

CHAPTER: - ONE

INTRODUCTION

1.1 General Background

The main objective of a nation is to maintain peace and security in the country, handle day to day administration, carry out various development activities and launch other public welfare activities. In order to carry out above mention activities, a nation requires sufficient funds. The government collects required fund from to sources: debt and revenue. The debt may be internal and external. The revenue of the government comes basically from two sources tax and non-tax. The revenue like gift, grants, revenue from public enterprises, registration fees, fines and penalties are fall under the head of non-tax revenue. Similarly, income tax, property tax, values added tax and other direct and indirect tax are fall under the head of tax revenue. In Nepal around 70% of the government revenue comes from taxation. Hence tax is a major source of government revenue.

Tax is a compulsory burden to the people who have taxable income. It is the major sources of government revenue. In other words tax is any compulsory levy from individuals, householders and firm to central or local government. The person or entity, which has taxable income, is liable to pay tax without expecting any direct benefit from the government. Tax is computed and paid as per prescribed in the law.

The definition given by some experts about tax are mention as below:

According to Prof. Seligman "A compulsory contribution from a person to the government to defray the expense incurred in the common interest of all without reference to special benefit conferred."

According to Plehn "Tax are general contribution of wealth to levied upon person natural or corporate to defray expenses incurred in conferring common benefit upon the residence of the states."

The following conclusion can be drawn from the above definition:

- Tax is compulsory levy imposed by the government,
- It is levied on person as per the Prevailing laws,
- Those who pay tax do not get corresponding benefit from the government,
- It is collected from people and spent for the interest of people.

By taking the different objectives such as raise more revenue, prevent concentration of wealth in few hands, re-distribution of wealth for the common goods, rapid economic growth, remove regional disparities, reduce unemployment etc. the tax can be collected by government as the revenue.

Basically, the tax can be classified into two broad categories:

1. Direct Tax:

A direct tax is a tax paid by a person on whom it is legally imposed. In direct tax, the person paying and bearing tax is the same. This tax is directly imposed on those who have taxable income and the tax is paid by the tax payer directly. There is no any agent between the government and tax payer. It is levied to the person based on property and income. The person, who does not have taxable income, is not required to pay any amount of tax. Direct tax includes income tax, property tax, interest tax, contract tax, vehicle tax, gift tax, expenditure tax, death tax etc.

2. Indirect Tax:

An indirect tax is a tax imposed on one person but partly or wholly paid by another. In indirect tax, the person paying and bearing the tax is different. It is tax on consumption of goods and services or on expenditure. It is paid by one but

legally imposed to another. There is an agent between government and tax payer. Indirect tax includes value added tax, sales tax, entertainment tax, hotel tax, excise duty, import and export duty or customs duty etc.

Out of the indirect tax customs is an authority or agency in a country responsible for collecting and safeguarding customs duties and for controlling the flow of goods including animals, personal effects and hazardous items in and out of a country. Depending on local legislation and regulations, the import or export of some goods may be restricted or forbidden and the customs agency enforces these rules. The customs may be different from the immigration authority, which monitors persons who leave or enter the country, checking for appropriate documentation, apprehending people wanted by international arrest warrants, and impeding the entry of others deemed dangerous to the country. In most countries customs are attained through government agreements and international laws.

A custom duty is a tax levied on imports and exports of commodities. It is a tariff or tax on the import as well as export of goods. It is a border tax. Nepalese Customs Administration collects customs duty, value added tax, excise and other taxes at the border points. Customs Administration is in the forefront in terms of internal revenue mobilization. This does not mean that the customs role needs to be confined to internal revenue mobilization. It is equally important to enhance trade facilitation by adopting international convention, recommendation and best practices without compromising with the national security. The government of Nepal has enacted Customs Act 2064 and Customs Rule 2064 with an aim to amend and consolidate the prevailing customs laws in order to make safe and facilitate international trade by making customs administration systematic, transparent and accountable.

In developing countries, customs duties are levied not only to raise the volume of revenue, but also to attain the certain specific objectives such as the protection of

domestic industry, so that import substituting industries could be set up with in the country and another is to restrict the import of luxury consumption goods whereby foreign exchange reserves could be maximized and used for productive purposes (Dhungana, 1980). "Customs duties now constitute a major revenue source for developing economies, yielding on the average about half of indirect taxes revenues and a third of total taxes revenues (Due, 1970)."

The Custom Act is confined with the export and import of goods. The government of Nepal may, by notification in the Nepal Gazette, prescribe any area of Nepal as the customs area for the purpose of administering the laws relating to customs and collecting customs duty in accordance with this Act. The government of Nepal may, by notification in the Nepal Gazette, prescribe routes through which export from or import into Nepal is to be made through the customs area. The director General may prescribe that the goods of any specific nature can be exported or imported only through any specific customs office or sub-customs office. The government of Nepal may, by notification in the Nepal Gazette, establish a customs office or sub-customs office in any customs area.

By using different methods of valuation of goods to be imported, the customs duty can be calculated for custom purpose. The main six methods of calculating customs duty are:

- a. Transaction value method
- b. Transaction value of identical goods method
- c. Transaction value of similar goods method
- d. Deductive value method
- e. Computed value method
- f. Fall back method

Similarly, for the determination of customs value of goods to be exported, the government of Nepal may, if considers necessary, determine separate customs

value of any goods of specific nature, by notification of the Nepal Gazette. Where separate customs value is so determined, the customs value of such goods will be the invoice value declared by the exporter or the customs value so determined by the government of Nepal, whichever is higher. The customs value referred here will be the free on board (fob) value. The free on board (fob) value means a value which includes the factory price of the goods to be exported and costs incurred in movement of such goods up to the concerned customs office in Nepal.

The value of goods to be determined will be determined in foreign currency. Such foreign currency will be converted into the Nepalese rupees according to the buying rate of foreign currency which is prescribed by the Nepal Rastra Bank and prevailing on the day of clearance of such goods.

1.2 Focus of the study

This study mainly focused on customs duty in Nepal. It is also tries to show that how much the area is covered by customs duty in the Nepalese government revenue collection structure. Similarly, this research also tries to show that the difficulties and problems of collecting customs duty rules and regulations about the customs duties in Nepal, trends of the customs duty etc. in this study customs duty of Nepal is presented, analyzed, summarized and findings and recommendation.

1.3 Statement of the Problem

After the induction of privatization and liberalization in the economy in 1990, the role of government of Nepal has further increased, especially with reference to poverty alleviation. The government is bond to play a proactive role in support of programs related to education, health, drinking water, agriculture, local development and infrastructure. These activities require huge expenditure in

excess of the revenue available to the treasury. Private sector is still too weak to deal with these issues. This has led to increasing revenue expenditure gap in Nepal, which calls for effective internal resource mobilization through taxation or alternatively, more dependence on external resources. But resource mobilization through taxation is a challenging proposition in Nepal.

The tax evasion and leakage is other problem of the overall Nepalese tax system. The existing situation of tax leakages in Nepal is very alarming. In case of customs duty, there are so many ideas or methods have been developed to cheat the duty. There is not only one strong or powerful border point in any border point of Nepal. Using different sub-way, the cheater can cheat the duty, which is the challenge of the Nepalese government.

Another threat to a good collection of customs duty in Nepal is poor administration in customs. There is tendency of providing customs duty rebate and exemption by reforming sectoral laws and cabinet decisions, customs personnel do not exhibit duty payer friendly behavior and lack of advanced information technology that is compatible with international standards are some of the problems of customs duties administration.

The nepotism and favoritism is another most important problem of customs duty. Nepotism and favoritism is the most powerful than the customs rules in case of customs personnel of Nepal. In the reality, if anyone knowing personnel in the customs office or border point, he/she can easily import or export his/her desirable quantity of goods without any duties.

The last one is the political instability and fully support to the wrong persons by politician. No anyone wants to follow any rules and regulations under Customs Act, who have the fully support of politician party.

Such above stated situation raise the questions are:

- What are the main problems of collecting customs duty?
- How much the volume is occupied by customs duty in government revenue structure in Nepal?
- How can control the evasion of customs duty?
- What is the trend of customs duty in Nepal?

1.4 Objectives of the study

The major objectives of this research are:

- 1) To find out the effect of customs duty in Nepal.
- 2) To see the contribution of customs duty in Nepalese revenue structure.
- 3) To find out the use of Customs Act by Nepalese customs personnel.
- 4) To see the effectiveness of valuation system of customs duty in Nepal.

1.5 Limitation of the study

The main limitations of the study are as follows:

- 1) The study mainly deals with customs duties in Nepal, with particular reference to indirect taxes in Nepal.
- 2) The unavailability of reliable and comprehensive data on customs duties severely handicapped the study.

- 3) The limited time available to submit the thesis for the partial fulfillment of MBS is the main constraints of the study.
- 4) Time and resources constraints may limit the areas cover by the study.
- 5) This research use only secondary data provided by different surveys, articles, journals, abstracts etc.

1.6 Organization of the study

This research has been organized into five chapters:

Chapter one: Introduction

It includes background of the customs duty, focus of the study, statement of the problem, objectives of the study, limitations of the study and organization of the study.

Chapter two: Review of Literature

It includes conceptual framework, review of related studies and research gap.

Chapter three: Research Methodology

It includes research design, sources and collection of data, data processing procedure and analysis.

Chapter four: Data Presentation and Analysis

The fourth chapter includes presentation, analysis and interpretation of data by using various suitable methods.

Chapter five: Summary, Conclusion and Recommendation

It includes major findings, summary, conclusion and recommendation of the study plus bibliography and appendices.

CHAPTER: - TWO

REVIEW OF LITERATURE

Research is systematic and organized effort to investigate a specific problem that needs a solution. It is a continuous/never ending process as well as knowledge building process. In terms of literature review, “the literature” means the works you consulted in order to understand and investigate the research problem. “Review” is a process of systematic, meticulous and critical summary of the published literature in the field of research.

So, literature review simply indicates that summarizes the board content of the research article or study and indicates clearly any linkages with other studies in the field. It is a way to discover what other research in the area of the problem has uncovered. The purpose of reviewing the literature is to develop some expertise in one's area, to see what new contributions can be made, and to receive some ideas for developing a research design. The sense of review of literature is the previous studies cannot be ignored because they provide the foundation to the present study. This chapter is related to examine and review some related books, articles, published and unpublished different economic surveys, bulletins, magazines, newspapers, web sites and abstracts.

2.1 Conceptual Framework:

The preliminary survey of literature and information provides a solid foundation for developing a conceptual framework. The conceptual/theoretical framework describes the relationships among the variables, elaborates the theory underlying these relations, and describes the nature and direction of the relationship. It provides the logical base for developing the testable hypothesis.

So, the conceptual framework is the basis or foundation upon which the study is established. It is within the framework of this theory that the entire study proceeds. Since the general purpose of research is to develop theories about problems and questions, it is important that the theoretical framework be carefully developed and presented.

2.1.1 Concept of Tax:

Generally, the term tax refers to a liability to pay an amount to the government. It is compulsory contribution to the national revenue from the taxpayers according to the law. Tax is a compulsory burden to the people who have taxable income. It is the major sources of government revenue. In other words tax is any compulsory levy from individuals, householders and firm to central or local government. The person or entity, which has taxable income, is liable to pay tax without expecting any direct benefit from the government. Tax is computed and paid as per prescribed in the law.

The definition given by some experts about tax are mention as below:

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According to Plehn "Tax are general contribution of wealth to levied upon person natural or corporate to defray expenses incurred in conferring common benefit upon the residence of the states."

Similarly, Findlays Shirras defined as "Tax is a compulsory contribution to public authorities to meet the general expenses of the government which have been incurred for the public good and without reference to special benefits."

From the above definitions we can concluded that, tax is a levy or other type of financial change or fee imposed by state or central government on legal entities or

individuals. It is a compulsory levy from individuals, households and firms to central or local government. It is a kind of money of which it is the legal duty of every citizen of the country to pay honestly. It may be levied on income, property and even at the time of purchasing a commodity. Tax is computed and paid as prescribed in the law. If a person defies the tax payment, he may be punished in the court of law. If a person defies the tax payment, he may be punished in the court of law. A taxpayer is not entitled to compel the government, while paying taxes, to give something to him in return of the amount he has paid. Taxation can be considered as a convenient method of raising revenue which in turn is linked with the welfare of the people directly or indirectly.

So, the tax is any compulsory levy from individuals, households and firms to central and local government. It is an amount of money that we have to pay to the government so that it can pay for public services. It is simply a liability to pay an amount to the government. It is a compulsory contribution from the tax payers. Tax is computed and paid as prescribed in the law. When a person or company is taxed, they have to pay a part of their income or profits to the government. For handling day-to-day administration, maintaining peace and security, launching public welfare activities and carrying out development plans, any nation requires sufficient funds. The funds required by the government are normally collected from two sources: tax and non-tax revenue. Non-tax sources include different revenues such as registration fees, fines and penalties. Tax sources include Customs Duty, Excise Duty, VAT, and Income Tax. In Nepal, around seventy percent of the government revenue comes from taxation as the major source of revenue.

2.1.2 Types of Tax:

There are so many types of tax but it can be into two broad categories:

a) Direct tax:

A direct tax is a tax on income and property. The direct tax is a tax paid by a person on whom it is legally imposed. In direct tax, the person paying and bearing tax is the same. This tax is directly imposed on those who have taxable income and the tax is paid by the tax payer directly. There is no any agent between the government and tax payer. It is levied to the person based on property and income. The person, who does not have taxable income, is not required to pay any amount of tax. Direct tax includes income tax, property tax, interest tax, contract tax, vehicle tax, gift tax, expenditure tax, causal gain tax, death tax etc. It enhances the consciousness of the citizens. Taxpayers feel burden of tax and so they can insist the government to spend their contributions for the welfare of the community.

b) Indirect tax:

An indirect tax is that tax where the person paying the tax and the person bearing the tax is different. In other words, the taxes imposed on consumption or expenditures are known as indirect taxes. In the word of Dalton, an indirect tax is imposed on a person but paid partly or wholly by another. It is paid by one but legally imposed to another. There is an agent between government and tax payer. An indirect tax is one in which burden can be shifted to others. The tax payer is not the tax bearer. The impact and incidence of indirect taxes are on different persons. It is levied on and collected from a person who manages to pass it on to some other person or persons on whom the real burden of tax falls. Indirect tax includes value added tax, sales tax, entertainment tax, hotel tax, excise duty, import and export duty or customs duty etc.

In the indirect tax, there is mass participation because each and every person getting goods and services has to pay tax. It is convenient as the taxpayer does not have to pay a lump sum amount for tax. There is a less chance of tax evasion as the taxpayers pay the tax collected from consumers. By imposing the indirect tax, the government can check on the consumption of harmful goods by imposing

higher taxes. But the drawbacks of indirect tax may be, it is uncertain and as demand fluctuates, tax will also fluctuate.

2.1.3 Meaning of Customs Duty:

Any nation like Nepal requires generation of revenue for the development activities of country. The revenue generation from custom duties on exports and imports is now taking the top position in case of Nepal. The contribution of customs duty in total revenue generation or total tax structure of Nepal is very high. Similarly, out of the total generating customs duty from importing petroleum groups is also very high. So, this study mainly focuses on the contribution of customs duty on total revenue structure and tax revenue structure of Nepal.

The word “Customs” itself has different etymologies. A custom is a habit. It is also a common tradition or usage so long established that it has the force of validity of law. Another origin of the word is purely fiscal. The Medieval Latin word *Toloneum* evolved into *Toll*, like in a road toll, and the Danish word *told* for customs. The third is institutional; *Douane*, *Aduana*, *Dogana* comes from Arab word *Diwan*, which is the seat of power. Yet another description is functional: *Haiguan* in Chinese means “sea check” or “sea barrier”. Nobody quite knows where the word comes from, but the functions are well described. Over the years the habit came of collecting money on goods, on behalf of authorities, by establishing control points. All the attributes of customs are therefore present.

The term is also used adjectively in connection with any matters within the purview of customs. For example, Customs (the institution) collect customs (duties) on goods which enter the customs territory, at Customs (the location) with the help of Custom brokers. The place where duty is collected is usually known as Customs (the customs house). This was traditionally at the point of entry into the territory, and became synonymous with border crossing. It is the concept of border that has evolved from a geographical notion to a functional one. Traditionally,

however, customs has been responsible for implementing a wide range of government policies, spanning areas as diverse as revenue collection, trade compliance and facilitation, interdiction of prohibited substances, protection of cultural heritage and enforcement of intellectual property laws.

According to Singh (2010) “Customs is often the first window through which the rest of the world views a country. Customs play vitally important government policies and contribute to the achievement of number of development objectives.”

The World Customs Organization (WCO) defines the term ‘Customs’ as “the government service which is responsible for the administration of customs law and the collection of duties and taxes and which also has the responsibility for the application of other laws and regulations relating to the importation, exportation, movement or storage of goods”. This term also used when referring to any part of the customs service or its main or subsidiary offices. Furthermore, it is used adjectively in connection with officials of the customs, duties and taxes or control on goods, or any other matter within the purview of the customs (customs officer, customs office, customs declaration).

Customs are usually a major budget contributor, and sometimes the most important source of revenue for a country. Customs also have a unique observation position. They are at the crossroads between trade, the economy, fiscal and budget issues, crime interdiction, environmental preoccupations, and transport, to name but a few. Customs all over the world are used to dealing with people across the border; they are the first exposed to new products and activities. Therefore, customs is often the first window through which the rest of the world views a country. Customs play a vitally important role in the implementation of a range of critically important government policies and contribute to the achievement of a number of development objectives.

A customs duty is tax on commodities crossing a political boundary. A tariff, technically, is a schedule of such taxes, but the terms are often used interchangeably. Tariffs have been used by governments since ancient times although they were originally sources of revenue rather than instruments of state's economic policy. Hence, customs is a very ancient fiscal mechanism and perhaps one of the oldest ways of collecting money. In different languages the word used to define customs derives from the denomination of the duty to be paid to cross the borders: Zoll (Germany), tuld (Denmark), tull (Sweden & Finland), telonion (Greece). In other cases the word is derived from the Arab word for office (diwani), dogana (Italy), douane (France), aduana (Spain), douane (Netherlands). The Portuguese word alfandega stems from the name of the place where deposited, whereas the English word customs comes from the adjective "custom" means "what is due according to traditions".

According to Customs Act, 2064(2007) "Customs duty" means customs duty chargeable on goods to be exported or imported in accordance with laws.

Customs duty is a kind of indirect tax that is levied on the foreign trade. Most of the under developed and least developed countries like Nepal of the world import many essential, development and construction materials, industrial raw materials, machinery items and their parts etc. from the abroad on the process of their development efforts which broaden the base of revenue sources of the government. Import of these goods not only fulfills the domestic needs of the country but also helps generating a huge amount of revenue to the government through customs duty by broadening the base of the customs duties. So, customs duty is the most dependable source of revenue for poor countries with low level of development activities and industrialization. Customs duties are collected from certain custom points on border and due to the monetization of foreign trade it is easier to collect and administer as compare to the taxes like direct and internal commodities taxes. Because of easiness and broad tax bases customs duty has

become the main revenue source of many of the underdeveloped countries including Nepal. When the countries develops, the scope of other direct and internal taxes also increases due to the development of industrial sectors, monetization of the economy, better employment opportunities for the people, growth of income and business of the corporate sectors etc.

The tariffs levied on the goods of foreign trade by the government at custom offices are called customs duty. Customs duty is levied on each type of goods internationally traded at a certain rate, fixed by the government, on the value of goods, which the custom administration calculates and asks the corresponding party to pay at the time of customs clearance. The tariffs rate may differ from country to country according to the government policy, economic, political and social situation of the country; but the principle behind valuation of the goods does not deviate very much.

2.1.4 General Concept of Export and Import Duties:

Export means foreign demand for goods produced by home country. The tax levied by the government on the goods exported to other country is called export duty. Export duties consists of general or specific taxes on goods or services that become payable when the goods leave the economic territory or when the services are delivered to non-residents; profit of export monopolies and taxes resulting from multiple exchange rates are excluded.

A duty realized on export consignments is called export duty. In another word, a duty imposed on exports of goods is called export duty or tax that is paid on goods leaving a country is called Export duty.

Similarly, import means bringing goods into one country from another country in a legitimate manner, typically for use in trade. Imports of goods and services are provided to domestic consumers by foreign producers. Imports of commercial quantities of goods normally require involvement of the customs authorities in

both the country of import and the country of export. A tax on goods imported into a country is called import duty. In other word, a duty levied by the government in relation to imported item is referred to as import duty. A tax that country imposes on its imports is called import duty. A duty exists to make an import more expensive and thereby encourage people to buy goods produced in their own country.

2.1.5 Government Revenue:

Revenue is the amount of money that is brought into a company by its business activities. In the case of government, revenue is the money received from taxation, fees, fines, inter-governmental grants or transfers, securities sales, mineral rights and resource rights, as well as any sales that are made. What a government takes in from tax and other sources, such as the privatization of government assets, to help finance expenditure is also called government revenue. So, the income accruing from taxation to a government during a specified period of time, usually a year is called government revenue.

Government revenue includes all amounts of money (i.e. taxes and/or fees) received from sources outside the government entity. Large governments usually have an agency or department responsible for collecting government revenue from companies and individuals.

Government revenue may also include reserve bank currency which is printed. This is recorded as an advance to the retail bank together with a corresponding currency in circulation expense entry. There is a question as to whether using generic business based accounting standards can give a fair and accurate picture of government accounts in that with a monetary policy statement to the reserve bank directing a positive inflation rate. The expense provision for the return of currency to the reserve bank is largely symbolic in that to totally cancel the currency in circulation provision all currency would have to be returned to the reserve bank

and cancelled. The income of a government from taxation excise duties, customs, or other sources, appropriated to the payment of the public expenses is also called government revenue.

Government revenue is revenue received by a government. Its opposite is government spending. Yet, governments coin money. Government revenue is an important part of fiscal policy. Revenue may be from taxation or non-tax revenue (such as revenue from government-owned corporations or sovereign wealth funds).

In the other word, a nation requires sufficient funds to carry out development plans, handle day-to-day administration, maintain peace and security and launch other public welfare activities. The funds required by the government are normally collected from two sources: tax and non-tax revenue. Non-tax revenue sources include different revenues such as registration fees, fines and penalties, forfeitures, receipts from sales of commodities and services, dividend, royalty and sale of fixed assets, principal and interest payment, and miscellaneous items etc. and tax sources include customs duty, excise duty, VAT, and income tax, vehicle tax etc.

2.1.6 Historical development of Nepalese Customs Administration:

As the world history, Nepal also has a long history of customs. But the modern customs administration was installed after 1950s. Customs has remained one of the major revenue collectors of the country. The evolutionary trend has incorporated all the essential elements over time, hence it is likely to attain international standard.

The world history of customs and tariffs clearly reveals that customs is a very ancient fiscal mechanism and one of oldest ways of collecting money. It is evident that the evolution of customs dated back to ancient times across the world. Nepal has also a long history of customs. Historical evidences suggest that there existed some sort of customs administration in ancient times in Nepal. Therefore, the

historical development of customs administration in Nepal can be studied briefly by classifying under three different periods.

a) Pre-Rana Period:

Customs duties were levied during the Lichhavi period (464 A.D. – 1094 A.D.) and customs check posts were established in various places to collect these duties. There was a close relationship between the Lichhavi settlements and trade. One of the main contributions of Nepal during the Lichhavi period was the transmission of Buddhist culture to Tibet and all of central Asia, through merchants, pilgrims and missionaries. In return, Nepal gained money from customs duties and goods that helped to support the Lichhavi state, as well as the artistic heritage that made the valley famous.

Beginning in the early twelfth century, the Malla kings ruled Nepal until the eighteenth century. The long Malla period witnessed notable developments in different areas. It is assumed that customs duties were important sources of government revenue during the Malls period (1200 A.D. – 1768 A.D.) when the trade between Indian and Tibet was routed via Nepal. Customs revenue was important source of revenue in unified Nepal as well. According to Kirkpatrick in his book “An account of kingdom of Nepal, the bulk of revenue was derived from trade with Tibet and mining.” He has estimated Rs. 3,00,000 to 4,00,000 from export duties and profit on sale of elephants, Rs. 7,00,000 to 8,00,000 from Mint, including duties levied in import trade from Tibet and Rs. 15,00,000 to 18,00,000 from duties on salt, profit on salt-paper, copper and iron, and land taxes in 1793.

b) Rana Period:

Customs duties were widely for revenue purposes during the Rana regime. In the case of customs duties revenue was collected when goods were imported and exported. Customs offices were established in different parts of the Terai region named as “*Bazar Adda*”. In addition, internal duties named *Jagat* were collected,

particularly when goods crossed some sort of administrative boundary. To collect such revenue, internal customs offices had been established in different places other than the Terai region.

As both external and internal duties were in existence, the same commodity sometimes happened to be taxed many times. To avoid such multiple taxation the *Chimpu system* was developed. Under the chimpu system, goods which were supposed to be taken to the hilly areas via Bazar Adda were sealed and sent with a full description of the goods from Bazar Adda to the customs offices in the hilly areas where those goods expected to be checked and cleared. Duties were not levied on those goods at Bazar Adda. Thus, under the Chimpu system goods were subject to tax only once, at the last customs point. Similarly, ring system of *Mahajana* (businessman) was also in force for sometime during the Rana regime. Under this system, a person was allowed to engage in business activities only if the Mahajana recommended him. During this time goods were checked and revenue was collected, not at customs point, but at the house of Mahajana.

Under the Rana regime, customs duties were collected mainly on a contract basis. Although there were customs offices, these offices were mainly involved in awarding contract and collecting revenue through contractors. Tax collection was thus left to the middlemen who contracted to collect tax. A license for the collection of these duties in a particular area was generally granted through auction to the highest bidder for a specified period of time. The value of contract appeared to have been based on factors such as, size of the market of a particular area, the expected volume of international trade and the export and import points. Since the contractors were given position such as, Dittha, Lapton, Subba, Subedar etc. in addition to the exclusive right to the collect customs revenue, businessmen used to be involved in such contracts even if the contracts did not appear to be profitable. Under this system, government knew in advance the approximate amount of revenue that would be received in the given period of time. Besides this, as the government was not involved in tax collection, very few persons were

required to work in tax administration, resulting in lower administrative costs to the government. So, it was not possible to train a large number of contractors every year. There was no scope for the development of professionalism and innovation. Hence, this system was outmoded, unequal and inefficient and opens to many abuses. The customs revenue under Rana regime in 1950, at the end of 1950-51 revolution was Rs. 4066 (in thousands).

In this way, customs revenue was also raised in ancient and Rana period, but it was not raised scientifically and in a well administered form. The collection of customs revenue in a planned way began only after the cessation of the Rana regime, which can be considered as the beginning of modern customs administration.

c) Post Rana Period (Foundation of Modern Customs):

Due to the limitations of the system mentioned above, attempts were made to abolish this system of collecting revenue as soon as the Rana regime ended in 1951. Under the Indo-Nepal Treaty of 1950, Nepal had to open customs offices in the different parts of the Terai region and also was required to adjust customs schedule in line with the Indian schedule. Since 1951, tariff boards had been consulted at different times and those boards had provided suggestions to rationalize the customs schedule. *Bazar Addas* were replaced by customs offices and customs offices were appointed those offices. Initially, those offices were established in Biratnagar, Janakpur, Birgunj, Bhairahawa and Nepalgunj. Later on customs offices were established in other parts of the Terai region as well. These offices had been classified into different categories on the basis of the volume of exports and imports and the collection of revenue.

The development that the history of customs administration was dates back to the beginning of the 1950s. The Ministry of Finance was set up after the democratic system in 1951. A revenue section was created in the ministry to handle tax

administration at the central level. This section formulated tax policies and tax regulations, which were issued through gazette notifications.

The office of the Customs Commissioner was set up in 1957 (2014 B.S.) to administer customs matters at the central level. This office was converted into the “Customs and Excise Department” in 1962 (2019 B.S.), at that time customs offices were assigned the duty of collecting excises on agricultural contracts and industrial production along with customs duties. Similarly, in 1962 the Customs Act was also enacted. As the scope of both customs duties and excises expanded over the years, the “Customs and Excise Department” was split into two separate departments, viz. the Customs Department and the Excise Department in 1966 (2023 B.S.). Under the pressure of changing requirements various customs offices and sub-customs offices were established under the customs department. To meet the changing requirements, the Customs Act was amended from time to time. To comply with international standard and to address emerging issues, a new Customs Act 2007 (2064 B.S.) has been promulgated.

Currently, there are 31 customs offices in Nepal. There are tabulated as under:

S.N.	Name of Customs Offices	Address	Established Date	Position in Revenue Collection	No. of Small Customs Offices
01	Olangchungola	Olangchungola, Sangkhuwasabha	2013 B.S.	Target is not fixed	-
02	Pashupatinagar	Pashupatinagar-01, Ilam	2013 B.S.	20 th	08
03	Mechi	Mechi-10, Kakadbhitta, Jhapa	2013 B.S.	08 th	12
04	Biratnagar	Biratnagar-21, Rani, Morang	2013 B.S.	3 rd	09
05	Kimanthanka	Kimanthanka,	2012 B.S.	Target is	-

		Sangkhuwasabha		not fixed	
06	Sunsari	Haripur-09, Sunsari	2050 B.S.	16 th	07
07	Rajbiraj	Tilathi-08, Belhi, Saptari	2013 B.S.	18 th	06
08	Siraha	Madar-06, Khairyartoka, Siraha	2013 B.S.	14 th	06
09	Janakpur	Janakpur-01, Station Road, Dhanusha	2050 B.S.	12 th	08
10	Jaleshwar	Jaleshwar-12, Mahottari	2013 B.S.	11 th	06
11	Lamabagar	Lamabagar, Dolakha	2016 B.S.	Target is not fixed	-
12	Sarlahi	Malangwa-05, Sarlahi	2013 B.S.	15 th	07
13	Tatopani	Tatopani-03, Liping, Sindhupalchock	2013 B.S.	06 th	01
14	Gaur	Gaur-03, Rautahat	2013 B.S.	13 th	05
15	Birgunj	Birgunj-19, Inrwa	2013 B.S.	01 st	09
16	Sukkha Bandargah	Sirsiya, Parsa	2061 B.S.	04 th	0
17	Tribhuvan Airport	Kathmandu-35, Gauchar, Kathmandu	2013 B.S.	05 th	01
18	Rashuwa	Timure-01, Rasuwa Gadhi	2013 B.S.	22 nd	-
19	Larke Bhanjyang	Larke, Gorakha	2013 B.S.	Target is not fixed	-
20	Bhairahawa	Siddhanagar-01, Belahiya, Rupandehi	2013 B.S.	02 nd	12

21	Mustang	Mustang	2013 B.S.	Target is not fixed	-
22	Krishnanagar	Krishnanagar-05, Kapilbastu	2013 B.S.	09 th	08
23	Koilabas	Koilabas, Dang	2013 B.S.	23 rd	01
24	Nepalgunj	Jaispur-07, Banke	2013 B.S.	07 th	07
25	Mugu	Mugu	2013 B.S.	Target is not fixed	-
26	Rajapur	Rajapur, Bardiya	2013 B.S.	19 th	08
27	Kailali	Dhangadhi-02, Kailali	2013 B.S.	10 th	07
28	Yarinaka	Humla	2013 B.S.	Target is not fixed	-
29	Kanchanpur	Mahendranagar, Kanchanpur	2013 B.S.	17 th	04
30	Mahakali	Jhulaghat, Baitadi	2013 B.S.	21 st	06
31	Customs Checking	Kathmandu-35, Koteshor, Kathmandu	2067 B.S.	18 th	0

Source: Brief Introduction of Customs Department and Customs Offices-2068

The Customs Department is one of the government agencies under the Ministry of Finance. The main aim of Customs Department is to implement the revenue policy of government of Nepal for the collection of customs through the customs offices. The vision of the department is to have a modern customs administration for revenue generation with professionalism, technology-driven, time qualitative service, creativity and dynamism.

The mission includes collection of revenue for the treasury through levied and facilitation on international trade and commerce and to protect society from smuggling, drug trafficking, money laundering, illegal trade in contraband goods and risks arising from hazardous and dangerous goods is traded.

2.1.7 Customs Valuation System:

Customs valuation is a customs procedure applied to determine the customs value of imported goods. The customs value is the value to be determined for the purposes of applying ad valorem import duties. In other words, it constitutes the taxable basis for customs duties. It is also an essential element for trade statistics, for monitoring quantitative restrictions and for collecting internal national taxes.

General Agreement on Tariffs and Trade (GATT) Article VII laid down the general principles for an international system of valuation. It stipulated that the value for customs purposes of imported merchandise should be based on the actual value of the imported merchandise on which duty is assessed, or of like merchandise, and should not be based on the value of merchandise of national origin or on arbitrary or fictitious values. Although Article VII GATT also contains a definition of "actual value", it still permitted the use of widely differing methods of valuing goods. In addition, 'grandfather clauses' permitted continuation of old standards which did not even meet the very general new standard.

According to the GATT Article VII and WTO agreement, the valuation methods of customs duty as follows:

a) Transaction Value Method:

The price actually paid or payable is the total payment made or to be made by the buyer to or for the benefit of the seller for the imported goods, and includes all payments made as a condition of sale of the imported goods by the buyer to the seller, or by the buyer to a third party to satisfy an obligation of the seller.

Customs valuation based on the transaction value method is largely based on documentary input from the importer. Article 17 of the Agreement confirms that customs administrations have the right to "satisfy themselves as to the truth or accuracy of any statement, document or declaration." A "Decision Regarding

Cases Where Customs Administrations Have Reasons To Doubt The Truth Or Accuracy of The Declared Value” taken by the Committee on Customs Valuation pursuant to a Ministerial Decision at Marrakesh spells out the procedures to be observed in such cases. As a first step, customs may ask the importer to provide further explanation that the declared value represents the total amount actually paid or payable for the imported goods. If the reasonable doubt still exists after reception of further information (or in absence of a response), customs may decide that the value cannot be determined according to the transaction value method. Before a final decision is taken, customs must communicate its reasoning to the importer, who, in turn, must be given reasonable time to respond. In addition, the reasoning of the final decision must be communicated to the importer in writing.

b) Identical Value Method:

The transaction value is calculated in the same manner on identical goods if the goods are:

- The same in all respects including physical characteristics, quality, and reputation;
- Produced in the same country as the goods being valued and
- Produced by the producer of the goods being valued.

For this method to be used, the goods must be sold for export to the same country of importation as the goods being valued. The goods must also be exported at or about the same time as the goods being valued.

c) Similar Value Method:

The transaction value is calculated in the same manner on similar goods if:

- Goods closely resembling the goods being valued in terms of component materials and characteristics
- Goods which are capable of performing the same functions and are commercially interchangeable with the goods being valued
- Goods which are produced in the same country as and by the producer of the goods being valued. For this method to be used, the goods must be sold to the same country of importation as the goods being valued. The goods must be exported at or about the same time as the goods being valued.

d) Deductive Value Method:

The Agreement provides that when customs value cannot be determined on the basis of the transaction value of the imported goods or identical or similar goods, it will be determined on the basis of the unit price at which the imported goods or identical or similar goods are sold to an unrelated buyer in the greatest aggregate quantity in the country of importation. The buyer and the seller in the importing country must not be related and the sale must take place at or about the time of importation of the goods being valued. If no sale took place at or about the time of importation, it is permitted to use sales up to 90 days after importation of the goods being valued.

e) Computed Value Method:

Computed value, the most difficult and rarely used method, determines the customs value on the basis of the cost of production of the goods being valued, plus an amount for profit and general expenses usually reflected in sales from the country of exportation to the country of importation of goods of the same class or kind.

f) Fall Back Value Method:

Customs value determination based on “reasonable means consistent with the principles and general provisions of the Agreement, Article VII GATT and on the basis of available data”. When the customs value cannot be determined under any of the previous methods, it may be determined using reasonable means consistent with the principles and general provisions of the Agreement and of Article VII of GATT, and on the basis of data available in the country of importation. To the greatest extent possible, this method should be based on previously determined values and methods with a reasonable degree of flexibility in their application.

2.2 Review of Books and Related Articles:

Nepal has two sources of revenue generation, they are: external sources and internal sources. This study is not directly traced out to the external sources of revenue generation. This study is focused directly towards the internal sources of revenue generation. There are so many sources of revenue generation in internal sources, but among these various sources the revenue collection from customs duty is very high. While saying the customs duty, somehow it has linked with international/foreign trade because custom duties are levied on the imports and exports of tradable items. At the given valuation and rate higher the volume of the foreign trade higher will be the amount of customs revenue and vice versa. So this study is also more or less part of international trade because foreign trade has a direct relation with the revenue generation through customs.

So, we can say that this study is the outcome of the limited literature on imports and exports procedure of Nepal i.e. foreign trade, customs valuation and customs procedure. This study mainly focuses on the contribution of customs duty on total revenue structure and tax revenue structure of Nepal, especially the contribution of petroleum groups on total customs duty and total tax revenue of Nepal.

This chapter provides the review of the available relevant literature found in the form of Books, Research Papers, prescribed thesis and Articles.

Bista (2005/06) published an article using similar words with the article of Director General, Department of Customs, Government of Nepal, In his article 'Customs Valuation and Implementation of the WTO CV Agreements in Nepal' gives the thematic view of implementation and customs valuation procedure of Nepal by dividing two chapters in his article as follows:

i) Implementation:

The foreign trade of Nepal has shown mixed performance during the Financial Year 2005/06. There has been significant increment in the volume of both export and import. However, the volume of imports is much larger than that of exports, due to which trade defect is widening. The export of goods and services constituted 16.1% of GDP at current price in FY 2004/05, which increased to 18.5% in 2005/06. Similarly, the import of goods and services, which was 32.6% GDP in 2004/05, which increased to 37.7% of GDP in 2005/06. Exports during first eight months of FY 2005/06 increased by 14.7% totaling Rs.43.31 billion, of which goods and services worth Rs.29.91 billion (69%) were exported to India. Likewise, total imports during the first eight months of FY 2005/06 increased by 27.9% totaling Rs. 117.48 billion. Of the total imports, the share of imports from India is 63.3 percent, while from third countries is 36.7 percent. In spite of having widened trade deficit, due to an encouraging increase in the remittance inflow, the balance of payments

The researcher found position remained favorable. Ever since the entry of Nepal into the WTO during September, 2003, several initiations have been made towards the compliance of the WTO customs duration agreements.

ii) Customs Valuation Procedures in Nepal

Customs valuation procedures in Nepal have been determined through the customs Act, 1962 and Finance Act, 2006. As of now seven amendments have been made in Customs Act, 1962 by 1997. Draft of the required amendments to be made in

the Customs Act to comply with the WTO CV agreement has already been prepared. This draft will be processed for approval through the parliament in due course. At the moment Finance Act being enacted for every financial year has been the basis at present to comply with WTO CV agreements.

According to the researcher, there are several provisions concerning valuation of imported goods in the prevailing customs act as required by the WTOCV Agreements. However, the provisions made through the customs act may not be sufficient to meet the WTO requirements. As such, Finance Act to be enacted for every financial year shall be the legal basis unless the new customs act will be enacted.

Bista (2011), the researcher published another article in the occasion of 59th International Customs Day named as 'Good Governance in Customs.' Researcher want to show from his article that the feeling of good governance in customs and needs for good governance in customs. He stressed that, to get the good governance in customs administration, there should be considered its pre-necessities. Aggregately, persons or institutions, which are directly linked with customs, they feel of good governance in customs, while there can be creation of following situations:-

- Favorable behavior to employees and stakeholders, who are involve in customs administration
- Use of simple and fast working procedures
- Clarity in the calculation of transaction value
- Similarity and visibility in working procedures for checking of goods in border point
- Confirming in the classification of goods
- Clarity in trail and stamping procedure of goods
- Reputed jobs in customs administration

- Regularity and fairness in customs administration.

Similarly, the researcher found some key necessity points of good governance in customs are:-

- Participants of all stakeholders to calculate the transaction value of exports and imports to develop the necessary working procedures, recordings and border crossing procedures of goods
- Adequate legal structure and it's strict implementation
- Transparency in working procedures to the stakeholders of customs administration
- Responsiveness and accountability
- Consensus
- Equitable behavior to all stakeholders
- Effectiveness and efficiency in work performance of customs administration etc.

So, at last the researcher focuses the good governance of customs administration, there must be utilization of Information and Communication Technology (ICT). It is most important aspect to keep good governance in customs administration. The slogan of International Customs Day, 2011 'Knowledge, a Catalyst for Customs Excellence' by World Customs Organization (WCO) also encourage us to keep good governance in customs administration.

The Indian Embassy has clarified that India has waived additional customs duty on all goods of Nepalese origin, not just 162 types of goods as reported by the media. "Embassy has seen media reports that 162 items of Nepalese products have been exempted from 4% additional customs duty by India," a press release issued stated, "The factual position is that in response to the request of the Government of Nepal, Government of India has exempted all goods of Nepalese origin from the levy of 4% additional duty of customs when exported to India."

This had been a long-standing demand of the Government of Nepal and Nepalese industry.

“It is hoped that this major step will help to address the concerns of Nepal regarding the adverse trade balance with India,” the embassy said.

Sharma and Mahato (2009), who having exchanged their full powers from their 12 articles and found them good and in due form, have agreed as follows:

They focus in their articles I to IV, role and responsibilities of the contracting parties. The Contracting Parties shall explore and undertake all measures, including technical cooperation, to promote, facilitate, expand and diversify trade between their two countries and endeavor to grant maximum facilities and to undertake all necessary measures for the free and unhampered flow of goods, needed by one country from the other, to and from their respective territories. Both the Contracting Parties shall accord unconditionally to each other treatment no less favorable than that accorded to any third country with respect to (a) customs duties and charges of any kind imposed on or in connection with importation and exportation, and (b) import regulations including quantitative restrictions. The Contracting Parties agree, on a reciprocal basis, to exempt from basic customs duty as well as from quantitative restrictions the import of such primary products as may be mutually agreed upon, from each other.

Similarly, article V to VIII, they describe that notwithstanding the provisions of Article III and subject to such exceptions as may be made after consultation with the Government of Nepal, the Government of India agree to promote the industrial development of Nepal through the grant on the basis of non-reciprocity of specially favorable treatment to imports into India of industrial products manufactured in Nepal in respect of customs duty and quantitative restrictions normally applicable to them. With a view to facilitating greater interchange of goods between the two countries, the Government of Nepal shall endeavour to

exempt, wholly or partially, imports from India from customs duty and quantitative restrictions 4 to the maximum extent compatible with their development needs and protection of their industry. Payment for transactions between the two countries will continue to be made in accordance with their respective foreign exchange laws, rules and regulations. The Contracting Parties agree to consult each other in the event of either of them experiencing difficulties in their mutual transactions with a view to resolving such difficulties. The Contracting Parties agree to co-operate effectively with each other to prevent infringement and circumvention of the laws, rules and regulations of either country in regard to matters relating to foreign exchange and foreign trade.

In their article no. IX, X & XI they include this fact that, in spite of the foregoing provisions, either Contracting Party may maintain or introduce such restrictions as are necessary for the purpose of:

- (a) Protecting public morals,
- (b) Protecting human, animal and plant life,
- (c) Safeguarding national treasures,
- (d) Safeguarding the implementation of laws relating to the import and export of gold and silver bullion, and
- (e) Safeguarding such other interests as may be mutually agreed upon.

Nothing in this treaty shall prevent either Contracting Party from taking any measures which may be necessary for the protection of its essential security interests or in pursuance of general international conventions, whether already in existence or concluded hereafter, to which it is a party relating to transit, export or import of particular kinds of articles such as narcotics and psychotropic substances or in pursuance of general conventions intended to prevent infringement of industrial, literary or artistic property or relating to 5 false marks, false indications of origin or other methods of unfair competition. In order to facilitate effective and harmonious implementation of this treaty, the Contracting Parties shall consult each other regularly.

In article XII they say, this Treaty shall come into force on the date of its signature. It shall supercede the Treaty of Trade concluded between the Government of India and the Government of Nepal on 6th December 1991, as amended or modified from time to time. This Treaty shall remain in force for a period of seven years and shall be automatically extended for further periods of seven years at a time, unless either of the parties gives to the other a written notice, three months in advance, of its intention to terminate the Treaty. This Treaty may be amended or modified by mutual consent of the Contracting Parties. The Protocol annexed to this Treaty shall constitute its integral part.

Pandey (2010), prepared an article on “Green Customs a New Dimension in Customs Administration”. The article explains that customs administrations in these days have to oversee many facets of national life. Unlike in the past days its roles are not confined to revenue collection and trade promotion but extended to security, human health, and even environment protection.

From this article, the writer tries to clarify that the customs administrations in developing countries are facing problems of security and trade facilitation issues. The compulsion to mobilize resources towards detecting and controlling of environmental crimes has kept them in a difficult position. Though Nepalese customs administration, is in dire need of capacity building it is still supporting the green customs initiative and checking environmental crimes effectively. It needs technical and financial support for environmentally friendly disposal of hazardous wastes, chemicals and pops.

The writer concludes that the Nepalese customs administration is committed towards fulfilling pledges of its government towards detecting and controlling illegal cross-border movements of hazardous wastes and toxic chemicals, POPs and products underlined by CITES. The gazette notification dated 2066/7/16 (November 2, 2009) has incorporated the detail list of import banned chemicals, narcotic drugs, and psychotropic substances, explosives and products covered by

CITES. The authorities of Nepal and India held discussions on issues of green customs and environmental crimes during the green customs workshop held in serawasti India during November 30-December 2, 2009. Many of the GCI partners have also participated in the workshop. The workshop was very helpful to acquire knowledge and information about environmental issues and to enhance skill to enforce national environmental policies of the government from customs perspective. The workshop has come up with some important conclusions and recommendations. Since Nepal is a party of the MEAs the recommendations and conclusions of the workshop are expected to be very useful to Nepalese customs administration, too.

Rajkarnikar (2007) Executive Director, Institute for Policy Research and Department (IPARD) Nepal, collects many more articles in terms of 'Customs valuation of goods is an important aspect of trade facilitation'. Out of these, Walsh (2003), defines it as an important element in a variety of other aspects of international trade including statistics, quota and licensing arrangement, taxes and other charges levied on imports, and the application of preference systems. Custom duties are levied mostly on an advalorem basis and custom valuation is usually the basis on which tariff and tax liability is calculated. Hence it is important to establish generally acceptable rules and system for the valuation of imported goods. In view of such an importance of valuation of goods, procedures for determining the dutiable value of imported goods have been the subject of international negotiations since the early 1920s. Rege (2002) has presented a brief account of historical development of valuation agreement. The formal history of customs valuation started from the establishment of League of Nations but the agreement between nations on customs valuation was not finalized until general conference of United Nations held on Trade and Employment in 1947. The conclusions of this conference were incorporated in Article VII of General Agreement on Tariff and Trade (GATT).

Department of Customs of Nepal (2007) has launched a Three Years Customs Reform Action Plan which is being implemented since the FY 2003/04. The plan accords high priority, among others, towards institutionalizing scientific custom valuation procedures. Accordingly, ASYCUDA system is being introduced for the computerization of valuation treatment, a comprehensive valuation manual is being prepared, post entry verification and post clearance audit are also being introduced on trial basis. Article 20.3 of WTO Customs Valuation Agreement has provision for technical assistance to ensure member country's capacity to fully implement the Agreement. In accordance with section 37 of the Customs Act 1962, the importer has the right to appeal to the Revenue Tribunal against the decisions of customs official in respect of the determination of customs value. Establishment of an independent administrative tribunal for right to appeal against administrative decision of the customs authority regarding customs valuation is underway. Training of customs officials in the areas of clearance, verification, audit and the method to combat valuation fraud is also being conducted.

Evasion of duty through undervaluation or misdescription of imports is an acute problem for custom administration in developing countries. King et al (2003) estimates a widespread under invoicing in Nepal and also indicates lack of effective valuation procedure in place in Nepal. The transaction value system also was introduced without adequate preparation, without putting into place the necessary procedural and organizational framework, without adequate training and without an adequate value information system (King et al, 2003). Filmer (2003) on the other hand reports the views of trading community that there is a threat at declaring a higher value and delaying clearance to extract illegal payments from the traders. Ghimire et al (2005) report under invoicing of goods, discretionary power of customs officials and limited data base for value appraisal as the major problems of customs valuation. A limited database for value appraisal is considered as a violation of CVA. A perception survey conducted by Rajkarnikar

et al (2005) has also identified custom valuation as one of the major issues of trade facilitation in Nepal.

The Trade and Competitiveness Study (2003) give a brief account of existing valuation procedure and problems inherent on it. According to the study report the Department of Customs has difficulty in determining the transaction value based on the invoice provided because procedures for determining the value are not fully developed or understood. All these studies indicate the need to implement WTO valuation agreement as it provides a fair, uniform, and neutral system for the valuation of goods for customs purposes, which conforms to commercial realities and prohibits the use of arbitrary or fictitious customs values. Valuation fraud is a serious problem in most countries particularly in developing countries that have relatively high rates of duties and other various taxes on imported goods. It is often exacerbated by a generally poor level of tax compliance through-out the country, a tendency for many importers to deliberately maintain poor records and the existence of "special relationship' with suppliers. WTO valuation rules require an administration to accept the declared transaction value (even when clearly unreasonable), unless the authenticity of the supporting invoice can be unequivocally disproved by the authorities. Developing countries are of the view that requiring customs to accept the transaction value reflected in invoices submitted by importers would impede detection of cases in which imported goods were undervalued to reduce the incidence of duties (Rege, 2002). Most of the implementation requirements for valuation on the basis of the WTO Agreement on customs valuation are lacking in developing countries. Such various requirements include the establishment of a legislative and regulatory framework; a mechanism for judicial review; administrative procedure; organizational structure; and training. It is incumbent upon the customs administrations to develop the system and procedures necessary to effectively control undervaluation.

Bhattarai and Koirala (2068) published a book named as “Taxation in Nepal” for relating persons of MBS second year. In that book, they focus customs as an authority or agency in a country responsible for collecting and safeguarding customs duties and for controlling the flow of goods including animals, personal effects and hazardous items in and out of a country. Depending on local legislation and regulations, the import or export of some goods may be restricted or forbidden, and the customs agency enforces these rules. The customs may be different from the immigration authority, which monitors persons who leave or enter the country, checking for appropriate documentation, apprehending people wanted by international arrest warrants, and impeding the entry of others deemed dangerous to the country. In most countries customs are attained through government agreements and international law.

Similarly, Customs duty is a tariff or tax on the import as well as export of goods. It is a border tax. Nepalese customs administration collects customs duty; value added tax, excise duty and other taxes at the border points. Customs Administration is in the forefront in terms of internal revenue mobilization. This does not mean that the customs role needs to be confined to internal revenue mobilization. It is equally important to enhance trade facilitation by adopting international convention, recommendation and best practices without compromising with the national security. The Government of Nepal has enacted customs act 2064 with an aim to amend and consolidate the prevailing customs laws in order to make safe and facilitate international trade by making customs administration systematic, transparent and accountable.

Parajuli (2011) conducted an article 'Nepal's Commitments to WTO on Tariff Reduction and Current Status.' In this article the researcher wants to show that mainly two things, first is, Nepal's commitments on tariff reduction and another one is, current status of tariff reduction. He explains about the commitments of Nepal that when under the terms and conditions of WTO, Nepal ratified its

membership of 23 April, 2004 becoming 147th member of WTO then several commitments to be implemented by Nepal. WTO negotiations produce general rules that apply to all member countries and specific commitments are made by individual member government. The specific commitments are listed in documents called "schedules of concessions", which reflect specific tariff concessions and other commitments that they have given in the context of trade negotiations, such as the Uruguay Round. All WTO members have a schedule of concessions which is either annexed to the Nepal's protocol of accession to the WTO.

For trade in goods in general, these usually consist of maximum tariff levels which are often referred to as "bound tariffs" or "bindings" (GTT Article II). In the case of agricultural products, these concessions and commitments also relate to tariff rate quotas, limits on export subsidies, and some kinds of domestic support. Nepal has no specific commitments of tariff quotas, export subsidies and domestic support. Once a bound rate is fixed, the member countries cannot levy the duty on import above the bound rate. But, for the special case, GATT Article XXVIII provides a ground to re-negotiate to change the bound rate.

According to the article II paragraph 1 (b) of GATT 1994, WTO stipulates to eliminate Other Duties and Charges (ODCs) by incorporating such fees into the customs tariff rates, or as a minimum bound at the currently applied rates, upon accession. In Nepal, other duties and charges (Agricultural reform fee, special fee and local development fee) in the range of 2.5% to 11.5% were levied on industrial goods (other products), and in the range of 2.5% to 14.5% were levied to agricultural goods during the accession period. As a commitment, Nepal confirmed the elimination of ODCs for all tariff lines over a period of time between two and ten years. Similarly, in case of tariff, Nepal made a commitment to bound all products line except very few items. According to the commitment, 43.35% is averaged to the bound rates for agricultural products and 24.52% is for

other products. The implementation time horizon provided by the WTO to Nepal to reduce the tariff, the accession period, 2003, was considered as a base year.

Likewise, the researcher explains about the current status of tariff reduction as, Nepal's tariff schedule was already below the bound rate for most of the items in both agricultural and other products. There are only few items which are required to be reduced to meet the committed bound rates. Specially, the chapter 85 of the HS code which includes different types of transportation items is above the final bound rate. For which, longer time horizon for tariff reduction is given. In case of ODCs, he writes, according to the integrated tariff rate for 2010 published by Department of Custom, all the ODCs levied in MFN duty are eliminated for both agricultural and non-agricultural products. So, further reduction of ODCs is not necessary. With respect to ODCs, Nepal is one step forward as all the ODCs have already reached to zero before the schedule and in case of tariffs, Nepal's commitments on tariff reduction schedule was made based on 2002 version of Harmonized System (HS) of World Customs Organization (WCO) and since 2008 Nepal has been following the 2007 version of HS for applied tariff rate to each year. The correlation of 2002 and 2007 version of HS to Nepal's tariff reduction commitments has been done. As such, identifying the status of individual HS items whether some items are inconsistent with the commitments is impossible. Therefore, the simple average of bound rate for all items indifferent chapters for the applied rate of 2010 is taken in this study to demonstrate the status of final bound rate and current applied rate. So, he concludes that Nepal as a least developed country enjoys several special and differential treatments in terms of implementing WTO commitments and obligations. Especially in tariff reduction, Nepal has already set the higher bound rate for most of the products as compared with the rate. Nepal has been levying on imports of agricultural and other products. For the agricultural products, the bound rate is set significantly higher than applied rate so there is a big room for Nepal to increase the applied rate as

necessary. Compared to the agricultural products, bound rate for other products is lower and some of the applied rates are above the bound rates for other products although there is still 2 years to reduce them up to the level of bound rate. After converting the tariff commitments schedule from HS 2002 version to 2007, further detail cross-checking is necessary to identify the accurate status of bound and applied rate for every single products.

Poudel (2010), has written an article “Do Informal Economic Activities Matter for Loss of Customs revenue in Nepal.” The researcher focused that to estimate the revenue loss for Nepalese customs we have to find the types of taxes that Nepalese customs collect in customs points. Customs points collect customs duty (import duty, export duty, agricultural reform fee etc. in customs points and Indian excise refund by customs department), import VAT and import excise duty. Then we have to find the share of customs duty in official GDP.

The researcher found that there is always debate among Nepalese policy makers about the size of informal trade in Nepal. Due to the open border to India, the informal trading is always a crucial issue of concern for Nepalese politicians and bureaucrats. They talk much about the measures to adopt for reducing informal trade and thereby reduce revenue loss for customs. Once a month there is always a high level meeting fixed to be held in the office of the revenue secretary of Ministry of Finance including the high level representation of Ministry of Home Affairs, Nepal Police, Armed Police Force, Customs Department, Department of Revenue Investigation, and Inland Revenue Department. The Central Monitoring Committee and District Level Monitoring Committee to control the revenue leakage are also in actions but the issue of informal trade is still in the same place. To reduce the volume of informal trade, we need to adopt some measures such as, proper co-ordination among different agencies of Nepal government like Nepalese customs, Nepal Police, Armed Police Force and Local Administration, effective information channels, some type of regulating mechanism for people entering to

and from India, review of the location of customs points, simplifications of customs procedures, effective co-ordination between Nepalese and Indian customs offices and effective post clearance audit etc.

So, it is concluded from this article that the estimation shows informal economic activities have significant impact on loss of customs revenue. Therefore, informal economic activities definitely matter for loss of customs revenue in Nepal. Absolutely controlling informal trade in case of Nepal-India trade is almost impossible but we can reduce it in relative term. Simplification of customs procedures, co-ordination and enforcement by all the concerned government agencies help to reduce the volume of informal trade and thereby customs revenue loss in Nepal.

Singh (2010), conducted a book "Customs Administration, Theory and Practice" with reference to Nepal. Thinking different important contexts to be discussed under the topic of customs duty, customs administration including the core principles of customs, its historical development, changed role and new challenges the book is published by researcher, Singh. Taking these realities into consideration, attempt has been made to incorporate all the important aspects of customs in this book, bringing Customs Administration from traditions to modernity. It also deals theoretical aspect of customs related issues with practical applications. Whenever appropriate, the subject has been dealt in the context of Nepal.

This book is divided into different parts, each part covering related chapters. The first chapter covers perspective on customs. It starts with basic features of customs. It tries to explain about the customs and objectives of customs operations. The fast changing global environment demands that government and customs leaders respond to these changes. The challenges are formidable and it is imperative for the international trading system that they are addressed. In this

regard, it is necessary to know about increasingly complex customs environment and customs challenges for developing countries. So, this part also covers chapters of these topics.

The second part of the book deals with customs in the ancient times to modern times. To understand today's sophisticated customs techniques, it is essential to understand their historical development. Thus, it explains the origins of the customs along the cradles of human civilization, a fascinating story spread over many continents and cultures. The evolutionary development of customs reveals the major role played by customs in revenue collection along with contributions made to the development of trade, the safety of traffic, the security of dealings, the proper orderly and smooth conduct of business. In addition, this part covers the historical development of customs in Nepal. It tries to explain evolution of customs in Nepal from ancient times of present situation.

Trade and tariff policies have strong influence on the customs administration because they are responsible for implementing them. Hence, it is quite necessary to discuss the role of customs in the context of evolution of trade policy. Specific discussion has been made on trade liberalization and customs, focusing on revenue consequences of trade reform and tax reform. These topics are included in part three. These parts also cover the implications of global and regional trade agreements. As customs play key role in negotiating and implementing such trade agreements, it will be useful to know about major provisions there in. It includes basic features of SAFTA, BIMSTEC and WTO. Also this part covers the revenue policy of Nepal, concentrating basically how tariff structures have been rationalized in the context of trade liberalization.

Key activities of customs are grouped under part four. These activities play pivotal role in addressing the complexity and diversity of customs procedures and requirements applied to the cross border movement of goods and travels. The

significant rise in international trade and a more diversified pattern of trade has increased the need to simplify and harmonized these cross border measures, and to revamp customs administrations. Hence, harmonization of tariff nomenclature, customs valuation, and procedures would contribute to the smooth flow of goods across borders. To give clear picture, detailed discussion has been made on these key activities which include Commodity Classification, Customs Valuation, Post Clearance Audit, Customs Procedures, Rules of Origin, and Compliance and Enforcement.

As mentioned earlier, the customs function has evolved swiftly in response to the calls from governments and developments in the environment in which it operates. It started as an agency for the collection of revenue on important to finance government activities; Built upon this fiscal control function at the border, customs was also responsible for protecting society from the inflow and outflow of prohibited and controlled goods. On the other hand, it is overwhelmingly acknowledged that international trade is an essential driver for economic prosperity. This is why trade facilitation was chosen as the new area for negotiation in the WTO Doha Round. Customs role in these activities viz, Revenue collection, Trade facilitation, Drugs Enforcement, Intellectual Property Rights, Commercial Fraud, and CITES have been included in part five.

A well functioning and ethical customs is essential to the smooth operation of its activities. There are emerging issues which need serious consideration by customs administration to improve customs working methods for the benefit of both customs administration and economic operators. These issues are discussed in part six. While talking about good governance, fiscal agencies including tax and customs are particularly vulnerable to corruption because they are deeply involved in economic activities. Corruption damages the legitimacy of the organization and severely limits their effectiveness. In these way corruption is one of the main

obstacles to economic and social development and national security. Corruption hinders competition distorts trade and harms consumers and tax payers. Integrity is a prerequisite for the proper functioning of border and fiscal agencies against a background of ever faster globalization and thus an increasingly complex economic environment. Risk management is not only an important tool for customs in their fight against fraud, it also allows customs to take decisions before the goods reach the borders, thus greatly facilitating and accelerating trade movements for legitimate traders. Intelligence is also highlighted in this part.

Part Seven covers the role of international organizations which are involved in customs matters. The role of WCO has been to create and foster relevant instruments and conventions and to assist members in their implementation so as to achieve long term effectiveness and efficiency of customs administration. Regarding relations between WCO and WTO, the WCO sees its role as being complementary to the WTO in developing customs instruments to support the WTO rules.

The final part eight covers modernization of customs. For customs mechanisms in developing countries to become more efficient and contribute to economic growth and development, the solution is computerization. Hence, discussion has been made on computerization of customs procedures and basic features about ASYCUDA have also been dealt. Given the rapid development of technology, changes in business practices and growth of multinational enterprises, customs need to keep pace with the business sector with the introduction of modernization program. The objectives of modernization should seek to enhance operational efficiency, reduce operating costs, promote customer service quality, update professional knowledge and techniques, meet changing business needs and maintain compliance. Modernization must be multidimensional, and its scope should be wide enough to cover legislation, control systems, operational strategies,

organization structures, equipment, information technology, technical skills and management techniques. The concluding chapter of this part provides an outlook for the future. It basically deals with the changing role of customs and the customs challenges in the new economy. It provides battery of measures as solutions to meet the challenges. Taking advantage of these opportunities will enable customs to protect the fiscal and financial interests of the country, to customs to protect national economies from illicit movement of goods, to support the international trading system by creating level playing fields for business to enhance national competitiveness, to facilitate legitimate trade and to protect society.

IRD (2011), published an article "Coordinated Border Management" in the occasion of 59th International Customs Day. He explains detail in his article, about Coordinated Border Management (CBM) including its dimensions and challenges after explaining to Border Management. In the view of researcher, CBM is the organization and supervision of border agency control activities to meet the challenge of facilitating the movement of legitimate people and goods while maintaining secure borders and meeting national legal requirements (World Bank 2005). It can be referred to as meaning of logical way to manage border operations to ensure efficient and effective processes and procedures used by all regulatory agencies in border management. The objective of CBM is to facilitate trade and clearance of travelers ensuring secure borders. The border management services are viewed "as an enterprise a grouping of border management agencies coordinated to achieve a common vision."

The researcher clearly defined that CBM consist of two different dimensions; Domestic and International. Domestic border management system involves domestic coordination within and between agencies of one country of customs union and International border management system involves coordination between agencies of one country of customs union neighboring countries and trading

partners. Similarly, researcher found benefits and challenges of CBM. There are so many benefits of CBM. Some of them are:

- Simplification of document preparation (lower compliance costs for the declaring);
- Faster border crossing resulting from harmonization of physical inspections of crossing cargo, vehicles and drivers and better flow management;
- Reduce pressure on the infrastructure;
- Costs savings in administration, and streamlines procedures, improved working conditions for government officials due to the use of shared information, common premises and services;
- Reduced staff needs owing to task sharing among different agencies- thus liberating skilled human resources for other activities etc.

Likewise, the challenges relating to CBM include the following;

- Legislation
- Harmonizing systems and procedures across agencies and countries
- Addressing inter agency rivalry
- Different level of agency capacity
- Different agencies might have different organizational cultures which may affect the coordination and cooperation at different levels
- Multiple line of accountability and multiple performance measurement system might result in greater complexity etc.

He concluded that the efficient border management and border security is a top priority for all nations. The main objective is to ensure right balance between facilitation and control. To improve cooperation and coordination between agencies, with competence at the state border, as well as with the competent bodies of other countries, different models of CBM has been developed in

different parts of the globe. Border agency coordination increases the effectiveness of existing capacities and programmed by streamlining administrative procedures and processes, thus minimizing overlap and inconsistency between policies and practices. Gaps in border management are also easier to identify when all parties are in regular contact and corrective action can then be decided upon together. Success of CBM comes down to political will and leadership. “Coordinated border management is the future in responding to the needs of international trade in the 21st century”. To initiate this approach, one should learn the experiences of the countries where the system is in use. By assessing carefully the strengths and weaknesses of the system in national context, one should develop the suitable model to meet the desired objectives.

Pant (2009), conducted a study under Custom Duties in Nepal. His study gives the view on the customs duties in Nepal. This study consists of five chapters, where first chapter deals with the evaluation of the custom duties on the historical perspective and its importance in raising revenues. The structure of custom duties, analyses of tax ratio to GDP, components of custom duties and its growth are the parts of second chapter. Similarly, third chapter is about internal trade and revenue administration in Nepal. He tries to analyze the effect of custom duties on export promotion and import substitution in selected custom points with India in chapter four. The last and final chapter, five deals with effect of price on custom duties in Nepal. The researcher's effort can be considered as one of the great work done in the field of custom duties in Nepal since there has been no work done this topic. But the study is not a complete work and is based both on primary and secondary data. The Duty Refund Procedure (DRP) scheme on the imports from India under AR-1 form, valuation of custom duties, problems of free border etc. which were to be included on the topic are not found to have included in this study. By the way, the present study tries to include and examine the above topics in a more detailed and analytical way.

2.3 Research Gap:

Being the most important topic in case of Nepal, there are only a few studies regarding customs duty since long time. Some researcher tries to find out the problems of customs system of Nepal and some are customs administration: theory and practice. But these are not sufficient in this field. There are so many products making contribution in customs duty which aids in increasing government revenue. The rate of customs duty is fixed by government authority without evaluating its impacts on the economy and the people.

So, this study mainly focuses on the contribution of customs duty on government revenue structure, tax revenue structure, non-tax revenue, direct tax and indirect tax structure of Nepal, which is really new topic in the field of customs duty related studies

This study has been done to cover research gap through contribution of customs duty in total Revenue structure of Nepal since 2001/02 with covering 10 years. No researcher has become able to find out the contribution of customs duty in total revenue structure of Nepal. This study focuses future trend and growth potentiality of customs duty in Nepal. It has also focused problems and prospects in such field. To bring the new developments and to bridge the gap between the past research and the present situation, I set out to conduct the research in this stimulating topic. I have been through many literature reviews and given my best to fulfill this work. In my research, effort had been made to understand the contribution of Customs Duty in Total Government Revenue collection Structure of Nepal and I hope this research will be fruitful for future researchers as reference to do the research work under customs duty.

CHAPTER: - THREE

RESEARCH METHODOLOGY

The tools of methods that are used by researcher to complete his/her research work or study is called research methodology. In the other word, the entire process based on the philosophies, principles and mechanisms of research by which we attempt to solve problems or search the answers to questions are collectively known as the research methodology. It refers to the various sequential steps to be adopted by a researcher in a studying a problem, with certain objective in view. Thus, research methodology is a way to systematically solve the research problem.

This chapter is dedicated to a detailed discussion of the methodology used in this study by covering the procedure of getting research problems answers as per the objectives. This study was undertaken to evaluate the contribution of customs duty in total government revenue collection structure of Nepal. There are six parts as research design, population and sampling, sources of data, procedure of data collection, procedure of data analysis, data presentation and analytical tools.

3.1 Research Design:

Research design is a framework or a general plan for the study guiding the collection and analysis of data. It focuses on the data collection methods, the research instruments utilized, and the sampling plan to be used. It is an integrated approach that guides the researcher in formulating, implementing, and controlling the study. In the other word, research design is like a philosophy of life; no one is without one, but some people are more aware of theirs and thus able to make more informed and consistent decisions. Similarly, every type of empirical research has an implicit, if not explicit, research design. Because a design always exists, it is important to make it explicit, to get it out in the open where its strengths, limitations, and implications can be clearly understood.

According to Kerlinger (1986), "Research design is the plan, structure, and strategy of investigation conceived so as to obtain answers to research question. The plan is overall scheme of program of the research. It includes an outline of what the investigator will do from writing the hypotheses and their operational implications to the final analysis of data."

Government revenue collection system and structure and customs duty collection system and structure are based on various rules, regulations and acts. In these cases descriptive research design is more suitable to analyze government revenue collection structure. For contribution of customs duty, the study needs to analyze its past performance in different time period with respective indicators. In these cases historical research design is more suitable. So, this study uses descriptive and historical research design.

3.2 Population and Sampling:

The targeted whole area is relating to government revenue is set for the research population. Government revenue, tax revenue, especially customs duty is taken as sample size.

3.3 Sources of Data:

Most of the data are collected from secondary sources. Secondary sources refer to those for already gathered by others. Where data have been subjected to interpretation, they are referred to as coming from secondary sources. Annual report of customs departments are the major sources for secondary data for this study. The major sources of data are as follows:

- a) Annual report, bulletins, brochures and hand books of customs department of different years,
- b) Customs act and rule, 2064 and ITA, 2058,

- c) Published and unpublished reports, articles and dissertations on the concerned subject,
- d) Published articles and economic survey of various Fiscal Years of Ministry of Finance,
- e) Nepal Rastra Bank's Economic Bulletin of different time,
- f) Various books written by tax officers and scholars,
- g) Related articles and journals, etc.

3.4 Data and information collection procedure:

Most of the theoretical information is collected from laws, rules, regulations and policies related to customs duty and income tax are studied to get more information about customs duty including book relating to customs administration. Similarly, different libraries such as Library of Customs Duty, Library of Shankar Dev Campus, T.U. Central Library are also consulted. Likewise, numerical data are collected as per the objective of the study, from publication of annual and different time report of customs department, publication of annual report of IRD, economic bulletin of NRB, publication of economic survey of MOF, budget speeches etc. are consulted and lastly, various journals, national newspapers are also reviewed.

3.5 Presentation and Analytical Tools:

While conducting this study, various tools are applied. Some of them are:

a) Table:

The presentation and analysis of data by using table is called tabulation. Tabulation is the process of arranging the data in orderly manner into rows and columns. Rows are horizontal arrangements and columns are vertical arrangements. The purpose of the tabulation is to simplify the presentation of

data and to facilitate comparison between related information. It is the final step of collection of data and is a stepping stone to the analysis and interpretation of figures. Various tables are formulated and tabulated in this study.

b) Diagram:

The presentation of statistical data in the form of geometrical figures is called diagrams. A clear picture of the variation in the values of variable is much more easily obtained by diagrams than the values given in the table. Diagrammatic representation of information has now become a popular way to communicate findings to the researchers. The old saying that a picture is worth a thousand words is an appropriate one in this context. Data presentation in the form of charts and graphs can provide a quick and concise insight into the subject under investigation. The value of good charts is that they add significantly to the reader's ability to understand and follow the report. In this study, different types of diagrams and trend lines are used for visually description of the data.

c) Pie Chart:

The pie chart is so named because like a pie, it is a circle divided into slices or sections. These charts are used to show how the parts of whole area are distributed. Most researchers prefer this chart because of its effectiveness in visually conveying comparative figures. The main advantage of this chart is that it permits a quick and easy understanding of relative percentage of divisions of the whole.

d) Mean (μ):

The mean is the figure we get when the total of all the values in a distribution is divided by the number of values in the distribution. The arithmetic mean is also known as the average. The central values that represent the characteristics of the whole distribution or the values around which all items of the

distribution tend to concentrate are called average. The mean can be summarized by the following formula:

$$\text{Mean } (\mu) = \frac{\sum x}{n};$$

Where,

$\sum x$ = sum of all values of the variable 'X'

n = number of observations

x = variables involved

The mean is thus the arithmetic average of the variables.

e) **Coefficient of Variation (CV):**

A statistical measure of the dispersion of data points in a data series around the mean is called coefficient of variation. The coefficient of variation represents the ratio of the standard deviation to the mean, and it is a useful statistic for comparing the degree of variation from one data series to another, even if the means are drastically different from each other. It is calculated as follows:

$$\text{Coefficient of Variation} = \frac{\text{Standard Deviation}}{\text{Mean}} \times 100$$

Where, Standard Deviation (σ) is defined as the positive square root of the mean of the square deviations taken from the mean. It is the absolute measure of dispersion.

3.6 Period Covered:

This study covers a time period of 10 years from Fiscal Year 2001/2002 to 2010/2011 to analyze contribution of customs duty on the basis of 1 year i.e. 2001/2002.

CHAPTER: - FOUR

PRESENTATIONS AND ANALYSIS OF DATA

The fourth chapter “**Presentations and Analysis of Data**” focuses on the presentation, interpretation and analysis of the study through a definite course of research methodology. Data analysis is an important stage of the research process. The purpose of analyzing the data is to change it from an unprocessed form to an understandable presentation. Collected data are analyzed and interpreted with the help of appropriate tools and techniques as per the nature of research. The process of interpretation involves tabulating the results of analysis, making inferences relevant to the research relations studied, and drawing conclusions about these relations. Thus analysis covers the assembling, cleaning, and examining of the data, whereas interpretation is making sense of the data the researcher has generated. Without analysis of data, we could not get a valid conclusion. So, this is the main chapter of any research work.

4.1 Analysis of Government Revenue

The government revenue comes from basically two sources: one is Tax revenue and another is Non-Tax revenue. Tax revenue includes the revenue from indirect tax and revenue from direct tax whereas Non-Tax revenue includes the revenue from duties and fees, fines and forfeiture, public utilities, dividends, interest, royalty and sales of government property, principal repayments and miscellaneous income. The government of Nepal highly depends on the revenue received in the form of tax revenue because more than 75% of total revenue comes from tax revenue. Hence, tax revenue is the major source of revenue of government of Nepal. The government revenue, tax revenue, indirect tax revenue and customs duty come from different compositions of different components which is shown and explained below in different headings.

4.1.1 Analysis of Compositions of Government Revenue

The income accruing from taxation to a government during a specified period of time, usually a year is called government revenue.

Government revenue includes all amounts of money (i.e. taxes and/or fees) received from sources outside the government entity. Large governments usually have an agency or department responsible for collecting government revenue from companies and individuals.

Revenue is the amount of money that is brought into a company by its business activities. In the case of government, revenue is the money received from taxation, fees, fines, inter-governmental grants or transfers, securities sales, mineral rights and resource rights, as well as any sales that are made. What a government takes in from tax and other sources, such as the privatization of government assets, to help finance expenditure is also called government revenue.

As per the Economic Bulletin published by Nepal Rastra Bank, the composition of Government Revenue includes: Government Revenue in the form of Tax Revenue and Government Revenue in the form of Non-Tax Revenue. Tax Revenue and Non-Tax revenue are allocated into the headings of Government Revenue to calculate gross national income of Nepal Government. Hence, as per this data and information the Nepalese taxation has the following composition volume of Government Revenue which has been presented into the table 4.1. The table has shown the composition of Government Revenue for the last ten years from the fiscal year 2001/02 to the fiscal year 2010/11.

Table 4.1
Composition of Components of Government Revenue

F/Y	% of Tax Revenue	% of Non-Tax Revenue
2001/02	76.95	23.05
2002/03	75.49	24.51

2003/04	77.29	22.71
2004/05	77.16	22.84
2005/06	79.45	20.55
2006/07	81.14	18.86
2007/08	79.12	20.88
2008/09	81.58	18.42
2009/10	86.86	13.14
2010/11	86.89	13.11
Average	80.19	19.81
S.D.	3.80	3.84
C.V.	4.74	19.37

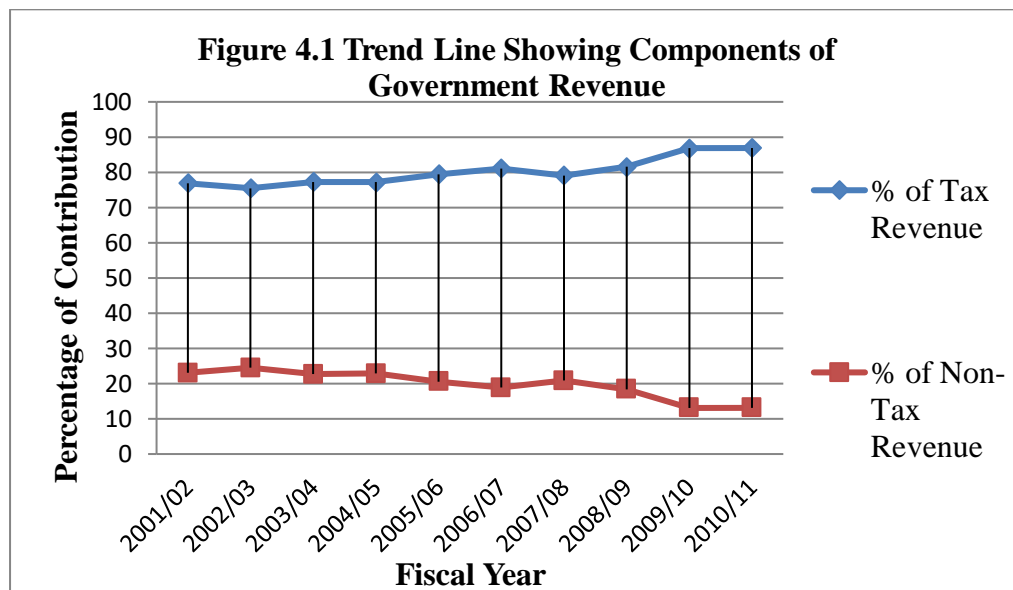
Source: Quarterly Economic Bulletin of Nepal Rastra Bank

According to the table 4.1 most of the revenue collected by Nepal government is from tax revenue. Hence, the major source of government revenue is tax revenue which makes that the increasing volume of tax revenue collected from different sources play the major role in collection of government revenue. From the above table 4.1, collection of government revenue from tax revenue has reached at 86.89% from the level of 76.95% since the period of last ten years. During the research period of ten years from the fiscal year 2001/2002 to the fiscal year 2010/2011, the government has collected the largest amount of tax revenue in the fiscal year 2010/2011 i.e. 86.89% of the total government revenue. After the fiscal year 2008/2009 each year has contributed more than 80% of total government revenue. Tax revenue is being able to contribute 80.19% of government revenue in an average of the research period with standard deviation of 3.8%.

Tax revenue is one of the major sources of government revenue. Except government revenue received from tax revenue, non-tax revenue has also contributed to build the government revenue. Among total government revenue received during the research period non-tax revenue has been contributed 19.81% in an average.

The deviations seen into the contribution of composition of different sources of government revenue during the research period of ten years are 3.8 % on tax revenue and 3.84% on non-tax revenue. The coefficients of variation seen into composition of government revenue during the research period of ten years are 4.74% on tax revenue and 19.37% on non-tax revenue.

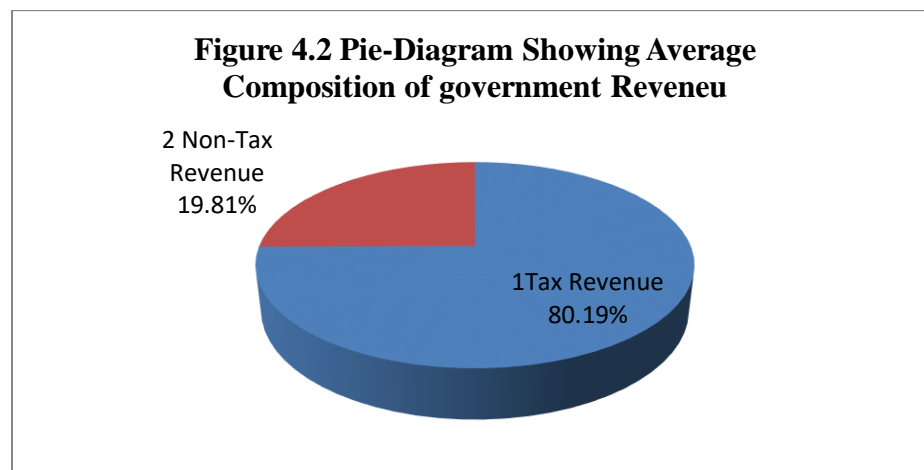
The data presented and analyzed on the table 4.1 for the period of ten years could also be presented in the trend lines for further analysis. Thus, the trend line of composition of government revenue is shown in figure 4.1.



The trend line of different sources of government revenue is indicated in the figure 4.1. The tax revenue is in higher position than non-tax revenue throughout the research period. It means that the trend line shows the revenue received from tax is higher than the revenue received from non-tax. The trend line of tax revenue is growing rapidly and the trend line of non-tax revenue is declining continuously according to the figure. This information shows that there is increasing dependency of the government towards the tax related transactions rather than other transactions i.e. non-tax transactions. The volume of tax related transactions

are increasing with the passes of time. Due to this collection of tax revenue as the form of government revenue also upgraded with the time has been passed.

While analyzing the composition of government revenue, it has been analyzed the average proportion of contribution of each sector of government revenue collection. The average composition of government revenue has been presented in the pie-diagram 4.2 which is shown below.



Pie-diagram 4.2 shows that 80.19% of total revenue collected by the government of Nepal for the research period of ten years has been collected from tax revenue and 19.81% of total revenue collected by government of Nepal for this period has been collected from non-tax revenue on average. It shows that there is highly dependency of government in tax revenue. It means that tax revenue is the major source of government revenue and it has taken the first position while collecting revenue during the research period of ten years from the fiscal year 2001/2002 to the fiscal year 2010/2011.

4.1.2 Analysis of Compositions of Tax Revenue

Tax revenue consists of amount of tax collected through direct and indirect taxes. Income tax, Property tax, Vehicle tax, Interest tax are the major sources of direct tax revenue. Value added tax, Customs duty and Excise duty are the major sources of indirect tax revenue. So in this section the composition of tax revenue have

been analyzed. Every nation has received their national income from two sources one is tax and another is non-tax. Tax is the major source of government revenue. It has contributed more than 80% of revenue to the government. So, in this section of study it is analyzed that how much these sectors contribute to the national revenue by tax revenue for the period of ten years from the fiscal year 2001/2002 to the fiscal year 2010/2011. Hence, the table 4.2 has been presented those compositions of tax revenue of research period which contributes to the government of Nepal to increase the revenue of the nation.

Table 4.2
Composition of Components of Tax Revenue

F/Y	% of Indirect Tax	% of Direct Tax
2001/02	79.82	20.18
2002/03	77.29	22.71
2003/04	76.75	23.25
2004/05	77.35	22.65
2005/06	75.69	24.31
2006/07	73.33	26.67
2007/08	72.90	27.10
2008/09	70.48	29.52
2009/10	73.28	26.72
2010/11	71.84	28.16
Average	74.87	25.13
S.D.	2.79	2.79
C.V.	3.73	11.11

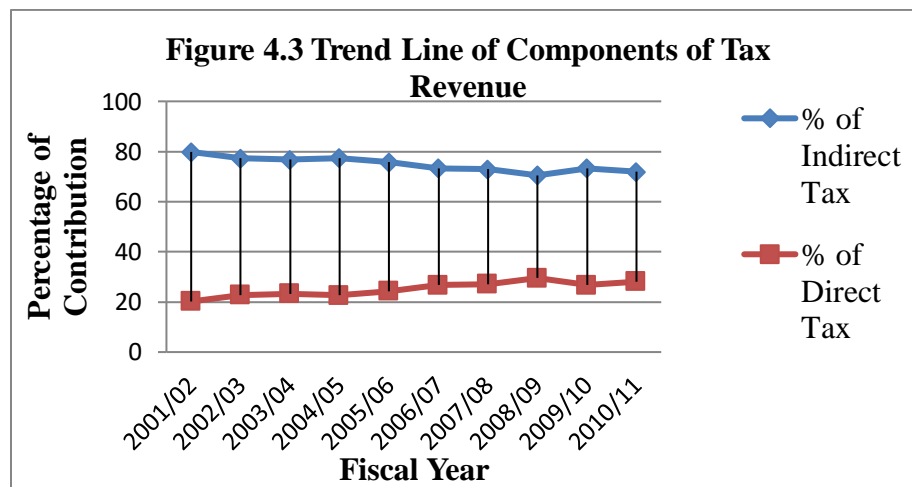
Source: Quarterly Economic Bulletin of Nepal Rastra Bank

The table 4.2 indicates the percentage of composition of tax revenue. These compositions are indirect tax and direct tax. The table shows that more than 70 % of tax revenue collected by Nepal government is from Indirect tax. So the major source of tax revenue is indirect tax. It clears that the indirect tax collected from different goods and services and different business transactions create an incremental advantage to the Nepal government as tax revenue. The collection of tax revenue from indirect tax was at 79.82% of total tax revenue on the beginning time of research work i.e. fiscal year 2001/2002. But it has reached at 71.84% on

the end of research work by declining continuously. During the research period of ten years, the fiscal year 2001/2002 has collected the largest volume of indirect tax i.e.79.82% of total tax revenue. After the fiscal year 2006/2007 each fiscal year has got contribution of less than 75% of total tax revenue from indirect tax. This sector is being able to contribute 74.87% in an average on total research period.

Except tax revenue received from indirect tax to government of Nepal, direct tax has also contributed to the total tax revenue. It has contributed 25.13% of total tax revenue in an average. The deviations seen into the composition of tax revenue collection during the research period of ten years are 2.79% on indirect tax and 2.79% on direct tax too. Variation seen into the contribution of total tax revenue received from indirect and direct sources are as follows: 3.73% on indirect tax and 11.11% on direct tax.

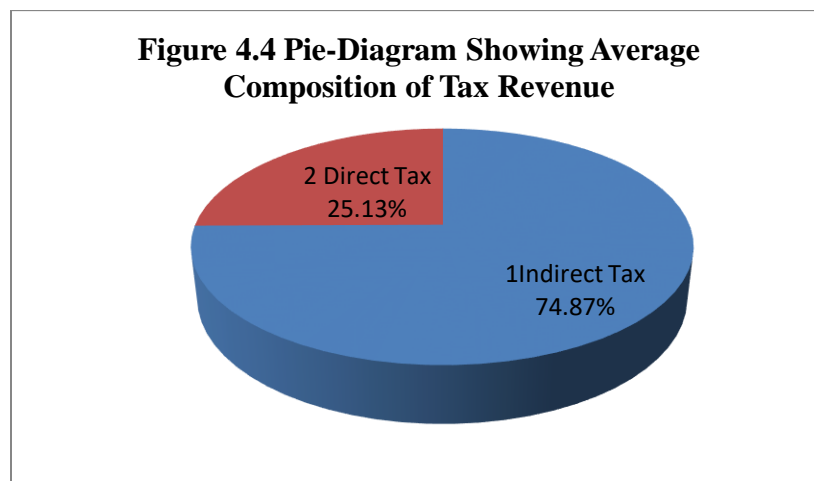
This table 4.2 could also be presented in the trend line for further more analysis. So, the trend line of composition of tax revenue is shown in the figure 4.3.



The trend line of different sources of tax revenue is indicated in the figure 4.3. The contribution of indirect tax is more than direct tax throughout the research period. The trend line shows that the revenue received from indirect tax is higher than the revenue received from direct tax. But the trend line of indirect tax is declining

with fluctuation and the trend line of direct tax is growing slowly with fluctuation. The volumes of direct taxes are growing with the passes of time. But it is noted that the major sources of tax revenue is indirect tax. After declining the trend line of indirect tax, its contribution towards tax revenue is more than 70% which is more than two third of total tax revenue.

The average composition of components of tax revenue has been presented in the pie-diagram which is shown below in the figure 4.4.



The figure 4.4 shows the average composition of components of tax revenue during the research period of ten years from fiscal year 2001/2002 to the fiscal year 2010/2011. The pie-diagram shows that 74.89% of tax revenue collected by government during the research period has been collected from indirect tax revenue and 25.13% of tax revenue collected by government during the same period has been collected from direct tax. It shows that indirect tax is the major source of tax revenue. The government is highly depends on the revenue received from indirect tax.

4.1.3 Analysis of Compositions of Indirect Tax

An indirect tax is a tax imposed on one person but partly or wholly paid by another. In indirect tax, the person paying and bearing the tax is different. It is the tax levied on consumption or expenditure made by people either natural or created

by law. Indirect taxes are classified into following headings: custom duties, value added taxes, excise duties and other indirect taxes. In case of making payment of taxes by taxpayers are paid tax indirectly to the various middlemen as price charged by them for providing services, goods or any products. So, the collection of indirect taxes is done by the government of any nation with the help of different middlemen most of them are business organizations and persons and services as well.

In this section the contributions made by different composition of indirect tax have been analyzed. The government of any nation has received national income from different sources of revenue. Indirect tax is also a major source of government revenue. In this section of study it is analyzed that how much these sectors contributes to national revenue by indirect taxes for the period of ten years from the fiscal year 2001/2002 to the fiscal year 2010/2011. Hence, the table 4.3 presented those compositions of indirect tax of research period which contributes to revenue collection process of Nepal government which is shown below.

Table 4.3
Composition of Components of Indirect Tax

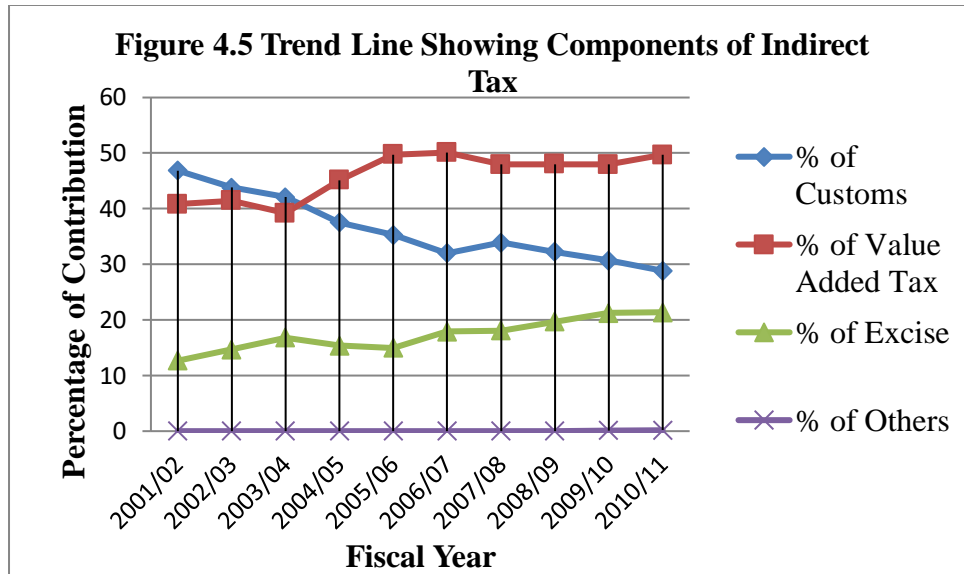
F/Y	% of Customs	% of Value Added Tax	% of Excise	% of Others
2001/02	46.86	40.81	12.67	0
2002/03	43.83	41.46	14.71	0
2003/04	42.07	39.21	16.83	0
2004/05	37.52	45.15	15.40	0
2005/06	35.30	49.73	14.97	0
2006/07	32.00	50.10	17.90	0
2007/08	33.93	47.98	18.09	0
2008/09	32.27	48.01	19.72	0
2009/10	30.69	47.93	21.23	0.15
2010/11	28.84	49.68	21.39	0.16
Average	36.33	46.01	17.29	0.03
S.D.	5.76	3.84	2.76	0.06
C.V.	15.85	8.43	15.96	206.83

Source: Quarterly Economic Bulletin of Nepal Rastra Bank

From the above table 4.3 the contribution of customs duties on indirect is 36.33% in an average on research period. It means that the second largest contributor on indirect tax is customs duties. From the above table it is cleared that the major source of indirect tax is value added tax which contributes 46.01% on indirect tax in an average. At the beginning of research period i.e. fiscal year 2001/2002, customs duties contributed 46.86% of indirect tax but it is continuously declining and reached at 28.84% indirect tax on the fiscal year 2010/2011 i.e. at the end of research period. But customs duty is one of the major sources of government revenue.

Except indirect tax received from customs duties to the government of Nepal, value added tax, excise duty and other taxes has also contributed to the Nepal government to collect the national income by indirect tax. Their contributions are as follows: 46.01% contribution of value added, 17.29% contribution of excise duty and 0.03% contribution of other taxes on indirect tax in an average. The deviations seen into the composition of indirect tax collection during the research period of ten years are 5.76% on customs duty, 3.84% on value added tax, 2.76% on excise duty and 0.06% on other taxes. Variations seen into the contribution of total indirect tax received from different sources are as follows: 15.85% on customs duty, 8.43% on value added tax, 15.96% on excise duty and 206.83% on other taxes.

This table 4.3 could also be presented in the trend line for further more analysis. So, the trend line of composition of indirect tax is shown in the figure 4.5.

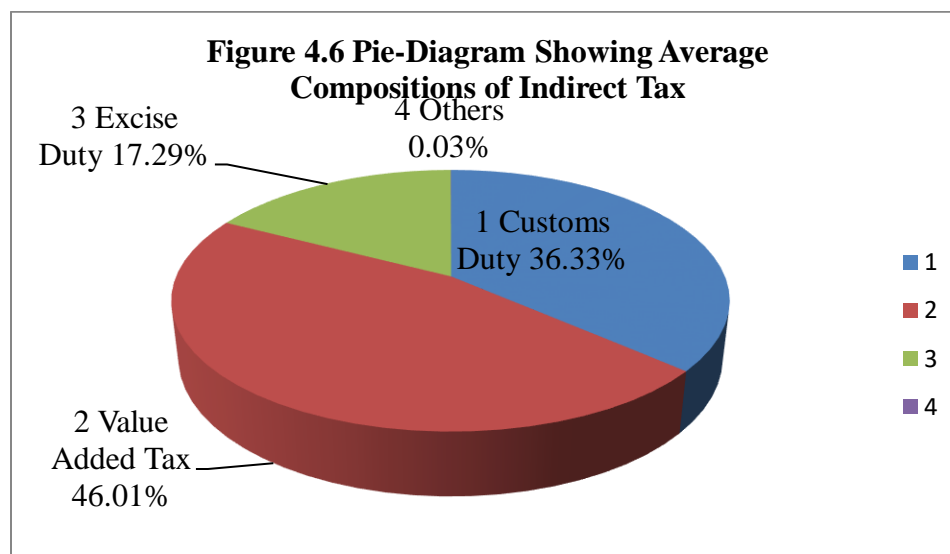


As the above trend lines indicated into the figure 4.5 except the contribution made by customs duty on collection of indirect tax of the nation all trend lines are growing. This information shows that there is increasing dependency of the nation towards these sectors of indirect taxes for the collection of national income.

At the beginning of the research work the contribution made by the customs duty to indirect tax was 46.86% and after that period of time this rate has been declining rapidly with fluctuation. At the last of the research period i.e. on fiscal year 2010/2011 the contribution of customs duty to indirect tax has been declined and reached at the level of 28.84%.

Except customs duty all other sector's contribution to indirect tax has been growing with fluctuation. As the above figure of trend lines presented those contribution made by these sectors has been grown with some degree of fluctuation. The value added tax has been contributed 46.01% to indirect tax in an average. Similarly, excise duty and other tax has been contributed 17.29% and 0.03% to the indirect tax in an average of the research period.

While analyzing the composition of indirect tax, it has been analyzed the average proportion of contribution of each sector of indirect tax collection. The average composition of indirect tax has been presented in the pie-diagram 4.6 which is shown below.



Pie-diagram shows that 46.01% of total indirect tax collected by the government of Nepal for the research period of ten years has been collected from Value added tax and 36.33% of total indirect tax collected by government of Nepal for this period has been collected from customs duty. It shows that there is highly dependency of government in case of the taxes collection from VAT and customs duty. It means that value added tax has taken the first position while collecting indirect tax during the research period from the fiscal year 2001/2002 to the fiscal year 2010/2011. Similarly, Customs Duty has contributed second largest amount to the government of Nepal by indirect tax during this period. Excise duty has contributed 17.29% of total indirect tax and only 0.03% of total indirect tax has contributed by other taxes.

4.1.4 Analysis of Composition of Customs Duty

Customs is a general term for an agency in a country responsible for controlling the flow of goods into the country. Customs agencies attempt to prevent

dangerous, hazardous or illegal materials from entering the country, and also collect tariffs and other taxes. They may also enforce import quotas. A tax levied on imports and sometimes exports of the goods by customs authorities of a country to raise state revenue and to protect domestic industries from more efficient or predatory competitors from abroad is called Customs Duty. The Customs authority may be different from the immigration authority, which monitors a person who leave or enter the country. In another words, a customs duty is basically a form of tax that is charged on goods that are imported from abroad and are collected by specifically defined customs officials in points of entry. Apart from the government raising a considerable sum of money on such imports, they are also meant to protect local manufacturers from unfair competition from imports that would be slightly cheaper than locally manufactured goods. The computation of tax usually based on the value of the goods or any other agreed criteria. In most of the countries customs are attained through government agreements and international laws. The compositions of customs duty are made for easy and clear revenue collection process. There are so many goods and their kinds from which customs duty received and that might not be possible to show through this research.

The compositions of Customs Duties includes: Import Duty, Export Duty, Indian Excise Refund, Agriculture Reform Duties and Miscellaneous Duties according to the Bulletin published by Nepal Rastra Bank. As per this data published by Nepal Rastra Bank, the Nepalese Customs Department has the following compositions of Customs Duties which have been tabulated into the table 4.4. The table shows that how the Customs Duty has been structuring for the research period of ten years from fiscal year 2001/2002 to the fiscal year 2010/2011.

Table 4.4
Composition of Components of Customs Duty

F/Y	Import Duty	Export Duty	Indian Excise	Agriculture Reform	Miscellaneous Duties

			Refund	Duties	
2001/02	69.11	6.88	19.66	4.14	0.21
2002/03	74.23	6.01	16.65	2.99	0.12
2003/04	73.54	3.39	20.00	2.60	0.47
2004/05	78.35	4.69	13.94	2.55	0.47
2005/06	76.54	4.08	15.08	3.51	0.79
2006/07	81.58	4.24	11.36	2.43	0.39
2007/08	81.32	2.12	14.23	1.85	0.48
2008/09	82.21	2.99	12.06	1.87	0.87
2009/10	85.24	2.59	10.02	1.41	0.74
2010/11	87.58	1.36	8.154	2.10	0.81
Average	78.97	3.83	14.11	2.55	0.53
S. D.	5.40	1.63	3.70	0.78	0.25
C. V.	6.84	42.49	26.22	30.66	45.98

Source: Quarterly Economic Bulletin of Nepal Rastra Bank

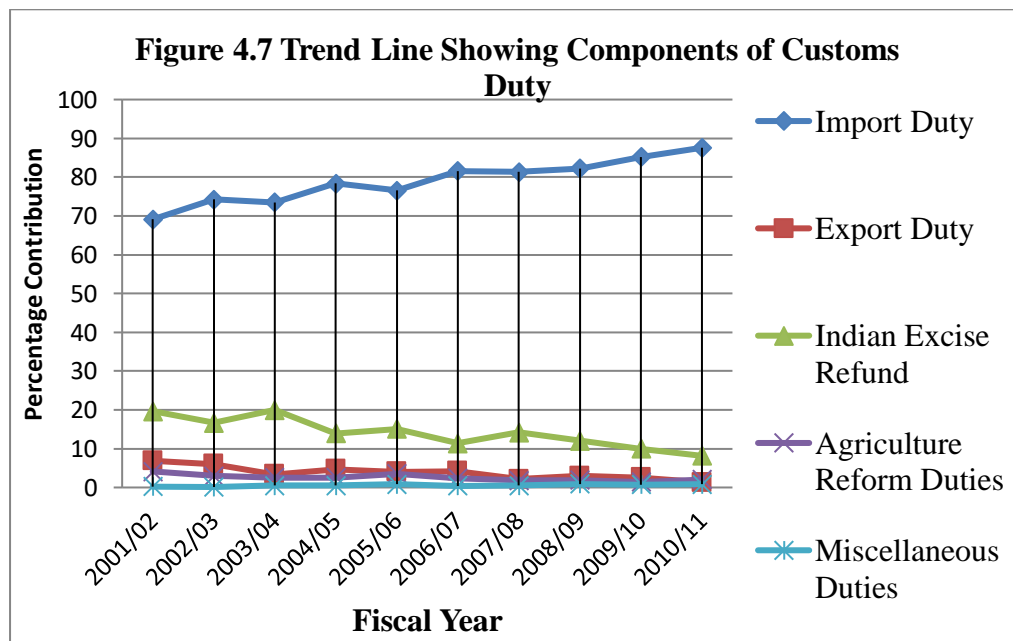
The table 4.4 indicates the percentage of composition of Customs Duty. According to this table more than 70% of the total customs duty collected by the government of Nepal is from Import duties. This shows that the Import Duty is the major source of government revenue collecting from Customs Duty. The collection of Customs Duty from Imports of the goods and services was 69.11% at the beginning of the research period i.e. fiscal year 2001/2002. After growing continuously it has reached at 87.58% at the end of the research period i.e. fiscal year 2010/2011. The fiscal year 2010/2011 has collected the largest volume of Import Duties i.e.87.58% of total Customs Duties during the research period of ten years. The Import Duty has contributed more than 80% of total Customs Duty after the fiscal year 2006/2007. It has contributed 78.97% of total Customs Duty in an average with standard deviation of 5.4% during the research period of ten years.

The other sectors that help the government of Nepal for the collection of National Revenue except Import Duty are Export Duty, Indian Excise Refund, Agriculture Reform Duties and Miscellaneous Duties. The average contributions of these compositions of Customs Duties during the research period of ten years are as follows: 3.83% of total Customs Duty received from Export Duties, 14.11% total

Customs Duty received from Indian Excise Refund, 2.55% of total Customs Duty received from Agriculture Reform Duties and remaining 0.53% of total Customs Duty received from Miscellaneous Duties.

The deviations found into the different composition of Customs Duties during the research period are as follows: 5.4% on Import Duties, 1.63% on Export Duties, 3.7% on Indian Excise Refund, 0.78% on Agriculture Refund Duties and 0.25% on Miscellaneous Duties. Similarly, the coefficient of variation found during the research period of ten years while collecting Customs Duties from these sectors are as follows: 6.84% on Import Duty, 42.49% on Export Duty, 26.22% on Indian Excise Refund, 30.66% on Agriculture Reform Duties and 45.98% on Miscellaneous Duties.

This tabulated data and information about the composition of Customs Duties for research period of ten years could also be presented into the trend line which shows the trend of these compositions of Customs Duties. The figure 4.7 is shown below showing growing and declining pattern with fluctuation.

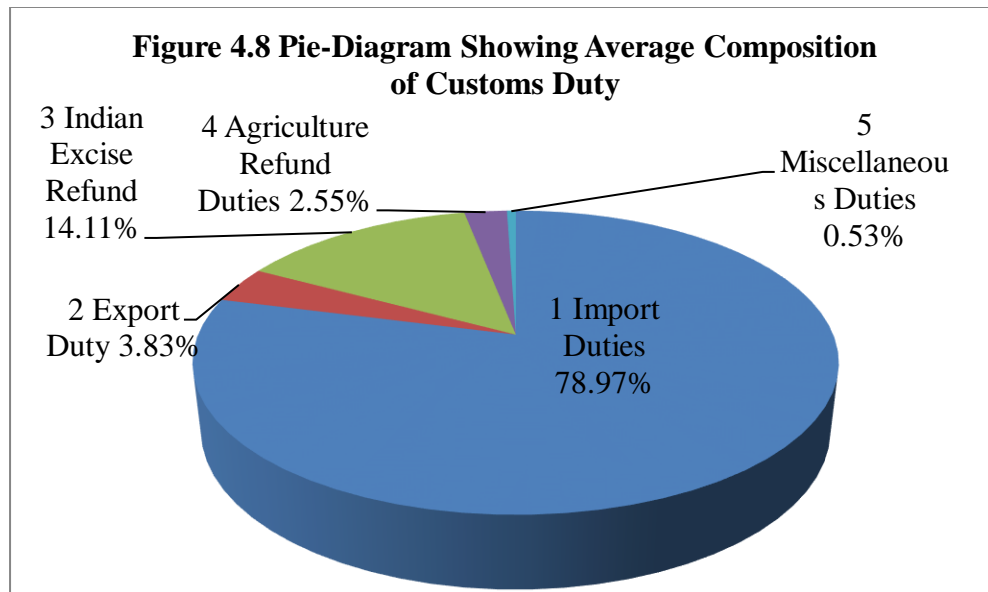


The figure 4.7 shows that the trend lines of all the compositions of Customs Duties except Import Duty are declining which shows that there is increasing dependency of government towards the Import Duties collected from goods, services and business transactions. The pattern of Customs Duties collection from the major source of collection has been analyzed during the research period of ten years from the fiscal year 2001/2002 to the fiscal year 2010/2011.

At the end of the research period i.e. fiscal year 2010/2011 the contribution made by the Import Duty has reached at 87.58% which was 69.11% at the beginning period of research work i.e. fiscal year 2001/2002. After the beginning period of research work this rate has been growing towards higher level of contribution with some fluctuation. This growing rate has been declined only on the fiscal year 2003/2004 and 2005/2006. After the fiscal year 2006/2007 contribution made by Import Duty towards Customs Duty has been growing continuously with more than 80%.

Except the contribution made by Import Duty during the research period of ten years, all other sector's contribution has been reducing with fluctuation. The contribution of Export Duty, Contribution of Indian Excise Refund, contribution of Agriculture Reform Duties and other Miscellaneous Duties has been declined during the research period. Contribution made by Export Duty was 6.88% at the beginning of the research period. But it has reached at 1.36% of total Customs Duty at the end of the research period which is declined by 5.52% of total Customs Duty. Similarly, during the research period the average contribution of Indian Excise Refund has been 14.11%, the average contribution of Agriculture Refund Duties has been just 2.55% and the average contribution of Miscellaneous Duties has been below 1%.

For furthermore analysis average compositions of Customs Duty has been presented and drawn into the Pie-Diagram which is shown into the figure 4.8.



From the above figure it shows that more than 75% of Customs Duty collected by Nepal government during the research period of ten years has been from Import Duty on average which proves that there is highly dependency of government on Import Duty collection for the revenue generation of the nation. Indian Excise Refund has made the second largest average contribution on the revenue generation process of government through the Customs Duty i.e.14.11%. Similarly, Export Duty has contributed 3.83% on revenue generation process of government through the Customs Duty on average. Agriculture Refund Duties and Miscellaneous Duties have contributed 2.55% and 0.53% respectively on the revenue generation process of the government through the Customs Duty on average.

4.2 Analysis of Contribution of Customs Duty

Customs is an authority or agency in a country responsible for collecting and safeguarding customs duties and for controlling the flow of goods including animals, personal effects and hazardous items in and out of a country. In other words, customs is the official organization responsible for collecting taxes on goods coming into a country and preventing illegal goods from being brought in.

Depending on local legislation and regulations, the import or export of some goods may be restricted or forbidden, the customs agencies enforces these rules. Customs duty is a part of indirect tax revenue. Indirect tax revenue is a part of tax revenue and tax revenue is a part of government revenue. All these information shows that customs duty helps the government of Nepal in revenue collection process through indirect tax revenue. Hence, the customs duty is a major tool in revenue collection process of Nepal government. It contributes the government of Nepal by collecting Import Duty, Export Duty, Indian Excise Refund, Agriculture Refund Duties and Miscellaneous Duties in customs points fixed by Nepal government.

4.2.1 Analysis of Contribution of Customs Duty to Government Revenue

In this section of analysis the contribution made by Customs Duties to Government Revenue has been analyzed during the research period of ten years i.e. from fiscal year 2001/2002 to the fiscal year 2010/2011. How much revenue is received form customs duty to total revenue of Nepal government has been measured during the research period of ten years. Total Customs Duty comes by adding compositions of Customs Duty. These compositions are Import Duty, Export Duty, Indian Excise Refund, Agriculture Refund Duties and Miscellaneous Duties. The table 4.5 has been presented the total volume of customs duty, government revenue and the contribution ratio of customs duty to government revenue.

Table 4.5
Contribution of Customs Duty to Government Revenue

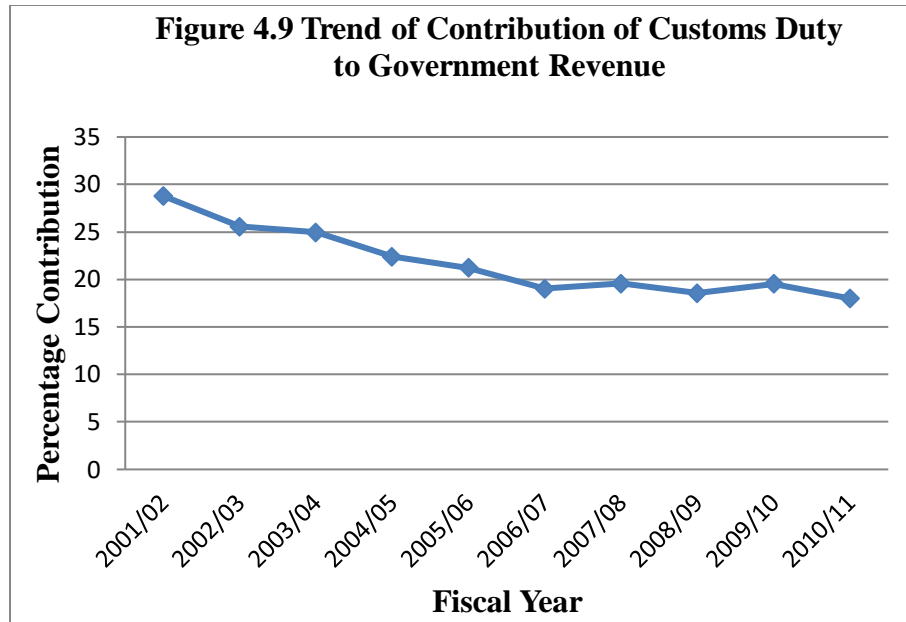
F/Y	Government Revenue (Rs. In millions)	Customs Duty (Rs. In millions)	Percentage of Contribution
2001/02	48,934.80	14,085.60	28.78
2002/03	55,670.50	14,236.40	25.57
2003/04	62,331.0	15,554.20	24.95

2004/05	70,122.80	15,701.50	22.39
2005/06	72,282.10	15,344.10	21.23
2006/07	87,712.10	16,699.00	19.04
2007/08	107,622.70	21,062.40	19.57
2008/09	143,474.40	26,622.60	18.56
2009/10	179,940.40	35,151.50	19.54
2010/11	198,819.60	35,794.10	18.00
Average	102,691.04	21,025.14	21.76
S. D.	50828.27	8077.84	3.41

Source: Quarterly Economic Bulletin of Nepal Rastra Bank

According to table 4.5 the volume of income from Customs Duty to the government revenue was Rs.14085.6 millions at the beginning of the research period i.e. fiscal year 2001/2002. This volume has been growing continuously toward the higher level of revenue and reached at the volume of Rs.35794.1 millions at the end of the research period i.e. fiscal year 2010/2011. But the fact is that the volume of revenue received from customs duty has been increased during the research period of ten years but the percentage contribution of customs duty to government revenue has been decreased continuously during same periods of research. At the beginning of the research period i.e. fiscal year 2001/2002 the contribution of customs duty to government revenue was 28.78%. But during the research period it has been decreased continuously and at the end of the research period i.e. fiscal year 2010/2011 it has been covered only 18% of total government revenue. During the research period the volume of average government revenue is Rs.102691.04 millions with standard deviation of 50828.27 and the volume of average customs duty is Rs.21025.14 millions with standard deviation of 8077.84. The average contribution of customs duty to government revenue is 21.76% with standard deviation of 3.41% during the whole research period.

The data and information about the contribution of customs duty to government revenue could also be presented into the trend line which is shown below into the figure 4.9.



The above figure shows the percentage of contribution made by customs duty to government revenue during the research period of ten years from the fiscal year 2001/2002 to the fiscal year 2010/2011. The trend line of percentage contribution of customs shows that the contribution made by customs duty has been in decreasing trend during the research period of ten years.

4.2.2 Analysis of Contribution of Customs Duty on Tax Revenue

In this section of analysis the contribution of customs duty to the government of Nepal through tax revenue has been analyzed. This contribution of customs duty is analyzed with comparison of tax revenue of government of Nepal during the research period of ten years from fiscal year 2001/2002 to the fiscal year 2010/2011. Customs duty is the total of various sectors of customs which is classified by the government of Nepal and tax revenue is the totals of two sectors i.e. direct tax revenue and indirect tax revenue. Customs duty is a part of indirect tax. To analyze the contribution made by customs duty to the tax revenue of government of Nepal percentage contribution of each year has been compared. Those information and data presented below in the table 4.6.

Table 4.6
Contribution of Customs Duty on Tax Revenue

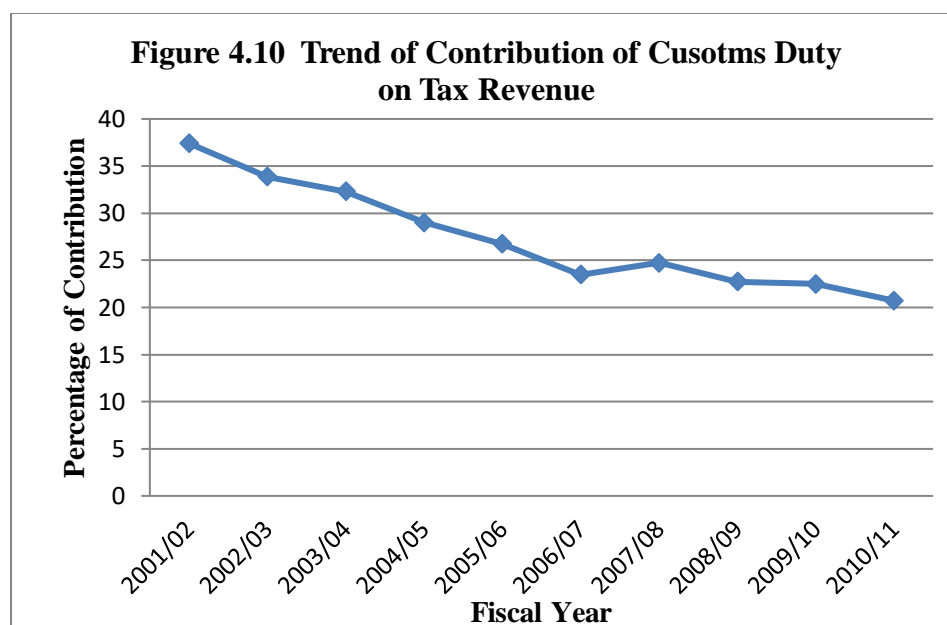
F/Y	Tax Revenue (Rs. In millions)	Customs Duties (Rs. In millions)	% of Contribution
2001/02	37,656.30	14,085.60	37.41
2002/03	42,027.70	14,236.40	33.87
2003/04	48,175.70	15,554.20	32.29
2004/05	54,104.90	15,701.50	29.02
2005/06	57,427.00	15,344.10	26.72
2006/07	71,168.00	16,699.00	23.46
2007/08	85,147.10	21,062.40	24.74
2008/09	117,051.80	26,622.60	22.74
2009/10	156,290.70	35,151.50	22.49
2010/11	172,755.20	35,794.10	20.72
Average	84,180.44	21,025.14	27.35
S.D.	45993.63	8077.84	5.31

Source: Quarterly Economic Bulletin of Nepal Rastra Bank

The table 4.6 shows the volume of total tax revenue, customs duty and the percentage contribution of customs duty to tax revenue of Nepal government. At the beginning of the research period i.e. fiscal year 2001/2002, the volume of tax revenue was Rs.37656.3 millions and the volume of customs duty was Rs.14085.6 millions. Similarly, the at the end of the research period the volume of Tax revenue has been reached Rs.172755.2 millions and the volume of customs duty has been reached Rs.35794.1 millions. The volume of tax revenue has been seen increasing and became more than 4 times at the end of the research period with comparison to the starting time of research work. Similarly, the volume of customs duty also has been seen increasing and became more than twice at the end of the research period with comparison to the starting period of research work. But the percentage contribution of Customs duty to the government of Nepal through tax revenue has been decreased with fluctuation. At the beginning of the research period it was 37.41% of tax revenue. But at the end of the research period it has been decreased and reached at 20.72%. The average volume of tax revenue during the research period of ten years from the fiscal year 2001/2002 to the fiscal year

2010/2011 is Rs.84180.44 millions and the average volume of customs duty for the same period is Rs.21025.14 millions. The average percentage contribution of customs duty to tax revenue during the research period is 27.35% with the standard deviation of 5.31%.

This information and data about the contribution of customs duty to tax revenue could also be presented into the trend line which shown below in the figure 4.10.



The above figure 4.10 shows the contribution made by customs duty to the government of Nepal through tax revenue during the research period of ten years from the fiscal year 2001/2002 to the fiscal year 2010/2011. This trend line of contribution of customs duty to tax revenue has been in decreasing trend except the fiscal year 2007/2008.

4.2.3 Analysis of Comparison of Customs Duty to Non-Tax Revenue

In this section of study the comparison of customs duty to non-tax revenue has been analyzed during the research period of ten years from fiscal year 2001/2002 to the fiscal year 2010/2011. This study has done to see how much contribution

made by customs duty in comparison to non-tax revenue. The government revenue basically comes from two broad sources. One is tax revenue and another is non-tax revenue. Tax revenue includes indirect tax revenue and direct tax revenue whereas non-tax revenue includes duties and fees, fines and forfeiture, public utilities, dividends, interest, royalty and sales of government property, principal repayments and miscellaneous income. The table 4.7 has been presented the non-tax revenue, customs duty and ratio of customs duty to non-tax revenue which is shown below:

Table 4.7
Comparison of Customs Duty to Non-Tax Revenue

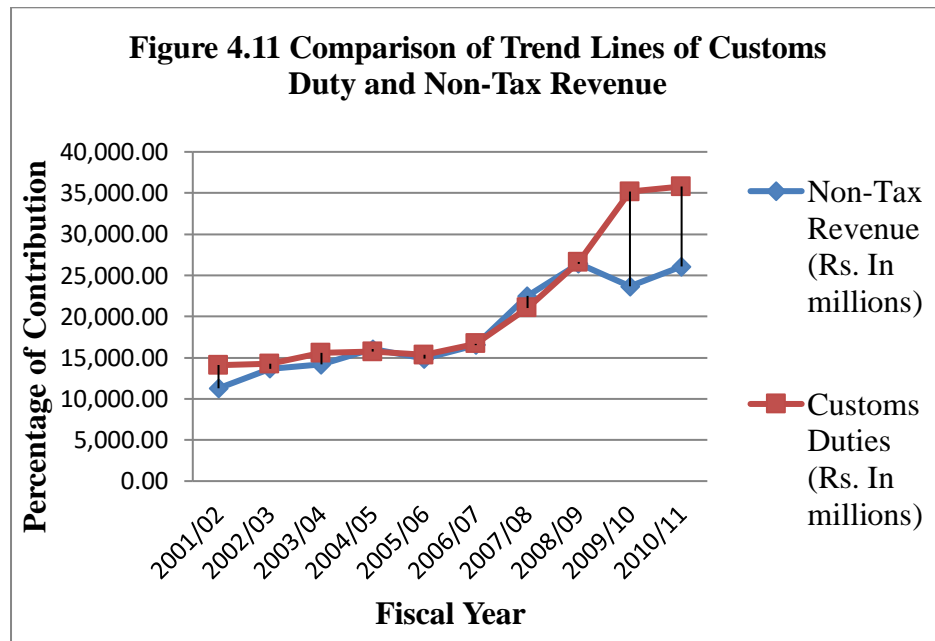
F/Y	Non-Tax Revenue (Rs. In millions)	Customs Duties (Rs. In millions)	Ratio
2001/02	11,278.50	14,085.60	1.25
2002/03	13,642.80	14,236.40	1.04
2003/04	14,155.30	15,554.20	1.10
2004/05	16,017.90	15,701.50	0.98
2005/06	14,855.10	15,344.10	1.03
2006/07	16,544.10	16,699.00	1.01
2007/08	22,475.60	21,062.40	0.94
2008/09	26,422.60	26,622.60	1.01
2009/10	23,649.70	35,151.50	1.49
2010/11	26,064.40	35,794.10	1.37
Average	18,510.60	21,025.14	1.12
S.D.	5293.41	8077.84	0.18

Source: Quarterly Economic Bulletin of Nepal Rastra Bank

The data on the table 4.7 shows the year wise volume of non-tax revenue and customs duty and also shows the ratio of customs duty to non-tax revenue. From the above table, it is found that the volume of non-tax revenue and customs duty were Rs.11278.5 million and Rs. 14085.6 million respectively during the research period of ten years. Similarly, at the end of the research period i.e. fiscal year 2010/2011 the volume of non-tax revenue and customs duty have been increased and reached Rs.26064.4 million and Rs.35794.1 million respectively. The average non tax revenue is Rs.18510.6 million during the research period of ten years and the average customs duty is Rs.21025.14 million during this period.

From this information it is concluded that the customs duty contributes more than Rs. 2514.54 million to the government of Nepal in comparison to non tax revenue on average. In the beginning period of research work the contribution ratio of customs duty to non-tax revenue was 1.25 which means that the customs duty contributed 0.25 times more than non-tax revenue in the revenue generation process of Nepal government during that period. At the end of the research period the customs duty has been contributed 0.37 times more than non-tax revenue in the revenue generation process of Nepal government. During the whole research period the customs is contributed 0.12 times more than non-tax revenue in the revenue generation process of Nepal government on average with standard deviation of 0.18.

The above information and data about the comparison of customs duty to non-tax revenue could also be presented into the trend line which is shown below into the figure 4.11.



The above figure 4.11 shows the Comparison of Customs Duty to Non-Tax Revenue during the research period of ten years from fiscal year 2001/2002 to the fiscal year 2010/2011. From this trend line it has been concluded that the volume of contribution of Customs Duty with comparison to volume of contribution of Non-Tax Revenue is higher in each year except the fiscal year 2004/2005 and the fiscal year 2007/2008.

4.2.4 Analysis of Contribution of Customs Duties on Indirect Tax

The government of Nepal collects the national revenue from following two sources: one is tax revenue and another is non-tax revenue. Tax revenue includes revenue from indirect tax and revenue from direct tax. Indirect tax includes customs; value added tax, excise and others. Hence, customs is just a part of indirect tax. In this section of analysis it has been prepared that how much contribution is made by customs duty in revenue collection process of Nepal government through indirect tax revenue. The table 4.8 has been presented the volume of indirect tax, customs duty and percentage contribution of customs duty to indirect tax revenue which is shown below:

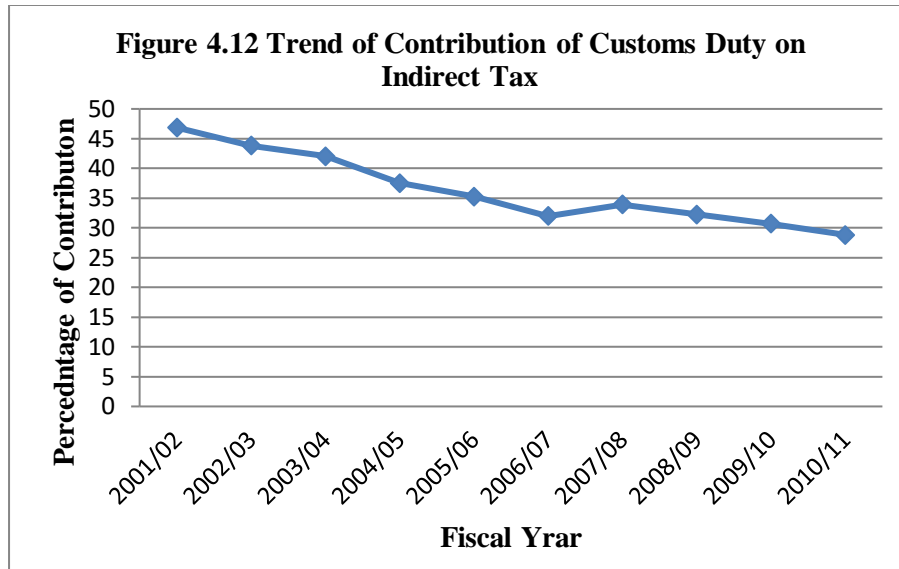
Table 4.8
Contribution of Customs Duty on Indirect Tax

F/Y	Indirect Tax (Rs. In millions)	Customs Duties (Rs. In millions)	% of Contribution
2001/02	30,058.90	14,085.60	46.86
2002/03	32,481.20	14,236.40	43.83
2003/04	36,974.20	15,554.20	42.07
2004/05	41,851.80	15,701.50	37.52
2005/06	43,465.50	15,344.10	35.30
2006/07	52,188.30	16,699.00	32.00
2007/08	62,076.30	21,062.40	33.93
2008/09	82,499.20	26,622.60	32.27
2009/10	114,530.20	35,151.50	30.69
2010/11	124,114.20	35,794.10	28.84
Average	62,023.98	21,025.14	36.33
S.D.	32251.27	8077.84	5.76

Source: Quarterly Economic Bulletin of Nepal Rastra Bank

The data on the table 4.8 shows the volume of indirect tax revenue, customs duty and the percentage contribution of customs duty to indirect tax revenue during the research period of ten years from fiscal year 2001/2002 to the fiscal year 2010/2011. From the above table it is found that the volume of indirect tax revenue and the volume of customs duty were Rs. 30058.9 million and Rs. 14085.6 million respectively in the beginning period of the research work. With time change this volume has been increased and reached at the volume of Rs. 124114.2 million and 35794.1 million respectively at the end of the research work i.e. fiscal year 2010/2011. The average of indirect tax revenue during the whole research period is Rs. 62023.98 million and the average of customs duty for the same period is Rs.21025.14 million. The above table shows that the volume of both indirect tax and customs duty has been increased during the research period but the percentage contribution of customs duty to indirect tax revenue has been decreased with some fluctuation. The percentage contribution of customs duty was 46.86% in the fiscal year 2001/2002. After declining continuously this rate has been reached at 28.84%. The average contribution of customs duty to indirect tax revenue during the whole research period is 36.33% with standard deviation of 5.76%.

The above analyzed data and information about the percentage contribution of customs duty to indirect tax revenue has been presented into the trend line which is shown below in the figure 4.12.



The above figure 4.12 shows the contribution of customs duty to indirect tax revenue during the research period of ten years from fiscal year 2001/2002 to the fiscal year 2010/2011. From this trend line of percentage contribution of customs duty to indirect tax revenue it has been concluded that the percentage contribution of customs duty to indirect tax revenue is in decreasing trend during the research period of ten years.

4.2.5 Analysis of Comparison of Customs Duties to Direct Tax

In this section of analysis the comparison of customs duty to direct tax has been analyzed during the research period of ten years from fiscal year 2001/2002 to the fiscal year 2010/2011. Tax revenue includes both direct tax and customs duty. But direct tax is a part of tax revenue whereas customs duty is a part of indirect tax. Both contribute the government of Nepal in revenue collection process of the nation. The table 4.9 shows the ratio of contribution of customs duty with comparison to direct tax revenue which is shown below in the table 4.9.

**Table 4.9
Comparison of Customs Duty to Direct Tax**

F/Y	Direct Tax (Rs. In millions)	Customs Duties (Rs. In millions)	Ratio
2001/02	7,597.40	14,085.60	1.85
2002/03	9,546.50	14,236.40	1.49

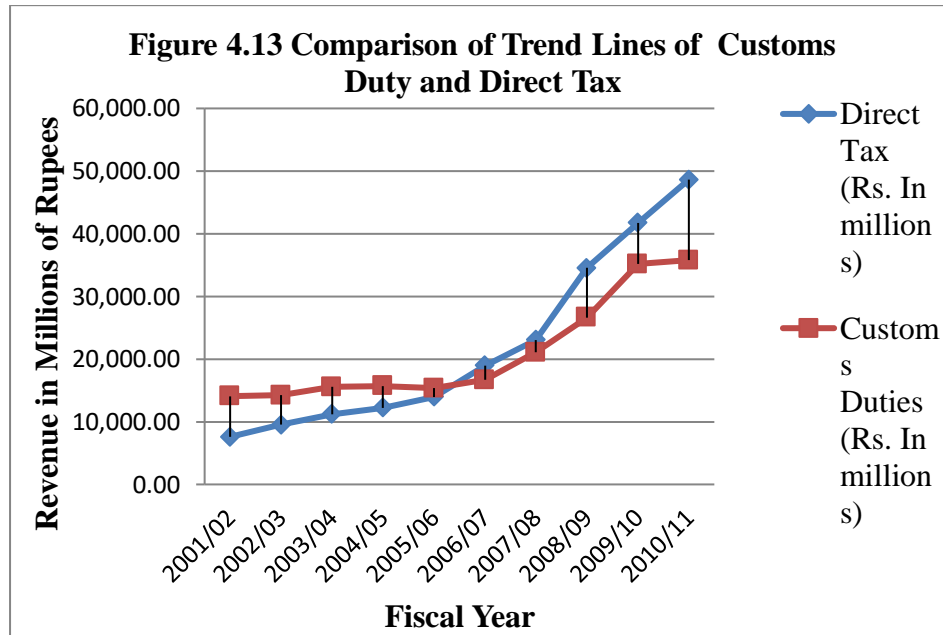
2003/04	11,201.50	15,554.20	1.39
2004/05	12,255.20	15,701.50	1.28
2005/06	13,961.50	15,344.10	1.10
2006/07	18,979.60	16,699.00	0.88
2007/08	23,070.80	21,062.40	0.91
2008/09	34,552.60	26,622.60	0.77
2009/10	41,760.50	35,151.50	0.84
2010/11	48,641.00	35,794.10	0.74
Average	22,156.66	21,025.14	1.13
S.D.	13807.69	8077.84	0.35

Source: Quarterly Economic Bulletin of Nepal Rastra Bank

The data on the table 4.9 shows the comparison ratio of customs duty to direct tax during the research period of ten years starting from fiscal year 2001/2002 and ending at fiscal year 2010/2011. From this table it is found that the volume of direct tax and customs duty were Rs. 7597.4 million and Rs. 14085.6 million respectively in the beginning of the research period. With the flow of time this volume of direct tax and customs duty has been changed towards the positive direction. It means that the volume of direct tax and customs duty has been increased and reached at the volume of Rs. 48641 million and Rs. 35794.1 million respectively. The average contributions of these sectors are Rs. 22156.66 million and Rs. 21025.14 million respectively during the whole research period.

The ratio of customs duty to direct tax revenue shows that the contribution of customs duty was higher than that of contribution of direct tax up to fiscal year 2005/2006. After the fiscal year 2005/2006 the contribution of customs duty has been decreased with comparison of contribution received from direct tax revenue. The ratio of customs duty to direct tax was 1.85times in the beginning of the research period but at the end of the research period this ratio has been decreased and reached 0.74 times which shows the decreasing trend of revenue from customs. The average ratio during the whole research period of ten years is 1.13 times. This shows that the customs duty contributes 0.13 times i.e. 13% more contribution than direct tax during the whole research period with standard deviation of 0.35.

This information and data could also be presented into the trend lines of customs duty and direct tax revenue which is shown in the figure 4.13.



The above figure shows the contribution of customs duty to government of Nepal with comparison to revenue from direct tax during the research period of ten years starting from fiscal year 2001/2002 and ending at the fiscal year 2010/2011. From the above figure it is concluded that the revenue received from direct tax has been increased rapidly with comparison to revenue received from customs duty. The revenue received from customs duty was higher up to the fiscal year 2005/2006. After the fiscal year 2005/2006 the revenue received from direct tax has been increased and became higher than that of revenue received from customs duty.

4.3 Major Findings

On the basis of analysis of secondary data published in quarterly economic bulletin of Nepal Rastra Bank for the period of ten years starting from fiscal year 2001/2002 and ending at fiscal year 2010/2011, the major findings of the study are summarized below:

1. Government collects the revenue from tax has the largest contribution with comparison to the revenue collects from non-tax. Tax revenue has been contributed 80.19% on average while non-tax revenue has been contributed 19.81% on average.
2. The contribution of tax revenue has been increased whereas the contribution of non-tax revenue has been decreased with the flow of time.
3. Tax revenue is the major source of government revenue whose components are indirect tax and direct tax. The contribution of indirect tax has been seen decreasing with the flow of time but the contribution of direct tax has been seen increasing with the flow of time.
4. The percentage of revenue collects from indirect tax under the headings of customs duty has been decreased continuously whereas percentage of revenue collects under the headings of VAT, excise duty and other duty have been seen increasing.
5. It is found that the average contribution of customs duty, VAT, excise duty and other duties are 36.33%, 46.01%, 17.29% and 0.03% respectively.
6. The Department of Customs collects most of the revenue from import duty. The average collection from import duty has been seen 78.97% of total customs duty.
7. It is found that the import duty collection is increasing with the flow of time whereas export duty, Indian excise refund and agriculture refund duty are decreasing.

8. The revenue collected by government of Nepal has been increased each year and the revenue collected by customs department has been also increased each year.
9. The contribution of customs duty to government revenue has been decreased because the flow of government revenue is higher than that of the flow of revenue received from customs duty.
10. The revenue collected by Nepal government in the form of tax revenue has been increased with the flow of time.
11. The percentage contribution of customs duty to tax revenue has been seen decreasing because flow of revenue received from customs duty has been lowered than the flow of revenue received from tax revenue.
12. The comparison ratio of customs duty to non-tax revenue shows that the customs duty has been contributed more than that of non-tax revenue.
13. The contribution ratio made by customs duty to indirect tax has been decreased which shows the constant increment in customs duty and rapid increment in other components of indirect tax.
14. The comparison ratio of customs duty to direct tax shows that the revenue received from direct tax has been increased continuously whereas increasing trend of customs duty has been seen same.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

The last chapter of the research work is most important because it is the final opportunity to explain the findings. This chapter is focused on the findings and the conclusions obtained from the study of “Contribution of Customs Duty in Total Tax Structure of Nepal”. This chapter is included three sections; the first section deals with the summary of the study, second section draws the conclusion of the study and third section purposes the suggestions to the problems observed on the basis of the findings.

5.1 Summary

Nepal is a developing country in which around 26% of the total population lies below poverty line. So, for the overall development of the country a huge amount of fund and resources should be needed. In another words, to carry out the development plans, handle day-to-day administration, maintain peace and security and launch other public welfare activities, a nation requires sufficient fund. The required fund comes basically from debt and revenue. The government revenue comes from tax and non-tax revenue.

Tax is the contribution to the government without expecting any direct benefits. It is a major source of government revenue. It comes by adding the revenue of two components i.e. direct tax and indirect tax. The government collects customs duty in the form of indirect tax. In Nepal, customs duty was originated along with the period of Rana Regime by making an internal customs duty office in Kathmandu. After 1950's trade agreement, these internal customs offices were cancelled and they were established in border.

Government revenue basically comes from the composition of two components i.e. tax and non-tax revenue. More than 80% of government revenue comes from tax revenue which shows that tax revenue is a major source of government

revenue. Tax revenue is the composition of direct tax revenue and indirect tax revenue.

Customs Duty is a major source of tax revenue collected in the form of indirect tax. It contributes 22% of the total tax revenue. Customs duty is a tariff on the imports as well as exports of the goods. Nepal has a limited export and high import. The contribution of import duty is higher than the export duty collected by customs department.

The major objective of this study is to analyze the contribution of customs duty to total government revenue of Nepal. The specific objectives of the study are as follows: to analyze the trend of contribution of customs duty to the national economy of Nepal, to see the contribution ratio of customs duty in total tax revenue of the government, to evaluate the composition of components customs duty and their contribution to overall customs duty and to compare the contribution of customs duty with non-tax revenue and direct tax revenue.

This study covers the period of 10 years data of customs duty from fiscal year 2001/2002 to the fiscal year 2010/2011 published on economic bulletin of Nepal Rastra Bank. This study has used contribution ratio, mean, standard deviation and coefficient of variation to accomplish the objective.

The study shows that the customs duty is an important source of government revenue collects in the form of indirect tax. The volume of customs duty is increasing with the flow of time. But its contribution to total revenue, tax revenue and indirect tax revenue is decreasing with the flow of time. Customs duty from import duty is higher than other components of customs duty i.e. export, Indian excise refund and agriculture refund duty. The contribution ratio of import duty is increasing with some fluctuation but the contribution of export, Indian excise refund and agriculture refund duty are decreasing which is the cause of decline of percentage contribution of customs duty.

5.2 Conclusions

From this study, it can be concluded that most of the revenue collected by the government comes from tax revenue which is increasing every year with some fluctuation whereas contribution of non-tax revenue is decreasing every year with fluctuation. It is found that the trend of contribution of indirect tax revenue is in decreasing but the contribution of direct tax revenue is in increasing trend with the flow of time.

Contribution of customs revenue to government revenue, tax revenue and indirect tax revenue has decreased with the flow of time. Because of trend of tax evasion by the tax payer, leakage of customs duty in customs points, corrupt mind of customs officers at customs points, political instability, open border and decrease in exportable goods, the government of Nepal is not being able to collect significant amount of revenue from customs duty in these days.

The government of Nepal has collected higher customs duty from import duty. Contribution ratio of import duty in revenue generation process of Nepal government is increasing each year with some fluctuation. But the contribution ratio of export duty is decreasing each year. Similarly, contribution ratio of revenue collected by the government from Indian excise refund and agriculture refund duties are also decreasing each year which shows that decreasing contribution ratio of these components is the cause of decreasing contribution ratio of customs duty on total tax revenue of Nepal.

It is also concluded that the contribution of customs duty is higher with comparison to contribution of non-tax revenue. It shows the importance of customs duty in revenue generation process of Nepal government. But, with comparison to direct tax revenue, the average contribution of customs duty is lower. It was higher than direct tax revenue during the period of first five years.

After the fiscal year 2006/2007, direct tax revenue has been seen higher than that of customs duty.

The result suggests that although different factor affects on contribution of customs duty in total tax structure of Nepal, they are not only the causes of less contribution on the customs duty of Nepal. These factors will work smoothly if the government of Nepal shows the strong attendance in customs department with up to date policies, rules and regulations with new technologies.

5.3 Recommendations

Based on the analysis, findings and conclusion of the present study, the following suggestions are recommended to increase the contribution of customs duty to total tax revenue.

The volume of customs duty is increasing with the flow of time. But the increasing volume is very low with comparison to the increasing volume of total revenue, tax revenue and indirect tax revenue. The government should be ready to find out the obstacles of the revenue collection from customs duty. And it should be able to control the leakage and corruption on customs duty. The government should strongly adopt the GATT and international trade policy to make the revenue collection process easy.

More than 75% of the customs revenue is from import duty which shows that customs means just imports of the goods. The increasing contribution of import duty and decreasing contribution of export duty shows the trade deficit and imbalance. The government should facilitate to promote the exportable goods with some exemptions on export to increase the contribution of export duty which helps to make the trade balance on the country. The export of the Nepalese products are decreasing each year by the cause of this total volume of the export is also decreasing. The government should investigate why Nepalese products are not buying and selling in international market and should take an immediate action

which will be able to re-establish the Nepalese product's brand name and helps to increase the volume of the exportable goods. It is necessary to make a strategy to increase the volume of foreign trade by expanding the area of exportable goods. The government should encourage the domestic industries to produce the quality product. It makes the people conscious about these products. At last use of domestic product will be high and import of the goods will be low. After that, the trade will be balance by reducing import of the goods and by increasing export of the domestic goods.

The government should make the customs act, rules and regulation up to date with time change for the better performance of Customs Department in revenue generation process.

In case of Nepal-India trade, controlling the informal trade is impossible but it can be reduce by government agency which helps to increase customs revenue. The government should punish them who are not following the law and order of the country which helps to control the informal trade and smuggling of the goods from open border. The customs department should establish more customs points in suspicious area where the smuggling of goods and informal trades are taken place.

For the visibility of revenue collection process in customs points, the customs department should make a team who regulate and monitor them regularly. Corruption and leakage are the main problems in reduction of customs revenue. It should control by hiring the good employee and by firing the corrupt employee from customs points. The department should punish the corrupt employee and reward the better performance of the employee which motivates them to show the better performance and which warn them for negligence and corruption. The department should operate the harmonized system in easy way for the better services.

The government should provide a good direction to the customs department to use new system of revenue collection with new technology and to recruit well

educated and trained manpower at customs points. The government should increase the customs revenue by providing the training program for the customs employee to compute the customs duty in fast and easy way.

Evasion of tax is another major problem while collecting customs revenue. In the absence of good computerized system, negligence of customs employee and the lack of proper knowledge about the use of tax revenue, tax evasion takes place.

Nepotism and favoritism is another problem which reduces the customs revenue. It is most powerful than the customs rules in case of customs personnel of Nepal. The government should stop nepotism and favoritism in customs points. It should stop by regular monitoring of special investigation units of Nepal government at customs points.

Corruption, leakage, informal trade, smuggling of goods, open border, reduction in exportable goods are the main causes by whom customs revenue is reduce. The government should reduce corruption and leakage with strong policy. The government should minimize the informal trade and smuggling of goods by the help of its agency and by establishing more customs points in these places where these activities are taken place. The government should do promotional activities through international televisions and channels to increase the volume of export revenue.

Contribution of customs duty to total tax revenue will be high, if the government will be able to maintain peace and security in the country, keep stability, make suitable rules and regulation and have the strong desire to implement these rules and regulation.

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APPENDICES

Appendix 1

Amount of Government Revenue, Total Tax Revenue, Indirect Tax, Direct Tax and Non-Tax Revenue of Government of Nepal

(Rs. In Millions)					
Fiscal Year	Government Revenue	Tax Revenue	Indirect Tax	Direct Tax	Non-tax Revenue
2001/02	48,934.80	37,656.30	30,058.90	7,597.40	11,278.50
2002/03	55,670.50	42,027.70	32,481.20	9,546.50	13,642.80
2003/04	62,331.0	48,175.70	36,974.20	11,201.50	14,155.30
2004/05	70,122.80	54,104.90	41,851.80	12,255.20	16,017.90
2005/06	72,282.10	57,427.00	43,465.50	13,961.50	14,855.10
2006/07	87,712.10	71,168.00	52,188.30	18,979.60	16,544.10
2007/08	107,622.70	85,147.10	62,076.30	23,070.80	22,475.60
2008/09	143,474.40	117,051.80	82,499.20	34,552.60	26,422.60
2009/10	179,940.40	156,290.70	114,530.20	41,760.50	23,649.70
2010/11	198,819.60	172,755.20	124,114.20	48,641.00	26,064.40

Source: Quarterly Economic Bulletin of Nepal Rastra

Bank

Appendix 2

Composition of Indirect Tax

(Rs. In Millions)				
Fiscal Year	Customs	Value Added Tax	Excise	Others
2001/02	14,085.60	12267.3	3807.0	0.0
2002/03	14,236.40	13467.3	4777.5	0.0
2003/04	15,554.20	14498.2	6221.4	0.0
2004/05	15,701.50	18897.9	6446.3	0.0
2005/06	15,344.10	21615.4	6506.5	0.0
2006/07	16,699.00	26145.4	9343.6	0.0
2007/08	21,062.40	29784.6	11229.2	0.0
2008/09	26,622.60	39604.2	16272.5	0.0
2009/10	35,151.50	54896.5	24315.1	167.0

2010/11	35,794.10	61659.1	26542.3	204.4
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Source: Quarterly Economic Bulletin of Nepal Rastra

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Appendix 3

Composition of components of Customs Duties

(Rs. In Millions)					
Fiscal Year	Import Duty	Export Duty	Indian Excise Refund	Agriculture Reform Duties	Miscellaneous Customs Duties
2001/02	9734.80	968.90	2,768.90	583.70	29.30
2002/03	10,567.70	855.20	2,370.60	426.20	16.70
2003/04	11,439.10	527.40	3,110.10	404.70	72.90
2004/05	12,302.90	736.30	2,188.30	400.90	73.10
2005/06	11,744.90	625.30	2,314.40	538.80	120.70
2006/07	13,623.50	708.60	1,896.60	406.00	64.30
2007/08	17,128.30	445.70	2,997.10	390.10	101.20
2008/09	21,886.30	796.50	3,211.20	497.20	231.40
2009/10	29,964.80	908.80	3,521.00	497.30	259.60
2010/11	31,347.60	486.70	2,918.70	752.40	288.70

Source: Quarterly Economic Bulletin of Nepal Rastra Bank