

VAT and the Consumer

**Inland Revenue Department
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Value Added Tax (VAT) is tax based on consumption. Although this tax is collected by industrialists, traders and businessmen and forwarded to the Government, they are only the medium to collect this tax. The actual payers of this tax are the consumers. Therefore, it is essential for every consumer to know what this tax is, on which items and services they are levied and on which items they are not levied, and what is the rate that is applicable. Similarly, consumers should also have knowledge regarding who is eligible to collect this tax and how can this fact be ascertained. Consumers should also be alert regarding misuse of the tax that they have paid. This booklet has been prepared to increase the awareness of consumers on all these aspects and will be circulated as widely as possible.

1. What is VAT?

VAT is tax based on goods and services. This tax is applicable at the rate of 10% on the sales of goods and services. The ultimate burden of this tax falls on the consumer.

2. Is VAT levied on all goods and services?

VAT is levied on all goods and services that are produced within the country or are imported into the country. However, there are some goods and services specified by the law that are exempt from VAT. The following goods and services that are used by a majority of Nepalese in their daily lives fall in this category:

- Items of basic needs such as rice, lentils flour, milk, eggs, fruits, edible oil, fuelwood, kerosene, etc.
- Basic agricultural produces such as wheat, maize, barley, millet, grams, green vegetables, as well as fertilizers, agricultural equipment, seeds and seedlings.
- Fresh fish and meat
- Medicines and health services, animal health services
- Books, magazines, educational services

A detailed description of goods and services that are exempt from VAT is given in Schedule 1 of the VAT Act.

3. Who is eligible to collect VAT?

Only those producers, importers, dealers, whole sellers and retailers that have been registered for VAT are eligible to collect VAT. Those who are not registered for VAT are not entitled to collect this tax.

4. How can a consumer know whether the seller has been registered for VAT or not?

A seller who has been registered for VAT gets a VAT Registration Certificate and a nine-digit identification (registration) number. The registration certificate should be placed in the concerned person's business place where it can be seen by all. If there is doubt as to whether a seller has been registered for VAT or not, the consumer should ask for the person's registration certificate and number. If a person who has no registration certificate or number has been collecting VAT, the Inland Revenue Office should be informed immediately about it.

5. What happens if a person who is not registered for VAT collects it?

If a person who is not registered for VAT collects it, the person will be fined and penalised according to the law. Therefore, whenever an unregistered person is found to be collecting VAT, the nearest Inland Revenue Office or Department should be informed.

6. What should one do if a person collects VAT on goods and services that are exempt from VAT?

As in the above case, the nearest Inland Revenue Office or Department should be informed if a seller is found collecting VAT on goods and services that are exempt from VAT. The Inland Revenue administration will take necessary action on such sellers.

7. What kind of bill should be issued by a VAT registrant?

A VAT registrant has to issue a bill for each and every sale. This bill can be of two types: (a) tax invoice and (b) abbreviated tax invoice. In a tax invoice the particulars of the item, the value, etc have to be stated and the VAT amount has to be stated separately. But in an abbreviated tax invoice, the VAT does not have to be stated separately and is included in the sales price.

8. Do all taxpayers have to issue similar invoice?

No, all taxpayers do not have to issue similar invoice. A taxpayer can prepare a sample bill by including the details required for VAT purpose and other details and issue such a bill after seeking the permission of the Inland Revenue Office. This is the reason why all shops do not have similar bills.

9. After paying VAT is it necessary to take a bill? What happens if a bill is not taken?

When purchasing any good or service on which VAT is applicable the tax has to be paid. If one does not take a bill then a situation is created where there is a possibility that the tax paid can go into the seller's pocket instead of the Government revenue. In such a case the tax paid gets misutilised. To avoid this, it is advisable to always demand a bill of the items purchased by oneself.

10. Will not the goods purchased from a registered businessman be more expensive?

Although, at one glance, it looks as if the goods purchased from a registered person are more expensive than when purchasing them from an unregistered person, in real practice it is not so. VAT may not have applied on the items sold by an unregistered person, but tax will already have been levied on such items, in the production stage, import, and at the dealer's level. It is only that the retailer does not have to pay tax on his value addition. But, on the other hand, a retailer who is registered for VAT, is eligible to deduct or get back the tax incurred on the purchases made in relation to his/her business, he/she can collect tax on his/her sales, and this amount can be used without interest until the period when it is submitted to the Inland Revenue Office, and he/she can participate in supplying goods to the Government, constitutional agencies, corporations, etc. Because of all these benefits that can be availed by a registered businessperson, in actual terms, the price of a registered person will not be more expensive than that of an unregistered person.

11. Does VAT not increase the price?

VAT is not a tax that has been applied in addition to the prevailing taxes in Nepal. This tax has replaced the sales tax, hotel tax, entertainment tax, and the contract tax. Therefore the question whether VAT increases the price or not has to be also seen in relation to the impact on the cost by the replacement by VAT of four other taxes. In the context of applying VAT, the rate of the sales tax was reduced from 15 % to 10 % and this 10 % has been maintained for the purpose of VAT. Similarly, the rate of import duty and income tax have also been reduced and the Government policy is to gradually reduce the rate of other taxes as well once VAT becomes more effective.

Under VAT, a registered seller has to issue a bill. Total selling price must include the VAT amount. It is illegal to ask for 10 percent extra when a bill is demanded by the consumers. The seller is obliged to issue bills. When such a bill has to be issued, it will be difficult for a seller to haphazardly increase the price and issue a bill. The increase in price also increases the tax to be paid hence this discourages sellers to unsystematically increase the price.

If VAT has been applied on items on which there was no sales tax earlier, the cost of that item or service could increase once. Such items are very few and the increase is only a one-time increase. This does not create a situation of inflation. Besides the effect is also minimized by the decrease in the rate of customs duty and income tax.

VAT does not only increase the bases for tax but also makes administrations related to income tax and customs more effective. The widening basis for income tax and import duty makes it possible to further decrease the rate of these taxes. Since decreasing the rate of income tax and customs decreases the cost imposed by the tax system on our economy, this will help make the economy less costly and more effective. Because VAT is a broad based tax it will not destabilise the economy. Besides, since the implementation of VAT makes the tax system more transparent, the prevailing unpredictable and ad hoc situation will decrease along with the negative impact brought about by these on our economy.

If VAT is not implemented, the revenue to meet the Government's increasing cost will have to be generated through income tax and other taxes. In the light of the changing tax systems in the international world this does not appear feasible. In that case, the requirements will have to be met through a deficit budget, which will, in turn, increase inflation and destabilise our economy and cause a negative impact on our economic development. The burden of such a situation will become heavier on the economy and the people in the long run than the burden imposed by VAT.

Based on the principle of economics and international experience, there is no evidence to suggest that VAT increases the cost and our own experience so far has also not indicated that VAT creates a situation of inflation.

SCHEDULE 1: TAX-EXEMPT GOODS AND SERVICES

Group 1

Basic agricultural products

- (a) Rice, wheat, maize, barley, millet, buckwheat, lentils, flour, semolina, grits, grams, beans, and similar basic, unprocessed agricultural food products and their residues.
- (b) Green and fresh vegetables, fruits, fresh eggs, and similar unprocessed agricultural products (apart from those consumed by hotels, restaurants, bars, guest houses, cafeteria, and other similar enterprises).
- (c) Unprocessed cash crops (e.g., sugarcane, cotton, cardamom, ginger, dried ginger, jute, unprocessed tobacco sold by farmers, tea leaves, orthodox tea produced by using organic fertilizers, coffee seeds, oil-extractable food items such as soyabeans, peanuts, mustard seeds, sunflower seeds, sesame seeds and their residue.
- (d) Herbs (including their extracts)

Group 2

Goods of Basic Necessity

- (a) Unprocessed mustard oil
- (b) Drinking water supplied openly by tankers and taps
- (c) Fuelwood and charcoal
- (d) Kerosene (apart from aviation fuel)
- (e) Salt

Group 3

Livestock and their products

- (a) Goats, lambs, sheep, yaks, buffaloes, boars, pigs, rabbits and other similar livestock; their fresh milk (including pasturised milk), yogurt, and other unprocessed, raw varieties.

- (b) Cows, buffaloes, lambs, and their fresh milk (including pasturised milk) and yogurt.
- (c) Ducks, cocks and hens, turkeys, partridges and similar fowl and their fresh meat, other unprocessed varieties, and eggs.
- (d) Fresh or dried meat (unpacked)

Group 4

Agriculture related products and equipment

- (a) The seeds of crops and plants listed in Group 1
- (b) Fertilisers, chemical fertilisers, and products used for treating the soil
- (c) General equipment used for agricultural work
 - a. Hand equipment used for digging or cleaning the soil and for cutting wood, twigs, etc (apart from hand saws)
 - b. Small hand equipment used for separating the grains and cleaning the husk (de-huskers)
 - c. Hand equipment used for cutting animal fodder and the plough
- (d) Chemical pesticides used exclusively or primarily in crops
- (e) The following items used in agricultural work
 - Tractor
 - Cultivator
 - *Hairo*
 - Leveller
 - Equipment used for cutting animal fodder
 - Thresher
 - Fishing net
 - Readymade cages to keep fish
 - Fish incubator
 - Pumping pipe of up to 8 horsepower and its hose pipe of up to 30 meters
- (f) The utensil in which hens are given drinking water, the box in which chicklets are kept.
- (g) Specified ingredients used in animal feed and feed supplement

Group 5

Medicines, medical treatment and other health services

- (a) Surgical and medical services provided by Government owned health organisations
- (b) Human blood, ingredients contained in the human blood, and vaccines
- (c) Human and animal parts and tissues used in medical research
- (d) Medicines used for treating animals and people and family planning products
- (e) Equipment/material made for and solely appropriate for use by the disabled
- (f) X-ray films and oxygen gas used for medical treatment
- (g) Medical raw materials imported or bought by a medicine industry as per the limit specified by the Department of Drug Management

Group 6

Education

- (a) Research work carried out in schools and universities
- (b) Commercial or professional training courses and refresher training courses organized without profit motive
- (c) Educational services provided by schools and universities

Group 7

Books, newspapers, printed material, and printing and publishing

- (a) Books, newspapers, magazines, and periodic publications
- (b) Newsprint paper

Group 8

Culture, arts and craftsmanship related services

- (a) Fine arts, sculpture, architecture and similar handicrafts and related services
- (b) Cultural programmes
- (c) Entry fees to libraries, museums, art museums, zoos and botanical gardens (national parks)

Group 9

Passenger transport and goods transportation services

Air travel, non-tourist transport (apart from cable cars), and goods transportation services (apart from transportation of goods related to supply)

Group 10

Commercial or professional services

Institutional or personal services provided by artists, sportspersons, writers, designers, translators, and interpreters.

Group 11

Miscellaneous goods and services

- (1) Postal service (only those operated by the Government)

- Services related to transportation or handing over of letters, money and parcels
 - Various services related to services required for transportation or handing over of letters, money and parcels
 - Postal stamps
- (2) Financial and insurance services
- (3) Bank notes and cheque books
- The printing and releasing of Nepalese notes
 - The supply of bank notes into Nepal from outside Nepal
 - Cheque books
- (4) Gold and silver
- Gold, gold coins, and gold ornaments
 - Silver and silver coins (apart from readymade silver goods and ornaments)
- (5) Electricity
- (6) Raw Wool
- (7) Battery-operated three wheeler and its chassis and battery
- (8) All machinery and equipment used for the production of biogas, solar, and wind energy on the recommendation of the Alternative Energy Centre.
- (9) Aeroplanes, helicopters, fire brigades, and ambulances
- (10) Products made of jute
- (11) Only those industrial machineries on which a maximum of 5 % customs duty is levied, as per Part 84 of the Customs Tariff.
- (12) Woolen carpets and their cutting, dying, washing and knitting.
- (13) Almunium, copper, and bronze scrapes, blocks, sheets, and readymade utensils.
- (14) Cotton *saris*, *lungi* (wrap around), *dhoti* (for male and female), *petani*, and *gamcha* (small cotton towels)
- (15) Cotton thread

- (16) Woolen thread (apart from artificial and acrylic) used to knit handmade sweaters in the country
- (17) Goods received as donation in any natural calamities or for philanthropic purposes with permission from the Ministry of Finance of His Majesty's Government of Nepal

Group 12

Building and land

Purchase, sales and renting of houses and land (apart from services provided by commercial enterprises such as hotels, guest houses, etc)

Group 13

Betting, casinos, and lotteries

- (1) Activities related to providing services to enterprises engaged in betting and gambling
- (2) Lotteries