

CHAPTER 1

Introduction

1.1 Background of the Study

Economic development and growth are important indicators to reflect the real situation of a country in overall development of the nation. Therefore, it has been an important concern and target of the government policy tools in any underdeveloped countries like Nepal. Achievement of high rate of economic growth, reduction of income disparities and poverty are few development strategies towards which most of government efforts have been directed in the developing countries.

Taxation and economic development are two closely interrelated concepts since taxation has an important role in a country's economic development. Taxation is an effective tool with which the government can mobilize internal resources for economic development.

As Findlays Shirras define, "Tax is a compulsory contribution to public authorities to meet the general expenses of the government which have been incurred for the public goods and without inference to special benefits." (Bhattarai and Koriala, 2061: 1)

Nepal is one of the least developed countries. Nepal is suffering from chronic social and economic diseases. Nepal has not been able to collect necessary government revenue to cure such disease. Due to poor performance on internal revenue collection and mobilization, she has to still

depend on foreign grants and loans. Unless remedy is made is due time, the country cannot run in the path of economic development.

Taxes as a major fiscal policy instrument and important government policy tools have an important role in increasing the rate of capital formation and thereby achieving the rate of economic growth. The role of taxation in economic development of country lies in its function of resources that country's productive capacity is enhanced. So every states needs resources whether to pay salary to government employees or to conduct development work, i.e. huge amount of money called revenue. The major source of revenue is tax.

Tax revenue may be classified as direct tax and indirect tax. Direct taxes comprise of income tax, property tax, vehicles tax etc. these taxes are directly imposed on a person or an organization that bears the tax burden ultimately. Indirect taxes comprise of excise duty, custom duty, sales tax, entertainment tax, value added tax (VAT) etc. these taxes are shifted to other people. In the context of Nepal, direct taxes have lesser contribution for resource mobilization compared to indirect taxes.

VAT is an indirect tax and definitely a new concept as compared to other taxes. It is the youngest and the most emerging tax. It is the most transparent, effective and efficient indirect taxation which has established an account based modern transparent tax system. "VAT is a broad based tax on business designed to measure net value generated in a country." (Encyclopedia of Taxation and Tax Policy)

In recent decades, many developing countries around the world have begun to focus their attention on reforming poorly designed defective tax structure as an integral part of the development efforts. Such reforms have broken some older, practices and established some new trends and axioms. One of such trends is the increasing acceptance of a VAT as an important part of their tax reform programs. (Bhatta, 2005:115)

Though VAT itself is a very scientific, transparent, broad based and investment friendly tax system many obstacles are there on the way of VAT. One of the challenges in implementing the VAT is taxpayers' behavior. Tax administration found some taxpayers keeping dual accounting, issuing dual bills, taking VAT from the customer but not submitting to the government and charging VAT without registration into the VAT. So there is a need for discouraging such taxpayers. In addition to this lack of billing habit is another serious problem as there is a little or no practice of issuing the correct bill. Use of bills during sale of goods and consumables are still regarded as a waste of time and useless things by many consumers in the country. Some sellers use to compel the buyers to pay extra 13 percent amount, who will demand the bill. All these are anti VAT activities. (NRB, 2064)

Hence low public awareness as well as taxpayers' ignorance creates problems for the implementation of VAT in Nepal. There is need of the government awareness for the collection of tax and extended attention towards taxpayers' education and better taxpayer obligation and coercive enforcement of the tax laws and regulations for the default and tax evading

taxpayers. Taxpayer education and assistance tells them what they need to know to comply and when they need to know it.

1.2 Statement of the Problem

Nepal is one of the least developed countries in the world. Its position in terms of GNP per capita is the lowest in SAARC region. This shows Nepal has remained one of the poorest countries in the world. Sound tax system is one of the essential requirements for an economic development of the country. It has been felt that revenue collection from VAT is lower in Nepal than expected due to the various related problems. It is said that Nepalese VAT law is inappropriate and the administration is worse. Tax system should be such that it raises adequate revenue to the government, without discouraging private businesses.

Another problem is the lack of awareness among the taxpayers regarding VAT. There is need of public awareness in VAT collection. Next problem is related to the coordination between the government and taxpayers.

On the basis of above mentioned factors, the following research questions have been sought to be answered in this study:

- i. What is the status of taxpayers' awareness regarding VAT?
- ii. Is the present management system of VAT effective?

- iii. What is the relationship between VAT collection and taxpayers' awareness?
- iv. What steps can be taken for improving taxpayers' awareness in Nepal?

1.3 Objective of the Study

The basic objective of the study is to assess the tax awareness among the people in Nepal.

The specific objectives of this study are as follows:

- i. To assess the taxpayers' awareness regarding VAT.
- ii. To examine the effectiveness of VAT in revenue collection.
- iii. To find the relationship between VAT collection and taxpayers' education.
- iv. To provide necessary suggestion and recommendation for making VAT effective.

1.4 Significance of the Study

No existence of limitations in research is the exceptional case. So the followings are the limitations of this study:

- i. The study is based mainly on primary data survey; however secondary data has also been included. So reliability of data depends upon the sources.
- ii. Due to time constraint and other difficulties, data survey is limited within Kathmandu area only.
- iii. The study has covered the period of 8 years FY 1999/2000 to 2006/2007.

1.5 Organization of the Study

The research work has been organized in the following structure:

- i. Introduction:** This chapter includes the background of the study, statement of problem, objectives, significance, limitation and organization of the study.
- ii. Review of Literature:** This chapter includes review of former studies.
- iii. Research Mythology:** Methods of data collection and statistical and financial tools used in data collection and analysis, population and sample are described in this chapter.
- iv. Data Presentation and Analysis:** In this chapter, data and information are presented and analyzed with the help of different statistical and other relevant tools.

v. Summary, Conclusion and Recommendation: Summary and conclusions of the study and further suggestions have been included in this chapter.

Besides this Bibliography, Appendices and other required statements have also been included at the end of the study.

CHAPTER-2

Review of Literature

2.1 Conceptual Framework

2.1.1 Theoretical Background of VAT

VAT is broad based indirect tax. It is a modern tax system intended, when fully operational, to improve the collection of taxes, to increase efficiency and to lessen tax evasion. The VAT is nit perfectly new form of taxation. It is a commodity based refined form of sales tax. In other words, it is improved and modified form of sales tax that is escaped from cascading effect. Except few exceptions it is levied on value added at each stage in the process of production as well as distribution. These stages may be as import, manufacturing, wholesale and retail the value added by a business firm is the difference between the receipts from the sale of the firms' product and sum of the amount paid by the firm for goods and services purchased during the period from business firm; it is equal to the sum of factor payment made by a firm. (Due and Friedlander, 1997). From economic point of view, a properly implemented value added tax is equivalent to a corresponding single stage tax. The unique nature of VAT is its potential scope in identifying and taxing the economic contribution or added value identifying and taking the economic operation in connection with any activity of a business or any commercial nature.

Unlike a traditional sales tax that is imposed at the point of sale, a VAT is imposed in goods and service at each stage of production and

distribution. It is imposed only on value added amount. Deducing the material, labor, transportation, and insurance, packing cost and profit etc from sales value can calculate the value added. It has no any cascading effect. It provides the facilities of tax credit and refund. Under this system, comparatively, consumers have to pay less tax than sales tax. Because sales tax is based on sales or turnover amount in every stage and VAT is based on value added amount.

Usually VAT is based on consumption. The consumption tax has two modes, one is sales tax and another is VAT. Each of these is different from income tax. It only taxes on money when it is spent. It is administered by registering the vendors whose annual turnover is more than threshold. The threshold is a limit within which the taxpayers are not compelled to come under the preview of value added taxation. The threshold is determined by adding the total turnover of the taxable goods and services. Although VAT is supposed to be regressive tax, and is levied on almost all goods and services, yet the especially exempt certain basic and necessity goods and services, it is levied at the time of sales transaction made by the registered taxpayer. The registered taxpayer is entitled to credit the input tax paid from the output tax collected from the sale transaction. No taxpayer collect VAT. "Much of the rule of tax liability and files the periodic returns himself." (Silwal, 2000)

So, whatever name we call, VAT is a newly entrant family member of indirect tax and it is imposed on the value added.

2.1.2 Evolution of VAT

In the history of taxation, value added tax is the latest and emerging tax. Dr. Wilhelm V. Siemens in Germany first proposed the concept of the VAT in 1919 as a substitute of Umasatzsteuer (multistage sales tax) in order to avoid the cascading and vertical integration of multistage tax. A tax mission to Japan headed by Prof. Carl S. Soup developed the concept of VAT further in 1949. The tax, however, remained as only a topic of academic interest until 1954, France introduced a VAT covering the industrial sector; the tax was, however, limited upto the wholesale level. From 1960 this tax system took speed in “European countries. European countries including Norway, Switzerland, Turkey and former Soviet States that are not the member of EU adopted VAT. Presently more than 120 countries have introduced VAT. It is mandatory for member European Union. It also has been adopted by Japan, china, Vietnam, Canada, South Korea and many other states in Asia, North and South America and Africa and former Soviet Union. In South Asia, India introduced mod. VAT (modified value added tax) in 1986 for manufacturing products. Pakistan adopted it in 1990. Bangladesh and Srilanka started VAT in 1992 and 1995 respectively. Nepal Government introduced VAT system in 1997(2054 B.S.) although, the VAT Act was passed in 1995 and the VAT regulation was approved in 1996. But the VAT could only be introduced from November 16, 1997. VAT replaced the existing sales tax, the contract tax, the hotel tax designed to collect the same revenue as the four taxes it replaces. Thus this tax revenue creates a valuable alternative of tax sources, especially in

countries those have a limited income tax base or that must rely on revenue from primary commodities. (Khadka, 1996)

Table 2.1. VAT and its Implementation on Different Countries

Years of implementation	Countries
1954	France
1960	Ivory Coast
1961	Senegal
1962	Brazil, Denmark
1968	Germany, Uruguay
1969	Netherlands, Sweden
1970	Ecuador, Luxembourg, Norway
1971	Belgium
1972	Ireland
1973	Austria, Bolivia, Italy, U.K., Vietnam
1975	Argentina, Chile, Costa Rica, Nicaragua, Colombia

1976	Honduras, Israel, Peru
1977	South Korea, Panama
1980	Mexico
1982	Haiti
1983	Dominican republic, Guatemala
1984	Peoples republic of 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, Tobago
1991	Bangladesh, Benin, Canada, Jamaica, Mali, South Africa
1992	Algeria, Armenia, Azerbaijan, Blers, Cyprus, Eisavador, Turkmenistan, Ukraine, Kazakhstan, Kyrgyz Rep, Latvia, Mold Tajikistan, Thailand, Uzbekistan, Russia

1993	Burkina Faso, Czech republic, Mongolia, Paraguay, Poland, Slovakia, Venezuela
1994	Bulgaria, Finland, Georgia, Lithuania, Singapore, Tanzania West
1995	Gabon, Switzerland, Zambia, Latvia, Liechtenstein, Togo
1996	Albania, Macedonian, Belize, Uganda, Guyana
1997	Nepal, Surinam, Barbados
1998	Croatia, Slovenia
1999	Cambodia, Cameroon, Mozambique, Netherlands, Antilles, Papua New Guinea, Slovenia
2000	Australia, Chad, Macedonia, Namibia, Sudan
2001	Rwanda
2002	-
2003	Lebanon
2004	India

Source:-VAT and its applicability in Nepal, Babu Ram Subedi 1998, IRD website.

2.1.3 Principle of VAT

There are two principles for levying VAT. They are origin principle and destination principle. Choice between these two principles largely depends on the goals and the policies of nation, accession of international trade, computing methods and types of VAT.

In case of international trade, two serious alternatives appear while implementing VAT in any country. They are taxing all domestically produced goods including exported ones and exempting all imports or taxing all the imports and making exemption for all exported goods and services to the foreign countries (Subedi, 1998)

1) Origin Principle

Under this principle, all domestically produced goods including exports are taxed whereas all imports are freed. As per this principle all goods and services produced and generated in the country should be taxed whereas those imported from abroad should be relieved from taxation. This principle affects balance of payment of the country negatively, especially for those who gave a poor performance in the world economy.

2) Destination Principle

Under this principle, all imports are taxed whereas exports are freed. The VAT is collected at the point of import and the firm would receive a

credit for the VAT paid and refund when exported. This principle has favorable effects on the country's balance of payments.

Therefore, destination principle is more appropriate for a country having consumption type of value added tax with the tax credit method of computation. Special benefit by this destination principle can be attained by those countries who have open boarder and cross country trade and less competent in the open market. Nepal too has adopted this destination-based VAT.

2.1.4 Types of VAT

There are three types of VAT. Basic difference between all three types lies in how capital equipments are treated in computation of VAT. From these viewpoints, VAT is classified as follows.

1. Consumption Type 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 deduced from the tax base in subsequent years. The base of tax is consumption since investment is relieved from taxation under this type. This is the most popular type of VAT. Most of the countries including Nepal have adopted this type of VAT.

2. Income Type VAT

The income type VAT does not exclude capital goods purchased from other firms from the tax base in the year of purchase. This type, however excludes depreciation from the tax base in subsequent years. The tax base of this type is the net national income. Many countries do not prefer practice of this method because it faces the same problem as we face in calculation of income for a particular period.

3. Gross National Product Type VAT

Gross National Product type of VAT neither excludes purchased capital goods nor the depreciation from the tax base. It means the tax is levied both in consumption and gross investment. The tax base of this type is gross domestic product.

2.1.5 Methods of Computation of VAT

There are various methods of tax calculation in VAT system. Broadly, VAT can be computed by following three methods:

1. Additional Method

Under this method, the tax base is calculated by adding the payments made by the firm regarding factors of production that contributes in product.

The factors are wages, interest, rent, royalties and profit. This calculation is appropriate for income type VAT.

2. Subtraction Method

In subtraction method, the cost of production like raw materials, auxiliary raw materials, chemical power etc are deducted from total sales to find out added value of production. This method is appropriate for consumption type of VAT.

3. Credit Method

This method is also called tax credit or invoice method. It is the universally accepted method. Under this method, tax is imposed on total sales or on total invoice price. Here the tax on purchases is deducted from sales. Taxpayers are entitled to deduct the prepaid tax or tax paid on purchases from gross tax liability. In Nepal, except in used goods business (and reconditioned goods related business) the credit method is in practice.

2.2. Existing VAT System of Nepal

2.2.1. Development of VAT in Nepal

During 1990s, the concept of VAT existed in various officials documents in Nepal. His Majesty Government, first of all expressed the

view of introducing VAT by Eighth plan. Initially the most documents mentioned the statement to convert the import and manufacturing level sales tax into VAT. Finance Act 1992 introduced the two-tier sales tax for nine items as the base for introducing VAT. Finance Act 1994 extended it for some additional items. The Government formulated a VAT task force in 1994 in financial and technical assistance of USAID, which drafted the VAT documents to formulation the legislation. The parliament passed VATA act in 1995 (2052). However the opposition political party and business community opposed the implementation of VAT. They expressed the view that the infrastructures were insufficient and preparation was incomplete to implement the VAT effectively. Thus government could not get political consensus regarding the implementation of Vat. In such environment, the government introduced VAT system in 1997 (2054) from November 16, 1997 although the VAT Act was passed in 1995 and the VAT regulation was approved in 1996. Danida provide technical assistance to implement the VAT in full phase. VAT replaced the existing sales tax, the Hotel tax and the Entertainment tax.

It was designed to collect the same revenue as the four taxes it replaced. As designed law the VAT is a tax on many goods and services consumed in Nepal. It is a new tax system for Nepal. It was justified in the light if government fiscal imbalances and need for extra revenue mobilization through an efficient tax system to meet or to minimize the imbalance. At that time it was hoped that the introduction of new system would, however, make local business more competitive and remove the tax from exports. After implementation of VAT, it slightly changed the price of

some goods and services. As the preamble of VAT 1995 Act the spirit of introducing the VAT system in Nepalese Tax Administration is to increase the revenue mobilization by making effective the process of collecting revenues required for the economic development of the country. In this way, the VAT is playing a key role in the economic development of the country.

2.2.2. Legal Provisions of VAT in Nepal

In Nepal, first of all, eighth five years plan (1992/1993-1996/1997) took a policy of adopting VAT. On July 11, 1993 the finance minister announced in his budget speech for 1993/1994 that VAT would be introduced within a year or two. In process of the adoption of VAT in Nepal, a VAT steering committee and a VAT task force were created in September 1993. After its formation, it made a draft for VAT legislation, conducted the taxpayers' education programme, and managed the organization structure and effective computer system. HMG had initially scheduled to register taxpayer for VAT within the ninety days from the first day of the new year of Nepal calendar in 2054. (Khadka, 2000)

VAT Bill was passed on March 20, 1995. VAT Regulation was approved on January 24, 1996 by the cabinet. Finally VAT was introduced on November 19, 1997. From this date VAT replaced the sales Tax Act 1967, Hotel Tax Act 1962, Contract Tax Act 1967 and Entertainment Tax Act 1961 (Khadka, 2000).

Nepal has adopted a consumption type VAT. Under this system, tax is levied on value added at each stage in the process of production and distribution. It is levied on output and credit is allowed for full amount of tax paid on purchase at previous stage. It is based on destination principle. The law in schedule 1 of VAT Act 1996 provides a list of exempted goods and services export of goods and services are zero-rated. Though threshold limit has been changed frequently, but by large it is fixed at Rs. 2 million. Rate of VAT has been changed to thirteen percent from ten percent.

2.2.3. Features of VAT in Nepal

a) Coverage and Rates

The coverage of VAT may be defined with respect to both taxable transaction and person. Taxable transactions are defined broadly as suppliers made by the person engaged in business activities. Taxable persons are those who independently engaged in supplying the taxable goods and services including imports.

In Nepal VAT is levied on all types of goods and services, both imported and domestically produced, except those specifically exempted by law. It is extended right through to the retail level. It is levied on the value added by each firm at each stage in production and distribution process. However, the small traders whose annual turnover is below the registration threshold are not required to register for VAT.

Nepal has adopted a broad based consumption type VAT, using tax credit method. Nepalese Vat is subject to a standard rate of 13 percent, however a few transactions or goods and services are zero-rated and some are exempted from VAT.

b) Threshold

Nepal's VAT regime seeks to keep small vendors outside the tax net, who are defined using a "turnover" threshold as the criteria. Small vendors having an annual upto certain amount are not required to register under VAT. The amount fixed for this purpose is known as threshold.

However, it is common practice to register all importers, irrespective of the level of turnover. In Nepal, the existing level of threshold is Rs. 2 million also importers having commercial imports less than Rs. 2000000 annually or less than Rs. 10000 at a time are not required to register. This exemption from registration is aimed at the small traders in the border area who bring goods from India on a small quantity.

c) Exemptions

Exemptions simply imply the exclusion of a certain goods and services from the tax jurisdiction. Exemptions are granted on administrative or social grounds and also to minimize the problem of excess credit and consequent refund. In the case of dealer dealing with exempted goods and

services VAT is not levied on his sales and he is not entitled to a credit for VAT paid on his purchases or imports. For example: if exports are exempted, exporters are not required to register under Vat. They do not need to collect VAT on their outputs and cannot claim for input tax credit. In Nepal several goods and services are exempt from VAT. Exemptions are generated particularly on administrative and social ground. The list of exempted goods and services from VAT is presented in detail in Appendix.

d) Tax Period

For the purpose of submission of return and amount of tax, taxpayer has been classified broadly in the following tax period:

- i) **Monthly Tax Period:** person who are statutory bound to register in VAT fall in this period. Whose turnover is above the threshold i.e. Rs. 2 million automatically fell in this period.
- ii) **Trimesters Tax Period:** whose taxable turnover is below the threshold but registered in VAT voluntarily, fall in this period. All the small vendors who gave voluntarily registered are entitled to get special facility of four month period for the submission of return and due amount to tax officer.

e) Zero Rating:

Nepalese VAT is subjected to a standard rate of 13 percent. However, a few transactions or goods and services are zero-rated. Zero-rating simply implies that certain goods and services are taxed at the rate of zero percent. Under the current Vat act 2052, exported goods and services are zero-rated; the trader supplying zero-rated goods and services is entitled to recover the input tax paid in his purchases used to make a zero-rated supply. It means VAT would not apply to the exports but exporters would receive input tax credit i. e. exports would be completely free from VAT. This technique has been used commonly in European Union (EU) and other developing countries.

Nepal has also Zero rates the exports goods and services. In present situation, the following supplies are zero rated:

-) Exports of goods and services.
-) Import of goods and services by a credited diplomat. etc.

f) Tax Credit

The credit is the most important feature of the VAT system. Under the Nepalese VAT system, taxpayers are entitled to claim input tax credit. It is however, allowed to the extent that the purchased/imported goods and services are used for goods and services sold in taxable transactions,

including exports. A taxpayer must hold and be able to produce a valid tax invoice for the goods or services for which a credit is being claimed.

A taxpayer is not entitled to claim input tax credit on purchases related to exempt sales. In case of mixed transaction (i. e. making both taxable and tax exempt transactions), a taxpayer is entitled to claim input tax credit on the purchases related to the making of taxable sales.

g) Tax Refund:

Under the Nepalese VAT system, there is a provision for the refund of VAT. If the input tax is excess of the output tax, the balance should be carried forward to taxpayer, it is known as tax refund. On other word, when tax on sales is less than the tax on purchase, there should arouse the situation of tax refund. The efficient system of refunds is an integral part of VAT. Such situation arises mainly when goods are zero-rated. Technically the refund system is more complex and takes long period in developing economies.

For the Nepalese context, in the case of exports, refund should be made within one month from the date of submission of return. In other cases, the refundable balance should be carried forward upto six months period.

2.3. Methods of VAT Collection

2.3.1. Registration and Deregistration

a) Registration:

The first step towards VAT operation is registration of vendors who are legal taxpayers. Threshold limit for the registration is fixed at Rs. 2 million. All the taxpayers whose taxable transaction is above the threshold are compulsorily required to register in VAT. However the vendors having the transaction of only exempted goods and services, or falling below the registration threshold are not required to register in VAT system. But, vendors falling below the registration threshold can register voluntarily will be able to claim back input tax paid on their purchases to collect on their sales and to hold the collected tax until its payment to the concerned tax offices.

b) De-registration (VAT Rule 12)

In case the registration of any registered person be cancelled due to the condition such as:

-) In case of an incorporate body, if the incorporated body is closed down, sold or transferred or if the incorporated body is not existing.
-) In case of an individual ownership, if the owner dies.
-) In case of a partnership firm, if it is dissolved.

-) If a registered person discontinue to be engaged in taxable transactions.
-) If a person is registered in error.
-) If a person submits zero returns or not submits returns continuously for one year.

However, if the firms have already been taken the tax credit facility, tax credit would be determined on the stock including capital equipment and demanded to pay the VAT office.

2.3.2. Invoicing

Each registered trader must issue and invoice bill for each taxable sale. Invoices are the initial documents for VAT control. There are two types of invoice:

-) **Tax Invoice:** It is issued to VAT taxpayer. It is a crucial document of VAT, as it establishes to seller's liability for tax and the purchaser's entitlement to credit. A minimum of three copies of each invoice is essential. The original copy must be given to the buyer while the seller should retain the other two copies. These invoices should be issued in sequential numerical order. These copies must be available at any reasonable times for inspection by tax officer. However, invoices can be prepared with different serial number for branches or different sections with prior approval from the tax office.

) **Abbreviated Invoice:** This is simple type of invoice for registered sales to unregistered persons who should be considered final consumer under the VAT system. A VAT registrant may issue an abbreviated invoice in the case of sales below Rs. 5000, including VAT with the prior approval of the tax office. It is not necessary to provide the details of purchasers and indicate VAT separately in the abbreviated invoice.

2.3.3. Books of Account

Every VAT registrant should keep clear and adequate records of his transactions (purchase or sales) which are subject to positive rate, Zero rate and exemption. A registrant is required to maintain a purchase and sale book and list each transaction in these accounts. Computerized accounts may be maintained with the prior approval of the VAT administration. At the end of each accounting period, the VAT registrant must total the amount of taxable purchases and imports, and taxable and tax-exempt sales made in this period. In the case of mixed supplies, the proportion of input tax the taxpayer is entitled to pay for the tax period must be computed.

A VAT registrant is also required to maintain the VAT account, which is monthly summary of taxable purchases and sales, and tax paid on purchases and charged on sales. All documents and accounts relating to the business must be retained for four to six years.

2.3.4 Tax Assessment

VAT is self-assessed tax, whereby the taxpayer determines his tax liability, files his tax return and pays the tax within stipulated time, tax assessment is the process of determining the amount of tax, any individual or companies liable to pay. This may be done by either two ways. One is that the taxpayers make tax returns, listing their income from various sources and any facts affecting their entitlement to tax-allowances and then tax authorities make the actual assessment. The alternative method is self-assessment besides supplying information and their income and entertainment allowances; taxpayers produce the own assessment applying the tax rules to their own figures. Then the assessments are checked by the tax authorities. However not all the VAT registrants may file their return and pay the tax within the specific time. Similarly, not all the taxpayers may file the correct return and pay the correct amount of tax.

2.3.5. Tax Return

In the Nepalese tax system, the tax return of each tax period must be filed at the relevant tax office within 25days following the end of the accounting period. The period is monthly for compulsory registrants and once every four moth for voluntary registrants. The head office is required to submit tax returns for the transaction carried out by its branches and sub branches if any. There are no special rules, for example, for seasonal

business or others. Even if there is no transaction, it is necessary to submit a zero return

On receiving a VAT return, the tax officer is required to examine the return and check for arithmetical accuracy. If this confirms that the amount shown as payable and other particulars on the return are correct, the return is to be accepted. Return could show debit, credit or zero. There is no need to attach purchases and sales invoices or any other documents relating to the tax with the returns.

2.3.6. Payment of Tax

In Nepalese VAT system, a VAT registrant having output tax liability greater than the input tax credit is required to submit the difference to the government within 25 days of the month following the end of the tax period.

However, some circumstances that are beyond the control of taxpayers can prevent paying tax due within the prescribed time, these include natural disasters such as floods and other unfavorable circumstances such as fire or death in the family. Under such circumstances the law grants the authority to the director general to waive the payments of the penalty. On the other hand, if the input tax credit exceeds the output liability; the balance of credit is to be carried forward for the next month. However, a VAT registrant who have more than 50 percent of his sales as exports can apply for refund instead of carry forward of the excess credit.

2.3.7. Penalties

Every firm (a person) has freedom to operate his business activity but the government always checks that whether the taxpayers perform according to act, rules and regulations or not. So the government always moves for checking, inspections and audit of their books of accounts. If taxpayers are found doing illegal and fraud activities, they are subject to penalties. For example, a vendor will be required to pay liable tax plus up to Rs. 1000 or 10 percent of payable tax whichever is higher, if he fails to register before the commencement of his business. Penalty of non-issuance of invoice is Rs. 500 each time whereas the similar amount for the failure to keep the required information in account is up to Rs. 1000 each time. Similarly taxpayer that has committed fraud or tax evasion will be charged with a penalty not exceeding 100 percent of the amount of tax or six months jail or both.

2.4. Review of Related Studies

2.4.1. Review from Books, Articles and Journals Related

Khadka, Rup Bahadur, (1989), an expert of Nepalese tax system, in his book entitled “VAT in Asia Pacific region” writes VAT is the most recent innovation in the field of taxation. It is levied on the value added of goods and services. The tax as a broad based as it covers the value added to each commodity by a firm during all stages of production and distribution.

This book has covered all aspects of VAT including the nature of Vat, reasons for the growing popularity of VAT, development of VAT etc. This apart, the report examines the structure and operation of VAT in the Asian Pacific countries, which also explores the possibility of introducing VAT in Nepal. Probably he is the person of observer of VAT abroad and the firstly proposed VAT for Nepal with micro study of Nepalese economy and system.

Khadka in his latest book “The Nepalese Tax System” point out the need to introduce Vat in Nepal. In this 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 become less dependent on international trade taxes for revenue in the future. Since it will not be in position to levy import duties on trade that take place within the South Asian Association for Regional Co-operation (SAARC) region after the South Asian Free Trade Organization (WTO), which will also have to be considered in this context (Khadka, 2000).

Carl S. Shoup in his famous book “Public Finance” considers value added tax as the latest and probably the final stage in a historical development of general sales tax, which is impose on the value added by the business firms. VAT is the difference between sales proceeds and the cost of materials etc, purchased from other firms, which is the tax base of Vat. A firm adds value added by processing or handling these purchased items with its labor force and its own machinery, building or other capital goods. (Soup: 1999, p. 250-269)

Narayan Prasad Silwal (1999), in his book “Value Added Tax: A Nepalese Experience” had expressed his practical experience about VAT. The book covers all aspects of VAT. In writer’s word “VAT is an all-non-cascading tax system. It extends to all levels of production and distribution. Similarly it covers stages and services. Any discrimination taxing goods or services or exempting any of them renders VAT ineffective” (Silwal: 1999). The book mostly concentrates on Nepalese tax system. The book clearly analyze why the government of Nepal introduced VAT. HMG announced retail level sales tax at the rate of ten percent covering a whole range of goods and services. There was no procedural law to administer it. When RST introduce in Nepal, literacy level was just meager and billing and record keeping was fanciful. In this situation, required revenue could not take place which in turn into the development expenditures. So that a modern, efficient and neutral tax like VAT was, therefore, preferred to get rid of past anomalies.

The writer expressed a version by borrowing HMG declaration that “The government of Nepal does not have the option of doing nothing. Major changes have to be made in order to make tax administration fair, efficient and effective. The hostility, harassment and corruption that currently exist between the tax office and the business community must end if Nepal is to have a modern tax system. The business wants the system transparent and fair.”

Effective taxpayer service will include such programme as developing clear forms and instructions, providing points of contact to the public so that

people can request and secure information about their tax obligations, and developing educational programme to inform existing and potential taxpayers. A primary objective of taxpayer services is to inform the public of their duties that easily comprehensible by even the less educated taxpayers. A primary objective of taxpayer services is to inform the public of their duties that easily comprehensible by even the less educated taxpayers. Thus, it is essential that tax administrators conduct types of information campaigns for different types of taxpayers (e. g. accountants, special trade associations, and the public) to disseminate information on judicial decisions, rulings, regulations, and other notifications to foster a high level of compliance and minimize misunderstandings of the tax laws and regulations. (Le and etal, 1992)

A high-level task force headed by **Prof. Madan Kumar Dahal** (GON, 1995) to review Nepal's tax system has made some recommendations for a VAT in Nepal. In its report, the task force recommends for a VAT in the place of existing sales tax and small service based taxes as a long-term tax reform measure. The report has emphasized the introduction of VAT in Nepal to (a) broaden tax base and increase the tax revenue (b) make the tax system transparent and elastic (c) prevent tax evasion (d) make the tax system efficient and (e) encourage exports. The report has also emphasized that there are some other factors to be considered seriously before implementing a VAT. They are: (a) price level (b) equity (c) nature of the taxpayers (d) small taxpayers etc. The report recommends some necessary preparation to be undertaken before implementing a VAT such as drafting a law, developing an efficient and capable administration. A

functional organization pattern is recommended. The other recommendations to the task force are: development of an effective tax refund system, measures to increase self-compliance, taxpayer's services, computerization of the administration, research and development, a different type of personnel system, extensive taxpayers education programme etc.

Good taxpayer services and well-designed and targeted publicity campaign are crucial elements in encouraging taxpayers to comply voluntarily with the tax legislation. To facilitate voluntary compliance, the tax administration should provide taxpayers with consistent, impartial, courteous and prompt service. In many developing countries and countries with economics in transition, relatively simple measures, such as providing taxpayers with tax return forms, eliminating fees for receipt of tax payment by the banks, a common practice in some Eastern European countries and establishing taxpayer assistance counters in easily accessible locations in the tax administration would significantly improve taxpayer services. (Silvani and Catherine, 1997)

Shrestha, Sudeep (1999) in an article on "Consumers' awareness necessary for success of VAT" focuses on need of awareness regarding VAT among consumers. According to him, though Vat is paid by the consumers the no clarity of its effects on their purchase and sales of commodities have led to confusion. Moreover, the government has been accused of not taking any positive steps towards educating them. Due to their ignorance, as opposed to the government policy, consumers are forced to pay VAT in all purchases they make, common people are still ignorant of VAT. Since

consumers pay VAT, it is necessary for the government to educate them. It is necessary on the part of consumers to know about the goods and services that are VAT exempted not to be cheated by businessmen. Consumers also need to know the businessmen who are entitled to collect VAT and who are not.

Pandey, Mukti (1999) in an article “Value Added Tax: ON a New Path” also focuses on VAT awareness for the success of VAT system. According to him, the success of VAT system is not only the success of the VAT department but also the success of the VAT nation as a whole. The role of general media, radio, and national daily/weekly newspapers play is important in this context. Emphases should be given to mass public media instead of distributing booklets and return forms to taxpayer. Therefore, an environment of Vat awareness should be created covering the public, non-government and government organization.

2.4.2. Review of Related Dissertation

Sharma, Chintamani (1998), has examined several aspects of VAT administration such as its problems, constructions, possibilities, operation and other aspects. In his dissertation, he has found the following findings:

-) Most of the traders and businessman are lacked with the minimum concept of VAT. They are mainly facing pricing, billing and accounting problems.

-) An adequate VAT education programs are not conducted and VAT administration has also facing lack of administrative personnel.
-) The relation between government and business community is broken, which has been barrier to implement VAT successfully.
-) His suggestions to the government to implement VAT successfully in Nepal are as follows:
 -) The government should pay attention of design the strong administration.
 -) The government should try to produce gazette manpower and to train them well. The government should launch comprehensive education program.

At last, he concludes that VAT requires the strengthened administration for effective and efficient implementation. (Sharma, 1998)

Ghimire, Lalmani (1998), in his dissertation “Value Added Tax: Key Issue in Nepal” explains great importance for the effective implementation of VAT administrative capability in Nepal. Organizational structure, audit and inspection system, reward and punishment, political intervention, selection of skilled and experienced manpower are needed to improve for effective implementation of VAT. VAT is considered as a broad based tax and potential advantages of it can be attained fully if the tax is extended through retail level. For the period time, he suggested to improve following aspects: **i)** administrative power and creditability **ii)** identification of

taxpayers **iii**) registration **iv**) education programs **v**) incentives for small traders (Ghimire, 1998).

Bista, Raghu Bir (1999), in his research, focused the need of VAT for several reasons. They are effective revenue mobilization, industrial development, strong administration, transparency and avoiding all tax loopholes. VAT helps to reduce the resource gap by broadening the tax base and mobilizing additional resource by controlling tax leakage, smuggling, unofficial trade and corruption through transparency and account based cross checking. Positive and favorable effects of VAT on all sectors can be aliened only if government can operate the administration with effectively and efficiently.

In his research, the following findings can be gained:

-) The sales tax system is failure to several cases: narrow tax base, inelasticity of tax rate, incapable and weak administration tax leakage, corruption and political intervention. So, the entire tax reform is needed.
-) A VAT is account based, invoice based and record based; it checks the tax loopholes.
-) For implementation of VAT the public awareness level relating VAT and VAT administration should be good and it is a pre-requisite in the preparation of VAT (Bista, 1999).

Dhakal, Arjun (2000) in his dissertation analyzed the Nepalese tax structure along with the basic emphasis and historical background and potential revenue of VAT in Nepal. The increasing trend of resource gap of Nepal is forcing the country to debt trap situation. Domestic resource mobilization through the properly designed tax system is the best way to uplift the situation. In this process, Nepal is adopted the destination based, consumption type VAT operated by tax credit method. VAT encourages investment, supports economic growth and keeps price stable. Exemption and zero rating reduced the regressivity of VAT, however, it makes the administration complex. The study found that VAT is unable to compete the existing sales tax mainly due to the minimum use of invoice by sellers and as well as having no interest to obtain invoices by purchasers. Elasticity and buoyancy of Nepalese tax system are very low. Further, they are decreasing in recent years. VAT, more attractive from the theoretical as well as empirical aspects, is being, hot milk in mouth from practical viewpoint mainly due to the inefficient tax administration. Hence, the introduction of the VAT is not fulfillment of the requirement and VAT system itself has a great need of reforming in the Nepalese context. (Dhakal, 2000)

Subedi Khusi Ram, (2005) in his dissertation “Implementation and Effectiveness of VAT in Nepal” explains monitoring system of the VAT administration is not effective, because of this; taxpayers are still encouraged for tax evading practice. Many businessmen don not issue invoice for their selling and even to follow the other importer invoice so an effective and efficient auditing, investigation and monitoring system should be developed.

He further explains that the VAT administration should be kept free from any sort of intervention or influences from the outside. Honest and capable person should be selected for key position. Training of the tax personal should be kept at the top most priority. A good working environment should be created inside the administration, reward and punishment system should be strictly followed as a major guideline of conducting administration. Tax officials should closely be monitored for any kind of misdeeds.

2.5. Research Gap

Anout ten years have already been passed since VAT come into operation but very few studies had be undertaken on the topic of VAT in the Nepaeales context and most of the studies were related with theoretical aspects. They mainly focus on the revenue portion of Vat. However, such special study related to awareness regarding VAT has been limited. In this study, the researcher has attempted to evaluate the contribution of VAT to the government revenue and public awareness regarding VAT as well as taking the major market area of Kathmandu City by conducting field survey, n order to know somehow about the practical experience of VAT. So this study will be fruitful to those interested persons, students, scholars, teachers, businessmen and government for academically as well as policy perspective.

Chapter – 3

Research Methodology

This study is undertaken to assess the taxpayer's awareness regarding VAT and effectiveness of VAT in revenue collection in Nepal. Therefore, the main concentration of the study is to identify the level of knowledge and information about VAT and its invoicing system. For achieving these objectives, both primary as well as secondary sources of data were used in the study. Opinion survey technique was adopted while collecting primary data to find out the viewpoints of respondents representing different groups related to VAT. While conducting the opinion survey, Questionnaires were distributed to the tax experts, VAT officials, businessmen, and consumers as per necessity.

3.1. Research Design

VAT is a new concept of tax in the present context of Nepalese economic system so still sufficient information is not available for an intensive study. Most of the data information of this study was concerned with present as well as past phenomena either they are numerical or opinions. For an empirical research, an opinion survey has been conducted through structured questionnaire with reference to VAT system of Nepal. Hence, the research methodology followed in the study can be termed as survey com analytical research design.

3.2. Population and Sample

The overall administration of Inland Revenue was targeted towards many internal revenues like income tax, and excise duty. The IRD and its 22 frontline Inland Revenue offices were being engaged in tax collection. In course of this study, 60 samples size from Kathmandu has been selected. Persons included in the sample are carefully selected by consultation with tax experts, professor and judgment of the researcher. The respondents have been divided into four groups. The following table shows the group of respondents and the size of samples:

Group of Respondents and Size of Sample from Each Group

Serial Number	Group of Respondents	Sample Size
1	Tax Experts	9
2	Tax Officials	9
3	Businessmen/traders	15
4	Consumers	27
	Total	60

3.3. Sources of Data

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

- a) **Primary Data:** To collect primary data, a set of questionnaire was developed and distributed to the selected respondents in order to get accurate and actual information. In this course opinions were sought from tax authorities, and taxpayers i. e. businessmen, and consumers.
- b) **Secondary Data:** Secondary data are collected from following sources:
 -) Published documents from MOF and economic survey
 -) Publication of IRD and NRB
 -) Different relevant websites
 -) Publication of books reports and seminar paper of different institutions, e. g. FNCCI, IMF etc
 -) Publication of VAT projects CBS
 -) Daily, weekly and monthly newspapers and magazines, which are related to the research
 -) Budget speech of Nepal Government of various years

) Other related records and data relevant to the study

3.5. Methods of Presentation and Analysis of Data

The information, received from different sources, has been firstly tabulated into separate formats systematically in order to achieve the desired objectives. After that, the data has been tabulated and analyzed. For the purpose of analysis, generally the following tools have been used:

1. Statistical tool (as per need)
2. Percentage
3. Tabulation and trend presentation
4. Other i.e. graphs, charts and diagrams as needed

Chapter – Four

Presentation and Analysis of Data

4.1. Revenue Structure of Nepal

The total revenue of government of Nepal is collected from tax and non-tax structures. The tax revenue, which is compulsory sacrifice of the people, can be divided into two components, direct and indirect taxes. The composition of total revenue collection of Nepal from the fiscal year 1996/97 to 2006/07 is shown in the table below:

Table 4.1**Composition of Total Revenue Collection of Nepal from the
Fiscal Year 1996/97 to 2006/07**

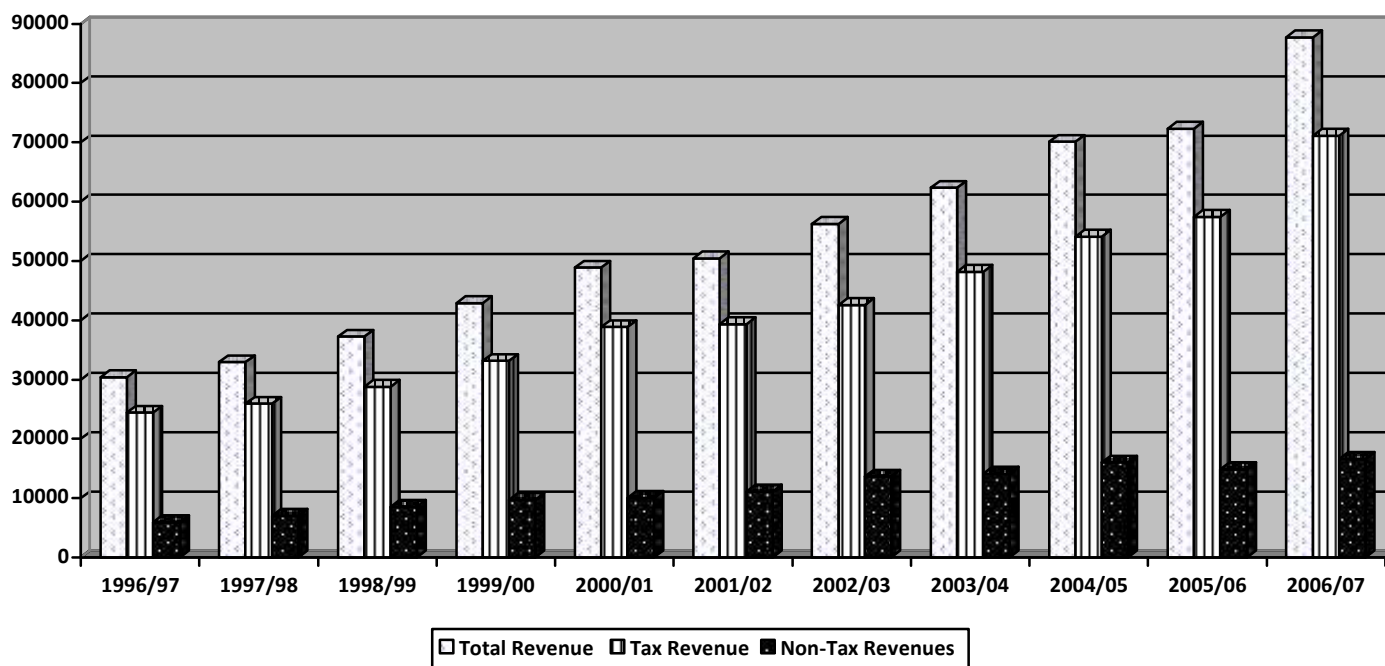
Fiscal Year	Total Revenue	Tax Revenues		Non-Tax Revenues	
		Rs. (In Million)	%	Rs. (In Million)	%
-	-				
1996/97	30373.50	24424.30	80.41	5949.20	19.09
1997/98	32937.90	25939.80	78.75	6998.10	21.25
1998/99	37251.30	28752.90	77.9	8498.40	22.81
1999/2000	42893.80	33152.10	77.29	9741.60	22.71
2000/01	48893.60	38865.10	77.97	10028.80	20.51
2001/02	50445.50	39330.60	75.74	11115.00	22.03
2002/03	56229.80	42587.00	74.54	13642.70	24.26
2003/04	62331.00	48173.64	77.29	14158.41	22.71
2004/05	70122.00	54104.70	77.16	16018.00	22.84
2005/06	72282.10	57430.4	79.45	14851.70	20.54
2006/07	87711.20	71126.70	81.09	16585.5	18.91
Average			77.96		9.79

Source: Economic Survey, 2007/08, MOF, GON

Note: Numerical Value is Taken Exactly from Economic Survey, 2007/08.

Fig. 4.1

Trend and composition total revenue in Nepal for FY 1996/97 to 2006/07



Source: Economic Survey, 2007/08, Ministry of Finance (MOF), GON

Note: Numerical Value is Taken Exactly from Economic Survey, 2007/08

The above table and bar diagram shows the composition of Nepal's total revenue, which constitutes tax and non-tax revenue from the fiscal year 1996/97 to 2006/07. The share of tax revenue has always been greater than the share of non-tax revenue. The average share of tax revenue for the period

1996/97 to 2006/07 was 77.96 percent and the average share of non-tax revenue was 19.97 percent.

From the fiscal year 1996/97 to 2006/07, the amount of tax revenue is found in increasing every year with the amount of Rs. 30373.5 million to Rs. 87711.2 million but the figure of in percentage of tax revenue in the total revenue has been found fluctuating in different years. From fiscal year 1996/97 to 2004/05 the percentage contribution of tax revenue to total revenue has been decreased but it has increased from 77.16 percent in fiscal year 2004/05 to 81.09 percent in fiscal year 2006/07.

Likewise , the trend of non-tax revenue collection was also increased from Rs. 5949.20 million to Rs. 1658.5 million during the period of 1996/97 to 2006/07, though percentage wise it has been fluctuating. This indicates that the role to tax revenue is very important of Nepal. Tax revenue has been placed a major source of government revenue in Nepal.

4.2. Tax Revenue Structure of Nepal

Tax revenue refers to the total sum of direct and nondirective tax revenue. So, the total tax revenue is composed of direct and indirect tax revenue. The tax composition is known as direct and indirect tax.

Tax revenue is one of the principle sources of the government revenue, is a compulsory contribution imposed by a public authority respective of the exact amount of service rendered to the taxpayers is return. It covers theoretically and practically includes following heads such as

persons, organizations business firms and even foreigners who are doing business of consuming goods or using service in Nepal.

The trend and composition of tax revenue for the fiscal years 1996/97 to 2007/07 are given in the table below:

Table 4.2

**Trend and Composition of Tax Revenue of Nepal from Fiscal Year
1998/99 to 2006/07**

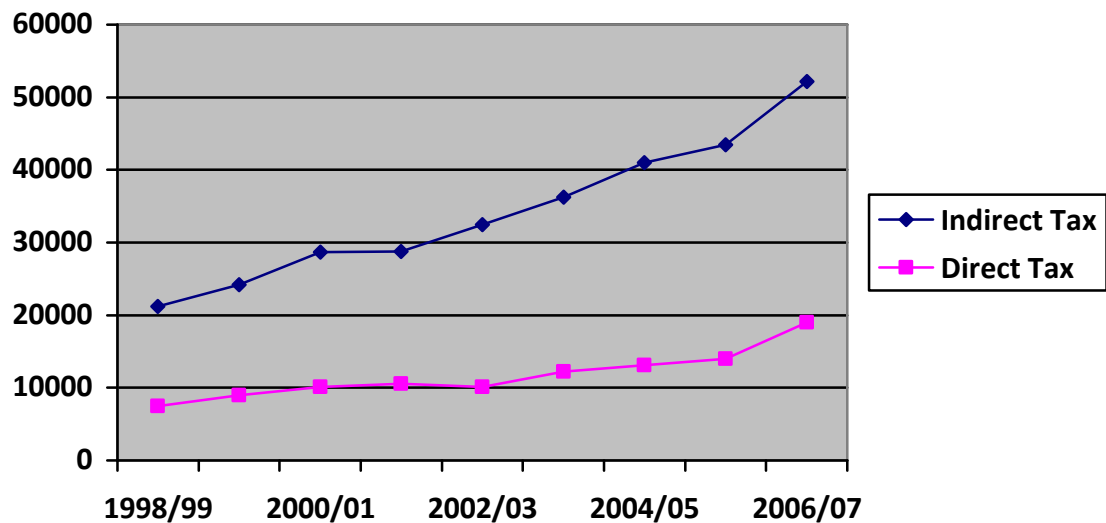
Fiscal Year	Total Revenue	Direct Tax		Indirect Tax	
		Amount (in million)	% total tax revenue	Amount (in million)	% total tax revenue
1998/99	28752.9	7515.4	26.14	21236.8	73.86
1999/00	33152.1	8915.5	27.00	24200.7	73.00
2000/01	38865.1	10159.4	26.14	28705.7	73.86
2001/02	39330.6	10597.4	26.54	28733.1	73.06
2002/03	42587.0	10101.8	23.73	32481.2	76.27
2003/04	48173	12213.4	25.35	36260.4	75.27
2004/05	54104.7	13071.8	24.16	41032.9	75.84
2005/06	57430.4	13968.1	24.32	43462.3	75.68
2006/07	71126.7	18980.3	26.69	52146.4	73.31
Average			25.54		74.46

Source: Economic survey 2007/08, Ministry of Finance (MOF), GON

Note: Numerical Values are taken exactly from Economic Survey, 2007/08.

Figure 4.2

Trend of Direct and Indirect Tax Revenue



Source: Economic survey 2007/08, Ministry of Finance (MOF), GON

Note: Numerical Values are taken exactly from Economic Survey, 2007/08.

When we analyze and see the above table and trend line, we can easily say that the completely Nepalese tax structure is dominated by indirect tax revenue. However, share of indirect tax as percentage of the total tax revenue is decreasing continuously. In the similar manner, share of direct tax to total tax revenue is increasing in subsequent years. The average share of direct tax revenue in total revenue for the period 1998/99 to 2006/07. Was 25.54 percent and the share of indirect tax revenue was 74.46 percent. The

volume of direct tax and indirect tax was Rs. 7515.4 million and Rs. 21236.8 million e. e. 26.14 percent and 73.86 percent of total income respectively in the fiscal year 1998/99. The amount of direct tax revenue is increasing every year as it increased from Rs. 7515.4 million to Rs. 18980.3 million in 1998/99 to 2006/07. The amount of indirect tax revenue is also in increasing trend. It has increased from Rs. 2123.8 million in FY 1998/99 to Rs. 52164 million in 2006/07. The percentage contribution of indirect tax to total tax revenue is fluctuating from year 1998/99 to 2006/07. The contribution of indirect tax revenue to total tax revenue was minimum 73 percent, in year 1999/00 and maximum, 76.27 percent in fiscal year 2001/03.

4.3. Empirical Studies

For most of the research work, empirical studies play a vital role to find out the actual status of research subject matters. There have been various empirical studies conducted before and after the implementation of VAT system in Nepal. It is viewed that this system has not been implemented effectively as expected. There was a strong opposition from the business community during the implementation period of VAT. In the beginning period of implementation, there was lack of skilled and trained manpower and officials. Administrative structure was also not set up properly. However, in present context, different informative programs, seminars and meeting are held to make the businessmen, consumers and public aware to the VAT.

For the purpose of survey, questionnaire were prepared to know the opinion of various people from different fields including tax experts, tax officials, businessmen/traders and consumers about various aspects of VAT. The result and interpretation of the empirical studies scan be presented as follows:

4.3.1 Views on Knowing about VAT

Proper knowledge about VAT is very important to implement VAT effectively. To know whether the respondents are introduced to VAT or not, a question, “Do you know, what VAT is?” was asked. The survey provided the following results:

Table 4.3

Views on What VAT is

Responses	A		B		C		Total
	No	%	No	%	No	%	No
Tax Officials	-	-	9	100	-	-	9
Tax Experts	-	-	9	100	-	-	9
Businessmen/Traders	-	-	9	100	-	-	15
Consumers	5	33.33	8	53.033	1	6.67	27
Total	5	16.67	47	78.33	3	5	60

A = A kind of income tax

B = A kind of sales tax

C = No idea

Source: Opinion Survey, 2008

Survey results shows that the most of the respondents are familiar to VAT. It is revealed that 78.33% of the total respondents know about VAT as they responded saying that VAT is a kind of sales tax. It included 100% tax officials and tax experts each, 53.3% businessmen/traders and 77.78% consumers. However 21.67% of respondents are not familiar with VAT, as

33.33% businessmen and 7.40 consumers responded that they have no idea about VAT.

It can be concluded that though majority of people are introduced to VAT, awareness is still required for consumers.

4.3.2 Views on Introduction of VAT in Nepal

To know the respondents knowledge on the time of introduction of VAT in Nepal, a question, “When was VAT introduced in Nepal?” was asked. The survey result on this aspect can be presented below:

Table 4.4

Views on Introduction of VAT in Nepal

Responses	A		B		C		D		Total
	No	%	No	%	No	%	No	%	No
Tax Officials	-	-	9	100	-	-	-	-	9
Tax Experts	-	-	9	100	-	-	-	-	9
Businessmen/Traders	2	13.3 3	12	80	-	-	1	6.67	15
Consumers	3	11.1 1	23	85.1 9	-	-	1	3.70	27
Total	5	8.33	52	860 67	-	-	2	3.33	60

A = Many years ago

B = Some years ago

C = Recently

D = No idea

Source: Opinion Survey, 2008

According to the field survey, in total 86.67% of the respondents were familiar with the time of introduction of VAT in Nepal as they responded saying some years ago. It included 100% tax officials and tax experts each, 80% businessmen and 23% consumers. Similarly, 8.33% of the respondents responded as many years ago. However, 3.33% respondents replied that they have no idea regarding the introduction time of VAT in Nepal. This result shows though majority of the people know about the introduction of VAT in Nepal, awareness program may help to increase this percentage.

4.3.3 Views on Real Taxpayer of VAT

To know the respondents view regarding the real taxpayer of VAT the question was put, “In your opinion, who is the real taxpayer of VAT?” opinion result is summarized in the table below:

Table 4.5**Views on the Real Taxpayer of VAT**

Responses	A		B		C		Total
	No	%	No	%	No	%	No
Tax Officials	9	100	-	-	-	-	9
Tax Experts	9	100	-	-	-	-	9
Businessmen/Traders	11	73.33	4	26.67	-	-	15
Consumers	22	81.48	5	18.52	-	-	27
Total	51	85	9	15	-	-	60

A = Consumers

B = Businessman

C = No idea

Source: Opinion Survey, 2008

Survey results shows that 100% tax officials and tax experts each opinioned consumers as the real taxpayer of VAT. Similarly, 73.33% businessmen and 81.48% consumers also provided their views on consumer as the real taxpayer of VAT. Whereas 26.67% businessmen and 18.52% consumer presented that businessmen are the real taxpayer of VAT. This

concludes that majority of the respondents are known with the real taxpayer of VAT.

4.3.4 Views on Current Rate of VAT

To know whether the respondents know the current rate of VAT in Nepal a question, “Do you know what the current rate of VAT in Nepal is?” was asked. The respondents responded as follows:

Table 4.6

Views on the Current Rate of VAT

Responses	A		B		C		D		Total
	No	%	No	%	No	%	No	%	No
Respondents									
Tax Officials	9	100	-	-	-	-	-		9
Tax Experts	9	100	-	-	-	-	-		9
Businessmen/Traders	12	80	2	13.33	-	-	1	6.67	15
Consumers	18	66.67	7	25.93	-	-	2	7.41	27
Total	48	80	9	15	-	-	3	5	60

A = 13%

B = 12%

C = 11%

D = Don't know

Source: Opinion Survey, 2008

According to the above schedule, 100% tax officials and tax experts, 80% businessmen and 66.67% consumers know the current rate of VAT in Nepal as they responded the VAT rate as 13%. However, 3.33% businessmen and 25.93% consumer responded that the current VAT rate is 12%. Similarly, 5% of the total respondents including 6.67% businessmen and 7.41% consumers presented their view as no any idea about the current rate of VAT. This shows the need of awareness programme for public.

4.3.5 Views on Introduction to Invoicing System

For the effective implementation of VAT system, the provision of issuing tax invoice at the time of sales should be understood by these four parties. With the increase in the level of knowledge on the part of consumer, businessmen and tax officials about the invoicing system will lead to the success of VAT system. To know the taxpayers level of introduction to invoicing system a question was asked, “Do you ask for the tax invoice after purchasing goods or services?” the survey result on this aspect can be presented as below:

Table 4.7**Views on Asking Tax Invoice After Purchasing Goods and Services**

Responses	A		B		Total
	No	%	No	%	No
Tax Officials	9	100	-	-	9
Tax Experts	9	100	-	-	9
Businessmen/Traders	13	86.87	2	13.33	15
Consumers	22	81.48	5	18.52	27
Total	53	88.33	7	11.67	60

A = Yes

B = No

Source: Opinion Survey, 2008

The survey result shows that 100% tax officials and tax experts ask for tax invoice after purchasing goods or services. Similarly, 86.67% businessmen and 81.84% consumers ask for invoice while purchasing goods or services. However, 13.33% businessmen and 18.52% consumers do not ask for tax invoice after purchasing goods and services. The outcome shows that still awareness programme is necessary to increase the level of taxpayers towards VAT and its invoicing system.

4.3.6 To know the reasons behind asking tax invoice after purchase of goods or services a question, “If yes, why do you ask such invoice at the time of purchase of goods and services?” was asked. The respondents provided different views, which are presented as follows:

Table 4.8

Views on Reasons behind Asking Tax Invoice after Purchase of Goods and Services

Responses	A		B		C		D		E		F		Total
	No	%	No	%	No	%	No	%	No	%	No	%	No
Respondents													
Tax Officials	-	-	6	66.67	-	-	1	11.11	-	-	2	22.22	9
Tax Experts			8	88.88			-		-	-	1	11.11	9
Businessmen/Traders			4	30.76			1		8	61.54	-	-	15
Consumers			15	68.18	7	31.82	-		-	-	-	-	27
Total			33	62.26	7	13.20	2		8	15.09	3	5.66	60

A = Just so

B = To get the authenticity of the seller

C = To show the price of the commodity to my family

D = To participate in Consumer Awareness Gift Program (CAGP)

E = To show it to the auditor

F = Others

Source: Opinion Survey, 2008

According to the above schedule, 66.67% tax officials and 88.88% tax experts, 30.76% businessmen, 68.18% consumers said that they ask for tax invoice to get the authenticity of seller. Similarly, 31.82% consumers ask for tax invoice to show it to their family. Likewise, 11.11% tax officials and 7.69% businessmen ask tax invoice to participate in CAGP. In the same way, 61.54% businessmen in total ask tax invoice to show it to the auditor. However, in total 5.66% respondents including 22.22 % tax officials and 11.11% tax experts replied that they ask tax invoice after purchase of goods and services to get the money in the government treasury.

It can be concluded that 62.26% the respondents of the survey ask tax invoice to get the authenticity of seller.

4.3.7 Views on Being Known to VAT

A question was asked to the respondents regarding how they came to know about VAT. The survey result on this aspect is presented below:

Table 4.9

Views on Being Known to VAT

Responses	A		B		C		D		Total
	No	%	No	%	No	%	No	%	No
Respondents							0		
Tax Officials	-	-	-	-	-	-	9	100	9
Tax Experts	-	-	-	-	-	-	9	100	9
Businessmen/Traders	11	73.31	2	13.33	1	6.67	3	20	15
Consumers	20	74.07	2	7.41	2	7.41	3	11.11	27
Total	31	51.67	2	3.33	3	5	24	40	60

A = From media (Radio/Television/Paper)

B = From friends

C = From tax administrator

D = Others

Source: Opinion Survey, 2008

According to the survey 100% tax officials and tax officials and tax experts each presented their view that they came to know about VAT through studying laws act, rules and regulations. Similarly, 20% businessmen and 11.11% consumers also viewed that they came to know about VAT studying books. In the same way, 51.67% of the respondents including 73.11% businessmen and 74.07% consumers came to know about VAT through media i.e., radio, television and paper etc. however, 3.33% of respondents including 6.67% businessmen and 7.41% of consumers came to know about VAT through friends and 5% of respondents including 6.67% businessmen and 7.41% consumers came to know about VAT from tax administrator. This concludes that most of the respondents came to know about VAT through media and studying books, rules and laws. It can be said that media is one of the most reliable means for increasing consumer awareness among consumers.

4.3.8 Views on Whether VAT is the Extra Burden to Taxpayers and Increases Price of Goods:

It has been felt that tax is an extra burden for taxpayers and it will increase the price of goods and services. Moreover, taxpayers feel that the collected tax by the government is expended on the unproductive sector therefore, Nepalese taxpayers are worried about the increasing burden of tax on them. The field survey conducted to find out views of different respondents on burden of Vat resulted as follows:

Table 4.1.

Views on VAT as the extra burden to taxpayers and increasing the price of goods

Responses	A		B		C		Total
	No	%	No	%	No	%	No
Respondents							
Tax Officials	6	66.67	3	3.33	-	-	9
Tax Experts	6	66.67	3	3.33	-	-	9
Businessmen/Traders	11	73.33	4	26.67	-	-	15
Consumers	17	62.96	8	29.63	2	7.41	27
Total	39	65	19	31.67	2	3.33	60

A = Yes

B = No

C = No idea

Source: Opinion Survey, 2008

The above table shows that 66.67% tax officials and tax experts each, 73.33% businessmen and 62.96% consumers feel tax as the extra burden to taxpayer and increases the price of goods and services. Similarly, 39.63%

consumers feel that VAT is not an extra burden to taxpayers and increasing the price of goods and services. However, 7.41% consumers said that they have no idea regarding the question.

4.3.9 Views on Effect of VAT in Nation’s Economic Growth

During the field survey a question, “What effect will have VAT in nation’s economic growth?” was asked to know the views of respondents about the effect of VAT on economic growth of the nation. The survey resulted as follows:

Table 4.11

Views on Effect of VAT in Nation’s Economic Growth

Responses	A		B		Total
	No	%	No	%	No
Respondents					
Tax Officials	9	100	-	-	9
Tax Experts	9	100	-	-	9
Businessmen/Traders	15	100	-	-	15
Consumers	25	92.59	2	7.41	27
Total	58	96.67	2	3.33	60

A = Positive

B = Negative

Source: Opinion Survey, 2008

The survey result shows that 96.67% of the total respondents including 100% each of tax officials, tax experts and businessmen and 92.59% consumer responded that VAT has positive effect in nation's economic growth. However, only 7041% consumers viewed that VAT has negative effect in nation's economic growth. This concludes that majority of people have positive attitude towards VAT.

4.3.10 Views on Public Awareness Regarding VAT

Views were collected from different respondents to know the level of awareness regarding VAT among public. For this a question was asked, "Do you think that public are fully aware of VAT in Nepal?" the field survey resulted the following outcomes:

Table 4.12**Views on Public Awareness Regarding VAT**

Responses	A		B		C		Total
	No	%	No	%	No	%	No
Respondents							
Tax Officials	-	-	9	100	-	-	9
Tax Experts	6	66.67	9	100	-	-	9
Businessmen/Traders	11	73.33	13	86.87	2	13.33	15
Consumers	-	-	22	81.48	5	18.52	27
Total	-	-	53	88.33	7	11.67	60

A = Yes fully

B = Little bit

C = Not at all

Source: Opinion Survey, 2008

From the above table, 100% tax officials and tax experts each, 86.67% businessmen and 81.48% consumers feel that public is little bit aware of VAT. Similarly, 13.33% businessmen and 18.52% consumer feel that public is not at all aware of VAT in Nepal.

In conclusion, majority of people feel that public is only little bit aware of VAT in Nepal. Hence, awareness programme is essential for the effectiveness of VAT system in Nepal in future.

4.3.11 Views on Reasons behind being Against VAT and Non-maintaining Account:

In order to know the reasons behind being against VAT and non-maintaining account the next question was asked, “What are the reasons behind being against VAT and non-maintaining accounts?” the respondents were requested to rank their responses from 1 to 6 according to preference. The response received from respondents is tabulated below:

Table 4.13**Ranks of the Reason of being Against VAT and Non-maintaining Accounting**

Reasons	Ranks						Total
	1	2	3	4	5	6	
Lack of knowledge of VAT	25	15	10	5	2	3	60
Difficult accounting procedures	5	3	12	15	15	10	60
Problems of billing and in voicing system	3	20	13	10	12	2	60
Problems on audit and administrative work	2	6	8	18	21	5	60
It is the extra burden of tax	3	8	6	4	8	31	60
Negative attitude towards VAT	10	10	12	10	2	8	60
	Total						60

Table 4.14

**Weighted Value and Mean Value of Ranks for the Reason of being
Against VAT and Non-maintaining Account**

Reasons	Weighted value	Mean value	Overall ranks
Lack of knowledge of VAT	287	4.78	I
Difficult accounting procedures	178	2.97	IV
Problems of billing and invoicing system	226	3.77	III
Problem on audit and administrative work	173	2.88	V
It is the extra burden of tax	141	2.35	VI
Negative attitude towards VAT	248	4.13	II

From the above table 4.13.1, the major reason of being against VAT and non-maintaining account ranked in order of preference are as follows:

- a) Lack of knowledge of VAT
- b) Negative attitude towards VAT
- c) Problems of billing and invoicing system
- d) Difficult accounting procedures
- e) Problem on audit and administrative work

f) It is the extra burden of tax

4.3.12 Views on Problems of VAT in Nepal at Present

In order to know the problems of VAT in Nepal the next question was asked, “What are the problems of VAT in Nepal at present?” The respondents were requested to rank their responses from 1 to 7 according to preference. The response received from respondents is tabulated below:

Table 4.15**Ranks of the Problems of VAT in Nepal**

Reasons	Ranks							Total
	1	2	3	4	5	6	7	
Problem on billing system	8	8	23	7	7	5	2	60
Problem of open boarder with India	8	14	12	10	12	2	2	60
Weak government economic policy	11	10	4	13	5	15	2	60
Difficult accounting procedure	2	5	5	12	20	6	10	60
Lack of awareness in public	28	18	6	4	3	1	0	60
Lack of proper co-ordination between the taxpayers and tax administration	2	10	8	12	8	18	2	60
Problem on tax refund	1	1	2	4	8	6	38	60
	Total							60

Table 4.16

Weighted Value and Mean Value of Ranks for the Views on Problems of VAT in Nepal at Present

Reasons	Weighted value	Mean value	Overall ranks
Problem on billing system	280	4.67	III
Problem of open boarder with India	282	4.70	II
Weak government economic policy	256	4.27	IV
Difficult accounting procedure	199	3.32	VI
Lack of awareness in public	361	6.02	I
Lack of proper co-ordination between the taxpayers and tax administration	224	3.73	V
Problem on tax refund	113	1.88	VII

From the above table 4.14.1, the major problems of VAT in Nepal at present ranked in order of preference are as follows:

- a) Lack of awareness in public
- b) Problem of open boarder with India
- c) Problem on billing system

- d) Weak government economic policy
- e) Lack of proper co-ordination between the taxpayers and tax administration
- f) Difficult accounting system
- g) Problem on tax refund

4.3.13 Views on the Government Focus on to Operate VAT System Effectively:

The respondents were requested to present their views on what the government should focus for effective operation of VAT system. The views of different respondents are tabulate below:

Table 4.17**Views on the Government Focus on to Operate VAT System Effectively**

Responses	A		B		C		D		E		Total
	No	%	No	%	No	%	No	%	No	%	No
Respondents											
Tax Officials	-	-	-	-	8	11.11	1	11.11	-	-	9
Tax Experts	-	-	-	-	8	11.11	1	11.11	-	-	9
Businessmen/Traders	7	46.67	1	6.67	3	20	3	20	1	6.67	15
Consumers	5	18.62	1	3.70	18	66.67	3	11.11	1	3.70	27
Total	12	20	2	3.33	37	61.67	8	13.33	2	3.33	60

A = Improve government policy

B = reforms in law

C = Motivation to registration in VAT

D = Develop the co-ordination with private sectors

E = No Idea

Source: Opinion Survey, 2008

According to the survey result, majority of the respondents give their opinion that the government should give more emphasis on motivation to registration in VAT, in order to operate VAT system effectively. In total 60 respondents 61.67% respondents viewed, the motivation to registration in VAT can result in effective operation of VAT system. Similarly, 20% respondents gave emphasis on improving government policy, 3.33% gave focus on reforms in law to operate VAT system effectively. In the same way 13.33% of the respondents viewed that the government should develop the co-ordination with private sectors to operate VAT system effectively. However, 3.33% of respondents responded that they have no any ideas regarding the question. Hence, it can be concluded that the major focus of government should be on motivation to registration in VAT for the smooth operation of VAT system.

4.3.14 Views on New Programme to be Launched by Government for Increasing Awareness Regarding VAT

This research was intended to identify the education level of taxpayer regarding VAT. So attempt was made to collect views from different respondents regarding programme to be launched by the government for increasing consumer awareness in VAT. The opinions on this aspect are presented as under:

Table 4.18

**Views on New Programme to be Launched by Government for
Increasing Awareness Regarding VAT**

Responses	A		B		C		D		E		Total
	No	%	No	%	No	%	No	%	No	%	No
Respondents											
Tax Officials	2	22.22	2	22.22	1	11.11	3	33.33	1	11.11	9
Tax Experts	3	33.33	2	22.22	1	11.11	3	33.33	-	-	9
Businessmen/Traders	8	53.33	-	-	-	-	7	46.47	-	-	15
Consumers	14	51.58	3	11.11	2	7.41	8	29.63	-	-	27
Total	28	46.47	7	11.66	4	6.67	21	35	1	1.67	60

A = Inclusion of Tax Education from school curriculum

B = Organize seminars and workshop on VAT matters for tax

C = Organize different types of information campaign

D = Disseminate information through media

E = Others

Source: Opinion Survey, 2008

The field survey shows that, 46.67% of total respondents viewed that government should bring the program of including TAX education from

school curriculum to increase consumer awareness in VAT. Similarly 10% respondents focused on organizing seminars and workshop on VAT matters for taxpayers and 6.67% respondents focused on organizing different information campaign to increase consumer awareness. In the same way, 35% of the respondents presented their view to disseminate information through media. Remaining 1067% focused on promotion of tax education in Nepal in order to increase consumers' awareness. Then we can conclude that taxpayers' awareness programme is necessary to increase consumers' awareness regarding VAT in Nepal either it is through the inclusion to tax education from school curriculum, organizing seminars and workshop or information campaign, or disseminate information through media. However, the major focuses of respondents are on tax education from school curriculum and next on disseminate information through media.

4.4 Analysis of Secondary Data

4.4.1 Trend of VAT Registration

The operation of VAT in Nepal starts with addressing the sales tax registrants to register in the VAT department according to VAT act, these with an annual transaction above the VAT threshold must be registered in VAT but not those required registering with VAT but they can join in VAT voluntarily.

When VAT was introduced in 1997/98, there was strong opposition from the business community. However, during the 10 years of VAT

implementation, a number of tax pays awareness programme have been launched. Massive taxpayer information has been published and aired through media and newspaper. Because of these efforts, there is increasing trend of VAT registration every year. The trend of the VAT registration is shown in the following table.

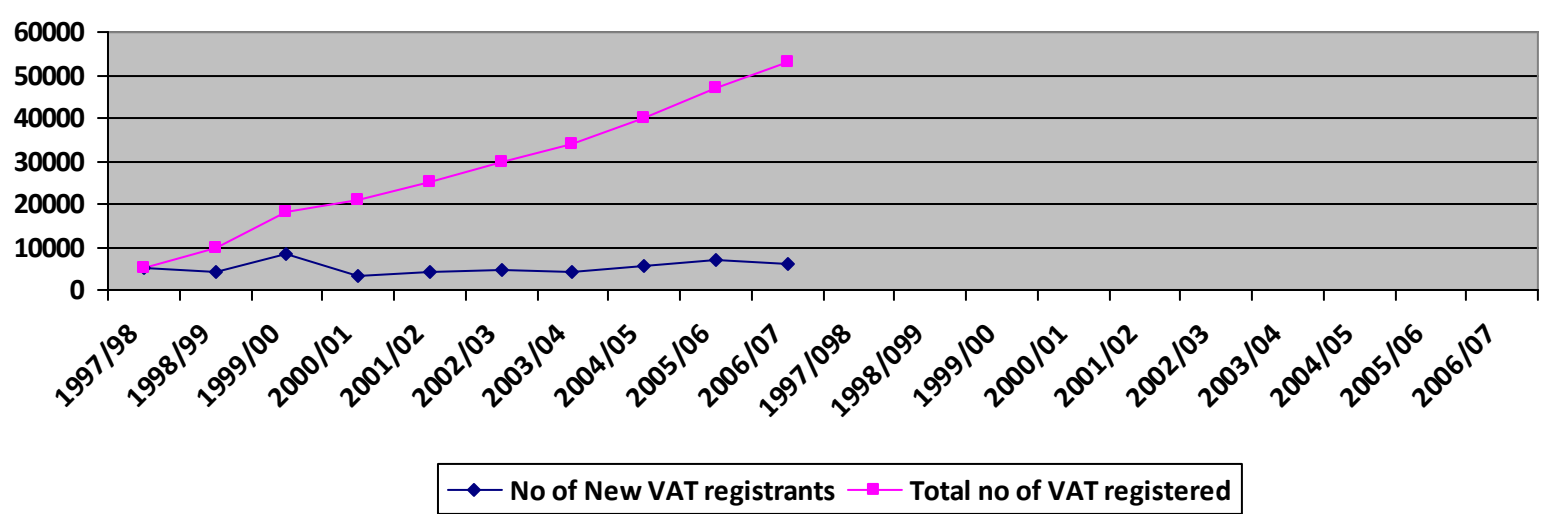
Table 4.19**Trend of VAT Registrants**

Fiscal Year	Number of new VAT registrants	Total number of VAT registrants	Growth Percentage
1997/98	5237	5237	-
1998/99	4405	9642	84
1999/00	8305	17947	86
2000/01	3146	21053	17
2001/02	4056	25149	19
2002/03	4723	29872	18
2003/04	4302	37174	14
2004/05	5602	39776	16
2005/06	7055	46831	18
2006/07	6134	52965	13
Average Growth			28.50

Source: Annual report, IRD, 2007/08, Kathmandu

Fig. 4.3

Trend of VAT Registrant



The above table and diagram shows that the total number of VAT registrants in 1997/98 was 5237 and it reached 9642 in the fiscal year 1998/98. During the ten years period, the number of VAT registrants increased

From 5237 in the fiscal year 1997/98 to 52965 in the fiscal year 2006/07 by more than 10 folds. This shows that the trend of VAT registration is satisfactory though the average growth rate is only 28.5 percent.

4.4.2 Composition of VAT Revenue

The total VAT collection can be divided into two parts: domestic and imports. The current trends show that about one-third of total VAT revenues

come from domestic products and two-third from imports. The following table represents the composition of VAT revenue:

Table 4.20

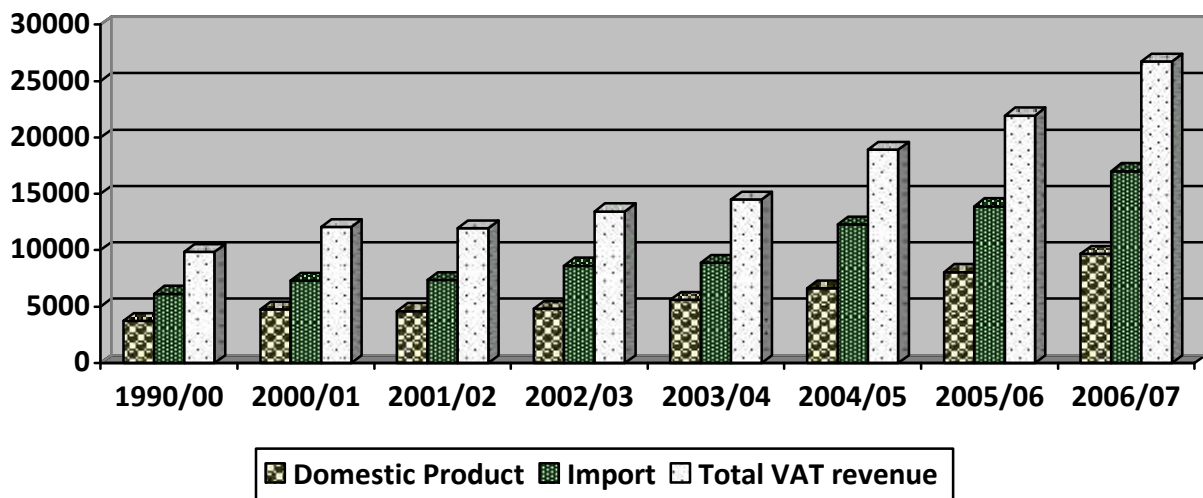
Composition of VAT Revenue (Rs. In Millions)

Fiscal	Domestic product		Import		Total VAT revenue
	Amount	Percent	Amount	percent	
1999/00	3720.0	37.07	6130.0	62.23	9850.0
200/01	4744.7	39.00	7303.1	61.00	12047.8
2001/02	4608.4	39.00	7339.6	61.00	11948.0
2002/03	4819.6	35.84	8629.5	64.16	13449.1
2003/04	5604.1	38.71	8874.8	61.29	14478.9
2004/05	6624.3	35.06	12270.3	64.94	18894.6
2005/06	8075.4	36.71	13888.6	63.29	21946.0
2006/07	9690.0	36.29	17014.2	63.71	26704.2

Source: Annual report, IRD 2007/08, Kathmandu

Figure 4.4

Composition of VAT Revenue



According to the above table and figure, the share of domestic products and imports in total VAT revenue in the fiscal year 1999/2000 was 37.77 percent and 62.33 percent respectively whereas 39 percent and 61 percent respectively in fiscal year 2000/2001. Similarly, in fiscal year 202/2003, the share of domestic products and imports was 35.84 percent and 64.16 percent respectively and 38.71 percent and 61.29 percent and 61.29 percent respectively in fiscal year 2003/04. Likewise, in the fiscal year 2006/07, the contribution of domestic products and imports to the total VAT revenue was 36.29 percent and 63.71 percent respectively.

4.4.3 Trend of Revenue Collection from VAT

VAT is an essential tool of revenue collection in Nepalese economy. It is the best form of sale tax, which will generate more revenue with less distortion because of its broad coverage, neutrality, and transparency, fairness. The trend of revenue collection from VAT in different fiscal year is presented in table below:

Table 4.21

Trend of Revenue Collection from VAT

Fiscal Year	Revenue Collection	Percentage Change
1999/00	9850	
2000/01	12477.8	22.31
2001/02	11948.0	0.83
2002/03	13449.1	12.56
2003/04	14478.9	7.66
2004/05	18894.6	30.50
2005/06	21946.0	16.14
2006/07	26704.2	21.6

Source: Annual Report IRD, 2007/08

Figure 4.5

Trend of Revenue Collection from VAT

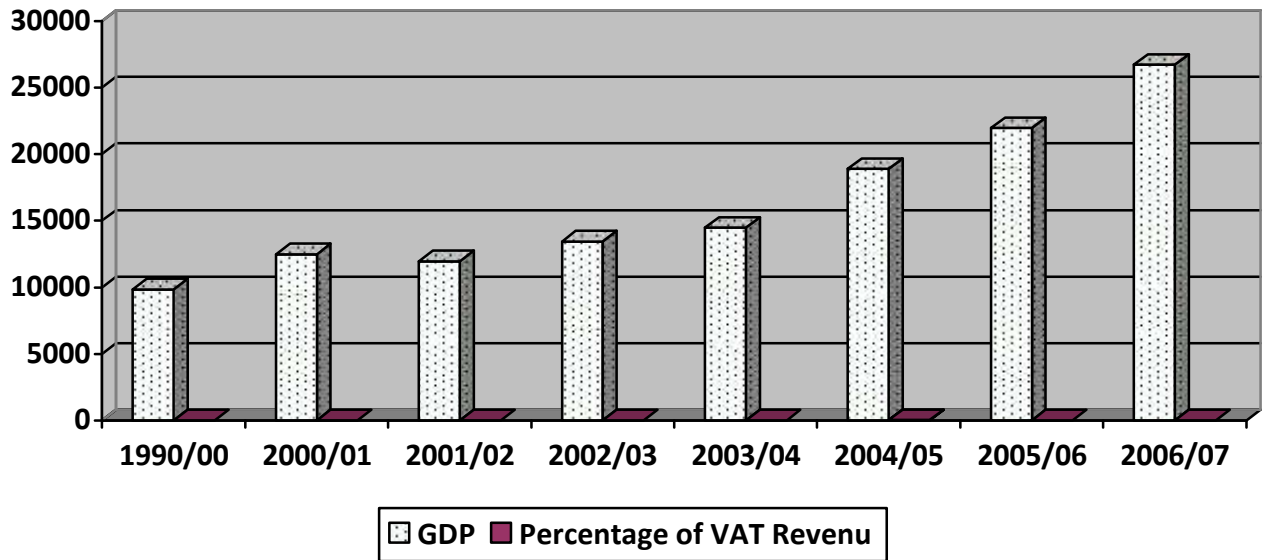
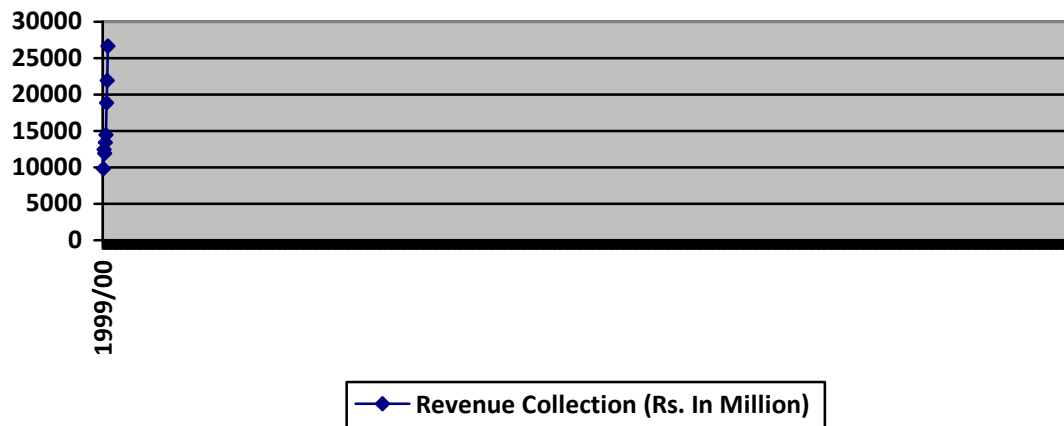


Figure 4.6

Revenue Collection (Rs. In Millions)



The above table and diagram shows that the amount of VAT collection in fiscal year 1999/2000 was 9850 million. Similarly, it increased by 22.3 percent and reached 12047.8 in the fiscal year 2000/2001. Likewise, revenue collection from VAT in fiscal year 2001/2003, 2002/03, 2003/04, 2005/06, and 2006/07 Rs. 11948 million, Rs. 13449.1 million, 14478.9 million Rs. 18894.6 million, Rs. 21946.0 million and Rs. 26704.2 million respectively. The trend of VAT collection decreased as 0.83 percent negatively in fiscal year 2001/2002, it increased by 12.56 percent of previous year in fiscal year 2002/03. Similarly, it has been increasing in decreasing trend from fiscal year 2004/05 to 2006/07 but has increased from Rs. 21946 million in fiscal year 2005/06 to Rs. 26704.2 but has increase from Rs. 21946 million in fiscal year 2005/06 to Rs. 26704.2 million in fiscal year 2006/07. Despite of various difficulties in the implementation of VAT, the trend of revenue

collection through VAT is not so bad. Since, Vat is broad based tax, it will prove to be stable base of revenue to the government. However, it can be expected that more and more revenue can be generated in coming days, if implemented effectively and efficiently. For this, the major focus should be directed towards taxpayers' awareness programme.

4.4.4 Contribution of VAT to Government Revenue (GDP)

VAT has been playing a vital role in government revenue (GDP) of Nepal since its implementations. It is the best tax than sales tax. The contribution of value added tax (VAT) to government revenue (GDP) can be presented in table below:

Table 4.22

Contribution of VAT to Government Revenue (GDP)

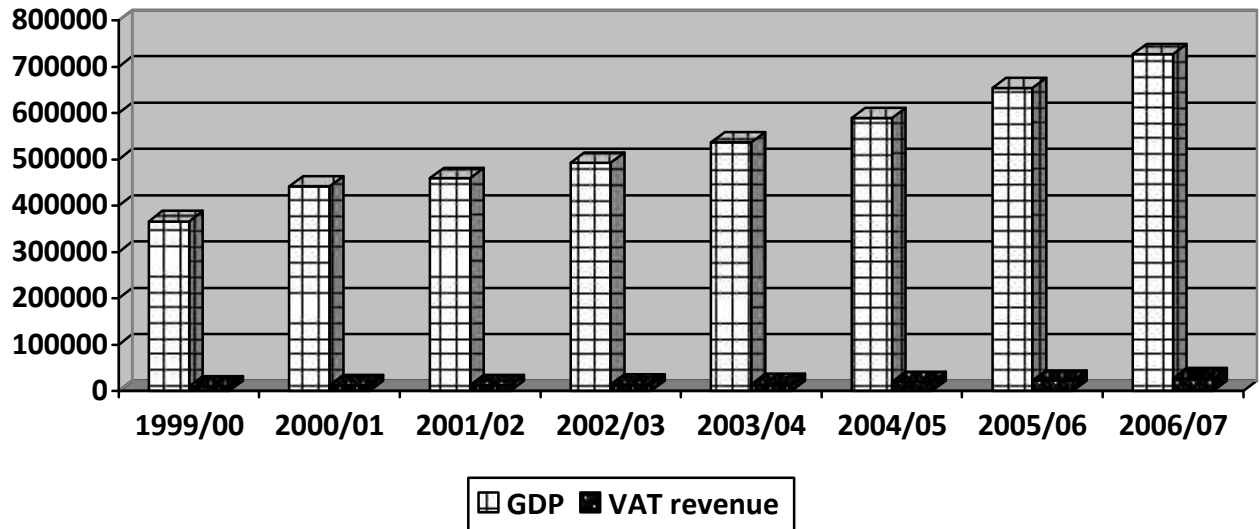
Fiscal Year	GDP	VAT revenue	Percentage of VAT revenue to GDP
1999/00	366251	9850.0	2.69
2000/01	441519	12047.8	2.73
2001/02	459443	11948.0	2.60
2002/03	492231	13449.1	2.73
2003/04	536749	14478.9	2.70
2004/05	589412	18894.6	3.21
2005/06	654055	21946.0	3.36
2006/07	727089	26704.2	3.67

Source: Economic Survey, 2007/08, MOF, GON.

Note: GDP at Producers' Price

Figure 4.7

Contribution of VAT to Government Revenue (GDP)



According to above table and figure, it is clear that the share of value added tax in GDP in Nepal is very low and it is below 3 percent throughout the period. The share of VAT in GDP of Nepal in fiscal year 2001/2003, 2002/03, 2003/04, 2005/06, and 2006/07 respectively.

From the fiscal year 1999/00 to 2004/05, it has increased from 2.69 percent to 3.21 percent. After then, it is increased to 3.67 percent.

4.4.5 Share of VAT Revenue in Total Tax Revenue

The contribution of VAT revenue in total tax revenue can be presented in the table below:

Table 4.23

Share of VAT Revenue in Total Tax Revenue

Fiscal Year	Total Revenue	VAT Revenue	% Total Tax Revenue
1999/00	33152.2	5850.0	29.71
2000/01	38865.0	12047.7	31.0
2001/02	39330.6	11948.0	30.38
2002/03	42486.9	13449.1	31.65
2003/04	48173.0	14479.0	30.06
2004/05	54104.7	18894.6	34.92
2005/06	57430.4	21946.0	38.21
2006/07	71126.73	26704.2	37.55

Source: Economic Survey, 2007/08, MOF, GON.

Figure 4.8

Share of VAT Revenue in Total Tax Revenue

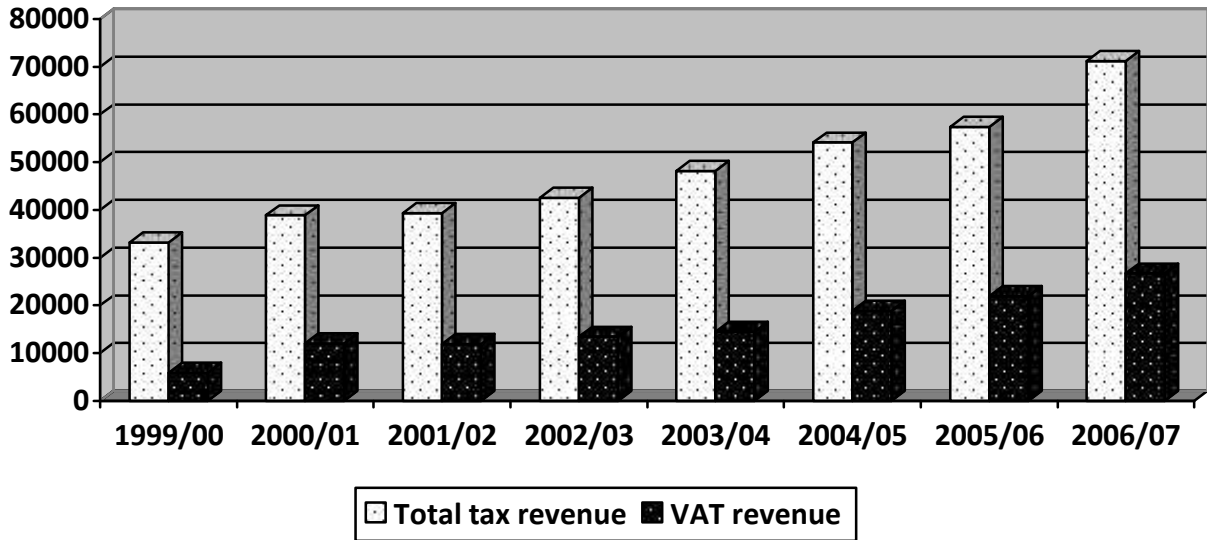
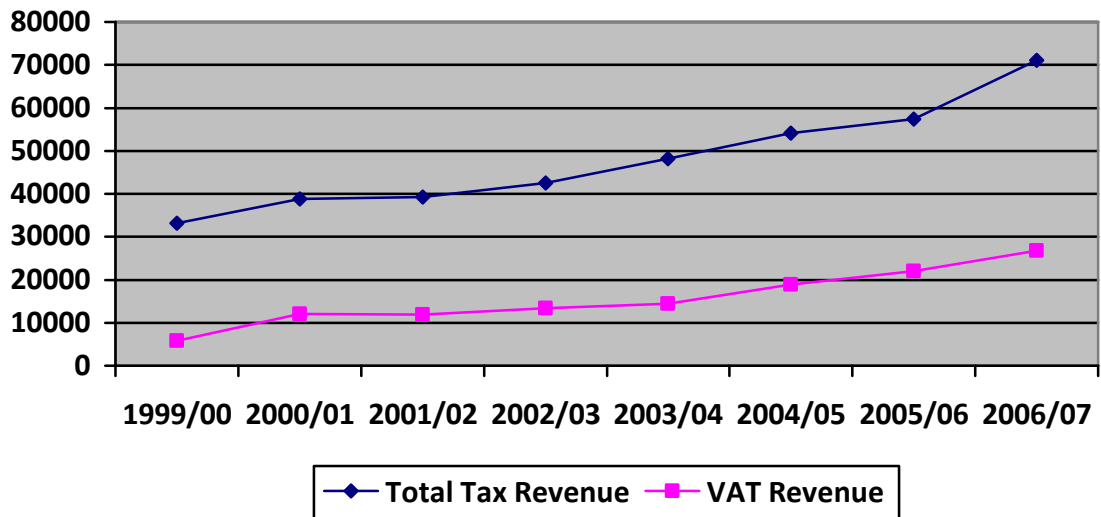


Figure 4.9



Source: Economic Survey 2007/08, MOF, GON

According to the above table and diagram, VAT revenue was 29.71 percent of total tax revenue in fiscal year 1999/00. During the study period of eight years, the percentage trend of VAT revenue to the total tax revenue has increased from 29.71 percent to 37.55 percent in fiscal year 1999/00 to 2006/07. But in fiscal year 2001/02, it has decreased to 30.38 percent. Similarly, in FY 2005/06, the share of VAT revenue in total tax revenue has been increase to 38.21 percent while decreased to 37.55 percent in FY 2006/07. So, in overall, the VAT revenue with comparison to total tax revenue has been increasing through fluctuating some years.

4.4.6 Share of VAT Revenue in Total Indirect Tax Revenue

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

Table 4.24**Share of VAT Revenue in Total Indirect Tax Revenue**

Fiscal Year	Total indirect tax	VAT revenue	%of total Tax Revenue
1999/00	24200.7	9850	40.70
2000/01	28705.7	12047.7	41.97
2001/02	28733.1	11948.0	41.46
2002/03	32481.2	13449.1	41.44
2003/04	36065.25	14479.0	41.13
2004/05	41032.9	18894.6	47.08
2005/06	43462.9	21946.0	50.49
2006/07	52146.43	26704.2	51.21

Figure 4.10

Share of VAT Revenue in Total Indirect Tax Revenue

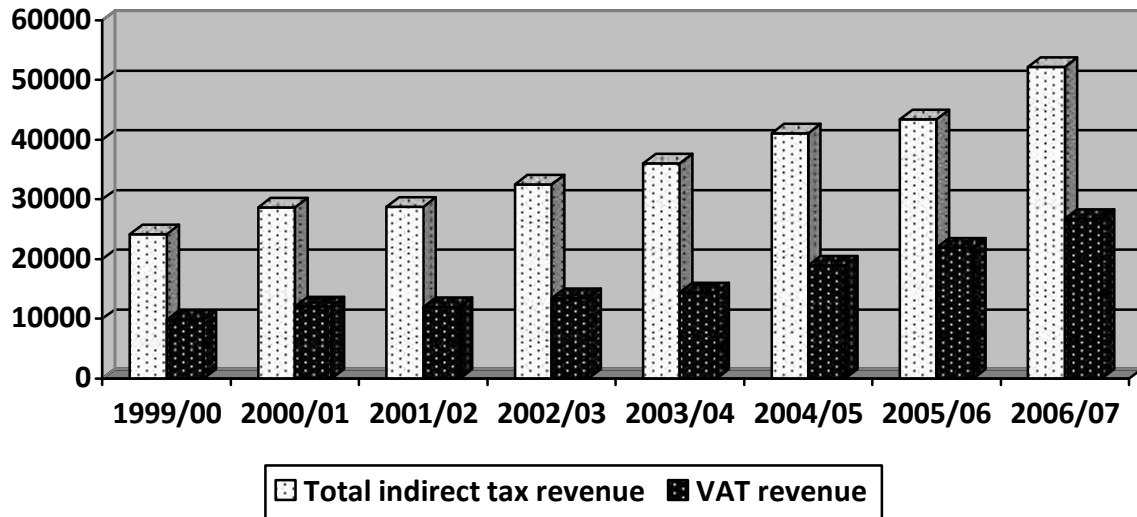
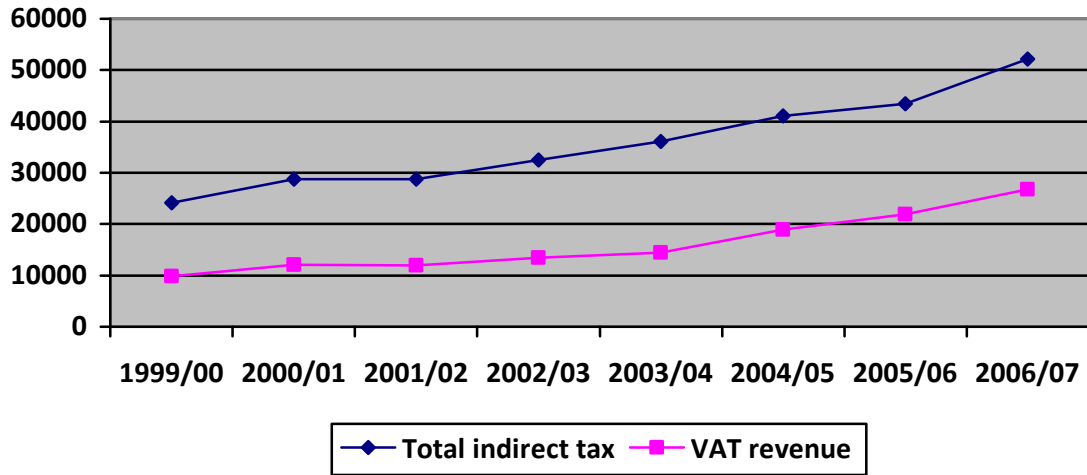


Figure 4.11

Share of VAT Revenue in Total Indirect Tax Revenue



4.4 Major Findings of the Study

Based on previous chapters and data presentation and analysis, some important findings can be drawn. The major findings are presented below:

-) VAT has been the 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 increasing the revenue from VAT and sound implementation of VAT will obviously increase its contribution in coming days.

-) The trend of VAT registration over the study period has been increasing day by day, as it has increase from 5237 registrants FY 1997/98 to 52965 registrants in FY 2006/07, by almost 10 folds. Though the average growth rate is only 28.5%, the trend can be expected for more growth in future. The trend of VAT collection over the study period of 1998/00 to 2006/07 is also in increasing trend except in the fiscal year 2001/02. It has increased from Rs. 9850 million in FY1999/00 to Rs. 26704.2 million in FY 2006/07. So it is satisfactory.
-) The contribution of VAT to government revenue (GDP) on Nepal is very low with comparison to other developed countries. The contribution of VAT revenue as a percentage of GDP remained 2.69, 2.73, 2.60, 2.73, 2.70, 3.21, 3.36 and 3.67 from the FY 1999/00 to 2006/07 respectively.
-) The contribution of VAT revenue to the total tax revenue is in increasing trend, though it is fluctuating percentage wise. It is beneficial for sound economic development. Despite the various difficulties on the implementation of VAT, the collection trend of revenue through VAT is not so bad. It is expected to generate more and more revenue in coming days. VAT generated about Rs. 9850 million revenue in FY 1999/00. It has reached up to Rs. 26704.2 million in FY 2006/07, which is 175.93% increased in comparison to FY 1999/00.

-) From the opinion survey with tax officials, tax experts and taxpayers, the following findings have been drawn:
-) Though ten years have passed, since the introduction of VAT in Nepal, still people are not fully aware of Vat. However, the majority of public are introduced to Vat as 78.33% of respondents view VAT as a type of sales tax. Similarly, 86.67% respondents know the introduction period of VAT and about 80% respondents know the current rate of VAT in Nepal as 13%.
-) More than 88% respondents are aware enough to ask tax invoice after purchasing goods or services. Most of them opinioned that they ask for tax invoice to get the authenticity of sellers.
-) About 51.67% respondents came to know about VAT from media while 40% respondents came to know about VAT by studying books, law, rules, act etc, which include majority of tax experts and tax officials.
-) Similarly, 65% respondents feel VAT as extra burden to taxpayers and opinioned that it increases the price of goods and services.
-) Majority of respondents supported that VAT will have positive effect on Nepal's economic growth and 3.83% opposed it.
-) About 88.33% respondents feel that publics are only little bit aware of VAT in Nepal. Most of them suggested for inclusion of tax education from school curriculum and focus on disseminate information through

media and organize different awareness programme to increase public awareness regarding VAT.

-) The main reasons behind public being against VAT and non-maintaining account are lack of knowledge of VAT, negative attitude towards VAT, problem on billing, and invoicing system, difficult account procedure etc.
-) Lack of awareness in public, problem of open boarder with India, problem on billing system, weak government economic policy, lack of proper co-ordination between the taxpayers and tax administration etc. are the major problems of VAT in present context of Nepal.
-) Government should give major focus on motivation taxpayer to be registered in VAT, organizing different programme for the effectiveness of VAT in future.

Chapter Five

Summary, Conclusion and Recommendations

5.1 Summary

Taxes are the lifeblood of every government's revenue but it cannot be over emphasized that the blood is taken from the arteries of taxpayer and therefore the transfusion has to be accomplished in accordance with the principles of justice and fair play. Taxes are levied primarily to raise revenue for government expenditure. On the basis of its nature, tax can be classified broadly into direct and indirect tax. VAT can be taken as good example of indirect tax.

VAT is a twentieth century innovation in the tax system. It is levied on sales of all goods and services excluding those that have been explained by the law. Since VAT is levied only on the value addition made at each stage in the process of production and distribution, this tax system is more neutral, elastic and fair and is said to be an improved version of sales tax.

For the first time in 1954, France introduced a VAT covering the industrial sector. After that, most of the countries (more than 120 countries) of the world are being attracted towards this system. The concept of VAT in Nepal was introduced in early 1900s. Nepal government indicated its intention to introduce VAT in the eighth plan. Finally VAT was implemented in Nepal on and from Mangsir 01, 2054 (November 16, 1997).

Nepal introduced VAT system for several reasons. It was necessary to introduce such a tax, to develop a stable source of revenue, to broaden the tax base, to promote economic growth, to generate revenue required for improving its deteriorating macro-economic performance, to establish an account based modern, transparent tax system, to make the tax system more scientific, to gain the confidence of donors, to make Nepalese tax system effective.

VAT is one of sales tax. Actually, it is the replacement of sales tax, entertainment tax, hotel tax and contract tax. Nepal introduced a consumption type, tax credit method VAT based on the destination principle with single positive rate of 13%. To keep small businesspersons outside the tax preview, a threshold has been specified under VAT system. The wholesalers, retailers, dealers or services below the threshold level do not have to be registered under VAT and neither do they have to collect VAT on their sales. In Nepal, the current threshold for VAT registration is Rs. 2 million.

VAT is self-assessed tax. It is a premier indirect tax structure imports. Almost two third of VAT revenue is generated from imports. However, both the domestic and imports VAT are likely to have equal share in the total VAT in the near future.

A good tax system is one which is as little burdensome to people as possible, simple and clear tax laws, sound and effective VAT administration, tax consciousness on general public, appropriate policies. But VAT has been facing a lot of problems since its implementation such as problem of open

boarder with India, problem on billing system, lack of proper co-ordination between the taxpayers and tax administration etc. However, the major problem is lack of VAT awareness in public. The level of knowledge and awareness about VAT is more than 50% during the period of 10 years of its implementation. Out of 60 respondents some percent were still not familiar with VAT. VAT system can get effectiveness only if all the taxpayers are aware of VAT and have positive attitude towards VAT.

Lastly, the consumers are the defacto taxpayer. They pay for the government in the name of tax, charges, and donation. To encourage the taxpayers towards VAT, it is very important that the money paid by the consumer to the Government in the name of taxation should be accounted in the exchequer of the nation and collected amount should be utilized appropriately for their benefit. The taxpayer should be made conscious through proper tax education. There is positive relationship between the taxpayer education and VAT collection. There is positive relationship between the taxpayer education and VAT collection. This provides that the government should launch an intensive education and awareness campaign in major economic and commercial centre first and gradually all over the country. The target group could be consumer. The government needs to train its officials about the well functioning of the system. Finally, the benefit of taxpayers should be equally considered while formulating or improving tax law. The convenience of both the administration and taxpayers should be equally considered.

5.2 Conclusions

Nepal being one of the least developed countries in the world has always suffering from the social and economic problems. Due to poor performance on internal revenue, she successfully and properly cannot tear the curtain built from massive poverty, hunger, diseases, unemployment, heavy dependence on agriculture, lack of adequate industries, low income level and socio-political and geographical constraints. For developing countries like Nepal, Value Added Tax is a best model of taxation. It puts greater significance on revenue mobilization in such countries where Nepal cannot be an exception. The reason behind this is that VAT system is transparent, broaden tax base and discourage tax evasion. Therefore, it is needless to say that VAT is the most important source of the government revenue. The biggest virtue of VAT is that revenue generation and highly instrumental for resource mobilization especially in an economy with actual shortage of resources. VAT would make it to broaden the tax base, eliminate tax cascading, create and investment friendly tax system, have a simple and modern tax system that exempted export and basic goods from taxation and finally increase revenue. This is a matter of great pride that Nepal has entered into a major global tax system, with the introduction of VAT.

Nepal has adopted VAT since 16 November 1997. Nepal has adopted a policy of developing VAT as the primary source of revenue.

VAT has been implemented as a major part of the tax reform programme. In this course, many reforms oriented activities have taken place. But VAT system from its implementation has been facing innumerable problems, which curtail its merits and effectiveness. Initially, its process slow due to opposition from the business community and subsequently to administrative problems. Despite preliminary resistance, VAT has been largely accepted by the taxpayers as well as business communities and relied upon by the governments an important tool for mobilizing the revenue needed to finance public expenditure.

Theoretically, the Nepalese VAT system has no weak provisions. It is one of the best models in the world. However, practically the system is not effective even today. Most of the problems concerning the operation of VAT in Nepal have been identified. The major problem or reason behind all the problems is lack of taxpayers' awareness regarding VAT. Empirically, VAT is found to be the best source for reducing economic inefficiencies of the nation and contributes greatly in revenue potential of nation. Hence, the main point to be considered is that there is positive relationship between the taxpayers' awareness and revenue collection of nation i. e. increasing number of taxpayers would of course contribute in increasing revenue potential of the nation. This puts forward the need of encouraging taxpayers for voluntary compliance and any reforms of tax

administration should also aimed on motivation taxpayers on it. The government needs to take necessary steps to sort out emerging problems in success of VAT implementation. For this taxpayers awareness programme and tax education plays prime role.

VAT must be successful and this largely depends upon the public awareness, honesty, faith and morality of tax officials and business community. There is need for willpower and action. Unnecessary hindrance to economic activities must be avoided. The government needs full cooperation from the tax administration, the taxpayers and businesspersons as well as consumers in its effort to generate more revenue. Apart from this government is required to learn from what she did earlier need to streamline the working procedures of the system. It is equally important that the government should justify the rationality of its policy and make consumer more assured about the policy that she introduced for the benefit for the people not by saying but by its deed.

5.3 Recommendations

While studying on the VAT and its awareness in public, we found that VAT has occupied a vital position in indirect tax revenue in Nepal and there is satisfactory level of public awareness regarding VAT. Further, it can be expected that the trend of public awareness would increase resulting in VAT registrants and hence increasing contribution to GDP of Nepal. Based on

such circumstances, major findings and conclusions, following recommendation have been made:

-) Over the study period, we found that most of businesspersons and consumers are still unconscious and unknown about VAT. So it is necessary to make arrangement for training, seminar, report presentation, paper presentation, publication of journals and VAT programme through media for the awareness of general people about VAT.
-) Many businessmen having taxable capacity are still beyond the tax net. So the enforcement should be made more effective and voluntary compliance should be encouraged. Here taxpayer education and taxpayer service is a key function of a modern tax administration to facilitate the voluntary compliance.
-) The billing system is very good means to account for the business. If invoicing system in a country is poor, there may remain a heavy chance to manipulate the account of the taxpayers and businessmen which opens the door of tax evasion. So, consumers should be well informed to take real bills which they have to pay and strict warning should be given to business who issue false bills invoice. Moreover, issuing invoice for every taxable sells must be made compulsory. This step will help to reduce tax evasion and hence increase tax revenue.
-) Since the registered taxpayers both seller as well as buyer of goods and services, they should give and take invoice at the time of

transaction in order to make their account fair and transparent. For this, the government and their professional organizations should initiate and campaign the awareness programme to educate the vendors on the part of invoicing system and also to make people more competent, rational, choosy, and able for policing the malpractice of vendor.

-) The vendors are required to have their account transparent by means of proper and actual invoicing system. They should develop their professional competency not only in marketing but also in accounting and reporting system paying due respect to the law. In this respect, government institutions as well as private institutions should arrange for training in respect of accounting and legal matters of taxation.
-) The consumers are the defacto taxpayers. They pay for the government in the name of tax, fees, charges, donations etc. It is very important that the money paid by consumer to the government in the name of taxation should be accounted in exchequer of the nation.
-) The taxpayers should not bear any obstacles and harassment in paying tax. There must be an easy and encouraging environment for paying tax so that the taxpayer could feel paying taxes.
-) The government should try to increase tax base through bringing the hideout taxpayers into the tax net. All VAT registrants should be required to display their registration certificate prominently which has

been found in increasing trend at present. However, this needs to be monitored regularly by the tax officials.

-) In Nepalese VAT administration, monitoring system is not effective. This has encouraged tax evasion practice. Hence, it is necessary to develop effective and efficient auditing, investigation and monitoring system, there should be the provision of strictly penalizing those who do not follow the rules.
-) Many rules and regulations that are related to VAT are only limited in papers and not in practice. Therefore, it is necessary for strict practice of all rules for effective revenue creation. Besides this strict rules should be prepared for tax officials also and it is necessary to take action against those who are directly or indirectly in corruption.
-) There should be reward system for voluntary registrants and honest taxpayers.
-) VAT is the most effective way of generating revenue, attempt must be made to raise additional revenue by intensive tax education programme. The principle of taxpayer education and service should be accurate and easy to understand, fair and balanced; timely, minimal cost to taxpayer and accountability.
-) For the better implementation of VAT in Nepal, the different types of awareness programme should be conducted to the real taxpayer (consumers) and businessperson. The different kinds of seminars and lectures to be given to tax officers to check the tax leakage.

Government needs to train its officials about the well functioning of the system.

) Apart from this, the people who are sovereign in taking their decisions and who are ultimate taxpayers should develop an organized civil society to check the domineering and exploitative behavior of the business community and the monopolistic behavior of the state.

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