

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

Nepal's economy is predominantly based on agriculture. Out of total population of nearly 73% is based upon agriculture which contributes about 35% to the GDP. Agriculture is the major supplier of raw materials to the export oriented industry. Main obstacles to economic development of Nepal are vicious circle. It explains the economic backwardness. The basic vicious circle stems from the fact that Nepal's total productivity is low due to deficiency of capital, market imperfections and economic backwardness and underdevelopment (Economic survey 2010/11).

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

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

indirect tax developed in past, if 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 (Regmi, 2010).

Customs 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 Customs duty has high contribution to the government revenue. Nepal has adopted Customs Act in 2019 B.S. which facilitates trade and transit problem (Singh, 2010).

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

Export duty is the tax levied by the government on the goods exported to foreign country. Export duties consist of general or specific taxes on goods or services that become payable when the goods leave the economic territory or when the services are delivered to non-residents; profits of export monopolies and taxes resulting from multiple exchange rates are excluded.

1.2 Statement of the Problem

After 1989, Nepal has been followed liberal and open market economy. Social and 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 drawback 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 itself going backward, there is another problem that is inadequacy of internal sources in 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 customs duty. It is not well planned. Government is not being able to charged duty in scientific ways. There is not good security in the boarder which helps businessman evade customs duty.

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

Nepal is situated between China and India which have high economic growth and have a sea-port but Nepal is landlocked and has only one inland container deport that is Birgunj inland container depot. Nepal has a limited market and hasn't produced high price-able products to export in foreign countries. Nepal is highly dependent on foreign products; in such an economic condition of the

nation is not a good sign. Nepal has more than 80 percent trade with India, so Nepalese market is dependent on Indian markets. In such a situation, the export and import duty of government and its significance as well has to be found.

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 of 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 customs 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 exportable industries are closed. It shows that the contribution of customs duty depends upon import duty.

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

-) Whether the customs duty is contributing significantly in government revenue or not?
-) How much duty is being collected by government in some past years?
-) What is the position of customs duty in tax revenue of Nepal?
-) What suggestions can be recommended?

1.3 Objectives of the Study

The main objectives of the study are as follows

-) To analyze the growth potentiality of import duty and export duty.
-) To find out the trend of collection of customs duty in Nepal.

-) To examine the role of customs duty in collection of total tax revenue.
-) To provide appropriate suggestions.

1.4 Significance of the Study

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

Customs 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 customs duty is gradually increasing in the world because of 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 customs duty to the revenue of government. This study tries to minimize the research gap.

Customs duty is an indirect tax which has high contribution for government revenue. Nepal has established 30 administrative customs offices. Out of them, 9 are situated in north boarder area, 20 are situated in south boarder area and, one at Tribhuwan International Airport which is situated in Kathmandu. In this scenario, Nepalese trade depends on India and little bit business with China. Customs 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 customs duty for the production and consumption of goods and services, this research is very useful for those

persons like students, researchers, scholars, professors, journalists, legislators, planners and the those who are interested in customs duty of Nepal.

The major significances of this study are as follows;

-) Helpful to know the most potential source of customs duty.
-) Aids in finding role of customs duty in revenue of Government of Nepal.
-) This study provides information about different tax systems adapting by Nepalese Government.

1.5 Limitations 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:

-) Major sources of data are secondary sources thus the error consisted in those sources may perceive in this research.
-) This study has covered only the period of 6 years (2007/08 to 2010/011). This may not represent the whole average.
-) Due to time and resource limit, data and information which researchers collected are might not be sufficient for the study.
-) Due to the lack of plenty secondary sources of data not all the factors of customs duty has been explored in detail.
-) Even though there are some limitations of this study the findings of this study will be helpful to all concerned offices and persons throughout the country, since conclusion of this study will be made with care and as the guidance of experts.

1.6 Organization of the Study

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

Chapter-I: Introduction

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

Chapter-II: Conceptual Framework & Review of Literature

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

Chapter-III: Research Methodology

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

Chapter-IV: Data Presentation and Analysis

In this chapter data are presented, analyzed and interpreted by using statistical tools, mathematical tools and other accounting and financing tools etc and draw the major findings.

Chapter-V: Summary, Conclusions and Recommendations

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

CHAPTER-II

CONCEPTUAL FRAMEWORK & REVIEW OF LITERATURE

Review of the literature is undertaken in order to find out what works have been conducted in the area of the concerned study. It promotes greater understanding of the problem under study, and provides comparative data to evaluate and interpret the significance of the findings, and provides fruitful sources of hypothesis and conceptual framework. It is the chapter where a researcher reviews the books, journals, magazines or any other types of studies, which are related to his/her field of study. Research is a continuous process it never ends. The procedures and the findings may change but research continues.

The purpose of reviewing the literature is to develop some expertise in one's area, to see what new contribution can be made and to receive some ideas for developing design. Thus, the previous studies can not be ignored because they provide the foundation to the present study. In other words, there has to be continuity in research. This continuity in research is ensured by linking the present study with the past research studies. From this, it is clear that for analyzing the data and to something new a researcher must review the study and know if there are any studies ahead or not.

2.1 Conceptual Framework

2.1.1 Meaning of Taxation

Taxation is the system of levying taxes. The system is the set of principles. The principle is a scheme of ideas or body of rules by which a theory is organized. Thus, the system of levies was developed after the origin of tax. Different persons have defined taxation in different ways. In the words of Seligman, Taxation is the compulsory contribution from a person to the government to defray expenses incurred in the common interest of all without reference to special benefit conferred. According to this definition given above, it can be

said that firstly a tax is a compulsory levy and those who are taxed have to pay it without getting corresponding benefit of services or goods from the government. The taxpayer does not have any right to receive direct benefit from the tax paid. Due to this compulsory nature, people have expressed different views in satirical ways about the taxation. Some say, “Nothing is certain in this world but death and taxes,” some say, “death and Taxes are both certain but death is not annual”; while others say, “Death means stopping to pay tax”. Here it should be noted that all compulsory payments are not tax. For example, fines and fees are also compulsory payments without having direct benefit to the payer but it is not tax because its objective is not to collect revenue but to curb certain types of offences. Secondly, taxpayer cannot receive any quid pro quo for the payment of tax. The taxpayer does not receive equivalent benefit from the government. A tax is not a price paid by one, for which he can claim goods and services. The charge of price for goods and services by public authority is not a tax. Thirdly, the tax is paid for the government for running it. Fourthly, in case of tax, the amount is spent for common interest of the people. The tax is collected from haves and basically, spends for the interest of haves not in the society. Fifthly, a natural or an artificial person pays the tax (Kandel, 2011: 2) .

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

Similarly, one of the famous economists delineates, “taxation is the charge levied by the state on the property or labor of the citizens, in order to provide for the public expenses”. However, it is quite different from definition of the Encyclopedia. It is a like a definition of tax though it shares some qualities, but not identical (K.C, 2009:4).

2.1.2 Objective of Taxation

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

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

2.1.3 Principle of Taxation

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

1. **Cannon of Equality or Equity**:- The tax policy should be formulated considering the ability of public to pay taxes. For this higher tax is imposed on higher income or properties. This policy established the equitable liability to the same income group. Thus cannon of equity say that the people should contribute to the government per the benefits that they get from the government.

2. **Cannon of Certainty:-** Another quality of tax system is the cannon of certainty. This cannon say that a taxpayer should be informed about the rate, time and procedures of payment of tax. Furthermore fix its target of revenues that comes from taxes.
3. **Cannon of Convenience:-** Convenience is another quality of a good tax system. Common people do not have sufficient knowledge about the taxation nor do they have the capacity to hire the experts. That is way tax system should be such that can be easily understood and followed by ordinary people in the society.
4. **Cannon of Economy:-** If the expenditure of collecting tax is more then or equal to the amount of tax, such policy will not result in surplus to the public revenues and will not be beneficial to the country. This good tax policy has the quality of economy, that the low cost of collecting tax should be maintained to the possible extent so as to minimize the difference between the amount that people take out of their pocket to pay tax and the amount that actually goes to the government treasury. Besides the above stated cannons of taxation given by Adam Smith, there are others too developed by other economists. These cannons given by other economists are as follows:
 5. **Cannon of Productivity:-** Cannon of productivity says that every tax system should be revenue productive. It means that there should be those taxes only which provide adequate revenue. Taxes that do not provide sufficient revenue should be withdrawn.
 6. **Cannon of Flexibility:-** Flexibility indicates two things. First, a tax system should have the characteristic of revenue elasticity. There should be built-in tie-up between the economic activity of a country and revenue mobilization. Higher the economic activity, higher the revenue. Second, the tax system should be of that type which provides revenue as per the necessity of the situation. If there is need of higher revenue, the tax system should provide as per the needs.

7. **Cannon of Diversity:-** Tax system not totally depends on one source of revenue. It is risky to the government to depend upon only one source. That means the sources of taxation should be diversified as far as possible. This principle says that tax should be levied on various stages and various sources. There should be multiple taxes in place of single tax. Similarly, a tax system should be of that type, the burden of which is diversified on the people of different walks of life.
8. **Cannon of Simplicity:-** Simplicity means understandable. The tax system should be simple to understand and applicable in public life. A complex tax system creates unnecessary hassles. Simple tax system with higher tax rate induces the taxpayer to compliance.
9. **Cannon of Uniformity:-** Uniformity in this context means uniformity in depreciation system, tax rate, stock valuation system, accounting method, dividend distribution system, accounting system, appeal and penalty system, method of payment of tax and time of the payment of tax.

2.1.4 Concept of Indirect Tax

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

A tax, such as a sales tax or value-added tax that is levied on goods or services rather than individuals and is ultimately paid by consumers in the form of higher prices is called indirect tax. Indirect tax is a tax levied on goods or

services rather than on persons or organizations by the government to increase revenue (www.google.com 15, March, 2012).

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

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

2.1.5 Concept of Customs Duty

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

ourselves, being not only as a member country but also for the mutual benefits of government and traders (Shrestha, 2007).

A single window concept is not a totally a new concept in our country too even though, it is less acted than what is talked more in connection to the service delivery of public sector. Many government authorities have expressed this term in a different name but with the similar objectives in order to increase transparency, efficiency and cost effectiveness. Nepal has enough room to introduce and implement this facility for the improvements of its foreign trades (Regmi, 2010).

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

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

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

Tax that a country imposes on its imports and, occasionally, exports is customs duty. A duty exists to make an import more expensive and to thereby encourage people to buy goods produced in their own country. Proponents of

their use argue that duties discourage outsourcing of jobs to other countries and make the country more self-sufficient, but most economists agree that they are economically inefficient and some contend that they may ultimately harm the people they are intended to help. A duty is also called a tariff. A tax or duty to be paid on a particular class of imports or exports is called custom duty (www.google. com 15, march, 2012).

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

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

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

introduced in 1996 (HS96) and 2002 (HS2002). The most recent revision was HS 2007. Nepal has adopted harmonized system since 1991.

The harmonized system is an international standardized system of names and numbers for classifying traded products developed and names and numbers for classifying traded products developed and maintained by the World Customs Organization (WCO). It comprises about 5000 commodity groups. The system is used by more than 200 countries and economies as a basis for their customs tariffs and for the collection of international trade statistics.

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

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

examining a sample of such goods, prescribe the heading or subheading of such goods.

2.1.5.1 Import Duty

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

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

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

2.1.5.2 Export Duty

Export duty is the tax levied by the government on the goods exported to foreign country. Export duties consist of general or specific taxes on goods or services that become payable when the goods leave the economic territory or when the services are delivered to non-residents; profits of export monopolies and taxes resulting from multiple exchange rates are excluded (Singh, 2010).

2.1.6 Customs Duty facility and Exemption

Customs Acts 2064 and customs rules 2064 have laid down the following provision relating to customs duty facility (Bhattraï & Koirala, 2067).

1. Diplomatic facility or duty facility will, on recommendation of the Ministry of Foreign Affairs, Government of Nepal, be accorded, as prescribed, to those bodies, officials or persons who are entitled to enjoy such diplomatic facility or duty facility under any bilateral or multilateral treaty agreement to which Nepal is a party.
2. The Government of Nepal may, from time to time and by notification in the Nepal Gazette, accord the diplomatic facility or duty facility to such goods to be imported by such persons or bodies as specified in that notification.
3. The Government of Nepal may, from time to time and by notification in the Nepal Gazette, accord partial or full customs duty exemption to the goods specified in that notification.
4. The Government of Nepal may accord partial or full customs duty exemption to the goods to be imported in the name of any project to be operated under foreign loan or grant assistance or in the name of the contractor of such project.
5. The Government of Nepal may accord partial or full customs duty exemption to the fuel to be consumed during international flight, engine of aircraft, spare parts, machine, equipment thereof, food, liquors, beer and light drinks consumed in flight by an international air service company.
6. The provisions for according the duty facility to any goods to be sent again to a foreign country from the foreign country via Nepal will be as prescribed. The provisions for according the duty facility to any goods

to be brought again to a foreign country from the foreign country via Nepal will be as prescribed.

2.1.7 Other Facilities of Customs Duty

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

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

special economic zone. It will be the duty of the concerned industry to abide by such order.

Customs in 21st century is the slogan of World Customs Organization which pushes each member country to intervene in different sectors of customs reforms in order to materialize the above ambitious slogan. Among others, trade facilitation and preventing society from odds are some of the major responsibilities of customs administration. Nepal Customs Administration is working to facilitate authorized trade and preventing revenue and society in the same line by employing electronic customs procedure. Nine major customs offices which cover more than 90% of the Nepal's total foreign trade are operating electronic procedures with ASYCUDA ++ software since last couple of years.

2.2 Review of Books and Related Articles

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

Dhakal, (2002) had published “*Aayakar Tatha GharJagga Sambandhi Kar Ra Lekha.*” This book was based on Income Tax Act 2031. This book is very useful to understand the meaning and objective of tax as well as getting knowledge about the history of taxation.

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

Khanal, (2006) had published “*Customs in Combating Counterfeiting and Piracy*”. He presented that the customs can have some control across the customs checkpoints. He focuses the following measures can strengthen our capacity to control cross border counterfeiting and piracy.

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

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

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

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

Bhattarai and Koirala (2007) had published *“Taxation in Nepal”*. In that book, they focus customs in an authority or agency in a country responsible for collecting and safeguarding customs duties and for controlling the flow of goods including animals, personal effects and hazardous items in and out of a country. Depending on local legislation and regulations, the import or export of some goods may be restricted or forbidden, and the customs agency enforces these rules. The customs may be different from the immigration authority, which monitors persons who leave or enter the country, checking for appropriate documentation, apprehending people wanted by international arrest warrants, and impeding the entry of others deemed dangerous to the country. In most countries, customs are attained through government agreements and international laws.

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

Bista, (2006) published an article related to the topic "*The Need of Improvement and Modernization of Customs Administration*". His simplified foreign trade of Nepal by considering different factors likes,

-) Making renewal process simple and faster.
-) Making customs duty rate reliable for similar nature product.
-) Renewal of customs law to make it as the need of time.
-) Developing the participatory approach in customs administration.
-) Controlling illegal trade.
-) Improving the work efficiency.
-) Developing infrastructure.
-) Organizational Improvement.

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

Singh (2010) had written an article on “*Customs and Business: Improving Performance through Partnership in Customs*”. He presented the role of implement on of Government policy and horizontal domination. It is a key player when it comes to the protection of borders and society to fight against commercial fraud. Traditionally, customs tasks can be presented in three clusters the protection and collection of revenue, the implementation of commercial policy measures, and the protection of people and society.

Customs administrations thought the world is currently experiencing dramatic technological, economic and legal changes which require new approaches to be taken within the customs administrations. Traditional functions of customs administrations are highly challenged by a rapid liberalization and globalization of trade. Customs administration therefore needs to prepare for the new tasks which they have to fulfill as a partner.

He concludes that the challenges of new global environment are such that solutions can only be developed by engaging with all payers who have an interest in effective and efficient customs procedures.

Customs administrations stand as tried the international trade supply chain and there is now a realization that they are critical strategic institutions in assuring safe and secure borders. The effect of the customs administrations situated as they are at land, sea and air crossings, with their unique knowledge and understanding of international trade and the dialogue and partnership they enjoy with private sector which are increasingly seen as the natural government agency to protect external national frontiers and borders.

A broad range of contravention’s confronting the customs officials of today, such offences include the trafficking of, illicit drugs, endangered species, nuclear and hazardous goods and also goods that are being imported, transited, or exported, whilst contravening Intellectual Property Rights (IPR) legislation.

He concludes that customs are bound by twin roles as both trade facilitator and guardian of the community. We have to find the proper balance between these parameters, and in the new globalized economy, we have to find new ways to discharge our duties. Electronic commerce, efficient procedures, cyber crimes, fraud, and transnational crimes are the challenges of customs office but a few of the challenges that impact on daily work. The function of customs is to follow the government policy, manage and control customs office to collect duty effective and efficient manner. Customs administrations can no longer remain isolated and entitles away from the societal context. We need to build bridges with other agencies and business partners.

Customs offices need to form strategic business partnerships. Customs cannot work effectively alone or just among ourselves. We need to work in partnership with the business community. Through dialogues and cooperative arrangements, customs and business can seek to enhance mutual understanding and cooperation. As a result, the business sector will enjoy greater predictability of customs procurers, while customs will be reciprocated with timely for cargo information. We will learn better to meet each other's needs and expectations. With such partnerships between customs and business, the performance will be inevitably improved resulting as win-win solution for all.

Pandey, (2010) had written an article on "*Green Customs a New Dimension in Customs Administration*". He presented customs administrations in these days have to oversee for many facets of national life. Unlike in the past days, its roles are not confined to collection of revenue and trade promotion but extended to security, human health, and even environment protection.

Nepalese customs administration is committed towards fulfilling pledge of its government towards detecting and controlling illegal cross broader movements of hazardous wastes and toxic chemicals, Pops and products underlined by CITES. The gazette notification dated 2066/7/16 (November 2, 2009) has incorporated the detail list of import banned chemicals, narcotic drugs, and

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

1. WCO environment provide communicational tool for environmental border protection, is a useful platform for experience sharing and information exchange; therefore, participating agencies are encouraged to get access to environment for future communication.
2. Customs Enforcement Network should be more widely used by customs officers to ensure "one seizure, one report" policy. UNEP should coordinate with WCO CEN (Central Enforcement Network) management selected item with special of carpet, synthetic carpet and clothes to facilitate the input of environmental crime. RILO will explore possibility to provide technical assistance and training to border customs officers on customer enforcement network.
3. IT was suggested to explore possibilities to introduce WEN (Women's Environmental Network) for south Asia in future dialogues between India and Nepal. Considering the route for illegal trade between ASEAN countries and south Asia, Nepal and India customs may link with efforts in the ASEAN region on wild life trade and other aspects of environmental crime.

4. It is suggested that Nepal and India inform European Commission and VROM (Organization) of seized hazardous wastes exported from EU countries. UNEP will provide list of focal points in IMPEL-TFS (International Organization) and VROM and facilitate the flow of information between EU and Nepal and India.
5. Green Customs Initiative Partners should assist Nepal and India in addressing bottleneck in implementation of MEAs, such as short of testing facilities for gases and chemicals and lack of technology and fund in storage and disposal of chemicals.
6. UNEP will provide information on the world's main traders and manufactures of ODS to Nepal and India in order to meet the need for ODS control and monitoring.
7. Border dialogues between Nepal and India should be included in HCFC Phase-out Management Plan (HPMP) of India and Nepal.

Regmi, (2010) had written an article entitled "*WCO Data Model and Single WINDOW-Nepal's Perspective*". He entitled customs in 21st century is the slogan of world customs organization which pushes each member country to intervene in different sectors of customs reforms in order to materialize the above ambitious slogan. Among others, trade facilitation and preventing society from odds are some of the major responsibilities of customs administration. Nepal Customs Administration is working as to facilitate authorized trade and preventing revenue for society in the same line by employing electronic customs procedure. Nine major customs offices which cover more than 90% of the Nepal's total foreign trade are operating electronic procedures with ASYCUDA ++software since last couple of years. In this junction, it is much imperative to be familiar and adopt the best practices on data harmonization which is sound to better implementation in a single window environment. This enables us to work with minimum set of standard data element which is an international standard and opens the door as a strong tool to implement single window to establishing a better cooperation between

government and traders. In the meantime, it is noteworthy here to remember that WCO has recommended the data model Version 3.0 on June 2009 and Nepal's customs have received the letter from Secretary General, WCO requesting to adopt the model. Hence, we should prepare strategically ourselves, being not only as a member country but also for the mutual benefits of government and traders.

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

Paudel (2010) had written an article on "*Do Informal Economic Activities Matter for Loss of Customs Revenue in Nepal?*" He focuses those Nepalese policy makers about the size of informal trade in Nepal. Due to the open border in India, the informal trading is always a crucial issue of concern for Nepalese politicians and bureaucrats. They talk much about the measures to adopt for reducing informal trade and thereby reducing revenue loss for customs. Once a month there is always a high level meeting to fixed the office for the collection of revenue and help to the Secretary of Ministry of Armed Police Force, Customs Department, Department of Revenue Investigation, and Inland Revenue Department. The central monitoring committee and district level monitoring committee to control the revenue leakage are also in actions but the issue of information trade is still in the same place. To reduce the volume of informal trade, we need to adopt some measures such as,

-) Proper coordination among different agencies of Government of Nepal like Nepalese Customs, Nepal Police, Armed Police, and Local Administration.
-) Effective information channels.

-) Some type of regulating mechanism for people entering to and from India.
-) Review of the location of customs points.
-) Simplification of customs procedures.
-) Effective coordination between Nepalese and Indian customs offices.
-) Effective post clearance audit.

He concluded that the estimation shows that informal economic activities have significant impact on loss of customs revenue. Therefore, informal economic activities definitely matter for loss of customs revenue in Nepal. Absolutely controlling informal trade in case of Nepal-India trade is almost impossible enforcement by all the concerned government agencies help to reduce the volume of informal trade and there by customs revenue loss in Nepal.

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

-) Increase efficiency of the people working in the customs field.
-) Make customs administration transparent and clean.
-) Increase participation of stakeholders in trade facilitation.
-) Effectiveness in the control of illegal import and export of goods.

-) Reform in organization structure of the customs administration.
-) Development of physical infrastructure of customs offices.
-) Simplification and efficiency in customs clearance process to help trade facilitation.

Tripathi (2011) had written an article on “*Customs Automation with AYSCUDA World*”. He presented the major advantage of ASYCUD. ASYCUDA is a computerized system designed by the UNCTAD to administer a country’s customs. It is the largest technical cooperation programmed of the UNCTAD covering over 80 countries and 4 regional projects.

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

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

Parajuli (2011) had written an article on “*Nepal’s Commitments to WTO on Tariff Reduction and Current Status*”. He presented that Nepal as a least developed country enjoys several special and differential treatments in terms of implementing WTO commitments and obligations. Especially in tariff reduction, Nepal has already set the higher bound rate for most of the products as compared with the rate. Nepal has been levying on imports of agricultural products; the bounded rate is set significantly higher than applied rate so there is a big room for Nepal to increase the applied rate a necessary. Compared to the agricultural products, bound rate for other products is lower and some of the applied rates are above the bound rates for other products although there is still 2 years to reduce them up to the level of bound rate.

Koirala (2011) had written an article on “*Role of Customs Administration to Protect Environment*”. He presented the customs administration has control the disadvantage product for people. Customs administration should communicate about the protection of environment and should care about wild conservation and other illegal trade. Customs administration should control the precursors which are not register in home ministry.

He concludes that Nepal is serious about to protection of environment and security in boarder areas. Customs administration should care for illegal trade and conscious about the health of the people. Nepal should apply the Multilateral Environment Agreements (MEA’s) which helps to control and minimize the trade and transit of environmental consciousness products.

Bhandari (2011) had written an article on “*Necessity of Harmonized System and Its Effect in Facilitating International Trade*”. He presented that development of advanced technology just in time to supply chain system. Multilateral and bilateral trade became major instrument of development of nation. There are millions types of products and accessories of such products which have produced and moves around the world. Though, so many complexities have come before the customs administration and business sector,

and many problems would be faced by the exporter and importer in the movement of goods. So that without harmonized system, it is difficult to facilitate the international trade. The harmonized system is only one important tool to classify and arranging into the various headings and sub-headings according to their characteristics and functions. In this regards, it is necessary to establish, classifying and coding the products as an international standards systems. If there is proper coding of each goods then it will help to facilitate international trade through the customs procedures. Since fast customs clearance is one of the most important measures for trade facilitation.

Regmi (2011) had written an article on “*Nepal’s Foreign Trade Statistics System: An Over view*”. He presented that the current strength of Nepalese customs for the purpose of producing quality based on trade statistics with insured predictability of dissemination is really weak. Customs headquarter has a provision of a statistics cell under the information technology and statistics section headed by director of IT background. With the addition of one more officer statistician’s position, there are two officer levels of statistics. One computer officer, and one computer engineer has been approved theoretically in the section. But due to less attractiveness, computer engineer are seldom found working in real life and has been felt least relevant, with no position of statistical assistant in the section has jeopardized to drive its statistical activities in a smooth way.

Currently the three national agencies are spending their national resources for the production of almost all the trade. Allocation of appropriate human resources together with technical support is a prerequisite to handle the above task. Institutional capacity building and agency’s area of interest and its acceptance of formed ownerships are equally important. A national level technical committee comprising from each of the three agencies can be established to drive such system effectively and smoothly. It is high time to take appropriate actions in order to avoid such confusion in trade statistics by the help of national statistical council, the highest national statistical authority

for customs duty is customs depart in Nepal, having strong national network across the country, department of customs can be such a leading national agency.

2.3 Review of Previous Research Work

Gupta (2007) has conducted a research topic on “*Corporate Tax System and Investment Behavior in Nepal*”.

His Main Objectives

-) To find out the problems relating to corporate tax.
-) To evaluate the corporate tax system in general.
-) To examine the sensitivity of certain policy like inflation, capital gain tax, dividend tax and interest tax etc. based on their impact on tax burden.

His major findings

-) He showed the relationship of private investment with average effective tax rate, marginal effective tax rate and tax incentives in Nepal.
-) He found that it's for debt financed project are almost negative i.e.-17% and positive for equity financed project and debt equity project by 27% and 19% respectively.
-) He had also found the impact of inflation. According to him, the statutory tax rate deduction had impact on private investments by 60% to 20%. In this regard, he had showed the adjusted value 0.87 at 5% level of significance.

His Major Recommendations

-) He had concluded that the statutory tax rate was in moderate level under the financing between inflation rate and effective tax burden in Nepal was negative.

-) He had concluded that the statutory tax rate was in moderate level under the financing between inflation rate and effective tax burden in Nepal was negative.
-) VAT progress has been slow, initially due to opposition from the business community.
-) There do exist the immense administrative problems. Even after its full-fledged implementation in 1999, the system has not been taking a considerable place due to administrative inefficiency.
-) VAT regime is extremely challenging in a burgeoning economy like Nepal where, with long open border, a large segment of the economy is yet to be monetized.

Lamsal (2008) has conducted a research topic on “*A Study on Contribution of Income Tax Government Revenue*”.

His Main Objectives

-) To analyze the impact of income tax evasion in government revenue of Nepal.
-) To identify the ways and causes of income tax evasion,
-) To estimate the volume and tendency of income tax evasion in small trade sector and to examine the role of income tax in utilizing the resources in Nepal.

His Major Findings

-) From the research, he had concluded that there was wide spread evasion of income tax in Nepal and income tax is a suitable means for raising domestic resources.
-) Controlling tax evasion by controlling illegal business activities increasing penalties and fines to tax evades compulsory maintenance of accounts etc.

His Major Recommendations

-) He had strongly recommended removing and controlling in income tax evasion for better source mobilization.
-) He had strongly recommended removing and controlling in income tax evasion for better source mobilization.
-) Income tax policy should be made such that the main goal of imposing tax can be achieved. Income tax policy should be revised timely.
-) Income tax act, rules and regulation should be clear and simple for all tax payers as well as for tax administrators.
-) Tax paying habit of Nepalese taxpayers is poor. To improve the taxpaying habit of Nepalese taxpayers, provisions of fine and penalty should be made effectives. Similarly concessions/rebates on tax rate should also be granted and tax awareness program should be organized.
-) Most of the taxpayers are unfamiliar with the income tax act, its provisions as well as provision related to fine and penalty. For this purpose, information should be provided by different media, by organizing seminar and other tax related program as well as providing orientation to taxpayers.

Pradhan (2009) has conducted a research topic on “*Contribution of Income Tax on Total Revenue.*” His study was basically concerned with historical background, contribution of income tax to the public revenue.

His main objectives

-) Contribution of income tax to the public revenue,
-) Contribution of Nepal Telecommunication (NTC) to income tax,
-) Effectiveness of income tax collection. Especially, her study had focused on the study on Nepal Telecommunication Corporation.

His major findings

-) She had found the contribution of income tax from public enterprises in Nepal was not significant due to poor achievement, weakness in government's economic policy and deficiency in legislation. NTC had been contributing effectively to total tax revenue.
-) Contribution of tax revenue on GDP of Nepal was lower than other SAARC countries except Bangladesh.
-) Average contribution of income tax from NTC to total tax revenue, total income tax revenue and total government revenue were 2.37 percent, 15.60 percent and 1.93 percent in her study period. Her suggestions about income tax system were clear cut provisions, discretionary power of tax officers should be curtailed, assessment and collection provision, should be made clear and simple, provision of reward, prize, incentives should be introduced to encourage taxpayers to pay voluntarily, compulsory provision of auditing etc. for the improvement of income tax administration in Nepal.
-) Promotion and reward to active, efficient and honest tax payers, tax education to taxpayers, strict action against corruption, reduction of delays in tax assessment.

His Major Recommendations

-) The government has made strict punishment for those who violate the tax law but there is less moral support and subsidies for those who respect the law.
-) The government always looks at them as a means of revenue collection. But the government has not helped with their operating problems, strategic problems and existing problems. They said that the government is idle in their problems but active for charging tax.

-) There was discrimination of the government to look after and behave the large and small scale industries. They explained that tax evasion and tax avoidance are made by the tax payers on the support of tax administrators. Even tax administrators do not pay their duties and responsibilities equally.
-) There is not correct implementation of the tax law in practice for those who makes the tax law violated and ignore it for the personal interest. Similarly due to lack of timely administration there is imbalance in the system of tax law.

Lama (2010) has conducted a research topic on “*A study on effectiveness of implementation aspect of Tax Planning in Nepal*” has made a deep study on Tax planning regarding its effective implementation. People in developing country like Nepal tend to greater propensity to evade taxes. Lack of proper measurement of tax assessment, Nepal is facing the problem of tax evasion. Because of this resources have not been mobilized efficiently and resource gap is increasing year by year in Nepal public finance. He has mentioned the following objectives and methodology for specific findings and recommendations.

His Main Objectives

-) To study the concept of tax planning.
-) To examine the use of tax planning in Nepalese organization.
-) To examine the implementation of Tax planning.
-) To provide suggestion to Nepalese organization to use tax planning.

His major findings

-) The provision of best judgment assessment should be put to use in its true spirit.
-) In addition to other financial and non-financial assistance, including incentives, to be provided by government and financial institution for the revival of sick industrial units.
-) The tax payers should pay the unpaid tax along with interest, similarly if the refund is to be made the tax payers along with interest.
-) Tax rebates to non-industrial company set up industrially backward areas.

-) Different tax rates for Residential and Non- Residential companies.
-) Every company should have separate Tax section in their company
-) Need to change the tax administration system.

His Major Recommendations

-) Tax laws should be clear, comprehensive and simple. It should not contain any ambiguity and should be revised frequently and reformed.
-) Computerized information system should be established to keep up to date records as well as for payment of income tax.
-) To improve the tax collection procedure, maximum penalties should be imposed for non-compliance of income tax within the due date.

Adhikari (2011) has conducted a research topic on “*A Study on Corporation Income Tax in Nepal*”.

His Main Objectives

-) To study and evaluate the status of income tax as major source of revenue,
-) To examine the Nepalese income tax structure,
-) To review and analyze the trend of income tax collection and tax revenue,
-) To identify the factors to increase taxpaying habit of income tax payer,
-) To evaluate the problems of income tax management and provide suggestions to the concerned on the basis of study findings.

His Major Findings

-) The share of tax revenue has always been greater than the share of non-tax revenue. Similarly,
-) The contribution of indirect tax has been always greater than direct tax revenue during the study period from 2000/01 to 2010/11.
-) Income tax is an important source of direct tax.
-) Its structure of Nepal is the composition of tax from government sector, public sector, private corporate bodies and remuneration tax.

His Major Recommendations

-) Most of the taxpayers are unfamiliar with the income tax act, its provisions as well as provision related to fine and penalty. For this purpose, information should be provided by different media, by organizing seminar and other tax related program as well as providing orientation to taxpayers.
-) The rate of fines and penalties should be increase. The provision of fines, penalties and punishment should be made a higher rate for income tax evaders.
-) To impose fine and penalties effectively as per Income Tax Act, tax administration should be made free from corruption, motivating them through punishment and rewards system, unnecessary outside pressure should be ignored; coordination between tax personnel and department must be established.
-) Tax personnel should be encouraged, punished and transferred on the basis of their work and experience. Regular and effective trainings, seminars, rewards, prizes and punishment system should be established for the effective personnel management.

2.4 Research Gap

There is not any study regarding customs duty since long time. Any researcher has not become able to find out the problems of customs system of Nepal. There are so many products making contribution in customs duty which aids in increasing government revenue. Rate of customs 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 Role of customs duty in Public Revenue of Nepal. No researcher has become able to find out the contribution and trend of customs duty. This study focuses future trend and growth potentiality of customs duty of Nepal.

CHAPTER-III

RESEARCH METHODOLOGY

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

3.1 Research Design

Research design is the specification of method and procedures for acquiring the information needed. It deals with what information is to be collected from which sources and by what procedures. If research design is good, it ensures that the information obtained is relevant to the research questions and collected by objective and economic procedures. To achieve the specific objective of the study, descriptive and analytical research has been carried out in terms of Role of Custom Duty in Public Revenue in Nepal.

3.2 Nature and Sources of Data

Data can be collected from primary sources and secondary sources. Data are collected in order to fulfill the objective of the study. Descriptive abstracts are taken from books, booklet, articles, news papers, magazine, reports etc. The sources of data can be divided into two parts:

3.2.1 Primary Data

Primary data are those fresh and original data, which are collected and recorded by the investigator or researcher. Unpublished data from mail, direct visit etc are primary sources.

3.2.2 Secondary Data

-) Further data needed for the study is collected from the secondary sources. These sources consists the followings,
-) Published and unpublished reports, articles and dissertations on the concerned subject.
-) Publications and economic survey of various Fiscal Years of Ministry of Finance (MOF) Nepal.
-) Publications and annual reports of Customs Department (CD).
-) Various books written by tax officers and scholars.
-) Related articles and journals.

3.3 Research Variables

The basic research variables of this study are mainly related with the customs duty collected by Government of Nepal. Since both the quantitative and qualitative tools are applied, there are high possibilities of getting reliable data.

3.4 Data Processing and Analysis Procedure

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

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

3.5 Weight of Choice

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

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

This chapter is devoted to the presentation and analysis of collected data to achieve the stated objectives of the study and also to make easier to understand the findings, qualitative as well as quantitative data and information have been analyzed. To meet the desired objective, this data presentation and analysis chapter deals with the presentation and analysis of data collected from the primary as well as secondary sources.

4.1 Presentation and Analysis of Secondary Data

4.1.1 Magnitude of Revenue

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

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

imposed on one person but is paid either partly or wholly-by another person. 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, snail's pace industrialization, low level income and wealth and very weak administration. Since 1951, indirect tax had grown rapidly and speedily. As indirect tax was effective and proper, its tax mobilization was quickly boosting. So most of the developing countries mobilizes it effectively and properly of the domestic resources.

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

A customs duty is a tariff or tax on the import as well as export of goods. It is a border tax. Nepalese customs administration collects customs duty; value added tax, Excise and other taxes at the border points. Customs Administration is in the forefront in terms of internal revenue mobilization. This does not mean that the customs role needs to be confined to internal revenue mobilization. It is equally important to enhance trade facilitation by adopting international convention, recommendation and best practices without compromising with the national security. The Government of Nepal has enacted Customs Act 2064 with an aim to amend and consolidate the prevailing customs laws in order to make safe and facilitate international trade by making customs administration systematic, transparent and accountable (Bhattarai & Koirala 2067).

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

increasing contribution of indirect tax on foreign trade. Nepal has increasing tax revenue in increasing rate and its contribution is high in national economy.

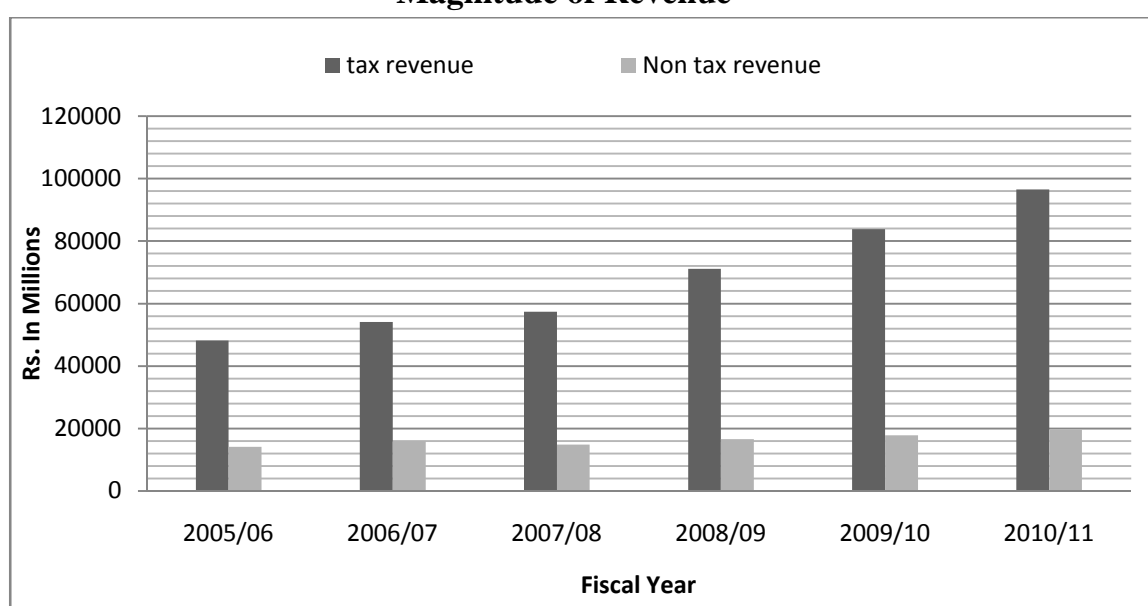
Table: 4.1
Magnitude of Revenue
(Rs. in Millions)

Fiscal Year	Total Revenue		Tax Revenue			Non Tax Revenue		
	Amount	Increment percent	Amount	Increment percent	Percent of total revenue	Amount	Increment percent	Percent of Total Revenue
2005/06	62331	10.85	48173	13.12	77.29	14158	3.78	22.71
2006/07	70122.7	12.50	54104.7	12.31	77.16	16018	13.14	22.84
2007/08	72282.1	3.08	57430.4	6.15	79.45	14851.7	-7.28	20.55
2008/09	87712.1	17.6	71122.1	19.25	81.08	16590	10.48	18.92
2009/10	101711.3	15.96	83848.1	17.89	82.44	17863.2	7.67	17.56
2010/11	116187.3	14.23	96494.7	15.08	83.05	19692.6	10.24	16.95

Source: Economic Survey, 2010/2011

Figure: 4.1

Magnitude of Revenue



Above table and figure 4.1 shows that the share of tax revenue and non tax revenue on total revenue of government of Nepal is 78.75 percent and 21.25

percent respectively to the total revenue in fiscal year 1997/1998. It means a major amount of Government revenue is collected from tax revenue. As compared to non tax revenue, the contribution of non-tax revenue has a very low share in Government revenue. Such kinds of share of tax revenue and non-tax revenue has a not been changed even in fiscal year 2008/2009. In year F/Y 2008/2009, the share of tax revenue is 81.08 percent and non tax revenue was 18.92 percent similarly in the year 2009/10 the share of tax revenue is 82.44 percent and non tax revenue is 17.56 percentage, the share of tax revenue in the year 2010/11 is 83.05 percent and non tax revenue is 16.95 percent.

Tax revenue as well as non tax revenue of the government of Nepal is on increasing trend. The tax revenue of the government of Nepal is growing in increasing trend from 2007/08 but the growth of non tax revenue is in fluctuating trend.

4.1.2 Composition of Direct Tax

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

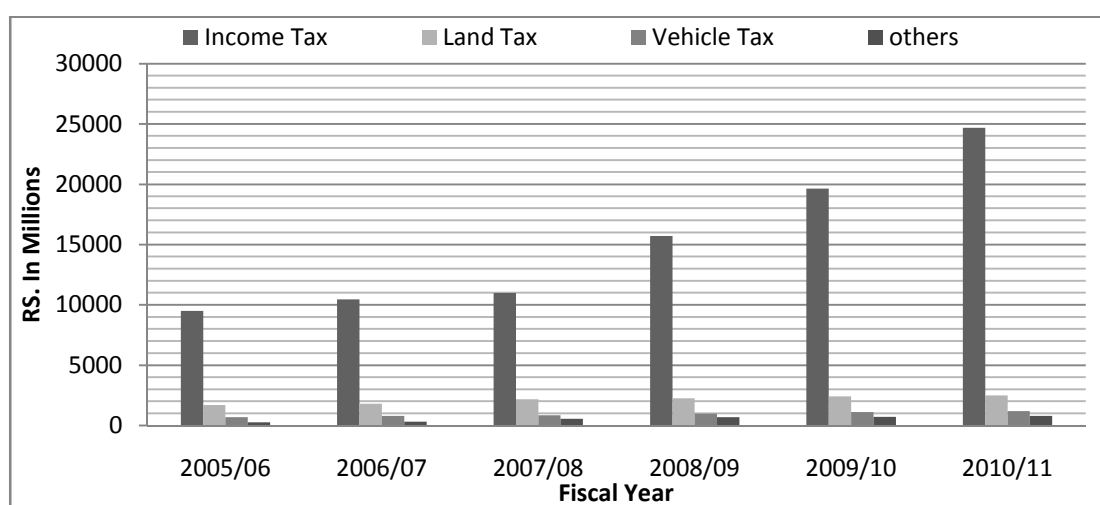
Table: 4.2
Composition of Direct Tax

(Rs in Millions)

Tax Head						percentage Share			
Fiscal year	Income Tax	Land Tax	Vehicle Tax	Others	Total	Income Tax	Land Tax	Vehicle Tax	Others
2005/06	9514.5	1697.5	700.6	268.6	12181.20	78.11	13.94	5.75	2.21
2006/07	10466.1	1799.2	806.5	306.7	13378.50	78.23	13.45	6.03	2.29
2007/08	10980.5	2181.1	847.6	565.7	14574.90	75.34	14.96	5.28	3.88
2008/09	15722.0	2253.5	995.0	697.8	19668.3	79.93	11.46	5.10	3.51
2009/10	19655.2	2422.6	1106.2	726.9	23910.9	82.20	10.13	4.63	3.04
2010/11	24692.6	2497.3	1196.5	796.2	29682.6	83.19	8.41	4.03	2.68

Source: Economic Survey, 2010/2011

Figure: 4.2
Composition of Direct Tax



For the study, direct tax has been divided into four parts; they are income tax, vehicle tax, land tax and other tax. Table 4.2 show that in F/Y 1997/1998, the percentage share of income was 80.95 percent, follow by income tax 16.23 percent land tax, 2.91 percent vehicle tax and not available for other tax respectively of total tax revenue. On an average, the percentage share of income tax constitute of the total direct tax, 80.78 percent follow by income tax, land tax 12.43 percent, vehicle tax 5.01 percent, and other 1.78 percent. In

between F/Y 1997/1998 to 2002/2003 the contribution from other tax was zero. In F/Y 2007/2008 the total contribution from income tax was follow by 79.93 percent, land tax 11.46 percent, vehicle tax 5.1 percent and other tax 3.51 percent respectively. The contribution on total revenue from income tax showed an Increasing trend. This increase in income tax may be attribute by VAT law forced the reluctant businessman to registered their name and file the return of the income although, there was no substantial increase in VAT itself. It helps increase the collection of income tax.

The investment activities have not flourished with in nation due to the political instability and violence. In this situation investor might have been investing their investment in purchasing land and building. This might the reason to be increased in land tax revenue in recent years. Revenue from vehicle tax also showed a growth trend over the studied period. It may due to increase number of vehicle in recent year before.

From the above figure 4.2, it can be concluded that the contribution of income tax in direct tax is major. The large portion of direct tax has been covered by income tax.

4.1.3 Composition of Indirect Tax

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

Table: 4.3
Composition of Indirect Tax

(Rs in millions)

Fiscal Year	Indirect Tax					Percent of Indirect Tax			
	Customs Duty	Sales/ VAT	Excise Duty	Others	Total	% Customs Duty	% Sales/ VAT	% Excise Duty	% Other
2005/06	15554.8	14478.9	6226.7	478.1	36738.5	42.34	39.41	16.95	1.30
2006/07	15701.6	18885.4	64459	516.3	41549.2	37.79	45.45	15.51	1.24
2007/08	15344	21610.7	6507.6	659.4	44121.7	34.78	48.98	14.75	1.49
2008/09	16708	26098.6	9343.2	476.3	52623.1	31.75	49.59	17.75	0.85
2009/10	17107.2	30973.7	11324.1	532.2	59937.2	28.54	51.67	18.88	0.89
2010/11	17386.4	36244.1	12542.2	639.4	66812.1	26.02	54.25	18.77	0.96

Source: Economic Survey, 2010/2011

Figure: 4.3
Composition of Indirect Tax

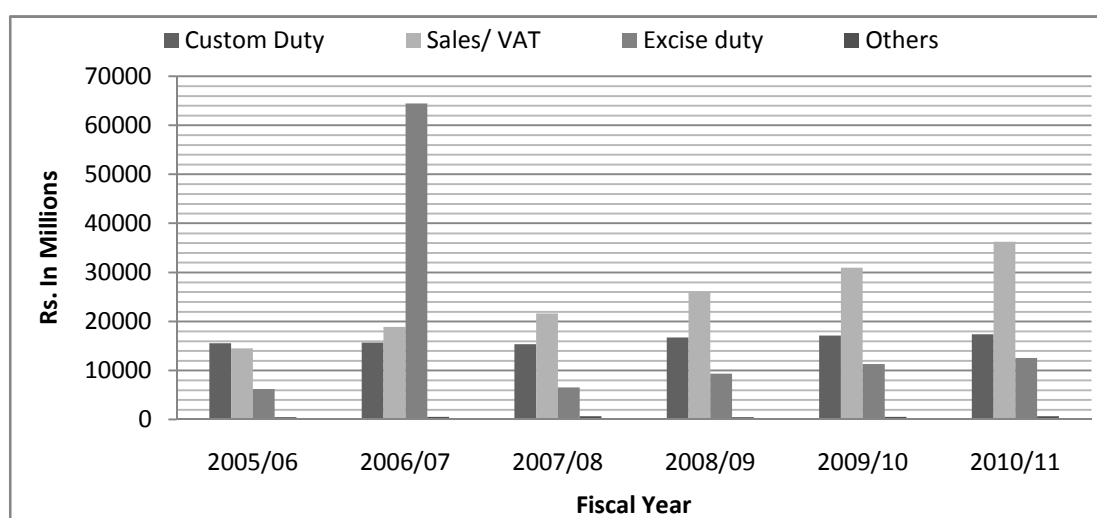


Table 4.3 shows that, on an average the percent share of revenue consist of total indirect tax followed by customs duty is 39.70 percent, VAT is 44.26 percent, excise duty is 14.89 percent and other tax is 1.15 percent. The contribution of customs duty on indirect tax in the year 2005/06 is 42.34 percent, contribution of customs duty on indirect tax in the year 2006/07 is 37.79 percent, and similarly the contribution of customs duty on indirect tax in

the year 2007/08 is 34.78 percent, contribution of customs duty on indirect tax in the year 2008/09 is 31.75 percent, contribution of customs duty on indirect tax in the year 2009/10 is 28.54 percent, and contribution of customs duty on indirect tax in the year is 26.02 percent. From this information it can be concluded that the trend of contribution of customs duty in indirect tax is in declining trend. Indirect tax has been dominant role in tax revenue. Similarly, customs duty has dominant position in indirect tax.

$$\text{Customs duty} = \text{Import duty} + \text{Export duty}$$

OR

$$\text{Tax based on international trade} = \text{imports} + \text{exports} + \text{Indian excise returned} + \text{others}$$

$$\text{Sales Tax / VAT} = \text{Sales / VAT} + \text{Entertainment tax} + \text{Hotel tax} + \text{Contract tax}$$

$$\text{Excise duty} = \text{Industrial product} + \text{liquor contract}$$

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

4.1.4 The Difference between Estimated and Actual Customs Duty Revenue

The Government has estimated its customs duty in each fiscal year budget and evaluates its actual collection after completion of each fiscal year. The estimated customs duty and the actual customs duty collected in during the year may not match each other.

Table: 4.4
Estimated and Actual Customs Duty Revenue Collection
(Rs in millions)

Year	Estimated Customs Duty	Actual Customs Duty	% of Actual Customs Duty
2005/06	13835.35	15554.8	112.43
2006/07	16032.19	15701.6	97.94
2007/08	16726.25	15344	91.74
2008/09	17319.57	16708	96.47
2009/10	16126.95	17107.2	106.08
2010/11	18302.43	17386.4	95.00

Source: Economic Survey, 2010/2011

Figure: 4.4
Estimated and Actual Customs Duty Revenue Collection

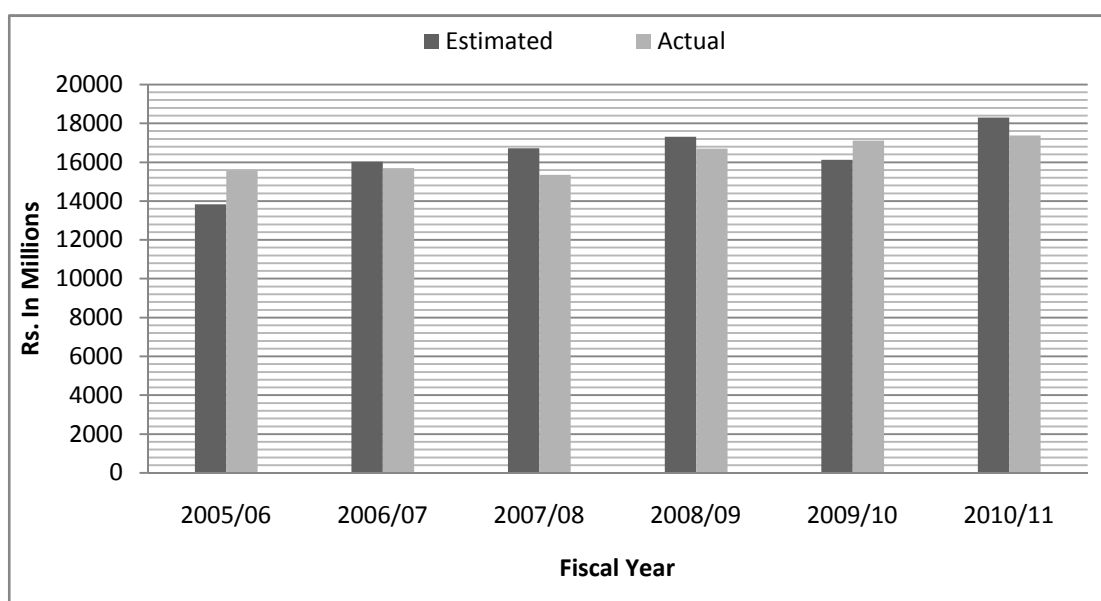


Table 4.4 shows that the Nepal government is able to collect more than percent of estimated Customs Duty collection on the year 2008/09 and 2009/10 but in the other years the government is not being able to meet even target. Government of Nepal became able to collect Customs Duty of percent of estimated customs duty revenue in fiscal year 2005/06, which is increased at 95

percent in fiscal year 2010/011. Revenue from Customs Duty could not be collected as estimated amount. There may be many reasons behind collecting less amount of Customs Duty than estimated. An undervaluation of stock at the customs may be the cause of not achieving targeted Customs Duty revenue. As well as there are so many other reasons for not achieving the target in collection of customs duty.

From the above figure 4.4 it can be concluded that revenue from Customs Duty could not be collected as estimated amount except in the year 2005/06 and in the year 2009/10. This may be because of the poor administration and poor implementation of the policies of the government.

4.1.5 Customs Duty and GDP

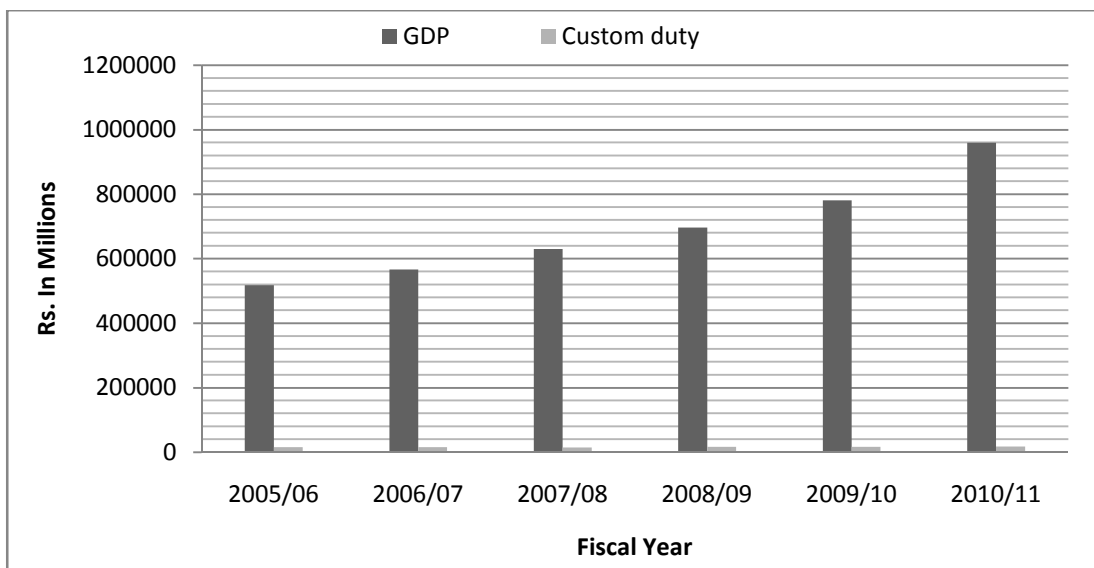
Customs duty is a government tax on imports or exports; "they signed a treaty to lower duties on trade between their countries". Tax levied on imports and exports by the customs authorities of a country to raise state revenue, and/or to protect domestic industries from more efficient or predatory competitors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

Table: 4.5
Contribution of Customs Duty in GDP
(Rs in millions)

Year	GDP	Customs Duty	% of Customs Duty
2005/06	517993	15554.8	3.08
2006/07	566579	15701.6	2.77
2007/08	630301	15344	2.43
2008/09	696989	16708	2.40
2009/10	781262	17107.2	2.19
2010/11	960012	17386.4	1.81

Source: Economic Survey, 2010/2011

Figure: 4.5
Contribution of Customs Duty in GDP



The above table and figure shows that the contribution of customs duty in GDP is very few that is 2.44% on an average in previous six years. On the initial period i.e. on 2005/06 is 3.08 percent similarly in the year 2006/07 is 2.77 which have been decreased in this year. In 2010/011 it is only 2.19 percent of GDP which is less than other years. But contribution of customs duty on GDP is fluctuating in the different years.

Table shows the contribution of customs duty in GDP. The red candles are very smaller than that of the red candles, which indicates the insignificant contribution of customs duty on GDP of government of Nepal. The GDP of government of Nepal is growing from 2005/06 to 2010/011 so the blue candles are increasing in the late years then in the initial periods but the red candles are small and even are not growing in the recent years then compare to initial periods so its contribution is decreasing in the recent years

4.1.6 Customs Duty and Indirect Tax

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

Table: 4.6
Contribution of Customs Duty to Indirect Tax

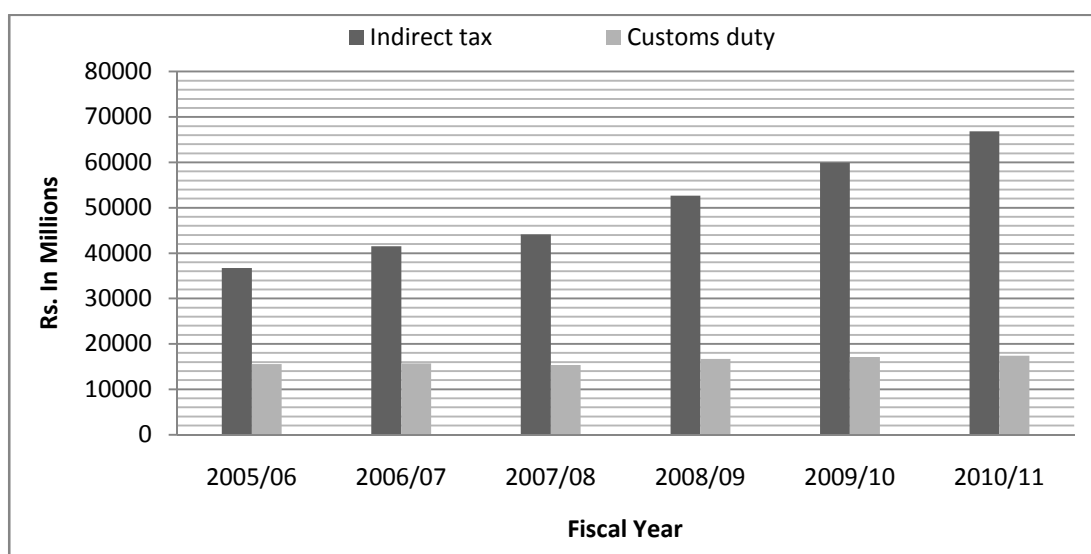
(Rs in millions)

Year	Indirect Tax	Customs Duty	% of Customs Duty
2005/06	36738.5	15554.8	42.34
2006/07	41549.2	15701.6	37.79
2007/08	44121.7	15344	34.78
2008/09	52623.1	16708	31.75
2009/10	59937.2	17107.2	28.54
2010/11	66812.1	17386.4	26.02

Source: Economic Survey, 2010/2011

Figure: 4.6

Contribution of Customs Duty to Indirect Tax



The table 4.6 above shows that the contribution of customs duty in indirect tax is very few that is in previous six years. On the initial period out of total indirect tax of Rs.36738.5 the customs duty is Rs.15554.8 i.e. on 2005/06. In the year 2010/011 it is only Rs. 66812.1 and the custom duty is Rs. 17386.4 which is less than other years. But contribution of customs duty on indirect tax is decreasing trend in the different years.

In the above figure 4.6 blue candles shows the portion of indirect tax and red candle shows the portion of customs duty. The red candles are very smaller than that of the blue candles, which indicates the insignificant contribution of customs duty on indirect tax of government of Nepal. The indirect tax of government of Nepal is growing from 2005/06 to 2010/011 so the blue candles are increasing in the late years then in the initial periods but the red candles are small and even are growing in the first four year but decreased in the last year then compare to initial periods so its contribution is fluctuating.

4.1.7 Customs Duty and Total Tax Revenue

Customs duty is a government tax on imports or exports; "they signed a treaty to lower duties on trade between their countries". Tax levied on imports and exports by the customs authorities of a country to raise state revenue, and/or to

protect domestic industries from more efficient or predatory competitors from abroad. Also called tariff, duty is based generally on the value of goods or upon the weight, dimensions, or some other criteria of the item.

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

Table: 4.7
Contribution of Customs Duty to Total Tax Revenue
(Rs in millions)

Year	Total Tax Revenue	Customs Duty	% of Customs Duty
2005/06	48173	15554.8	32.29
2006/07	54104.7	15701.6	29.02
2007/08	57430.4	15344	26.72
2008/09	71122.1	16708	23.49
2009/10	83848.1	17107.2	20.40
2010/11	96494.7	17386.4	18.02

Source: Economic Survey, 2010/2011

Table 4.7 shows that the total tax revenue as compare to customs duty. The contribution of tax revenue is increasing but the contribution of customs duty is decreased in FY 2007/08 which has 15344 million contributions. The high contribution of customs duty is 17386.2 million in FY 2010/11. The contribution of customs duty as compared to total revenue is below percent.

Figure: 4.7

Contribution of Customs Duty to Total Tax Revenue

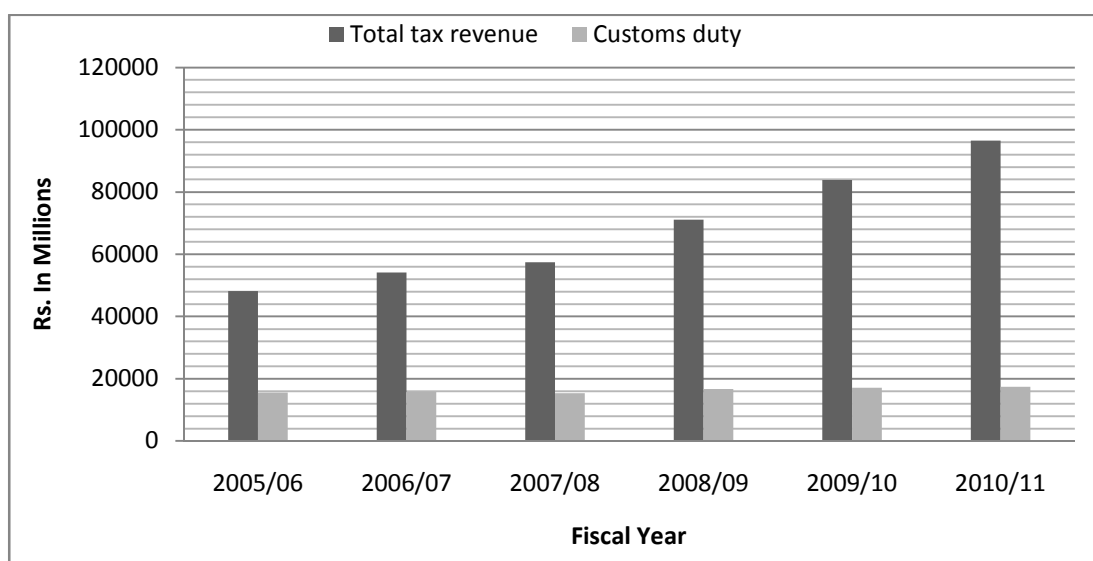


Figure 4.7 shows the total tax revenue and customs duty from FY 2005/06 to FY 2010/011. The contribution of the tax revenue is increasing but the contribution of customs duty is very low as compare to tax revenue. The contribution of customs duty in FY 2005/06 is 32.29 percent of tax revenue and 18.02 percent contribution of customs duty in FY 2010/11. It shows that the contribution of customs duty is decreasing and it has insignificance in tax revenue.

4.1.8 Customs Duty and Total Revenue

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

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

Table 4.8
Contribution of Customs Duty to Total Revenue
(Rs in millions)

Year	Total Revenue	Customs Duty	% of Customs Duty
2005/06	62331	15554.8	24.96
2006/07	70122.7	15701.6	22.39
2007/08	72282.1	15344	21.23
2008/09	87712.1	16708	19.05
2009/10	101711.3	17107.2	16.82
2010/11	116187.3	17386.4	14.96

Source: Economic Survey, 2010/2011

Figure: 4.8
Contribution of Customs Duty to Total Revenue

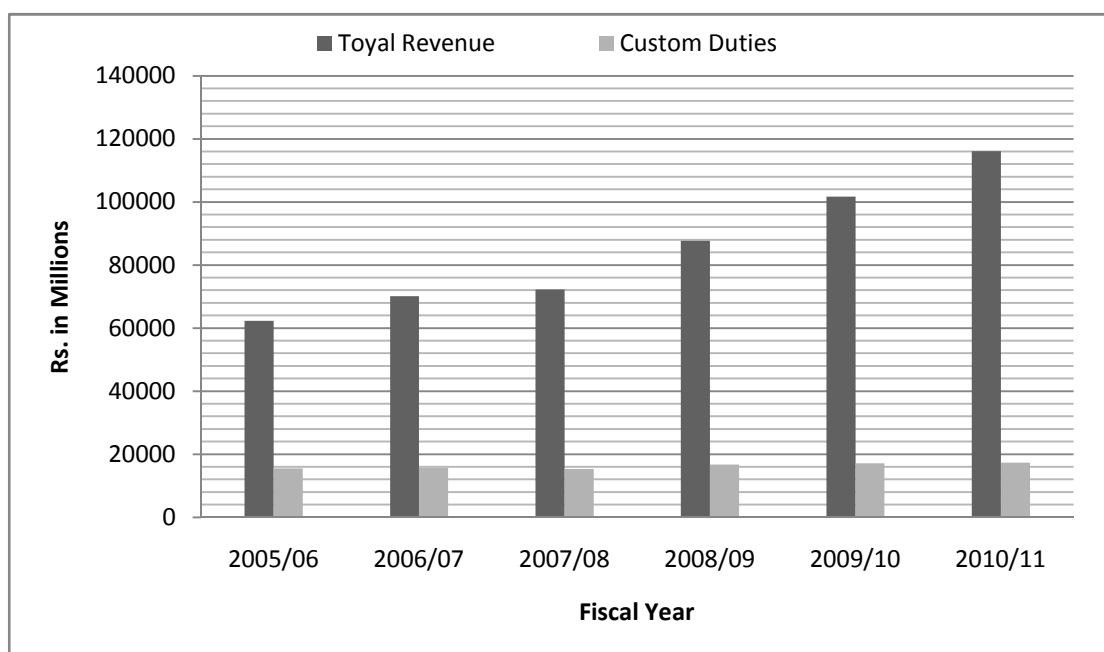


Table 4.8 shows that the total revenue as compare to customs duty. The total revenue of the government of Nepal is increasing but the contribution of customs duty in total revenue is decreased in FY 2007/08 which has 15344 million contributions. The high contribution of customs duty was 17386.4

million in FY 2010/11. The contribution of customs duty as compared to total revenue is few. The contribution of customs duty in the year 2005/06 was 24.96%, which has been decreased to 14.96% in the year 2010/11 which is in decreasing trend.

Figure 4.8 shows the total revenue and customs duty from FY 2005/06 to FY 2010/011. The total revenue is increasing but the contribution of customs duty is very low as compare to total revenue. The contribution of customs duty in FY 2005/06 is certain percent of total revenue, the contribution of customs duty has been decreased in FY 2007/08 with compare to FY 2005/06. It shows that the contribution of customs duty is decreasing and it has insignificance in tax revenue.

4.1.9 Growth Rates of Total Revenue, Tax Revenue, and Non tax Revenue, Import and Export Duty

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

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

Table: 4.9
Growth Rates of Total Revenue, Tax Revenue, and Non tax Import and Export Duty

Year	Total Revenue	Tax Revenue	Non-Tax Revenue	Import Duty	Export duty
2005/06	-	-	-	-	-
2006/07	12.5	12.31	13.14	-4.51	-7.15
2007/08	3.08	6.15	-7.28	16.02	13.28
2008/09	21.35	23.85	11.67	25.7	-3.75
2009/10	22.7	19.72	35.46	28.77	78.73
2010/011	33.31	37.46	0.69	-48.93	-66.45

Source: Economic Survey, 2010/2011

Figure 4.9
Trend of Total Revenue, Tax Revenue, Non tax Revenue, Import Duty and Export Duty

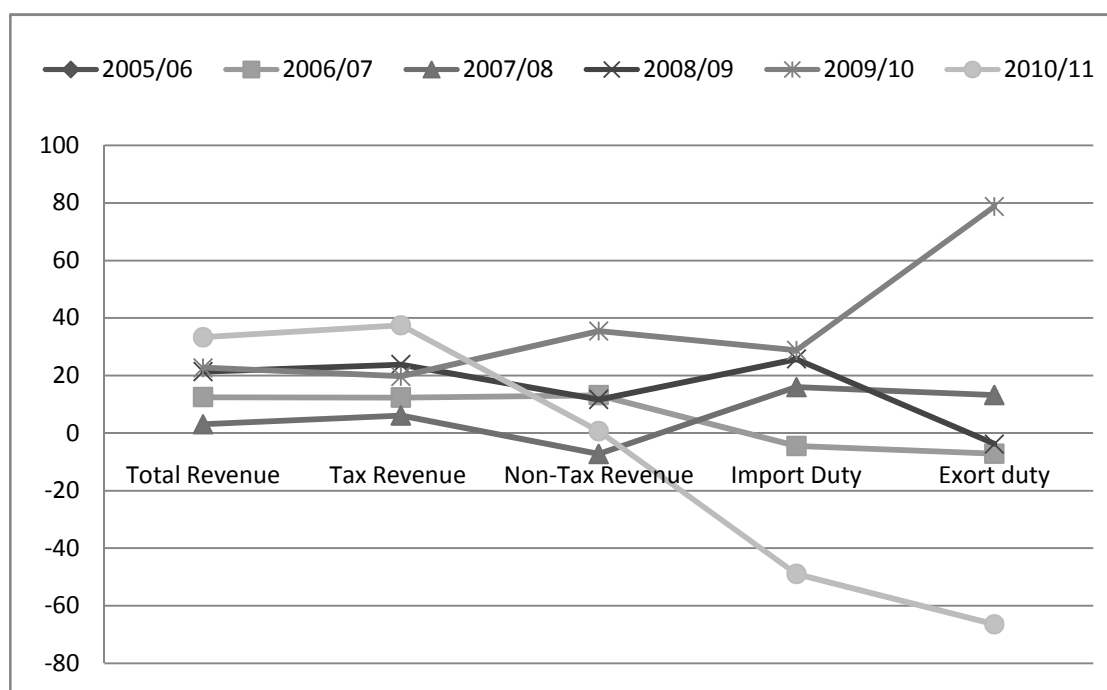


Table 4.9 shows that the growth rate of total revenue, tax revenue, non tax revenue import and export duty. The growth of total revenue is high in FY 2010/011 i.e.33.31 percent and low is 3.08 percent in FY2007/08. Tax revenue is high in FY 2010/011

i.e. 37.46 percent and low is 6.15 percent in FY 2007/08. Non tax revenue is negative growth in FY 2007/08 and high growth has 35.46 percent in FY2009/10 The growth of import duty has high fluctuate and high negative growth and export duty is also high negative growth rate and fluctuate very high.

Figure 4.9 shows the growth rate of total revenue tax revenue, non tax revenue, and import and export duty from 2005/06 to FY 2010/011. Among all growth rate total revenue and tax revenue is positive and non tax, import and export duty has negative.

4.2 Major Findings

On the basis of presentation and analysis of collected data, the following major findings have been drawn:

-) Among different sources of revenue of government of Nepal, customs duty is one of the major sources, which has significant contribution in the revenue of government of Nepal.
-) There is not any certain trend (neither increasing nor decreasing) of customs duty in Nepal.
-) Import duty and export duty are two parts of customs duty, both of them has equal contribution in the revenue of government of Nepal.
-) Even though customs duty has significant contribution in the revenue of government of Nepal, it is no found in satisfactory level.
-) The government revenue is increasing from year to year. It is in increasing trend.
-) There is most significant contribution of tax revenue in the total revenue of government of Nepal.
-) Import duty of government is growing but export duty is in decreasing trend in the recent year.
-) Customs duty can be the most significant source from among different sources of revenue of Nepal.
-) The essential factors for making Customs Duty administration effective in Nepal are Proper training to personnel of custom office, Establishment and implementation of reward and punishment system, Simple tax procedure, Simple tax law and Better information system

CHAPTER-V

SUMMARY, CONCLUSIONS & RECOMMENDATIONS

5.1 Summary

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

Customs Duty in Nepal was introduced as a major parts of the overall tax reform program initiated in the early 1990s. It has been spread all over the world within a short span of time. It has gain popularity that any tax system had gained earlier in the history of taxation in such a short period.

In an average, the Government tax revenue was 78.32 of total revenue. It was increasing at the rate of 10.62 percent is in average. It was satisfactory. The direct tae revenue consist income tax, vehicle tax, land tax and other tax. Among them, income tax contributes 80.78 percent, land tax 12.43 percent vehicle tax 5.01 percent and other tax1.78 percent in an average. The income tax has highest contribution on direct tax.

The indirect tax revenue consists, tax based on Customs Duty, sales/VAT tax, excise duty and others. The contribution of them is 44.26 percent, 39.70, 14.89 percent and 1.15 percent of total indirect tax respectively on an average. This shows that Customs Duty collected less revenue than the four taxes that it displaced.

There has been a fluctuating trend in collection of Customs Duty. Taxpayer level of compliance has been improving slowly. If the provision is implemented properly and as per the Customs Duty, the means could guide the

Government resources towards meaningful destination. Expert and interviewed persons say that if sufficient effort is made, the target revenue collection can be achieved.

5.2 Conclusions

There may be various key challenges persisting to collection of customs duty and effective implementation of customs duty system. From the study of various data trend and experience of customs duty offices shows the following problem:

The conclusion regarding the growth potentiality of import duty and export duty;

-) There may be weak owing to the lack of practice of issuing and receiving invoices. Similarly there may be problem of under invoicing at the customs has not been reduced.
-) There may be misunderstanding between tax payer and tax administrator for refund of tax. One blame the customs duty system has not been put in to proper practice while other complain that there is refund owing to the fact that the tax payers don't even comply with simple formalities.

The conclusion regarding the trend of collection of customs duty in Nepal;

-) There may be lack of publicity and effective monitoring. In the implementation of customs duty the main glitch has been in terms of the lack of public awareness. Until a time when a situation is created where the customs duty payer himself/herself, it will be an uphill road for customs duty.
-) There is not any certain trend; there is fluctuating trend of customs duty in Nepal. It is mostly dependent in the government and its policy.

The conclusion regarding the contribution of customs duty on government revenue;

-) The fragile political situation and economic slowdown may be the cause of problem in implementation of customs duty effectively. There was a change in the government 17 times in the period of 18 years(2046 up to 2065)
-) A weak and unmotivated tax administration may be the cause of ineffective implementation of revenue collection. There is many positive remained vacant for a long time public service commission, high turnover of officers by the public service commission, high turnover of personal and general disinterest in customs duty as the customs duty administration was considered the least attractive in the revenue administration.
-) The difficulties to implement may be the merger of customs duty and income tax administration in 2001. Merged entity was dominated by the management of the former tax administration.
-) In the absence of invoice/proper invoice, it is not possible to maintain proper accounts. In some causes vendors are maintaining two set of accounts; i.e. one for their business purpose and another for tax purpose.

The conclusion regarding the role of customs duty in collection of total tax revenue;

-) Lack of proper book keeping has resulted in a discouraging status of returns, which can be seen from the excessive number of credit return.
-) As of June 2005, the accumulated tax credit was Rs 4598 million and this may due to the non issuance of invoices and/or misuse of credit mechanism.
-) Some public enterprises have not been depositing the customs duty collection in the treasury due to their liquidity problem and some taxpayers do not pay customs duty due to their large credit sales and so on.

5.3 Recommendations

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

Nepal has been undergoing through server fiscal crises due to limited sources of revenue and increasing Government expenditures. The trend of 10 years (1896/97 to 2008/09) shows revenue expenditure gap. The country is heading toward debt trap situation. In the wake of such a crisis Nepal has adopted customs duty.

According to interviewed person and researcher, to overcome the major challenges faced in the implementation of customs duty. The following measure could be adopted.

-) A collection strategy needs to be developed and implemented effectively in order to collect the increasing amounts of arrear. To improve billing condition on the market needs regular supervision, audits and investigation. Consumer education is required to promote the use of invoice.
-) While the design of the retuned system is good, it has not been implemented properly. It is necessary that the refund procedure be implemented in a timely and proper manner and that both tax payer and tax official be educated on the procedure to prevent any misuse of the refund procedure.
-) Awareness program about customs duty should be carried out so that consumer may become aware of the tax. Recently the Government has introduced a lottery program to encourage demanding invoice during purchase. All conscious citizens should be alert and aware regarding these facts.

-) The fragile political situation should be ended for economic development, peace and mandatory.
-) For effective implementation, big responsibilities remain with the shoulders of tax administration. Therefore the administration has to implement this tax in the right spirit of customs duty. In depth training must be provided to tax officials to expertise them in the field of taxation.
-) To establish customs duty invoices in the forms of a campaign, college students could be hired and mobilized. This could provide the student part time employment and also enhance publicity. It would be appropriate to mobilize such students to find out the status and presence of customs duty. If group of students are placed In busy market places, it creates psychological pressure on the vendors to issue invoices. Similarly, they could be also used to collect information on various issues of customs duty.
-) To make customs duty effective and transparent and to increase its contribution, unnoticed inspection on the road of goods being transported from time to time would discourage incorrect business transaction should be banned to promote real business.
-) It is essential to widen the base of the domestic commodity tax system and increase revenue mobilization. The administration should expand audit and investigation activities in order to identify and remove artificial credit.
-) To make customs duty effective, it is essential to create an environment in which invoices are issued properly, accounts are maintain accurately , tax is based on transaction, there is acceptance of the taxpayers correct accounts and a fair competition among industrialists and businessmen should be established.

-) The proper co-ordinations among various Government departments involved in revenue collection must be maintained.
-) Computer networking system should be established in all the customs point with department so that related information can be accessed to all the concerned officials. Internet facilities must be provided to concern offices for the access of international price.

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

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