

CHAPTER – I

INTRODUCTION

1.1 Background of the Study

Nepal is small and landlocked country, lying between China and India. It has its own problems and prospects. Although being rich in natural heritage and biodiversity, they are in under utilization, primitive and orthodox society with conservative norms; values and institution exist there in.

Nepal's economy is predominantly based on agriculture out of total population of nearly 75 percent and based upon agriculture which contributes about 39 percent to GDP. Agriculture is the major supplier of raw materials to the export oriented industry. Main obstacles to economic development of Nepali are vicious circle of explains the economic backwards. The basic vicious circle stems from the fact that Nepal's total productivity is low due to deficiency of capital, market imperfections and economic back wonders and under development.

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 increases as well as external sources of fund. Developing countries have an experience that the externals source increases negative result in development of country. No body becomes ready to provide grant 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 came under the network of excise duty. Since the excise 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 lunches 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.

Excise duty is an indirect tax which has high significant contribution to government revenue. Nepal has a limited tax sources and there are limited industries and private firms which are contribute to the government very little. But the excise duty has high contribution to the government revenue. Nepal has adopted Excise Act 2058, which facilitates domestically produced and imported goods.

Excise duty is a form and indirect tax which imposed on the consumption of selected goods such as alcoholic beverage, tobacco products etc. According to the Oxford English Dictionary (2005) an excise duty is “a tax levied on certain goods and commodities produced or sold within a country and on licenses granted for certain activities.” The term "produced or sold" is applicable to both domestic and foreign products. But the word "certain" is not further explained in the definition. Generally the lists of such goods are readily provided by governments and the lists may differ from country to country in India. It is described all indirect tax levied and collected on the goods manufactured in India. In the United Kingdom, excisable producers both goods and services such as "alcohol, environmental taxes, gambling, holding and movements, hydrocarbon oil, money laundering, refunds of duty, revenue traders records, tobacco duty, and listing forces etc. In Australia, an excise as "a tax levied on certain types of goods produced or manufactured or imported in Australia. These include alcohol, tobacco and petroleum and alternative fuels.(Bhattarai and Koirala,2011)

In Nepal, Excise duties are applicable to both domestically produced and foreign goods. Before the enhancement of Excise Act 2058, the excise duty was imposed only on domestically produced goods. Historically, these duties had consisted one of the largest sources of tax revenue of Nepal. It had covered a wide range of domestic products (more than fifty commodities) accounting for 14.3 percent of total tax revenue during 2048/049. It covered tobacco products, liquor, beer floured soft drinks cement and plastic goods. Consequently, its contribution dropped down to 9.9 percent of tax revenue during 2058/59. In recent years, the government has introduced excise duties as a substitute for custom duties in selected commodities to recover the revenue loss from the reduction of

custom duties due to WTO commitment. According, the number of excisable products has exceeded fifty and the contribution of excise duty in total revenue is 12.44 percent in 2011/12. The effect of excise duty is also faced by narrow range of population. At present, large sales volumes, few producers, limited consumer, inelastic demand and lacks of close substitutes are the basic charm of excise system in the country. The basic relatively simple administrative efforts provide limited opportunities for tax evasion. The excise duty is very helpful instruments to control the consumption which is regarded as lacking men's or as likely to cause negative externalizes. The excise duty has been governed and regulated by the Excise Act 2058. Excise Regulation 2059 and Alcohol Regulation 2033.(Bhattarai and Koirala,2011)

Excise duty is the tax levied by the government on those goods in factory gate. In Nepal, the excisable products include molasses, plastic goods, fruit, juice, liquor, tobacco, soft drinks, ethanol, iron, rods, marble, glaze tiles, noodles, fried meat, cement, pains ceramic bricks (except domestic production), vehicles, printing equipment, telecommunication equipment (including telephone, fax machines, micro phone, speakers), television, other selected electric equipment etc.

1.2 Statement of the Problem

After 1989, Nepal has been followed liberal and open market economy. Social economical development is not sufficiently accessed at target point as it has a small economy with limited resources and political instability. That entire unfavorable feature is draw back for the country. There is gap between planning and execution. Though policies and strategies have been largely ineffective, it is known that increasing funds from internal source is not an easy task. Particularly, when business economy is it self

going backward, there is another problem that is inadequacy of internal sources itself. To increase the internal source of finance, a sufficiency resource is needed in the hand of government. There are various ways of raising internal sources like taxation.

Even the government is collecting revenue from excise duty. It is not well planned. Government is not being able to charge duty in scientific ways. There is not good security in the boarder which helps producers evade excise duty.

There is research gap in the field of excise duty since long time. Government is not able to fix a system regarding excise duty. There is not any evaluation of actual performance and standard fixed by the government regarding rate and harmonized products.

Nepal is situated between China and India which have high economic growth and have a sea port but Nepal is land locked and has only one inland container deport that is Birgunj inland container deport Nepal has limited market and hasn't produced high price-able products to import from foreign countries. Nepal is highly dependent on foreign products; in such an economic condition of the nation is not a good sign in Nepal. There is producing different products which affect the people and environment directly or indirectly i.e. liquor, tobacco, plastic goods, fruit juice, ethanol, noodles, electric equipment etc. which are imported from foreign country. The government is applied the excise duty on those products under Excise Act 2058 and prevailing law.

Nepal has been facing transitional phase where constitutional assembly has not made constitution in time. It affects the whole economy as well as

political system. Nepal has unstable government and it is not concerned with all problems or economics as well as other problems. The leaders always strive for attaining the chair and maintaining the government. In such a situation the administration of excise duty has also face the problems brought by instability. The political sister organizations of large political parties demand donation with private as well as other organization so many established industries are closed. It shows that the contribution of excise duty depends upon excisable products.

Nepal is land locked country bounded by India and republican China with free boarder, government is not being able to change duty an each and every product imported from those countries and produced product. The governmental bodies are not performed effectively to collect the duty. Some of the produces are duty free because of perfect law and different negotiation with related stake holders. This research work will have been tried to answer the following research questions to fulfill the objectives of the study.

1. Whether the excise duty is contributing significantly in government revenue or not?
2. How much duty is being collected by government in the head of selected item with special of tobacco and liquor products?
3. What is the position of excise duty on domestic producers and imported goods?
4. What is the performance of Internal Revenue Department to collect the excise duty?
5. What suggestions can be recommended?

1.3 Objectives of the Study

As said elsewhere, the Mechanism of this study is to bring forward internal lineage between domestic products and imported goods and the contribution of excise duty to revenue of government of Nepal as well as to establish a relationship between the trend of excise duty charged on selected item with special of tobacco and liquor products and government revenue in relation to its growth over time. Keeping the above fact in view and also the intervening variables of the study, the objectives broadly specified are given as follows:

1. To examine the trend of collection of excise duty in Nepal.
2. To describe the contribution of excise duty of selected item with special reference to tobacco and liquor products on government revenue.
3. To find out the trend of excise duty charged in selected item with special reference to tobacco and liquor products.
4. To analyze the growth potentiality of domestic and imported produces duty of selected items especially with tobacco and liquor products.

1.4 Significance of the Study

Nepal being developing country has the necessity to make development of each and every sector. Excise 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 need of mobilizing adequate resources for meeting the finance requirement for development purpose of government. Excise duty is the major potential source for mobilizing a large amount of financial resources in Nepal.

Excise 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 excise duty is gradually increasing in the world because of liberalization, globalization and development of multinational companies.

Nepal is one of the lowest tax economics 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 excise duty to the revenue of government. This study tries to minimize the research gap.

Excise duty is an indirect tax which has high contribution for government revenue. Nepal has established more than tax 22 offices in the different places of Nepal. These offices are under Internal Revenue Department. The government has appointed the excise duty officers. They determine the duty in the excisable products. Excise 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 excise duty for the production and imported 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 Excise duty of Nepal.

The major significances of this study are as follows:

- a. Helpful to know the must potential source of excise duty.
- b. Aids in finding contribution of excise duty in revenue of government of Nepal.

- c. This study provides information about different tax systems adopting by Nepalese government.

1.5 Limitation of the Study

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

- a. Major sources of data are secondary sources primary data analysis is lacking.
- b. This study has covered only the period of 10 years (FY 2002/03 to FY 2011/12).
- c. Due to time and resource limit, data and information which researcher collected might not be sufficient for the study.
- d. This study is mainly focused on only two products tobacco and liquor.

1.6 Plans for the Study

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

Chapter I : This is the introduction chapter. This chapter includes background, statement of the problem, objectives of the study, significant of the study and limitation of the study.

Chapter II : This is the literature review chapter. This chapter includes conceptual framework of income tax and review of related available studies.

Chapter III: This is the research methodology chapter. This chapter includes research design, population and sample source of data, data collection procedure etc.

Chapter IV: In this chapter data are presented, analyzed and interpreted by using statistical tools, Mathematical tools and other

accounting and financing tools etc. Major findings are also included in this chapter.

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

CHAPTER - II

CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE

2.1 Theoretical Framework

2.1.1 Concept of Tax

In general, tax can be defined as a levy or other type of financial charge or fee imposed by local, state or central government on legal entities or individuals. It is a compulsory levy from individuals, households, and firms to central or local government. It is a kind of money which it is the legal duty for every citizen of the country to pay honestly. Tax is computed and paid as prescribed in the law. If a person defies the tax payment, he may be punished in the court of law. Taxation can be considered as a convenient method of raising revenue which is linked with the welfare of the people directly or indirectly (Bhattarai and Koirala, 2011).

Different persons have defined taxation in different ways. It would be better to take the definition by Seligman. In his words 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 Adam Smith "A contribution from citizens for the support of the state is Excise duty."

From the given definition, it can be said that's first tax is a compulsory levy and those who are taxed have to pay of 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

basically, spent for the interest of common 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.

The primary purpose of tax is direct control of economic resources from tax payer to the state or its own use or transfer to other. Taxation restrains total spending by households and enterprise but influence the allocation of economic resources social costs that are not reflected in market prices and affects the distribution of income and wealth.

In conclusion, it can be said that tax is a liability to pay an amount to the nation. The base of the payment is that the tax payer has income of a minimum amount from certain specific source on that they own certain tangible or intangible property on that they carry on certain economic activities, which have been chosen for taxation. Taxation has been an essential part of the government from the beginning of the state system. However, the main objective of taxation has been different for different approaches. In ancient times, the major objectives of taxation were strengthening the muscle of the state by providing resources. Till the time of Adam Smith, the chief motive of collecting the revenue was to provide resources to the government for security to an individual and society against violence, invasion and injustice and maintaining public institutional (Kandel, 2001).

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

government. Tax is computed and paid as per prescribed in the law (Dhakal and Bhattarai, 2011).

Objectives of Taxation

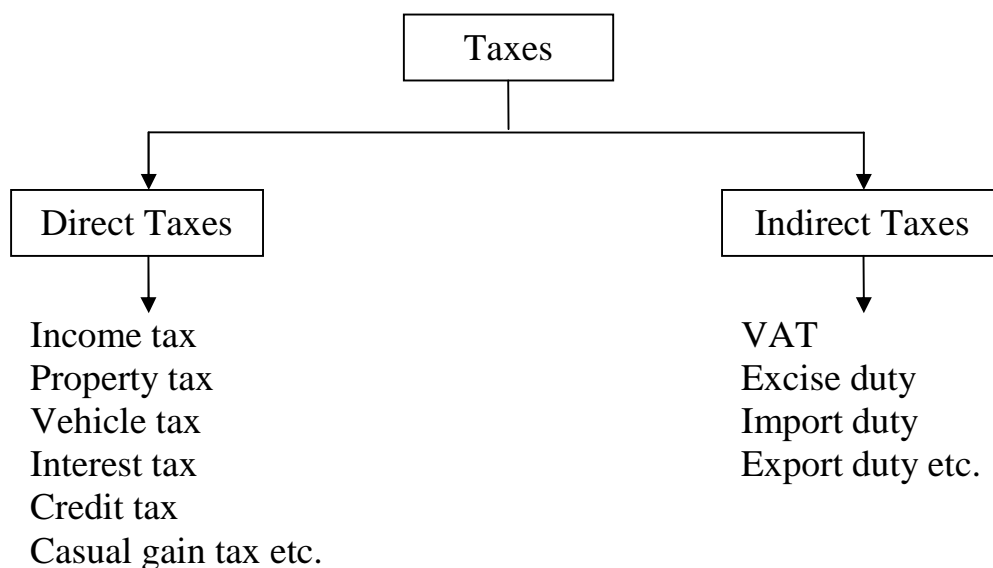
Tax is a permanent instrument of collecting revenues for the government. It is major source of revenue in the developed countries and is appearing as an important source of revenue in the developing countries as well.

The main objectives of taxation are;

- a) Raising more revenue.
- b) Regulating the economy.
- c) Preventing concentration of wealth in few hands.
- d) Redistributing wealth for the common good.
- e) Boosting up the economy.
- f) Reducing unemployment problem.
- g) Removing regional disparities (Bhattarai and Koirala, 2011: 2-4).

Classification of Taxes

On the basis of shifting or burden, tax can be classified into two broad categories direct and indirect tax. This is the most common and popular classification of tax.



Direct Tax: A direct tax is a form of tax paid by another person on whom it is legally imposed. It is collected directly by government from the person who bears the tax burden. Examples of direct taxes are income tax, property tax, vehicle tax, interest tax, expenditure tax, death tax, government tax etc.

Indirect Tax: An indirect tax is a form of tax imposed on one person but party or wholly paid by another. It is collected by mediators who transfer the taxes to the government and also perform functions associated with filling tax revenue. Examples of indirect taxes are VAT, excise duty, import and export duty etc. (Bhattarai and Koirala, 2011: 4-5).

2.1.2 Meaning of Indirect Tax

Charge levied by the state on consumption, expenditure, privilege, or right but not on income or property. Customs duties on imports excise duties on production and 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 it could be consumption taxes; they are regressive measure 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.

"Taxes are 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 or she shall identify himself or herself as 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 who it is supposed that he will recover the amount by means of an advance in price."

On Manitoba Canada, the pricy council added: "An indirect tax is that which is demanded from one person in the expectation and with the intention that he shall identify himself at the expense of another."

An indirect tax is a tax imposed on one person but partly or wholly paid by another. In indirect tax the person paying and hearing the tax is different. It is the tax on consumption of goods and services of on expenditure. It is paid by one but legally imposed to another. There is an agent between tax payer and the government. The following are the example of indirect taxes.

-) Value added tax (VAT)
-) Sales tax
-) Entertainment tax
-) Hotel tax
-) Excise duty
-) Import and export duty

Merits of Indirect Tax

-) Convenient of the tax payer
-) Mass participation
-) Less chances of tax evasion
-) Control in the use of Harmful goods

Demerits of Indirect Tax

-) Inequitable
-) Uncertain
-) Bad effect on economy
-) Less consciousness of the citizens (Dhakal and Koirala, 2011).

2.1.3 Meaning of Excise Duty

An excise or excise tax may be defined broadly as an inland tax on the production or sale of specific goods. Excises are distinguished from customs duties, which are taxes on importation. Excises, whether broadly defined or narrowly defined are in land taxes, whereas customs duties are border taxes. An excise duty is an indirect tax, meaning that the producer or sales that pays the tax to the government is expected to recover the tax by raising the price paid by the buyer. Excises are typically imposed in addition to another indirect tax such as a VAT. In common terminology an excise is distinguished from a VAT in three way (i) an excise typically applies to a narrower range of products, (ii) an excise is typically heavier accounting for higher fractions of the retail prices of the targeted products and (iii) an excise is typically specific, whereas a sales tax or VAT.

Excise duty is a form of an indirect tax which is imposed on the consumption of selected goods such as alcoholic beverages, tobacco products etc. Typical examples of excises duties are taxes on tobacco and

alcohol. According to the Oxford English Dictionary (2005), an excise is "a tax levied on certain goods and commodities produced or sold within a country and on licenses granted for certain activities." The term "produced or sold is applicable to both domestic and foreign products. But the word "certain" is not further explained in the definition. Generally the lists of such goods are readily provided by governments and the lists may differ from country to country. In India, it is described as an indirect tax levied and collected on the goods manufactured in India. In the United Kingdom, excisable products include both goods and services such as "alcohol, environmental taxes, gambling, holdings and movements, hydrocarbon oil money laundering, refunds of duty, revenue trader's records, tobacco duty and visiting forces (Kandel and Lamsal).

In Nepal, excise duties are applicable to both domestically produced and foreign goods. Before the enactment of Excise Act 2058, the excise duty was imposed only on domestically produced goods. A countervailing duty of the same tax was imposed on the same nature imported goods. Historically, the imported goods of similar nature were tax exempted from excise duty. Historically, these duties and constituted one of the largest sources of tax revenue in Nepal. Nowadays, contribution on government revenue is increased by excises duty. The contribution of excise duty in total revenue is 13.65 percent. The excise duty has been governed and regulated by the Excise Act 2058. Excise Regulation 2059 and Alcohol Regulation 2033 (Bhattarai and Koirala, 2011). Excisable goods and services "refers to the goods and services or which excise duty is applicable as per Excise Act 2058 and prevailing law (Excise Act, 2058, Excises Regulation, 2059). In Nepal, Excise duties are applicable to both domestically products and imported goods. Before the enactment of Excise Act 2058, the excise duty was imposed only on domestically

produced goods. The excisable products include molasses, plastic goods, fruit juice, liquor, tobacco, soft drinks, ethanol, iron rods, marble, glaze tiles, noodles, fried meet, cement, pains ceramic bricks (except domestic product) vehicles, printing, equipment, telecommunication equipment (including telephone fax machines, micro phone, speakers), television, other selected equipment etc. (Excise Act 2058, Excise Regulation, 2059).

Licensing requirement is adopted for all excisable commodities. The department as well as field offices can grant licenses, No one is allowed to manufacture import, sell and store excisable goods or sell excisable services without taxing license. The industries dealing with bricks, stone, crusher, tobacco and other related items (Bidi Surti, Khaini Paan Masala, Gutkha) textiles (Khandsari) industry and the industry importing molasses must obtain license from concerned authority. However the approval is not required for the industries dealing with excisable goods and services subject to self removal system and while imported goods under diplomatic facility as per the recommendation of foreign ministry. Person, firm or institutions that need such license many submit a prescribed application form along with the fill before excise officer at concerned Inland Revenue Offices (Bhattarai and Koirala, 2011).

In conclusion of above mentioned literature review, the following definition can be explored on excise duty.

1. Duty on domestic production and same nature imported goods.
2. The government department responsible for the collection of these duties.
3. Some harmful production can be charged excise duty.

4. Determine the excise duty before the selling the goods on factory gate and same nature imported goods in custom point.
5. Excise officer.

Purpose of Excise Duty

An excise duty was originally invented for some or all of the following reasons.

-) To maintain social security.
-) To regulate consumption of goods that affects the environment and human health.
-) To generate revenue needed.
-) To motivate export and minimize import.

2.1.4 History of Excise Duty

The development of modern excise system is associated with the rise of the trade and commerce. The excise system as a taxation technique has emerged as a supplementary measure to check the leakage and to increase the revenue. It developed first in Holland in the 16th century. It was in the 17th century when the trading classes developed in England they tried to escape the burden of taxation which the land owing claim was anxious enough to place on them that excise system developed in the country. "The selfish design or the capitalist remarked Seligman and the unselfish idea of the tax reforms went hand in hand to hidden the scope of indirect taxes and as the trading class developed in other countries the system of excise spread with it.

At that time, recessing of revenue to finance wars and existence of ripe condition due to the growth of madding and commercial classes were the two leading factors responsible for the introduction of excise taxation

system in most of the European countries and America. Nowadays, excise duty is the main sources of contribution on government revenue in every country.

The excise duty is levied on agricultural and industrial production of selected commodities and also on private borrowing for commercial purposes. The excisable goods are the manufacturing goods like's cigarettes, juice, sugar liquor, Beer, clothes, cement, vegetable, ghee's, vehicles molasses, plastic goods, noodles and so on.

The history of excise taxation in Nepal is not rather long. Before 1957 the main source of government revenue was traditional items like and revenue. Customs and excise duty, royalties in contracts for selling trees and for supplying porters, vehicles and liquor licensing, feel and so on. The main items under excise before 1957 were on local liquors, pig, hairs, leather, ganza and hassles. At that time the excise is administration was left to the pre-responsibility of "Rakam Bandbasta Adda."

In 1955 the department of custom and excise was established by the abolition of "Rakam Bandbasta Adda". But as rapid industrialization took place in various fields such as distillery, tobacco, tobacco, rice and oil processing, a small branch office of the custom and excise department could not meet the heavy requirement of revenue collection. Therefore separate or Excise Department was established in 1966. At present this department is functioning effectively in the central and district levels. In the district where is excise office is not operating; the pre-responsibility of excise collection is done by the department of land and revenue. The main sources of excise revenue were liquor and tobacco with establishment and growth of industries. The coverage of excise duty was

mitered in due course of time. Therefore revenue generation on the excise duty increased from Rs. 242.2 m. in 1980/81 to Rs. 1200.3 m in 1990/91. During this period of time of growth of the excise revenue is conducted to 17.5 percent per annum. Therefore, everyone one can conclude that the excise revenue is expected to grow at this time in the years to come also. In the fiscal year 1991/92, the most important commanding composition of the excise revenue generation were cigarettes, liquor, bidi, beer, cement, synthetics, textile, soft drinks, acrylic yarns etc. Cigarette was the major item contribution about 40 percent of the excise revenue; second to this was liquor which includes local liquor and high quality liquor produced by the modern distilleries. The contribution from these sources was about 12 percent of the total excise revenue. It is followed by cement, synthetic, textiles, soft drinks, vegetable ghee, raw leather, soybean oil, iron bars and rods a cyclic yarn. The excise duty on cigarettes, liquor, bidi, beer are levied financial year in 2011/12, excise duty contributed about 21 percent on government revenue (Google search).

As the economy of a country starts developing and when more and more import substituting industries begin to appear the role of excise revenue increase not only in terms of its contribution to the total revenue but also as an effective tool in controlling the production and consumption of socially undesirable goods like tobacco and liquor.

2.1.5 Introduction of Excise Duty

Simply excise duty is the tax levied by the government on the goods before the selling in factory gate and same nature imported goods. Excise duty is levied in production and imported goods. Generally, it determines in the production level and imported from custom point. It is the indirect

tax on the internal consumption (Excise Duty Provision, 2068). Excise duty is a form of an indirect tax which tax is imposed on the consumption of selected goods such as alcoholic beverages, tobacco products etc. Those products affect the people's health. The government impose excise duty to protect people from harming their health by abusing substances such as tobacco and alcohol, from harming their sales and others indirectly and morally by engaging in activities such as gambling and prostitution and from harming those around them and the general environment both from over use of the above mentioned substances and including curbing activities contributing to pollution.

Today, more than fifty commodities are subject to excise duty. The excisable products includes molasses, plastic goods, fruit juice, liquor, tobacco, soft drinks, ethanol, iron rods, marble, glaze tiles, noodles, fried meat, cement, paints, ceramic bricks (excise domestic production), vehicles, printing equipment telecommunication equipment (including telephone, fax machines, micro phone, speakers), television, other selected electric equipment etc. and same nature imported goods.

2.1.6 Introduction to Government Revenue

The income of a government from all sources appropriated for the payment of the public expenses is called government revenue. It is the yield from property or investment; income. In other words all the income produced by a particular source by governmental department set up to collect public funds.

Government revenue is the income according from taxation to a government during a specific period of time, usually a year. The government departments are responsible for the collection of government

revenue. Money which comes to a person etc. from any sources (e.g. property shares), especially the money which comes to government from taxes etc. is government revenue.

2.1.7 Exemption from Excise Duty

The excisable goods or services are exempt from excise duty under the following conditions (Kandel and Lamsal).

-) If exported from Nepal or goods other than liquor and cigarette sold to approved tax free shop (bonded ware house and duty free shop).
-) Liquor and cigarette sold by approved bonded ware house to persons or entities enjoying diplomatic and duty free facility on the recommendation of foreign Affairs ministry of government of Nepal.

Besides above the Act has exempted the following goods and services from excise duty.

-) The goods imported by person or entity enjoying diplomatic facility on recommendation of foreign ministry.
-) The import or chassis of ambulance, vehicles and funeral vehicle (used to carry dead body).
-) M.S. Wire rod in coil imported by industry as raw materials on recommendation of the department of industry.
-) Domestic production of marble.
-) Goods which are fully exempted from custom duty which are imported for personal use under free luggage services (Jhitigunta).
-) The goods produced by an industry using 90 percent or more local scrap materials.

2.1.8 Recovery of Excises Duty

Excise Act 2058 laid down the following provision with regard to the recovery of excise duty (sec 4) (Bhattarai and Koirala, 2067).

-) In the case of industry producing excisable goods under physical control system, the excise duty is recovered at the time the goods produced by the enterprise are delivered for sale.
-) In the cases of excisable goods and services under self control system, the excise duty is imposed at the time on invoice is issued.
-) In the case of imported goods, the excise duty is imposed at the time such goods enter Nepal at customs point.
-) In the case of services to be imported, the excise duty is imposed as specified by the government. Whatever is mentioned above, the department may specify to recover excise duty on any goods services at the time such goods are produced or services delivered.

2.1.9 Determination of Factory Prices

"Price" implies the factory price in the context of goods produced the price as per the in voice in the context of services provided and the price fixed for custom duty purpose including custom duties in the context or imported goods.

"Factory price" is determined by adding the manufacturing expenses of excisable goods other than excise duty or other taxes and the profit of a firm. More specifically, expenses include the following:

-) Expenses related to raw materials, parts, packaging etc.
-) Manufacturing expenses (wages, electricity, water, repair and maintenance, insurance, depreciation, interest fuel etc.)

J Office and administrative expenses (office rent, salaries, training expenses etc.) (Bhattarai and Koirala, page. 358).

2.1.10 Administrative Review and Appeal

A tax payer is not satisfied with decision of the excise duty officer regarding the assessment and recovery of excise duty may lodge an objection within 30 days upon the receipt of such notice with the Inland Revenue Department for an administrative review. But the person has to appeal to revenue tribunal against the excise duty officer's decision of imprisonment on different offences. If a tax payer cannot file such objection within the prescribed time, he can make an application for extension of the time within in 7 days. In such cause is shown, extend for a period not exceeding 30 days. After investigation, if the claim made by the applicant is found to be valid, the direct general may cancel the former order and issue another order to assess the excise duty. The department must give decision within 60 days from the application date, if the department fails to give its decision on stipulated time or taxpayer is not satisfied with the department's decision, he can appeal to revenue tribunal within 35 days upon the receipt of notice of such decision. The appliance needs to clear all the amount of undisputed excise duty and fines and submit one third of disputed excise duty and fines as a cash deposit along with application. The person applying for administrative review or appeal must register a copy of the application in the concerned office (Inland Revenue Office) with 15 days. The execution of the decision of excise duty officer regarding fines and imprisonment will not be affected because of the administrative review or appeal to revenue tribunal.

2.2 Review of Literature

Excise duty was imposed in Nepal by the authorized government of Nepal in 1959. Then, after various studies were made and researches are conducted by different individuals and institutions concerning with various aspect of this act such as the structure, role of excisable products legal and administrative frame work etc. Some or books, reports and dissertations that are reviewed during this study are as follows.

2.2.1 Review of Books

Chelliah (2002), in his scholar work has taken consideration with a few pages towards the excise taxation, while studying the taxation on union government of India. According his study custom are losing their relative importance and its place is taken up excise duties. This was 40 percent of total tax revenue at his studying time he further states. Excise taxation has growth by leaps and bounds in the last 25 to 30 years. In the middle thirties, excise duties covered only five commodities but now the list of articles covered his fairly long (Chelliah, 2002).

Singh (1977: 167-172) A well known economist though Indian has done comprehensive study on "The fiscal system of Nepal." Although it is a comprehensive study even if it is also a macro study on the fiscal system of Nepal. It is not concerned to a certain tax only. Only in chapter 6 he has touched excise duty source and composition only.

Dhakal. Dr. Kamal Deep (2002) has published a revised edition of book named "Income tax and house compound tax law and practice with VAT". He had described historical aspects of income tax and legal provisions relating to income tax with numerical examples. This book was fully based on the syllabus of MBS. This book was published before

coming new income tax 2002 and it is very useful to know the general information and legal provision of income tax act 1797. It was very informative because contenting of historical background of income tax features of income tax, relation of income tax acts with other acts and laws and different topics of different chapters.

Bhattarai and Koirala (2010) wrote a book entitled "Taxation in Nepal." They explained about the income tax; value added tax, custom duty, revenue administration and tax planning in Nepal. The book has been designed based on the curriculum of MBS. This book includes various direct and indirect taxes in Nepal covering income tax, value added tax, custom and excise duty. It also covers tax planning concepts and its used in Nepal. The book also included references and supplementary readings.

2.2.2 Review of Related Previous Studies

Shrestha (1976) has studied on "Excise taxation in Nepal." The main objectives of research were to find out the share of excise duty to government revenue. His main objectives are: to review the excise duty contribution in revenue of Nepal, to identify the excisable goods in Nepal. His major findings are as follows: excise duty has to play multifarious roles in an economy. Though allocate and distributive roles or more precisely raising of internal saving for development has the main. Excise taxation, started in Holland at first and then in England to finance, wars from growth of trade and commerce, came to a present form after series or major change from time to time. Regarding the forms of excise taxation, though it is difficult to classify. Generally three forms have prevailed : 1) Limited with generally 10 to 15 commodities groups with closely related products, 2) intermediate more than 30 commodity groups and 3) extended with more than 30 commodity groups spanning almost

the while range of production activities. These alternative forms are found to previous depending upon the development stage of the economy, the extent of utilization of excise taxation as an indirect tax mainly depends upon the stage of economy. In early stages, it due to poor industrial base, excise taxes are not so important in the later stages; with the growth in industries they come to time lights. In Nepal, among the various indirect taxes, custom duty is the main source of revenue followed by land revenue and excise in the third position. But from 1966/67 if came down to fourth position, inter, spatial performance of excise revenue depends upon 10 industrial 10 Zones at Janakapur. So since major cigarette factory is located. Janakpur office comes first in terms of revenue collection, followed by Birgunj, Biratnagar, Kathmandu and Bhairahawa. But one encouraging sign is that all the centers exhibit upward increasing trend in revenue collection.

Baaniya (1979) has studied on "Excise taxation in Nepal." The main objective of that study was to analyze the present position of excise duty tax in total tax structure and excise tax to show excise tax as a major source of revenue finding as like the government should consider discouraging the liquor contract system and encouraging the distillery system. Nepal governments try to accomplish the switch over from contract system to distillery system of the earliest possible, those raw materials which are essential for running the factory should be imported only by the permission of excise officers, the running will have hauler and expeller are not recorded in the industry department. Therefore further if these things are to be added could be done only the permitted of excise offices. The excise duty on higher brand of cigarette could be increased and the excise on lower brand should be kept contract for the time being. But the excise on Bidi should be increased. Looking at trend

of excise revenue from 1968-69 to 1978-79 the normal rate of growth revenue is 26.13 percent per annum. Thus does the problem exist in industrial field removed then this sector can play a key role in financing the internal fund.

Dhungana (1980) stands with his research work "Indirect taxation in Nepal." In this work he has focused all the three indirect taxes emphasizing mostly on elasticity and buoyancy development performance of the concerning taxes which are being in practices. He puts his ideas forth. "Excises revenue occupies a significant place in the overall tax structure of the developing on." He head unlighted the objectives of the excise taxes as, curtailing the consumption of certain undesirable's commodities affecting the allocation of resources, distributing the tax burden and raising the revenue to meet the government need.

Kunwar (1988) has studied on "The role of excise taxation in Nepal." The main objectives of the study was to analyze the role of indirect tax in developing countries like Nepal, evaluating the importance of excise duties in economic development, examining the trends and elasticity and buoyancies of tax revenue indirect tax, evaluating the legal provisions of excise tax and legal drawback. The study has reported several findings like, the reliance of indirect taxes is increasing in developing countries and reliance of direct taxes is decreasing due to law per capita income. It is seen that the excisable goods are producing in a larger amount. Such tax administration and methods of levying tax is becoming complex and uncertainty. It was extremely suggested that the excise duties on basic goods should be either abolished or kept at a very low level. The government should take special care, in any country the effectiveness of

the administration depends on its legal provisions and ineffectiveness is the course of legal provision and effectiveness is the cause of legal drawbacks of the concerning countries.

Bajracharya (1993) has studied on "Excise taxation in Nepal." The main objectives of the study was to examine the extend of the resource gap in Nepal's economy. To analysis the role of excise duty in the structure of Nepal. The study has reported several finding like: Domestic resources in Nepal can be mobilized through taxation and non-taxation methods. In Nepal the tax revenue consists of 76.20 percent of the total revenue in 1992 and the non tax revenue consists of 23.8 percent. In taxation custom duty contributing 28.40 percent, while excise duty consists of 11.20 percent sales tax revenue consists of 18.90 percent, income tax consists 7.40 percent and land revenue consists of 0.80 percent only. As the economy of the country starts developing and when more and more import substituting industries begin appear, the role of excise revenue increase not only it term of its contribution to the total revenue but also an effective tool in controlling the production and consumption of socially undesirable goods like tobacco and liquor, in the fiscal year 1991/92, the most important commodity composition of the excise revenue generation were cigarettes, liquor, bidi, beer, cement, synthesis textile, soft drink etc. cigarette was the major item contribution about 48 percent of the excise revenue. Second to this was liquor which includes local liquor and high quality liquor produced by the modern distilleries. The contribution from this source was about 12 percent of the total excise revenue. It was followed by cement, synthetic textile, soft drinks, vegetable ghee, soybean oil, iron bar and rods. The excise duty on cigarettes, liquor, bidi and beer are levied on the ground of people's health hazard as well s a

good source of revenue generation to meet the resource gap in the country.

2.2.3 Review or Research Report and Articles

Ghimire (2006) has studied on "Study on excise duty." The main objective of the study was to the government's main objective of levying excise duty is the mobilization of revenue. In order to discourage the consumption of health hazard products therefore excise duty is imposed on the manufacture of the product like beer, liquor, tobacco and cigarettes. How many excisable products in Nepal? The study reported several finding like: The contribution of total excise duty in the gross domestic product reveals that the ratio is less than one percent from 1990 to 2002. It has however slightly increased from 1.09 percent to 1.26 percent in the next three years (2003-2005). The structure of excise duty reveals the significance of revenue generated from three excisable items cigarette, liquor and beer. The contribution of cigarette, liquor, and beer together is on average more than 90 percent of the total excise duty during 1995-2005 periods. The number of selected excisable products numbered 14 in 1964. The number of excisable products was 13 which increased to 21 in 1998. The number has further increased to 30 in 2006 (January), the beer production has increased marginally in the last three years. The liquor production has fluctuated from year to year and has almost stabilized in the last few years. The cigarette production has also declined in some year but has shown study increase in the last three years. The function is attributed to the internal disturbances in the country. The volume of production of soft drinks has increased more than 50 percent from 1995 to 2005 and more than three times in fifteen years.

Gorkhapatra, a daily national newspaper which is the governmental national daily newspaper has published news on 2068 Poush 10 about the re-establishment preparation of excise offices. According to the news, 520 companies have produced excisable product in Nepal. Total contribution of government revenue from excise duty is 20.76 percent in 2011. Nepal adopted the liberalization policy from 2050 B.S. and Nepal government had decided to reduce the excise offices. Nowadays, 22 tax offices are operating in the different places of country under the Inland Revenue Department and 13 tax payer service offices are operating in the different places of country. Then, according to the news, the government has decided to charge the 50 excisable products under the excise act. In the first stage, the government establishes excise offices in six different industrial areas. Those excise offices were removed 18 years ago. The government has needed to establish the excise officers. It is compulsory and necessary to collect the duty.

2.3 Research Gap

There is not any study regarding excise duty since long time. Any researcher has not become able to find out the problems of excise system of Nepal. There are so many products making contribution in excise duty which aids in increasing government revenue. Rate of excise duty is fixed by government authority without evaluating its impacts on the economy and the people.

This study has been done to cover research gap through contribution of excise duty to government revenue of Nepal with special reference to tobacco and liquor products in Nepal since FY 2002/03 with covering 10 years. Tobacco and liquor products are major components of contribution to the excise duty. Researcher hasn't become able to find out the

contribution and trend or excise duty of the selected items with special reference of tobacco and liquor products. This study focuses future trend and growth potentiality of excise duty of tobacco and liquor products in Nepal. It has also focused problem and prospectus in such field. Here Tobacco includes all kinds of Tobacco products i.e. Bidi, Cigarette, Surti, Khaini, Pan, Masala, Gutkha and Liquor includes all kinds of alcoholic and beverage products i.e. Beer, Wines and other local alcoholic products 'Jad, Chhyang' etc.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

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

3.2 Research Design

The research design is the plan, structure and strategy of investigation conceived so as to obtain to research question and to control variance. Most of the data and information of the study was concerned with past phenomena of the performance either they are numerical or opinions. For studying the stated objectives, exploratory and diagnosis research design had been applied. After the collection of past data and experiences, this study analyzed and described its own procedure. Thus, this study also followed and analytical as well as descriptive research design.

3.3 Sources of Data

Required primary data collected from questionnaire and unstructured interview with tax exports, tax administration, businessman, consumer etc. opinion and information was collected from discussion and interaction with related person, policy makers and other intellectual persons, whereas secondary data was collected from 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 government.
-) Publications and annual reports of Internal Revenue Department (IRD) for the excise duty.
-) Various books written by tax officers and scholars.
-) Related articles and journals.

3.4 Data Analysis Tools

The data was collected in raw and crude from various sources are arranged, analyzed and presented in proper tables. Formats and graphs such tables and formers are interpreted and explained wherever necessary. To analyze the collected data, basically two types of tools used.

Statistical tools

1. Mean

$$\text{Mean } (\bar{X}) = \frac{1}{n} \sum_{i=1}^n x_i$$

2. Standard deviation and coefficient of variance

$$s = \sqrt{\frac{1}{n} \sum_{i=1}^n (x_i - \bar{X})^2}$$

Where, \bar{X} is the arithmetic mean of the distribution and $\sum_{i=1}^n x_i = N\bar{X}$

3. Correlation

$$r = \frac{N \sum XY - \sum X \sum Y}{\sqrt{N \sum X^2 - (\sum X)^2} \times \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

4. Regression

Regression is the determination of statistical relationship between two or more variables. It can be used to determine sales forecast on the basis of some dependent variables. Its relationship can be shown by the relationship.

$$Y - Y_{\bar{y}} = r_{xy} \frac{\sum y}{\sum x} (X - X_{\bar{x}})$$

5. Trend Analysis

Trend analysis is the statistical tool of forecasting the future sales on the basis of past trend. It can be expressed as follows,

$$Y = a + bX$$

$$\text{Where, } a = \frac{Y}{n} \text{ and } b = \frac{XY}{X^2}$$

6. Time Series Analysis

Time series analysis shows the relation between two variables time and sales, where time is independent variable and sales is dependent variable, which helps to find out sales of future periods on the basis of past trend. It can be given by following relation.

$$Y = a + bX$$

Where,

Y = Sales for the period

X = Year

7. Percentage, Graphs and Diagram etc.

) Financial and Budgetary tools

- Ratio analysis
- Variance analysis

3.5 Period Covered

This study covers a time periods of 10 years from FY 2002/03 to 2011/12 to analyze excise duty and its contribution on the basis of 1 years i.e. 2002/03.

3.6 Research Variables

The basic research variables of this study are mainly related with the excise duty collected by Government of Nepal with domestic and imported products in different financial years.

3.7 Research Procedure Followed

- i. The various books, magazines and journals are collected and explored.
- ii. Useful secondary data are used.
- iii. Data are described and explained in the light of theoretical basis.
- iv. The collected data are presented and arranged in tabulation forms and analyzed by applying the various statistical and financial tools.

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

Excise duty is a tariff or tax on the domestic products and imported products [Excise Act 2058] which are determined by prevailing law. A tax that a country imposes on its production at factory gate and imported goods at custom point is excise duty. Excise duty is an indirect tax which levied on production and imported goods. Excise duty is a government tax on domestic products and imported same nature products. It is called factory gate tax. The excise duty of selected item with reference to Tobacco and liquor products (in fiscal year 2002/03 to 2011/12) is presented for contribution to the government revenue.

4.2 Revenue Structure of Nepal

Every government is responsible to perform numerous functions for the betterment of the people in the country. A government needs sufficient 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 tax payers. Theoretically, it is a tax that falls firstly and directly on the tax payers but the other person must bear if 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. So, 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, small space 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 contract tax. Excise duties are composed of mainly domestic production" and same nature imported goods.

Excise duty is a form of an indirect tax which is imposed on the consumption of selected goods such as Alcoholic beverage, Tobacco products etc. Typical examples of excise duties are taxes on tobacco and alcohol. Generally the lists of such goods are provided by government and the lists may differ from country to country. The government of Nepal has enacted Excise Act 2058, Excise Regulation 2059 and Alcohol Regulation 2033 with an aim to amend and consolidate the prevailing excise laws in order to make safe and facilitate production making excise

administration systematic, transparent and accountable. The contribution of excise duty in total revenue is 13.5 percent in 2009/10 and 20.78 percent in 2010/11 (Bhattarai and Koirala, 2011).

Government of Nepal has presented budget its first in the FY 1951/52, the revenue structure was typically that of traditional economy with 73 percent or government receipts from non tax sources and land tax only. But later in the last 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.

Government revenue is collected from two sources. They are tax revenue and non tax revenue. Here, table no 4.1 is presented as the contribution of tax and non tax revenue in total revenue Nepal from fiscal year 2002/03 to 2011/12.

Table No.4.1
Sources of Government Revenue
(FY 2002/03 to FY 2011/12)

(Amount in Rs. Thousand)

Fiscal Year	Total revenue	Total tax revenue	% of total tax revenue on total revenue	Total non-tax revenue	% of non- tax revenue on total Tax revenue
2002/03	56229791	42504319	75.59	13725472	24.41
2003/04	62331000	48173266	77.29	14157734	22.71
2004/05	70122700	54414700	77.16	36069218	22.84
2005/06	71733127	57430400	80.06	14302727	19.94
2006/07	87711208	71127000	72.79	26584208	27.21
2007/08	107622480	85155457	79.12	22467023	20.88
2008/09	143474489	111092373	77.43	32282116	22.57
2009/10	179945820	156294922	86.86	23650898	13.14
2010/11	198375900	177227200	89.34	21148700	10.66
2011/12	244373000	211721800	86.64	32651200	13.36

Source: Government of Nepal, Economic Survey 2069/70 BS.

The Table no.4.1 shows that in the FY 2002/03 has 75.59 percent of tax revenue and 24.41 percent of non tax revenue. Similarly in FY 2003/04 77.29 percent and 22.71 present is respectively. This rate of contribution is flexible in each year after 2003/04 and reached to 86.64 present of tax revenue and 13.36 present of non tax revenue in FY 2011/12.

Tax revenue is also of two kind i.e; direct tax and indirect tax revenue. Excise duty is a source of indirect tax. The excise duty of selected items is presented below.

4.3 Contribution of Excise Duty on Total Inland Revenue

Excise duty is tax levied by the government on the domestic production and same nature imported goods which are specified by the prevailing laws. The contribution of excise duty on total revenue is presented in table 4.2.

Table No. 4.2
Contribution of Excise Duty on Total Inland Revenue
(FY 2002/03 to FY 2011/12)

(Amount in Rs. Thousand)

Fiscal Year	Total inland revenue	Revenue on excise duty	% contribution
2002/03	26353422	4785244	17.82
2003/04	30920989	6226724	20.14
2004/05	36552762	6446503	17.64
2005/06	40202336	6512225	16.20
2006/07	51542450	8533844	16.56
2007/08	61152297	11189575	18.30
2008/09	83185706	16237397	19.52
2009/10	113048290	24306107	21.50
2010/11	129876968	26458389	20.37
2011/12	156097699	30410410	19.48
Total	728932919	141950486	19.36

Source: Government of Nepal, IRD Annual Report, Kathmandu.

The data on Table 4.2 shows that the comparison of contribution of excise duty on total inland tax revenue. From the above table proportion of excise duty of 2009/10 is high which is 21.50 percent and proportion

of FY 2005/06 is low which is 16.20 percent rate of increasing on excise duty is improving till FY 2009/10 and in decreasing trend after this year.

4.4 Comparison of Expected and Actual Excise Duty

Excise duty is an indirect tax. Every year, the government plans the expected excise duty in the starting of fiscal year. Then next year the government evaluates the expected and actual collected excise duty. Expected excise duty includes in the budget. Comparison of expected and actual excise duty is resented in Table 4.3.

Table No. 4.3
Comparison of Expected and Actual Excise Duty
(FY 2002/03 to FY 2011/12)

(Amount in Rs. Thousand)

Fiscal Year	Expected	Actual	Difference	Result
2002/03	4725000	4785244	41327244	Fav
2003/04	6099800	6226724	126924	Fav
2004/05	7000000	6446503	(553497)	Unfav
2005/06	7950000	6506940	(1443060)	Unfav
2006/07	8637500	9343187	705687	Fav
2007/08	10523200	11189575	666375	Fav
2008/09	14073000	16237398	148300798	Fav
2009/10	18641900	24306107	564207	Fav
2010/11	29611377	26458389	(3152988)	Unfav
2011/12	30254001	30410410	156409	Fav

Source: Government of Nepal, Inland Revenue Department, Kathmandu.

The data on Table 4.3 shows the comparison of expected and actual excise duty. The situation of collection from excise duty in FY 2004/05, 2005/06 and 2010/11 is unfavorable. Because this year the government

could not get the target but remaining fiscal year collecting of excise duty condition is favorable. It means, the government succeeded to get the target easily. The government of 100 percent increase in the salary of the employees working in ministry of finance specially employees of Inland Revenue offices.

4.5 Comparison of Excise Duty Collection from different Products

Excise duty is an indirect tax levied by the government. Excisable products are Tobacco, Liquor products and others. Then same nature imported goods. Composition of excise duty collection from different products is presented below:

Table No. 4.4

Composition of Excise Duty Collection from different Products

(FY 2002/03 to FY 2011/12)

(Amount in Rs. Thousand)

Fiscal Year	Total excise duty	Tobacco	Liquor	Others products	Imported goods
2002/03	4785244	2075626	2194203	324585	190830
2003/04	6266733	2396316	2249169	296244	1285004
2004/05	6446504	2476988	2559236	326306	1083973
2005/06	6506940	2409043	2677326	330220	1089831
2006/07	9343187	2856564	3434155	973605	1970343
2007/08	11189575	3118908	3691771	1501795	2780052
2008/09	16237397	3742347	5127342	2095015	5128952
2009/10	24306107	4512501	6584338	2500274	10550456
2010/11	26458389	5139368	8387741	2160175	10568110
2011/12	30140140	5216670	11850360	2579660	10496362
Total	141950486	33944331	48755641	14706070	45143913
Total (%)	100	23.40	34.36	10.36	31.80

Source: Government of Nepal, Inland Revenue Department, Kathmandu.

The data on Table 4.4 shows that composition of excise duty collection from different products. Every fiscal year collection on excise duty on every products is increasing. The average of 10 fiscal year shows the contribution of liquor is high collection of excise duty and lowest contribution is from others products on collection of excise duty. It is also depicted from pie-chart.

Figure 4.1
Composition of Excise Duty Collection from different Products
(FY 2000/01 to FY 2009/10)

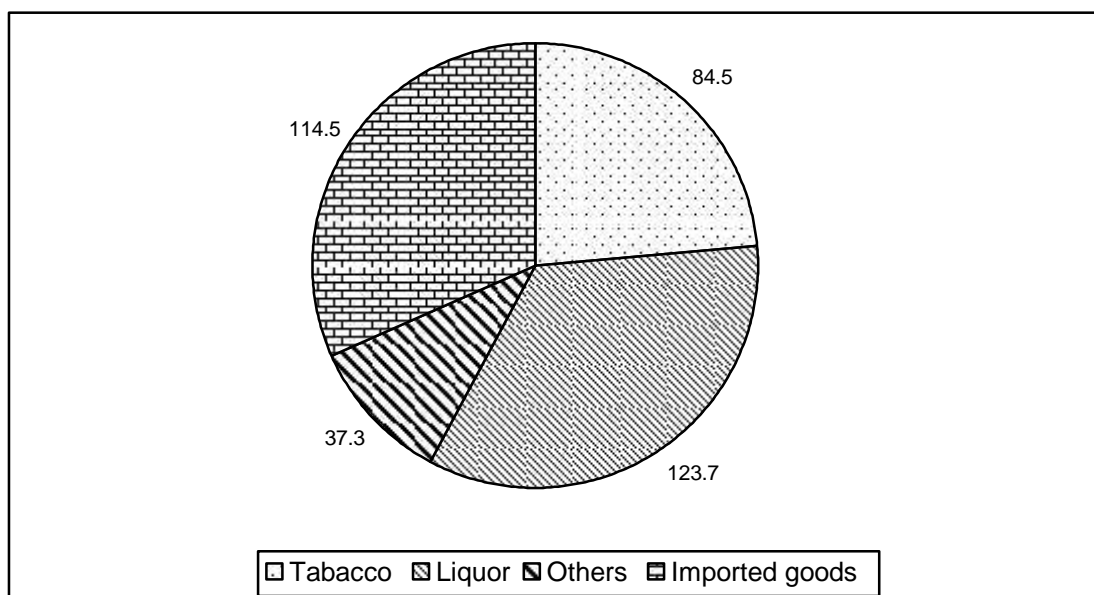


Figure 4.1 shows pie-chart about the composition of the excise duty collection from different products. It shows, duty collection from liquor products is high and duty collection from others products is low.

4.6 Contribution of Excise Duty on Gross Domestic Production

Excise duty is a indirect tax levied by the government on some domestic products and same nature imported products. In other words excise duty is a factory gate tax. Excise duty is contributing main role of gross

domestic production. Contribution of excise duty on gross domestic production is presented below Table 4.5.

Table No. 4.5
Contribution of Excise Duty on Gross Domestic Production
(FY 2002/03 to FY 2011/12)

(Amount in Rs. Thousand)

Fiscal Year	Gross domestic production	Revenue on excise duty	% contribution from excise duty
2002/03	492200000	4785244	0.97
2003/04	536800000	6266733	1.17
2004/05	589400000	6446504	1.09
2005/06	654100000	6506940	0.99
2006/07	727800000	9343187	1.28
2007/08	815700000	11189575	1.37
2008/09	988300000	16237397	1.64
2009/10	1192800000	24306107	2.04
2010/11	1375000000	26458389	1.92
2011/12	1536000000	30410410	1.98

Source: Government of Nepal, Inland Revenue Department, Kathmandu.

The data on Table 4.5 shows that contribution of excise duty on gross domestic production. Contribution from excise duty in FY 2011/12 is 1.98 percent and in FY 2002/03 was 0.97 percent. The highest percentage of excise duty on GDP is in FY 2009/10. The contribution of excise duty on GDP is flexible in subsequent year.

4.7 Contribution of Excise Duty on Total Revenue and Total Tax Revenue

Excise duty is a compulsory payment to the government for buying and producing goods by the people to the people. Nepalese tax revenue is mainly dependent on the indirect taxes such as tax on excises duty. The excise duty levied on some domestic production and same nature imported products, which is defined by the prevailing law. The contribution of excise duty on total revenue and total tax revenue is presented below Table 4.6.

Table No. 4.6
Contribution of Excise Duty on Total Revenue and Total Tax Revenue
(FY 2002/03 to FY 2011/102)

(Amount in Rs. Thousand)

Fiscal Year	Revenue from excise duty	Total revenue	% contribution on total revenue	Total tax revenue	% contribution on total Tax revenue
2002/03	4785244	56229791	8.51	42504319	11.26
2003/04	6266733	62331000	10.05	48173266	13.01
2004/05	6446504	70122700	9.19	54104700	11.92
2005/06	6506940	71733127	9.07	57430400	11.33
2006/07	9343187	87711208	10.65	71127000	13.14
2007/08	11189575	107622480	10.40	85155457	13.14
2008/09	16237397	143474489	11.32	111092373	14.62
2009/10	24306107	179945820	13.42	156294922	15.45
2010/11	26458389	198375900	13.34	177227200	14.93
2011/12	30410410	244373000	12.44	211721800	14.36

Source: Government of Nepal, IRD Annual Report, Kathmandu.

The data on Table 4.6 shows that the contribution of excise duty on total revenue and total tax revenue. Contribution of excise duty on total revenue is 8.51 percent in FY 2002/03 which is low and 13.42 percent in FY 2009/10 and excise duty on total tax revenue is 11.26 percent in FY 2002/03 and 15.45 percent in FY 2009/10 is highest. The excise duty is increasing on total revenue and total tax revenue.

4.8 Contribution of Tobacco on Excise Duty and Total Inland Revenue

Tobacco is a harmful product for the people's health. So the government charges the tax on production of tobacco, which is excise duty. Tobacco includes cigarettes, bidi, surti, khaini, gutkha, paan and other Tobacco products. The contribution of Tobacco on excise duty and total Inland Revenue is presented below Table 4.7.

Table No. 4.7
Contribution of Tobacco on Excise Duty and Total Inland Revenue
(FY 2002/03 to FY 2011/12)

(Amount in Rs. Thousand)

Fiscal Year	Revenue from tobacco	Revenue from excise duty	% contribution on excise duty	Revenue from TIR	% contribution on TIR
2002/03	2075626	4785244	43.38	26853422	7.73
2003/04	2396316	6266733	38.24	30920989	7.75
2004/05	2476988	6446504	38.42	36552762	6.78
2005/06	2409043	6506940	37.02	40202336	5.99
2006/07	2856564	9343187	30.57	51541450	5.54
2007/08	3118908	11189575	27.87	61152297	5.10
2008/09	3742347	16237397	23.04	83185706	4.50
2009/10	4512501	24306107	18.57	113048290	3.99
2010/11	5139368	26458389	19.42	129876968	3.96
2011/12	5216670	30410410	17.15	156097699	3.34
Total	33944331	141950486	23.92	1058401919	3.21

Source: Government of Nepal, Inland Revenue Department, Kathmandu.

The data on Table 4.7 shows that the contribution of tobacco in the excise duty is decreasing from FY 2002/03 to FY 2011/12. The contribution of Tobacco in the total Inland Revenue is also decreasing rate. It shows revenue from tobacco is main source of collecting Government revenue.

4.9 Contribution of Liquor on Excise Duty and Total Inland Revenue

Liquor products are also harmful for the people's health. So the government charges the tax on production of liquor and import. Which is excise duty? Liquor includes all kinds of wine i.e. low level or high level, local wines, beer etc. The contribution of liquor on excise duty and total Inland Revenue is presented below Table 4.8.

Table No. 4.8
Contribution of Liquor on Excise Duty and Total Inland Revenue
(FY 2002/03 to FY 2011/12)

(Amount in Rs. Thousand)

Fiscal Year	Revenue from liquor	Revenue from excise duty	% contribution on excise duty	Revenue from TIR	% contribution on TIR
2002/03	2194203	4785244	45.85	26853422	8.17
2003/04	2249169	6266733	35.89	30920989	7.27
2004/05	2559236	6446504	39.70	36552762	7.00
2005/06	2677326	6506940	41.15	40202336	6.66
2006/07	3434155	9343187	36.76	51541450	6.66
2007/08	3691771	11189575	32.99	61152297	6.04
2008/09	5127342	16237397	31.58	83185706	6.16
2009/10	6584338	24306107	27.09	113048290	5.82
2010/11	8387741	26458389	31.70	129876968	6.46
2011/12	11850360	30410410	38.97	156097694	7.59
Total	48755641	141950486	34.35	1031548492	4.73

Source: Government of Nepal, Inland Revenue Department, Kathmandu.

The data on Table 4.8 is shows that the contribution of liquor in the excise duty is decreasing from FY 2002/03 to FY 2009/10 and going

increasing in FY 2010/11 and FY 2011/12. It is one of the good source of revenue from excise. The contribution of liquor in the total Inland Revenue is also increasing trend except FY2009/10. It shows revenue from liquor is main source of collecting Inland Revenue.

4.10 Comparison of Revenue from Tobacco and Liquor Products

Tax is a compulsory contribution to government made without reference to a particular benefit received by the taxpayer. An indirect tax is an imposed on one person but partly or wholly paid by another. Indirect tax is transferable. Excise duty is an example of indirect tax. It is the main source of government revenue. Comparisons of revenue from tobacco and liquor products are presented in Table 4.9.

Table No. 4.9
Contribution of Revenue from Tobacco and Liquor Products
(FY 2002/03 to FY 2011/12)

(Amount in Rs. Thousand)

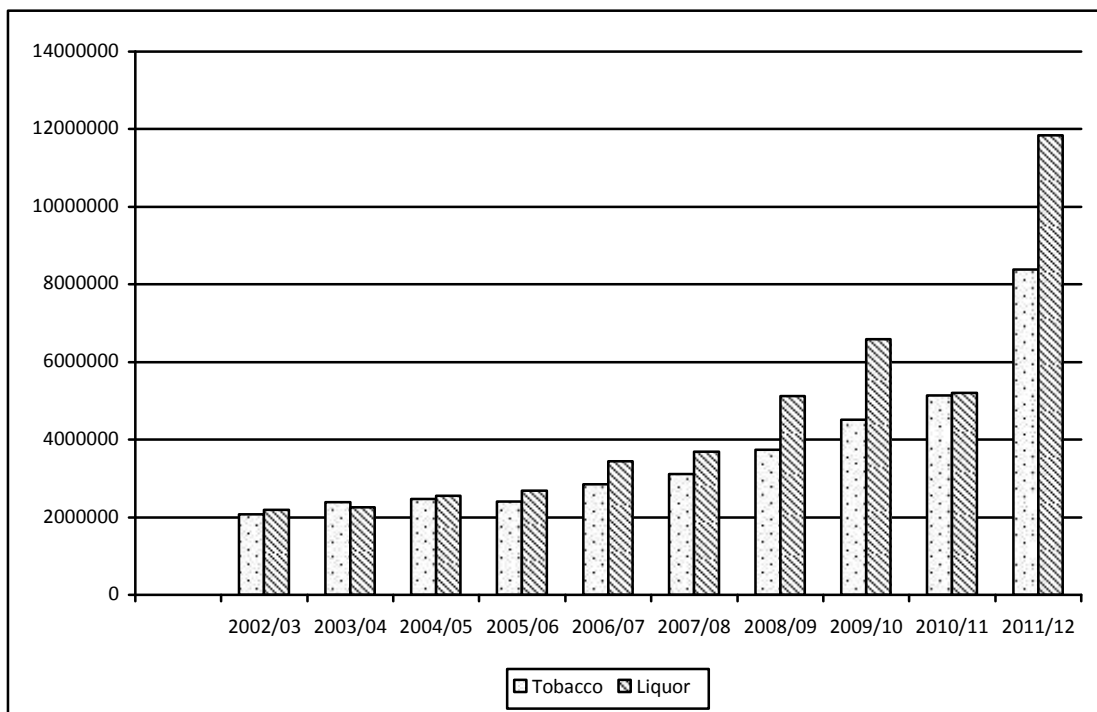
Fiscal Year	Tobacco	Liquor	Ratio = $\frac{\text{Tabacco}}{\text{Liquor}}$
2002/03	2075626	2194203	0.95
2003/04	2396316	2249169	1.07
2004/05	2476988	2559236	0.97
2005/06	2409043	2677326	0.90
2006/07	2856564	3434155	0.83
2007/08	3118908	3691771	0.84
2008/09	3742347	5127342	0.73
2009/10	4512501	6584338	0.69
2010/11	5139368	8387741	0.61
2011/12	5211670	11850360	0.44

Source: Government of Nepal, Inland Revenue Department, Kathmandu.

The data on Table 4.9 shows that the comparison of revenue from tobacco and liquor products. In FY 2002/03 ratio between tobacco and liquor is 0.95 which is almost equal. But in FY 2003/04 it is 1.07 which is highest ratio. In FY 2011/12 ratio is 0.44 which shows that contribution from tobacco is low. It shows revenue from tobacco is decreasing trend.

Figure 4.2

Bar Diagram showing Comparison of Revenue from Tobacco and Liquor Products



In Figure 4.2 the multiple Bar-diagram shows that the comparison of the revenue from tobacco and liquor. Except some year, revenue from liquor is more than revenue from tobacco.

4.11 Contribution of Revenue from Tobacco and Liquor Products on Total Tax Revenue

Tax is a compulsory burden levied by the legal government. Tax is the main source of government revenue. Tax revenue includes Inland Revenue and custom duty. Tax revenue covers the more than 70 percent government revenue. The contribution of revenue from tobacco and liquor is presented below Table 4.10.

Table No. 4.10
Contribution of Liquor on Excise Duty and Total Inland Revenue
(FY 2002/03 to FY 2011/12)

(Amount in Rs. Thousand)

Fiscal Year	Total tax revenue	Revenue from tobacco	% contribution from tobacco	Revenue from liquor	% contribution on liquor
2002/03	42504319	2075626	4.88	2194203	5.16
2003/04	48173266	2396316	4.97	2249169	4.67
2004/05	54104700	2476988	4.58	2559236	4.73
2005/06	57430400	2409043	4.19	2677326	4.66
2006/07	71127000	2856564	4.02	3434155	4.82
2007/08	85155457	3118908	3.66	3691771	4.33
2008/09	111092373	3742347	3.37	5127342	4.62
2009/10	156294922	4512501	2.89	6584338	4.21
2010/11	177227200	5139368	2.90	8387741	4.73
2011/12	211721800	5211670	2.46	11850360	5.60
Total	994780219	33944331	3.41	48755641	4.90

Source: Government of Nepal, Inland Revenue Department, Kathmandu.

The data on Table 4.10 shows the contribution of revenue from Tobacco and Liquor products on total tax revenue. Revenue from tobacco and liquor are main source of collecting tax by the government. But later fiscal year contribution rate is decreasing. Contribution from tobacco in FY 2002/03 is 4.88 percent and contribution from liquor is 5.16 percent. Similarly, these are 2.46 percent and 5.60 percent respectively in FY 2011/12.

4.12 Calculation of Trend Line and Trend Values of Excises Duty, Excises Duty from tobacco and Liquor Products

Data about projection of excise duty in coming year are not available. The availability of data till 2011/12 only has been major hurdle in making projection. Despite the serious gaps in availability of information for projections as attempt has been made in this study to project income to revenue of Nepal till 2015/16. Such projection should be taken as broad estimation only in view of series limitations. Additional effects resulting from the policy changes, administrative action and changes in the behavior of tax payers have not been disaggregated. Total most important thing is that we are calculating the historical trend line of total excise duty, tobacco and liquor for period of past 10 years (i.e. FY 2002/03 to FY 2011/12) using secular trend.

**4.12.1 Calculation of Trend Line and Trend Values of Excise Duty
(FY 2002/03 to 2011/12)**

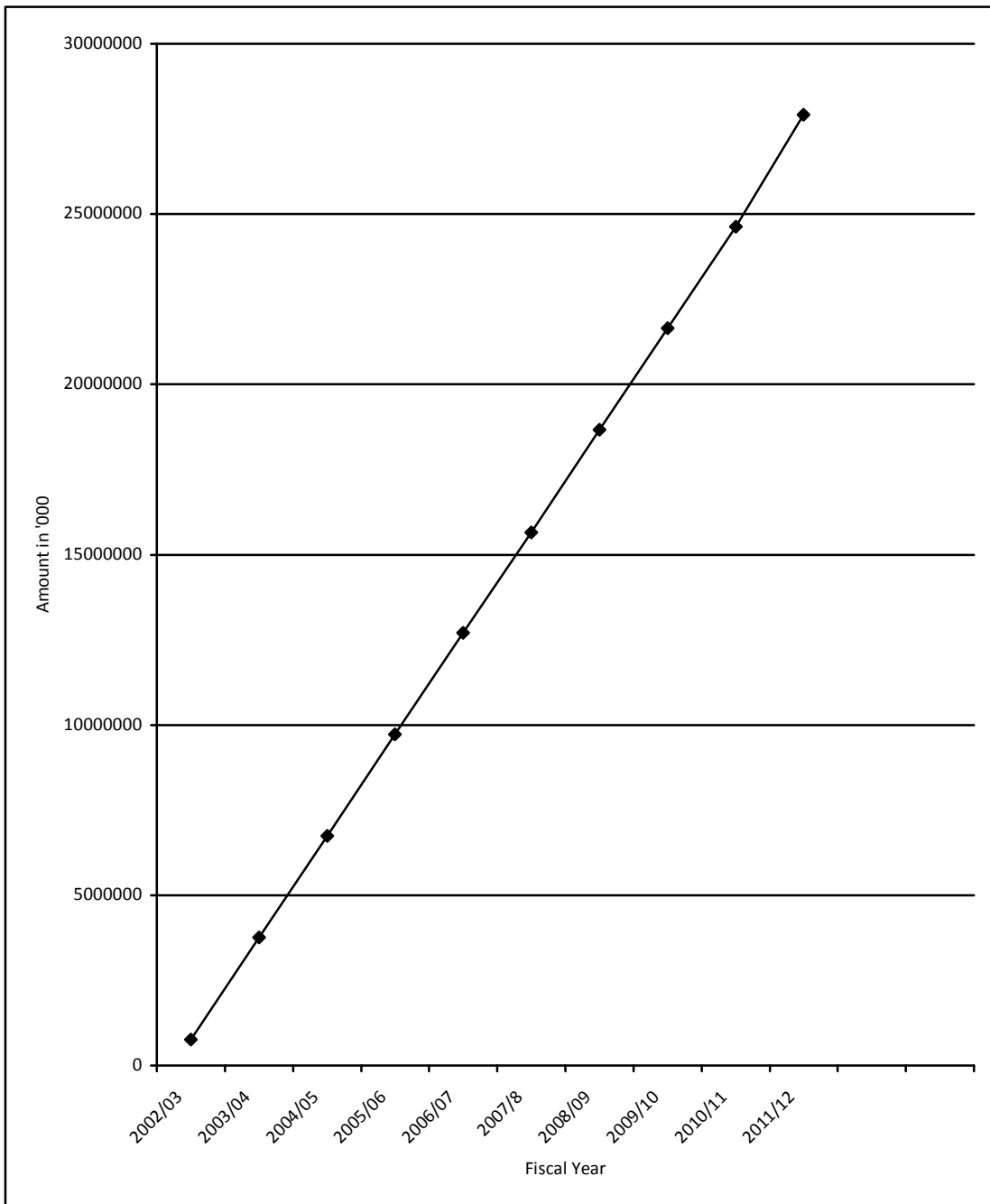
Table No. 4.11
Trend Line and Trend Value of Excise Duty
(Amount in Rs. Thousand)

Fiscal Year	Excise Duty (y)	$x = \frac{2(x-5)}$	x^2	xy	A	b	$Y_c = a+bx$	Variation $y-y_c$
2002/03	4785244	-9	81	-43067196	14195048.6	1491829.88	768579	4016665
2003/04	6266733	-7	49	-43867131	14195048.6	1491829.88	3752239	2514494
2004/05	6446504	-5	25	-32232520	14195048.6	1491829.88	6735899	-289495
2005/06	6506940	-3	9	-19520820	14195048.6	1491829.88	9719558	-3212618
2006/07	9343187	-1	1	-9343187	14195048.6	1491829.88	12703218	-3360031
2007/08	11189575	1	1	11189575	14195048.6	1491829.88	15686878	-4497303
2008/09	16237397	3	9	48712191	14195048.6	1491829.88	18670538	-2433141
2009/10	24306107	5	25	121530535	14195048.6	1491829.88	21654198	2661909
2010/11	26458389	7	49	185208723	14195048.6	1491829.88	24637857	1820532
2011/12	30410410	9	81	273693690	14195048.6	1491829.88	27921517	2488893
Total	141950486	$\Sigma x = 0$	$\Sigma x^2 = 330$	$\Sigma xy = 492303860$				

Calculation of Trend Values of Excise Duty.

The trend values can be obtained by substituting the respective values of x in the trend line i.e. $Y_c = 14195048.6 + 1491828.88x$. The computation of trend values is above.

Figure 4.3
Trend Values of Excise Duty



Computation of trend values of excise duty is shown in above table. The trend value of excise duty is also increasing trend and its value in FY 2002/03 was Rs. 768579 and is FY 2009/10 was Rs. 27921517 thousand.

Figure 4.4
Trend Analysis of Excise Duty

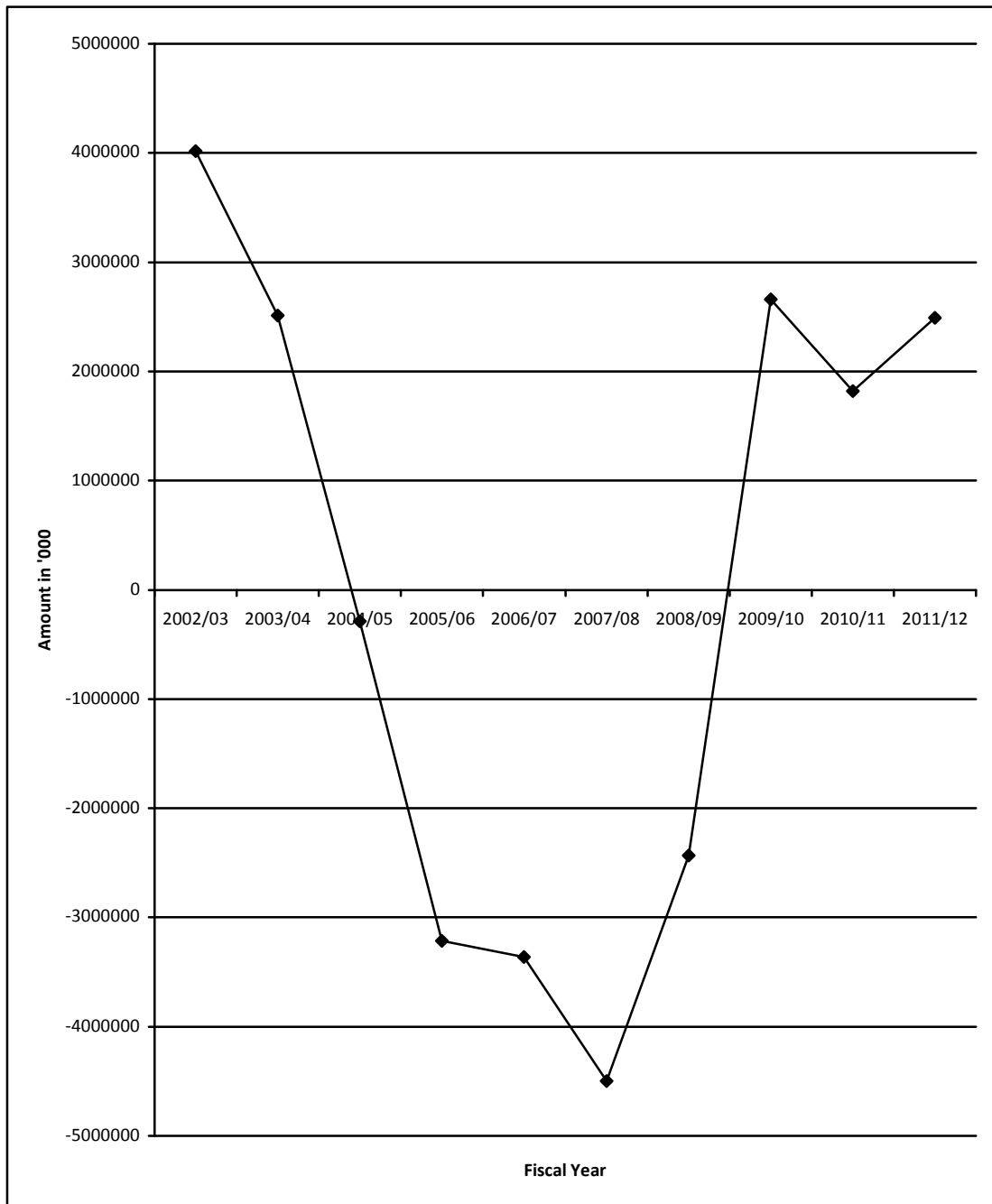


Table 4.11 and Figure 4.4 it is clear that in trend of excise duty. There is also exist cyclical variations. As per the trend excise duty, it should grow by the rate or Rs. 1491829.88 thousand per year, the variation is positive in FY 2002/03 to 2003/04 and FY 2009/10 to 2011/12. But the variation is negative in FY 2004/05 to 2008/09.

4.12.2 Calculation of Trend Line and Trend Values of Excise Duty from Tobacco Products (FY 2002/03 to 2011/12)

Table No. 4.12

Trend Line and Trend Value of Excise Duty from Tobacco Products

(Amount in Rs. Thousand)

Fiscal Year	Excise Duty (y)	x = 2 (x - 2004/05)	x ²	xy	A	b	Yc= a+bx	Variation y-yc
2002/03	2075626	-9	81	-18680634	3393933.1	187471.46	1706680	368946
2003/04	2396316	-7	49	-16774212	3393933.1	187471.46	2081633	214683
2004/05	2476988	-5	25	-12384940	3393933.1	187471.46	2456576	20412
2005/06	2409043	-3	9	-7227129	3393933.1	187471.46	2831518	-422475
2006/07	2856564	-1	1	-2856564	3393933.1	187471.46	3206461	-349897
2007/08	3118908	1	1	3118908	3393933.1	187471.46	3581405	-462497
2008/09	3742347	3	9	11227041	3393933.1	187471.46	3956347	-214000
2009/10	4512501	5	25	22562505	3393933.1	187471.46	4331290	181211
2010/11	5139368	7	49	35975576	3393933.1	187471.46	4706233	433135
2011/12	5211670	9	81	46905030	3393933.1	187471.46	5081174	130496
Total	33939331	x=0	x ² = 330	xy= 61865582				

Calculation of Trend Values and Trend Lines of Excise Duty from Tobacco Products.

The trend values can be obtained by substituting the respective values of x in the trend line i.e. $Y_c = 3393933.1 + 187471.46x$. The computation of trend values is above.

Figure 4.5

Trend Values of Excise Duty from Tobacco Products

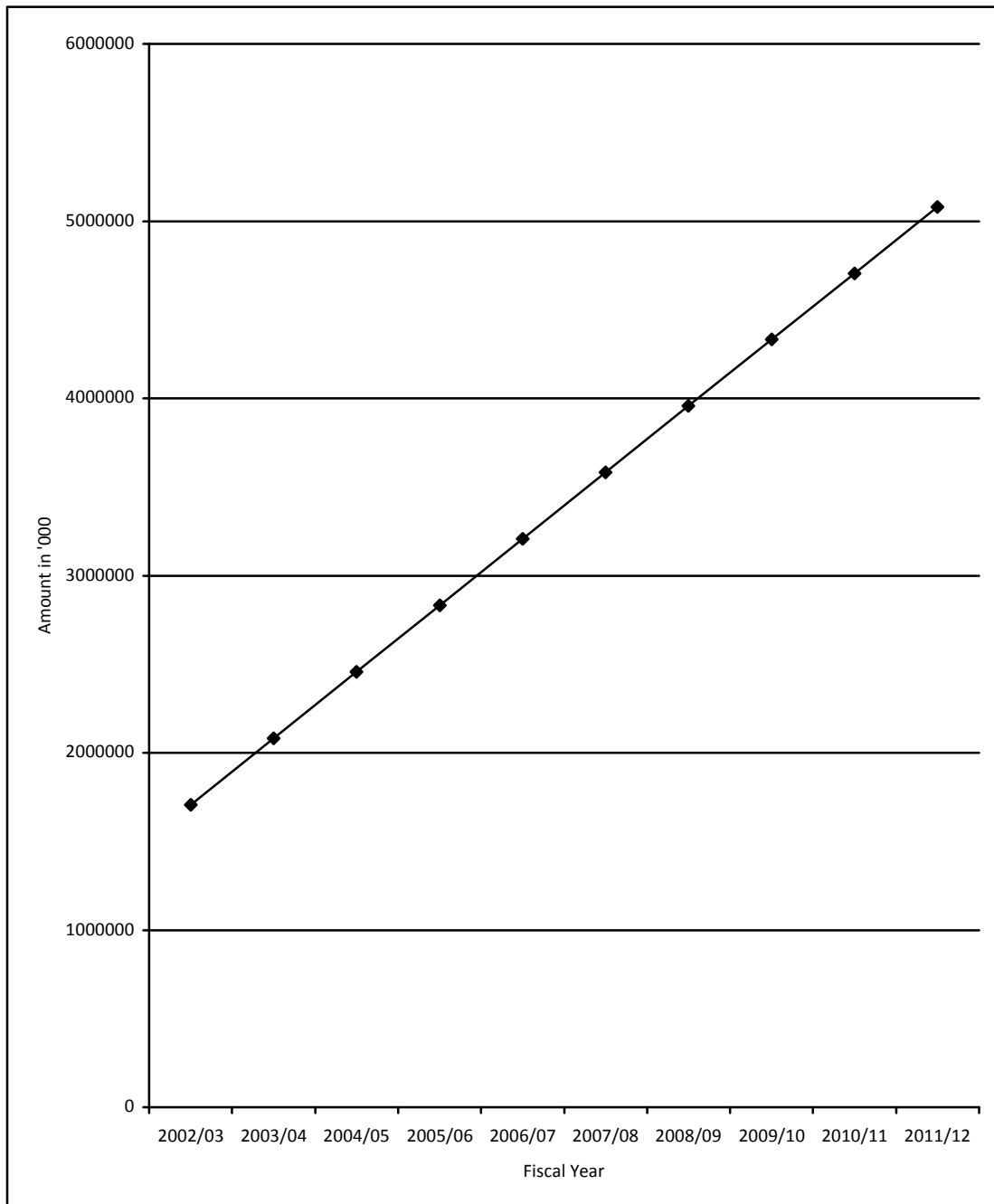


Table 4.12 and Figure 4.5 shows the trend values of excise duty from tobacco products. The trend values of excise duty were increasing trend and its value in FY 2002/03 is 1706680 in FY 2011/12 is Rs. 5081174 thousand. The trend of excise duty is increasing.

Figure 4.6

Trend Analysis of Excise Duty from Tobacco Products

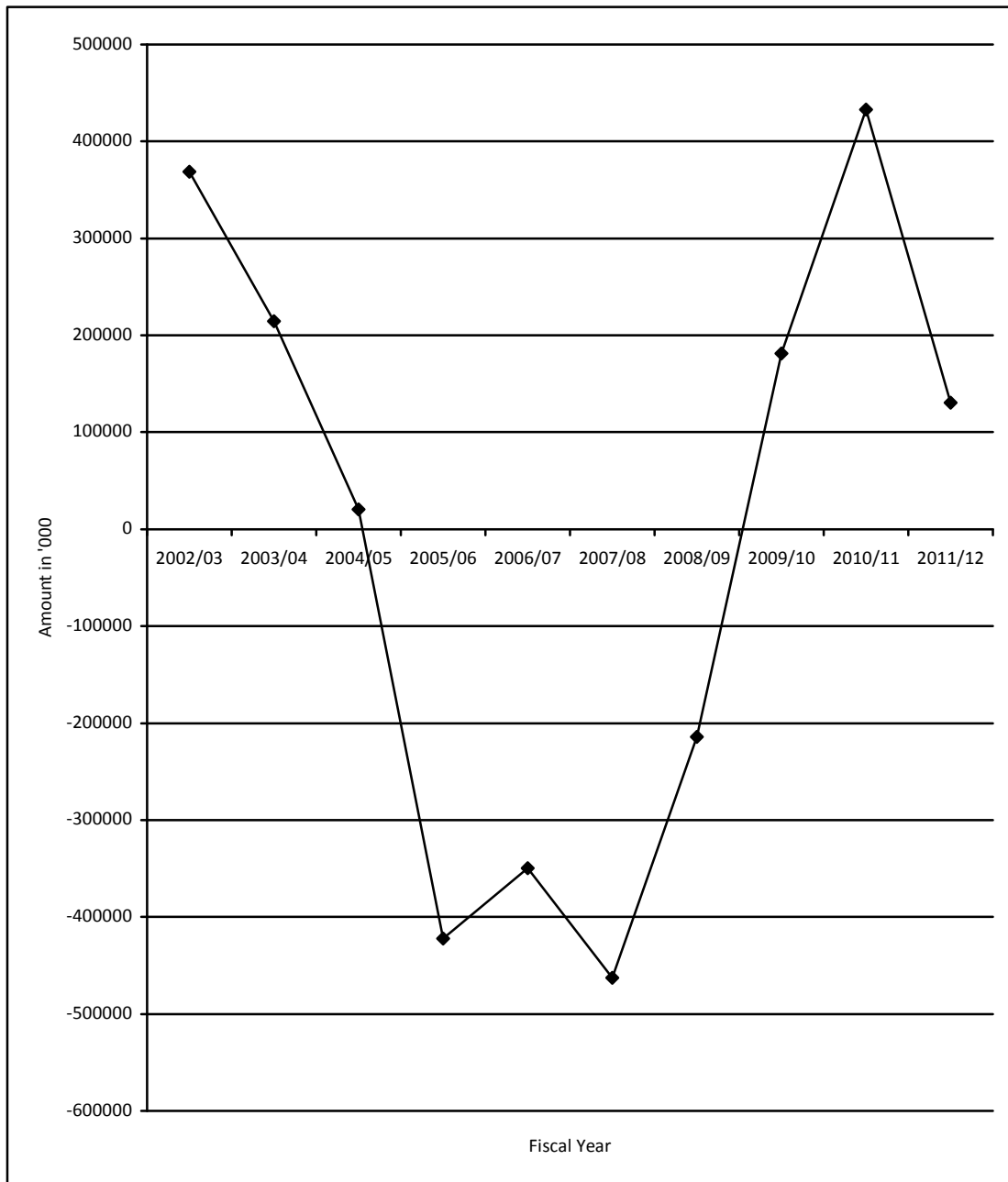


Table 4.12 and Figure 4.6 it is clear that in trend of excise duty from tobacco. There is also exist cyclical variations. As per the trend excise duty, it should positive grow by the rate of Rs. 187471.46 thousand per year. The variation is negative in FY 2005/06 to 2008/09. In FY 2002/03

to 2004/05 and FY 2009/10 to 20011/12 are negative of excise duty variation.

4.12.3 Calculation of Trend Line of Excise Duty from Liquor Products

Table No. 4.13

**Trend Line and Trend Value of Excise Duty from Liquor Products
(FY 2002/03 to FY 2011/12)**

(Amount in Rs. Thousand)

Fiscal Year	Excise Duty (y)	x = 2 (x - 2004/05)	x ²	Xy	A	b	Yc= a+bx	Variation y-yc
2002/03	2194203	-9	81	-19747827	4875564.1	477599.97	577164.37	1617038.63
2003/04	2249169	-7	49	-15744183	4875564.1	477599.97	1532364.31	716804.69
2004/05	2559236	-5	25	-12796180	4875564.1	477599.97	2487564.25	71671.75
2005/06	2677326	-3	9	-8031978	4875564.1	477599.97	3442764.19	-765438.19
2006/07	3434155	-1	1	-3434155	4875564.1	477599.97	4397967.13	-963812.13
2007/08	3691771	1	1	3691771	4875564.1	477599.97	5353164.07	-1661393
2008/09	5127342	3	9	15382026	4875564.1	477599.97	6308364.01	-1181022
2009/10	6584338	5	25	32921690	4875564.1	477599.97	7263563.95	-679226
2010/11	8387741	7	49	58714187	4875564.1	477599.97	8218763.89	168977
2011/12	11850360	9	81	106653240	4875564.1	477599.97	9173963.83	2676396
Total	48755641	x=0	x ² = 330	xy= 157607990				

Calculation of Trend Values of Excise Duty from Liquor Products.

The trend values can be obtained by substituting the respective values of x in the trend line i.e. $Y_c = 4875564.1 + 477599.97x$. The computation of trend values is above.

Figure 4.7

Trend Values of Excise Duty from Liquor Products

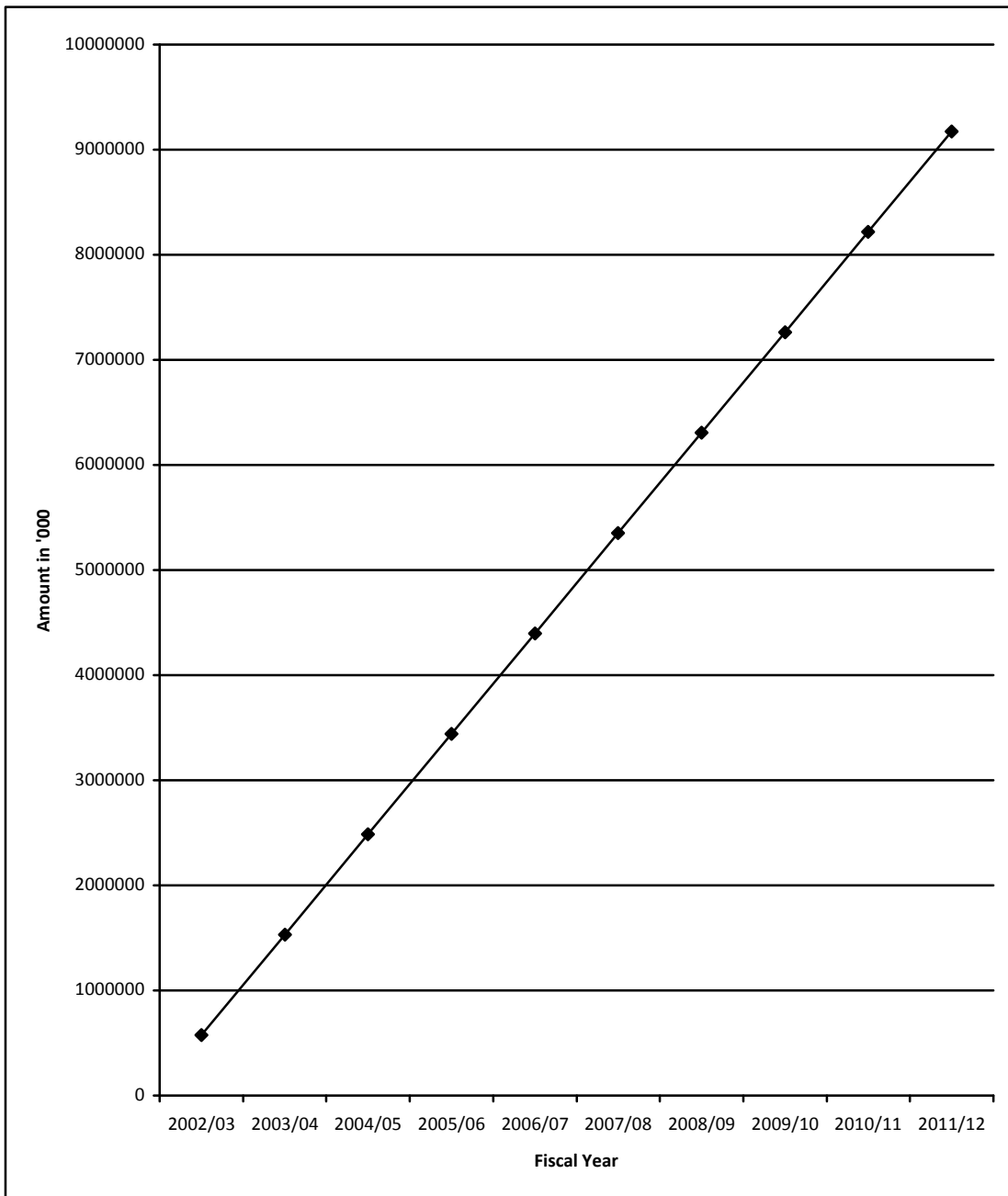


Table 4.13 and Figure 4.7 show the trend values of excise duty from liquor products. The trend values of excise duty are increasing in subsequent year. The excise duty was Rs. 577164.4 in FY 2002/03, Then Rs. 9173964 in FY 2011/12. So the excise duty will be increasing in the up coming year also.

Figure 4.8

Trend Analysis of Excise Duty from Liquor Products

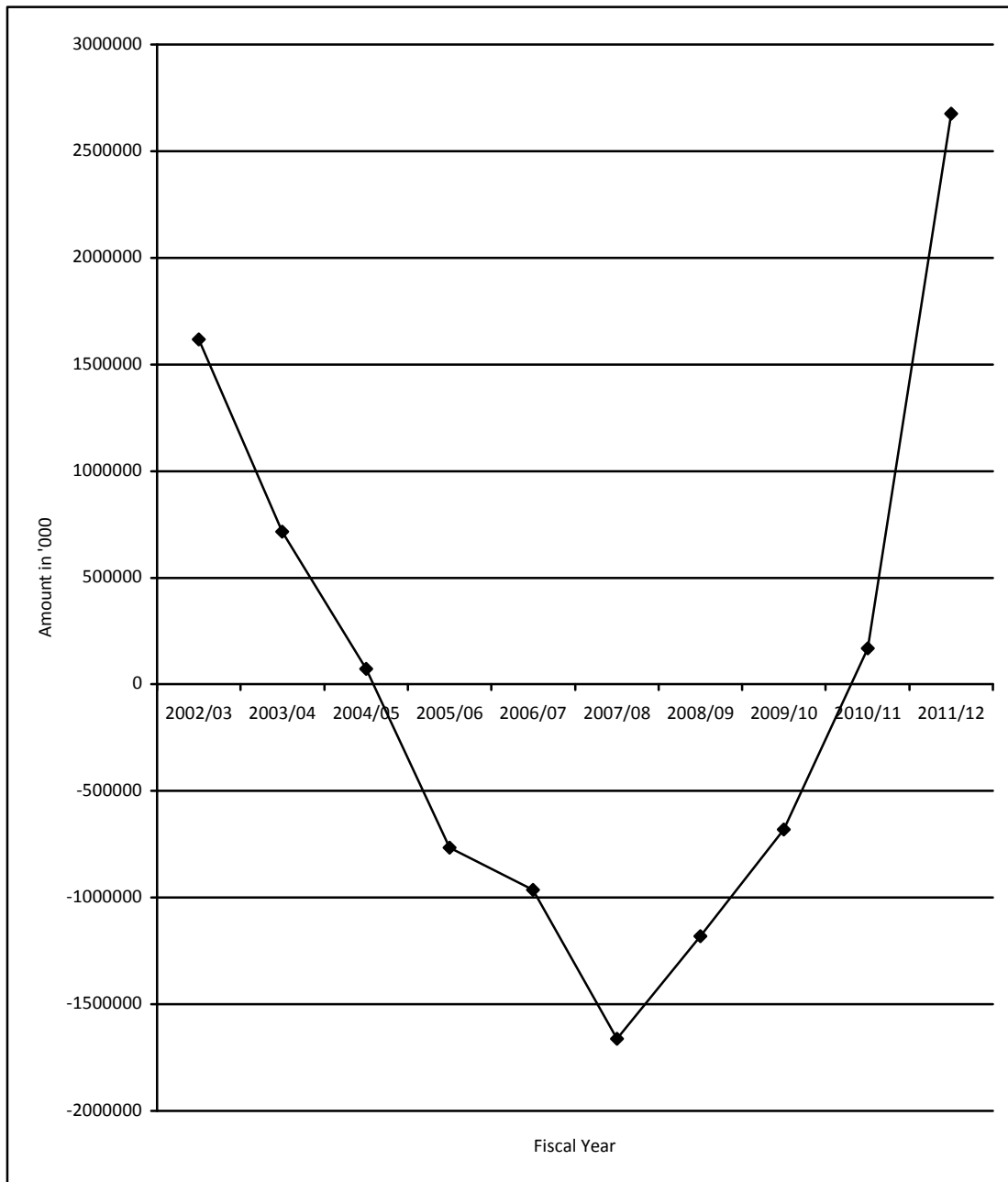


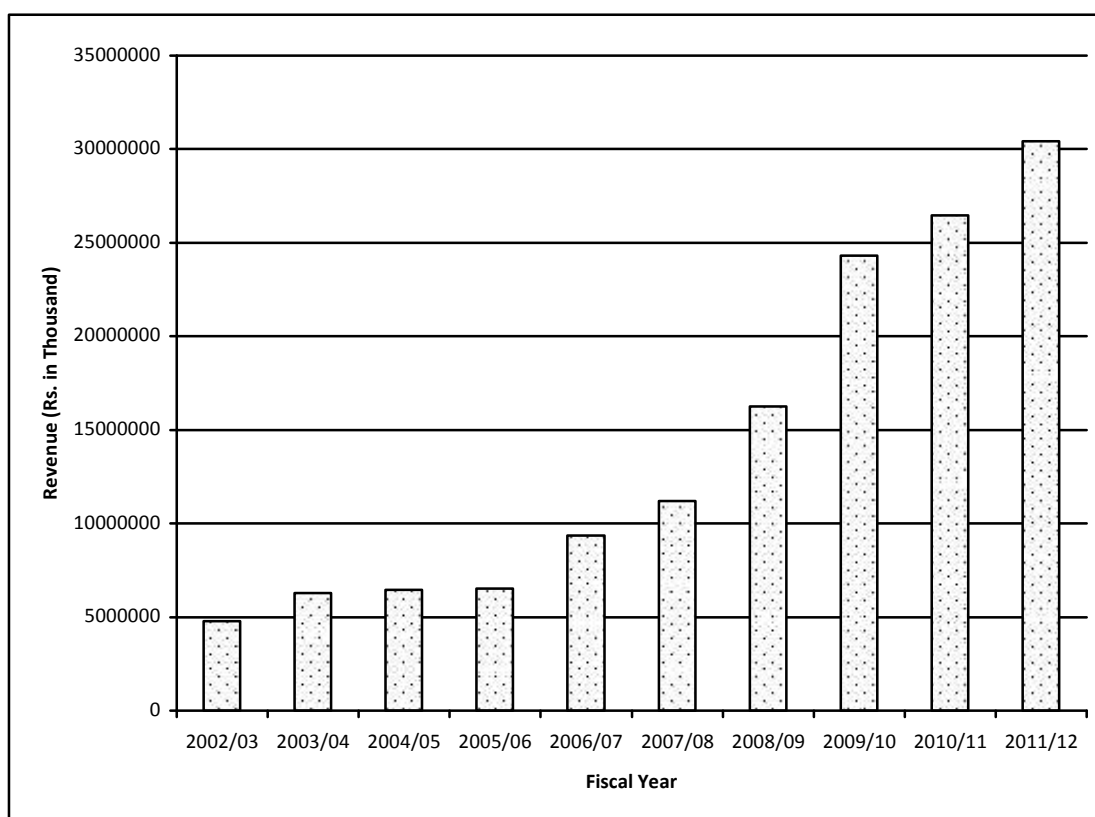
Table 4.12 and Figure 4.8 it is clear in trend of excise duty from liquor products, there is also exists cyclical variations. As per the trend excise duty, it should grow by the rate of Rs. 477599.97 thousand per year but the Variation is positive in FY 2002/03 to 2004/05 and FY 2010/11 to

2011/12. In FY 2005/06 to 2009/10 is negative variation of excise collection of excise duty from liquor products.

4.13 Revenue Collection from Excise Duty

The government prepares the budget every fiscal year. The main revenue source of government is tax. This is compulsory burden to the peoples and other entity. Excise duty is main revenue source of government which is indirect tax. Excise duty is levied in some production of goods and same nature imported goods, which is called factory gate tax. Condition of revenue collection from excise duty from fiscal year 2002/03 to 2011/12 is presented below bar diagram.

Figure 4.9
Condition of Revenue Collection from Excise Duty



In Figure 4.9 show that the Bar-diagram of conduction or revenue collection from excise duty since FY 2002/03 to 2011/12. It shows that every year's revenue from excise duty is increasing rate. It contributes the main role of government revenue.

4.14 Condition of Revenue Collection from Excise Duty with Special Reference Tobacco and Liquor Products

Excise duty is the tax levied by the government on production of goods and same nature imported goods. Tobacco and liquor products are main source of excise duty. Condition of revenue collection from excise duty with special reference tobacco and liquor products is presented below Table 4.14.

Table No. 4.14

Excise Duty with Special Reference Tobacco and Liquor Products (FY 2002/03 to FY 2011/12)

(Amount in Rs. Thousand)

Fiscal Year	Excise duty	Tobacco	Liquor
2002/03	4785244	2075626	2194203
2003/04	6266733	2396316	2249169
2004/05	6446504	2476988	2559236
2005/06	6506940	2409043	2677326
2006/07	9343187	2856564	3434155
2007/08	11189575	3118908	3691771
2008/09	16237397	3742347	5127342
2009/10	24306107	4512501	6584338
2010/11	26458389	5139368	8387741
2011/12	30410410	5216670	11850360
Total	141950486	33944331	48755641

Source: Government of Nepal, Inland Revenue Department, Kathmandu.

Figure 4.10

Condition of Revenue Collation from Excise Duty with Special Reference Tobacco and Liquor Products (FY 2002/03 to FY 2011/12)

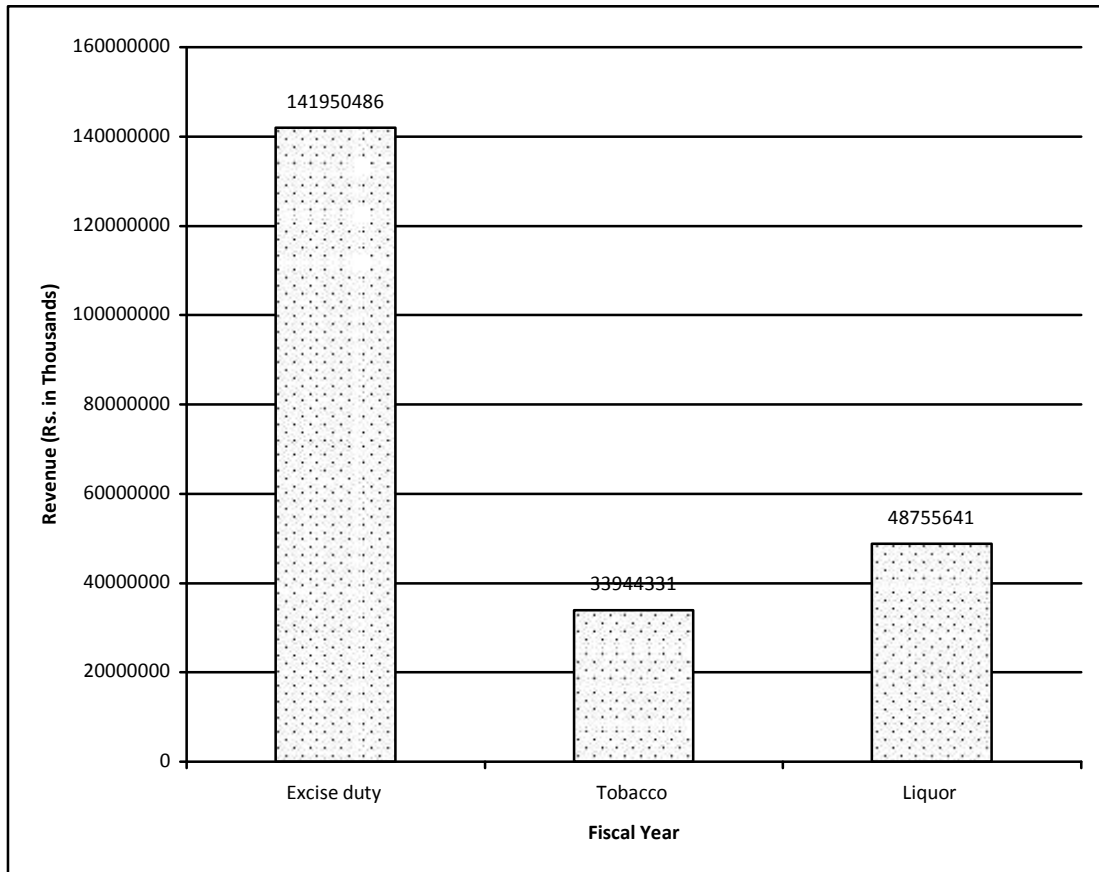


Figure 4.10 shows that revenue from excise duty with special reference tobacco and liquor products is from fiscal year 2002/03 to 2011/12. Total revenue from excise duty is 141950486, revenue from tobacco is 33944331 and revenue from liquor is 48755641 thousand. We can present this data on pie-chart also presented below.

Figure 4.11

Pie-Chart showing Condition of Revenue Collection from Excise Duty with Special Reference Tobacco and Liquor Products

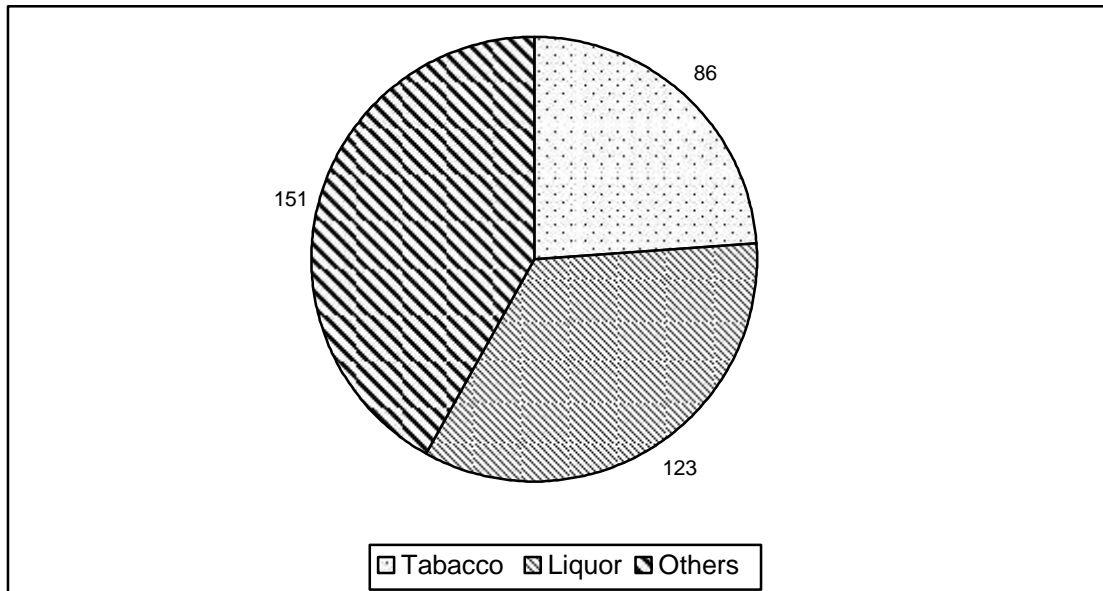


Figure 4.11 shows pie-chart of collection of revenue collection from excise duty with special reference Tobacco and liquor products. Tobacco and liquor contribute 1/3 of excise duty in FY 2002/03 to FY 2011/12.

4.15 Correlation between Total Tax Revenue and Excise Duty

Correlation analysis is the statistical tool that we can use to describe the degree to which one variable is linearly related to other variables. The degree of relationship between two variables is known as simple correlation. In correlation analysis, only one variable is treated as dependent and one or more variables are treated as independent. Here total tax revenue is dependent and excise duty is independent. Total tax revenue depends upon the increase or decrease of excise duty, correlation between total tax revenue and excise duty can be calculated below Table 4.15.

Table No. 4.15

Calculation of Correlation between Total Tax Revenue and Excise Duty

(Amount in Rs. Cared)

Fiscal Year	Excise Duty (x)	Total revenue (y)	Xy	x ²	y ²
2002/03	478.52	4250.43	2033915.76	228981.39	18066155.18
2003/04	626.67	4817.33	3018876.19	392715.29	23206668.33
2004/05	644.65	3405.35	2195258.88	415573.62	11596408.62
2005/06	650.69	5743.04	3736938.7	423397.48	32982508.44
2006/07	934.32	7112.7	6645537.86	872953.86	50590501.29
2007/08	1118.96	8515.55	9528559.83	1252071.5	72514591.8
2008/09	1623.74	11109.24	18038517.4	2636531.6	123415213.4
2009/10	2430.61	15629.49	37989194.7	5907865	244280957.7
2010/11	2645.84	17722.72	46891481.5	7000469.3	314094804.2
2011/12	3041.04	21172.18	64385446.3	9247924.3	448261206
Total	x = 14195.04	y = 99478.03	xy = 194463727	x ² = 28378483	y ² = 1339009015

N = 10

$$\begin{aligned} \text{Correlation (r)} &= \frac{N \cdot xy - x \cdot y}{\sqrt{N \cdot x^2 - (x)^2} \sqrt{N \cdot y^2 - (y)^2}} \\ &= \frac{10 | 194463727 - 14195.04 | 99478.03}{\sqrt{10 | 28378483 - 14195.04^2} \sqrt{10 | 1339009015 - 99478.03^2}} \\ &= \frac{532542655}{536211935.1} \\ &= 0.993 \end{aligned}$$

In above calculation relation between total tax revenue and excise duty is high degree of correlation i.e. 0.993. If revenue forms excise duty is increasing. Then, total tax revenue will be also increased. They are between positive relations. So excise duty is main component of revenue source of total tax revenue.

4.16 Major Findings

The major findings of this study are summarized as follows:

-) Government Revenue is increasing every year due to increasing total tax revenue and non tax revenue.
-) Contribution of excise duty on total Inland Revenue is increasing contribution of excise duty on total Inland Revenue in FY 2002/03 was 17.82 percent. And in FY 2009/10 is 21.50 percent. But decreasing to 19.48 percent in FY 2011/12.
-) The situation of collecting excise duty is more than budgeted excise duty except some fiscal year. So collecting revenue excise duty is motivated for the excise officers. The government performance is well for planning collecting excise duty.
-) Tobacco and liquor products are major source of revenue to the excise duty. Contribution from tobacco and liquor are almost one third of excise duty. Excise duty on imported goods is also increasing subsequent fiscal year.
-) Contribution of excise duty on gross domestic production is increasing trend till FY2009/10 and is in elastic position after this year. So excise duty is main component source of gross domestic production. In fiscal year 2009/10 contributes 2.04 percent of GDP. And in FY 2011/12 it contributes 1.98 percent.

- J Excise duty is an indirect tax. But it is the main source of total revenue and total tax revenue. Every year, its contribution is increasing trend. Excise duty contribution 12.44 percent on total revenues and 14.36 percent on total tax revenue in fiscal year 2011/12.
- J Revenue from Tobacco is the main source of excise duty and total Inland Revenue. But its contribution is decreasing rate. In FY 2002/03, its contribution is 43.38 percent and 7.73 percent on excise duty and total Inland Revenue respectively. In FY 2011/12, its contribution is 17.15 percent and 3.34 percent on excise duty and total Inland Revenue respectively.
- J Revenue from Liquor is the main source of excise duty and total Inland Revenue. Its contribution is in decreasing rate from FY 2002/03 to FY2009/10 and then in increasing trend. In FY 2002/03, its contribution is 45.85 percent and 8.17 percent on excise duty and total Inland Revenue. In FY 2011/12, its contribution is 38.97 percent and 7.59 percent on excise duty and total Inland Revenue respectively.
- J Contribution from Liquor is more than contribution from tobacco except some fiscal year. Ratio of contribution of tobacco on contribution of liquor is decreasing subsequent fiscal year. Contribution from liquor is more than tobacco.
- J Contribution of revenue from Tobacco and Liquor products on total tax revenue is almost 3-4 percent contribution from tobacco was 4.88 percent in FY 2002/03 and 2.46 percent in FY 2011/12. Contribution from liquor is 5.16 percent in 2002/03 and 5.60 percent in 2011/12.

-) Trend values of excise duty are positive. Trend lines are going up right. Variation on excise duty is up and down, FY 2002/03 and FY 2003/04, it is positive. In FY 2004/05 to 2008/09, it is negative then after it is positive.
-) Trend lines of excise duty on Liquor and Tobacco are also increasing trend variation is also same as excise duty except in FY2004/05 and FY2009/10.
-) Correlation between excise duty and total tax revenue is high degree of positive. It concluded that when excise duty goes to increase then total tax revenue will be also increased.
-) Revenue collection from excise duty is going to increase year by year. Revenue from tobacco and liquor products is the main source of excise duty. In Subsequent fiscal year excise duty on imported goods is also increasing and it plays the main role of revenue on excise duty.
-) Revenue from excise duty will be collected in increasing trend. It will be the main source of government revenue in future fiscal year.
-) The performance of internal revenue department to collect the excise duty is satisfactory.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Nepal is one of the developing countries in 23.8 percent of total population lies below poverty line (Periodic Plan 2070/71 to 2072/73) So; Nepal needs huge amount of resources for economic development. Despite the various measures adopted by the government to boost the revenue collection, there is still a substantial resource gap between expenditure and revenue.

Tax is a compulsory payment to the government from person or entity according to law. Tax is the contribution to the government without expectation of any direct benefit. In the broader senses, there are two types of taxes, direct and indirect tax. Excise duty which comes under indirect tax category is levied on domestic production and same nature imported goods which is determined by the prevailing law.

The history of excise taxation in Nepal is short. In 1955 the department of custom and excise were established by the abolition of "Rakam Bandbasta Adda." The main items under excise before 1957 were on local liquors, skin, hair, leather, ganza and hassles. In 1966 separate excise office was establishment. In 1993 A.D. Excise office were closed, then Inland Revenue Department is imposing excise duty on domestic production and custom offices is imposing excise duty on imported goods at custom point. The excise duty has been government and regulated by the excise Act 2058. Excise Regulation 2059 and Alcohol Regulation 2033. Every fiscal budget determines the excise duty rate on products. The duty is determined by excise officers.

Excise duty is a main source of revenue collection on taxes which 8.51% on total revenue in FY 2002/03 and 12.44% in 2011/12. Nepal has limited industries. But consumption of goods is high rate by the people so excise duty's contribution is high on total government revenue. Government of Nepal should make good excise administration to generate maximum revenue collection. Government revenue is the composition of tax and non tax revenue. There dominant share of tax revenue in Nepalese government revenue. The contribution of excise duty is increasing which shows the future of excise duty is progressive.

To fulfill the general objective of this study different sources of data are used to find the accurate and actual conclusion. Mainly, the secondary data are collected from economic survey of different years and the book about excise published by ministry of finance and Inland Revenue Department. By analyzing the secondary data it is found that excise duty is increasing every year. At present, excise duty is main source of total government revenue.

The study on excise duty shows that the contribution of excise duty is very important source for government revenue. Its contribution in the total revenue is increasing which 8.51% in 2002/03 and 12.44% in 2011/12 on total revenue. The changes of policies and plan is affected by the time with respect to excise duty are very important in the total collection of Inland Revenue i.e. the government provided of 100 percent incentives of salary based on their performance of the employees working under ministry of finance specially employees of Inland Revenue offices. The people are also careful to pay the tax to government. The future projection of excise duty shows the bright future of excise duty in government revenue.

5.2 Conclusion

From this study, it can be concluded that there is insignificant contribution of those products which I have taken as my area of the study. Excise duty is levied on domestic production and same nature imported goods for revenue collection of Nepal. The selected items with special reference to government revenue of Tobacco and Liquor have important role for Nepalese economy. The consumption trend of Tobacco and liquor is high in Nepal. Because of lack of different resources and government's less priority fixing the rate of excise duty in different products. Most of the Nepalese agricultural industries are failing due to different problems as well as the government is not being able to collect significant amount of revenue from those products.

From this study, it is found that the trend of excise duty is growing because the government has expanded the excisable products and motivates employees to collect the excise duty and to care people or entity to pay the excise duty. The selected items with special reference to Liquor and Tobacco production and consumption are growing. Excise duty from liquor and tobacco is increasing but ratio of contribution to the excise duty and total revenue is decreasing because the government has expanded the excisable products and imported goods. Excise duty from imported goods is increasing rapidly. Tobacco and liquor are main source of excise duty from the analyzing past scenario. The future projection of excise duty on Tobacco and Liquor is better but ratio is decreasing for tobacco. The following points are concluded as follows:

-) The excise duty has positive growth and its future positioning is high.

-) The trend of excise duty on Tobacco and Liquor is growing but ratio is decreasing for tobacco and increasing for liquor.
-) The trend of collecting excise duty is higher than budgeted excise duty.
-) The future of revenue from excise duty is bright.
-) The contribution of excise duty on selected stems with special reference to Tobacco and Liquor has every low as compared to other sources of tax.

5.3 Recommendations

On the basis of above analysis and conclusions, the following specific suggestions have been recommended for the effective and efficient mobilization of additional financial resources through excise duty.

-) Government of Nepal should facilitate to promote the excisable products. It should make well plan for collecting revenue from excise duty, it should provide new computer system and trained employee to work fast. It should make plan to modernized Inland Revenue office, it should increase Inland Revenue offices in different parts of country.
-) Inland Revenue Department should make well policies to regulate excise duty and should minimize the lengthy procedure to registration in Inland Revenue office.
-) The government should present strictly to collect the excise duty on local level production also.
-) Minimize the high corruption in Inland Revenue offices. The staff of the Inland Revenue official are being corrupted government should control the corruption and make well plan for increasing revenue from excise duty.

-) Nepal should control and minimize the informal production and trade which helps to control the leakage of the excise duty. Government has to make a policy to punish who do not follow the law and order.
-) The Inland Revenue Department has to separate Inland Revenue offices and excise offices because it facilitates to collect the excise duty.
-) The government should promote people to register individual and entity in excise and to pay the excise duty.
-) Government of Nepal should make a policy to expand the excisable products. The government should impose high excise duty rate on imported goods.
-) Government should make new law according to time, which helps to collect the high revenue.
-) Government of Nepal should motivate to the Inland Revenue offices staffs by training, allowances and prizes etc. which increase the performance of Inland Revenue Department.

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Appendix - I

Total GDP, Total Revenue, Tax Revenue, Total Inland Revenue and Revenue from Excise Duty (FY 2002/03 to FY 2011/12)

(Amount in Rs. Thousand)

Fiscal Year	Gross domestic production	Total revenue	Total tax revenue	Total inland revenue	Total excise duty
2002/03	492200000	56229791	42504319	26353422	4785244
2003/04	536800000	62331000	48173266	30920989	6226724
2004/05	589400000	70122700	54104700	36552762	6446503
2005/06	654100000	71733127	57430400	40202336	6512225
2006/07	727800000	87711208	71127000	51542450	8533844
2007/08	815700000	107622480	85155457	61152297	11189575
2008/09	988300000	143474489	111092373	83185706	16237398
2009/10	1192800000	179945820	156294922	113048290	24306107
2010/11	1375000000	198375900	177227200	129876968	26458389
2011/12	1536000000	244373000	211721800	156097699	30410410

Source: Government of Nepal, Inland Revenue Department, Kathmandu.

Appendix - II
Percentage Contribution of Excise Duty on Total GDP, Total
Revenue, Total Tax Revenue and Total Inland Revenue
(FY 2002/03 to FY 2011/12)

Fiscal Year	GDP	Total Revenue	Total Tax Revenue	Total Inland Revenue
2002/03	0.97	8.51	11.26	17.82
2003/04	1.17	10.05	13.01	20.14
2004/05	1.09	9.19	11.92	17.64
2005/06	0.99	9.07	11.33	16.20
2006/07	1.28	10.65	13.14	16.56
2007/08	1.37	10.40	13.14	18.30
2008/09	1.64	11.32	14.62	19.52
2009/10	2.04	13.42	15.45	21.50
2010/11	1.92	13.34	14.93	20.37
2011/12	1.98	12.44	14.36	19.48

Source: Government of Nepal, Inland Revenue Department, Kathmandu.

Appendix - III

Contribution of Revenue from Tobacco and Liquor on Excise Duty and Total Inland Revenue (FY 2000/01 to FY 2009/10)

(Amount in Rs. Thousand)

Fiscal Year	Revenue from tobacco	% contribution on excise duty	% contribution on TIR	Revenue from liquor	% contribution on excise duty	% contribution on TIR
2002/03	2075626	43.38	7.73	2194203	45.85	8.17
2003/04	2396316	38.24	7.75	2249169	35.89	7.27
2004/05	2476988	38.42	6.78	2559236	39.70	7.00
2005/06	2409043	37.02	5.99	2677326	41.15	6.66
2006/07	2856564	30.57	5.54	3434155	36.76	6.66
2007/08	3118908	27.87	5.10	3691771	32.99	6.04
2008/09	3742347	23.04	4.50	5127342	31.58	6.16
2009/10	4512501	18.57	3.99	6584338	27.09	5.82
2010/11	5139368	19.42	3.96	8387741	31.70	6.46
2011/12	5211670	17.15	3.34	11850360	32.97	7.59

Source: Government of Nepal, Inland Revenue Department, Kathmandu.

Appendix - IV

Trend Value of Revenue from Excise Duty, Tobacco and Liquor

(Amount in Rs. Thousand)

Fiscal Year	Excise Duty	Tobacco	Liquor
2002/03	768579	1706680	577164.37
2003/04	3752239	2081633	1532364.31
2004/05	6735899	2456576	2487564.25
2005/06	9719558	2831518	3442764.19
2006/07	12703218	3206461	4397967.13
2007/08	15686878	3581405	5353164.07
2008/09	18670538	3956347	6308364.01
2009/10	21654198	4331290	7263563.95
2010/11	24637857	4706233	8218763.89
2011/12	27921517	5081174	9173963.83

Source: Government of Nepal, Inland Revenue Department, Kathmandu