

**VALUE ADDED TAX IN NEPAL:
CHALLENGES AND OPPORTUNITIES**

A Thesis

**Submitted to The Tribhuvan Multiple Campus, Economics Department,
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Degree of MASTER OF ARTS
in
ECONOMICS**

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LETTER OF RECOMMENDATION

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This thesis entitled VALUE ADDED TAX IN NEPAL: CHALLENGES AND OPPORTUNITIES has been prepared by Bal Krishna Pandey under my guidance and supervision. I hereby recommend this thesis for examination by the Thesis Committee as a partial fulfillment of the requirements for the Degree of Master of Arts in Economics.

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We certify that this entitled VALUE ADDED TAX IN NEPAL: CHALLENGES AND OPPORTUNITIES submitted by Bal Krishna Pandey to the Tribhuvan Multiple Campus, Department Of Economics , Faculty of Humanities and Social Sciences in Tribhuvan University , in partial fulfillment of the requirements for the Degree of MASTER of ARTS in ECONOMICS has been found satisfactory in scope and quality. Therefore, we accept this thesis as a part of the said degree.

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LETTER OF DECLARATION

I hereby declare that this submission of “VALUE ADDED TAX IN NEPAL: CHALLENGES AND OPPORTUNITIES” is my own work and that, to the best of my knowledge and belief, it contains no material previously published or written by another person nor material which to a substantial extent has been accepted for the award of any other degree of a university or other institution of higher learning, except where due acknowledgement is made in the acknowledgements.

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This thesis entitled VALUE ADDED TAX IN NEPAL: CHALLENGES AND OPPORTUNITIES is a topic on which I am particularly interested . This topic has available literature which is easily feasible , relevant and information& resources required isalsoaccessible.So , I have choosen this topic .This research project has been carried out to meet the Partial Fulfillment of the Requirements for the Degree of MASTER OF ARTS in ECONOMICS.

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ABSTRACT

A VAT is a consumption tax placed on a product whenever value is added at each stage of the supply chain, from production to the point of sale. The amount of VAT that the user pays is on the cost of the product, less any of the costs of materials used in the product that have already been taxed. Tax Credit Method is used for calculation of VAT.

Under this method, tax is imposed at each stage of sales on the entire sale value and the tax paid at the earlier stage is allowed as set-off. The most important aspect of this method is that at each stage, tax is to be charged separately in the invoice. In this method, to determine VAT liability, tax paid on purchase is deducted from tax payable on sales. The difference is tax payable to Government or excess refundable to the dealer for the period.

This study only covers Value Added Tax .Therefore this study is not a complete study of the whole tax system in Nepal. The general objective of the study is to analyze challenges and opportunities of VAT in Nepal. But the specific objectives of this study are to analyze the challenges being faced by the government and taxpayers in VAT collection, to study the efforts made by the government to collect VAT, to identify the opportunities of VAT collection in Nepal. Un-reported Sales, Under Invoicing , Failure to Register, Mis-classification of Commodities, Omission of Self Deliveries ,Tax Collected but not remitted, Imported Goods not brought into Tax, Credit Facility Claimed for Vat on Purchases that are not allowable are some of the problems of VAT System in Nepal.

The main variables that are used in the study are Value Added Tax and Gross Domestic Product. The variable GDP and VAT are associated with each other .The study was focused on the investigation of effect of VAT revenue to total revenue and GDP.

Taxation provides the governments with the funds needed to invest in development, relieve poverty and deliver public services. It offers an antidote to aid dependence in developing countries and provides fiscal reliance and sustainability that is needed to promote economic growth. Taxation has played an important role in the economic development of each country.

Keywords: *VAT, TAX credit ,Threshold ,Rate,Return*

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ACRONYMS AND ABBREVIATIONS

Acronyms	Full Form
CBS	Center Bureau of Statistics
CIP	Commercial Important Persons
CEDECON	Central Department of Economics
DANIDA	Danish International Development Agency
FY	Fiscal Year
FNCCI	Federation of Nepal Chamber of Commerce and Industry
GDP	Gross Domestic Product
GNP	Gross National Product
GST	Goods and Services Tax
HMG	His Majesty Government
IMF	International Monetary Fund
IRD	Inland Revenue Department
JICA	Japan International Cooperation Agency
MoF	Ministry of Finance
NCC	Nepal Chamber of Commerce
NNP	Net National Product
NPC	National Planning Commission
NRB	Nepal Rastra Bank
OECD	Organization of Economic Cooperation and Development
PAN	Permanent Account Number
RST	Retail Level Sales Tax
SAARC	South Asian Association for Regional Co-operation
SAFTA	South Asian Free Trade Agreement
SV	Sales Value
TU	Tribhuvan University
TPIN	Tax Payer's Identification Numbers
UN	United Nations
UDCs	Under-Developed Countries
UNDP	United Nations Development Program
USA	United States of America
VAT	Value Added Tax
WST	Wholesales Level Sales Tax
WTO	World Trade Organization