

CHAPTER – I

INTRODUCTION

1.1 Background of the Study

Today the government has to spend a lot of money to fulfill their responsibility towards people. This responsibility may be development, health, education etc. The Government expenditure is increasing because of demand of time, increase in price level and increase in social program. To meet the increased public expenditure, the government has to manage its funds from internal as well as external sources of fund. Developing countries have an experience that the external source creates negative result in development of country. Nobody becomes ready to provide grants and loan without conditions, on the other hand, it is better to mobilize internal sources rather than external sources.

Due to the limitation of direct tax and its low performance in revenue collection, indirect tax has been given performance to government. So to enhance revenue mobilization Custom duty was introduced in Nepal. Income Tax and VAT administration were made more transparent and supportive; attaching all entrepreneurs and the business communities to come under the network of Custom duty. Since the Custom duty is one of the components of indirect tax developed in past, it is probably the best tax system that had been at the top of tax system.

The main objective of government of any developing country is to improve living standard of people through the development process. In order to achieve this objective, every government launches different economic, social cultural and other development activities. For this, government needs huge amount of financial resources.

For self sustain, government must be able to generate sufficient revenue that is the most important source of financing. Through the proper administrative strategy, the national objective can be achieved.

For the self-reliant economic system and sound infrastructure, government should generate sufficient public revenue. Since public revenue is the income of the government, to meet the public expenditure, government collects fund through internal and external sources (Regmi, 2010).

Custom duty is an indirect tax, which has high significant contribution to government revenue. Nepal has a limited tax sources, there are limited industries, and private firms that are contribute to the government very little. However, the Custom duty has high contribution to the government revenue. Nepal has adopted Custom Act in 2019 B.S., which facilitates trade and transit problem (Singh, 2010).

Import duty is the tax levied by the government on the goods imported from foreign country. A tax that a country imposes on its imports is called import duty. A duty exists to make an import more expensive and to thereby encourage people to buy goods produced in their own country. Proponents of their use argue that duties discourage outsourcing of jobs to other countries and make the country more self-sufficient, but most economists agree that they are economically inefficient and some contend that they may ultimately harm the people they are intended to help (Pokhrel, 2010).

Export duty is the tax levied by the government on the goods exported to foreign country. Export duties consist 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; profits of export monopolies and taxes resulting from multiple exchange rates are excluded.

1.2 Statement of the Problem

The government is collecting revenue from Custom duty. It is not well planned. Government is not being able to charged duty in scientific ways. There is not good security in the boarder, which helps businessperson evade Custom duty. There is research gap in the field of Custom duty since long time. Government is not able to fix a system regarding Custom duty. There is not any evaluation of actual performance and standard fixed by the government regarding rate and harmonized product. Nepal has a limited market and has not produced high price-able products to export in foreign countries. Nepal is highly dependent on foreign products; in such an economic condition of the nation is not a good sign. Nepal has more than 80 percent trade with India, so Nepalese market is dependent on Indian markets. In such a situation, the export and import duty of government and its significance as well has to be found.

As Nepal is landlocked country bounded by India and republican China with free boarder, government is not being able to charge duty on each product imported from those countries and exported to them. Some of the products are duty free because of negotiation with them. This research work has tried to answer the following research questions to fulfill the objectives of the study.

-) What is the targeted and actual custom duty collection?
-) Whether the Custom duty is contributing significantly in government revenue or not?
-) What is the position of Custom duty in revenue collection of Nepal?
-) What is the composition of direct tax and indirect tax?
-) What are the most responsible factors to make collection of Custom duty ineffective in Nepal?
-) What are the major problems faced by taxpayers after Custom duty regime?

1.3 Objectives of the Study

As said elsewhere, the mechanism of this study is to bring forward inherent lineage between import duty and export duty. The contribution of Custom duty to revenue of government of Nepal, as well as to establish a relationship between the trends of Custom duty charged and government revenue in relation to its growth over time. Keeping the above fact in view and the intervening variables of the study, the objectives broadly specified are given as follows.

-) To find out the trend of targeted & actual collection of Custom duty in Nepal.
-) To explore the contribution of Custom duty on government revenue.
-) To identify the role of Custom duty in collection of total tax revenue.
-) To identify the composition of direct tax and indirect tax.
-) To explore the responsible factors to make collection of Custom duty ineffective in Nepal.
-) To examine the problems faced by taxpayers after Custom duty regime.

1.4 Significance of the Study

Nepal being developing country has the necessity to make development of each sector. Custom duty is the major part of collection of revenue of Government of Nepal, which may be fruitful to make development activities of different sectors. There is a need of mobilizing adequate resources for meeting the financial requirement for development purpose of government. Custom duty is the major potential source for mobilizing a large amount of financial resources in Nepal.

Custom duty plays significant role in the overall economic development in the developed as well as developing countries. It occupies a significant place in overall tax structure. The role of Custom duty is gradually increasing in the world because of globalization and development of multinational companies.

Nepal is one of the lowest tax economies in the world as its tax /GDP and tax/GNP ratios are the lowest among SAARC countries and among the rest of the countries as well. The portion of indirect tax is greater than direct tax. There is a significant contribution of Custom duty to the revenue of government. This study tries to minimize the research gap.

Custom duty is an indirect tax, which has high contribution for government revenue. Nepal has established 30 administrative Custom offices. Out of them, nine are situated in north boarder area, 20 are situated in south boarder area and, one at Tribhuvan International Airport, which is situated in Kathmandu. In this scenario, Nepalese trade depends on India and little bit business with China. Custom duty is main source of government revenue of Nepal. It has positive sign but the government is not highly concentrated on leakage and crime.

Besides the those who are affected by Custom duty for the production and consumption of goods and services, this research is very useful for those persons like students, researchers, scholars, professors, journalists, legislators, planners and the those who are interested in Custom duty of Nepal.

1.5 Limitations of the Study

Every study has its own limitations and boundaries. This study also has various limitations. Some of which are given below.

-) Major sources of data are secondary sources thus the error consisted in those sources may perceive in this research.
-) This study has covered only the period of 5 years (2007/08 to 2011/12). This may not represent the whole average.
-) Due to the lack of secondary sources of data all the factors of Custom duty has not been explore in detail.

Even though there are some limitations of this study, the findings of this study will be helpful to all concerned offices and persons throughout the country, since, conclusion of this study will be made with care and as the guidance of experts.

1.6 Organization of the Study

This study is divided into five major chapters, which are as follows.

Chapter – I: Introduction

This chapter includes background of the study, statement of problem, objective of the study, significant of the study and limitation of the study & Organization of the study.

Chapter – II: Review of Literature

This chapter includes conceptual framework of income tax and review of related journals, articles, previous thesis and research gap.

Chapter – III: Research Methodology

This chapter includes research design, population and sample, source of data, data collection procedure and data analysis tools.

Chapter – IV: Data Presentation and Analysis

In this chapter, collected data are presented, analyzed and interpreted by using statistical tools, mathematical tools and other accounting and financing tools.

Chapter – V: Summary, Conclusions and Recommendations

The final or last chapter contains the summary of the whole study. The conclusions of the study have been presented and at last, suitable points are suggested in the form of recommendation. Bibliography and appendixes will incorporate in the end of the study.

CHAPRTEER – II

REVIEW OF LITERATURE

Review of the literature is undertake in order to find out what works have been conducted in the area of the concerned study. It promotes grater understanding of the problem under study and provides comparative data to evaluate and interpret the significance of the findings, and provides fruitful sources of hypothesis and conceptual framework. It is the chapter where a researcher reviews the books, journals, magazines or any other types of studies, which are related to his/her field of study. The purpose of reviewing the literature is to develop some expertise in one's area, to see what new contribution can be made and to receive some ideas for developing design.

2.1 Conceptual Framework

2.1.1 Meaning of Taxation

Taxation is the compulsory contribution from a person to the government to defray expenses incurred in the common interest of all without reference to special benefit conferred. According to this definition given above, it can be said that firstly a tax is a compulsory levy and those who are taxed have to pay it without getting corresponding benefit of services or goods from the government. The taxpayer does not have any right to receive direct benefit from the tax paid. Due to this compulsory nature, people have expressed different views in satirical ways about the taxation. Some say, "Nothing is certain in this world but death and taxes," some say, "death and Taxes are both certai but death is not annual"; while others say, "Death means stopping to pay tax". Here it should be noted that all compulsory payments are not tax. For example, fines and fees are also compulsory payments without having direct benefit to the payer but it is not tax because its objective is not to collect revenue but to curb certain types of offences. Secondly, taxpayer cannot receive any quid pro quo for the payment of tax. The taxpayer does not receive

equivalent benefit from the government. A tax is not a price paid by one, for which he can claim goods and services. The charge of price for goods and services by public authority is not a tax. Thirdly, the tax is paid for the government for running it. Fourthly, in case of tax, the amount is spent for common interest of the people. The tax is collected from haves and basically, spends for the interest of haves not in the society. Fifthly, a natural or an artificial person pays the tax (Kandel, 2003: 2).

Taxation is a system used by governments to obtain money from people and organizations. The government uses collected revenue to support itself and to provide public services. In its nature, it is relatively permanent and compulsory and does not guarantee a direct relationship between the amount contributed by a citizen and the extent of governmental services provided to him. Therefore, taxation is a device or process of imposing a tax.

2.1.2 Objective of Taxation

Taxation has been very essential element of the government from the very beginning of the state system. However, the objective of taxation has been different for different epochs. In ancient times, the objective of taxation was strengthening the muscle of the state by providing the resources. Till the time of Adam Smith, the objective of the revenue was:

-) To provide resources to the government for paying security to an individual and society from violence, invasion, injustice and maintaining public institutions which can never be for the interest of an individual?
-) To shift from security perception to the economic development, and
-) The modern objective of the taxation is raising revenue to have encouragement in production of certain products; encouragement in employment, saving and investment removal of regional investment removal of regional imbalances and enforcement of government policy.

2.1.3 Principle of Taxation

As everything is based on certain principles, in the same way taxation also has some specific principle which helps to formulate appropriate tax policies. According to Adam Smith, the father of economics has mentioned the following criteria, maxims or cannons of taxation in his book “the Wealth of Nations”.

1. **Cannon of Equality or Equity:-** The tax policy should be formulated considering the ability of public to pay taxes. For this higher tax is imposed on higher income or properties. This policy established the equitable liability to the same income group. Thus cannon of equity say that the people should contribute to the government per the benefits that they get from the government.
2. **Cannon of Certainty:-** Another quality of tax system is the cannon of certainty. This cannon say that a taxpayer should be informed about the rate, time and procedures of payment of tax. Furthermore fix its target of revenues that comes from taxes.
3. **Cannon of Convenience:-** Convenience is another quality of a good tax system. Common people do not have sufficient knowledge about the taxation nor do they have the capacity to hire the experts. That is way tax system should be such that can be easily understood and followed by ordinary people in the society.
4. **Cannon of Economy:-** If the expenditure of collecting tax is more then or equal to the amount of tax, such policy will not result in surplus to the public revenues and will not be beneficial to the country. This good tax policy has the quality of economy, that the low cost of collecting tax should be maintained to the possible extent so as to minimize the difference between the amount that people take out of their pocket to pay tax and the amount that actually goes to the government treasury.

Besides the above stated cannons of taxation given by Adam Smith, there are others too developed by other economists. These cannons given by other economists are as follows:

5. **Cannon of Productivity:-** Cannon of productivity says that every tax system should be revenue productive. It means that there should be those taxes only which provide adequate revenue. Taxes that do not provide sufficient revenue should be withdrawn.
6. **Cannon of Flexibility:-** Flexibility indicates two things. First, a tax system should have the characteristic of revenue elasticity. There should be built-in tie-up between the economic activity of a country and revenue mobilization. Higher the economic activity, higher the revenue. Second, the tax system should be of that type which provides revenue as per the necessity of the situation. If there is need of higher revenue, the tax system should provide as per the needs.
7. **Cannon of Diversity:-** Tax system not totally depends on one source of revenue. It is risky to the government to depend upon only one source. That means the sources of taxation should be diversified as far as possible. This principle says that tax should be levied on various stages and various sources. There should be multiple taxes in place of single tax. Similarly, a tax system should be of that type, the burden of which is diversified on the people of different walks of life.
8. **Cannon of Simplicity:-** Simplicity means understandable. The tax system should be simple to understand and applicable in public life. A complex tax system creates unnecessary hassles. Simple tax system with higher tax rate induces the taxpayer to compliance.
9. **Cannon of Uniformity:-** Uniformity in this context means uniformity in depreciation system, tax rate, stock valuation system, accounting method, dividend distribution system, accounting system, appeal and

penalty system, method of payment of tax and time of the payment of tax.

2.1.4 Concept of Indirect Tax

Charge levied by the state on consumption, expenditure, privilege, or right but not on income or property. Custom duties levied on imports, excise duties on production, sales tax or value added tax (VAT) at some stage in production-distribution process are examples of indirect taxes because they are not levied directly on the income of the consumer or earner. Since they are less obvious than income tax (because they don't show up on the wage slip) politicians are tempted to increase them to generate more state revenue. Also called consumption taxes, they are regressive measures because they are not based on the ability to pay principle.

A tax, such as a sales tax or value-added tax that is levied on goods or services rather than individuals and is ultimately paid by consumers in the form of higher prices is called indirect tax. Indirect tax is a tax levied on goods or services rather than on persons or organizations by the government to increase revenue (www.google.com 15, March, 2012).

Tax is either direct or indirect. A direct tax is one which is demanded from the very persons who it is intended or desired should pay it. Indirect taxes are those, which are demanded from one person in the expectation and intention that he shall indemnify himself at the expense of another.

The producer or importer of a commodity is called upon to pay tax on it, not with the intention to levy a contribution upon him, but to tax through him the consumers of the commodity, from whom it is supposed that he will recover the amount by means of an advance in price.

2.1.5 Concept of Custom Duty

Custom duty is a government tax on imports or exports "they signed a treaty to lower duties on trade between their countries"

Custom in 21st century is the slogan of World Custom Organization, which pushes each member country to intervene in different sectors of Custom reforms in order to materialize the above ambitious slogan. Among others, trade facilitation and preventing society from odds are some of the major responsibilities of Custom administration. Nepalese Custom Administration is working to facilitate authorized trade and preventing revenue and society in the same line by employing electronic Custom procedure. Nine major Custom offices which cover more than 90% of the Nepal's total foreign trade are operating electronic procedures with ASYCUDA ++ software since last couple of years. In this junction, it is much imperative to be familiar and adopt the best practices on data harmonization which is sound to better implementation in a single window environment. This enables us to work with minimum set of standard data element, which is an international standard and opens the door as a strong tool to implement single window establishing a better cooperation between government trades. In the meantime, it is noteworthy here to remember that WCO has recommended the Data Model Version 3.0 on June 2009 and Nepal's Custom have received the letter from Secretary General, WCO requesting to adopt the model. Hence, we should prepare strategically ourselves, being not only as a member country but also for the mutual benefits of government and traders (Shrestha, 2007).

A single window concept is not a totally a new concept in our country too even though, it is less acted than what is talked more in connection to the service delivery of public sector. Many government authorities have expressed this term in a different name but with the similar objectives in order to increase transparency, efficiency and cost effectiveness. Nepal has enough room to

introduce and implement this facility for the improvements of its foreign trades (Regmi, 2006).

The World Custom Organization is only an international intergovernmental organization that deals with Custom procedures governing trade between countries, has set different international standard of commodity classification for compiling international trade statistic on all merchandise entering international trade and to promote international comparability of international trade statistics. The adoption of an international standards leads to simplification and harmonization and hence adds to the effectiveness of Custom operations as they provide a simple and predictable trading environment and promote easier and better compliance from traders.

Custom duty is a government tax on imports or exports; "they signed a treaty to lower duties on trade between their countries"

Tax levied on imports and exports by the Custom authorities of a country to raise state revenue, and/or to protect domestic industries from more efficient or predatory competitors from abroad. Also called tariff, duty is based generally on the value of goods or upon the weight, dimensions, or some other criteria of the item.

Tax that a country imposes on its imports and, occasionally, exports is Custom duty. A duty exists to make an import more expensive and to thereby encourage people to buy goods produced in their own country. Proponents of their use argue that duties discourage outsourcing of jobs to other countries and make the country more self-sufficient, but most economists agree that they are economically inefficient and some contend that they may ultimately harm the people they are intended to help. A duty is also called a tariff. A tax or duty to be paid on a particular class of imports or exports is called custom duty (www.google. com 15, march, 2012).

Custom duty is a tariff or tax on the import or export of goods. Traditionally in England, it was part of the customary revenue of the king, and therefore did not need parliamentary consent to be levied, unlike excise duty, land tax, or other impositions.

Government of Nepal made a Custom Act in 2019 B.S. which facilitate and regulate international trade and charges Custom duty. This act was amended in 2054 BS which adopted the transaction according to WTO/GATT valuation. Nepal has 30 Custom offices. Out of 30, 9 offices were established in northern border areas which have 6 sub-Custom offices. 20 were established in southern border area which has 136 sub-Custom offices. One Custom office is at Tribhuvan international Custom office which has one sub-Custom office i.e. foreign post office. There are three Inland Container Depot Birjung, Biratnagar and Bhairawa, which established with the assistance of World Bank/IDA. Birjung is only one ICD linked with railway of India.

United Nation first developed the SITC system to facilitate international comparison of commodity trade data. SITC Rev 2 was published in 1975 followed by SITC Rev 3 in 1985. With a view to facilitate trade flow and analysis of trade statistics in a much more coordinated manner, the Custom Cooperation Council (since renamed as World Custom Organization) developed the harmonized commodity description and coding system or simply harmonized system in 1986. The first version of the harmonized system was introduced in 1988 (HS88). The codes of HS88 correspond precisely with codes of SITC Rev 3. Main revisions of the harmonized System were introduced in 1996 (HS96) and 2002 (HS2002). The most recent revision was HS 2007. Nepal has adopted harmonized system since 1991.

The harmonized system is an international standardized system of names and numbers for classifying traded products developed and names and numbers for classifying traded products developed and maintained by the World Custom Organization (WCO). It comprises about 5000 commodity groups. More than

200 countries and economies use the system as a basis for their Custom tariffs and for the collection of international trade statistics.

The HS contributes to the harmonization of Custom and trade procedures, and the non-documentary trade data interchange in connection with such procedures. Such reducing the costs related to international trade. It is also extensively used by governments, international organizations and the private sectors for many other purposes such as internal taxes, trade policies, trade negotiations, monitoring of controlled goods, rules of origin, freight tariffs, transport statistics , price monitoring, quota controls, complication of national accounts, and economic language and code for goods, and an indispensable tool for international trade.

In Nepal, the Director General and Committee will prescribe heading or sub-heading based on the authentic text of the harmonized system of the world Custom organization. If there is a doubt as to in which heading or sub heading of the harmonized system do any goods fall, the Custom officer will classify such goods in the heading or sub heading as prescribed by the director general and the committee. For the purpose of prescribing the heading or sub heading of any goods, advice of the concerned expert or national or international body made is thought. If prior to the exportation or importation of any goods, any exporter or importer submit an application to the prescribed committee also comprising an expert in the field of concerned for the specification of the heading or subheading of commodity classification of such goods. The committee may also examining a sample of such goods, prescribe the heading or subheading of such goods.

2.1.5.1 Import Duty

Simply import duty is the tax levied by the government on the goods imported from foreign country. A tax that a country imposes on its imports is called import duty. A duty exists to make an import more [expensive](#) and to thereby encourage people to [buy](#) goods produced in their own country. Proponents of

their use argue that duties discourage [outsourcing](#) of jobs to other countries and make the country more self-sufficient, but most economists agree that they are economically inefficient and some contend that they may ultimately harm the people they are intended to help (Singh, 2010).

A duty is also called a tariff. A tax levied on a good imported into a country. In most instances, tariffs are intended to make imported goods more expensive and thus less competitive with domestic products. It is also charged by the government to increase the total revenue.

A tax that a country imposes on its [imports](#) is called import duty. A duty exists to make an import more [expensive](#) and to thereby encourage people to [buy](#) goods produced in their own country. Proponents of their use argue that duties discourage [outsourcing](#) of jobs to other countries and make the country more self-sufficient, but most economists agree that they are economically inefficient and some contend that they may ultimately harm the people they are intended to help.

2.1.5.2 Export Duty

Export duty is the tax levied by the government on the goods exported to foreign country. Export duties consist 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; profits of export monopolies and taxes resulting from multiple exchange rates are excluded (Singh, 2010).

2.1.6 Custom Duty facility and Exemption

Custom Acts 2064 and Custom rules 2064 have laid down the following provision relating to Custom duty facility (Bhattraï & Koirala, 2010).

1. Diplomatic facility or duty facility will, on recommendation of the Ministry of Foreign Affairs, Government of Nepal, be accorded, as prescribed, to those bodies, officials or persons who are entitled to

enjoy such diplomatic facility or duty facility under any bilateral or multilateral treaty agreement to which Nepal is a party.

2. The Government of Nepal may, from time to time and by notification in the Nepal Gazette, accord the diplomatic facility or duty facility to such goods to be imported by such persons or bodies as specified in that notification.
3. The Government of Nepal may, from time to time and by notification in the Nepal Gazette, accord partial or full Custom duty exemption to the goods specified in that notification.
4. The Government of Nepal may accord partial or full Custom duty exemption to the goods to be imported in the name of any project to be operated under foreign loan or grant assistance or in the name of the contractor of such project.
5. The Government of Nepal may accord partial or full Custom duty exemption to the fuel to be consumed during international flight, engine of aircraft, spare parts, machine, equipment thereof, food, liquors, beer and light drinks consumed in flight by an international air service company.
6. The provisions for according the duty facility to any goods to be sent again to a foreign country from the foreign country via Nepal will be as prescribed. The provisions for according the duty facility to any goods to be brought again to a foreign country from the foreign country via Nepal will be as prescribed.

2.1.7 Other Facilities of Custom Duty

Government of Nepal has power to accord Custom duty exemption and other facility to goods to be exported and imported by industry situated in special economic zone (Bhattraï & Koirala, 2067).

1. The Government of Nepal will accord Custom duty exemption and other facility against bank guarantee to the raw material, plants, machinery, equipment, tools and spare parts as required for the industry goods to be exported and imported by any industry situated in the special economic zone.
2. If any importer sells, as prescribed, any goods, which that importer has imported to any industry situated in the special economic zone, and that importer has paid the Custom duty for importing such goods, the Custom office will refund, as prescribed, such Custom duty to that importer.
3. If any industry situated outside the special economic zone sells any finished goods manufactured by that industry to any industry situated within the special economic zone, such Custom duty and other facility as is accorded in the event of export will be accorded as if that sale were an export.
4. If any industry situated within the special zone so sells any goods manufactured from raw materials imported under the Custom duty exemption that such goods are consumed in Nepal.
5. The Government of Nepal may, by notification in the Nepal Gazette, issue an order specifying the procedures on the transfer by an industry situated within the special economic zone of ownership of goods imported under duty exemption to any person within or outside the special economic zone. It will be the duty of the concerned industry to abide by such order.

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responsibilities of Custom administration. Nepal Custom Administration is working to facilitate authorized trade and preventing revenue and society in the same line by employing electronic Custom procedure. Nine major Custom offices which cover more than 90% of the Nepal's total foreign trade are operating electronic procedures with ASYCUDA ++ software since last couple of years.

2.2 Review of Books and Related Articles

A book named “*Income Taxation in Nepal Retrospect and Prospect*”. It traces out the evolution of income tax around the world. It then analyzed relative importance of income tax in the tax system of some selected countries. It also defined various concepts which are widely used in the modern income tax literature. This book also reviews major changes introduced in the field of the Nepalese Income Tax system since its inception in 1959 A.D. and examines its existing structure and operation. It also analyses the current problems and makes recommendations for the rationalization of the structure and modernization of operation of the income tax system. The book also includes Income Tax Acts of 1959, 1962 and 1974 A.D. (Khadka, 2001).

A book named “*Aayakar tatha ghar-jagga sambandhi kar ra lekha*” this book was based on Income Tax Act 2031. This book is very useful to understand the meaning and objective of tax as well as getting knowledge about the history of taxation (Dhakal, 2002).

A book on “*Tax laws and Tax planning in Nepal*”. These books are helpful for tax administration, auditors, tax consultants and taxpayers. These books are also usefull for effective tax planning. In his books, he described the Income Tax Act 2058, VAT and tax planning in Nepal. He has presented practical as well as theoretical aspects on taxation in tese books (Kandel, 2003).

A Book summarized the role of “*Custom in Combating Counterfeiting and Piracy*”. He presented that the Custom can have some control across the

Custom checkpoints. He focuses the following measures can strengthen our capacity to control cross border counterfeiting and piracy.

The Custom officials and force involved in checking of goods at the Custom checkpoint need training and orientation on the nature and simplifications of counterfeiting and piracy along with relevant provisions for controlling them.

-) Custom can work jointly with the business community in promoting fair trade.
-) International organization such as SAARC and BIMSTEC help to sharing the information can make use of.
-) Custom organization needs substantial up gradation along with provision of technical training for the staff.
-) Custom officials need to properly verify the documentation.

Finally, he concludes that Custom organization can only be effective if ordinary public supports of the crusade against unfair trade practices. If people deny purchasing counterfeited or pirated products and look for the original ones with proper licenses, company warranties etc then illicit trade cannot flourish. Satyagraha, that Mahatma Gandhi Preached, is a very powerful instrument of checking many social evils. This requires wider public awareness and for which Custom organizations should work in collection with other government organizations and consumer interest groups (Khanal, 2006).

A book entitled on “*Tax Laws and Tax Planning: Theory and Practical*”. He divided the book in four parts. In the first part, he described the conceptual foundation. In second part, he described basis concept of income taxation of Nepal. In third part, he described VAT in Nepal. In last part, he described Tax Planning. This book has presented practical as well as theoretical aspects. This book is useful to students, tax administrators, auditors, as well as to others. This book is useful to research work too (K.C, 2009).

A book entitled on “*Taxation in Nepal*” in MBS second years. In that book, they focus Custom in an authority or agency in a country responsible for collecting and safeguarding Custom 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 Custom agency enforces these rules. The Custom 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, Custom are attained through government agreements and international laws.

A Custom duty is a tariff or tax on the import as well as export of goods. It is a border tax. Nepalese Custom administration collects Custom duty; value added tax, excise and other taxes at the border points. Custom administration is in the forefront in terms of internal revenue mobilization. This does not mean that the Custom 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 Custom Act 2064 with an aim to amend and consolidate the prevailing Custom laws in order to make safe and facilitate international trade by making Custom administration systematic, transparent and accountable (Bhattarai and Koirala, 2011).

An article related to the topic "*The Need of Improvement and Modernization of Custom Administration*". His simplified foreign trade of Nepal by considering different factors likes,

-) Making renewal process simple and faster.
-) Making Custom duty rate reliable for similar nature product.
-) Renewal of Custom law to make it as the need of time.

-) Developing the participatory approach in Custom administration.
-) Controlling illegal trade.
-) Improving the work efficiency.
-) Developing infrastructure.
-) Organizational Improvement (Bista, 2006)

A daily national newspaper has published news on 2009 June 3 about “*The Initiation of Selection Methods in Custom Clearance*” According to the news, Government of Nepal has decided to introduce uniform methods in all Custom offices of the country. The reason behind the introduction of the system is to maintain uniform valuation for the identical goods imported. In the connection, director general of department of Custom saying if Custom department and Custom office fully modernized there will be no room for the revenue investigation department. We are also trying to control revenue leakage. “If we are technically efficient we will succeed to control leakage.” Even though this effort could consider as a positive move towards Custom administration reform but these one not enough for the adoption of AEO concept in the Custom administration of Nepal. The main hindrances in this connection are lack of effective mechanism of the revenue leakage work force in the Custom administration. Existing physical infrastructure and facilities in the Custom points is not compatible with the modern Custom offices, lack of continue supply of electricity has created another barriers to the effective and quick information sharing finally yet importantly the people, who are eligible to be an AEO concept, and are not showing strong positive commitment towards this (Rajdhani, 2009).

An article entitled “*Custom and Business: Improving Performance through Partnership in Custom*” presented the role of implement on of Government policy and horizontal domination. It is a key player when it comes to the protection of borders and society to fight against commercial fraud. Traditionally, Custom tasks can be presented in three clusters the protection and collection of revenue, the implementation of commercial policy measures,

and the protection of people and society. The challenges of new global environment are such that solutions can only be developed by engaging with all payers who have an interest in effective and efficient Custom procedures.

Custom administrations stand as tried the international trade supply chain and there is now a realization that they are critical strategic institutions in assuring safe and secure borders. The effect of the Custom administrations situated as they are at land, sea and air crossings, with their unique knowledge and understanding of international trade and the dialogue and partnership they enjoy with private sector which are increasingly seen as the natural government agency to protect external national frontiers and borders. The Custom are bound by twin roles as both trade facilitator and guardian of the community. We have to find the proper balance between these parameters, and in the new globalized economy, we have to find new ways to discharge our duties. Electronic commerce, efficient procedures, cyber crimes, fraud, and transnational crimes are the challenges of Custom office but a few of the challenges that influence daily work. The function of Custom is to follow the government policy, manage and control Custom office to collect duty effective and efficient manner. Custom administrations can no longer remain isolated and entitles away from the societal context. We need to build bridges with other agencies and business partners (Singh, 2010).

An article entitled "*Green Custom a New Dimension in Custom Administration*" presented Custom administrations in these days have to oversee for many facets of national life. Unlike in the past days, its roles are not confined to collection of revenue and trade promotion but extended to security, human health, and even environment protection.

Nepalese Custom administration is committed towards fulfilling pledge of its government towards detecting and controlling illegal cross-broader 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 substance, explosive and products covered by CITES. The authorities of Nepal and India held discussions on issues of green Custom and environmental crimes during the green Custom workshop held Sarawasti in India during November-30-December 2, 2009. Many of the GCL partners have also participated in the workshop. The workshop is very helpful to acquire knowledge and information about environmental issues and to enhance skill to enforce national environmental policies for the government from Custom perspective. The workshop has come up with some important conclusions and recommendations. Since Nepal is a party of the MEAs the recommendations and conclusion of the workshop are expected to be very useful to Nepalese Custom administration, too (Pandey, 2010).

An article entitled "*WCO Data Model and Single WINDOW-Nepal's Perspective*" entitled Custom in 21st century is the slogan of world Custom organization which pushes each member country to intervene in different sectors of Custom reforms in order to materialize the above ambitious slogan. Among others, trade facilitation and preventing society from odds are some of the major responsibilities of Custom administration. Nepal Custom Administration is working as to facilitate authorized trade and preventing revenue for society in the same line by employing electronic Custom procedure. Nine major Custom offices which cover more than 90% of the Nepal's total foreign trade are operating electronic procedures with ASYCUDA ++software since last couple of years. In this junction, it is much imperative to be familiar and adopt the best practices on data harmonization which is sound to better implementation in a single window environment. This enables us to work with minimum set of standard data element, which is an international standard and opens the door as a strong tool to implement single window to establishing a better cooperation between government and trades. In the meantime, it is noteworthy here to remember that WCO has recommended the data model Version 3.0 on June 2009 and Nepal's Custom have received the

letter from Secretary General, WCO requesting to adopt the model. Hence, we should prepare strategically ourselves, being not only as a member country but also for the mutual benefits of government and traders (Regmi, 2010).

An article entitled "*Do Informal Economic Activities Matter for Loss of Custom Revenue in Nepal?*" He focuses those Nepalese policy makers about the size of informal trade in Nepal. Due to the open border in 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 reducing revenue loss for Custom. Once a month there is always a high level meeting to fixed the office for the collection of revenue and help to the Secretary of Ministry of Armed Police Force, Custom 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 information trade is still in the same place. To reduce the volume of informal trade, we need to adopt some measures such as (Paudel, 2010).

-) Proper coordination among different agencies of Government of Nepal like Nepalese Custom, Nepal Police, Armed Police, and Local Administration.
-) Effective information channels.
-) Some type of regulating mechanism for people entering to and from India.
-) Review of the location of Custom points.
-) Simplification of Custom procedures.
-) Effective coordination between Nepalese and Indian Custom offices.
-) Effective post clearance audit.

A study on “*Implementation of the Concept in the Custom Administration of Nepal*” presented that Custom office is a representative of centre government in borderline. It not only collect the revenue also protects health of people by not allowing to import of health hazard goods and stopping the mulling of arms, ammunition and drugs. Nepalese Custom cooperates with the World Custom Organizations (WCO) which has introduced Custom reforms and modernization working plan since 2003. The first phase of this plan was started in 2006/2007 and completed in 2008/2009. In 2009/2010, third phase of Custom modernization plan is going on. This plan wants to make the Custom department and Custom offices effective and efficient to improve the international standard Custom norms. The main objective of the Custom reforms and modernization-working plan are as follows (Pokharel, 2010).

-) Increase efficiency of the people working in the Custom field.
-) Make Custom administration transparent and clean.
-) Increase participation of stakeholders in trade facilitation.
-) Effectiveness in the control of illegal import and export of goods.
-) Reform in organization structure of the Custom administration.
-) Development of physical infrastructure of Custom offices.
-) Simplification and efficiency in Custom clearance process to help trade facilitation.

An article on the topic “*Custom Automation with ASYCUDA World*” presented the major advantage of ASYCUDA. ASYCUDA is a computerized system designed by the UNCTAD to administer a country’s Custom. It is the largest technical cooperation programmed of the UNCTAD covering over 80 countries and 4 regional projects.

The Custom depart has introduced the AYSCUDA world system. The overall aim is to improve the economy of the country through the provision of an efficient service to the trading community, and to provide a high quality statistical and trade monitoring mechanism. The advantage of the AYSCUDA World is presented as follows (Tripathi, 2011).

-) It aims at speeding up Custom clearance through the introduction of computerization and simplification of procedures and thus minimizing administrative costs to the business community.
-) It also aims at increasing Custom revenue by ensuring that all goods are declared, that duty/tax calculations are correct and that duty/exemptions, preference regimes, etc. are correctly applied and managed.
-) The upgrading of the existing data processing system into the Custom clearance process will bring about faster clearance of cargo, improve revenue control, and provide up-to-date, accurate information on trade.
-) The system incorporates international best practices and standards as defined by the United Nations Economic Commission for Europe and World Custom Organization, and is designed in such a way so as to allow the further configuration to suit the national characteristics of individual Custom regimes and Custom legislation.

An article on the topic “*Nepal’s Commitments to WTO on Tariff Reduction and Current Status*” presented 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 products; the bounded rate is set significantly higher than applied rate so there is a big room for Nepal to increase the applied rate a 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 (Parajuli, 2011).

An article on “*Role of Custom Administration to Protect Environment*” presented the Custom administration has control the disadvantage product for people. Custom administration should communicate about the protection of environment and should care about wild conservation and other illegal trade. Custom administration should control the precursors which are not register in home ministry. Nepal is serious about to protection of environment and security in boarder areas. Custom administration should care for illegal trade and conscious about the health of the people. Nepal should apply the Multilateral Environment Agreements (MEA’s) which helps to control and minimize the trade and transit of environmental consciousness products (Koirala, 2011).

An article on “*Necessity of Harmonized System and Its Effect in Facilitating International Trade*” presented that development of advanced technology just in time to supply chain system. Multilateral and bilateral trade became major instrument of development of nation. There are millions types of products and accessories of such products which have produced and moves around the world. However, so many complexities have come before the Custom administration and business sector, and the exporter and importer in the movement of goods would face many problems. So that without harmonized system, it is difficult to facilitate the international trade. The harmonized system is only one important tool to classify and arranging into the various headings and sub-headings according to their characteristics and functions. In this regards, it is necessary to establish, classifying and coding the products as an international standards systems. If there is proper coding of each goods then it will help to facilitate international trade through the Custom procedures. Since fast Custom, clearance is one of the most important measures for trade facilitation (Bhandari, 2011).

An article on “*Nepal’s Foreign Trade Statistics System: An Over view*”. He presented that the current strength of Nepalese Custom for producing quality based on trade statistics with insured predictability of dissemination is weak. Custom headquarter has a provision of a statistics cell under the information technology and statistics section headed by director of IT background. With the addition of one more officer statistician’s position, there are two officer levels of statistics. One computer officer, and one computer engineer has been approved theoretically in the section. However, due to less attractiveness, computer engineer are seldom found working in real life and has been felt least relevant, with no position of statistical assistant in the section has jeopardized to drive its statistical activities in a smooth way. Currently the three national agencies are spending their national resources for the production of almost all the trade. Allocation of appropriate human resources together with technical support is a prerequisite to handle the above task. Institutional capacity building and agency’s area of interest and its acceptance of formed ownerships are equally important. A national level technical committee comprising from each of the three agencies can be established to drive such system effectively and smoothly. It is high time to take appropriate actions in order to avoid such confusion in trade statistics by the help of national statistical council, the highest national statistical authority for Custom duty is Custom depart in Nepal, having strong national network across the country, department of Custom can be such a leading national agency (Regmi, 2011).

2.3.1 Review of Pervious Research Work

A research study conducted on “*Corporate Tax System and Investment Behavior in Nepal*”. The main objectives of the study were to find out the problems relating to corporate tax, to evaluate the corporate tax system in general and to examine the sensitivity of certain policy like inflation, capital gain tax, dividend tax and interest tax etc. based on their impact on tax burden.

It is found that the relationship of private investment with average effective tax rate, marginal effective tax rate and tax incentives in Nepal and the statutory tax rate was in moderate level under the financing between inflation rate and effective tax burden in Nepal was negative. VAT progress has been slow, initially due to opposition from the business community. VAT regime is extremely challenging in a burgeoning economy like Nepal where, with long open border, a large segment of the economy is yet to be monetized (Gupta, 2007).

A research study conducted on the topic “*A Study on Contribution of Income Tax Government Revenue*”. The major objectives of the study were to analyze the impact of income tax evasion in government revenue of Nepal, to identify the ways and causes of income tax evasion, and to estimate the volume and tendency of income tax evasion in small trade sector and to examine the role of income tax in utilizing the resources in Nepal.

From the research, it was conclude that there was wide spread evasion of income tax in Nepal and income tax is a suitable means for raising domestic resources. Controlling tax evasion by controlling illegal business activities increasing penalties and fines to tax evades compulsory maintenance of accounts etc. Income tax policy should be made such that the main goal of imposing tax can be achieved. Income tax policy should be revised timely. Income tax act, rules and regulation should be clear and simple for all tax payers as well as for tax administrators. Tax paying habit of Nepalese taxpayers is poor. To improve the taxpaying habit of Nepalese taxpayers, provisions of fine and penalty should be made effectives. Similarly concessions/rebates on tax rate should also be granted and tax awareness program should be organized (Lamsal, 2008).

A research study conducted on the topic “*Contribution of Income Tax on Total Revenue*.” This study was concerned with historical background, contribution of income tax to the public revenue.

From the study, it was concluded that the contribution of income tax from public enterprises in Nepal was not significant due to poor achievement, weakness in government's economic policy and deficiency in legislation. NTC had been contributing effectively to total tax revenue. Contribution of tax revenue on GDP of Nepal was lower than other SAARC countries except Bangladesh. Average contribution of income tax from NTC to total tax revenue, total income tax revenue and total government revenue were 2.37 percent, 15.60 percent and 1.93 percent in the study period. Suggestions about income tax system were clear cut provisions, discretionary power of tax officers should be curtailed, assessment and collection provision, should be made clear and simple, provision of reward, prize, incentives should be introduced to encourage taxpayers to pay voluntarily, compulsory provision of auditing etc. for the improvement of income tax administration in Nepal (Pradhan, 2009).

A research topic on "*A study on effectiveness of implementation aspect of Tax Planning in Nepal*" has made a deep study on Tax planning regarding its effective implementation. People in developing country like Nepal tend to have a greater propensity to evade taxes. Lack of proper measurement of tax assessment, Nepal is facing the problem of tax evasion. Because of this resources have not been mobilized efficiently and resource gap is increasing year by year in Nepal public finance. The main objectives of this study were to study the concept of tax planning, to examine the use of tax planning in Nepalese organization, to examine the implementation of Tax planning and to provide suggestions to Nepalese organization to use tax planning.

This study concluded that the provision of best judgment assessment should be put to use in its true spirit. In addition to other financial and non-financial assistance, including incentives, to be provided by government and financial institution for the revival of sick industrial units. Tax laws should be clear, comprehensive and simple. It should not contain any ambiguity and should be revised frequently and reformed. Computerized information system should be

established to keep up to date records as well as for payment of income tax and to improve the tax collection procedure, maximum penalties should be imposed for non-compliance of income tax within the due date (Lama, 2010).

A research study conducted on the topic “*A Study on Corporation Income Tax in Nepal*”. The major objectives of this study were to study and evaluate the status of income tax as major source of revenue, to examine the Nepalese income tax structure, to review and analyze the trend of income tax collection and tax revenue and to identify the factors to increase taxpaying habit of income tax payer.

This study concludes that the share of tax revenue has always been greater than the share of non-tax revenue. Similarly, the contribution of indirect tax has been always greater than direct tax revenue during the study period from 2000/01 to 2010/11. Most of the taxpayers are unfamiliar with the income tax act, its provisions as well as provision related to fine and penalty. For this purpose, information should be provided by different media, by organizing seminar and other tax related program as well as providing orientation to taxpayers. The rate of fines and penalties should be increase. The provision of fines, penalties and punishment should be made a higher rate for income tax evaders. Tax personnel should be encouraged, punished and transferred on the basis of their work and experience. Regular and effective trainings, seminars, rewards, prizes and punishment system should be established for the effective personnel management (Adhikari, 2011).

2.4 Research Gap

There is no any study regarding Custom duty since long time. Any researcher has not become able to find out the problems of Custom system of Nepal. There are so many products contributing in Custom duty, which aids in increasing government revenue. Government authority fixes rate of Custom duty without evaluating its impacts on the economy and the people.

This study has been done to cover research gap through contribution of Custom duty to government revenue of Nepal since, 2007/08 to 2011/12 covering five years. No researcher has become able to find out the contribution and trend of Custom duty in revenue generation in Nepal. This study focuses future trend and growth potentiality of Custom duty in Nepal. It has also focused problem and prospects in such field.

CHAPTER – III

RESEARCH METHODOLOGY

Research methodology refers to the various sequential steps to be adopted by a researcher in a studying a problem, with certain objective in view. It describes the methods and process applied in the entire aspects of the study. This study is undertaken to evaluate the contribution to various tax heads and its registration, collection, refund are incorporated in this study.

3.1 Research Design

To achieve the objective of this study, descriptive and analytical research design has been used. A descriptive study is one in which information is collected without changing; the environment (i.e., nothing is manipulated). A descriptive research design refers to the process of describing what current conditions or attitudes exist at the moment and the analytical surveys describe and explain why certain situations exist. Primary as well as secondary data has been used for analysis and the discussion and interview with the concerned persons is used for analysis. So, the present study emphasis on descriptive and analytical research.

3.2 Nature and Sources of Data

Data is the foundation of all the research. Research is a systematic study of the certain specific problem. That is why; the study requires adequate relevant qualitative and quantitative information. Data collection is the most essential aspect of any research because the whole result of research depends on the adequacy and relevancy of the data/information, however, this study is based upon the 56primary and secondary data.

3.2.1 Primary Data

A questionnaire is prepared to collect the views of tax experts, tax administration; businessperson, consumer etc. opinion and information are collected from the view filled by related person, policy makers and other intellectual persons. As well as interview taken with them discussion and interaction with related persons.

3.2.2 Secondary Data

Further data needed for the study is collected from the secondary sources. These sources consists the followings,

-) Published and unpublished reports, articles and dissertations on the concerned subject.
-) Publications and economic survey of various Fiscal Years of Ministry of Finance (MOF) Nepal.
-) Publications and annual reports of Custom Department (CD).
-) Various books written by tax officers and scholars.
-) Related articles and journals.

3.3 Population and Sample

It is very difficult task to study about the universe. In other words, an individual can't study about the total population of the country. Sample study, therefore has been done through respondents of following nature of the profession in the table

Table: 3.1
Sample Size

S. N	Respondents	Code Use	No.
1.	Custom Duty Experts	CDE	187
2.	Tax Administrators	TA	192
3.	Custom Duty Payers	CDP	117

3.4 Research Variables

The basic research variables of this study are mainly related with the custom duty collected by Government of Nepal with import from India, Tibet and Third World and by export to India, Tibet and Third World in the different financial years.

3.5 Data Processing and Analysis Procedure

Data obtained from the various sources cannot be directly used in their original form. Further, they needed to be verified and simplified for the purpose of analysis. Data, information, figures and facts related to the study has been checked, rechecked, edited and tabulated for analyzing them. According to the nature of data, they are inserted in meaningful tables, which are shown in the annexes. Homogeneous data have been stored in one table and various tables are prepared in understandable manner. Data are analyzed and interpreted using different types of statistical tools as given below.

-) Simple Percentage,
-) Simple Average,
-) Charts and Diagrams.

3.6 Weight of Choice

The respondents are requested either to rank their answer or to give yes/no response or to write their opinion. In the case of ranking the answer the scale varies from question to question. The scale is given according to the number of probable answer. For example, if the probable answers are 5, the scale is given 1 to 5, where 1 stands for most important and 5 stands for least important. The total points get by each choice are converted into percentage of total points available to the all choice. The choice having higher percentage is ranked as most important and the choice having lowest percentage is ranked as least important.

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA

This chapter is devoted to the presentation and analysis of collected data to achieve the stated objectives of the study and to make easier to understand the findings, qualitative as well as quantitative data and information have been analyzed. To meet the desired objective, this data presentation and analysis chapter deals with the presentation and analysis of data collected from the primary as well as secondary sources. Primary data collection has been conducted by the means of scheduled questionnaires and economic survey has been the main sources of secondary data. The response found from the respondents has been tabulated first and analyzed according to objectives.

4.1 Presentation and Analysis of Secondary Data

4.1.1 Targeted & Actual Custom Duty Revenue

The Government is estimated its custom duty in each fiscal year budget and evaluates its actual collection after completion of each fiscal year. The estimated custom duty and the actual custom duty collected in during the year may not match each other it is shown in the following table & figure.

Table: 4.1

Targeted & Actual Custom Duty Revenue Collection

(Rs in millions)

Year	Targeted Custom Duty	Actual Custom Duty	% of Actual Custom Duty
2007/08	16032.19	15701.6	97.94
2008/09	16726.25	15344	91.74
2009/010	17319.57	16708	96.47
2010/011	16126.95	17107.2	106.08
2011/012	18302.43	18186.4	99.37

Source: Economic Survey, 2011/012

Figure: 4.1
Targeted & Actual Custom Duty Revenue Collection

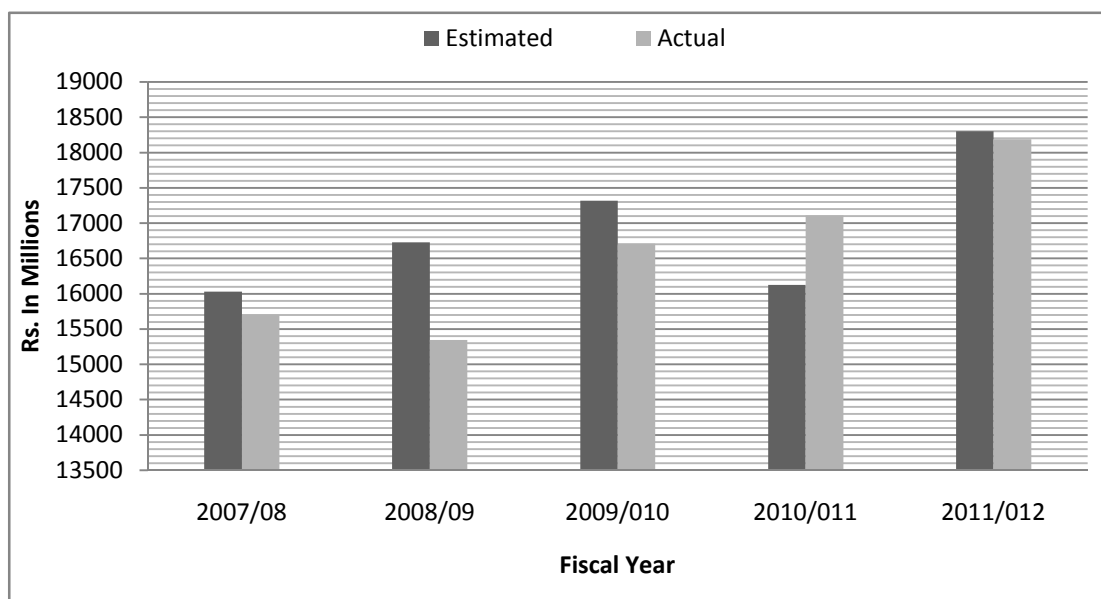


Table 4.4 shows that the Nepal government is able to collect more than 100 percent of estimated Custom Duty on the fiscal year 2010/11 and nearly 100% in the fiscal year 2011/12. However, in the other fiscal years, the government is not being able to meet even target. Government of Nepal became able to collect Custom Duty of 97.94 percent of estimated custom duty revenue in fiscal year 2007/08, which is decreased at 91.74 percent in fiscal year 2008/09. Revenue from Custom Duty could not be collected as estimated amount. There may be many reasons behind collecting less amount of Custom Duty than estimated. An undervaluation of stock at the custom may be the cause of not achieving targeted Custom Duty revenue. As well as there are so many other reasons for not achieving the target in collection of custom duty.

From the above figure 4.4, it can be concluded that revenue from Custom Duty could not be collected as estimated amount except in the year 2010/11 and in the year 2011/12. This may be because of the poor administration and poor implementation of the policies of the government.

4.1.2 Custom Duty & Government Revenue

Custom duty is a government tax on imports or exports; “they signed a treaty to lower duties on trade between their countries”. Tax levied on imports and exports by the custom authorities of a country to raise state revenue, and/or to protect domestic industries from more efficient or predatory competitors from abroad. Also called tariff, duty is based generally on the value of goods or upon the weight, dimensions, or some other criteria of the item.

Total revenue is the sum total of all revenues received during the year. Total revenue includes the tax revenue as well as non-tax revenues. The total revenue and custom duty has been presented in the following figure.

Table 4.2
Contribution of Custom Duty in Government Revenue
(In millions)

Year	Government Revenue	Custom Duty	% of Custom Duty
2007/08	70122.7	15701.6	22.39
2008/09	72282.1	15344	21.23
2009/010	87712.2	16708	19.05
2010/011	101711.3	17107.2	16.82
2011/012	116187.3	17386.4	14.96
Average			18.89

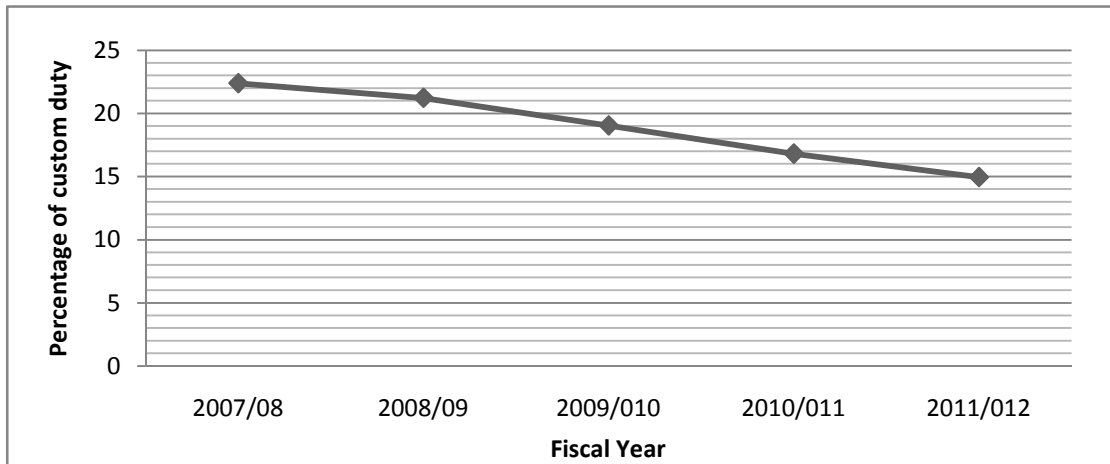
Source: Economic Survey, 2011/2012

Table 4.7 shows that the total revenue as compare to custom duty. The total revenue of the government of Nepal is increasing but the contribution of custom duty in total revenue is decreased during the study period. The high contribution of custom duty is 22.39% in the fiscal year 2007/08 and that of lowest is 14.96% in the fiscal year 2011/12. The contribution of custom duty as

compared to total revenue is few. An average contribution of custom duty on total revenue is 18.89% during the five-year study period.

Figure: 4.2

Contribution of Custom Duty in Government Revenue



4.1.3 Custom Duty & Total Tax Revenue

Custom duty is a government tax on imports or exports; "they signed a treaty to lower duties on trade between their countries". Tax levied on imports and exports by the custom authorities of a country to raise state revenue, and/or to protect domestic industries from more efficient or predatory competitors from abroad. Also called tariff, duty is based generally on the value of goods or upon the weight, dimensions, or some other criteria of the item.

Tax is a compulsory levy and those who are taxed have to pay it without getting corresponding benefit of service or goods from the government. Tax is paid to the government for running it. In case of tax the amount is spent for common interest of the people. The tax is collected from haves and spent for the common interest of the people. The tax is collected from haves and basically, spent for the interest of have-nots in the society; a natural as well as artificial person pays the tax.

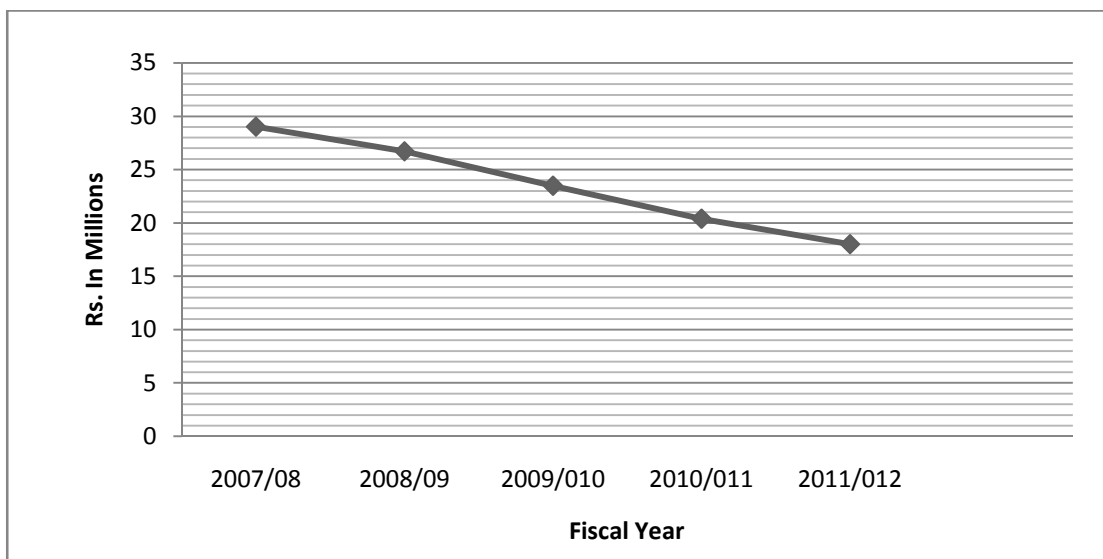
Table: 4.3
Contribution of Custom Duty in Total Tax Revenue
(In millions)

Year	Total Tax Revenue	Custom Duty	% of Custom Duty
2007/08	54104.7	15701.6	29.02
2008/09	57430.4	15344	26.72
2009/010	71122.1	16708	23.49
2010/011	83848.1	17107.2	20.40
2011/012	96494.7	17386.4	18.02
Average			23.53

Source: Economic Survey, 2011/2012

Table 4.6 shows that the total tax revenue as compare to custom duty. The contribution of custom duty is decreasing during the study period. The highest contribution of custom duty in total tax revenue is 29.02% in the fiscal year 2007/08 and that of lowest is 18.02% in the fiscal year 2011/12. An average contribution of custom duty is 23.53% during the study period of five year.

Figure: 4.3
Contribution of Custom Duty in Total Tax Revenue



4.1.4 Custom Duty & GDP

Custom duty is a government tax on imports or exports; "they signed a treaty to lower duties on trade between their countries". Tax levied on imports and exports by the custom authorities of a country to raise state revenue, and/or to protect domestic industries from more efficient or predatory competitors from abroad. Also called tariff, duty is based generally on the value of goods or upon the weight, dimensions, or some other criteria of the item. Gross domestic product is sum total of all the goods and services produced during a financial year.

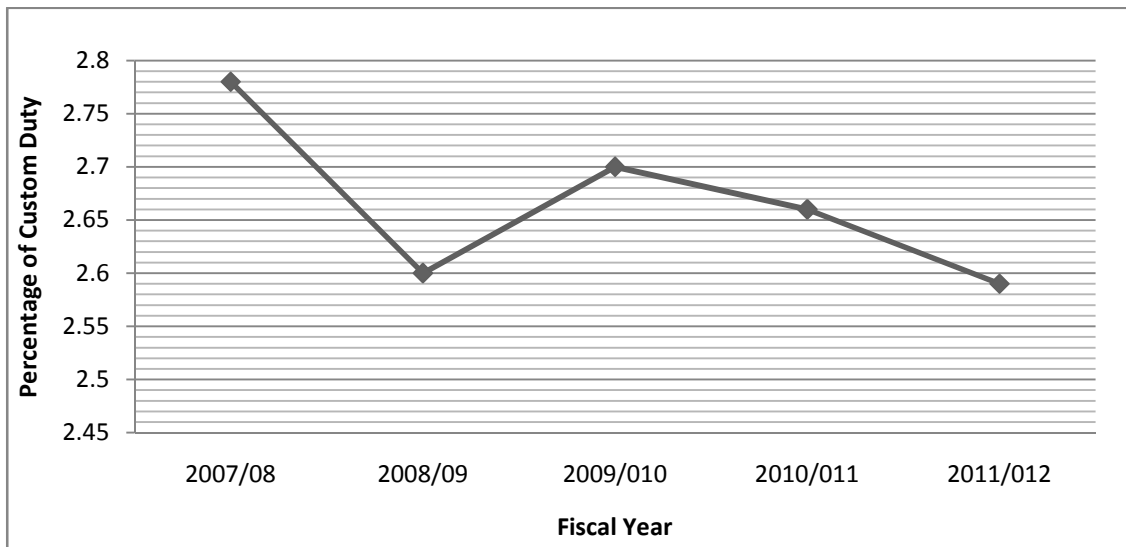
Table: 4.4
Contribution of Custom Duty in GDP
(Rs in millions)

Year	GDP	Custom Duty	% of Custom Duty
2007/08	564517	15701.6	2.78
2008/09	590107	15344	2.60
2009/010	618529	16708	2.70
2010/011	642553	17107.2	2.66
2011/012	672326	17386.4	2.59
Average			2.67

Source: Economic Survey, 2011/2012

The above table and figure shows that the contribution of custom duty in GDP is very few that is 2.47% on an average in previous five years. The contribution of custom duty in GDP is in fluctuating trend during the study period. The highest percentage of contribution is 2.78% in the fiscal year 2007/08 and that of lowest is 2.59% in the fiscal year 2011/012. The GDP of government of Nepal is growing from 2007/08 to 2011/012.

Figure: 4.4
Contribution of Custom Duty in GDP



4.1.5 Composition of Direct Tax

A direct tax is one which is demanded from the very persons who it is intended or desired should pay it. Indirect taxes are those which are demanded from one person in the expectation and intention that he shall indemnify himself at the expense of another.” The direct tax includes income tax, land tax, vehicle tax and other taxes. Income tax is the tax levied on the income generated by the persons, which should be paid by the taxpayer himself. Land tax is the tax paid to the government by the landholder for the use of land. Vehicle tax is the compulsory payment made by the vehicle owner for the vehicle used. There are some other taxes, which comes under the head of direct tax like octopi, rent tax, property tax etc. The composition of direct tax is shown in the following table and figure.

Table: 4.5
Composition of Direct Tax

(Rs in Millions)

Tax Head						percentage Share			
Fiscal year	Income Tax	Land Tax	Vehicle Tax	Others	Total Tax	Income Tax	Land Tax	Vehicle Tax	Others
2007/08	10466.1	1799.2	806.5	306.7	13378.50	78.23	13.45	6.03	2.29
2008/09	10980.5	2181.1	847.6	565.7	14574.90	75.34	14.96	5.28	3.88
2009/010	15722.0	2253.5	995.0	697.8	19668.3	79.93	11.46	5.10	3.51
2010/011	19655.2	2422.6	1106.2	726.9	23910.9	82.20	10.13	4.63	3.04
2011/012	24692.6	2497.3	1196.5	796.2	29682.6	83.92	8.41	4.83	2.68
Average						79.92	11.68	5.17	3.08
SD						3.36	2.60	0.54	0.63
CV						4.20	22.25	10.42	20.60

Source: Economic Survey, 2011/2012

Figure: 4.5
Composition of Direct Tax

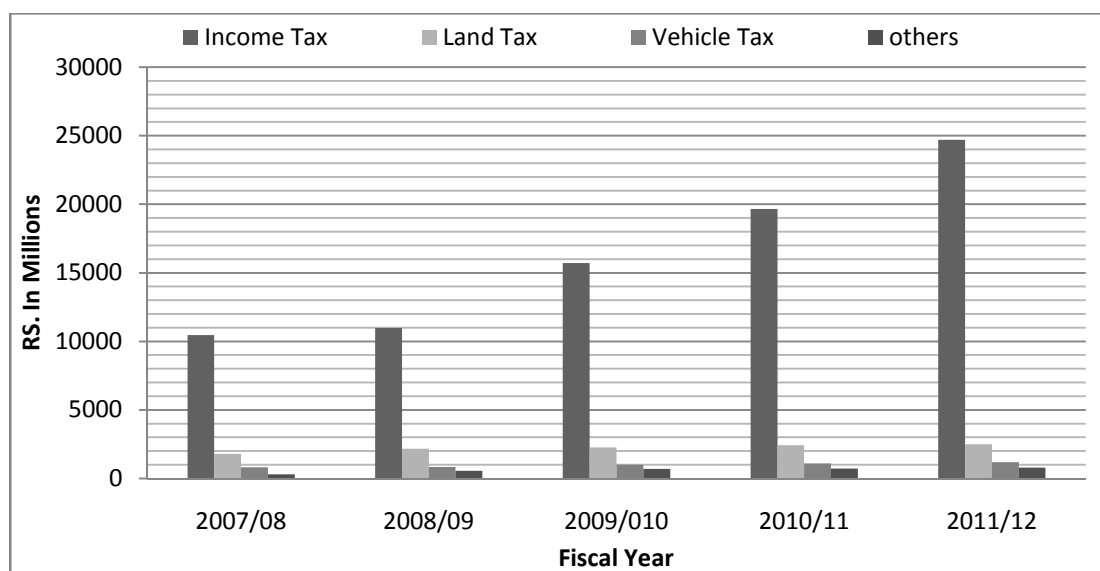


Table 4.2 shows that the direct tax has been divided into four parts; they are income tax, vehicle tax, land tax and other tax. In the F/Y 2007/08, the percentage share of income tax is 78.23 percent, follow by land tax, 13.45 percent, vehicle tax 6.03 percent and other tax is 2.29 Percent respectively of

total tax revenue. The contribution on total revenue from income tax shows an increasing trend. This increase in income tax may be attributed by VAT law forcing the reluctant businessperson to register their name and file the return of the income although, there was no substantial increase in VAT itself. It helps increase the collection of income tax.

The investment activities have not flourished within the nation due to political instability and violence. In this situation, investors might have been investing their investment in purchasing land and building. This might be the reason for the increase in land tax revenue in recent years. Revenue from vehicle tax also showed a growth trend over the studied period. It may be due to an increase in the number of vehicles in recent years. All the components of direct tax are in an increasing trend and the percentage share is in a fluctuating trend. From the above figure 4.2, it can be concluded that the contribution of income tax in direct tax is major. The large portion of direct tax has been covered by income tax.

4.1.6 Composition of Indirect Tax

Charges levied by the state on consumption, expenditure, privilege, Custom duties levied on imports, excise duties on production, sales tax or value added tax (VAT) at some stage in production-distribution process are examples of indirect taxes because they are not levied directly on the income of the consumer or earner. Since they are less obvious than income tax (because they don't show up on the wage slip) politicians are tempted to increase them to generate more state revenue. Also called consumption taxes, they are regressive measures because they are not based on the ability to pay principle. Indirect tax includes custom duty, sales tax or value added tax, Excise duty and other taxes levied on the persons, who consume the products but they do not pay to the government directly.

Table: 4.6
Composition of Indirect Tax

(Rs in millions)

Fiscal Year	Indirect Tax					Percent of Indirect Tax			
	Custom Duty	Sales/ VAT	Excise Duty	Others	Total	% Custom Duty	% Sales/ VAT	% Excise Duty	% Other
2007/08	15701.6	18885.4	6445.9	516.3	41549.2	37.79	45.45	15.51	1.24
2008/09	15344	21610.7	6507.6	659.4	44121.7	34.78	48.98	14.75	1.49
2009/010	16708	26098.6	9343.2	476.3	52623.1	31.75	49.59	17.75	0.85
2010/011	17107.2	30973.7	11324.1	532.2	59937.2	28.54	51.67	18.88	0.89
2011/012	17386.4	36244.1	12542.2	639.4	66812.1	26.02	54.25	18.77	0.96
Average						31.78	49.99	17.13	1.09
SD						4.71	3.27	1.90	0.27
CV						14.83	6.54	11.08	25.09

Source: Economic Survey, 2011/2012

Figure: 4.6
Composition of Indirect Tax

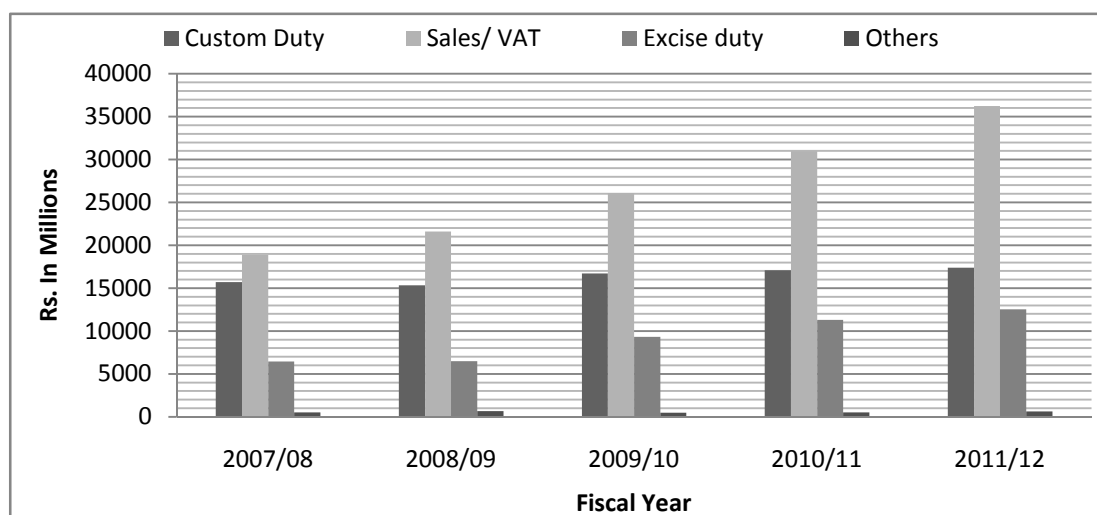


Table 4.3 shows that, on an average the percent share of revenue consist of total indirect tax followed by custom duty is 31.78 percent, VAT is 49.99 percent, excise duty is 17.13 percent and other tax is 1.09 percent. The contribution of custom duty on indirect tax in the year 2007/08 is 37.79 percent

& in the fiscal year, 2011/12 is 26.02 percent. Similarly, the contribution of sales tax on indirect tax is 45.45% in the fiscal year 2007/08 and 54.25% in the fiscal year 2011/12. Contribution of exercise duty on indirect tax is 15.51% in the fiscal year 2007/08 & 18.88% in the fiscal year 2011/12. From this information, it can be concluded that the trend of contribution of custom duty in indirect tax is in declining trend. Indirect tax has been dominant role in tax revenue. Similarly, custom duty has dominant position in indirect tax.

From the above figure 4.3, it can be concluded that the contribution of tax based on custom duty is significant. The contribution of custom duty and VAT are similar even though the VAT has major contribution.

4.1.7 Magnitude of Total Revenue

Every government is responsible to perform numerous functions for the betterment of the people in the country. A government needs huge volume of income to fulfill various types of expenditure. For this purpose, government collects revenue from different sources. Thus, the income of the government through all sources like taxes, borrowings, fees, donations etc. is called public revenue. In general, government's income sources are classified mainly in to two categories, namely, tax revenue and non-tax revenue. These both sources are subject to non-repayment and their sum constitutes the government revenue. Besides these sources, government has other sources that are subject to repayment such as loans, grants; however, grants are not compulsorily repaid. These sources are desirable only to meet the fiscal deficits.

Indirect tax, a popular approach concerning taxation implies in the world, is a very powerful missile of fiscal policy adopted in the especially for the optimum level of resource mobilizing with the principle: more gain from the tax payers, no pain to the taxpayers. Theoretically, it is a tax that falls firstly and directly on the taxpayers but the other person must bear it due to the shirking of tax burden. So, the real income is indirectly affected. In short, indirect tax is

imposed on one person but is paid either partly or wholly-by another person. Therefore, the impact and the incidence of tax are on different persons.

Nepal depends on the indirect tax rather than the direct tax because there is not any good alternative especially for the optimum level of revenue mobilization; on hand and on the other hand, wide spread poverty, heavy dependency on agriculture, snail's pace industrialization, low level income and wealth and very weak administration. Since 1951, indirect tax had grown rapidly and speedily. As indirect tax was effective and proper, its tax mobilization was quickly boosting. So most of the developing countries mobilizes it effectively and properly of the domestic resources.

The major component, of indirect tax in Nepalese tax structure constitutes custom duty, excise duty, sales tax/VAT and contact tax. Custom duties are composed of mainly import duties and export duties.

A custom duty is a tariff or tax on the import as well as export of goods. It is a border tax. Nepalese custom administration collects custom duty; value added tax, Excise and other taxes at the border points. Custom Administration is in the forefront in terms of internal revenue mobilization. This does not mean that the custom 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 Custom Act 2064 with an aim to amend and consolidate the prevailing custom laws in order to make safe and facilitate international trade by making custom administration systematic, transparent and accountable (Bhattarai & Koirala, 2067).

Government of Nepal has presented budget in the FY year 1951/52, the revenue structure was typically that of traditional economy with 73 percent of government receipts coming from non-tax sources and land tax only. However, later in the late 1950s the share of non-tax revenue decline drastically, because of the increasing contribution of indirect tax on foreign trade. Nepal has

increasing tax revenue in increasing rate and its contribution is high in national economy.

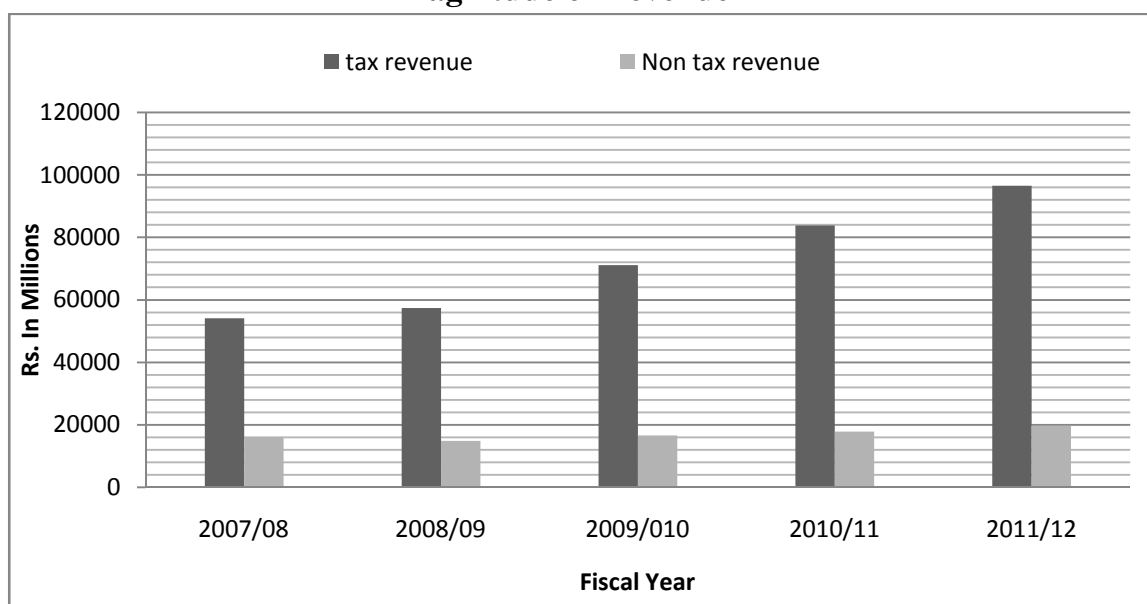
Table: 4.7
Magnitude of Revenue
(Rs. in Millions)

Fiscal Year	Total Revenue		Tax Revenue			Non Tax Revenue		
	Amount	Percent Change	Amount	Percent Change	Percent of total revenue	Amount	percent Change	Percent of Total Revenue
2007/08	70122.7	-	54104.7	-	77.16	16018	-	22.84
2008/09	72282.1	3.08	57430.4	6.15	79.45	14851.7	-7.28	20.55
2009/010	87712.1	17.6	71122.1	19.25	81.08	16590	10.48	18.92
2010/011	101711.3	15.96	83848.1	17.89	82.44	17863.2	7.67	17.56
2011/012	116187.3	14.23	96494.7	15.08	83.05	19692.6	10.24	16.95

Source: Economic Survey, 2011/2012

Figure: 4.7

Magnitude of Revenue



Above table and figure 4.1 shows that the share of tax revenue and non tax revenue on total revenue of government of Nepal is 77.16 percent and 22.84 percent respectively in fiscal year 2007/08. It means a major amount of

Government revenue is collected from tax revenue. As compared to non-tax revenue, the contribution of non-tax revenue has a very low share in Government revenue. Such kinds of share of tax revenue and non-tax revenue have not been changed even in fiscal year 2011/12. In the fiscal year 2011/12, the share of tax revenue is 83.05 percent and non-tax revenue is 16.95 percent. Tax revenues as well as non-tax revenue of the government of Nepal is increasing each fiscal year. The tax revenue of the government of Nepal is growing in increasing trend from 2007/08 but the growth of non-tax revenue is in fluctuating trend.

4.2 Presentation and Analysis of Primary Data

4.2.1 Important Factors to be considered to Increase Custom Duty in Revenue Collection

To know the most important factor for the effectiveness of Custom Duty in revenue collection in Nepal, the question is asked, “What is the more important factor to be considered to increase Custom Duty in revenue collection in Nepal? Please give the rank”. The respondents were request to rank the given causes from 1 to 5 and ask to specify if any things. All the respondents ranked the options; from the responses given by the respondents, the following score has been obtained.

Table 4.8
Views on Important Factor for the Effectiveness of Custom Duty in
Revenue Collection

S.N.	Alternatives	Respondents			Total	%	Rank
		CDE	TA	CDP			
1	Proper implementation of custom law	45	43	26	114	22.98	2
2	Broad coverage of custom duty	36	38	20	94	18.95	3
3	Tax education	21	26	24	71	14.32	4
4	Effective and efficient Adm.	62	67	22	151	30.44	1
5	Clear Custom Duty law and regulation	23	18	25	66	13.31	5
6	Total	187	192	117	496	100	

Source: Questionnaire Survey from 2012 November to 2013 February

By observing the above table 4.8, according to the respondents' point of view the main important factor for the effectiveness of Custom Duty in revenue collection are ranked as follows.

-) Proper implementation of custom law
-) Broad coverage of custom duty
-) Tax education
-) Effective and efficient Administration
-) Clear Custom Duty law and regulation

Other causes stated by the respondents are as follows

-) Invoice system
-) Computer networking system
-) Public participation.

From the above table 4.8 and other discussion with respondents, it can be concluded that the main factor for the effectiveness of Custom Duty in revenue

collection are effective and efficient administration, proper implementation, clear Custom Duty law and regulation , tax education and broad coverage.

4.2.2 Most Responsible Factor to Make Collection of Custom Duty Ineffective in Nepal

Custom Duty system of Nepal has been blamed that it is not efficient. To know the opinion of the respondents about the cause of most responsible factor to make Custom Duty ineffective in Nepal, a question was asked. “which one is the more responsible factor to make collection of Custom Duty ineffective in Nepal’ the respondents were requested to rank the given causes (their answer) from 1 to 5. The 60 respondents ranked the given options. For ranking purpose, opinions of the respondents are presented as follows:

Table: 4.9
Most responsible factor to make collection of Custom Duty ineffective in Nepal

S.N	Most Ineffective Factor	Respondents			Total	%	Rank
		CDE	TA	CDP			
1	Lack of consumer awareness	21	26	24	71	14.32	4
2	Weakness of governments action plan	62	67	22	151	30.44	1
3	Administrative inefficiency	45	43	26	114	22.98	2
4	Open border problem	36	38	20	94	18.95	3
5	Lack of clear law	23	18	25	66	13.31	5
Total		187	192	117	496	100	

Source: Questionnaire Survey from 2012 November to 2013 February

By observing the above table 4.9, according to the respondent point of view the main causes for the creation of ineffective factor are ranked as follows:

) Lack of consumer awareness

-) Weakness of government's action plan
-) Administrative inefficiency
-) Open border problem
-) Lack of clear law

Other causes stated by the respondents are as follows:

-) High tendency of public in not paying tax.
-) Lack of cooperation in tax administration.
-) Lack of billing system.

From the above table 4.9, It can be concluded that the main cause of the creation of ineffective factor of Custom Duty are lack of consumer awareness, weakness of government action plan, administrative inefficiency, open border problem and lack of billing system.

4.2.3 Views on Major Problem Faced by Tax Payers after Custom Duty Regime

To achieve the expected result in the collection of Custom Duty, the problem related to Custom Duty must be avoided. First of all, identification of these problems is necessary and required effective steps should be implemented to avoid the problems relating to Custom Duty. The major problems faced after Custom Duty regime may be increase compliance cost, decrease in business competitive power, encourage unauthorized trade, problem in custom valuation and tax returned process.

Table: 4.10**Views on major problem faced after Custom Duty Regime**

S.N	Most ineffective factor	Respondents			Total	%	Rank
		CDE	TA	CDP			
1	Increase compliance cost	43	40	25	108	21.77	2
2	Decrease in business competitive power	35	40	21	96	19.35	3
3	Encourage unauthorized trade	24	27	30	81	16.33	4
4	Problem in custom valuation	60	65	19	144	29.03	1
5	Difficult tax return process	25	20	22	67	13.52	5
Total		187	192	117	496	100	

Source: Questionnaire Survey from 2012 November to 2013 February

The empirical survey shows that 30% Custom Duty experts, 25% tax administration, and 33.33% Custom Duty payers shows the problem in custom valuation. While 20% Custom Duty experts, 25% tax administration, and 26.66% Custom Duty payers show the decrease in business captive power. Similarly, 20% Custom Duty exports, 20% tax administration and 13.33% tax exports said that there is problem in tax return process. Out of total respondents 17.18%, viewed problem on increase compliance cost and 11.11% view problem on encourage unauthorized trade.

4.2.4 Essential factor to make Custom Duty as a Backbone of Revenue Collection

Custom Duty is the backbone of the country's economic development. Custom Duty is the latest innovation in the field of indirect tax system. It is an improved and modified form of sales tax. The question was asked. "To establish Custom Duty as a backbone of revenue collection, what are the essential factor." the respondents were request to rank the given cause from 1

to 4 and asked to specify other if any things. The responses of the respondents are presented as follows.

Table: 4.11

Essential factor to make Custom Duty as a backbone of revenue collection

S.N.	Alternatives	Respondents			Total	%	Rank
		CDE	TA	CDP			
1	More trained and qualified officers	25	25	18	68	13.70	5
2	Minimize contract with the tax officers	58	65	25	148	29.84	1
3	Computerized stem for the payment of Custom Duty	49	46	29	124	25.00	2
4	Collection of Custom Duty should be given to pre-Custom Duty sector	32	35	20	87	17.54	3
5	Proper implementation of government action plan	23	21	25	69	13.92	4
Total		187	192	117	496	100	

Source: Questionnaire Survey from 2012 November to 2013 February

By observing the above table 4.11, according to the respondents' point of view the main causes for Custom Duty as backbone of revenue collection are ranked as follows:

-) More trained and qualified officers
-) Minimize contract with the tax officers
-) Computerized stem for the payment of Custom Duty
-) Collection of Custom Duty should be given to pre-Custom Duty sector
-) Proper implementation of government action plan

Other causes stated by the respondents are as follows:

-) To Custom Duty system natural and efficient
-) To increase revenue mobilization by broadening the tax base
-) To minimized the cost of tax.
-) To establish a transaction based transparent tax system.

From the above table and other discussion with respondents, it can be concluded that the main causes for the creation of Custom Duty as backbone of revenue collection are more trained and qualified officer, minimized contracted with the tax officers, computerized stem for the payment of Custom Duty and collection of Custom Duty should be given to Custom Duty sector.

4.2.5 Existing Position of Custom Duty on Nepalese Economy

The Custom Duty provision is implemented properly and as per the spirit of the Custom Duty. The business has to pay the difference between taxes collection on sales and tax paid on purchase to the government. So the field survey tries to know the impact of Custom Duty on Nepalese economy.

Table: 4.12

Existing position of Custom Duty on Nepalese economy

S.N	Existing position of Custom Duty on Nepalese Economy	Respondents			Total	%	Rank
		CDE	TA	CDP			
1	Very Significant	20	22	20	62	12.5	5
2	Significant	60	68	23	151	30.44	1
3	Normal	52	45	30	127	25.60	2
4	Insignificant	32	36	19	87	17.55	3
5	Very Insignificant	23	21	25	69	13.91	4
Total		187	192	117	496	100	

Source: Questionnaire Survey from 2012 November to 2013 February

From the empirical survey, it is found that all Custom Duty experts and all tax administrators argue that the positive impact in Nepalese economy in Custom Duty pay and 65% Custom Duty payers are agreed. Similarly 25% Custom

Duty payers not agreed and 10% Custom Duty payer were ideal about this aspect. In conclusion, we can say that Custom Duty in Nepalese economy positive impact in economy.

4.2.6 Views on Suitable Products to Increase Custom Duty Rate by Government

To know the opinion a suitable products to increase Custom Duty rate, respondents were request to rank the given alternatives. The question asked was as follows, “In what types of goods the Custom Duty rate should be increased?” The responses received from respondents are tabulated below.

Table: 4.13

Views on suitable products to increase Custom Duty rate by government

S.N	Types of products to Increase Custom Duty	Respondents			Total	%	Rank
		CDE	TA	CDP			
1	Luxurious goods	28	28	25	81	16.33	4
2	Cosmetic items	62	62	20	144	29.10	1
3	Necessary goods	40	40	28	108	21.77	2
4	Expensive goods	35	40	19	94	18.95	3
5	Cheaper goods	22	22	25	69	13.85	5
Total		187	192	117	496	100	

Source: Questionnaire Survey from 2012 November to 2013 February

The above table 4.15 shows that, cent percent responses were received. Out of cent percent responses, 61.67% respondents were not agreed with increase Custom Duty revenue.18.33%, were agreed that current Custom Duty rare increase in suitable time. Moreover, 20% were ideal. It is concluded that the current Custom Duty rate is correct. Majority Custom Duty experts and tax administrators were agreed on it whereas, majority. Some respondents felt that

rate is not high. However, it is higher as compared to taxpaying capacity of Nepalese people.

4.2.7 Views on Effectiveness of Custom Duty in the Future

From the experience, it is clear that Custom Duty will be effective tools for revenue collection in future, if it is effectively implemented. The view of various respondents on this aspect is presented in the table below.

Table: 4.14

Views on Effectiveness of Custom Duty in the Future

S.N	Chance of Contributing by Custom Duty in Future	Respondents			Total	%	Rank
		CDE	TA	CDP			
1	Very Significant	45	43	26	114	22.98	2
2	Significant	36	38	20	94	18.95	3
3	Normal	21	26	24	71	14.32	4
4	Insignificant	62	67	22	151	30.44	1
5	Very Insignificant	23	18	25	66	13.31	5
Total		187	192	117	496	100	

Source: Questionnaire Survey from 2012 November to 2013 February

According to field survey, 80% of the total respondents were said CUSTOM DUTY would be effective in future. Remaining 8.33% respondents were pessimistic and 11.67% respondents gave no idea about this aspect. In conclusion, we can say that Custom Duty would be effective in future.

4.2.8 Views on More Important Factor in Creating Problems in the Custom Duty Implementation

It is know that the duties and responsibility of implementation of Custom Duty of the government and the Custom Duty payers, tax administrator and Custom Duty payers all are also responsible for these duties. Implementation of Custom Duty has still a great challenge in this aspect. The field survey has been

conducted to know the views of different respondents about to explore the problems on process of Custom Duty implementation. The study show registration, collection, and tax refunds are the main problems for the implementation process.

Table: 4.15

View on More Important Factor to Create Problem in the Custom Duty Implementation

S.N	Factor to Create Problem in the Custom Duty Implementation	Respondents			Total	%	Rank
		CDE	TA	CDP			
1	Registration	21	26	24	71	14.32	4
2	Collection procedure	62	67	22	151	30.44	1
3	Difficult payment system	45	43	26	114	22.98	2
4	Lengthy tax refund system	36	38	20	94	18.95	3
5	Less number of Custom office	23	18	25	66	13.31	5
Total		187	192	117	496	100	

Source: Field Survey from 2012 November to 2013 February

The empirical survey shows that 27.78%, Custom Duty experts, 38.89% tax administrator and 41.67% Custom Duty payers seemed to be unsatisfied Custom Duty registration process. While 33.33% Custom Duty experts, 33.33% tax administrator and 20.33% Custom Duty payers showed the Custom Duty collection process. Similarly 33.33% Custom Duty experts, 11.11% tax administrators and 20.83% Custom Duty payers said that there is problem in tax refunds. Out of total respondents 36.67% Custom Duty experts, 28.33% tax administrators and 21.67% views problem on refund and 13.33% views problem on others.

4.2.9 Views on Essential Factor to Make Custom Duty Collection System Easy and Smooth in Nepal to Generate More Revenue

Nepalese tax system was very complicated before the introducing Custom Duty after the introducing of Custom Duty, the system has not been more sufficient. So the essential factors for making Custom Duty administration effective in Nepal. The respondents were ranked given cause from 1 to 5 and asked to specify other if any things. The responses of the respondents are presented as follows.

Table: 4.16

Essential factors for making Custom Duty administration effective in Nepal

S.N	Alternatives	Respondents			Total	%	Rank
		CDE	TA	CDP			
1	Proper training to personnel	43	40	25	108	21.77	2
2	Establishment and implementation of reward and punishment system	35	40	21	96	19.35	3
3	Simple tax procedure	24	27	30	81	16.33	4
4	Simple tax law	60	65	19	144	29.03	1
5	Better information system	25	20	22	67	13.52	5
Total		187	192	117	496	100	

Source: Questionnaire Survey from 2012 November to 2013 February

By observing the above table 4.18, according to preference of the respondents the essential factors for making Custom Duty administration effective in Nepal are ranked as follows.

-) Proper training to personnel of custom office
-) Establishment and implementation of reward and punishment system
-) Simple tax procedure
-) Simple tax law

) Better information system

After the analysis of above table, we concluded that establishment and implementation of effective reward and punishment system is essential factor for making Custom Duty administration effective in Nepal. Other essential factor is simple tax procedure, simple tax law, proper training to personnel and better information respectively. And other factors are proper billing system and accounting system, effective tax auditing, and monitoring and regulating mechanism.

4.2.10 Reasons for necessity of Collection of Custom Duty in Nepal

All developing and under developing countries need higher revenue collection from internal sources for the development. So these countries tried to sustain from internal revenue through Custom Duty system. The following table shows the opinion of respondents why Custom Duty is needed in Nepal.

Table: 4.17

Reasons for necessity of Collection of Custom Duty in Nepal

S.N	Options	Respondents			Total	%	Rank
		CDE	TA	CDP			
1	To increase revenue	25	25	18	68	13.70	5
2	To make broad tax base	58	65	25	148	29.84	1
3	To make revenue sources transparent	49	46	29	124	25.00	2
4	To discourage unhealthy products	32	35	20	87	17.54	3
5	To balance national economy	23	21	25	69	13.92	4
Total		187	192	117	496	100	

Source: Questionnaire Survey from 2012 November to 2013 February

By the survey it is clear that 31.25% Custom Duty experts, 30% tax administrators and 29.17% Custom Duty payers is needed to due to increase revenue. Similarly, 25% Custom Duty experts, 40% tax administrators and

37.50% Custom Duty payers reported that Custom Duty has needed due to broad tax base. In addition, 31.25% Custom Duty experts, 20% tax administrators and 20.83% Custom Duty payers are reported that Custom Duty is needed due to transparency. Out of total 11.67% reported that Custom Duty is needed due to all mention reason.

4.3 Major Findings

Based on presentation and analysis of collected data, the following major findings have been drawn.

-) The tax revenue of the government of Nepal is growing in increasing trend but the growth of non-tax revenue is in fluctuating trend. In the fiscal year 2011/2012, the share of tax revenue is 83.05 percent and non-tax revenue is 16.95 percent.
-) The major components or direct taxes are income tax, land tax and vehicle tax. The average contribution of income tax is 79.92%, land tax is 11.68% and vehicle tax is 5.17% during the study period.
-) The major components of indirect tax are custom duty, sales tax and exercise duty. On an average the percent share of revenue consist of total indirect tax followed by custom duty is 31.78 percent, VAT is 49.99 percent, excise duty is 17.13 percent and other tax is 1.09 percent during the study period.
-) Government of Nepal is able to collect Custom Duty of 97.94 percent of estimated custom duty revenue in fiscal year 2007/08, which is decreased at 91.74 percent in fiscal year 2008/09. However, in the fiscal year 2010/011 Nepal government is able to collect more than 100 percent of estimated Custom Duty and nearly 100% in the fiscal year 2011/012.
-) Contribution of custom duty in GDP is very few that is 2.47% on an average. In previous five years, the highest percentage of contribution is

2.78% in the fiscal year 2007/08 and that of lowest is 2.59% in the fiscal year 2011/012.

-) The highest contribution of custom duty in total tax revenue is 29.02% in the fiscal year 2007/08 and that of lowest is 18.02% in the fiscal year 2011/012. An average contribution of custom duty is 23.53% during the study period of five year.
-) An average contribution of custom duty on total revenue is 18.89%. During the five-year study period, the high contribution of custom duty is 22.39% in the fiscal year 2007/08 and that of lowest is 14.96% in the fiscal year 2011/012.
-) The main factor for the effectiveness of Custom Duty in revenue collection are effective and efficient administration, proper implementation, clear Custom Duty law and regulation , tax education and broad coverage.
-) The main cause of the creation of ineffective factor of Custom Duty are lack of consumer awareness, weakness of government action plan, administrative inefficiency, open border problem and lack of billing system.
-) Out of total respondents 36.67% Custom Duty experts, 28.33% tax administrators and 21.67% views problem on refund and 13.33% views problem on others.
-) 80% of the total respondents were said CUSTOM DUTY will be effective in future. Remaining 8.33% respondents were pessimistic and 11.67% respondents gave no idea about this aspect.

CHAPTER - V

SUMMARY, CONCLUSIONS & RECOMMENDATIONS

5.1 Summary

Taxation and economic development are interrelated. Taxation has an important role in country's economic development. In recent decades, many developing countries around the world have begun to focus their attention on reforming their poorly designed defective tax structures as an integral part of their development efforts. Such reforms have broken some older leanings and estimated some new trends and axioms.

Tax means compulsory contribution from a person to the government to defray expenses incurred in the common interest of all without reference to special benefit conferred. A tax is a compulsory levy and those who are taxed have to pay it without getting corresponding benefit of services or goods from the government. It is depend upon the whole part of the society; like as economic condition, social environment, political situation etc.

Government collects revenue from two sources-non tax and tax revenue. The main objective of tax revenue is not to collect revenue but to provide goods and services to the people. The forms of non-tax revenue are administrative incomes, revenue from public enterprises, grants etc. The government can collect revenue from taxable and non-taxable sources. Tax is a key source for revenue generation and mobilization.

Tax revenue comprises two types of taxes, direct and indirect tax. Direct taxes are more familiar and have a dominant role in the developed country as opposed to developing countries. Direct taxes are the means and tools of generating; saving and promoting capital formation includes income tax, gifts tax, interest tax, vehicle tax, house and land tax etc. Whereas indirect tax has a dominant role in the whole tax structure of developing countries like Nepal.

Earlier most of the revenue was raised from indirect tax because it is easier less expensive and convenient method for implement for a developing country's economy.

In Nepal, there is lack of the financial resources and a lot funds are required to do the development activities. Nepal has been suffering from the shortage of capital to accelerate the economic growth. There is so much resource gap so in order to fulfill the shortage, government is depending on the foreign grants and loans. Therefore, to fulfill the resource gap custom duty, a indirect tax is most important sources of internal revenue. Due to the low economic activities and lesser development of the corporate sector, the contribution of custom duty to the total revenue is very low.

This study mainly focuses on contribution of custom duty on revenue of Nepal. The main objective of this study is to find out the contribution of custom duty on government revenue. To fulfill the research objectives the whole study is divided into five chapters. The first chapter deals with background of the study, statement of problem, objective of the study, significant of the study, limitation of the study & Organization of the study. The second chapter includes conceptual framework of income tax and review of related journals, articles, previous thesis and research gap. The third chapter includes research design, population and sample, source of data, data collection procedure and data analysis tools. In the fourth chapter, collected data are presented, analyzed and interpreted by using statistical tools, mathematical tools and other accounting and financing tools and the last chapter contains the summary of the whole study. The conclusions of the study and suitable points are suggested in the form of recommendation.

5.2 Conclusions

Among different sources of revenue of government of Nepal, custom duty is one of the major sources, which has significant contribution in the revenue of

government of Nepal. There is not any certain trend (neither increasing nor decreasing) of custom duty in Nepal. Import duty and export duty are two parts of custom duty, both of them has equal contribution in the revenue of government of Nepal. Even though custom duty has significant contribution in the revenue of government of Nepal, it is no found in satisfactory level. The government revenue is increasing from year to year. It is in increasing trend. There is most significant contribution of tax revenue in the total revenue of government of Nepal. Import duty of government is growing but export duty is in decreasing trend in the recent year. Custom duty can be the most significant source from among different sources of revenue of Nepal.

The essential factors for making Custom Duty administration effective in Nepal are Proper training to personnel of custom office, Establishment and implementation of reward and punishment system, Simple tax procedure, Simple tax law and Better information system. The empirical survey shows that 27.78%, Custom Duty experts, 38.89% tax administrator and 41.67% Custom Duty payers seemed to be unsatisfied on Custom Duty registration process. While 33.33% Custom Duty experts, 33.33% tax administrator and 20.33% Custom Duty payers are satisfied on Custom Duty collection process. The main causes for Custom Duty as backbone of revenue collection are More trained and qualified officers, Minimize contract with the tax officers, Computerized system for the payment of Custom Duty, Collection of Custom Duty should be given to pre-Custom Duty sector, Proper implementation of government action plan. In conclusion, It can say that Custom Duty in Nepalese economy positive impact in economy.

5.3 Recommendations

The implementation of custom duty has not devoid the challenge yet. To establish this tax on a completely successful scale and to make it a part of the daily life of the people requires much bigger efforts than what we have now. According to interviewed person and researcher, to overcome the major

challenges faced in the implementation of custom duty. The following measure could be adopted.

-) A collection strategy needs to be developed and implemented effectively in order to collect the increasing amounts of arrear.
-) To improve billing condition on the market needs regular supervision, audits and investigation. Consumer education is required to promote the use of invoice.
-) While the design of the retuned system is good, it has not been implemented properly. It is necessary that the refund procedure be implemented in a timely and proper manner and that both tax payer and tax official be educated on the procedure to prevent any misuse of the refund procedure.
-) Awareness program about custom duty should be carried out so that consumer may become aware of the tax. Recently the Government has introduced a lottery program to encourage demanding invoice during purchase. All conscious citizens should be alert and aware regarding these facts.
-) For effective implementation, big responsibilities remain with the shoulders of tax administration. Therefore, the administration has to implement this tax in the right spirit of custom duty. In depth, training must be provided to tax officials to expertise them in the field of taxation.
-) To establish custom duty invoices in the forms of a campaign, college students could be hired and mobilized. This could provide the student part time employment and enhance publicity. It would be appropriate to mobilize such students to find out the status and presence of custom duty. If group of students are placed in busy market places, it creates psychological pressure on the vendors to issue invoices. Similarly, they could be also used to collect information on various issues of custom duty.

-) To make custom duty effective and transparent and to increase its contribution, unnoticed inspection on the road of goods being transported from time to time would discourage incorrect business transaction should be banned to promote real business.
-) It is essential to widen the base of the domestic commodity tax system and increase revenue mobilization. The administration should expand audit and investigation activities in order to identify and remove artificial credit.
-) To make custom duty effective, it is essential to create an environment in which invoices are issued properly, accounts are maintain accurately , tax is based on transaction, there is acceptance of the taxpayers correct accounts and a fair competition among industrialists and businessmen should be established.
-) Computer networking system should be established in all the custom point with department so that related information can be accessed to all the concerned officials. Internet facilities must be provided to concern offices for the access of international price.

Custom duty would definitely help to increase revenue collection of Nepal, if implemented properly. The present situation of custom duty shows that the system need for understanding and commitment at the polite.

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APPENDICES

Appendix 1 Magnitude of Revenue

(Rs. in Millions)

Fiscal Year	Total Revenue		Tax Revenue			Non Tax Revenue		
	Amount	Percent Change	Amount	Percent Change	Percent of total revenue	Amount	Percent change	Percent of Total Revenue
07/08	122.7	-	104.7	-	77.16	1018	-	22.84
08/09	1282.1	3.08	130.4	6.15	79.45	1351.7	7.28	20.55
09/10	1712.1	17.6	122.1	9.25	81.08	1590	0.48	18.92
10/11	1711.3	5.96	148.1	7.89	82.44	1563.2	7.67	17.56
11/12	1187.3	4.23	194.7	5.08	83.05	1592.6	0.24	16.95

Appendix 2
Composition of Indirect Tax

(Rs in millions)

Fiscal Year	Indirect Tax					Percent of Indirect Tax			
	Excise Duty	VAT	Stamp Duty	Others	Total	Excise Duty	Sales/VAT	Stamp Duty	Other
07/08	701.6	85.4	45.9	6.3	839.2	87.79	5.45	5.51	24
08/09	5344	10.7	07.6	9.4	5521.7	84.78	3.98	4.75	49
09/010	5708	98.6	43.2	6.3	6256.1	81.75	9.59	7.75	85
10/011	107.2	73.7	24.1	2.2	207.2	82.54	1.67	8.88	89
11/012	386.4	44.1	42.2	9.4	562.1	86.02	4.25	8.77	96
Average						81.78	9.99	7.13	90
SD						4.71	0.27	0.90	27
CV						14.83	0.54	1.08	109

Appendix 3

Composition of Direct Tax

(Rs in Millions)

Fiscal year	Tax Head					percentage Share			
	Income Tax	Corporate Tax	Dividend Tax	Others	Total Tax	Income Tax	Corporate Tax	Dividend Tax	Others
07/08	466.1	799.2	6.5	6.7	1278.50	36.23	62.45	0.53	0.29
08/09	980.5	81.1	7.6	5.7	1074.90	91.34	7.56	0.71	0.38
09/010	722.0	253.5	5.0	7.8	988.3	72.93	25.46	0.51	0.10
10/011	655.2	222.6	06.2	6.9	890.9	73.20	25.13	0.71	0.04
11/012	692.6	197.3	96.5	6.2	982.6	70.52	20.41	1.83	0.68
Average						70.92	25.68	1.17	0.28
SD						3.36	4.60	0.54	0.63

CV	.20	.25	.42	.60
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Appendix 4
Contribution of Customs Duty in GDP

(Rs in millions)

Year	GDP	Customs Duty	% of Customs Duty
2007/08	564517	15701.6	2.78
2008/09	590107	15344	2.60
2009/010	618529	16708	2.70
2010/011	642553	17107.2	2.66
2011/012	672326	17386.4	2.59
Average			2.67

Appendix 5

Questionnaire

The following questions asked to different respondents for the collection of primary data

1. Which one is the more important factor to be considered to increase Customs Duty in revenue collection in Nepal? Give the rank for the following options,
 - a) Proper implementation of customs law
 - b) Broad coverage or customs duty

- c) Tax education
 - d) Effective and efficient Administration
 - e) Clear Customs Duty law and regulation
2. Which one is the more responsible factor to make collection of Customs Duty ineffective in Nepal? Give the rank to the following factors,
 - a) Lack of consumer awareness
 - b) Weakness of governments action plan
 - c) Administrative inefficiency
 - d) Open border problem
 - e) Lack of clear law
 3. What are the major problems faced by taxpayers after Customs Duty regime in Nepal? Give the rank to the following factors according to their effect,
 - a) Increased compliance cost
 - b) Decreased business competitive power
 - c) Encourage unauthorized trade
 - d) Problem in customs valuation
 - e) Difficult tax return process
 4. What is the more essential factor to make Customs Duty as a backbone of Revenue Collection of Government of Nepal? Give the rank from 1 to 5 for the following,
 - a) More trained and qualified officers
 - b) Minimize contract with the tax officers
 - c) Computerized stem for the payment of Customs Duty
 - d) Collection of Customs Duty should be given to pre-Customs Duty sector
 - e) Proper implementation of government action plan
 5. What is the existing position of Customs Duty on Nepalese Economy? select one from the following,
 - a) Very significant
 - b) Significant

- c) Normal
 - d) Insignificant
 - e) Very insignificant
6. In what types of goods, the government should increase the Customs Duty Rate? Give the rank as per their importance for the following,
- a) Luxurious goods
 - b) Cosmetic items
 - c) Necessary goods
 - d) Expensive goods
 - e) Cheaper goods
7. Which one is the more important factor that that creates Problem in the Implementation of law and collection of Customs Duty in Nepal? Give the rank,
- a) Registration
 - b) Collection procedure
 - c) Difficult payment system
 - d) Lengthy tax refund system
 - e) Less number of Customs offices
8. Which is the more essential factor to make Customs Duty collection system easy and smooth in Nepal to generate more revenue? Give the rank,
- a) Proper training to personnel of custom office
 - b) Establishment and implementation of reward and punishment system
 - c) Simple tax procedure
 - d) Simple tax law
 - e) Better information system
9. What is the more important reason for necessity of collection of Customs Duty in Nepal? give the rank for the following,
- a) To increase revenue
 - b) To make broad tax base
 - c) To make revenue sources transparent

- d) To discourage unhealthy products
- e) To balance national economy

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