

CHAPTER – I

INTRODUCTION

1.1 Background of the study

Nepal, officially the democratic republic of Nepal, is a landlocked country in south Asia and the world's most recent nation to become a republic. It is bordered to the north by the People's Republic of China, and to the south, east and west by the Republic of India. With an area of 147,181 square kilometers and a population of approximately 27 million, Nepal is the world's 90th largest country by land mass.

The structure of Nepal's GDP is gradually changing. Contribution of the primary sector as a value addition to the economy is estimated to have come down to 36.2 percent in FY 2010/11 from 37.0 percent in FY2000/01 with a decrease of 1.8 percentage point over a decade. Similarly, contribution of the secondary sector is estimated to remain at 14.1 percent with a decrease of 2.8 percentage point over a decade. Contribution of services and other (tertiary) sector, however, is estimated to go up by 3.6 percentage point reaching 49.8 percent in FY 2010/11. The shares of agriculture and non-agriculture sector to GDP on FY 2010/11 are estimated at 35.7 percent and 64.3 percent respectively. In aggregate, it is observed that contribution of the agriculture sector has slightly decreased by 0.1 percentage point over a period of 10/11 years with contribution that of non-agriculture sector gone up by the same proportion. Agriculture produce –mostly grown in the Terai region bordering India – includes tea, rice, corn, wheat, sugarcane, root crops, milk, and water buffalo meat. Industry mainly involves the processing of agricultural produce, including jute, sugarcane, tobacco, and grain.

Unemployment is one of the major problems of the country. Most of the people of the nation are engaged in traditional types of agriculture. The annual per capita income of the country is US\$617 in fiscal year 2011/12. Even within the country there is regional variation in per capita income. The Kathmandu valley has the highest per capita income. The urban income level is more than doubled the rural income, reflecting wide intra country disparities in the per capita income.

Major part of the land area is covered by high mountains, which account for about 83 %. The Terai region covers remaining 17%. Because of its land locked situation, the historical and topographical features and other problems of the development, the country presents its own distinctive and unusual features in the process of economic development. More than 83% of Nepalese peoples lived in the rural area and more

than 40% of them enjoy income the low the poverty line. Most of the people living in the rural area are not getting even minimum facilities of life because of under developed and wide spread poverty.

Nepal is an agricultural country. The predominant position occupied by the agriculture sector in the Nepalese economy is borne out by the fact that more than 81% population of the country depend upon agriculture, which is about 39% of the total GDP. Agriculture is the major supplier of the raw material to the industries.

The interim constitution of Nepal has clearly directed the Nepalese government for the self – reliant economic system; encouragement to national enterprises, prevention of economic exploitation as well as the standard of the people, for self-reliant economic system and sound infrastructure for the development, the government should generate its revenue sufficiently. The government revenue is most important source of financing government expenditure. To achieve true national objectives, the government requires making and implementing various plans, policies and procedure. Besides these functions, a revenue mobilization is one of the most important functions of the government.

The external resources are foreign aid and loan; internal resources are tax and non-tax revenue. The government receives tax revenue as a compulsory payment while non-tax revenue is a conditional source. Fees, penalty, fines and forfeiture, receipt from rent government property and services, dividend, interest, royalty and sale of government property principal payment donation and miscellaneous income are the source of the non- tax revenue. Income tax, sales tax, /VAT, custom duty, excise duty, hotel tax revenue from land registration etc are the sources of tax revenue. Tax revenue is major sources of the internal revenue as well as the macro-economic fiscal instrument of the government.

The primary purpose of taxation is to direct control of economic resources from taxpayer to the state for its own use or transfer to other. Bringing about economic growth, elasticity in the tax structure, control of inflationary pressure and reduction of inequality are the main objective of the policy.

Tax is broadly classified into two groups: direct tax and indirect tax. Direct tax is personal tax. If the same person to whom the tax is legally imposed and there is no possibility of shifting pays it, then it is called direct tax e.g. income tax, property tax, etc. on the other hand indirect tax is commodity tax. If tax is legally imposed for one person but incidence of the tax is borne by another person through backward partly and holly-shifting process, then it is called indirect tax. Value added tax, hotel tax, custom duty, excise duty etc are the examples of the indirect taxes.

Tax imposed by country on import and export of the goods across the border of the country is called custom duty. Since this tax is levied on goods traded between two nations, it is also called border tax. Customs duty has basically two objectives: collecting revenue and regulating the international trade. Nepalese customs administration collects custom duty, value added tax; excise and other taxes at the border points. It accounts 42% of the total revenue and 50% of the total tax revenue. Customs duty itself contributes 22% of the total tax revenue. Customs administration is in the forefront in terms of internal revenue mobilization.

Revenue from customs has occupied the major position in the total income in tax revenue of Nepal. The contribution of customs has been increasing slightly in the recent years. In 2001/02 revenue from customs duty was Rs. 12658.75 million and Rs. 35711.60 million in the fiscal year 2010/11. Revenue from customs contributes 1/3 share in total income and 3/4 share in tax revenue where the amount has increase but the percentage of contribution has been in slightly decreasing trend. Considering all these, this research is made to make the revenue of customs duty as the most important among other tax revenue.

1.2 Statement of the Problem

Most of the developing countries in the word including Nepal should make heavy investment on infrastructure as well as social and economic activities in the development of the nation. So, the government has on pressure to spending huge amount in education, health, physical construction and so many other areas.

Nepal, being a developing and least developed country (LDC) in the map of world, it has huge trade deficit with the neighbor country as well as trading partner. Its gross

per capita income is us\$562(according to economic survey 2067) Nepal's GPD per capita is the lowest in the south Asian Association for regional co- operation (SAARC) countries. About 24 percent of total population is below about poverty line. that is way, the government can generate only small portion of GPD as revenue and Nepal is always facing a problem of scarce resources for development action. Few rich people have captured major economic sources and they are under either because of tax avoidance or evasion and most of the poor people suffering commodity tax.

Resource gap is the difference between total expenditure and total revenue. Nepal has been facing problem of service resource gap from the beginning of its development phases. The financial expenditure of the government of Nepal has been increasing at a faster rate that increases in revenue. Every year the resource gap is increases at a faster rate due to slow increase in the rate of revenue to fulfill the expenditure requirement owing to the inefficiency of tax administration and incomprehensive tax. If any government has a resource gap, it has to resort a deficit budget. There was a large portion of foreign grants to meet the budget deficit in the early year's budgets in Nepal.

But in recent years, the percentage of foreign loans is rising and a grant is decreasing. It is not a desirable direction in our country. Excess reliance upon foreign loan creates extra burden to the economy because debt-servicing charge is increasing ever year. The foreign loan should be taken as a complementary resource to the internal resource mobilization.

In fiscal year 2001/02, the foreign loan in Nepal was Rs. 7698.70 million. Then it started to up & down and reached to Rs.12075.60 million in fiscal year 2010/11. Most of the developing countries, the government collect more than $\frac{3}{4}$ of the tax revenue from indirect taxes. Although the several reasons such as administrative difficulty, lower level of public awareness about paying taxation, easiness of collection and direct taxes are more progressive and justifiable on the ground of equity. But the indirect tax is extra burdens to the people especially in poor people by raising price of the commodity. It does not create public consciousness and it has a little role to reduce income inequality. But, Nepal's tax structure is severely dominated by the

indirect taxes. However, its relative contribution is declining which is a positive development.

Richer Nepalese people have lack of taxpaying habit and tax consciousness. The tax evasion and avoidance habit is increasing day by day due to low standard of education for tax responsibility to tax payers. Where as in western and developed countries the tax evasion is considered as a social crime.

Nepalese people do not support the tax offices by giving their true information regarding tax evaders. They do not like to maintain the books of occur and get them audited. This stops communication for providing information regarding the actual financial position of the business to the taxpayers. Tax officers also does not encourage account maintenance by rejection the books of accounts. In this regards books of accounts do not get a reasonable important while assessing the direct tax.

The main objective of Nepalese tax system are to make funds available for economic development to maintain reasonable economic stability and to reduce inequality in distribution of income and wealth. But the objectives of Nepalese tax systems are not fulfilled reasonably. The main problem under lying is that the administration is weak, basically due to the lack of trained and competent employees, couple coated tax laws, lack of voluntary compliance by taxpayers etc.

Because of the under valuation & concealing habit of Nepalese people, and poor valuation system and lack of consciousness of personnel, we are not in target point of the customs revenue. We should try to increase the revenue by the anyway of controlling the leakage of customs and controlling by the corruption. Under evaluation system is the most dangerous thing of the revenue collection; it affects the VAT and other tax also.

1.3 Objectives of the study

The specific objectives of the research study are as follows:

1. To analyze the structure of customs duty in Nepal.
2. To analyze the contribution of customs duty to tax revenue of Nepal.
3. To evaluate the administration aspect of customs duty in Nepal.

4. To provide appropriate suggestions and recommendations for efficient implementation and improvement of customs tariff in Nepal.

1.4 Scope and significance of the study

Various studies have been conducted regarding customs systems in Nepal and different reports about the customs are available. But very few studies have been conducted on structure of customs and its contribution of customs in tax & government revenue. So, this is the main reason to undertake this study.

Custom duty a significance role in the overall economic development in developing countries. Customs tariff occupy a very important role in developed and developing countries.

Nepal is one of the lowest taxed economics in the world as per tax/GPD as well as tax/GPD ratios are the lowest among South Asian Association for Regional Cooperation (SAARC) countries and among the rest of the world as well. This indicates the poor performance of customs management in Nepal. For the economic development of the country contribution of direct tax as well as indirect tax is also necessary however tax structure of Nepal is dominated by indirect tax. In developing countries like Nepal, the importance of customs cannot be minimized. It may be a useful instrument to measure the economic standard of people.

This study is carried out to examine the structure of customs, contribution of customs in the tax and government revenues. In view of the growing necessity of mobilizing adequate resources for meeting the increasing financial requirement of government for development purpose customs duty seems very important source. Therefore, analysis of its structure and its contribution of customs to tax and government revenue has been under taken for this study.

This study is useful to economic, planners, tax administrators, government and other interested persons about the revenue collection from customs duty, structure of customs duty and current custom tariff in Nepal. It also provides the information about customs administration in Nepal.

1.5 Limitation of the study

This study has also some limitations. These are as follows:

1. This study covers the structure of customs duty and contribution of tax revenue.
2. Only small size of population has selected from Kathmandu valley.
3. This study covers only 10 fiscal year's data from 2001/02 to 2010/11.
4. The truthfulness of the primary and secondary data is depending upon their opinion and published by the related entity.
5. This study has limited to secondary information and data collection from ministry of finance, inland Revenue Department, customs departments, FNCCI, various websites, Nepal Rastra bank ,economic Survey, Budget speeches, custom act and rules.
6. Time of resource constraints another factor which limited the scope of the study.

1.6 Research Methodology

Various data regarding the tax revenue, non- tax revenue, income tax revenue, etc. has taken from various secondary publications such as budget speech, annual revenue report, journals and related publications. Opinion survey of 50 respondents from Kathmandu valley has been taken for the problem relating to custom. The respondents are tax experts, tax administrator and Custom duty payer.

1.7 Organization of the Study

The whole study organized into 5 chapters which are as follows:

- Introduction
- Conceptual framework and Review of Literature.
- Research Methodology
- Data presentation and analysis
- Summary conclusions and Recommendation

The first chapter contains introduction aspect of the study that is background, statement of problems, objectives of the study, limitation of the study, scope & significance and organization of the study.

The second chapter of the study is conceptual framework and literature review.

It deals about meaning and definition of tax, classification of tax, direct tax and indirect tax, evolution of custom duty, customs operation flow chart, organization structure, objective of customs duty, modern technology Automated Systems for custom duty and Administration (ASYCUDA) Use in customs duty, Relation with other related entity: SAPTA/SAFTA, GATT/WTO, WCO problems of customs duty etc. The second chapter also includes customs duty act 2064(2007), customs. Rules (2008) in review of related studies some related thesis, books, articles, and reports has been reviewed.

The third chapter contains data presentation a research methodology; it has included research design, population and sample, nature and sources of data, data collection procedure, data processing and analysis tool.

The fourth chapter covers about analysis and presentation of primary and secondary data about structure of government revenue of Nepal, tax and non- tax revenue in Nepal, contribution of direct and indirect tax in Nepalese tax structure, contribution of custom duty in total revenue and tax revenue, direct tax revenue, indirect tax revenue, structure of custom duty in Nepal, tax GDP ratio, customs GPD ratio and growth rate of customs and major findings.

The last chapter has concentrated with findings, summary, conclusion and recommendation relating to the research topic. Appendix and bibliography has been presented in the last part of the study.

CHAPTER – II

CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE

This chapter consists of the existing literature and research related to the present study for the purpose of finding out what had already been explained and how the present research adds to this dimension. Every possible effort has been made to grasp knowledge and information that are available from the various sources. Different books journal and related dissertations are studied for this purpose.

2.1 Conceptual Framework

2.1.1 Meaning & Definition of Tax

In general, tax can be defined as a levy or other type of financial charge or fee imposed by state or central government on legal entities or individual. It is a compulsory levy from individuals, households and firms to central or local government. It is a kind of money of which it is the legal duty of every citizen of the country to pay honestly. It may be levied on income, property and even at the time of purchasing a commodity. Tax is computed and paid as prescribed in the law. If a person defies the tax payment, he may be punished in the court of law. A taxpayer is not entitled to compel the government, while paying taxes, to give something to him in return of the amount he was paid. Taxation can be considered as a convenient method of raising revenue which in turn is linked with the welfare of the people directly or indirectly (Bhattarai & Koirala 2067).

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 other say “Death means stopping to pay Tax.” Here it should be noted that all compulsory payments are not tax. (Gyawali, 2012)

Among internal resources taxation can is a prime factor it is the pillar of the fiscal policy. It is the backbone of the welfare state and government most imposes taxation

to finance various welfare and social services like education, health, electricity, transportation, communication etc. (Kandel, 2003).

Adam Smith defined tax as “A contribution from citizens for the support of the state.”

Seligman defined tax as “ A compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefit conferred.”

According to **Plenh** “Taxes are general contribution of wealth levied upon persons, natural or corporate to defray expenses incurred in conferring common benefits upon the residence of the states.”

From the above definitions, it can be concluded that;

- ✓ Tax is not a voluntary contribution by the taxpayer but it is compulsory in nature.
- ✓ Those failing to pay taxes are subject to punishment by laws.
- ✓ There is an element of sacrifice in the payment of tax.
- ✓ Tax is levied on persons as per the prevailing laws.
- ✓ Those who pay tax do not get corresponding benefits from the government.
- ✓ Tax is spent for common interest of people.
- ✓ Tax is collected from haves and spent for the interest of have-nots in the society.

2.1.2 Objectives Of Taxation

Tax is a permanent instrument of collecting revenues for the government. It is a major source of revenue in the developed countries and is appearing as an important source of revenue in the developing countries as well. It has become an instrument of social and economic policy for the government. The main objectives of taxation are:

a. Raising more Revenue

The fundamental objective of taxation is to finance government expenditure. The government requires carrying out various development and welfare

activities in the country. For this, it needs a huge amount of resources. The government collects resources by imposing taxes. So, raising more and more revenues to meet the ever increasing government expenditure has become an important objective of taxation.

b. Preventing Concentration

Tax is imposed on persons according to their income level. High earners are imposed high tax through progressive tax system. It prevents wealth from being concentrated in a few hands of the rich and hence narrows down the gap between the rich and the poor.

c. Redistributing Wealth for the Common Good

Tax collected by the government is spent for carrying out various welfare activities. In this way, the wealth of the rich is redistributed to the whole community. Tax helps in redistributing wealth in the economy.

d. Boosting up the Economy

Tax serves as an instrument for promoting economic growth, stability and efficiency. The government controls or expands the economic activities of the country by providing various concessions, rebates and other facilities. Low rate of taxation during a business depression will accelerate more income to the people and help in raising demand and thus revive business activity. On the other contrary, high rates of taxes may be useful to check inflationary pressure on prices. Tax policy may be used as a regulatory mechanics to achieve price stability, check business booms and depression.

e. Reducing Unemployment problem

The government can reduce the unemployment problem in the country by promoting various employment generating activities. Industries established in remote parts or industries providing more employment are given more facilities. As a result, the unemployment problem can be reduced to a great extent through liberal tax policy.

f. Removing Regional Disparities

Regional disparities have become a chronic problem to the developing countries like Nepal. Tax is one of the ways through which regional disparities

can be minimized. The government provides tax exemptions or concessions for industries established or activities carried out in backward areas. This will help increase economic activities in those areas and ultimately regional disparity reduces to minimum.

2.1.3 Canons Of Taxation

The government adopts various principles while formulating a good tax policy. The principles are referred to as the canons of taxation. The 'Canons of Taxation' were first developed by Adam Smith as a set of criteria by which to judge taxes. They are still widely accepted as providing a good basis by which to judge taxes. Smith's four canons as outlined in his book, entitled 'Wealth of Nations' are as follows:

a. Canon of Equality

This canon states that a good tax is that which is based on the principles of equality. In this principle, it is maintained that the tax must be levied according to taxpaying capacity of the individuals. This principle states that the burden of taxation should be fair and just. Thus, rich people must be charged higher taxes than the poor. The higher the income higher the tax, lower the income lower the tax. Tax policy should not discriminate the persons with same income level.

b. Canon of Certainty

This canon states that the taxpayers should feel certainty regarding the time of payment, amount to be paid, method of payment, the place of payment and the authority to whom the tax is to be paid. Certainty creates confidence, on other hand; uncertainty makes the tax system arbitrary and unfair to the taxpayers. If the tax is certain, no one can exploit tax payers in anyway.

c. Canon of Convenience

The tax should be levied and collected in such a manner that it provides maximum convenience to the taxpayers. The public authorities should always keep this point in view that the taxpayers suffer the least inconvenience in payment of tax. Common people do not have sufficient knowledge about taxation or do they have the capacity to hire the expert. That is way tax system

should be such that can be easily understood and followed by ordinary people in the society.

d. Canon of Economy

This principle states that the collection expenses of tax should be less than the amount of tax collected so that a surplus to public revenue is generated and the country will be benefited. The amount that goes from the taxpayers pocket should not differ greatly with the amount that actually goes to government's treasury. This principle also implies that a tax should interface as little as possible with the productive activity and general efficiency of the community so that it may not create adverse effect on production and employment.

Other Modern Economist has added some other canons of taxation. They are:

e. Canon of Productivity

This canon connotes that the fund raised through taxes should be utilized by the government in productive sector of the economy so that the taxpayers can see the utilization of their hard- earned money paid as taxes.

f. Canon of Elasticity

This canon signifies that the taxes should be levied in such a way the amount to be collected can be increased or decreased with the least inconvenience from time to time. In other words, the government can easily change the tax rates as per the need of the country. Instead of being rigid, tax rates should be made flexible to cope up with the changes in taxpayer's income, properties and transactions.

g. Canon of Diversity

The tax system should not totally depend on one source of revenue. It is risky for the government to depend on a single source. The government should levy various taxes instead of imposing a single tax. The burden of tax should be scattered among different kinds of people. The burden of paying tax should not centralize on one group of people but it should be diversified in such a way that it ensures a smooth collection in different years.

h. Canon of Simplicity

These principles state that every tax should be simple and understandable to general public. There should be no administrative hassles. The tax payment procedure should not be too lengthy. If the tax system is complex and complicated, the taxpayers will have to seek the assistance of tax experts to understand its implications. This will bring irregularities and corruption.

i. Canon of Neutrality

The tax system should not affect badly to the production and distribution aspect of the nation rather it should facilitate them. The government should impose heavy taxes on harmful products and less tax or no tax on basic goods in such a way that the total tax revenue is not affected. The tax must not have any inflationary or deflationary effect on the economy.

j. Canon of Co- ordination

This canon states that there should be coordination among various taxes raised in the country. Taxpayers should not be imposed taxes of similar nature by various tax authorities (i.e. central government or local bodies).

2.2 Classification of Taxes

On the basis of shifting of burden, tax can be classified into two broad categories: Direct tax and Indirect tax. This is the most common and popular classification of tax.

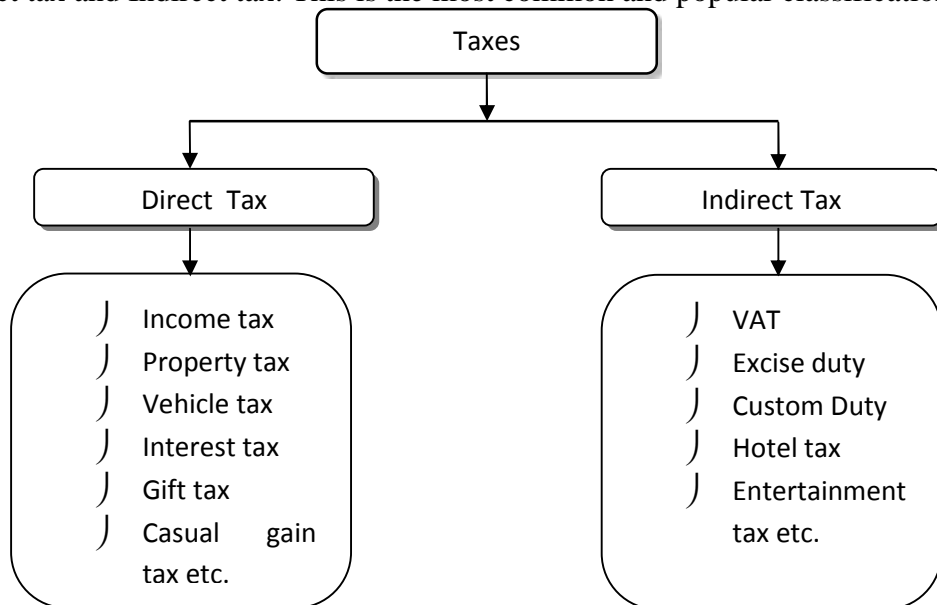


Fig: 2.1 Classification of taxes

2.2.1 Direct Tax

A direct tax is a form of tax paid by a person on whom it is legally imposed. It is collected directly by the government from the person who bears the tax burden. Taxpayers need to file tax returns directly to the government. Therefore, direct tax cannot be shifted. The impact or the money burden and the incidence are on the one and the same person. In other words, the same person pays and bears the tax burden. It is the tax on income and property. Examples include income tax, property tax, vehicle tax, interest tax, expenditure tax, death tax, etc.

The following are the **advantages** of direct tax:

- ✓ It is equitable as it is imposed on person as per the property or income.
- ✓ Time, procedure and amount of tax to be paid is known with certainty.
- ✓ It is flexible. The government can change tax rate with the change in the level of property or income.
- ✓ It enhances the consciousness of the citizens. Taxpayers feel burden of tax and so they can insist the government to spend their contributes for the welfare of the economy.

The following are the **disadvantages** of the direct tax:

- ✓ It gives mental pinch to the taxpayers as they have to curtail their income to pay to the government.
- ✓ Taxpayers feel inconvenience as the government imposes tax progressively.
- ✓ Tendency to evade tax may increase to avoid tax burden.
- ✓ It is expensive for the government to collect tax individually.

2.2.2 Indirect Tax

As indirect tax is a form of tax imposed on one person but partly or wholly paid by another. It is collected by mediators who transfer the taxes to the government and also perform functions associated with filling tax returns. Hence, indirect tax can be shifted. In indirect tax, the impact and incidence of tax are on different persons. In other words, the person paying and bearing the tax is different. It is the tax on

consumption or expenditures. Examples include VAT, Excise Duty, Import and Export duty, etc.

The following are the **Advantages** of indirect tax:

- ✓ It is convenient as the taxpayer does not have to pay sum amount for tax.
- ✓ There is mass participation. Each and every person getting goods or services has to pay tax.
- ✓ There is a less chance of tax evasion as the taxpayers pay the tax collected from customers.
- ✓ The government can check on the consumption of harmful goods by imposing higher taxes.

The following are the **Disadvantages** of indirect tax:

- ✓ It is uncertain. With the fluctuation in demand, the tax amount can also fluctuate.
- ✓ It is regretful as the tax burden to the rich and the poor is same.
- ✓ It has bad effect on consumption, production and employment. Higher taxes reduce all of them.
- ✓ Most of the taxes are included in the price of goods or services. As a result, taxpayers do not know how much tax they are paying to the government.

2.3 Concept of Custom Duty

2.3.1 Introduction

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.

Customs is an authority or agency in a country responsible for collecting and safeguarding customs duties and for controlling the flow of goods including animals, personal effects and hazardous items in and out of a country. Depending on local

legislation and regulations, the import or export of some goods may be restricted or forbidden, and the customs agency enforces these rules. The customs may be different from the immigration authority, which monitors persons who leave or enter the country, checking for appropriate documentation, apprehending people wanted by international arrest warrants, and impeding the entry of others deemed dangerous to the country. In most countries customs are attained through government agreements and international laws.

A Custom Duty is a tariff or tax on the import as well as export of goods. It is a boarder 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 (Bhattraï & Koirala, 2067).

Custom Duty is a government tax on imports or exports, “they signed a treaty to lower duties on trade between their countries”. Custom in 21st century is the slogan of World Custom Organization which pushes each member country to intervene in different sectors of 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 custom procedure. Nine major customs offices which covers 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 harmonized 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 trades(Gyawali,2012).

To bring the gap between total resources required and supply of it, custom plays a vital role in the national revenue. Near about one third of tax revenue, is collect by the customs, collection of adequate revenue faces various problems like under invoicing problem, theft and counseling problem due to open boarder with India, valuation problems, complexity of customs Act and Rules, consciousness of personal in the custom administration etc. if these problems are overcome, customs is useful and main tools to settle the problems and to help in the development of the economy.

The contribution of the customs to the national revenue must be increased to achieve the target goal and to maintain the balance development stability. The goal can be increase if the government takes action about the customs management, and government encourages the tax payer by providing different facilities and discourage the other evasion and avoidance activity, etc.(Singh,2010).

2.3.2 Objectives of the Custom Duty

Nepalese Customs Administration collects Customs duty, Value Added Tax, Excise and other taxes at the border points. It accounts 42% of the total revenue and 50% of the total tax revenue. Customs duty alone contributes 22 % of the total tax revenue. 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. In fact, our effort is directed towards making our administration more adept, service oriented and transparent as it needs to go on making timely improvements in its role according to changes brought about in the

international trade, technological development, national needs, open and liberal economy as well as to fulfill its important responsibility of improving government finances through internal resource mobilization for economic development.(*www.customs.gov.np*)

The major objectives of the Custom Duty are as follows:

-) To collect custom revenue
-) Control the management for import and export
-) To make quick and qualified administration
-) To make real goods valuation to maintain the co-ordination with taxpayer
-) To remove the rough estimation when customs duty valuation
-) Increase the effectiveness in revenue collection
-) To provide servable to the organization
-) Searching right direction for market price
-) To provide the proper data to foreign trade.

2.3.3 Organizational Details of Department Of Customs

Ministry of Finance (MOF) has three departments, one of which is Department of customs. It is the Central Customs Authority in Nepal headed by the Director General of Customs, a career civil servant of Joint Secretary Level. The Director General has the final authority for deciding the valuation and classification of goods. There are two Deputy Director Generals, six directors, thirteen officers and a number of subordinate staffs under the Director General to perform their assigned functions.

Department has following six divisions, headed by respective directors. The name and functions of divisions are as follows:

Tariff and Classification Division:

The Tariff and Classification Division deals with the whole problems related with the commodity classification and tariff. The main functions of this division are (i) to classify goods, and to provide suggestions and recommendations to the Ministry of Finance for over all structure as well as particular changes in the rates of duty.

According to the Customs Act 1962 and guideline of MOF, department has the authority to exempt customs duty either fully or partially considering the national circumstances priorities in the field of public utilities notified by gazette or by mentioning in Financial Act. The execution of above tasks and decisions about duty exemption is a vital function of the division.

Valuation & Review Division:

This division is responsible for the valuation and post clearance audit. It reviews the valuation done by the Customs Officer at the local customs. Now Nepal has fully adopted the "Transaction Value" for the purpose of the assessment of Customs duty. Border Customs officers are fully authorized and responsible for the valuation. The customs act does not define the Transaction value but while determining the transaction value, customs officer should follow the basic principals incorporated in the WTO/GATT valuation agreement. When the importers are not satisfied with the decision of valuation done by the customs officer, they can request for review to the director General. In this case, this division plays an important role by inspecting the valuation process thoroughly with the reference of market value and recommends to Director General what to decide.

Inspection, Law & International Relation Division:

This division regularly supervises and monitors the activities of the field customs offices especially in the areas of goods identification, Classification, duty rates, valuation and other problematic areas of overall customs administration. The statistics, bonded warehouse, international relation, duty refund procedure and risk management Divisions are under this division. Administration Division: The Administration Division is directly related with the personnel management. It is also responsible for defending the cases in Court of Justice against the department and field customs offices. It plays a key role for budget formulation of entire customs offices including the department. The Division allocates funds for field offices, manages internal and external audits and other daily necessary financial management.

Information & Technology(IT) Division:

This, IT Division is a new creation in the department. Nepal Customs Administration has adopted ASYCUDA++ as a tool for reform and automation to promote efficiency in customs services. ASYCUDA++ is a "client-server" computer system designed for customs procedures management conceived and developed by UNCTAD. ASYCUDA++ is composed of a set of independent subsystems including the essential features of customs modernization such as selectivity and risk analysis or direct data input by customs brokers.

Nepal launched this project in two phases. With the technical assistance of Asian Development Bank, the phase I introduced modernization program at the customs department and few automated procedures at Tribhuvan International Airport in July 1998. The phase II of the ASYCUDA++ program was a part of Multimodal Transport, Trade, Facilitation and Customs reform Project, which was a major program focussing on efficient procedures for transit, import and export. The project during the second phase has installed the system in 3 border clearance stations at Birgunj, Biratnagar and Bhairahawa with the funding of IDA credit. The extension has done at Mechi Customs Office, Krishnanagar Customs Office, Tatopani Customs Office and Gaur Customs Office under NG own resources in the year 2004 and 2005. The department is planning to roll out the system at 2 other custom offices: Sirsiya Customs Office and Nepalgunj Customs Office in near future.

The main functions of this division are as follows:-

-) Fast customs clearance through the introduction of computerization, the simplification of procedures and the streamline and harmonization.
-) Provide the necessary information to the government (Ministry, Rastra Bank, IRD etc) to formulate and conduct macro-economic and fiscal policy.
-) Provide the necessary information to end users that will help to monitor and control foreign trade and revenue based reports and statistics to the department.
-) Improve efficiency of the customs administration.

) Provide technical assistance to the department as well as field customs offices.

Textile & Laboratory Division:

Office avails to identify such goods and recommends. The Department of Customs has its own laboratory. As the problems of Commodity Classification arise due to chemical, liquors and other new products with complex composition of different ingredients, the department or customs. *(www.customs.gov.np)*

2.3.3 Structure of Nepalese Custom Duty

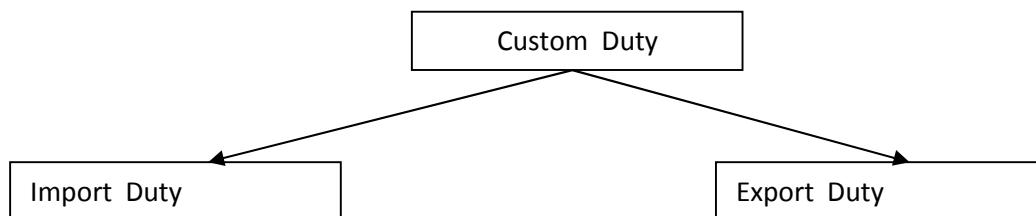


Fig: 2.2 Structure of Custom Duty

2.3.3.1 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.

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. (Gyawali, 2012).

2.3.3.2 Export Duty

Export duty is the second source of revenue collection of the government. It is levied by the government on the goods exported to foreign countries. 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).

2.4 Historical Development of Custom Duty In Nepal

Custom Duty is a tax levied on import and exports commodities. Custom duties were levied in ancient Greece and Rome. The first custom house was established in London (England) in 1304 AD. Legislation of establishing the modern customs of Great Britain dates back to the conflict between the then parliament and the crown in relation to the right of taxation. The term customs was derived from the claim made by the crown that it had acquired right in certain import and export duty by the right of customs. The custom of Canada is collected under the Customs Act of 1915.

Custom is the oldest tax in Nepal. It is continuing from the period of Lichchhavi Dynasty. At that time the office, which used to collect tax was called 'kuther'. Accordingly, the market was called Dranga, and method of collecting the revenue was called Aaniharya. At that time trade between Tibet and India were extremely developed and main boarder was Tistung only. So, the "Shulkashala" and "Gulma" were also existed there.

During the Rana period custom was one of the main sources of Revenue. It used to be imposed on both the import and export of goods. Jagat was also used to be raised at that time, Jagat is a tax to be paid voluntarily. For the purpose of collecting the revenue, there were bhansar Addas at Terai and Bhansar Karyalayas in hilly region. At the time of Ranas, Custom Duty system was based on contract system. Two types

of contract were used 1. Suddha Thekka and 2. Bajar Thekka . Bazaar Addas of Terai used to provide contracts in Terai regions and whereas Kathmandu and hilly office used to manage Tibbet trade and hilly area trade. The main works of Bhansar Addas were to provide contracts. There was petty Contracts system for customs. The petty contracts were called Dittha, Laptan, Subba, Subedar, etc. Amalekhgunj, thankot, lele, palung, khopasi were working for dealing trade between terai and Kathmandu. The offices dealing trade with northern part of Tibet were Tatopani, Rasuwa, Sirdibas etc.

After the end of Rana rule, the contract system of customs collection was withdrawn and for some time Amanat system was used. Later in 2013 B.S., customs office were established replacing Bazaar Addas in Terai. Customs commissioner office was opened in 2014 B.S. and all the related Addas to customs were transfer to this office in 2016 B.S. Excise departments replaced by customs commissioner office. In the same year, customs classification was done as per Standard Trade classification system(STC).

Custom Act was brought in 2019 B.S. to replace Sanad and Sawals of Ranas period. In 2023 B.S. excise was separated and customs department was established in 2016 B.S., first custom rule was introduced in 2037 B.S. the classification system of based on custom co-operation council Nomenclature was introduced. Nepal became the member of customs co-operation council now(World Custom Organization), in the same year. Harmonized system classification was introduced in the financial year 2049/50. Since, the 7th amendment of customs Act, 2019 in 2055 B.S. valuation system based on real price is introduced in Nepal. For the purpose of making the customs office based on automation(ASYCUDA) Automated system for Custom Duty and administration, system is used right now in different custom office. Now customs patrolling team has been established for the purpose of controlling the smuggling in different customs office. After the fiscal year 2060/061 the new customs reforms road map was established.(Singh,2010) .

2.5 Custom Tariff and Relation with other entity

Customs and duties are a principle source of domestic revenue. Import tariffs are generally assessed on an ad valorem basis, with duties ranging from 0% to 140%. Most primary products, including live animals and fish, enter duty-free. Machinery and goods related to basic needs are charged 5%. Duties on agricultural imports were fixed in 2003 at 10%. Cigarettes and alcoholic beverages are charged at 100%, although alcoholic beverages with more than 60% alcohol are prohibited altogether. Other prohibited imports include narcotic drugs and beef and beef products. Products that may be imported only under special licenses include arms, ammunition, and explosives; and communication equipment, including computers, TVs, VCRs, and walkie-talkies. Valuable metals and jewelry are prohibited except under bag and baggage regulations. According to the World Bank, Nepal's weighted average tariff rate in 2000, the most recent data available, was 17.7%. This average probably increased in 2001 and 2002 because of "security surcharges" levied on most imports. No special fee was assessed on goods with tariff rates less than 2.5%. For goods with charged duties up to 5%, the surcharge was 1%, and for all those with duties above 5%, the surcharge was 3%.

The export service charge is 0.5% and there are export duties on vegetable ghee and plastic goods of 2 to 10%. Prohibited exports include archaeological and religious artifacts; controlled wildlife; narcotics; arms, ammunition and explosives; industrial raw materials; imported raw materials, parts and capital goods; and timber and logs. Since 1960, under the duty refund procedure (DRP), India has refunded to Nepal the excise duties levied on its exports to Nepal. Goods imported from India are granted a rebate of the application of ad valorem of 10% in tariff rates up to 40% and of 7% on rates above 40%.

Nepal, under bilateral trade agreements with India, has in past been afforded duty-free or preferential entry. However, the most recent India-Nepal Treaty of Trade, signed March 2002, while it continues to allow Nepali manufactures to enter the India market on a non-reciprocal, preferential or duty-free basis, with rules of origin less restrictive than the international norm (Nepal's manufacturers can have up to 70% foreign

content instead of a international norm of less than 50%), India placed quotas on four sensitive imports: vegetable fats, acrylic yarn, copper products, and Ferro oxide, all at volumes lower than recent Nepali exports to India.

In 1995, Nepal joined the seven-member South Asia Association for Regional Cooperation (SAARC), and has ratified SAARC's South Asia Preferential Trading Arrangement (SAPTA). Under SAPTA, members have agreed to about 5000 tariff reductions among two or more of the members. However, plans to establish a free trade area by 2002 have been delayed.

Nepal has applied for accession to the World Trade Organization and submitted the required memorandum on its foreign trade regime in June 1998. The first meeting of the Working Party was in May 2000 and market access negotiations began in September 2000. A second meeting of the Working Party was held in September 2002, but expectations for accession to the WTO by the end of 2002 have not been realized.

Smuggling is substantial across the Indian border, especially on lumber goods, labor, construction equipment, currency and weapons. Gold smuggling is thought to be particularly large. Official records show substantial imports of gold, but few gold exports, even though it is well known that most of the gold imports are intended for the Indian market. Recent efforts to combat smuggling appear to have at least changed the dominant mode from men driving trucks and buses to individuals, many women and children, driving bicycles.

The Customs Act of 1997 sought to simplify custom procedures, but there have been persistent complaints about the gap between policy and practice, particularly in terms of delays and arbitrary assessments. Under the program of economic reforms for FY 2002/03, the government has announced an intention to introduce a post-clearance audit as a means of reducing complaints about customs evaluation. (www.google.com)

2.6 Custom Duty Facility and Exemption

Custom Act 2064 and Customs Rule 2064 have laid down the following provisions relating to customs duty facility, exemption and other facilities.

-) 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 treaty or agreement to which Nepal is a party.
-) 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.
-) 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.
-) 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.
-) The Government of Nepal may accord partial or full customs duty exemption to the fuel to be consumed during international flight, engine or aircraft, spare parts, machine, equipment thereof, food liquors, beer and light drinks consumed in flight by an international air service company.
-) 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.

2.6.1 Others facilities of Custom Duty

The Government of Nepal has power to accord customs duty exemption and other facility to goods to be exported and imported by any industry situated in special economic zone:

-) The government of Nepal will accord customs duty exemption and other facility against bank guarantee to the following goods to be exported and imported by any industry situated in the special economic zone:
- a. Such raw materials, subsidiary raw materials as required to manufacture finished goods to be exported, packing materials and other materials to be used in manufacturing,
 - b. Plants, machineries, machines, equipment, tools and spare parts as required for the industry, and up to three motor vehicles based on the size and nature of industry.
-) 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.
-) 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 recorded in the event of export will be accorded as if that sale were an export.
-) If an industry situated within the special economic zone so sells any goods manufactured from the raw materials imported under the customs duty exemption that such goods are consumed in Nepal, such goods will be allowed to be taken out of the special economic zone only after payment of duty chargeable on the raw materials used in such goods.
-) 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 the 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.(Bhattarai & Koirala,2067).

2.7 Review of Books and Related Studies

Several books, dissertations, research papers, reports and articles published in journals and newspapers are reviewed while preparing this thesis. Most of the books are found to be descriptive rather than analytical. Many books, in this field are written to fulfill the course requirements of Tribhuban University. An attempt i.e. made have to review some of books, thesis, research paper, reports and articles which have been written in the field of Customs Duty in Nepal.

2.7.1 Review of Books

A book entitled on “ Nepalko Sarbajanik Bitta Byabasthapanko Kehi Pakshyaharu” written by **Kandel** in 2061 B.S, has about the custom introduction, principles of customs, history of Nepalese customs, present settlement of Nepalese customs, position of customs revenue mobilization, problems of Custom Duty system and reform of customs revenue.

The other books is “Tax law & Tax planning” in 2005 by Kandel. This book has been written per syllabus of MBS level of T.U. He under took the history of tax law in Nepal with detail study of historical background of Custom Duty, in lichhabi period, Rana Regime and present time in the collection procedure of customs duty in different period in different customs points.

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

A book named “ Tax law 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 basic concept of Income taxation of Nepal. In third part, he described VAT in Nepal. In last part, he described Tax planning. This book has presented practical as well as theoretical aspects. This book is useful to students, tax administrators, auditors, as well as to others. This book is useful to research work too.(K.C.2009).

A book “ Taxation in Nepal” in MBS second years. 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 agreement.

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

2.7.2 Review of related Reports

In 2005, democracy, Development and Law Project submitted to FNCCI anticorruption project “ A report on Interaction programme on customs policies” the interaction programmed held on may 2005 at hotel Orchid by the various exports and other related persons presented their views about the customs policies and effect of the other multilateral agreement.

Kandel (2010), had written an article entitled “ Fiscal Federalism in Future Nepal”. This article covers the issue of expenditure assignment, revenue assignment, grant system and borrowing for future federal Nepal. He also written that the tax structure of Nepal is dominated by indirect tax. Around 2/3 of the tax revenue is collected from indirect taxes which are basically of central nature. In Nepal’s tax structure, the portion of non-tax revenue, the revenue collected from delivery of services, is only around one fourth of the total revenue. Income tax collection in comparison to

developed countries is very low indicating that the tax system of Nepal is inequitable depending mostly on indirect tax including VAT and custom duties.

The major collection centre of revenue in Nepal is custom points. About $\frac{1}{4}$ th of the total revenue is given by customs only. Of the VAT which provides about $\frac{1}{3}$ rd of the total revenue, around 65 percent is collected in customs point. It means major part of revenue is collected from customs, i.e., from import. Of the non-custom point collected revenue, the major collection centre is Kathmandu valley where the total revenue collected is around 55 percent.

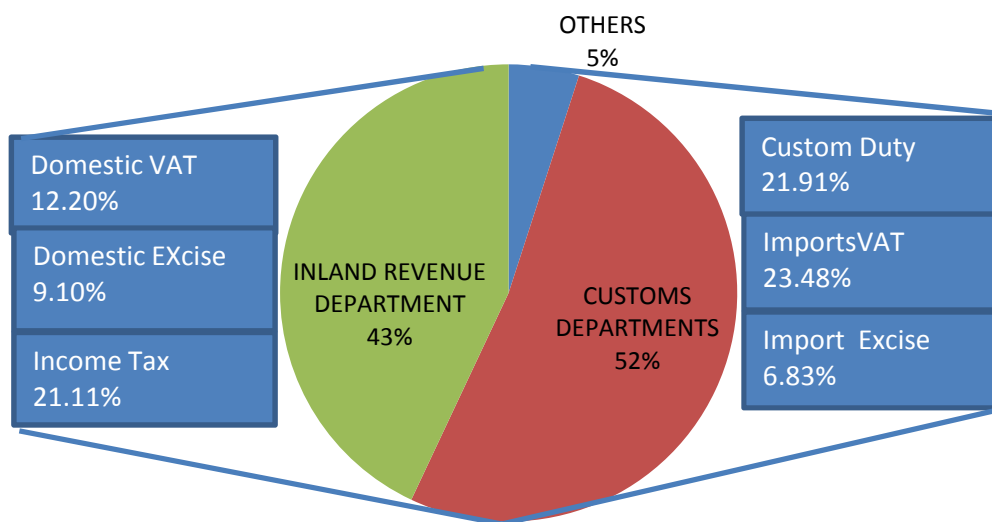
Regmi (2012), had written an article named “Revenue Responsiveness of Nepalese Income Tax System” published in the Nepalese Management Review. The government of every state collects its revenue from tax and nontax sources. However, in most of the states, the government collects relatively more revenue from different taxes as compared to nontax sources. Being the major internal source of public revenue, taxation system remains an important instrument for accomplishing a proper pattern of resource allocation, income redistribution and economic stability. Still, many developing economies are facing constraints in raising tax revenue to the level required for sustaining growth and accelerating prosperity. The tax performance depends on the base available, the rates applied to these bases and the probability of collecting any specific levy. A poor tax performance, in terms of raising revenue, is specially resulted from either deficiencies in tax system or an inadequate effort for collection.

He concluded that the responsiveness of Nepalese income tax system to some extent is satisfactory as compared to that of other taxes. However it is weaker resulting into tapered coverage of national income as represented by gross domestic product(GDP). It means, still there remain wide areas to be reformed in overall income tax system which further improve its revenue responsiveness.

Baskota (2011), “ A Presentation on Customs Reform in Nepal ” presented by Baskota, Secretary Minister of Finance. The Revenue Mobilization and Development Conference program was held on April 17-19,2011 in Washington D.C. In his presentation, he had presented about trend analysis of revenue, Nepalese customs,

Customs reform & modernization, support of development partners and problems in customs reform.

Share of Department In the Tax Revenue



As per the annual target Rs. 216.70 billion of fiscal year 2011(Baskota, presentation)

Fig.2.3 : Share of Department in the Tax Revenue

Tripathi (2010), had written an article “Customs Automation with ASYCUDA WORLD”. In his article he written that, the Automated System for Customs Data(ASYCUDA) is a computerized system designed by the UNCTAD to administer a country’s customs. It is the largest technical cooperation programme of the UNCTAD covering over 80 countries and 4 regional projects.

Currently there are three different generations of ASYCUDA in use: ASYCUDA2.7 and ASYCUDA++ and ASYCUDA world. All of them were built using different paradigms and solutions available at the time of conception. UNCTAD premise was to build a computer system to assist customs authorities all over the world to automate and control their core processes and obtain timely, accurate and valuable information to support government projections and planning. ASYCUDA in Nepal :

-) First Phase – ADB grants US\$ 0.8 million
- Pilot site : TIA Customs Office & Department of Customs,(Up to march 1998)

-) Second Phase – World Bank Loan US\$ 1.97 millions
Roll –out to: Birgunj, Bhairahawa & Biratnagar Customs, Dryport Sirsiya(up to September, 2003)
-) ADB Loan 0.6 million(2007 for 36 months up to July 2009)
Objective: WAN, selectivity, Broker Module implementation and data consolidation.

The departments of custom is preparing to introduce the ASYCUDAWorld 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.

Bhandari (2010), an article related to the topic “ Necessity of Harmonized System and Its Effect in Facilitating International Trade”. His simplified was about Harmonized System. He written that the Harmonized system regarded as the “ common language of international trade” is the World Customs Organization(WCO) international multipurpose product nomenclature used as the basis for customs tariff and the collection of international trade statistics.

The harmonized system was created to ensure uniformity, transparency and predictability in commodity classification. It has been adopted by most countries as the basis of their customs tariff. To guarantee uniformity the system provides strict rules and guidelines for classifying goods. Almost every error in commodity classification is due to a lack of knowledge in the precepts of the harmonized system. The Harmonized system groups product items into 21 sections, 97 chapters, 1221 headings and 5052 sub headings. It comprises a total of some 5052 separate groups of goods identified by a 6 digit code, the first four digits of which correspond to the relevant heading, while the fifth and sixth digits identify the one and two dash subheadings respectively. The Harmonized system is now used as the basis for :

-) Custom tariffs
-) Collection of international trade statistics
-) Rules of origin
-) Collection of international taxes

-) Trade negotiations(e.g. the WTO schedules of tariff concessions)
-) Transport tariffs and statistics
-) To determine trade policy
-) To undertake economic studies and
-) To analyze economic trends.

2.7.3 Review of previous research work

Neupane (2008), Entitled “ A comparative study on contribution of Direct Tax and Indirect Tax to National Revenue of Nepal”. He studied the contribution of direct tax and indirect tax to the national revenue of Nepal comparatively.

The specific objective of the study were:

-) To find the contribution of direct tax and indirect tax to national revenue in Nepal.
-) To analyze the structure of direct and indirect tax.
-) To analyze the contribution of corporate tax to national revenue of Nepal.
-) To find out the most important factors for effectiveness of income tax in Nepal.
-) Provide suggestions for effective collection of direct and indirect tax in Nepal.

His major findings are as follows:

-) The resource gap seems to be increasing every year.
-) The contribution of CITR to government revenue, total tax revenue total direct tax revenue, total direct tax revenue during the study period seems to be increasing.
-) Unclear vision of government to corporate sector, frequent changes of rule and regulations and unstable political economic environment of Nepal have sharply damaged the corporate sector presently income tax revenue is collection in accordance to the income tax act, 2058.

His main recommendation were:

-) Government should make a clear cut distinction between the role of public and private sector. It should be take and endeavor to motive, facilitate and regulate to accelerate the private sectors.
-) There should be efficient and effective monitoring system to utilize government resource properly.
-) Proper tax incentive should be given for revival of sick industrial unit provisions should be made under the income tax Act for carry forward and set off a accumulated losses and unabsorbed depreciation of sick units if it is amalgamated with another company.

Yadav (2010), submitted the thesis on “ A study on contribution of VAT and Income Tax to Total Revenue”.

The major objectives of the study were:

-) To examine the possible effects of VAT 7& Income tax in total revenue of Nepal.
-) To observe the potential revenue of VAT and Income tax.
-) VAT being a self-assessed, involve based and account based tax the role of business community along with the general consumer is more important for it successful operation.

Major findings of the study were:

-) There is major role of indirect revenue in Nepalese tax revenue. It reveals that the tax structure of Nepal is not justifiable on equity ground and progressiveness because indirect tax is considered as regressive in nature.
-) Income tax has been considered as suitable Sources for mobilizing internal resources. It can be used as a positive instrument to boost up government revenue collection, to develop the economic condition of Nepalese people and promote distributive justice and to cure resource gap problem.
-) Major portion of income tax is covered by corporate sector. People in individual normally do not pay tax through they earn very handsome amount

of money because of their negligence and poor administration/ implementation of income tax rules and regulations.

-) It is easy for the individuals to evade tax because they are not found in organized form.

Recommendations were:

-) Effective information system should be established so that nobody can avoid or minimize tax liability by telling that he was not know the Acts, rules and laws.
-) To increase tax paying habit of Nepalese people provision of all taxes should be made effective but it is not only the method but respect to tax payers, right behaviors towards taxpayers from tax administration.
-) The language used in tax laws and policy should be simple and clear. In spite of using the vague meaningful words clear cut provision should be made.

Khanal (2010), Submitted a thesis entitled “ A study on interest, fees, fines and penalties under Income tax Act 2058”

Major objectives of the study were :

-) To study and analyze the tax structure of Nepal
-) To examine the share of income tax to the government revenue.
-) To analyze the provision of fine and penalties under income tax act.
-) To know and assess the tax payer’s knowledge and view of tax officers about fine and penalties.
-) To provide suggestions about fine and penalties regarding income tax system on the basis of study finding.

Major findings of the study were :

-) Majority of the respondent(55%) says that fine and penalty system of Nepal is not effective.
-) Most of the tax administration have the knowledge of the fine and penalties but taxpayers have not sufficient knowledge of fine and penalties.

-) Tax paying habit of Nepalese people is poor. Since, 77.5% respondents of the study approved about it.
-) A provision made under the Nepalese Income Tax Act is not sufficient in all aspects. Improvements are needed in language, competent staff, tax law, tax administration, computerized system for payment of tax etc.

Major Recommendations were:

-) Income tax policy should be made such that goals of imposing tax can be achieved.
-) Income tax act, rule and regulations should be made cleared and simple for all tax payers as well as related persons. It should be more effective.
-) Most of the taxpayers have the knowledge of fine and penalties but taxpayers have no sufficient knowledge about this. To fulfill these gaps different media as well meeting should provide information system and seminar should be held.

Lamichhane (2010), submitted a thesis entitled “ A comparative study on contribution of direct and indirect tax to national revenue of Nepal”

Specific objective of the study were:

-) To analyze the contribution of direct tax and indirect tax to national revenue of Nepal.
-) To analyze the structure of direct and indirect taxes.
-) To analyze the contribution of corporate tax to national revenue of Nepal.
-) To identify the most important factors influential on the effectiveness of income tax in Nepal .
-) To provide suggestions for effective collection of direct and indirect taxes in Nepal.

Major findings of the study were :

-) The major objective of the income tax in Nepal is to enhance the revenue of the government to achieve the goals of national development and equal

economic distribution and narrow the gap between rich and poor. Income tax system of Nepal is not sound and sufficient basically due to inefficient tax evasion and lack of awareness of tax payers.

-) Main reason for tax evasion is due to defective tax administration, unwillingness of tax payers to tax and corruption in tax authority.
-) Provision of fines and penalties of Nepal are reasonable for which 70.67% of respondents have supported and remaining 29.33% were in against.
-) Lack of trend and competent tax personnel, complicated tax laws and under delay in making assessment are the most important cause of ineffectiveness of Nepalese tax administration.

Major recommendations of the study were:

-) Generally 15% to 18% total tax GDP ratio is regards as moderate standard but Nepalese total tax/GDP ratio is contributing 9.2% in an average. To increase the total tax revenue, bringing the private educational institute, public transportation etc. into tax but not should increase in direct tax revenue.
-) A nationwide campaign should be launched to inform and explain tax rules and regulations, tax programs and benefits of paying tax with a view of stimulating public to pay taxes through the media of Radio, Television, Newspapers and social programs in the educational institutions and public places.
-) Nepalese tax revenue is heavily dominated by indirect tax revenue. Only one forth of tax revenue has been contributed by direct tax revenue. It is necessary to increase the share of direct tax revenue so as to direct the economy in the channel to development. Resource mobilization through direct taxation should be focused.
-) Account based taxation and self assessment should be encouraged to make it revenue productive and self tax assessment system should be encouraged to make it revenue productive and tax payer friendly.

Singh (2010), entitled “ A study on contribution of Custom Duty to tax revenue of Nepal”.

Major objective of the study were :

-) To analyze the structure of Custom Duty.
-) To analyze the contribution of customs duty to tax revenue of Nepal.
-) To evaluate the administration aspect of Custom Duty in Nepal.
-) To provide appropriate suggestions and recommendations for efficient of custom tariff in Nepal.

Major findings of the study were:

-) Total Tax Revenue is composition of Custom Duty, Excise Duty, VAT, House & Land registration and Income Tax where Customs Duty contributes more than others in Total Tax Revenue of Nepal.
-) Total revenue of Nepal is composition of Total tax Revenue & Non-tax Revenue. Due to the Custom Duty total tax revenue contributes more than Non-tax revenue in Total Revenue of Nepal. Total Tax revenue is found to be about 3 times higher than non-tax revenue during the study period.
-) Customs duty is composition of Import, Export, Indian Excise refund & other. Customs duty increases simultaneously with increase in import.
-) Many people are hopeless that multilateral trade agreement will increase customs revenue. Among 47 only 6 respondents are positively agreed by the multilateral trade agreement.

Recommendations of the study were :

-) Customs Act, Rules and Regulations should be clear and simple for all the trader and businessman as well as for custom officers and customs inspectors. It should be more effective.
-) The government should activate customs patrolling and also improvement in valuation system.
-) Transparency in customs duty payment should be most necessary. Government should provide regular information about customs rules and tariff rate.
-) The ASYCUDA management should be empowered for proper valuation.

Adhikari (2011), has conducted a research “ A study on Corporation Income Tax in Nepal”.

The objectives of the study were:

-) To study and evaluate the status of income tax as major source of revenue,
-) To examine the Nepalese income tax structure.
-) To review and analyze the trend of income tax collection and tax revenue.
-) 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.

Major findings of the study were:

-) The share of tax revenue has always been greater than the share of non-tax revenue.
-) 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.
-) It's structure of Nepal is the composition of tax from government sector, public sector, private corporate bodies and remuneration tax.

His major recommendations of the study were:

-) 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 tax payers.
-) 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.

Gyawali (2012), submitted a thesis on “ Role of customs duty on indirect tax revenue generation in Nepal”

The major objectives of the study were :

-) To analyze the growth potentiality of import duty and export duty.
-) To find out the trend of collection of customs duty in Nepal.
-) To explain the contribution of customs duty on government revenue.
-) To examine the role of customs duty in collection of total tax revenue.

The major findings of the study were:

-) There is not any certain trend (neither increasing nor decreasing) of customs duty in Nepal.
-) Import duty of government is growing but export duty is in decreasing trend in the recent year.
-) 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.
-) Tax empirical survey shows that 27.78%, Custom Duty experts, 38.89% tax administrator and 41.67% Custom Duty payers seemed to be unsatisfied Custom Duty registration process. While 33.33% customs duty experts, 33.33% tax administrator and 20.33% Custom Duty payers showed the Custom Duty collection process.

Recommendations of the study were :

-) A collection strategy needs to be developed and implemented effectively in order to collect the increasing amount of arrear. To improve billing condition on the market needs regular supervision, audits and investigation.
-) While the design of the returned 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.
-) To make Custom Duty effective and transparent and to increase its contribution, unnoticed inspection on the road of goods being transported from time to time would discourage incorrect business transactions should be banned to promote the real business.
-) The proper co-ordinations among various government departments involved in revenue collection must be maintained.

2.8 Research Gap

There is gap between this research and the previous researcher most of the previous researcher have focused the contribution of various income in the government revenue, structure of the government revenue, contribution of direct tax and indirect tax to government revenue Almost all of them have indicated that the tax administration and custom administration of Nepal is inefficient and there is high level of tax evasion. Most of the researcher have suggested improving tax as well custom administration increasing the contribution of income tax in resource mobilization and winding the tax coverage. But they had not studied about the Customs' contribution in total revenue, total tax revenue and indirect tax revenue. This study focus future trend and growth potentiality of custom with various product.

CHAPTER – III

RESEARCH METHODOLOGY

It is the systems and procedures adopted to successfully accomplish the dissertation objective envisaged. The understand research methodology is used to analyze the custom duty in Nepal. This research methodology supports to explore the facts as well support to achieve the objective of dissertation. This study focuses the multiple aspects and sides of custom duty in Nepal. It constitutes research design, population and sampling, nature and source of data and procedure of data collection and analysis.

3.1 Research Design

Most of the data and information of the study were concerned with past phenomena of the performance either they were numerical or opinions. So, it can be regarded as Historical research design too. After the collection of past data and experiences, this study has analyzed and described its procedure. It has, thus, descriptive and analytical research design.

3.2 Population and Sampling

The targeted whole area relating to government revenue or national revenue is set for the research population. Custom duty is taken as total population. The population for primary belonging to custom duty of Nepal. 50 sample size has selected from three different groups of respondents. The following table shows the group of respondents and sample size.

Table 3.1 Group of Respondents and sample size

S.N.	Group of respondents	Sample size	Code
1.	Tax Administrators	15	TA
2.	Tax Exports	15	TE
3.	Custom Duty Payer	20	CDP
Total		50	

3.3 Nature and Sources of Data

To fulfill the objective of this study, primary as well as secondary data had been used. Data was based upon following sources:

3.3.1 Sources of Primary Data

The primary sources of data were the opinion survey through questionnaire and information received from the concerned offices of Custom Department. The primary sources are:

- a. Discussion with concerned officer
- b. Personal approach and interviews
- c. Questionnaire (field visit and information received from the respondents)

3.3.2 Sources of Secondary Data

The secondary data for this research has been collected from the different sources:

- a. Economic Surveys and Budget Speeches of Minister of Finance.
- b. Publications and annual reports of Department of custom, Ministry of Finance.
- c. Textbook of related subject.
- d. Published documents of National Planning Commission.
- e. Various books written by tax officers and scholars.
- f. Thesis and dissertation reports related to custom duty.
- g. Books related to revenues and public finance.
- h. Research and thesis reports submitted by different researchers.
- i. Journal and articles
- j. Web browsers, etc.

3.4 Procedure of Data Collection

The information and data required for the study were collected by visiting Customs Department Office, interaction with concerned and responsible persons, visiting Central library counseling with research advisers and others, and so information were

also collected from the published and unpublished articles, reports, thesis, magazines, books, etc.

3.5 Procedure of Data Processing and Analysis

Collected data from primary as well as secondary sources were firstly tabulated into separated format systematically. The data were tabulated into various tables according to the subject in order. The simple statistical analysis such as average and percentages, were calculated where necessary and they have been presented and analyzed in descriptive way. Graphs and charts have been presented to interpret visually the findings of the study. The major findings have been collected from various sectors that pay the highest amount of tax. The conclusion of analysis of data is to recommend for the improvement of present custom policy and utilization of custom duty in increasing Gross Domestic Product (GDP).

CHAPTER – IV

PRESENTATION AND ANALYSIS OF DATA

This chapter is devoted to the presentation and analysis of collected data. Presentation and analysis of data is the major aspect of the research work. This chapter is designed for presentation and analysis of the data available during the study period. To achieve the designed objectives of the study this chapter deals with the presentation and analysis of data collected from primary as well as secondary sources. Primary data collection has been conducted by the means of scheduled of questionnaires and economic survey, data obtained from customs departments has been the main sources of the secondary 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 has been analyzed. The response found from the respondents has been tabulated first and analyzed according to objectives.

4.1 Presentation and Analysis of Secondary Data

4.1.1 Structure of Revenue

Every state needs huge amount of money resources whether to pay salary to government employee or to do the development works. In any country, capital plays a vital role in the developing procedure. For the economic development of the nation, bulk capital is needed to conduct any developments programs. The capital is raised from external and internal resources. The external resources are foreign Aid and loan. Internal resources are tax and non-tax revenue. The government receives tax revenue as a compulsory payment while, non-tax revenue is a conditional sources.

Tax revenue includes various direct taxes as well as indirect taxes. A direct tax includes Income tax, property tax, land revenue and others. An indirect tax is the composition of customs, excise, sales tax/ VAT and others. Non-tax revenue of the government includes from various sources. Fees, penalty, fines and forfeiture, receipts from rent, government property and services, dividend, interest, royalty, and sale of

government property, principal payment, donation and miscellaneous incomes are the sources of the non-tax revenue.

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 taxpayer. Theoretically, it is a tax that falls firstly and directly on the taxpayer but the other person must bear it due to the shifting 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.

Table 4.1

Structure of Revenue

(Rs. In millions)

Fiscal year	Tax revenue		Non- tax revenue		Total revenue	
	Amount	% of Total revenue	Amount	% of Total revenue	Amount	Increment percent
2001/02	39330.65	77.97	11114.90	22.03	50445.55	–
2002/03	42586.91	75.74	13642.70	24.26	56229.61	11.47
2003/04	48172.70	77.29	14158.00	22.71	62330.70	10.85
2004/05	54104.70	77.16	16018.00	22.84	70122.70	12.50
2005/06	57430.40	79.45	14851.70	20.55	72282.10	3.08
2006/07	71126.70	81.09	16585.50	18.91	87712.20	21.34
2007/08	85155.54	79.12	22467.00	20.88	107622.54	22.70
2008/09	117052.90	81.58	26422.60	18.42	143475.50	33.31
2009/10	156294.90	86.86	23650.90	13.14	179945.80	25.42
2010/11	172777.60	86.47	27041.10	13.53	199818.70	11.04

Source: Economic Survey 2011/12, MOF

Figure 4.1 Structure of Revenue

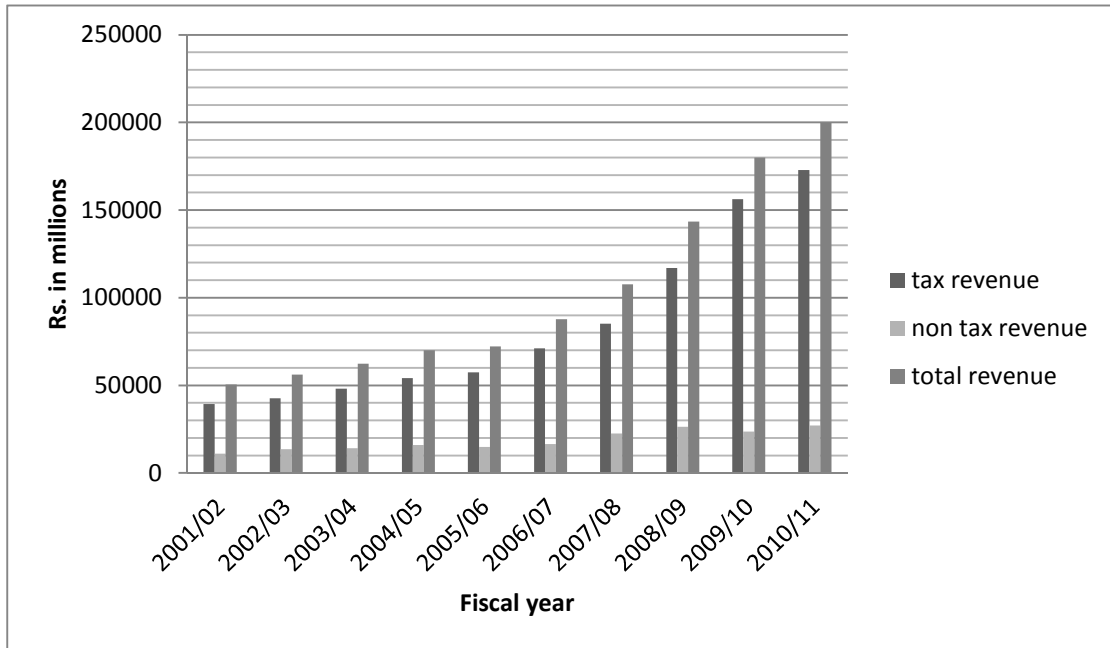


Table 4.1 shows the composition of Nepal's total revenue, which constituted tax, non-tax revenue from fiscal year 2001/02 to 2010/11. The share of tax revenue has always been greater than the non-tax revenue. From the year 2001/02 to 2010/11, the amount of tax revenue found increasing every year with the amount of Rs.39330.65 million to Rs.172777.60 million.

Above table and figure 4.1 shows that the share of tax revenue and non tax revenue on total revenue of government of Nepal is 77.97 % and 22.03% respectively to the total revenue in fiscal year 2001/02. 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 has a not been changed even in fiscal year 2010/11. In F/Y 2010/11, the share of tax revenue is 86.47% and non tax revenue is 13.53%.

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 2008/09 but growth of non-tax revenue is in fluctuating trend.

4.1.2 Composition of Tax revenue

The structure of Nepali tax revenue is presented in table 4.2 in terms of direct tax revenue and indirect tax revenue from fiscal year 2001/02 to 2010/11. The composition of direct tax and indirect tax is shown in the following table and figure.

Table 4.2

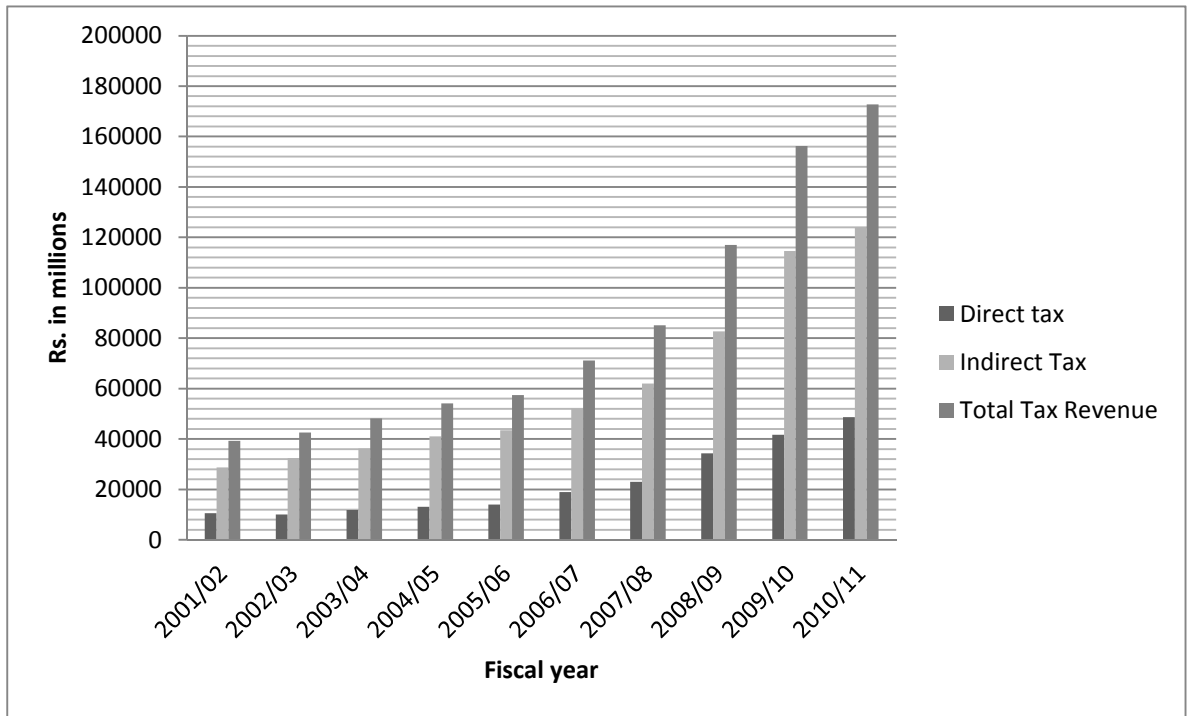
Composition of Tax revenue (Rs. In millions)

Fiscal year	Direct Tax		Indirect tax		Total Tax Revenue
	Amount	% to Total revenue	Amount	% to Total revenue	
2001/02	10597.50	26.94	28733.15	73.06	39330.65
2002/03	10101.70	23.72	32485.21	76.28	42586.91
2003/04	11912.60	24.73	36260.1	75.27	48172.70
2004/05	13071.80	24.16	41032.9	75.84	54104.70
2005/06	13968.10	24.32	43462.3	75.68	57430.40
2006/07	18980.29	26.69	52146.41	73.31	71126.70
2007/08	23087.76	27.11	62067.78	72.89	85155.54
2008/09	34320.74	29.32	82732.16	70.68	117052.90
2009/10	41750.00	26.71	114544.90	73.29	156294.90
2010/11	48655.00	28.16	124122.60	71.84	172777.60

Source: Economic Survey 2011/12, MOF

Figure: 4.2

Composition of Tax Revenue



From the above table and figure 4.2, it is clear that whole Nepal's tax structure is dominated by indirect tax revenue. The volume of direct and indirect tax was Rs. 10597.50 million and Rs.28733.15 million that is 26.94% and 73.06% of total tax revenue respectively in the fiscal year 2001/02. The amount of direct tax revenue was increasing every year as it increase from Rs.10597.50 million in 2001/02 and Rs.48655 million in 2010/11. But the percentage of direct tax revenue to total tax revenue was fluctuating every year. From the FY2001/02 the contribution of direct tax revenue was in increasing trend.

The amount of indirect tax revenue was also increasing trend. It increased from Rs.28733.15million in 2001/02 to Rs. 124122.60million in 2010/11. The percentage contribution of indirect tax revenue to total tax revenue was fluctuating every year from 2001/02 to 2010/11. The contribution of indirect tax revenue to total tax revenue was minimum 70.68% in 2008/09 and maximum 76.28% in 2002/03. Total tax revenue of Nepal heavily relies on indirect tax.

4.1.3 Composition of Tax / GDP ratio in Nepal

Nepal is one of the lowest taxed economies in the world. The moderate tax/GDP ratio ranged from 15 to 18 percent in other developing countries like Nepal (world bank 1991) but in Nepal, it is obvious from the fact that tax GDP ratio never exceed to 10 percent and it was even clustered around nine percent throughout the year 2001/02 to 2005/06. Table 4.3 reveals rather disappointing scenario of tax/GDP ratio for the reference period of 2001/02 to 2005/06.

If the share of tax revenue on GDP is considered, it is not satisfactory level. From 2006/07 tax/GDP ratio is in increasing trend. The percentage of tax revenue to GDP is fluctuating year by year during the study period. The tax ratio to GDP in Nepal was maximum 14.43 percent in year 2009/10 and minimum 9.14 percent in year 2001/02.

Table 4.3

Composition of Tax / GDP ratio in Nepal

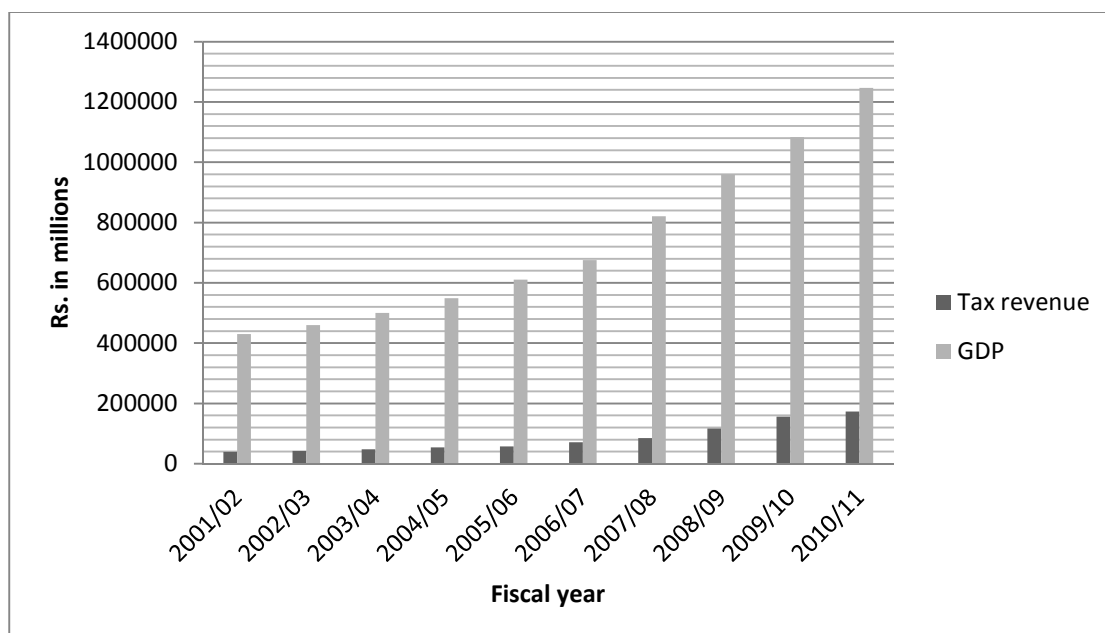
(Rs. In millions)

Fiscal year	Tax Revenue	GDP	Percentage
2001/02	39330.65	430397.00	9.14
2002/03	42586.91	460325.00	9.25
2003/04	48172.70	500699.00	9.62
2004/05	54104.70	548485.00	9.86
2005/06	57430.40	611089.00	9.40
2006/07	71126.70	675484.00	10.53
2007/08	85155.54	820814.00	10.37
2008/09	117052.90	960012.00	12.19
2009/10	156294.90	1083415.00	14.43
2010/11	172777.60	1246423.00	13.86

Source: Economic Survey 2011/12, MOF, note: GDP at current price

Figure 4.3

Composition of Tax / GDP ratio in Nepal



4.1.4. Composition of Custom Duty/GDP ratio of Nepal

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). A custom duty is a tariff or tax on the import as well as export of goods. It is a boarder tax. Nepalese Customs administration collects customs duty at border points.

Table 4.4

Composition of Custom Duty/ GDP ratio of Nepal (Rs. In millions)

Fiscal year	Custom Duty	GDP	Percentage
2001/02	12658.75	430397.00	2.94
2002/03	14236.43	460325.00	3.09
2003/04	15554.80	500699.00	3.11
2004/05	15701.60	548485.00	2.86
2005/06	15344.00	611089.00	2.51

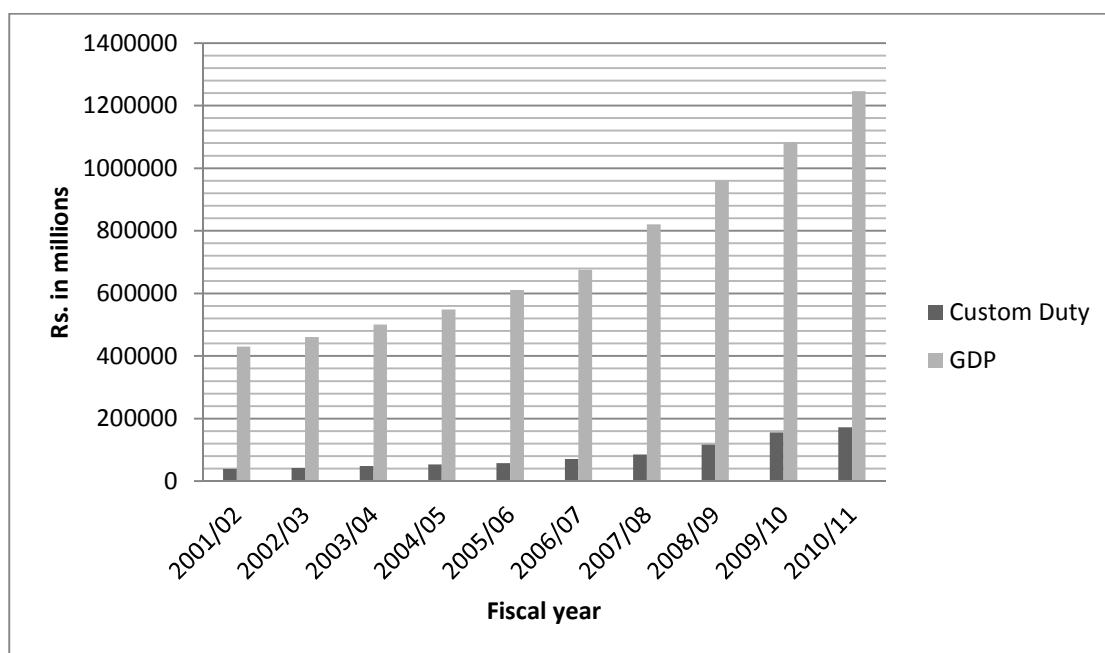
2006/07	16707.60	675484.00	2.47
2007/08	21062.50	820814.00	2.57
2008/09	26792.90	960012.00	2.79
2009/10	35150.80	1083415.00	3.24
2010/11	35711.60	1246423.00	2.87

Source: Economic Survey 2011/12, MOF, note: GDP at current price

Customs Duty plays a vital role in contribution to GDP of Nepal. Table 4.4 shows contribution of Customs Duty to GDP in both percentage and amount figure from fiscal year 2001/02 to 2010/11. From the table 4.4 reveals disappointing scenario of customs/GDP ratio for the reference period of 2001/02 to 2010/11.

Figure 4.4

Composition of Custom Duty/ GDP ratio of Nepal



If the share of customs revenue on GDP is considered, it is not found satisfactory. During the study period GDP ratio found fluctuating high to low. The customs ratio to GDP in Nepalese economy was minimum 2.47 in 2006/07 and maximum 3.11 in FY 2003/04. In fiscal year 2001/02 Customs duty to GDP ratio was 2.94% and 2.87% in fiscal year 2010/11.

4.1.5. Composition of Custom Duty/Indirect Tax ratio of Nepal

As indirect tax is a form of tax imposed on one person but partly or wholly paid by another. In other words, the person paying and bearing the tax is different. It is the tax on consumption or expenditures. Examples include VAT, Excise Duty, Import and Export duty, etc.

Table 4.5

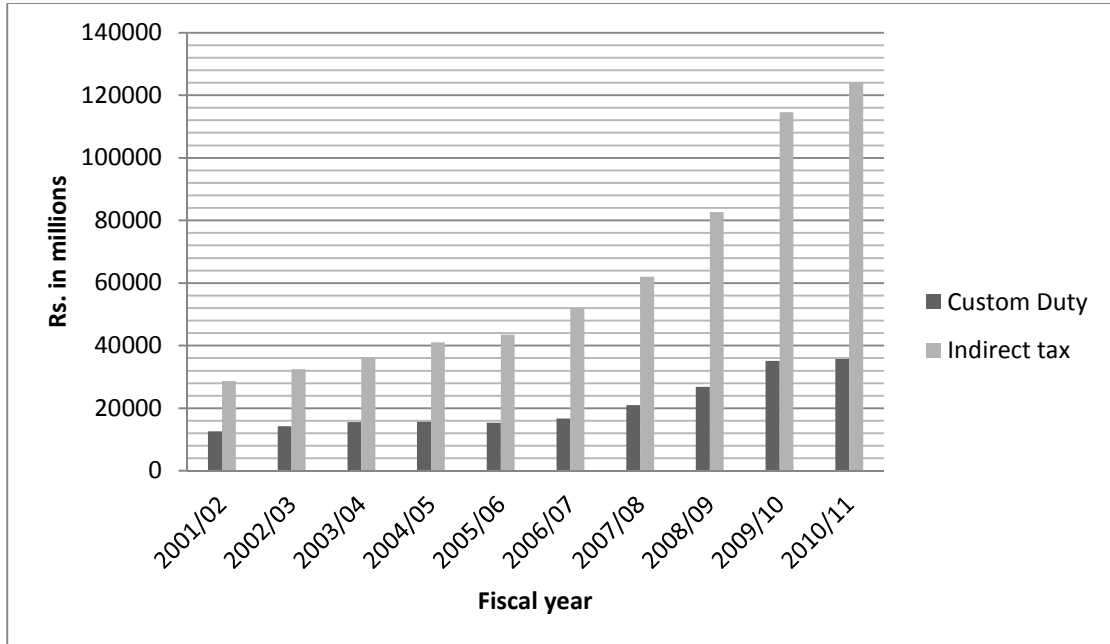
Contribution of Customs Duty in Indirect Tax (Rs. In millions)

Fiscal year	Custom Duty	Indirect tax	Percentage
2001/02	12658.75	28733.15	44.06
2002/03	14236.43	32485.21	43.82
2003/04	15554.80	36260.10	42.90
2004/05	15701.60	41032.90	38.27
2005/06	15344.00	43462.30	35.30
2006/07	16707.60	52146.41	32.04
2007/08	21062.50	62067.78	33.93
2008/09	26792.90	82732.16	32.39
2009/10	35150.80	114544.90	30.68
2010/11	35711.60	124122.60	28.77

Source: Economic Survey 2011/12, MOF

Figure 4.5

Composition of Custom Duty/ Indirect tax ratio of Nepal



In table 4.5 above shows that the contribution of customs duty in indirect tax is very few that is in previous ten years. On the initial period out of total indirect tax of Rs.28733.15 million the customs duty is Rs. 12658.75 million on FY 2001/02. In the year 2010/11 it is only Rs. 35711.60 million out of the total indirect tax of Rs.124122.60 million i.e. 28.77 % of indirect tax which is less than other years. But contribution of customs duty on indirect tax is fluctuating in the different years.

In the above figure 4.5 shows the portion of customs duty on indirect tax. The indirect tax of government of Nepal is growing from 2001/02 to 2010/11 so the custom duty is increasing in the late years than in the initial periods.

4.1.6. Composition of Custom Duty /Total Tax Revenue

Nepalese Customs Administration collects Customs duty, Value Added Tax, Excise and other taxes at the border points. It accounts 42% of the total revenue and 50% of the total tax revenue. Customs duty alone contributes 22 % of the total tax revenue. 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.

Table 4.6

Composition of Custom Duty/ Total Tax Revenue (Rs. In millions)

Fiscal year	Custom Duty	Total Tax Revenue	Percentage
2001/02	12658.75	39330.65	32.19
2002/03	14236.43	42586.91	33.43
2003/04	15554.80	48172.70	32.29
2004/05	15701.60	54104.70	29.02
2005/06	15344.00	57430.40	26.72
2006/07	16707.60	71126.70	23.49
2007/08	21062.50	85155.54	24.73
2008/09	26792.90	117052.90	22.89
2009/10	35150.80	156294.90	22.49
2010/11	35711.60	172777.60	20.67

Source: Economic Survey 2011/12, MOF

Table 4.6 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 decreasing in total percentage of tax revenue. The high contribution of custom was 33.43% in FY 2002/03. The contribution of customs duty as compared to total revenue is below percent.

Figure 4.6

Composition of Custom Duty/ Total tax revenue of Nepal

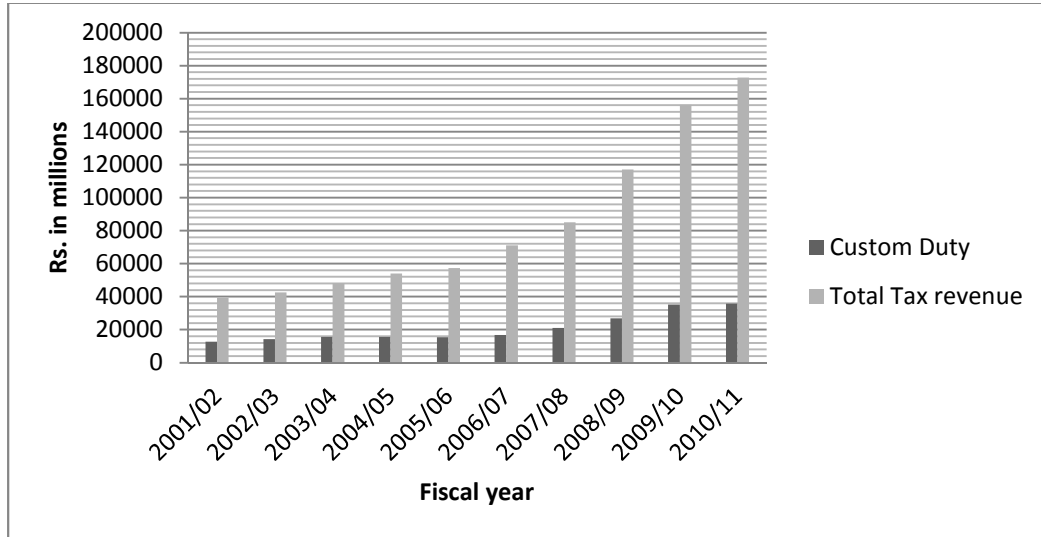


Figure 4.6 shows the total tax revenue and customs duty from FY2001/02 to FY 2010/11. The contribution of the tax revenue is increasing but the contribution of Custom Duty is very low as compare to tax revenue. The contribution of customs duty in FY2001/02 is 32.19% of tax revenue and 20.67% contribution of custom duty in FY 2010/11. It shows that the contribution of customs duty is decreasing and it has insignificant in tax revenue.

4.1.7. Composition of Custom Duty /Total Revenue of Nepal

A custom duty is a tariff or tax on the import as well as export of goods. It is a boarder 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. Total revenue is the sum total of all revenues received during the year. Total revenue includes the tax revenue as well as non tax revenue. The total revenue and customs duty has been presented in the following figure.

Table 4.7**Composition of Custom Duty/ Total Revenue** (Rs. In millions)

Fiscal year	Custom Duty	Total Revenue	Percentage
2001/02	12658.75	50445.55	25.09
2002/03	14236.43	56229.61	25.32
2003/04	15554.80	62330.70	24.96
2004/05	15701.60	70122.70	22.39
2005/06	15344.00	72282.10	21.23
2006/07	16707.60	87712.20	19.05
2007/08	21062.50	107622.54	19.57
2008/09	26792.90	143475.50	18.67
2009/10	35150.80	179945.80	19.53
2010/11	35711.60	199818.70	17.87

Source: Economic Survey 2011/12, MOF

Table 4.7 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 the percent. The high contribution of customs duty was Rs.35711.60 million in FY 2010/11. The contribution of customs duty as compared to total revenue is few. The contribution of custom duty in the year 2001/02 was 25.09%, which has been decreased to 17.87% in the year 2010/11 which is in decreasing trend.

Figure 4.7

Composition of Custom Duty/ Total revenue of Nepal

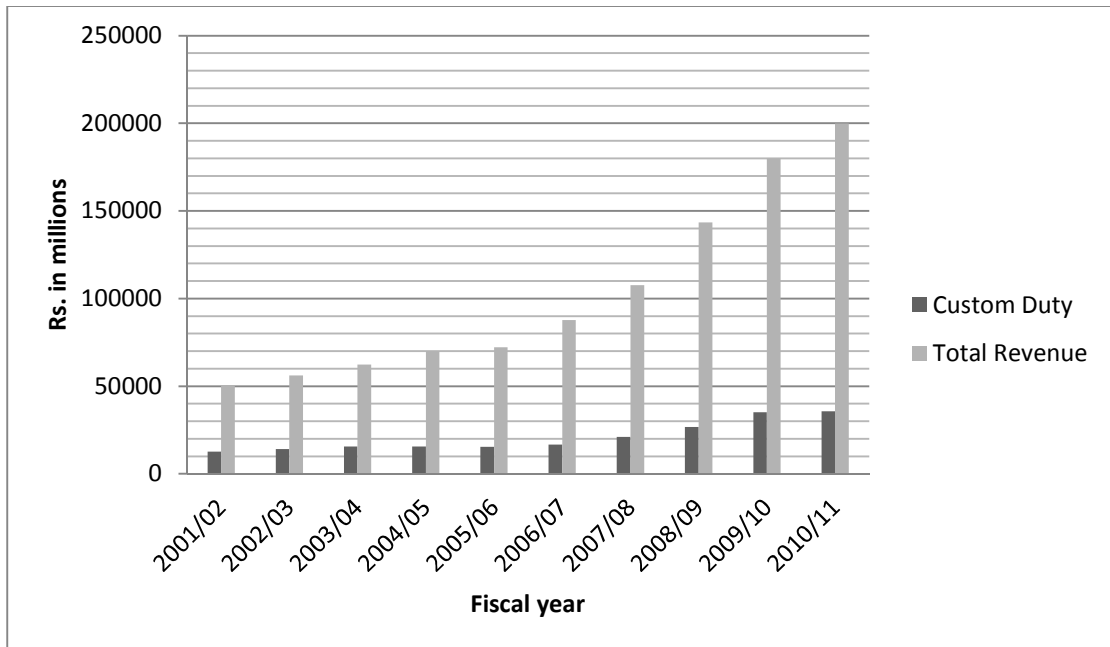


Figure 4.7 shows that the total revenue and customs duty from FY2001/02 to FY 2010/11. The total revenue is increasing but the contribution of customs duty is low as compare to total revenue. The contribution of customs duty in FY 2001/02 is certain percent of total revenue, the contribution of customs duty has been decreased in FY2010/11 with compare to FY 2001/02. It shows that the contribution of customs duty is decreasing and it has insignificance in tax revenue.

4.1.8. Structure of Custom Duty in Nepal

Structure of customs duty is the composition of imports duty; export duty; Indian excise refund and others. Table 4.8 shows the composition of custom duty. Table 4.8 defines that custom duty is composition of import duty, export duty, Indian excise refund and others.

$$\text{Custom Duty} = \text{Import Duty} + \text{Export Duty}$$

OR

$$\text{International trade} = \text{imports} + \text{exports} + \text{Indian excise refund} + \text{others}$$

Table 4.8**Structure of Custom Duty in Nepal** (Rs. In millions)

Fiscal year	Import	Export	Indian excise refund	Other	Total Custom Duty
2001/02	9678.36	917.38	1700.90	362.11	12658.75
2002/03	10567.68	855.65	2370.61	442.50	14236.44
2003/04	10666.90	527.10	3882.70	478.10	15554.80
2004/05	12299.10	697.90	2188.30	516.30	15701.60
2005/06	11744.60	625.60	2314.40	659.40	15344.00
2006/07	13626.10	708.70	1896.50	476.30	16707.60
2007/08	17128.17	445.60	2997.10	491.62	21062.49
2008/09	22056.60	796.40	3211.10	728.80	26792.90
2009/10	29955.20	915.40	3521.00	759.20	35150.80
2010/11	31480.30	357.70	2831.80	1041.80	35711.60

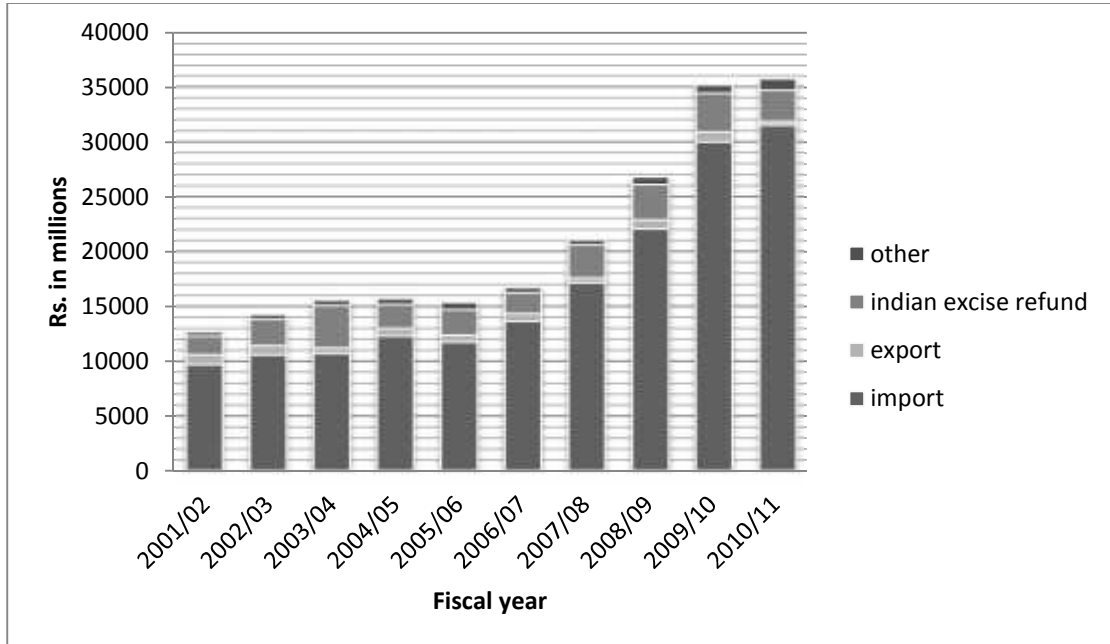
Source: Economic Survey 2011/12, MOF

Above table 4.8 presents that minimum import duty is Rs.9678.36 million in FY 2001/02 and maximum Rs.31480.30 million in FY 2010/11. The customs duty from export was also fluctuating up and down during the study period from 2001/02 to 2010/11. The contribution was maximum in the year 2001/02, it was Rs.917.38 millions and minimum revenue collection is Rs.357.70 million in FY2010/11 which is very low. Export duty had gradually increasing and decreasing position.

Table 4.8 makes us clear that import is very higher than export of Nepal. Where customs duty is highly depended on import from Nepal. This shows the revenue from imports position of Nepal is maximum than exports. Contribution of customs duty from Indian excise refund is one of the most important compositions of the revenue collection. But now the Indian excise has been removed since 2012 march. Contribution of customs duty from others is in increasing position. The maximum revenue collection from other duty was Rs.1041.80 million in FY 2010/11 and minimum was Rs.362.11 in FY2001/02.

Figure 4.8

Structure of Custom Duty in Nepal



All the sources of custom duty are in fluctuating position. Amount of sources are in satisfactory but looking towards the percentage it found dissatisfactory. Besides that Custom Duty is one of the important contributors in Nepalese tax revenue.

4.1.9 Revenue collection and growth rate of Customs Duty

From the below table 4.9 we can see the revenue collection from customs in the study period 2001/02 to 2010/11.

Table 4.9

Revenue collection and growth rate of Customs Duty (Rs. In millions)

Fiscal year	Customs Duty	Growth Rate
2001/02	12658.75	-
2002/03	14236.44	12.46
2003/04	15554.80	9.26
2004/05	15701.60	0.94

2005/06	15344.00	-2.28
2006/07	16707.60	8.89
2007/08	21062.49	26.07
2008/09	26792.90	27.17
2009/10	35150.80	31.19
2010/11	35711.60	1.60

Source: Economic Survey 2011/12, MOF

Figure 4.9

Revenue collection and growth rate of Customs Duty

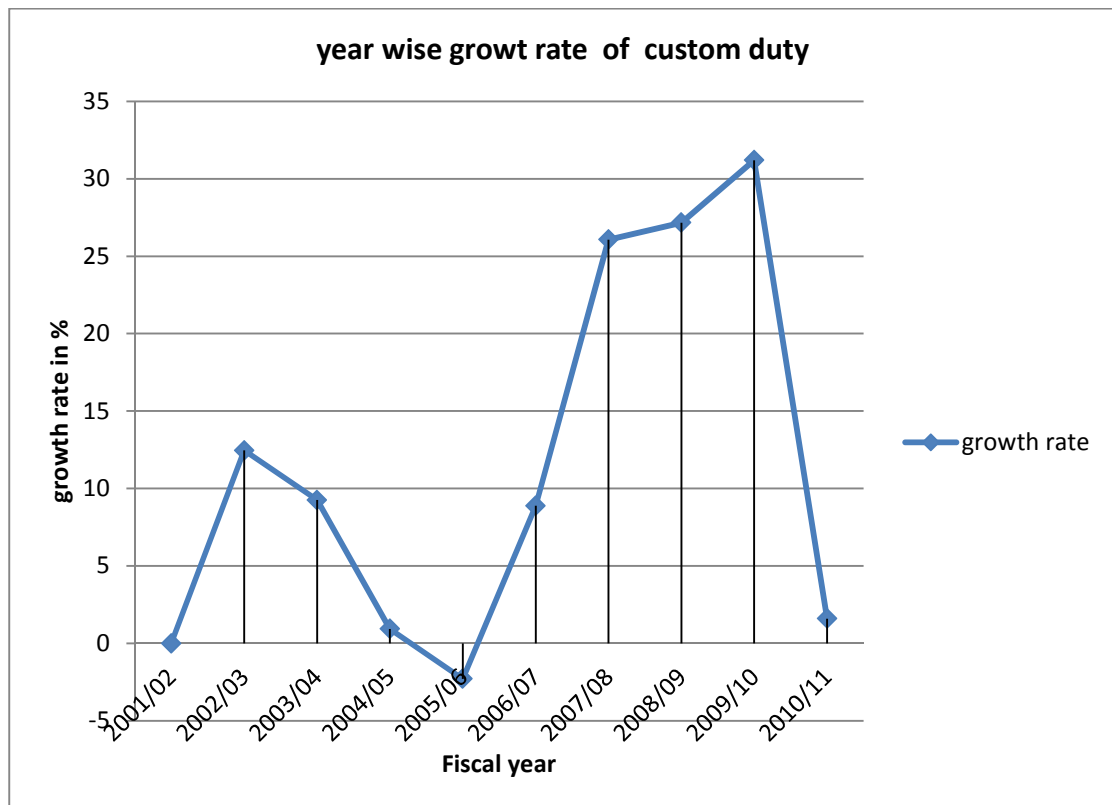


Figure 4.9 shows that the year wise growth rate of custom duty from 2001/02 to 2010/11. The growth rate is not found in satisfactory level. During the study period growth rate is very fluctuating. In FY 2005/06 the growth rate of custom is in negative with -2.28%.

4.2 Presentation and Analysis of Primary Data

4.2.1 Important factor to be considered to increase Customs Duty in Nepal

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

Table 4.10

Views on important factor for the effectiveness of Customs Duty in revenue collection

S.N.	Alternatives	Respondents			Total	%	Rank
		TE	TA	CDP			
1	Proper implementation of Customs law	2	2	3	7	14	5
2	Broad coverage of Customs Duty	4	4	4	12	24	2
3	Tax education	3	4	5	12	24	1
4	Effective and efficient administration	3	3	3	9	18	4
5	Clear Custom Duty law and regulation	3	2	5	10	10	3
Total		15	15	20	50	100	

Source: Field survey 2012

By observing the above table 4.10, according to the respondent's point of view the main important factor for the effectiveness of Customs Duty in revenue collection are ranked as follows:

-) Tax education
-) Broad coverage of Customs Duty
-) Clear Custom Duty law and regulation
-) Effective and efficient administration
-) Proper implementation of Customs law

Other causes stated by the respondents are as follows:

-) Invoice system
-) Computer networking system
-) Public administration

From the above table 4.10, and other discussion with respondents, it can be concluded that the main factor for the effectiveness of Customs Duty in revenue collection are tax education, broad coverage of Custom Duty effective and efficient administration, proper implementation, clear Customs Duty law and regulation.

4.2.2 Views on most responsible factor to make collection of Customs Duty ineffective in Nepal

Customs Duty system of Nepal has been blamed that it is not efficient. To know the opinion of the respondents about the cause of most responsible factor to make Customs Duty ineffective in Nepal, a question is asked. " which one is the more responsible factor to make collection of Customs Duty ineffective in Nepal?".The respondents were requested to rank the given cause from 1 to 5. For ranking purpose, opinions of the respondents are presented as follows:

Table 4.11

Most responsible factor to make collection of Customs Duty ineffective

S.N.	Most Ineffective factor	Respondents			Total	%	Rank
		TE	TA	CDP			
1	Lack of consumer awareness	3	2	3	8	16	4
2	Weakness of government action plan	4	4	6	14	28	1
3	Administrative inefficiency	3	4	6	13	26	2
4	Open border problem	3	3	3	9	18	3
5	Lack of Clear Custom Duty law and regulation	2	2	2	6	12	5
Total		15	15	20	50	100	

Source: Field survey 2012

By observing the above table 4.11, according to the respondent's point of view the main causes for the creation of ineffective factor are ranked as follows:

-) Weakness of government action plan
-) Administrative inefficiency
-) Open border problem
-) Lack of consumer awareness
-) Lack of Clear Custom Duty law and regulation

Other causes stated by the respondents are as follows:

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

) Lack of billing system.

From the above table 4.11, it can be concluded that the main cause of the creation of ineffective factor of Customs Duty are weakness of government action plan, lack of consumer awareness, open border problem, administrative inefficiency and lack of billing system.

4.2.3 Views on major problem faced by tax payers after Customs Duty regime

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

Table 4.12

Views on major problem faced after Customs Duty regime

S.N.	Most Ineffective factor	Respondents			Total	%	Rank
		TE	TA	CDP			
1	Increase compliance cost	2	2	3	7	14	5
2	Decrease in business competitive power	3	3	3	9	18	4
3	Encourage unauthorized trade	3	3	4	10	20	3
4	Problem in Customs valuation	5	2	4	11	22	2
5	Difficult tax return process	2	5	6	13	26	1

Total	15	15	20	50	100	
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Source: Field survey 2012

The empirical survey shows that 26% of the total respondents shows the problem in difficult tax return process. While 22% shows that problem in custom valuation. Similarly, 20% respondents shows the problem in encourage unauthorized trade. Out of total respondents 18% and 14% shows that problem in decrease in business competitive power and increase compliance cost respectively.

4.2.4 Essential factor to make Customs Duty as backbone of revenue collection

Custom Duty is the backbone of the country's economic development. Customs Duty is the latest innovation in the field of indirect tax system. It is an improved and modified form of sales tax. The question was asked. "To establish Customs Duty as a backbone of revenue collection, what is the essential factor?" The respondents were request to rank the given cause from 1 to 5 and asked to specify other if any things. The responses of the respondents are presented as follows:

Table 4.13

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

S.N.	Alternatives	Respondents			Total	%	Rank
		TE	TA	CDP			
1	More trained and qualified officers	3	3	3	9	18	3
2	Minimize contract with the tax officers	2	2	2	6	12	5
3	Computerized system for the payment of Customs Duty	4	4	6	14	28	1
4	Collection of Customs Duty should be given to pre-Customs Duty sector	3	4	6	13	26	2
5	Proper implementation of government action plan	3	2	3	8	16	4
Total		15	15	20	50	100	

Source: Field survey 2012

By observing the above table 4.13, according to the respondent's point of view the main causes for Customs Duty as backbone of revenue collection are ranked as follows:

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

Other causes stated by the respondents are as follows:

-) To Customs Duty system natural and efficient.

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

From the above table 4.13 and other discussion with respondents, it can be concluded that the main causes for the creation of Customs Duty as backbone of revenue collection are more trained and qualified officer, minimized contracted with the tax officers, computerized system for the payment of Custom Duty and collection of Customs Duty should be given to Customs Duty sector.

4.2.5 Existing position of Customs Duty on Nepalese Economy

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

Table 4.14

Existing position of Customs Duty on Nepalese Economy

S.N.	Existing position of Customs Duty on Nepalese Economy	Respondents			Total	%	Rank
		TE	TA	CDP			
1	Very significant	3	3	4	10	20	3
2	Significant	4	4	6	14	28	1
3	Normal	3	3	5	11	22	2
4	Insignificant	2	3	3	8	16	4
5	Very insignificant	3	2	2	7	14	5
Total		15	15	20	50	100	

Source: Field survey 2012

From the above table 4.14, it is found that among all respondents 28% are on the option of significant. 22% percent people are on normal. And 14% are on the aspect

of very insignificant. In conclusion, we can say that there is positive impact on Nepalese economy from custom duty.

4.2.6 Views on suitable products to increase Customs Duty rate by Government

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

Table 4.15

Views on suitable products to increase Customs Duty rate by Government

S.N.	Types of products	Respondents			Total	%	Rank
		TE	TA	CDP			
1	Luxurious goods	4	4	6	14	28	1
2	Cosmetic items	3	3	5	11	22	2
3	Necessary goods	3	3	4	10	20	3
4	Expensive goods	2	3	3	8	16	4
5	Cheaper goods	3	2	2	7	14	5
Total		15	15	20	50	100	

Source: Field survey 2012

The above table 4.15 shows that, cent percent responses were received. Out of cent percent responses, 28% respondents are luxurious products. While, 22% respondents are on cosmetic goods. Similarly, necessary goods, expensive goods and cheaper goods are 20%, 16% and 14% respectively.

4.2.7 Views on effectiveness of Customs Duty in the future

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

Table 4.16

Views on effectiveness of Customs Duty in the future

S.N.	Custom Duty in future	Respondents			Total	%	Rank
		TE	TA	CDP			
1	Very significant	3	3	4	10	20	3
2	significant	2	5	6	13	26	1
3	Normal	5	2	4	11	22	2
4	Insignificant	3	3	3	9	18	4
5	Very insignificant	2	2	3	7	14	5
Total		15	15	20	50	100	

Source: Field survey 2012

According to field survey 2012, 26% of total respondents were said Customs Duty will be effective in future. While 14% respondents were pessimistic and 22% were in normal about this aspect. The option were very significant, significant, normal, insignificant, very insignificant. In conclusion, we can say that Customs Duty would be effective in the future.

4.2.8 Views on more important factor in creating problems in the Customs Duty implementation

It is know that the duties and responsibility of implementation of Customs Duty of the government and Customs Duty payers, tax administrator and Customs Duty payers all are also responsible for this aspect. The field survey has been conducted to know the views of different respondents about to explore the problems on process of Customs Duty implementation. The study shows registration, collection procedure and tax refunds are the main problems for the implementation process.

Table 4.17

Views on more important factor to create problem in the Customs Duty implementation

S.N.	Factor to create problem in the Customs Duty implementation	Respondents			Total	%	Rank
		TE	TA	CDP			
1	Registration	3	3	4	10	20	3
2	Collection procedure	3	3	5	11	22	2
3	Difficult payment	4	4	6	14	28	1

	system						
4	Lengthy tax refund system	3	2	2	7	14	5
5	Lack of effective Custom patrolling	2	3	3	8	16	4
Total		15	15	20	50	100	

Source: Field survey 2012

By observing the above table 4.17, according to the respondent's point of view the main important factor to create problem in the Custom Duty implementation are ranked as follows:

-) Difficult payment system
-) Collection procedure
-) Registration
-) Lack of effective custom patrolling
-) Lengthy tax refund system

In conclusion we say that the main factor of custom duty implementation is difficult payment system, collection procedure and other system.

4.2.9 Reasons of necessity of collection of Custom Duty in Nepal

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

Table 4.18

Reasons of necessity of collection of Custom Duty in Nepal

S.N.	Options	Respondents			Total	%	Rank
		TE	TA	CDP			
1	To increase	4	4	6	14	28	1

	revenue						
2	To make broad tax base	3	4	6	13	26	2
3	To make revenue sources transparent	3	2	3	8	16	4
4	To discourage unhealthy products	3	2	2	7	14	5
5	To balance national economy	3	3	3	9	18	3
Total		15	15	20	50	100	

Source: Field survey 2012

By the above table 4.18, it is clear that 28% respondents are on the aspect of to increase revenue. 26% are on the to make broad tax base, 18% are on to balance national economy. Similarly, 16% are to make revenue sources transparent and remaining 14% are on the aspect to discourage unhealthy products.

4.2.10 Views on essential factor to make Customs Duty administration effective in Nepal

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

Table 4.19

Essential factor to make Customs Duty administration effective in Nepal

S.N.	Alternatives	Respondents	Total	%	Rank
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		TE	TA	CDP			
1	Proper training to personnel	2	3	3	8	16	5
2	Establishment and implementation of reward and punishment system	2	4	6	12	24	1
3	Simple tax procedure	3	3	3	9	18	4
4	Unnecessary political pressure	3	2	6	11	22	2
5	Better information system	5	3	2	10	20	3
Total		15	15	20	50	100	

Source: Field survey 2012

By observing the above table 4.19, according to performance of the respondents the essential factors for making Custom Duty administration effective in Nepal are ranked as follows:

-) Establishment and implementation of reward and punishment system
-) Unnecessary political pressure
-) Better information system
-) Simple tax procedure
-) Proper training personnel

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

4.3 Major Findings

During the study period there was some major findings of the Custom Study regarding total revenue, tax and non-tax revenue, GDP, direct and indirect tax. 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.
-) Total revenue of Nepal is composition of total tax revenue & non-tax revenue. Due to the Custom Duty total tax revenue contributes more than non tax revenue in total revenue of Nepal. Total tax revenue is found to be about 3 times higher than non tax revenue during the study period.
-) Tax revenue contributes in GDP of Nepal. In fiscal year 2001/02 tax revenue is 9.14% of GDP and 13.86% in fiscal year 2010/11. In fiscal year 2001/02 amounted figure of tax revenue is Rs.39330.65 million where total GDP is Rs.430397 million.
-) This study also finds out the ratio of customs duty to GDP. During the study period 2001/02 to 2010/11 ratio between Customs Duty & GDP is found to be neither increasing nor decreasing.
-) Import duty and export duty are two main 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 not found in satisfactory level.
-) The government revenue is increasing trend from year to year. It is in increasing trend.
-) There is most significant contribution of tax revenue in the total revenue 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 establishment and implementation of reward and punishment system, unnecessary political pressure, better information system, simple tax procedure and proper training to personnel.
-) The empirical survey shows that 28% respondents are on the aspect of to increase revenue. 26% are on the to make broad tax base, 18% are on to balance national economy. Similarly, 16% are to make revenue sources transparent and remaining 14% are on the aspect to discourage unhealthy products.
-) The empirical field survey shows that 28% respondents are on the aspect of to increase revenue. 26% are on the to make broad tax base, 18% are on to balance national economy. Similarly, 16% are to make revenue sources transparent and remaining 14% are on the aspect to discourage unhealthy products.
-) Establishment and implementation of effective reward and punishment system is essential factor for making Customs Duty administration effective in Nepal.
-) Under invoicing and non- invoicing by tax payer is main cause of unsatisfactory contribution of customs duty in government revenue.

CHAPTER – V

SUMMARY, CONCLUSIONS & RECOMMENDATIONS

5.1 Summary

Developing countries like Nepal are facing serious problems in the process of economic development. Lack of sufficient financial resource is the major constraint for economic development of Nepal. A lot of funds are required to meet the objective

of economic development. But Nepal is not being able to collect necessary fund. Due to poor performance on internal revenue (fund) collection and mobilization, Nepal has been heavily relying on foreign loan and grants. The dependence is increasing which is not desirable for any economy. 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.

In each country, a lot of fund is spent by the public authority for the protection of common people and for the creation of various socio-economic infrastructures. Protection expenditures includes the purchase of arms and ammunition, army and police expenses and administration of joints. The government activities are increasing day by day, because of demand of time, increasing price and national income. Government needs more money to run it successfully. The government collects revenue from various sources such as tax revenue and non-tax revenue, like income tax, VAT, custom duty, fees, fine, grants and assistance, income tax from other sources etc. Among them, tax is the main source of government.

In Nepal, government accumulates required fund mainly from internal and external sources to finance regular and development expenditure. Nepal has been unable for proper mobilization of internal sources. Therefore, fiscal deficit of Nepal has been increasing. Among the internal resources, custom duty is one; custom duty should play important role to solve the problem of fiscal deficit. Actual collection of revenue through custom duty is lower than it's estimated. It is so, because of the non-invoicing and under invoicing habit of Nepalese traders, businessman etc; poor tax administration system and corruption, smuggling are the main problem of customs revenue collection. Custom duty is an indirect tax.

Custom 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 only tax system had gained earlier in the history of taxation in such a short period. The contribution of custom

duty plays an important role for the development of national economy and to raise the government revenue requirement like poor country Nepal.

In the fiscal year, 2001/02, contribution of custom duty to government revenue was 25.09%. Onwards it decreased and reached 17.87% in year 2010/11. Similarly, customs duty has covered between 20 to 33 percent in total tax revenue. In the total tax revenue, customs duty contributed almost 1/3 share of total tax revenue. In the fiscal year 2001/02, the share of customs duty to total tax revenue was 32.19% and its share has decreased to 20.67% in 2010/11.

5.2 Conclusion

Nepal has been heavily relying as the external and internal debt to meet budget deficit because of the low revenue collection compared to the total expenditure. The deficit is increasing which is not desirable for an economy. Thus, it is more essential to mobilize the internal revenue to the optimum level. The study shows the contribution of tax revenue is 77.97% and the non-tax revenue is 22.03% in total revenue of government in FY 2001/02. Tax revenue and non tax revenue contribute 86.47% and 13.53% respectively in the FY2010/11. Highest contribution of tax revenue was 86.86% in FY 2009/10. So, tax has been a major source of government revenue.

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 custom duty officers the major conclusions of this study are stated below:

-) In Nepal, the contribution of tax revenue to GDP is about 15% and per capita income is only US\$ 716 in 2011.
-) The government revenue is the composition of internal and external revenue. Internal revenue includes both tax revenue and non tax revenue. Among tax and non-tax revenue, there is dominant share of tax revenue.
-) Total tax revenue is composition of direct tax and indirect tax revenue in Nepalese taxes revenue. The contribution of indirect tax revenue to total tax

revenue was 73.06% in 2001/02 and it was 71.84% in 2010/11. The contribution of direct tax was 26394% in 2001/02 and it was 28.16% in 2010/11. The share of direct tax is in increasing trend but not in satisfactory level.

-) In fiscal year 2001/02, the total tax to GDP ratio was 9.14% and it was 13.86% in FY 2010/11. It shows that the total tax revenue to GDP ratio of Nepal is in satisfactory level.
-) The customs GDP ratio, custom/total revenue, custom/total tax revenue and customs/ indirect tax revenue ratios were 2.94%, 25.09%, 32.19% and 44.06% respectively in FY 2001/02 and these were 2.87%, 17.87%, 20.67% and 28.77% in FY 2010/11 respectively. It shows that the customs duty revenue is in decreasing trend.
-) The study makes us clear that import is very higher than export of Nepal. Where customs duty is highly depended on import from Nepal. This shows the revenue from imports position of Nepal is maximum than exports.
-) The main cause of the creation of ineffective factor of Customs Duty are weakness of government action plan, lack of consumer awareness, open border problem, administrative inefficiency and lack of billing system.
-) establishment and implementation of effective reward and punishment system is essential factor for making Customs Duty administration effective in Nepal.

The most important objectives of customs duty are to meet the revenue requirement of government and to redistribute the national income. There is unsatisfactory contribution of customs duty to government revenue. Poor performance of customs personnel, over staffing and political pressure, under invoicing and non-invoicing, high corruption and smuggling problem are the most important causes of unsatisfactory contribution of customs duty to government revenue.

5.3 Recommendations

The implementation of customs duty has not devoid the challenges 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. Based on the major conclusions in this study, some recommendations are explained below. These

recommendations will certainly be proved milestone to overcome existing issue in this field. This thesis also opens new topics to all prospects and researchers. The researchers can able to gain lots of experience through this thesis. This type of thesis helps to build up confidence of the researcher.

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

-) The government should improve in administration systems to increase the government revenue.
-) The government should decrease customs rate.
-) 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, consumer education and investigation.
-) The government should activate customs patrolling and improvement in valuation system.
-) Customs management has lengthy process of customs clearance. The trader never wants the lengthy and time- consuming process of clearance. That is why, management has to try to make it faster and short process of customs clearance.
-) The fragile political situation should be ended for economic development, peace and democracy.
-) Customs act, rules and regulation should be clear and simple for all the trader and businessman as well as for customs officers and customs inspectors. It should be more effective.
-) Transparency in customs duty payment should be most necessary. Government should improve regular information about custom rules and tariff rate.
-) 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, 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.
-) There should be proper coordination and communications system within the customs department and customs payers.
-) 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.
-) 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 officers of the access of international price.

In Nepal, customs duty system is facing a lot of problems. If above mentioned suggestions and recommendations are managed in time and implemented properly, the problems can be solved to some extent and the customs duty will lead to substantial increase revenue. The resource gap can also be minimized.

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Questionnaire

Name :-

Position :-

Office/organization :-

Dear sir/ madam, please tick the answer of your choice or whether of appropriate put in the order of performance from 1 to 5 on the basis of alternatives.

1. What is the more important factor to be considered to increase customs duty in revenue collection in Nepal? (Rank 1 to 5)
 - a. Proper implementation of Custom law
 - b. Broad coverage of custom duty
 - c. Tax education
 - d. Effective and efficient administration
 - e. Clear custom duty law and regulation
2. Which one is the more responsible factor to make collection of customs duty ineffective in Nepal? (Rank 1 to 5)
 - a. Lack of consumer awareness
 - b. Weakness of government action plan
 - c. Administrative inefficiency
 - d. Open border problem
 - e. Lack of clear law
3. What are the major problem faced by tax payers after customs duty regime? (Rank)
 - a. Increase compliance cost
 - b. Decrease in business competitive power
 - c. Encourage unauthorized trade
 - d. Problem in customs valuation
 - e. Difficult tax return process
4. To establish customs duty as a backbone of revenue collection; what are the essential factor? (Rank 1 to 5)
 - a. More trained and qualified officers
 - b. Minimize contract with the tax officers
 - c. Computerized system for the payment of custom duty
 - d. Collection of custom duty should be given to pre-customs duty sector
 - e. Proper implementation of government action plan
5. What is the existing position of customs duty on Nepalese economy? (Rank 1 to 5)
 - a. Very significant

- b. Significant
 - c. Normal
 - d. Insignificant
 - e. Very insignificant
6. In what types of goods the custom duty are should be increased? (Rank 1 to 5)
 - a. Luxurious goods
 - b. Cosmetic goods
 - c. Necessary goods
 - d. Expensive goods
 - e. Cheaper goods
 7. What is your views on effectiveness of custom duty in the future? (Rank 1 to 5)
 - a. Very significant
 - b. Significant
 - c. Normal
 - d. Insignificant
 - e. Very insignificant
 8. What is the major factor in creating problem in the customs duty implementation?
 - a. Registration
 - b. Collection procedure
 - c. Difficult payment system
 - d. Lengthy tax refund system
 - e. Lack of effective custom patrolling
 9. What are the reasons for necessity of collection of customs duty in Nepal?
 - a. To increase revenue
 - b. To make broad tax base
 - c. To make revenue sources transparent
 - d. To discourage unhealthy products
 - e. To balance national economy
 10. What are the essential factors for making custom duty administration effective in Nepal? (Rank 1 to 5)
 - a. Proper training to personnel
 - b. Establishment and implementation of reward and punishment system
 - c. Simple tax procedure
 - d. Unnecessary political pressure
 - e. Better information system

Fiscal year	Total revenue	Tax revenue	Non-tax rev.	Direct tax	Indirect tax	Custom duty	GDP
2001/0		39330.65	11114.9	10597.5		12658.7	430397.0
2	50445.55		0	0	28733.15	5	0
2002/0		42586.91	13642.7	10101.7		14236.4	460325.0
3	56229.61		0	0	32485.21	3	0
2003/0		48172.70	14158.0	11912.6		15554.8	500699.0
4	62330.70		0	0	36260.1	0	0
2004/0		54104.70	16018.0	13071.8		15701.6	548485.0
5	70122.70		0	0	41032.9	0	0
2005/0		57430.40	14851.7	13968.1		15344.0	611089.0
6	72282.10		0	0	43462.3	0	0
2006/0		71126.70	16585.5	18980.2		16707.6	675484.0
7	87712.20		0	9	52146.41	0	0
2007/0	107622.5	85155.54	22467.0	23087.7		21062.5	820814.0
8	4		0	6	62067.78	0	0
2008/0	143475.5	117052.9	26422.6	34320.7		26792.9	960012.0
9	0	0	0	4	82732.16	0	0
2009/1	179945.8	156294.9	23650.9	41750.0	114544.9	35150.8	1083415.
0	0	0	0	0	0	0	00
2010/1	199818.7	172777.6	27041.1	48655.0	124122.6	35711.6	1246423.
1	0	0	0	0	0	0	00