

# **CHAPTER I**

## **INTRODUCTION**

### **1.1 Background of the Study**

The pace of the economic growth of Nepal has been remained slow for many years. On the other hand, performance of agriculture sector, which contributes more than one third in the national economy, largely depends on monsoon and, on the other; the non-agriculture sector is also adversely affected by various structural bottlenecks. This reflects that the overall performance of the Nepalese economy is highly affected by non-economic factors. However, improvement in performance of agriculture sector due mainly to favorable weather condition and policy initiatives for extending credit to productive sector contributed in maintaining the satisfactory performance of the overall economy (Economic Survey, 2013/14).

Nepalese Customs Administration collects customs duty, value added tax, excise and other taxes at the border points. It accounts 44% of the total revenue and 50% of the total tax revenue. Custom duty alone contributes 20% of the total tax revenue. Custom administration is the forefront of the internal revenue mobilization. It is equally important to enhance trade facilitation by adopting international convention, recommendations and best practices (Department of Customs, Nepal).

The department customs of Nepal is an administration of Government of Nepal under ministry of finance which collects customs duty, value added tax, excise and other taxes at the border points and international airport. Department of customs is responsible in contributing to the economic and social prosperity by providing professional and quality assured Customs services in Nepal. Its mission is promoting and facilitating legitimate trade, protection of society and collecting the revenue. Prevalence of customs in Nepal since Lichchhavi era. Before 1950, Tibet and India were the major trading partners. There were inner customs offices before 1950. However the modern era of customs begins with the trade treaty

with India in 1950 and all inner customs were closed and borders offices started to work as customs offices (Ministry of Finance, Government of Nepal).

Customs means the government service which is responsible for the administration of customs law and the collection of duties and taxes and which also has the responsibility for the application of other laws and regulations relating to importation, exportation, movement or storage of goods ([www.wikipedia.com](http://www.wikipedia.com))

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% (Shrestha, 1997).

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 archeological 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 (Savada,1993).

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.

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

Tax analysis and forecasting of revenues are of critical importance to governments in ensuring stability in tax and expenditure politics. To increase and analyze revenue aspects of the fiscal policy timely and effectively, governments have increasingly turned toward in-house tax policy units rather than relying on tax experts from outside. These tax policy units have been increasingly called upon to analyze the impact of tax policies on the economy and to estimate the revenue implications of revenue measures, with the ultimate objective of ensuring a healthy fiscal situation within the economy. Tax policy units also help ensure that tax systems are efficient, fair, and simple to understand and comply with. Such systems help to create an economic environment that is conducive to greater social justice (Bhattarai and Koirala, 2010).

The main goals of developing countries like Nepal are to attain high economic growth, reduction of income inequality and poverty and to improve the standard of living of the people. In order to attain such goal our country needs huge investment in infrastructure. The expenditure incurred by the state can be fulfilled by two sources. They are debt and revenue. The revenue of the government basically comes from two sources. They are a) Tax sources and b) Non-tax sources. Tax sources are vat, excise duty, custom duty, corporate and personal income tax, vehicle tax, property tax, sales tax. Non tax sources are fine and penalties, fees, gift and grant. Non tax sources are uncertain so tax sources are the better sources of government revenue. Another source of government financing is debt. The government collects debt either from internal debt while the debt collected from outside the country is called external debt. The government used debt financing to fulfill the source gap between government expenditure and income or in case of deficit financing. Generally tax can be satisfied into two types: they are a) Direct Tax and b) Indirect Tax. Direct tax is imposed on person as per the property or income. Income tax, property tax, vehicle tax are the examples of direct tax. Indirect tax is a form of tax imposed on one person but partly or wholly paid by another. Vat, custom duty, excise duty, sales tax, import and export tax are indirect tax (Regmi, 2010).

Therefore, tax is compulsory liability. The person who pays tax does not get corresponding benefits from the government. Tax is spent for common interest of the people. Income tax is important aspect of direct tax. It is one of the major sources of tax revenue. Income tax is imposed on person's income according to the law of the nation. Income means all the income which is received from employment, business and investment.

## **1.2 Statement of the Problem**

Economic development is the prime concern of every nation of the world. Underdeveloped countries are facing serious problem in the process of economic development. Nepal is also not an exemption to this condition; the majority of people have not been able to get even basic facilities. The government wants to fulfill the basic needs of people and accelerates development activities simultaneously.

Therefore, government of every nation in the world adopted various measures to boost revenue collection; there is still substantial resource gap between expenditure and revenue. The contribution of income tax to the national budget must be increased to achieve the goal of economic development and equitable distribution of wealth. The goal can be achieved only if government of Nepal takes steps for bringing new taxpayer into net and implementing the tax law effectively to discourage the tax evasion practice.

People in developing countries like Nepal, tend to have greater tendency to evade tax. This is because they have lesser knowledge about income tax and they have to maintain their livelihood from their limited income. Rich people are avoiding taxes by using loopholes and taking advantage of inefficient tax administration. In Nepal, the coverage of income tax is very low. There is a poor income tax habit of Nepalese people. The tax authorities are inefficient and ineffective in enforcement. The assessment procedure of income tax is not effective. This study is focused on the real condition and contribution of income tax to government revenue of Nepal.

Especially this study answers the following research questions:

- ) What is the contribution of custom duty to the total tax revenue and total revenue of Nepal?
- ) What is the relationship of custom duty with total tax revenue and total revenue in Nepal?
- ) What is the trend of custom duty in Nepal?

### **1.3 Purpose of the Study**

The main objective of this study is to examine the contribution of income tax in total revenue of Nepal. However, the specific objectives are as follows;

- ) To analyze the contribution of custom duty to the total tax revenue and total revenue of Nepal.

- ) To examine the relation of custom duty with total tax revenue and total revenue in Nepal.
- ) To evaluate the trends of custom duty in Nepal.

### **1.4 Significance of the Study**

This study has multidimensional importance for academic professionals, administrators, taxpayers and general public who want to understand about tax. This study is useful to the government of Nepal for rising funds internally. It can also be useful for the economic development through collection of import and export duties at customs border. This study tries to find out the problems of tax and its system and provides clear idea and knowledge to those persons who are interested to know about the tax system.

### **1.5 Limitations of the Study**

The present study is not free from the limitation. The limitations of the study are as follows;

- ) This study is only dealing with the data of ten fiscal years from 2007/08 to 2016/17.
- ) This study is only based on the secondary data.
- ) The study may not be so comprehensive due to limited time and resources.

### **1.6 Chapter Plan**

The research reports is organized into five chapters, which are as follows:

#### **Chapter-1: Introduction**

The introduction chapter covers background of the study, statement of the problem, objective of the study, need and significance of the study, limitations of the study and organization of the study.

**Chapter-2: Review of Literature**

This chapter includes two parts. The first one is conceptual framework. It includes concept, origin and development of tax in Nepal. And another one is review of thesis, books, related articles and reports.

**Chapter-3: Research Methodology**

This chapter contains research design, population and sample, nature and sources of data, data collection procedure. This study includes descriptive research design.

**Chapter-4: Results**

This chapter is term as presentation and analysis of data. This chapter is concerned with systematic presentation, analysis and interpretation of data and it also includes major findings of the research.

**Chapter-5: Conclusions**

This is the last chapter. It mainly concerned with summary conclusion and recommendation. References and appendix also have been incorporated at the end of study.

## **CHAPTER II**

### **REVIEW OF LITERATURE**

Conceptual framework provides tentative map of this study while literatures including books, study reports, previous thesis and the articles found during this study which directly or indirectly highlight problems and prospects of implementation of income tax law in Nepali as well as in the global context are reviewed under sub topic review of literature.

#### **2.1 Conceptual Review**

Taxation is the system of levying taxes. The system is the set of principles. The principle is a scheme of ideas or body of rules by which a theory is organized. Thus, the system of levies was developed after the origin of tax. Different persons have defined taxation in different ways. In the words of Seligman, Taxation is the compulsory contribution from a person to the government to defray expenses incurred in the common interest of all without reference to special benefit conferred. According to this definition given above, it can be said that firstly a tax is a compulsory levy and those who are taxed have to pay it without getting corresponding benefit of services or goods from the government. The taxpayer does not have any right to receive direct benefit from the tax paid. Due to this compulsory nature, people have expressed different views in satirical ways about the taxation. Some say, "Nothing is certain in this world but death and taxes," some say, "death and Taxes are both certain but death is not annual"; while others say, "Death means stopping to pay tax". Here it should be noted that all compulsory payments are not tax. For example, Firstly, fines and fees are also compulsory payments without having direct benefit to the payer but it is not tax because its objective is not to collect revenue but to curb certain types of offences. Secondly, taxpayer cannot receive any quid pro quo for the payment of tax. The taxpayer does not receive equivalent benefit from the government. A tax is not a price paid by one, for which he can claim goods and services. The charge of price for goods and services by public authority is not a tax. Thirdly, the tax is paid for the government for running it. Fourthly, in case of tax, the



amount is spent for common interest of the people. The tax is collected from haves and basically, spends for the interest of haves not in the society. Fifthly, a natural or an artificial person pays the tax (Kandel, 2011:2).

No government can afford to take taxation, borrowings, expenditure and other fiscal decisions at random. On account of their inter-connection, all decisions and policies must form a part of its overall set of objectives. The whole approach has to be quite systematic if chaos and wastage are to be avoided. In general, a budget shows financial accounts of the previous year, the budget and revised estimates of the current year, and the budget estimates for the forthcoming year. In addition, the estimates for the forthcoming years are split up into two parts – those based upon the assumption that existing taxes and their rates would continue, and those based upon the proposed changes therein. A budget, in this sense, becomes both a description of the fiscal policies of the government and the financial plans corresponding to them.

A tax levied on imports (and, sometimes, on exports) by the customs authorities of a country to raise state revenue, and/or to protect domestic industries from more efficient or predatory competitors from abroad. Customs duty is based generally on the value of goods or upon the weight, dimensions, or some other criteria of the item (such as the size of the engine, in case of automobiles).

Taxation is a system used by governments to obtain money from people and organizations. The government uses collected revenue to support itself and to provide public services. In its nature, it is relatively permanent and compulsory and does not guarantee a direct relationship between the amount contributed by a citizen and the extent of governmental services provided to him. Therefore, taxation is a device or process of imposing a tax. Similarly, one of the famous economists delineates, - taxation is the charge levied by the state on the property or labor of the citizens, in order to provide for the public expenses". However, it is quite different from definition of the Encyclopedia. It is a like a definition of tax though it shares some qualities, but not identical (K.C, 2009:4).

### **2.1.1 Objective of Taxation**

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

To provide resources to the government for paying security to an individual and society from violence, invasion, injustice and maintaining public institutions, which can never be for the interest of an individual?

To shift from security perception to the economic development, and production of certain products: encouragement in employment, saving and investment removal of regional investment removal of regional imbalances and enforcement of government policy (Smith, 1776).

The modern objective of the taxation is raising revenue to have encouragement in production of certain products; encouragement in employment, saving and investment removal of regional investment removal of regional imbalances and enforcement of government policy.

### **2.1.2 Principles of Taxation**

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

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

**Cannon of Certainty:-** Another quality of tax system is the cannon of certainty. This cannon say that a taxpayer should be informed about the rate, time and procedures of payment of tax. Furthermore fix its target of revenues that comes from taxes.

**Cannon of Convenience:-** Convenience is another quality of a good tax system. Common people do not have sufficient knowledge about' the taxation nor do they have the capacity to hire the experts. That is way tax system should be such that can be easily understood and followed by ordinary people in the society.

**Cannon of Economy:-** If the expenditure of collecting tax is more than or equal to the amount of tax, such policy will not result in surplus to the public revenues and will not be beneficial to the country. This good tax policy has the quality of economy, that the low cost of collecting tax should be maintained to the possible extent so as to minimize the difference between the amount that people take out of their pocket to pay tax and the amount that actually goes to the government treasury. Besides the above stated cannons of taxation given by Adam Smith, there are others too developed by other economists. These canons given by other economists are as follows: (Smith, 1776)

**Cannon of Productivity:** - Cannon of productivity says that every tax system should be revenue productive. It means that there should be those taxes only which provide adequate revenue. Taxes that do not provide sufficient revenue should be withdrawn.

**Cannon of Flexibility:** - Flexibility indicates two things. First, a tax system should have the characteristic of revenue elasticity. There should be built-in tie-up between the economic activity of a country and revenue mobilization. Higher the economic activity, higher will be the revenue. Second, the tax system should be of that type which provides revenue as per the necessity of the situation. If there is need of higher revenue, the tax system should provide as per the needs.

**Cannon of Diversity:** - Tax system not totally depends on one source of revenue. It is risky to the government to depend upon only one source. That means the sources of taxation should be diversified as far as possible. This principle says that tax should be levied on various stages and various sources. There should be multiple taxes in place

of single tax. Similarly, a tax system should be of that type, the burden of which is diversified on the people of different walks of life.

**Canon of Simplicity:** - Simplicity means understandable. The tax system should be simple to understand and applicable in public life. A complex tax system creates unnecessary hassles. Simple tax system with higher tax rate induces the taxpayer to compliance.

**Canon of Uniformity:** - Uniformity in this context means uniformity in depreciation system, tax rate, stock valuation system, accounting method, dividend distribution system, accounting system, appeal and penalty system, method of payment of tax and time of the payment of tax (<https://economicsconcepts.com>)

### **2.1.3 Concept of Indirect Tax**

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

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

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

upon to pay tax on it, not with the intention to levy a contribution upon him, but to tax through him the consumers of the commodity, from whom it is supposed that he will recover the amount by means of an advance in price (www.wikipedia.com).

#### **2.1.4 Concept of Custom Duty**

Custom s duty is a government tax on in ports or exports; "they signed a treaty to lower duties on bade between their countries". Customs in 21st century is the slogan of World Customs organization, which pushes each member country to intervene in different sectors of customs,refersin order to materialize the ambitious slogan. Among others, trade facilitation and preventing society from odds are some of the major responsibilities of customs administration. Nepalese customs administration is working to facilitate authorized trade and preventing revenue and society in the same line by employing electronic customs procedure.

Custom duty also known as consumption duty is collected by the authorities on the goods imported by an importer and are meant to be sold in the country. The custom duty is levied on the goods whose value is determined by its assessable value. This assessable value has been developed by World Customs Organization (WCO) and has given codes to every product known as H.S Codes that can be of four to ten digits. The rate of custom duty is decided by the government of the country in which the goods are being imported. The custom duty generally carries a very high rate on products like tobacco and liquor.

It is levied on import and export of goods and services at custom point. It is also known as import and export duty. It is a tariff or tax on the import as well as export of goods. It is also called a boarder tax, as it is imposed at boarder of a country. It is one of the major sources imposed at boarder of a county. It is one of the major sources of government revenue. The main objective of customs duty is to provide sufficient revenue to the government as well as to get control over the flow of unnecessary goods in the country. Customs authority is responsible for collecting custom duties and controlling flow of commodities in and out of country under the provision of prevailing law. Customs office is responsible for implementing a wide range of

government policies trade and tariff polices and regional and global trade agreement etc. SAFTA, WTO, BIMSTEC etc. Customs duty act is formulated and implemented to regulate custom procedure in a country. Custom Duty Act 2064 governs the procedure of custom duty in Nepal (Dhakal and Bhattarai 2014:501).

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

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

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

Customs duty is a government tax on imports or exports; "they signed a treaty to lower duties on trade between their countries" Tax levied on imports and exports by the customs authorities of a country to raise state revenue, and/or to protect domestic industries from more efficient or predatory competitors from abroad. Also called tariff, duty is based generally on the value of goods or upon the weight, dimensions, or some other criteria of the item Tax that a country imposes on its imports and, occasionally, exports is customs duty. A duty exists to make an import more expensive and to thereby encourage people to buy goods produced in their own country. Proponents of their use argue that duties discourage outsourcing of jobs to other countries and make the country more self-sufficient, but most economists agree that they are economically inefficient and some contend that they may ultimately harm the people they are intended to help. A duty is also called a tariff. A tax or duty to be paid on a particular class of imports or exports is called custom duty ([www.wikipedia.com](http://www.wikipedia.com)).

Customs duty is a tariff or tax on the import or export of goods. Traditionally in England, it was part of the customary revenue of the king and therefore did not need parliamentary consent to be levied, unlike excise duty, land tax, or other impositions. Government of Nepal made a Customs Act in 2019 B.S. which facilitate and regulate international trade and charges customs duty. This act was amended in 2054 BS which adopted the transaction according to WTO/GATT valuation. Nepal has 30 customs offices. Out of 30, 9 offices were established in northern border areas which have 6 sub-customs offices. 20 were established in southern border area which has 136 sub-customs offices. One customs office is at Tribhuwan international customs

office which has one sub- customs office i.e. foreign post office. There are three Inland Container Depot Birjung, Biratnagar and Bhairawa which were established with the assistance of World Bank. Birjung is only one ICD linked with railway of India.

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

The first version of the harmonized system was introduced in 1988 (HS88). The codes of HS88 correspond precisely with codes of SITC Rev 3. Main revisions of the harmonized System were introduced in 1996 (HS96) and 2002 (HS2002). The most recent revision was HS 2007. Nepal has adopted harmonized system since 1991. The harmonized system is an international standardized system of names and numbers for classifying traded products developed and names and numbers for classifying traded products developed and maintained by the World Customs Organization (WCO). It comprises about 5000 commodity groups. The system is used by more than 200 countries and economies as a basis for their customs tariffs and for the collection of international trade statistics.

The HS contributes to the harmonization of customs and trade procedures, and the non- documentary trade data interchange in connection with such procedures. Such reducing the costs related to international trade. It is also extensively used by governments, international organizations and the private sectors for many other purposes such as internal taxes. trade policies, trade negotiations, monitoring of controlled goods, rules of origin, freight tariffs, transport statistics price monitoring, quota controls, complication of national accounts, and economic language and code for goods, and an indispensable tool for international trade (Bista,2006).



In Nepal, the Director General and Committee will prescribe heading or sub- heading based on the authentic text of the harmonized system of the world customs organization. If there is a doubt as to in which heading or sub heading of the harmonized system do any goods fall, the customs officer will classify such goods in the heading or sub heading as prescribed by the director general and the committee. For the purpose of prescribing the heading or sub heading of any goods, advice of the concerned expert or national or international body made is sought. If, prior to the exportation or importation of any goods, any exporter or importer submit an application to the prescribed committee also comprising an expert in the field of concerned for the specification of the heading or subheading of commodity classification of such goods, the committee also examining a sample of such goods, the committee may, also examining a sample of such goods, prescribe the heading or subheading of such goods (Pokharel G.,2010).

Tax and customs authorities handle large sums of money and are responsible for collecting the principal revenue for the state. Corruption within these institutions is perceived to be common all over the world. Complex tax laws, high discretion of public officials and low cost of punishment create ideal conditions for corrupt behavior to take place. Citizens and companies may bribe officials to evade taxes and duties. In turn, public officials in these institutions may seek to extract illicit rents from taxpayers, either by collusion or extortion. Effective monitoring and control of tax and customs authorities may significantly reduce the risks of corruption. This answer outlines the corruption challenges related to tax administration and customs authorities and highlights approaches to combat corruption in these institutions (Ardigo, 2014).

#### **A) Meaning of 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 (Khadka R.,2011).

### **B) Meaning of Export Duty**

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

### **2.1.5 Customs Duty Facilities and Exemption**

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

Diplomatic facility or duty facility will on recommendation of the Ministry of Foreign Affairs, Government of Nepal, be accorded, as prescribed, to those bodies, officials or persons who are entitled to enjoy such diplomatic facility or duty facility under any bilateral or multilateral treaty agreement to which Nepal is a party.

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 of aircraft, spare parts, machine, equipment thereof, food, liquors, beer and light drinks consumed inflight 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. The provisions for according the duty facility to any goods to be brought again to a foreign country from the foreign country via Nepal will be as prescribed.

#### **2.1.6 Other Facilities of Customs Duty**

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

The Government of Nepal will accord customs duty exemption and other facility against bank guarantee to the raw material, plants, machinery, equipment, tools and spare parts as required for the industry goods to be exported and imported by any industry situated in the special economic zone.

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 accorded in the event of export will be accorded as if that sale were an export.

If any industry situated within the special zone so sells any goods manufactured from raw materials imported under the customs duty exemption that such goods are consumed in Nepal.

The Government of Nepal may, by notification in the Nepal Gazette, issue an order specifying the procedures on the transfer by an industry situated within the special economic zone of ownership of goods imported under duty exemption to any person within or outside the special economic zone. It will be the duty of the concerned industry to abide by such order.

Nepalese Customs Administration collects Customs duty, Value Added Tax, Excise and other taxes at the border points. It accounts 44% of the total revenue and 50% of the total tax revenue. Customs duty alone contributes 20 % 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 QO 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. (<http://www.customs.gov.np/>)

## **2.2. Review of Empirical Studies.**

### **2.2.1 Review of Journals and Articles**

Rao, (2000), in his article titled "*Tax Reform in India: Achievement and Challenges*" published on Asia-Pacific Development Journal highlights some key issues of tax reform. The article seems to be written by author with minute review of secondary sources of data i.e. publications of Indian government including, public finance statistics and using his own professional expertise as he wrote this article in the

capacity of Director, Institute for Social and Economic Change, Bangalore, India (www.e.unescap.org: 16 November 2011). In one of the sub head paradigms of tax reform he writes; the philosophy of tax reform has undergone significant changes over the years in keeping with the changing perception of the role of the state. With the change in the development strategy in favor of market determined resource allocation, the traditional approach of raising revenues to finance a large public sector without much regard to economic effects has been given up. The recent approaches to reform lay emphasis on minimizing distortions in tax policy to keep the economy competitive. Minimizing distortions implies reducing the marginal rates of both direct and indirect taxes. This also calls for reducing differentiation in tax rates to reduce unintended distortions in relative prices. To achieve this, the approach suggests broadening of the tax bases. Conventional wisdom on tax reforms provides us with at least three different model of tax reform. The optimal tax (OT) model (Ahmad and Stern 1991) is satisfactory in terms of its theoretical soundness, but has been found to be impractical in its applications.

Vito and Howell, (2001) , in their article for IMF titled "*Tax Policy for Developing Countries*" have tried to highlight key issues in framing and implementing income tax laws for developing countries.(www.imf. org:4 December 2011) . Challenges of efficient tax system in developing countries have rightly been described in the article which can be of help developing tax policy in the context of Nepal too. Some lines of same article are highlighted below. Taxation is the only practical means of raising the revenue to finance government spending on the goods and services that most of us demand. Setting up an efficient and fair tax system is, however, far from simple, particularly for developing countries that want to become integrated in the international economy.

The ideal tax system in these countries should raise essential revenue without excessive government borrowing, and should do so without discouraging economic activity and without deviating too much from tax systems in other countries. But, developing countries face formidable challenges when they attempt to establish efficient tax systems. First, most workers in these countries are typically employed in agriculture or in small, informal enterprises. As they are seldom paid a regular, fixed

wage, their earnings fluctuate, and many are paid in cash, "off the books." The base for an income tax is therefore hard to calculate. As a result, modern means of raising revenue, such as income taxes and consumer taxes, play a diminished role in these economies, and the possibility that the government will achieve high tax levels is virtually excluded. Second, it is difficult to create an efficient tax administration without a well-educated and well-trained staff, when money is lacking to pay good wages to tax officials and to computerize the operation (or even to provide efficient telephone and mail services), and when taxpayers have limited ability to keep accounts. This explains in part why many developing countries have not fully exploited personal income and property taxes and why their tax systems rarely achieve satisfactory progressivity (in other words, where the rich pay proportionately more taxes). It concludes, developing countries will need to reduce sharply their reliance on foreign trade taxes, without at the same time creating economic disincentives, especially in raising more revenue from personal income tax.

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

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

Yonah and Margalioth (2007), in their article for IMF titled "*Tax & Development Review-3. Taxation in Developing Countries: Recent Support and Challenges to the Conventional View*" have given some important views regarding tax system in developing countries ([www.faculty.law.wayne.edu](http://www.faculty.law.wayne.edu), 25 November 2011). This is an article written by writer duo based on their experiences and academic horizon. Two related paragraphs have been extracted from the same article. The role of direct

taxation in developing countries is much more limited. In contrast to developed countries where taxation on personal income and social security contributions raise two thirds of the total tax revenue, a narrow tax base and high enforcement costs render direct taxation impractical for developing countries. The income tax base is mostly comprised of wages of employees in the public sector, because all other taxpayers are self-employed or small businesses who evade paying all, or most, of the income tax. In addition, taxation of personal capital income is easily evaded. Taxing the income of corporations, on the other hand, provides developing countries with a large share of their total tax revenue (estimated in 1993 to be close to a third) compared to only a small share, around 10%, in developed countries. Taxing large corporations does not involve significant administrative and compliance costs, because they are per force required to comply with statutory accounting requirements.

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

Dahal, (2010), in his article titled '*Nepal's Tax System Issues, Problems and Options* ' writes; the major constraints existing in the tax system is that it lacks simplicity and

transparency. With an extremely limited tax base, low tax elasticity, relatively higher tax rates, poor voluntary compliance, ineffective tax administration, growing arbitration in assessment, rigid and incomprehensive tax laws and regulations and numerous tax shelters, taxation in Nepal has so far been attributed to "negotiation" resulting in rampant corruption. Lack of strong political commitment, administrative capability and recording system are the major problems in the implementation of local taxation. Furthermore, lack of proper accounting and auditing, indifferent attitude among tax officials and weak appeal system have also been hindrances for the proper functioning of the Nepalese tax system. In the absence of long term revenue policy tax measures are adopted annually on an ad-hoc basis.

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

- ) Proper coordination among different agencies of Government of Nepal like Nepalese Customs, Nepal Police, Armed Police, and Local Administration.
- ) Effective information channels.
- ) Simplification of customs procedures.
- ) Effective post clearance audit.

He concluded that, the estimation shows that informal economic activities have significant impact on loss of customs revenue. Therefore, informal economic activities definitely matter for loss of customs revenue in Nepal. Absolutely controlling informal trade in case of Nepal-India trade is almost impossible.



Pokharel, (2010), conducted a study on *"Implementation of the Concept in the Customs Administration of Nepal"*. He presented that customs office is a representative of centre government in borderline. Nepalese customs cooperates with the World Customs Organizations (WCO) which has introduced customs reforms and modernization working plan since 2003. The first phase of this plan was started in 2006/2007 and completed in 2008/2009. In 2009/2010, third phase of customs modernization plan is going on. This plan wants to make the customs department and customs offices effective and efficient to improve the international standard customs norms. The main objective of the customs reforms and modernization working plan are as follows:

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

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

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

Singh, (2010), had written an article on "Customs and Business: Improving Performance through Partnership in Customs". He presented the role of implement on Government policy and horizontal domination. It is a key player when it comes to the protection of borders and society to fight against commercial fraud. Traditionally, customs tasks can be presented in three clusters the protection and collection of revenue, the implementation of commercial policy measures, and the protection of people and society. Customs administrations thought the world is currently experiencing dramatic technological, economic and legal changes which require new approaches to be taken within the customs administrations. Traditional functions of customs administrations are highly challenged by a rapid liberalization and globalization of trade.

He concludes that customs are bound by twin roles as both trade facilitator and guardian of the community. We have to find the proper balance between these parameters, and in the new globalized economy, we have to find new ways to discharge our duties. Electronic commerce, efficient procedures, cybercrimes, fraud, and transnational crimes are the challenges of customs office but a few of the challenges that impact on daily work. The function of customs is to follow the government policy, manage and control customs office to collect duty effective and efficient manner. Customs administrations can no longer remain isolated and entitles away from the societal context. We need to build bridges with other agencies and business partners. Customs offices need to form strategic business partnerships. We need to work in partnership with the business community. Through dialogues and cooperative arrangements, customs and business can seek to enhance mutual understanding and cooperation. As a result, the business sector will enjoy greater

predictability of customs procurers, while customs will be reciprocated with timely for cargo information. We will learn better to meet each other's needs and expectations. With such partnerships between customs and business, the performance will be inevitably improved resulting as win-win solution for all.

Bhandari, (2011), had written an article on "*Necessity of Harmonized System and Its Effect in Facilitating International Trade*". He presented that development of advanced technology just in time to supply chain system. Multilateral and bilateral trade became major instrument of development of nation. There are millions types of products and accessories of such products which have produced and moves around the world. Though, so many complexities have come before the customs administration and business sector and many problems would be faced by the exporters and importers in the movements of goods so that without harmonized system, it is difficult to facilitate the international trade. The harmonized system is only one important tool to classify and arranging into the various headings and sub-headings according to their characteristics and functions. In this regards, it is necessary to establish, classifying and coding the product as an international standard system if there is proper coding of each of the good than it will help us to international trade through the customs procedures. Since fast customs clearance is one of the most important measures for trade facilitation.

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

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

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

Regmi, (2011), had written an article on "*Nepal's Foreign Trade Statistics System: An Overview*". He presented that the current strength of Nepalese customs for the purpose of producing quality based on trade statistics with insured predictability of dissemination is really weak. Customs headquarter has a provision of a statistics cell under the information technology and statistics section headed by director of IT background. With the addition of one more officer statistician's position, there are two officer levels of statistics. One computer officer, and one computer engineer has been approved theoretically in the section. But due to less attractiveness, computer engineer are seldom found working in real life.

Excise tax was a major source of tax revenue in Nepal until the late 1990s. The number of items that attracted excise was nearly 100 in 1990-91, which reduced to seven items in 2000-01. During this process, the contribution of excise to Nepal's revenue base decreased significantly. The share of Excise duty to GDP, Total Tax Revenue and Total Indirect Tax was 1.1 per cent, 15.1 per cent and 18.1 per cent respectively in the fiscal year 1989-90, which decreased to 0.8 per cent, 8.4 per cent and 10.5 per cent respectively in the fiscal year 1994-95. The purpose of the policy is to compensate for the revenue losses resulting from the reduction and abolition of customs tariff rates and other obligations of WTO membership. To this end, excise tax was imposed on additional goods in 2004-05, and since then has become more important to revenue generation in Nepal. The share of excise duty to GDP, total tax

revenue and indirect tax increased to 2.2 per cent, 15.1 per cent and 20.2 per cent respectively in the fiscal year 2009-10.

Tripathi, (2011), had written an article on "*Customs Automation with ASYCUDA World*". He presented the major advantage of ASYCUDA. ASYCUDA is a computerized system designed by the UNCTAD to administer a country's customs. It is the largest technical cooperation programmed of the UNCTAD covering over 80 countries and 4 regional projects. The customs department has introduced the ASYCUDA world system. The overall aim is to improve the economy of the country through the provision of an efficient service to the trading community, and to provide a high quality statistical and trade monitoring mechanism. The advantage of the ASYCUDA World is presented as follows.

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

Jon Walden - Associate of Strong & Herd LLP, (2017) had written an article on the title of "The Global Customs Dilemma - Trade Facilitation versus Revenue Collection & Enforcement". When a customs officer, in any country, is asked 'what is your role?', the official answer should be 'my role is to facilitate legitimate trade'. A recent strap line for the World Customs Organisation was 'Borders divide, customs

connects'. Accordingly, it is evident that the 21st century attitude to customs operations is based on the facilitation of export, import and transit trade. Protocols, such as the WTO Trade Facilitation Agreement, the WCO SAFE Framework of Standards and the Revised Kyoto Convention support, indeed encourage, this approach to cross border trading operations and supporting regulatory control. UNCEFACT defines trade facilitation as "the simplification, standardization and harmonisation of procedures and associated information flows required to move goods from seller to buyer and to make payment"

Customs operations, globally, are based on a risk management approach utilizing IT platforms such as CHIEF, in the UK, and Asycuda used widely around the world. Import declarations, sometimes pre-arrival, are entered into such systems which provide the first stage of assessing the transaction. Based on the electronic review of the entry the consignment will be subject to no further checks, documentary checks or physical examination. Those who advocate facilitation of trade would suggest the proliferation of 'no further checks' for the vast majority of cross border trade. This is a reasonable approach in regions where declarants tend to understand their customs obligations, are generally compliant and levels of corruption are minimal. Realistically, this means the customs dilemma is more of an issue in developing countries than in the developed world. It is also, arguably, a fact that import duty revenue is rather more significant in developing countries. In some countries the operating budget for the customs agency is calculated as a percentage of the revenue they collect (for example, in Nigeria, it is 7% of revenue collected).

As such, customs authorities are better positioned to focus their activities on non-accredited traders and could, conceivably, collect increased revenue by better utilization of their resources. Similarly, providing improved access to customs regulations, regimes and procedures should lead to improved compliance rates.

### 2.2.2 Review of Previous Thesis

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

His main objectives

- ) Contribution of income tax to the public revenue,
- ) Contribution of Nepal Telecommunication (NTC) to income tax,

His major findings

- ) He had found the contribution of income tax from public enterprises in Nepal was not significance due to poor achievement, weakness in government's economic policy and deficiency in legislation. NTC had been contributing effectively to total tax revenue.
- ) Contribution of tax revenue on GDP of Nepal was lower than other SAARC countries except Bangladesh.

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

His main objectives

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

#### His major findings

- ) The tax payers should pay the unpaid tax along with interest, similarly if the refund is to be made the tax payers along with interest.
- ) Tax rebates to non-industrial company set up industrially backward areas.
- ) Different tax rates for Residential and Non- Residential companies.
- ) Every company should have separate Tax section in their company.
- ) Need to change the tax administration system.

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

#### His main objectives

- ) To study and evaluate the status of income tax as major source of revenue,
- ) To examine and review the Nepalese income tax structure,
- ) To evaluate the problems of income tax management and provide suggestions to the concerned on the basis of study findings.

#### His major findings

- ) The share of tax revenue has always been greater than the share of non-tax revenue.
- ) 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.

Gupta, (2012), has conducted a research topic on "*Corporate Tax System and Investment Behavior in Nepal*".

#### His main objectives

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



#### His major findings

- ) He showed the relationship of private investment with average effective tax rate, marginal effective tax rate and tax incentives in Nepal.
- ) He had also found the impact of inflation. According to him, the statutory tax rate deduction had impact on private investments by 60% to 20%. In this regard, he had showed the adjusted value 0.87 at 5% level of significance.

Shrestha, (2013) had conducted a research topic "*Role of Custom Duty on Public Revenue*".

#### His main objectives

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

#### His major findings

- ) Among different sources of revenue of government of Nepal. customs duty one of the major sources, which has significant contribution in the revenue of government of Nepal.
- ) There is not any certain trend (neither increasing nor decreasing) of customs duty in Nepal.
- ) Import duty are two parts of customs duty, both of them has equal contribution in the revenue of government of Nepal.

### **2.3 Review of Books**

Khadka, (2001) had written "*Taxation in Nepal*". It traces out the evolution of income tax around the world. It then analyzed relative importance of income tax in the tax system of some selected countries. It also defined various concepts which are widely used in the modern income tax literature. This book also reviews major changes introduced in the field of the Nepalese Income Tax system since its inception in 1959

A.D. and examines its existing structure and operation. It also analyses the current problems and makes recommendations for the rationalization of the structure and modernization of operation of the income tax system. The book also includes Income Tax Acts of 1959, 1962 and 1974 A.D.

Dhakal, (2002), had published "AayakarTathaGharJaggaSambandhiKar Ra Lekha." This book was based on Income Tax Act 2031. This book is very useful to understand the meaning and objective of tax as well as getting knowledge about the history of taxation.

Bhattarai and Koirala, (2010), had published "Taxation in Nepal". In that book, they focus customs in an authority or-agency in a country responsible for collecting and safeguarding customs duties and for controlling the flow of goods including animals, personal effects and hazardous items in and out of a country. Depending on local legislation and regulations, the import or export of some goods may be restricted or forbidden, and the customs agency enforces these rules. The customs may be different from the immigration authority, which monitors persons who leave or enter the country, checking for appropriate documentation, apprehending people wanted by international arrest warrants, and impeding the entry of others deemed dangerous to the country. In most countries, customs are attained through government agreements and international laws.

A customs duty is a tariff or tax on the import as well as export of goods. It is a border tax. Nepalese customs administration collects customs duty; value added tax, excise and other taxes at the border points. 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.

Kandel, (2011), had published "Tax laws and Tax Planning in Nepal". These books are helpful for tax administration, auditors, tax consultants and taxpayers. These

books are also useful for effective tax planning. In his books, he described the Income Tax Act 2058, VAT and tax planning in Nepal. He has presented practical as well as theoretical aspects on taxation in these books.

Dhakal and Bhattarai (2014), had published "Taxation in Nepal", Customs is a form of indirect taxation. It is levied on import and export of goods and services at custom point. It is also known as import and export duty. It is a tariff or tax on the import as well as export of goods. It is also called a boarder tax, as it is imposed at boarder of a country. It is one of the major sources imposed at boarder of a county. It is one of the major sources of government revenue. The main objective of customs duty is to provide sufficient revenue to the government as well as to get control over the flow of unnecessary goods in the country. Customs authority is responsible for collecting custom duties and controlling flow of commodities in and out of country under the provision of prevailing law. Customs office is responsible for implementing a wide range of government policies trade and tariff polices and regional and global trade agreement etc. SAFTA, WTO, BIMSTEC etc. Customs duty act is formulated and implemented to regulate custom procedure in a country. Custom Duty Act 2064 governs the procedure of custom duty in Nepal

## **2.4 Research Gap**

There is not any study regarding customs duty since long time. Any researcher has not become able to find out the problems of customs system of Nepal. There are so many products making contribution in customs duty which aids in increasing government revenue. Rate of customs duty is fixed by government authority without evaluating its impacts on the economy and the people. This study has been done to cover research gap through Contribution of customs duty in Public Revenue of Nepal. This study is based on recent data collection (i.e. 2008 to 2017).

## **CHAPTER III**

### **RESEARCH METHODOLOGY**

In research methodology, the researchers study the various steps that are generally adopted by a researcher in studying his/her research problem along with the logic behind them. This chapter deals with the research design, nature of data for the study, sample and population of the study, the data collection procedure and analysis tools for this study.

#### **3.1 Research Design**

Research designs are plans and the procedures for research that span the decisions from broad assumptions to detailed methods of data collection and analysis. To achieve the objectives of the study, descriptive and analytical research designs have been used.

#### **3.2 Nature and Sources of Data**

The study is based highly on secondary data. In this study, the secondary sources data have been collected in order to achieve the real and actual results.

##### **Secondary Sources of Data**

Secondary data are indispensable for much of organizational research. Secondary data are compiled data that are taken from several primary sources and synthesized or summarized. The several sources of such data are;

1. Published sources: reports published by ministry of finance and laws, guidelines and directives regarding the subject matter; articles published in journals, and other publications; text books regarding the subject matter etc.
2. Unpublished sources: the research conducted by previous researchers for their master degree is also used to conduct this study. Those sources are unpublished sources.

### 3.3 Population and Sample

Government of Nepal made a Customs Act in 2019 B.S. which facilitates and regulates international trade and charges custom duty. The total 55 years from 2019 B.S. to the year 2074 B.S. of custom duty is considered as population. Of which the recent 10 year's data (2007/08 to 2016/17) is taken as a sample using convenience sample method to find out the exact figure of custom contribution to National Revenue.

### 3.4 Data Collection Procedure

Chiefly, the annual reports from website of Economic Survey Department, Ministry Of Finance was taken as main source of data collection. Sources for data and substance availability are ministry of finance publications such as economic reports and bulletins, financial statistics, annual reports, websites journals etc.

### 3.5 Methods of Data Analysis

Collected data need to be presented, edited, tabulated and analyzed. The data should be presented not only in the systematic form but also be calculated in systematic way to get the desired output relating to the subject matter to achieve the basic objectives study.

#### 3.5.1 Statistical Tools

For supporting the study, statistical tools for instance, mean, standard deviation, coefficient of variation, correlation, trend analysis (AAGR method) and diagrammatic as well as illustrative representation tools have been practiced.

#### Arithmetic mean $\bar{X}_A$

Average is statistical constants, which enables us to comprehend in a single effort of the whole (Gupta, 2000). It represents the entire data by a single value. It provides the general and simplified vision of the immense accumulation of numerical data.

This can be calculated by using the following formula :

$$\bar{X} = \frac{1}{N} \sum_{i=1}^N X_i$$

where,

$\bar{X}$  = Arithmetic mean

N = Number of observation

$\sum X$  = Sum of observations

### **Standard Deviation (S.D.)**

Standard deviation is the positive square root of the mean of the square of the deviations taken from the arithmetic mean. It is denoted by  $\Xi$  (Bajracharya, 2063). It is the absolute measure of dispersion in which the drawbacks present in other measures of dispersion are removed. it is calculated as :

$$\Xi = \sqrt{\frac{\sum fX^2 - \frac{(\sum fX)^2}{N}}{N}}$$

where,

$\Xi$  = standard deviation

$\bar{x}$  = Arithmetic mean

N = Number of observations

### **Coefficient of Variation (C.V.)**

The coefficient of dispersion based on standard deviation multiplied by 100 is known as coefficient of variation (C.V.) It is independent of units. Hence, two distributions can better be compared with the help of C.V. for their variability. Less than C.V., more will be the uniformity, consistency or more stable and vice versa.

It is calculated as :

$$C.V. = \frac{\Xi}{\bar{x}} | 100\%$$

where,

$\Xi$  = Standard deviation

$\bar{x}$  = mean

Similarly, the same variables which are taken as 'X' to calculate the mean/averages are used to calculate the standard deviations and coefficient of variation for the sample banks.

### **3.5.2 Trend Analysis (Average Annual Growth Method)**

It is the arithmetic mean of a series of growth rates. It refers to the average increase in an individual's portfolio or investment value over a year's period. Average annual growth method (AAGR) is somewhat useful for determining trends. It can be applied to almost any financial measure, including revenue, profit, expenses, cash flow etc. to give investors an idea of which direction a company is headed for that particular measure.

One thing to keep in mind is that the periods used should all be of equal length, for instance years, months, or weeks - and not to mix periods of different duration. AAGR is a standard for measuring average returns of investments over several time periods. You'll find this figure on brokerage statements and it is included in a mutual fund's prospectus. This ratio helps you figure out how much average return you've received over several periods of time.

AAGR = ending value - beginning value / beginning value

### **3.5.3 Correlation Analysis**

The correlation coefficient, denoted by r, is a measure of the strength line or linear relationship between two variables. It is used to describe the extent to which one

variable is linearly related to the other. It refers the proximity of the relationship and a study of covariance between two or more variables. "The correlation coefficient requires that the underlying relationship between the two variables under consideration is linear. If the relationship is known to be linear, or the observed under consideration is linear. If the relationship is known to be linear, or the observed pattern between the two variables appears to be linear, then the correlation coefficient provides a reliable measure of the strength of the linear relationship. If the relationship is known to be nonlinear, or the observed pattern appears to be nonlinear, then the correlation confident is not useful or at least questionable". This can be calculated by using the following formula:

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

where,

X are total deposit and total loan advances for Nabil bank and Nepal Bank Limited for Last 10 years

Y is loan and advances and total profit for Nabil bank and Nepal Bank limited for last 10 years

$r_{xy}$  = Correlation between X and Y

$N \sum XY$  = No. of product observation and sum of product X and Y

$(\sum X)(\sum Y)$  = Sum of Product X and sum of Product Y

The correlation coefficient takes on values ranging between +1 and -1. Where 0 indicates no linear relation, +1 indicates a perfect positive linear relationship: as one variable increases in its values, the other variable also increases in its values via an exact linear rule and -1 indicates a perfect negative linear relationship: as one variable increases in its values, the other variable decreases in its values via an exact linear rule.



## **CHAPTER IV**

### **RESULTS**

Introductions, review of literature and research methodology that are presented in the previous chapters provide the basic inputs to analyze and interpret the data from which concrete result can be obtained. In this section, collected filtered data are analyzed and interpreted as the stated methodology in the previous chapters. The included data are collected from various sources. These available data are tabulated, analyzed and interpreted to measure the various scopes of difficulties of the study and major analyzing the financial performance and interpretation is to highlight the strength and weakness of the business. The collected data are analyzed and interpreted by using the financial and statistical tools.

In order to make our study effective, precise and easily understandable, this chapter is categorized in three parts; presentation, analysis and interpretation. The analysis is fully based on secondary data. In presentation section, data are presented in terms of table. The presented data are analyzed using different statistical tools mentioned in chapter three. At last the results of analysis are interpreted.

## 4.1 Presentation of Data

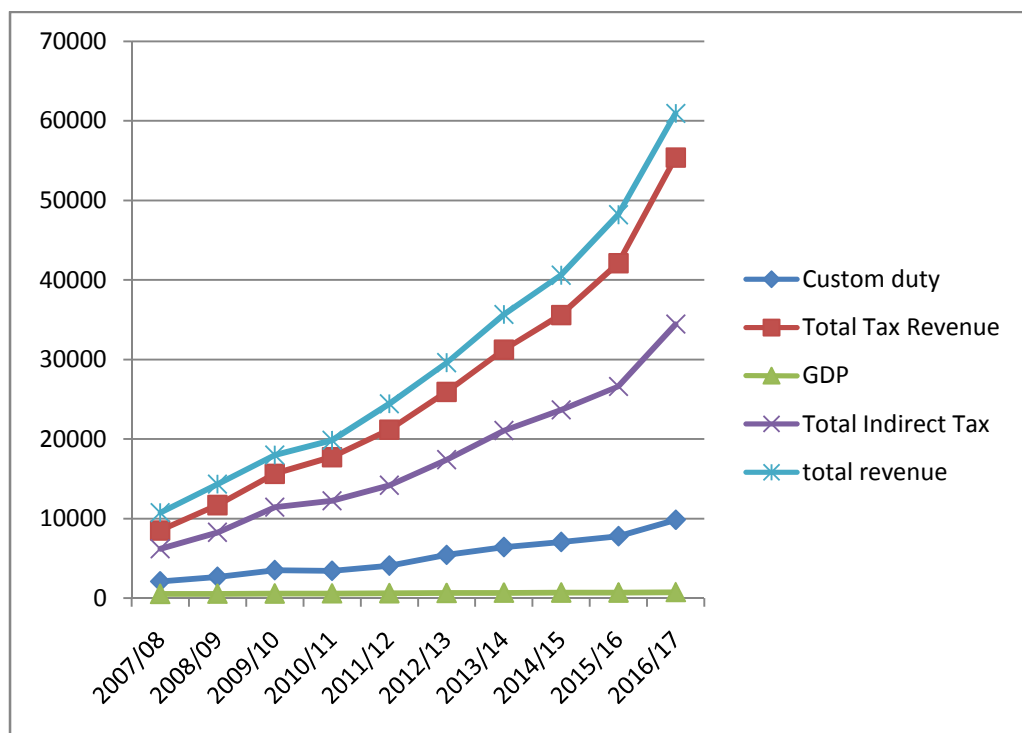
**Table 4.1: Year wise data for Custom Duty, Total Revenue, Total Tax Revenue, GDP and Total Indirect Tax**

(Amount in NRS Billion)

year	Custom duty	% change in custom duty	Total Tax Revenue	% Change in Total Tax Revenue	Total Revenue	% Change in total Revenue	GDP	% Change in GDP	Total Indirect Tax	% Change in Total Indirect Tax
2007/08	2106.24		8515.55		10762.25		522		6206.77	
2008/09	2679.29	27.207	11705.19	37.457	14347.45	33.313	543	4.0230	8271.47	33.265
2009/10	3515.08	31.194	15629.49	33.526	17994.58	25.420	566	4.236	11437.78	38.280
2010/11	3431.4	-2.381	17722.7	13.393	19837.5	10.242	588	3.887	12231.61	6.940
2011/12	4090.59	19.211	21172.3	19.464	24437.4	23.188	615	4.592	14185.24	15.972
2012/13	5432.79	32.812	25921.5	22.431	29602	21.134	638	3.740	17398.1	22.649
2013/14	6412.54	18.034	31244.12	20.534	35662.07	20.472	674	5.643	21064.26	21.072
2014/15	7052.67	9.982	35595.57	13.927	40586.64	13.809	694	2.967	23658.67	12.317
2015/16	7782.22	10.344	42109.66	18.300	48196.16	18.749	694	0	26601.05	12.437
2016/17	9841.03	26.455	55386.65	31.530	60917.99	26.396	743	7.061	34428.41	29.425
Average	5234.385		26500.27		30234.4		627.7		17548.336	
S.D.	2500.557		14718.06		16070.02		73.201		8870.784	
C.V	47.772		55.539		53.151		11.662		50.551	

(Source: Economic survey 2016/17- Ministry of Finance- Government of Nepal)

**Figure 4.1**  
**Line Graph for Custom Duty, Total Revenue, Total Tax Revenue, GDP and**  
**Total Indirect Tax**



The table 4.1 and figure1 present the ten years data for the Custom duty, Total revenue, Total tax revenue, GDP and Total indirect tax of Nepalese economy. The each figure's data show that the figures are increasing year by year which is seen in the figure 1.

The mean value of custom duty, total tax revenue, total revenue, GDP and total indirect tax for the 10 years are as, 5234.385, 26500.27, 30234.4, 627.7 and 17548.336 billion respectively. Similarly, the standard deviation of mean for custom duty, total tax revenue, total revenue, GDP and total indirect tax for the 10 years are as, 2500.557, 14718.06, 16070.02, 73.20147 and 8870.78 billion respectively. Lastly, the coefficients of variation of custom duty, total tax revenue, total revenue, GDP and total indirect tax for the 10 years are as, 47.772, 55.539, 53.151, 11.662 and 50.551 billion respectively.

The table also shows the percentage change in the each of the above figures for last ten years. The highest percentage increased in Custom Duty for the year 2012/13 i.e.

32.812. The lowest percentage for the year 2010/11 is i.e. -2.3806. Similarly, the total tax revenue portion of ten year is highest changed in year 2008/09 i.e. 33.52615 and the lowest percentage changed in total tax revenue is 13.927%. Same as the total revenue portion of ten year is highest changed in year 2008/09 i. e. 33.313%. And the lowest percentage changed in total revenue is 2010/11 i.e. 10.242%. Same as the GDP portion of ten year is highest changed in year 2016/17 i.e. 7.061%. And the lowest percentage changed in GDP is 2015/16 i.e. 0%. Lastly, the total indirect tax of ten year is highest change in year 2009/10 i.e. 38.280%. And the lowest percentage changed in total indirect tax is 2010/11 i.e. 6.940%.

## 4.2 Contribution of Custom Duty on Total Tax Revenue

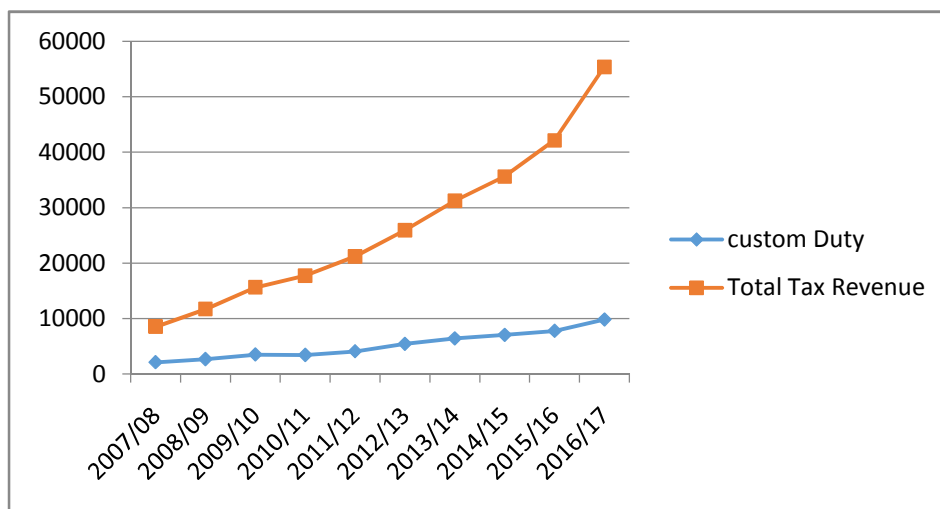
**Table 4.2**

**Contribution of Custom Duty on Total Tax Revenue**

Year	Custom Duty	Total Tax Revenue	% of custom duty on Total Tax Revenue
2007/08	2106.24	8515.55	24.734
2008/09	2679.29	11705.19	22.890
2009/10	3515.08	15629.49	22.490
2010/11	3431.4	17722.7	19.362
2011/12	4090.59	21172.3	19.320
2012/13	5432.79	25921.5	20.959
2013/14	6412.54	31244.12	20.524
2014/15	7052.67	35595.57	19.813
2015/16	7782.22	42109.66	18.481
2016/17	9841.03	55386.65	17.768
Total	52343.85	265002.73	206.341
Average	5234.385	26500.273	20.634

(Source: Economic survey 2016/17-Ministry of Finance-Government of Nepal)

**Figure 4.2**  
**Contribution of Custom Duty on Total Tax Revenue**



The table 4.2 and figure 2 illustrate the custom duty collection and contribution of custom duty on total tax revenue for 10 years. The total tax revenue is increasing year by year consistently. On the other hand, custom duty also has increasing trend but in lower growth than that of total tax revenue. The highest value of custom duty in relation to total tax revenue is 24.734% in year 2007/08 whereas; lowest is 17.768% in year 2016/17. The contribution of custom duty for each year is as 24.734, 22.890, 22.490, 19.362, 19.320, 20.959, 20.524, 19.813, 18.481 and 17.768 for the year 2007/08, 2008/09, 2009/10, 2010/11, 2011/12, 2012/13, 2013/14, 2014/15, 2015/2016 and 2016/17 respectively.

### 4.3 Contribution of Custom Duty on Total Revenue

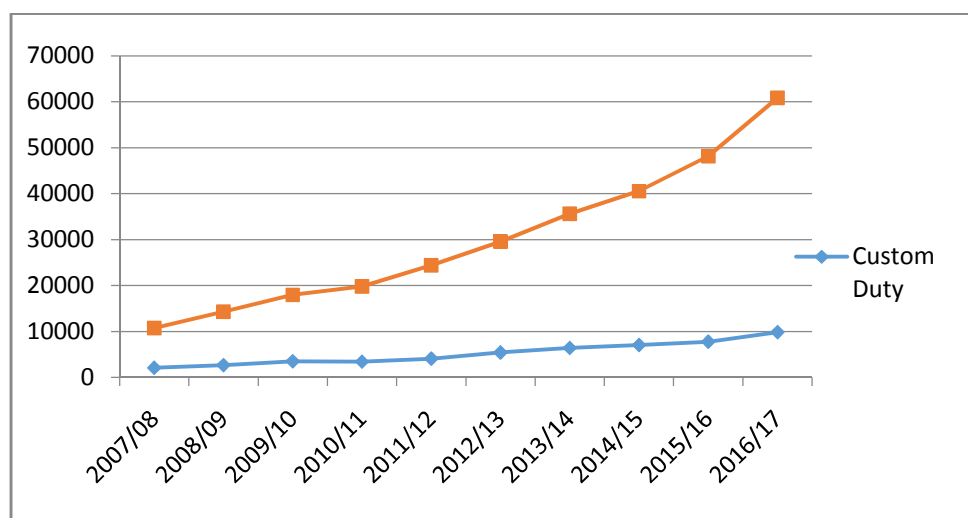
**Table 4.3**  
**Contribution of Custom Duty on Total Revenue**

year	Custom Duty	Total Revenue	% of custom duty on total revenue
2007/08	2106.24	10762.25	19.571
2008/09	2679.29	14347.45	18.674
2009/10	3515.08	17994.58	19.534
2010/11	3431.4	19837.5	17.298
2011/12	4090.59	24437.4	16.739
2012/13	5432.79	29602	18.353
2013/14	6412.54	35662.07	17.981
2014/15	7052.67	40586.64	17.377
2015/16	7782.22	48196.16	16.147
2016/17	9841.03	60917.99	16.155
Total	52343.85	302344.04	17.828
Average	5234.385	30234.404	17.783

(Source: Economic survey-Ministry of Finance-Government of Nepal)

**Figure 4.3**

**Contribution of Custom Duty on Total Revenue**



The table 4.3 and figure 3 show the data for custom duty collection and contribution of custom duty on total revenue for 10 years. The total revenue is increasing year by year consistently. On the other hand, custom duty also has increasing trend but in lower growth than that of total revenue. The highest value of custom duty in relation to total revenue is 19.571% in year 2007/08 whereas; lowest is 16.147% in year 2015/16.

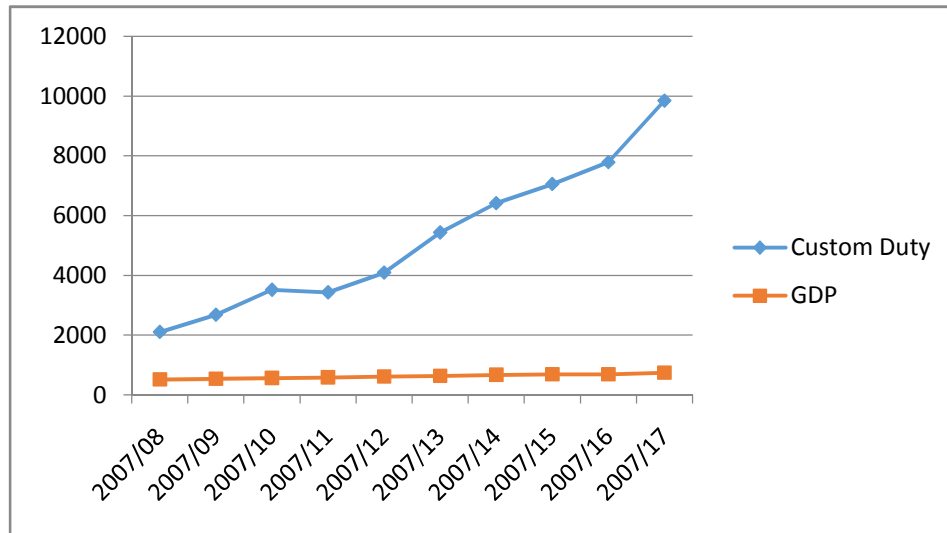
#### 4.4 Contribution of Custom Duty on GDP

**Table 4.4**  
**Contribution of Custom Duty on GDP**

Year	Custom Duty	GDP	% of custom duty on GDP
2007/08	2106.24	522	403.494
2007/09	2679.29	543	493.424
2007/10	3515.08	566	621.039
2007/11	3431.4	588	583.571
2007/12	4090.59	615	665.137
2007/13	5432.79	638	851.534
2007/14	6412.54	674	951.415
2007/15	7052.67	694	1016.235
2007/16	7782.22	694	1121.357
2007/17	9841.03	743	1324.499
Total	52343.85	6277	7628.212
Average	5234.385	627.7	803.171

(Source: Economic survey-Ministry of Finance-Government of Nepal)

**Figure 4.4**  
**Contribution of Custom Duty on GDP**



The table 4.4 and figure 4 show the data for custom duty collection and contribution of custom duty on GDP for 10 years. The custom duty is increasing year by year consistently. On the other hand, GDP is also increasing upward but in lower growth than that custom duty. The highest value of custom duty in relation to GDP is 1324.499% in year 2007/08 whereas; lowest is 493.424% in year 2016/17.



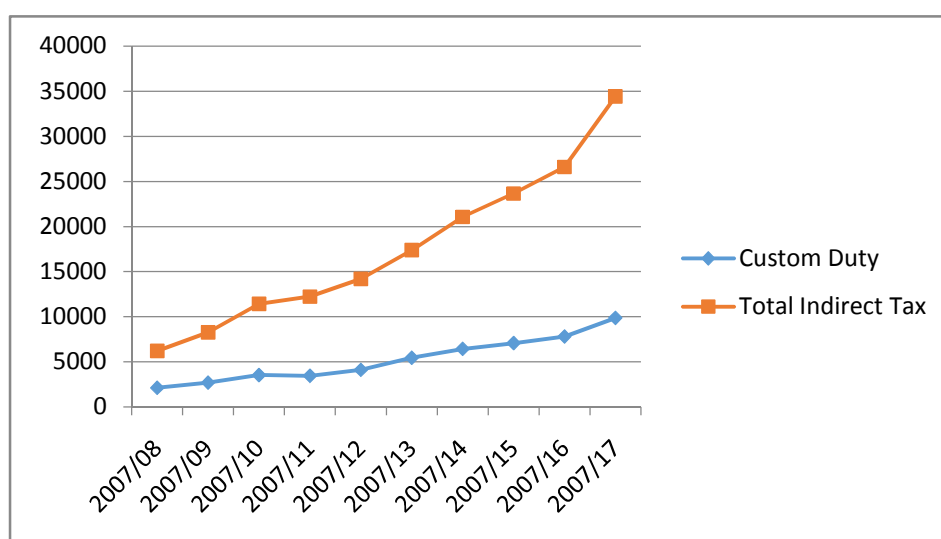
## 4.5 Contribution of Custom Duty on Total Indirect Tax

**Table 4.5**  
**Contribution of Custom Duty on Total Indirect Tax**

Year	Custom Duty	Total Indirect Tax	% of custom duty on Total Indirect Tax
2007/08	2106.24	6206.77	33.935
2007/09	2679.29	8271.47	32.392
2007/10	3515.08	11437.78	30.732
2007/11	3431.4	12231.61	28.054
2007/12	4090.59	14185.24	28.837
2007/13	5432.79	17398.1	31.226
2007/14	6412.54	21064.26	30.443
2007/15	7052.67	23658.67	29.810
2007/16	7782.22	26601.05	29.255
2007/17	9841.03	34428.41	28.584
Total	52343.85	175483.36	303.268
Average	5234.385	17548.336	30.327

(Source: Economic survey-Ministry of Finance-Government of Nepal)

**Figure 4.5**  
**Contribution of Custom Duty on Total Indirect Tax**



The table 4.5 and figure 5 show the data for custom duty collection and contribution of custom duty on GDP for the period 10 years. The total indirect tax is increasing year by year consistently. On the other hand, custom duty is also increasing upward but in lower growth than total indirect tax. The highest value of custom duty in relation to total indirect tax is 33.934 % in year 2007/08 whereas; lowest is 28.053 % in year 2016/17.

#### 4.6 Correlation between Custom Duty and Total Revenue

**Table 4.6**

**Correlation between Custom Duty and Total Revenue**

Year	Custom Duty(X)	Total Revenue(Y)	X <sup>2</sup>	Y <sup>2</sup>	XY
2007/08	2106.24	10762.25	4436246.938	115826025.1	22667881.44
2008/09	2679.29	14347.45	7178594.904	205849321.5	38440979.31
2009/10	3515.08	17994.58	12355787.41	323804909.4	63252388.27
2010/11	3431.4	19837.5	11774505.96	393526406.3	68070397.5
2011/12	4090.59	24437.4	16732926.55	597186518.8	99963384.07
2012/13	5432.79	29602	29515207.18	876278404	160821449.6
2013/14	6412.54	35662.07	41120669.25	1271783237	228684450.4
2014/15	7052.67	40586.64	49740154.13	1647275346	286244178.3
2015/16	7782.22	48196.16	60562948.13	2322869839	375073120.3
2016/17	9841.03	60917.99	96845871.46	3711001506	599495767.1
TOTAL	52343.85	302344.04	330262911.9	11465401513	1942713996
Correlation ( $r_x$ )	0.995				

(Source: Economic survey, Government of Nepal)

The table 4.6 shows that the correlation coefficient between custom duty and total revenue. The correlation between these two variables is 0.995. The figure indicates that it has perfect positive correlation, which means highly correlated with each other.

As if the custom duty increases then the value of total revenue also increases and vice-versa.

#### 4.7 Correlation between Custom duty and Total Tax Revenue

**Table 4.7**

**Correlation between Custom Duty and Total Tax Revenue**

Year	Custom Duty(X)	Total Tax Revenue(Y)	X <sup>2</sup>	Y <sup>2</sup>	XY
2007/08	2106.24	8515.55	4436246.938	72514591.8	17935792.03
2008/09	2679.29	11705.19	7178594.904	137011472.9	31361598.52
2009/10	3515.08	15629.49	12355787.41	244280957.7	54938907.71
2010/11	3431.4	17722.7	11774505.96	314094095.3	60813672.78
2011/12	4090.59	21172.3	16732926.55	448266287.3	86607198.66
2012/13	5432.79	25921.5	29515207.18	671924162.3	140826066
2013/14	6412.54	31244.12	41120669.25	976195034.6	200354169.3
2014/15	7052.67	35595.57	49740154.13	1267044604	251043808.7
2015/16	7782.22	42109.66	60562948.13	1773223465	327706638.2
2016/17	9841.03	55386.65	96845871.46	3067680998	545061684.2
TOTAL	52343.85	265002.73	330262911.9	8972235669	1716649536
Correlation ( $r_x$ )	0.994				

(Source: Economic survey, Government of Nepal)

The table 4.7 shows that the correlation coefficient between custom duty and total tax revenue. The correlation between these two variables is 0.994. The figure indicates that it has perfect positive correlation which means highly correlated with each other. As if the custom duty increases then the value of total tax revenue also increases and vice-versa.

## 4.8 Correlation between Custom Duty and GDP

**Table 4.8**  
**Correlation between Custom Duty and GDP**

Year	Custom duty(X)	GDP(Y)	X <sup>2</sup>	Y <sup>2</sup>	XY
2007/08	2106.24	522	4436246.938	272484	1099457.28
2008/09	2679.29	543	7178594.904	294849	1454854.47
2009/10	3515.08	566	12355787.41	320356	1989535.28
2010/11	3431.4	588	11774505.96	345744	2017663.2
2011/12	4090.59	615	16732926.55	378225	2515712.85
2012/13	5432.79	638	29515207.18	407044	3466120.02
2013/14	6412.54	674	41120669.25	454276	4322051.96
2014/15	7052.67	694	49740154.13	481636	4894552.98
2015/16	7782.22	694	60562948.13	481636	5400860.68
2016/17	9841.03	743	96845871.46	552049	7311885.29
TOTAL	52343.85	6277	330262911.9	3988299	34472694.01
Correlation ( $r_x$ )	0.981				

(Source: Economic survey, Government of Nepal)

The table 4.8 shows that the correlation coefficient between custom duty and GDP. The correlation between these two variables is 0.981. The figure indicates that it has perfect positive correlation, which means highly correlated with each other. As if the custom duty increases then the value of GDP also increases and vice-versa.

## 4.9 Correlation between Custom Duty and Total Indirect Tax

**Table 4.9**  
**Correlation between Custom Duty and Total Indirect Tax**

Year	Custom Duty(X)	Total Indirect Tax(Y)	X <sup>2</sup>	Y <sup>2</sup>	XY
2007/08	2106.24	6206.77	4436246.938	38523993.83	13072947.24
2008/09	2679.29	8271.47	7178594.904	68417215.96	22161666.86
2009/10	3515.08	11437.78	12355787.41	130822811.3	40204711.72
2010/11	3431.4	12231.61	11774505.96	149612283.2	41971546.55
2011/12	4090.59	14185.24	16732926.55	201221033.9	58026000.89
2012/13	5432.79	17398.1	29515207.18	302693883.6	94520223.7
2013/14	6412.54	21064.26	41120669.25	443703049.3	135075409.8
2014/15	7052.67	23658.67	49740154.13	559732666.2	166856792.1
2015/16	7782.22	26601.05	60562948.13	707615861.1	207015223.3
2016/17	9841.03	34428.41	96845871.46	1185315415	338811015.7
Total	52343.85	175483.36	330262911.9	3787658214	1117715538
Correlation	0.997				

(Source: Economic survey, Government of Nepal)

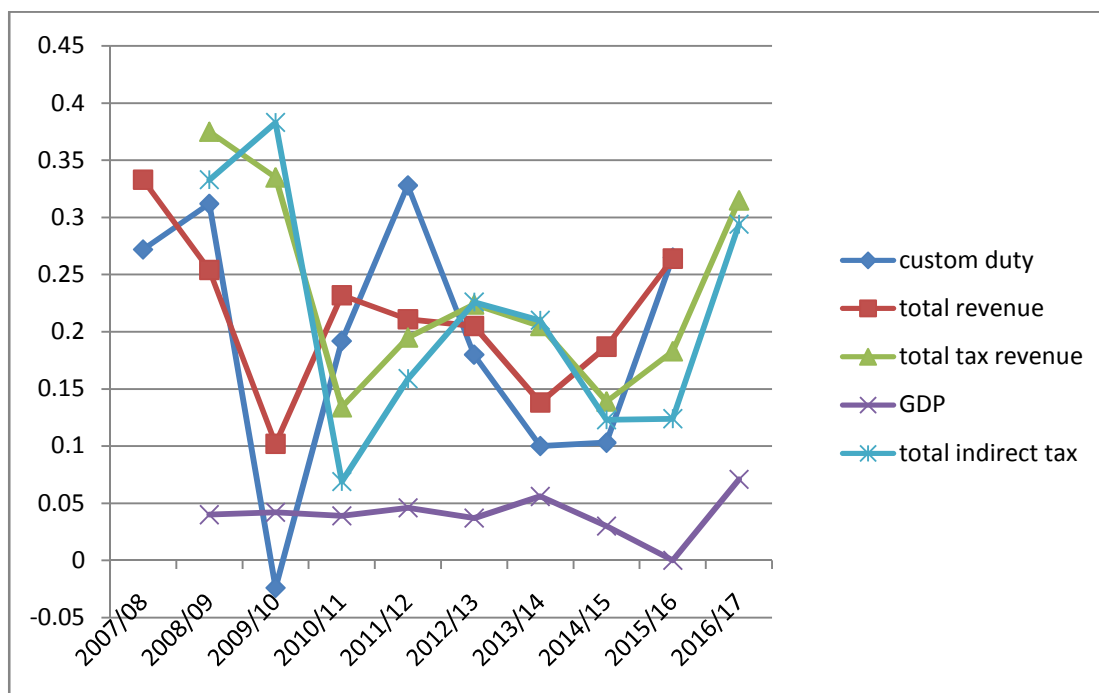
The table 4.9 shows that the correlation coefficient between custom duty and total indirect tax. The correlation between these two variables is 0.997. The figure indicates that it has perfect positive correlation between these two variables which means highly correlated with each other. As if the custom duty increases then the value of total indirect tax also increases and vice-versa.

#### 4.10 Year-wise Average Annual Growth Rate (AAGR) of Custom duty, Total Revenue, Total Tax Revenue, GDP and Total Indirect Tax

Year	Custom Duty	Total Revenue	Total Tax Revenue	GDP	Total Indirect Tax
2007/08					
2008/09	0.272	0.333	0.375	0.04	0.333
2009/10	0.312	0.254	0.335	0.042	0.383
2010/11	-0.024	0.102	0.134	0.039	0.069
2011/12	0.192	0.232	0.195	0.046	0.159
2012/13	0.328	0.211	0.224	0.037	0.226
2013/14	0.18	0.205	0.205	0.056	0.21
2014/15	0.1	0.138	0.139	0.03	0.123
2015/16	0.103	0.187	0.183	0	0.124
2016/17	0.265	0.264	0.315	0.071	0.294

Figure 6

#### Comparison of growth trends of Custom Duty, Total Revenue, Total Tax Revenue, GDP and Total Indirect Tax



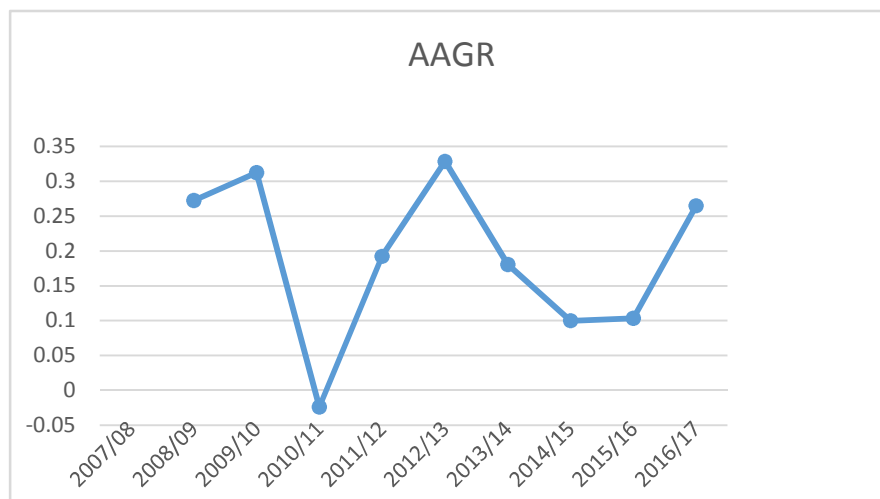
The table 4.10 and figure 10 show that AAGR value of custom duty, total revenue, total tax revenue, GDP and total indirect tax for ten years. Each figure's data shows that values are fluctuated heavily as shown in the figure 11. The highest value is shown in the year 2009/10 of Total Indirect Tax and lowest value is in the same year of custom duty which is below zero. However, GDP has constant growth rate till 2013/14. After 2015/16 year, all AAGR values are increasing which indicates the sound economic growth of the country.

#### 4.10.1 AAGR of Custom Duty

Year	Custom Duty	AAGR
2007/08	2106.24	
2008/09	2679.29	0.272
2009/10	3515.08	0.312
2010/11	3431.4	-0.024
2011/12	4090.59	0.192
2012/13	5432.79	0.328
2013/14	6412.54	0.180
2014/15	7052.67	0.100
2015/16	7782.22	0.103
2016/17	9841.03	0.265
Total	52343.85	1.729
Average	5234.385	0.192

(Source: Economic survey, Government of Nepal)

**Figure 7**  
**AAGR of Custom Duty**



The table 4.10.1 and figure 6 present that AAGR value of custom duty over the ten years. The line graph is fluctuating as per the passage of time. In year 2010/11, the value came to negative so it has gone below the zero.

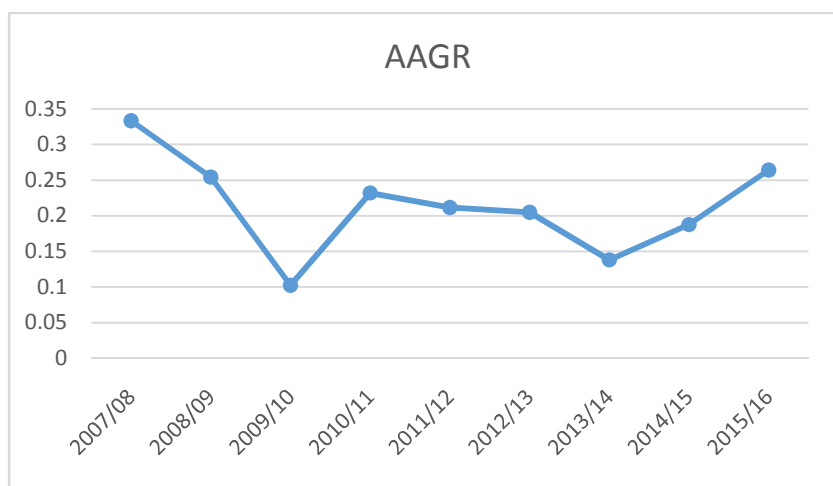
#### 4.10.2 AAGR of Total Revenue

Year	Total Revenue	AAGR
2007/08	10762.25	
2008/09	14347.45	0.333
2009/10	17994.58	0.254
2010/11	19837.5	0.102
2011/12	24437.4	0.232
2012/13	29602	0.211
2013/14	35662.07	0.205
2014/15	40586.64	0.138
2015/16	48196.16	0.187
2016/17	60917.99	0.264
Total	302344	1.927
Average	30234.4	0.214

(Source: Economic survey, Government of Nepal)



**Figure 8**  
**AAGR of Total Revenue**



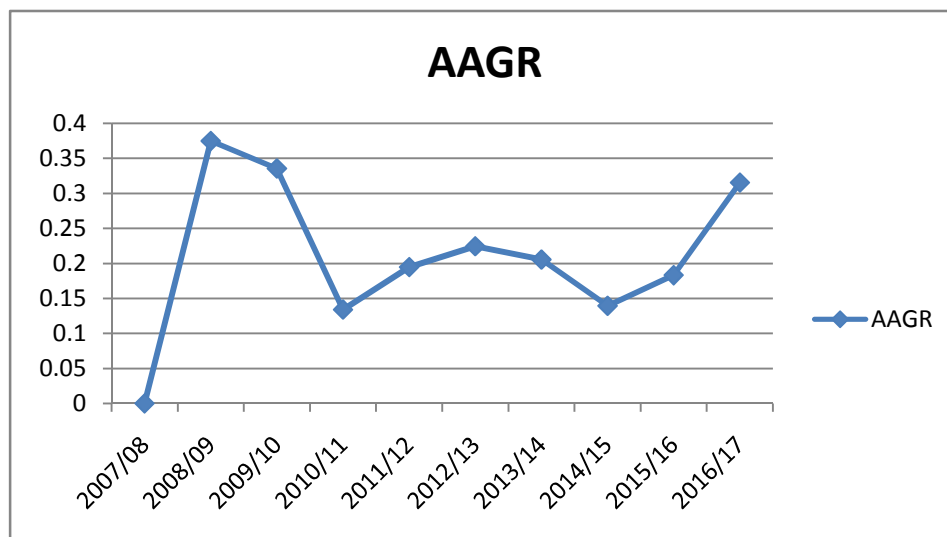
The table 4.10.2 and figure 7 show that the AAGR value of total revenue over the ten years. The graph line is in zigzag trend but its starting point was the highest between 2007/08 to 2016/17.

#### 4.10.3 AAGR of Total Tax Revenue

Year	Total Tax Revenue	AAGR
2007/08	8515.55	
2008/09	11705.19	0.375
2009/10	15629.49	0.335
2010/11	17722.7	0.134
2011/12	21172.3	0.195
2012/13	25921.5	0.224
2013/14	31244.12	0.205
2014/15	35595.57	0.139
2015/16	42109.66	0.183
2016/17	55386.65	0.315
Total	265002.73	2.106
Average	26500.273	0.234

(Source: Economic survey, Government of Nepal)

**Figure 9**  
**AAGR of Total Tax Revenue**



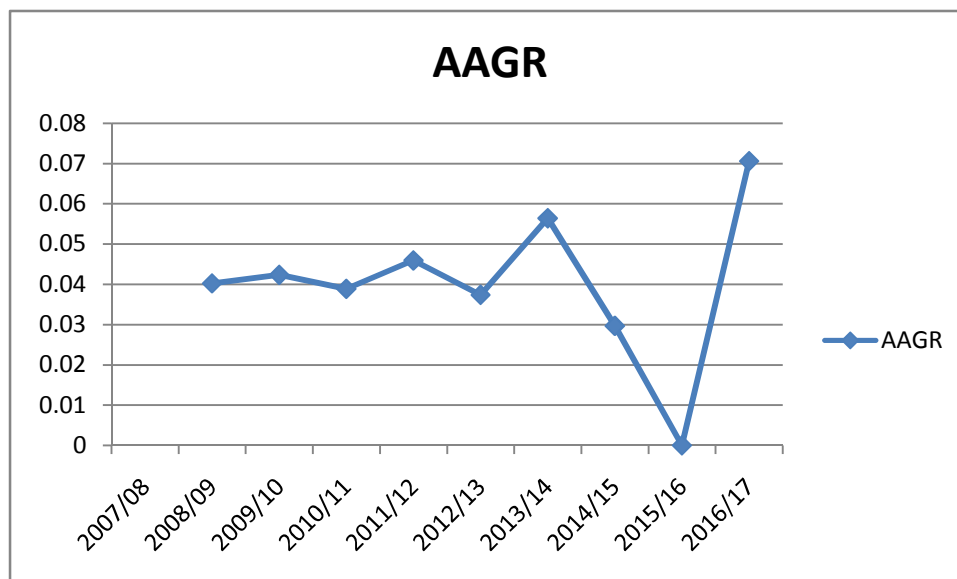
The table 4.10.3 and figure 8 show that the AAGR value of total tax revenue over the ten years. The graph line is in zigzag trend but its starting point was the highest within the period of ten years.

#### 4.10.4 AAGR of GDP

Year	GDP	AAGR
2007/08	522	
2008/09	543	0.040
2009/10	566	0.042
2010/11	588	0.039
2011/12	615	0.046
2012/13	638	0.037
2013/14	674	0.056
2014/15	694	0.030
2015/16	694	0
2016/17	743	0.071
Total	6277	0.361
Average	627.7	0.040

(Source: Economic survey, Government of Nepal)

**Figure 10**  
**AAGR of GDP**



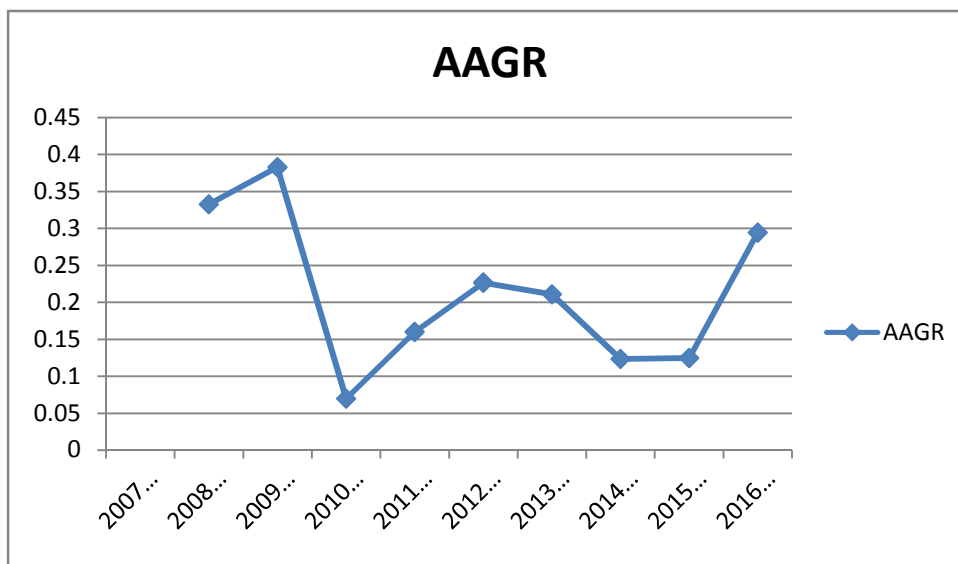
The table 4.10.4 and figure 9 show that the AAGR value of total GDP over the ten years. In figure, the value is increasing slowly with upward trend till 2012/13 then started to fall down. However, it has made high score on 2016/17.

#### 4.10.5 AAGR of Total Indirect Tax

Year	Total Indirect Tax	AAGR
2007/08	6206.77	
2008/09	8271.47	0.333
2009/10	11437.78	0.383
2010/11	12231.61	0.069
2011/12	14185.24	0.159
2012/13	17398.1	0.226
2013/14	21064.26	0.210
2014/15	23658.67	0.123
2015/16	26601.05	0.124
2016/17	34428.41	0.294
Total	175483.36	1.924
Average	17548.336	0.214

(Source: Economic survey, Government of Nepal)

**Figure 11**  
**AAGR of Total Indirect Tax**



The table 4.10.5 and figure 10 show that the AAGR value of total indirect tax over the ten years. The graph line is fluctuated with the passing period of time. Along with that, highest point was made in year 2009/10.

#### **4.11 Major Findings of the Study**

The following are the major findings drawn from the above data analysis of this study.

- The mean value of the custom duty, total tax revenue, total revenue, GDP and total indirect tax for the 10 years is 5234.385, 26500.27, 30234.4, 627.7 and 17548.336 respectively.
- The coefficient of variation of custom duty, total tax revenue, total revenue, GDP and total indirect tax for the 10 years is 47.772, 55.539, 53.151, 11.662 and 50.551 respectively.
- The highest percentage increased in custom duty is in year 2012/13. This finding was supported by a research “ Role of Custom Duty on Public Revenue” Shrestha (2013).
- The lowest percentage of custom duty is in year 2010/11.

- The highest percentage changed in total tax revenue is 37.457% in year 2008/09.
- The total tax revenue portion for ten years is lowest changed in year 2010/11 i.e. 13.393%. This finding was supported by a research “Contribution of Income Tax on Total Revenue” Pradhan (2009).
- The highest percentage changed in total revenue is 37.457% in year 2008/09.
- The lowest percentage changed in total revenue is 10.242% in year 2010/11.
- In GDP, highest percentage is 7.061% in 2016/17 year.
- The total indirect tax has high percentage changed in year 2009/10 is 38.280%. This finding was supported by a research “A Study on Corporation Income Tax in Nepal” Adhikari (2011).
- The lowest percentage changed in total indirect tax is 6.940% in 2010/11 year.
- The custom duty is in increasing trends but in lower growth than that of total tax revenue, tax revenue, GDP and total indirect tax.
- The average value of custom duty in relation to total taxes revenue (in percentage), total revenue, GDP and total indirect tax are 20.634, 17.783, 803.171 and 30.327 respectively. Among these, GDP has the highest average value.
- The correlation coefficient between custom duty and total tax revenue is perfectly correlated with positive value of 0.994.
- The correlation coefficient between custom duty and total revenue is highly correlated and has a positive correlation of 0.995.
- The correlation coefficient between custom duty and total indirect tax is perfectly correlated and has a positive correlation of 0.997.
- The correlation coefficient between custom duty and total GDP is highly correlated with positive value of 0.981.
- In ten years period, AAGR of custom duty, total revenue, total tax revenue and total indirect tax have been fluctuated heavily and came to the lower value than starting one.

- AAGR of GDP only gained highest value coming to the 2016/17 than beginning value.
- The average value of AAGR of custom duty, total revenue, total tax revenue, GDP and total indirect tax are 0.192, 0.214, 0.234, 0.040, and 0.214 respectively.

## **CHAPTER V**

### **CONCLUSIONS**

This final chapter is an outcome of all the efforts done from first to forth chapter. In this chapter, summary, conclusions and recommendations are included. Though this chapter seems to be the shortest amongst previous ones, it is the most important one because it contains the extract of the whole research.

#### **5.1 Summary**

This research is aimed at studying about the custom duty in the context of Nepal. The study has objectives of finding the custom trends, custom contribution in total tax revenue, total revenue, GDP and total indirect tax. This study is completed in five sections. The first section has defined the problem of statement along with the objective background and limitations of the study. The first section of this research has briefly introduced the background of this study in form of taxation and custom duty in the total revenue of the economy.

The second chapter gives light on the conceptual framework about the taxation, taxation system, taxation objectives, principles, types of taxation, and its theoretical background. Taxation is the system of levying taxes. The system is the set of principles. The principle is a scheme of ideas or body of the rules by which a theory is organized. Thus, the system of levies was developed after the origin of tax. Taxation is a system used by government to collect money from public and organizations. The government uses the collected money to support itself and to provide public services. In its nature, it is relatively permanent and compulsory and does not guarantee a direct relationship between the amount contributed by a person and the extent of governmental services provided to him/her. Similarly, taxation is an act or principle of levying taxes or the condition of being taxed. This means the process by which government of a country obtains money from its people in order to pay for its expenses. The previous research works about the taxation and custom duty are reviewed and the conclusions of those theses have been derived and the research gap for this research has been shown.

The third section covers the methodology of the research presented. In third chapter, the research design, nature of data used, collection methods, data analysis tools are defined for the completion of research. The present study follows the descriptive as well as investigative design to meet the stated objectives of the study. The study follows quantitative research methodology to achieve its objectives. The research design method focuses on the data collection method, research mechanisms. Different types of statistical tools are used to complete research such as; average, standard deviation, correlation coefficient, trend analysis through AAGR method etc.

The data presentation and data analysis section is very important and crucial section for each and every research so in this research also data analysis is done very carefully to fulfill the objective of this study. In the data analysis section, collected data are processed firstly through tabulation and graphical presentation. Then they are analyzed through mean, standard deviation, correlation coefficient and trend analysis tools of statistics. After analysis of major finding of the study are listed out to highlight the data analysis section of the study. The major findings are the output of this section.

Last but not least, the final section summarizes the study. The specific conclusions about the study on the basis of objectives of the study are passed out to provide recommendation to stakeholders of the study.

## **5.2 Conclusions**

Contribution of custom duty to total revenue has highest value as compared to other variables like total tax revenue, GDP and total indirect tax. The custom duty is in increasing trends but in lower growth than that of total tax revenue, tax revenue, GDP and total indirect tax. The contribution of custom duty to GDP has no drastic change in values so it has straight trend line in figure. The relation of custom duty with total revenue, total tax revenue, GDP and total indirect tax has perfect positive relationship, it means if the custom duty increases then value of total revenue, total tax revenue, GDP and total indirect tax also increase and vice-versa.



In ten years period, AAGR of custom duty, total revenue, total tax revenue and total indirect tax have been fluctuated heavily and came to the lower value than starting one. Government needs to take strong action on custom duty tariffs and its system for better performance and result.

### **5.3 Implications**

On the basis of the findings and study, we come to the state where we can comment on the strategies and policies and also recommend for the improvement.

- The custom duty is growing each year but with lower growth rate than other variables so it is recommended that growth rate of custom duty also should be maintained as other variables.
- The correlation coefficient of custom duty with total tax revenue, total revenue, GDP and total indirect tax suggest that if there is increase in custom duty, total tax revenue, total revenue, GDP and total indirect tax will also go up so it is recommended to work on the issues related to increase the custom duty.
- The growth trends of the custom duty, total tax revenue, total revenue, GDP and total indirect tax suggest that they will be in increasing trend for upcoming years so it is recommended that trend line must be at least in upward trend to contribute total revenue through custom duty.

### **5.4 Implications for Future Researcher**

- Except these specific recommendations, the future researchers are also suggested to do more qualitative research regarding the custom duty and other related variables through other more advance techniques to give more light on the matters and issues to custom and its problems.
- Different systematic, modern and statistical tools can also be used for the upcoming thesis in order to find out the actual and real database of contribution done by custom duty solely and its impact on other variables. A sample must be taken more than ten years data to gain the knowledge and comparative analysis of sampled data.

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