implementation aspect. Mainly the successful



implementation depend upon the strong political commitment, cooperative between the customs offices and inland revenue department between private sector and the government bodies, systemization of rules and regulation accordingly over time to time.

- Smuggling business activities are increasing due to weak tax administration and proper operation. It is expected that VAT system help the government to control these illegal activities. In recent decades, developing as well as developed countries in the world have increasing forced their attention towards reforming the tax system by realizing the poor designed tax structure in order to mobilize higher volume of resource for the development purpose and make the economy health, efficient and self dependent to a greater extent. In this sense, VAT became a power point of attraction of many countries and gaining popularity day by day.
- The major problems exist in business sector are registration procedure, account keeping system, and cost of record keeping for the purpose of VAT.

#### **4.3.2 Finding from Primary Data**

- VAT is the modern and the best form of the sales tax. However, implementation aspect is more important for this kind of tax to get its real performance. A more efficient and effective administration is the most important requirement for effective operation of VAT. Capable administration is lacking due to the lack of strong efficient and fair monitoring system. It needs close cooperation between the customs office and the inland. Revenue office and other general aspect for the better implementation. But existing problems are still in existence. Inadequate manpower with the little knowledge about VAT, geographical issue, political issue, defective organization structure, tax unconsciousness of people, open broader situation and unauthorized trade are existing problems. On the basis of opinion survey, inadequate manpower with little knowledge is the main problem, which is ranked at the first. Similarly, other problems, which is ranked as per their effective on VAT system.

- Most of the taxpayers are not conscious about VAT system. Tax payers are still unknown about its threshold, exemption, zero rating and other related issues. which is essential criteria for VAT registration. It proves that government has no proper homework before its primary implementation.
- VAT can be entrenched as an integral part of the Nepalese tax structure in the long run if its implementation should be successful. VAT has bring prospects in future but prospects of VAT entirely depend upon its implementation aspect. Mainly, the successful implementation upon the strong, fair and capable administration, strong political commitment, co-operation between the customs offices and inland revenue department, co-operation between private sector and the government bodies, systemization of rules and regulation accordingly over time to time. VAT is superior than the sales tax. All most respondents are in its favor. So the conclusion can be made.
- VAT is superior to other types of sales tax. VAT is providing satisfactory contribution in total government's revenue.
- Most of the businessmen and consumers don't have knowledge about the VAT structure, pricing, billing, accounting, need of VAT in Nepal, existing tax structure, rules and regulations etc.
- An adequate VAT education programme aren't conducted and VAT administration has facing lack of administrative personnel. Sufficient tax offices aren't established in place to place by the government.
- Single VAT rate is effective because most of the respondents are provided their opinion in favour of single rate of VAT. Multi-rate of VAT provides negative impact in revenue collection from VAT. It is difficulty to compute, record keeping, tax refund etc.
- From field survey, it is found that smuggling and under valuation is the major challenging problem of Vat and public awareness is the best way to make VAT effective. From the above study it is cleared that VAT creates the positive impact in revenue collection because most of the respondents were agree about that points.

## CHAPTER –V

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

As the final chapter of the study, this chapter briefly deals the summary of the study, fires to fetch out finding and conclusions and endeavors to offer various recommendations to implement VAT effectively in future.

#### 5.1 Summary

Value Added Tax is the latest, developed, modern and scientific tax system in the field of taxation. Taxation and economic development are two closely interrelated concept, since taxation has an important role in country for economic development. The concept of VAT has been spreading widely in more than 130 countries in the world. VAT is calculated in each state of goods and service such as production, buying and selling. It affects only the added portion of price i.e. the value of goods and service added in each stage of transaction. It doesn't increase the cost of goods and service by thirteen percent. In this system, it should compulsion be registered for sifting VAT to the customers by Businessmen. Lack of the producer industries in Nepal, large amount of consumption is fulfilled by import, especially through India. Thus, large amount of revenue used to be collected from the custom duties.

French government was implemented VAT firstly in the world in 1954. After than all most all countries of the world are being attracted toward VAT system. It has some specific features, so, it became popular throughout the world. There is less probability of tax evasion in VAT system. Government of Nepal adopts this system since Nov. 16, 1997. After several year planning and preparation, VAT act was finally passed through parliament in December 1995. VAT became effective through the finance bill of 1997.

VAT avoids the another tax such as sales tax, entertainment tax, hotel tax and contract tax, Nepal was introduced consumption types of VAT, base on the destination principle with single positive rate of thirteen percent.

Nepal is a developing country; resource mobilization is one of the alternatives to develop. VAT is necessary to introduce for revenue collection, promote economic growth, for improving deteriorating macro economic performance, to establish an account based modern transparent tax system, to make the tax system more scientific, to get the confidence of donor, to make Nepalese tax system effective.

Source of VAT revenue in Nepal are domestic VAT and imports VAT. Share of import VAT revenue is two third and share of domestic is one-third in total VAT revenue. It is expected that the share of import and domestic VAT revenue may be equal in near future. Source of domestic VAT revenue are production, distribution and service sectors.

Since value added tax (VAT) has recent approach, it has also much potentiality power to generate revenue than earlier sales tax because it covers broad coverage and all level of production, distribution and sales. Revenue is the crucial element for the government to accomplish operating and development activities. Tax is the major source of revenue. It contributes a significant share in total tax revenue and total revenue but a little share in GDP in Nepalese context. Revenue mobilization is one of the major concerns for Nepal.

Low public awareness as well as taxpayer's ignorance may create problem for the implementation of VAT in Nepal. The most serious problem for implementing VAT in Nepal is the ineffective administration, lack of train, qualified, intelligence, and well-train manpower. Present tax administration is inefficient and corrupting nature.

In the empirical study, the analysis has been done about VAT on the basis of information collection from experts, tax officers, businessmen and consumers. The tool that is basically used is the questionnaire. The questions are asked to 80 different individuals related to the field. Out of the total population questionnaire were distributed to sample of 80 selected respondents, out of which 87.5 % ( i.e.70) of the respondents give their views regarding various aspects of VAT. The respondents were categorized in two categories i.e. category A and B, which category A includes 41 respondents while category B included 29 respondents. Their response in various questions are tabulated in chapter four.

## 5.2 Conclusion

It is needless to say that tax is the most important source of government revenue in which indirect tax takes place two-third of total tax revenue. VAT is the best alternative of other kinds of tax. It is a new innovation in the field of taxation. It is a scientific and systematic method of taxation. VAT contributes the share in total revenue. It helps to resource mobilization. It has great power and important role to develop the economy of country. VAT is a simple, broad, eliminate and friendly tax system. It helps to increase the revenue of the government. This is a matter of great pride that the Nepal has entered in to major global tax system with the introduction of VAT.

Nepal is a developing country more than more revenue is required for its development projects. Previous sales tax has narrow tax base coverage and minimum revenue was collected but it was not sufficient to meet expenditure of the government.

The biggest virtue of VAT is that it is revenue and highly instrument for resource mobilization especially in an economy with actually shortage of resource. Despite preliminary resistance VAT is currently well received by the consumers as well as business and industrial commerce. The tax payer education campaign and the lucky draw scheme run by the Inland Revenue department with the objective of uplifting the level of awareness among the concerned stakeholders of the society is needed praiseworthy. The implementation of VAT in Nepal is an excellent case for other country to study when considering the reform of their indirect tax system. There has been a market progress in revenue mobilization and the infrastructure has already been prepared.

VAT was introducing as a part of the national tax reform program. But VAT system in Nepal form its inception has been facing innumerable problems which curtail its merits and effectiveness. Its process has been slow, initially due to opposition from the business community and subsequently to administrative problems. Even after its full fringed implementation in 1999, the system has been taken a considerable pace due to administrative in efficiency. Despite preliminary resistance, VAT has been largely accepted by the taxpayers as well as business communities of Nepal and relied upon by the government as an important tool for mobilizing the revenue need to public finance expenditure.

Physical infrastructure are needed for every country without it government of the country couldn't provide service towards the people. To establish infrastructure in the country revenue is required for the government. VAT is a major source of government revenue, so it must be effectively implemented in the country. Revenue is collected in each stage of goods and service such as production, buying and selling. Due to the each stage collection it is effective and more reliable source of income of the government.

VAT has number of difficulties for its implementation such as lack of public consciousness level, weak tax administration, unauthorized trade, narrow tax base coverage, VAT billing, irresponsible office personnel in VAT offices, lack of train and qualified manpower, corrupted nature of VAT personnel etc. To make VAT effective source of government revenue it is required to avoid the problems of its.

### **5.3 Recommendation**

Lastly it is concluded that VAT is a major source of government revenue. It helps to mobilization of internal resources for the development of infrastructure. To generate more revenue from the VAT government has to promote the domestic product for it is necessary to establish new industry, scientific agriculture system, trade center commerce center, VAT offices in proper place, increase the public consciousness level, train and qualified manpower are employed in VAT sector.

1. VAT is the resource of domestic income (revenue). It has substituted (replaced) the old sales tax, household land tax, and in order to make it effective, VAT collection procedure should be made more flexible, convenient and systematic. By making the VAT collection procedure flexible maximum number of tax payers should be brought within the boundary of VAT.
2. Most of the final consumers and entrepreneurs are ignorant regarding VAT, VAT rate, VAT structure, objective of the VAT. They should be made known what it by means of any kind. For instance, by publishing the articles or VAT in newspapers, and establishing VAT offices in their approach, conduct work-shop, seminar, etc.

3. The personnel's involved in the VAT are by nature corrupt. So, corruption should be discouraged. To discourage corruption. The system of monitoring should be managed. The act, law and policies which are only confined into mainly on the black paper, should be brought in the use. Hard punishment provides for them so they shouldn't revive the chance of corruption.
4. The supreme authority of ruling is in the basis of political leaders, and political leaders are corrupt, and their activities have enforced the personnel's for committing the corruption. Due to the corrupt mentality of political leaders and the lack of political instability, industrial and business organizations have not been able to be established. For this purpose, peace and order should be maintained in the country. So that expected revenue can be collected.
5. To collect the VAT revenue as much as possible, domestic product should be given top priority rather than foreign exports. For this purpose, scientific agriculture system, encouragement to the small cottage industries and higher industrial as well as business organizations should be established.
6. Most of the officials working in the VAT department seem to be lazy, selfish and irritated while responding to the outriders, and moreover, they think the department as if it is their own property. Such kind of tendency should be discouraged and there must be the coordination among government, officials and taxpayers. To make active for the personnel's provide rewards, prizes, extra amount, than salary etc.
7. To make the VAT revenue effective, time limitation for tax payment should be determined. And, those customers who don't pay the tax in time, should be given due punishment, according to the rules and regulations.
8. Due to the open border with the neighboring country, illegal transactions have been taking place. Such kinds of transactions have helped for tax cheating. To discourage it, proper supervision and monitoring should be done. Cross checking is to be done time to time in such places.
9. The trader and businessmen don't lend the final consumers the actual bill. The reason behind it

- is loopholes of government and revenue department. To discourage it, effective monitoring is necessary, to make effective monitoring, separate monitoring units should be established for its supervision.
10. The provision for reward, prize, and incentive should be introduced in the act to encourage the VAT payer to pay VAT voluntarily rather than coercive measures.
  11. Computer system and net working program must be developed and linked so as to make VAT work simple which also helps to make data base system.
  12. Except the most essential goods and service which are directly related to the people living below the poverty line, the goods and service should not be exempted.
  13. The relation between clause to clause and sub clause to sub clause or others creates double meaning which creates loopholes so it should be reduce in the act. Clear and meaningful clause and sub clause should be mentioned in act.
  14. Discretionary power of the tax officials should be curtailed in the act. It should be avoided from VAT act.
  15. The language of VAT act should be simple and clear the definition made only should be clearly and well defined which encourage for the VAT payers towards the VAT coverage.



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# Appendix- I

## Questionnaires

Dear Sir/ Madam

I would like to introduce myself as a student of MBS final year of Shanker Dev Campus. As per the partial fulfillment of the Master Degree of Trivhuvan University, it is compulsory in submit thesis. So I am preparing thesis entitled "**Contribution of VAT collection of Lalitpur District to Total VAT Revenue**". I would like to share your valuable committee to make this meaningful.

I assure you that this is only an academic research and your comment and suggestion will be kept confidential.

Sincerly,  
Arjun Babu Tiwari

Please tick [  ] the answer of your choice or wherever appropriate put in order of preference from 1 to last number on the basis of alter native.

Full Name:-.....Designation:-.....  
Address:-.....Occupation:-.....

1. From which media you know about VAT?  
**a.** Radio/FM [  ]      **b.** T.V. [  ]      **c.** Hoarding Board [  ]  
**d.** Pamphlets [  ]      **e.** Daily Newspaper [  ]
  
2. In Nepalese economy what impact does VAT play?  
**a.** Positive [  ]      **b.** Negative [  ]      **c.** I don't know [  ]
  
3. How much percentage of the total customer's demand for the bill?  
**a.** Less than 20% [  ]      **b.** between 20% to 50% [  ]  
**c.** More than 50% [  ]      **d.** I don't know [  ]
  
4. Which of the following factor is responsible to make VAT ineffective in Nepal?

- a. Lack of consumer awareness [    ]
  - b. Weakness of Government [    ]
  - c. Administration inefficiency [    ]
  - d. Open boarder problem [    ]
  - e. All [    ]
  - f. I don't know [    ]
5. What problem have you faced after VAT regime?
- a. Increase compliance cost [    ]
  - b. Decreased in business competitive power [    ]
  - c. Encourage unauthorized trade [    ]
  - d. Problem in Custom Valuation [    ]
  - e. Tax Refund Process [    ]
  - f. I don't know [    ]
6. Do you think there is any correlation between VAT and political instability?
- a. Yes [    ]    b. No. [    ]    c. It is not related [    ]    d. A little bit [    ]
7. Do you think it is suitable time to increase VAT Rate?
- a. Yes [    ]    b. No. [    ]    c. I don't know [    ]
8. To Establish VAT as a backbone of revenue collection, we need
- a. More trained and qualified officers [    ]
  - b. Minimize contract with the tax officer [    ]
  - c. Computerized system for the payment of VAT [    ]
  - d. Collection of VAT should be given to private sector [    ]
  - e. Quick and hassle free service [    ]

**Thank you for your cooperation**