

# CHAPTER -I

## INTRODUCTION

### 1.1 Background of the Study

An isolated, agrarian society until the mid-20<sup>th</sup> century, Nepal entered the modern era in 1951 A.D. The country has, however made progress towards sustainable economic growth since the 1950s and is committed to a program of economic liberalization.

Nepal has used a series of five-year plans in an attempt to make progress in economic development. Planned economic development began in 1953. It completed its 10<sup>th</sup> economic development plan in 2007/08 July. Under the tenth plan, to run until 2063/2064 B.S., priorities have shifted to security and poverty reduction, but with a renewed emphasis on privatization and the effort to encourage private investment.

After the end of 10<sup>th</sup> plan, Nepal has formulated periodic three years interim from fiscal year 2064/2065-2066/2067. The following policies will be taken in this three years interim plan to create favorable impact on domestic revenue mobilization.

- ) The system of collecting and mobilizing taxes will be made transparent and simple by reviewing existing tax system and acts,
- ) Revenue leakage will be controlled by strengthening revenue administration capacity,
- ) Value Added Tax (VAT) system will be made more effective,
- ) The tax base will be gradually broadened,
- ) Customs rate and other tax system will be adopted in regional organizations like World Trade Organization (WTO) and South Asian Free Trade Area (SAFTA),
- ) Domestic revenue mobilization will be strengthened by broadening existing tax base,

At present 12<sup>th</sup> three years development plan has to be conducted from the fiscal year 2067/068-2069/070.

In the fiscal year 2067/068 Gross expenditure of Nepal government increased by 13.7 percent and in amount Rs. 295.36 billion. In the current fiscal year 2068/069 it is estimated that expenditure increases by 23.8 percent in comparison with past year in amount it reaches up to 365.72 billion. In current fiscal year it is estimated that revenue mobilization will be increased by 20.5 percent in amount Rs. 240.81 billion. From which tax revenue will be Rs. 205.22 billion and Non-tax revenue Rs. 35.59 billion is to be estimated.

Revenue mobilization, foreign grants and loan, domestic borrowing and change in cash reserves are used as fiscal instruments for financing government expenditures. When compared to the fiscal year 2066/067, revenue mobilization in 2067/068 grew by 11.0 percent to Rs. 199.81 billion. In the fiscal year 2066/067 revenue collection had increased by 25.4 percent as compared to its preceding fiscal year. The government revenue had financed 69.3 percent of the total government expenditure in the fiscal year 2066/067 while this resource contributed to 67.7 percent of the total expenditure in the fiscal year 2067/068. (*Economic Survey:2068/069*)

Gross government expenditure in the fiscal year 2067/068 was increased by 13.7 percent in amount 295.36 billion. The sources to cover such expenditure was revenue mobilization 67.7 percent, Foreign grant 15.5 percent, foreign loan 4.1 percent, domestic borrowing 14.4 percent and change in cash reserves are 1.7 percent.

Of the total revenue mobilization, share of tax revenue and non-tax revenue in the fiscal year 2067/068 stood at 86.5 percent and 13.5 percent respectively. Such shares in the previous year were 86.9 percent and 13.1 percent respectively.

Tax revenue grew by 10.5 percent in the fiscal year 2067/068 compared to that of the previous fiscal year. Such revenue had increased by 33.5 percent in the fiscal year 2066/067 compared to its preceding fiscal year.

Of the total tax revenue in the fiscal year 2067/068 the share of custom duty was 20.6 percent while the share of tax on production and consumption of goods and services was 51.2 percent. Likewise, the share of land revenue and registration was 2.1 percent and that of the total of income, profit and property tax was 26.1 percent.

The custom revenue collection grew by 1.6 percent on the tax revenue front in the fiscal year 2067/068 as compared to its preceding fiscal year while tax levied rose by 11.4 percent. The total of income, profit and property taxes increased by 24.4 percent while land revenue and registration fees dropped by 35.2 percent. Excise duty levied on the production and consumption of goods and services rose by 9.2 percent and VAT by 12.3 percent. Non-tax revenue increased by 14.3 percent to Rs. 27.02 billion in the fiscal year 2067/068 as compared to that of fiscal year 2066/067.

Excise duty is a form of an indirect tax which is imposed on the consumption of selected goods such as alcoholic, beverages, tobacco products etc. Typical examples of excise duties are taxes on tobacco and alcohol (sometimes referred to as sin tax).

According to the Oxford English Dictionary (2005/06), an excise is “a tax levied on certain goods and commodities produced or sold within a country and on licenses granted for certain activities”.

According to the Excise Duty Act 2002/03, “Product service subject to excise duty” means any product or service which is subject to the excise duty pursuant to this Act or other law in force.

An excise or excise tax sometimes called an excise duty or a special tax may be defined broadly as an inland tax on the production or sale of a specific good.

Excise are distinguished from custom duties, which are taxes on important. Excises whether broadly and defined or narrowly defined are inland taxes, where as customs duties are border taxes. An excise is an indirect tax, meaning that the producer or seller who pays the tax to the government is expected to recover the tax by raising the price paid by the buyer (i.e., to shift or pass on the tax). Excises are typically imposed in addition to another indirect tax such as a VAT. In common tax terminology, but not necessarily in law, an excise is distinguished from a VAT in three ways (1) an excise typically applies to a narrow range of products (2) an excise is typically heavier, accounting for higher fractions (some times half or more) of the retail prices of the targeted products and (3) an excise is typically specific (so much per unit of measure: e.g. so many rupees per tonne) where as a sales tax or VAT is *ad Valorem* i.e. proportional to value (a percentage of the price). (Bhattaria & Koirala 2010/11: 356-357).

Holland was the first country that introduced modern excise duty in the 16th century. Then England tried to escape the burden of taxation. In Nepal excise duty was introduced in 1854.

In the united kingdom excisable lists include both goods and services such as "alcohol, environmental taxes, gambling, holdings and movements, hydrocarbon oil, money laundering refunds of duty, revenue trader's records, tobacco duty, ad visiting forces etc. in Australia, an excise as "a total levied on certain types of goods produced or manufactured or imported in Australia. These include alcohol, tobacco and petroleum and alternative fuels.

In Nepal, excise duties are applicable to both domestically produced and foreign goods. Before the enactment of Excise Act 2002/03, the excise duty was imposed only on domestically produced goods of similar nature. Historically, these duties had constituted one of the largest sources of tax revenue in Nepal. It had covered a wide range of domestic products (more than fifty commodities) accounting for 13.5percent of total tax revenue during

2010/11. The basic relatively simple administrative efforts provide limited opportunities for tax evasion. The excise duty is very helpful instrument to control the consumption which is regarded as lacking merit or as likely to cause negative externalities. The excise duty has been governed and regulated by the Excise Act 2002/03, Excise Regulation 2003/04, and Alcohol Regulation 1977. (Bhattarai & Koirala, 2010/11: 356-358)

In India, it is described as an indirect tax levied and collected on the goods manufactured in India. Excise duty is a government tax on selected goods which are manufactured, sold or used in the country. This traditional definition of the excise duty has been widened in scope in recent years. It is also applied on service sector and the import of selected goods and commodities.

The Civil Code 1854 has given legal basis for imposing excise duty on liquor, mining of iron, animal bones, hashish, cannabis, timber wood etc. It was believed that the duty was raised to cover the expenditure on war with Tibet. The Excise Act 1959 authorized the government to impose excise duty on domestic industrial products like matches, sugar, liquor etc. The Act was revised in 2002/03 expanding the scope of excisable products. The government is now authorized to impose excise on service sector as well as on the import of goods on a selective basis. During the Rana regime, the excise duty was collected on a contract basis. After 1951, the contract system to raise excise duty from hashish and cannabis was terminated and the license system was introduced. The contract system on other products was continued. The contract system of low grade production and distribution of liquor was particularly significant. The Liquor Act 1975 was promulgated, which gave legal basis to introduce distillery system in the production and distribution of liquor. A separate Department of Excise was established in 1965 by bifurcating the Department of Customs and Excise. The purpose was to make the excise administration more effective and efficient in order to raise revenue from different kinds of domestic products on selective basis. The Department established field offices in various parts of the country. The Department was

abolished in 1998. Its responsibilities were transferred to the newly created Department of Inland Revenue and one director in the New Department was given specific responsibility on the excise administration and similar responsibility was assigned to section officer in 22 field offices. The Department of Inland Revenue has delegated its authority of issuing excise license to 17 treasury offices. As the customs tariff rate has shown declining trend in the last few years, it is necessary for the government to explore alternative means to compensate for the loss of revenue and mobilize additional revenue to meet the growing administrative expenses. Excise duty is the potential area which is expected to contribute substantially in the future. This study is therefore an attempt to explore the potential, examine the status and the constraints and suggest recommendations for resource mobilization (Ghimire 2006/07: 1-5).

## **1.2 Statement of the Problem**

Economics development is the prime concern of every nation of the world. Undeveloped countries are facing serious problems in the process of economic development. Nepal is also not an exception to this condition. Excise duty will be unpredictability. Excise officer are looked upon as heaven for corruption, harassment and incompetent personnel. The excisable goods Production Company would leakage excise duty. In view of the discussion of problem taken from the above studies, research question will be as follow.

In the study have some difficulty in practice even if there are some difficulties which arise in excise administration. It is difficult to distinguish necessary and luxury goods. Because necessary for one group may be a luxury for another group of the country. While considering a commodity there harmful or useful a moral judgment is involved. The use of morality basis of taxation con never be justifiable in the community.

One of the major weaknesses in collecting excise taxes is the vast leakages. These leakages are found from the personnel's sides. We have outlined some

difficulties or problems for policy makers of excise taxation. Nepal itself is feeling some of the problems in excise taxation. Real revenue from excise taxes is not collected. Both tax evasion and corruption are being continued from both sides. In case of Nepalese situation economists refer the concerning government to transform all or nearly their excises in to taxes according to its value and valorem taxes. Development of excise taxation is quite related to the industrial development of a country. So the planners should be interested with studying the excise taxation in Nepal. We find that there are legal drawbacks in the Act and Rules concerned.

- ) What is the excise duty structure of Nepal?
- ) Are the prescribed rates of excise duty appropriate for excisable goods?
- ) How has excise duty been contribution revenue to the government in Nepal?
- ) What are the future prospects to increase excise duty revenue in Nepal?

### **1.3 Objectives of the Study**

The specific objectives of the research study will be as follow

- ) To analyze excise duty structure of Nepal
- ) To analyze the prescribe rate of excise duty in excisable goods.
- ) To analyze the excise duty contribution to the government revenue in Nepal.
- ) To provide necessary suggestions and recommendations.

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

Excise duty is a kind of tool which control the production and distribution of excisable goods. The excise duty is main source of revenue for Nepal. So the topic will be chosen for the study. This study will be useful to economists, planners, excise officers, government and other interested persons about the revenue collection from excise duty in Nepal and problem and prospects of

excise duty systems. It also provides the information about excisable goods and rate of excise duty. Those products which contribution is high amount to excise duty.

### **1.5 Limitations of the study:**

Following are the limitations of the study:

- ) The study covers the data of ten years only i.e. 2002/03 to 2011/12.
- ) This study mainly focused on primary & secondary data.
- ) Secondary data collected only from Inland Revenue Department, Economic survey & Ministry of Finance.
- ) This study related to Nepalese laws, acts, rules and regulations to the excise duty.
- ) Being a researcher as a student and due to the limited resource constraints, the study is neither compressive nor extensive.

### **1.6 Organization of Study**

This study has been designed into five chapters: they are:

**Chapter -1: Introduction:** It is about introduction, background of the study, objectives of the study, statement of the problem, significance of the study, limitation of the study and organization of the study.

**Chapter 2: Review of literature:** This chapter contains review of literature which deals theoretical framework. Some books, dissertations, reports and articles will be reviewed for the study.

**Chapter – 3: Research methodology:** The third chapter will be concerned with research methodology. In this chapter, the research design, population and sample, nature and sample of data, data gathering procedure, data processing procedure and analysis of data. Methodology helps to analyze, examine and interpret various aspect of research work. Methodologies state the method with which data will be used in interpretation of such data to fulfill the objectives.



**Chapter 4: Data presentation and analyses:** The fourth chapter will be the major part of the study which will aim to make critical analysis of excise duty of Nepal with the assistance of authoritative data and opinion survey will be analyzed. On the basis of analysis, it will describe the excise duty contribution to government revenue, structure of excise duty and prescribed rate of excise duty those product which contribution more share of excise duty revenue of Nepal and findings.

**Chapter 5 : Summary, conclusions and recommendations:** Chapter five will be mainly concerned with summary, conclusion and recommendation.

## **CHAPTER - II**

### **REVIEW OF LITERATURE**

This chapter is related with review of literature dividing into two parts i.e. theoretical literature and empirical literature. Theoretical review provides concepts concerning the subject matter that are written on textbook on one hand. On the other hand, empirical review provides reviews the previous studies which are related to the subject matter of this study. Literature review begins with a search for a suitable topic and continuous throughout the duration of the research work.

#### **2.1 Conceptual Foundation**

##### **2.1.1 Meaning of Taxation**

In the early days around 18<sup>th</sup> century the concerned authority of the country used to collect tax from public with the propose of financing the war expenses. The excise tax were introduced at the close the middle ages, primarily in order to provide a reliable and steady flow of revenue to meet the mounting indebtness of the states. In the ancient time there was also practice of tax collection. But the nature and propose of collecting the tax are different from these days. Whatever is tax in nature and proposes, tax is a payment on income or property or consumption toward government or concerned authority.

In simple terminology, tax liability to pay an amount to the government. It is a compulsory contribution on the government revenue from the taxpayers according to law.

Tax originally denoted to assess an amount to be levied; the notion of imposing such a levy is a secondary development. The word comes passing through old French 'taxer' from Latin 'taxare' a derivative of 'tang ere' of English. The 'taxare' was derived from Medieval Latin noun 'taxa' which means an allotted

piece of work or task, which passed into English through Anglo-Norman 'tasque' as task.<sup>4</sup>

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

The definition given by some experts are mentioned as below:

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

According to Prof. Seligman “A compulsory contribution from a person to the government to defray the expense incurred in the common interest of all without reference to special benefit conferred.”

According to Plehn “Tax are general contribution of wealth to levy upon person natural or corporate to defray expenses incurred in conferring common benefit upon the residents of the states.” (Bhattarai & Koirala 2010/11; 1-2).

The following conclusion can be drawn from the above definition.

- ) Tax is compulsory levy imposed by the government.
- ) It is levied on person as per the prevailing laws.
- ) Those who pay tax do not get corresponding benefit from the government.

) It is collected from people and spent for the interest of people.

After the great depression of 90's, the function of government has been increased considerably for smooth functioning of the government has got various sources of revenue. Among the various sources of revenue of government the most important is tax. Generally tax is defined as compulsory payment to the government. Everybody on whom it is imposed should pay tax. He is punished in case of evasion. The taxpayer does not get liquid pro quo or equivalent benefit, from the government for paying tax. According to Seligman, tax refers "A compulsory contribution from a person to the government to defray expenses incurred in common interest of all without reference to special benefit conferred."

A tax is a liability imposed upon the tax assessee who may be an individual, a group of individuals, or other legal entity. It is a liability to pay an amount on account of the fact that the tax assessee has income of a minimum amount and from certain specified sources; they carry on certain economic activities, which have been chosen for taxation. A good tax system should run in harmony with important national objectives. The dynamism of the system is more relevant for a developing economy where the structure and rate of taxes have to be constantly reviewed. A tax system should be equitable as between different taxpayers.

"A tax has a long history. According to Manu, taxes should be laid as per the shrastras". We can get the reference of tax in Shanti Parba of Mahabharata where Yudhister gets education about different political activities from Bhisma. Here, Bhisma said just a person desirous of getting milk never obtains the same by cutting udders of his cow, so a kingdom inflected by improper devices or irregular practices never yield any profit for the kingdom. We find similar opinions in Pachantantra. In history, tax has caused many events that are of immense importance for the people of modern world. Whether it is a case of Corn Law imposed in England or the slogan rose as "no taxation without

representation" in independence movement of USA, it is the tax that was the root item. Taxation caused the French Revolution of 1789, Boston Tea Party in USA and took the life of Charles I in England in 1748 (Bajracharya 1993: 21-25).

### **2.1.2 Concept of Corporate Taxation**

Nepal currently levies four different types of income taxes. They are individual income tax, corporate income tax, house rent tax and interest tax, of these taxes, corporate tax are levied on corporate body. A Corporation is a separate entity from its shareholders on both legal and economic grounds. It is a separate entity from its shareholders on both legal and economic grounds. It is separate legal entities form its shareholders since it can sue and be sued in its own name. Furthermore, it holds properties in its own name and its shareholders have limited liability in respect of its debts. A corporation is also a separate economic entity. It has authority to take decision on various matters including the distribution of its profits to its shareholders that exercise only a remote control over the earning of corporate income. Since corporation is a separate entity from its shareholders, the profit obtained by the former is different form the income of the later. Accordingly, it is standard international practice to levy tax on corporate profit. Corporate income tax is also justified on the following grounds:

- ) Easy to collect.
- ) The dominant role of corporations in business life.
- ) Ownership and control rest on different persons, particularly, in the case of large companies.
- ) The burden of corporate income tax sometime is borne not by the owners of the company but by the suppliers, consumers or employees of the company depending upon market conditions.

Nepal levies corporate income tax on government corporations, public and private limited companies and partnership firms.

A corporate body is a legal organization that is voluntarily created, organized, or chartered under law. It is an artificial person, which can own property, execute contracts, raise debts and generate profits. Therefore a corporate tax is a tax levies on corporate to unincorporated enterprises. It is the tax on capital income that accrues in the form of profit and originates in the corporate sector. The corporate tax is the branch of the income tax introduced in 1797 in one Dutch Batavian Republic and in 1799 in England. Although Nepal has a long history of taxation, corporate tax was introduced only in 1960 when the Business Profits and Remuneration Tax Act, 1960 was enacted. In the beginning it was not differentiated form personal income tax. The finance Acts of 1960 to 1964 prescribed the same tax rates with progressivism and exemption limit to all companies, private firms, individuals and families. From the financial year 1965/66, tax exemption given to companies similar to personal taxpayers was withdrawn.

The rate of corporate tax was very low when it was introduced. It was increased during the great world wars when the state imposed higher tax rates because of its easiness in taping the revenues. Although, corporate tax has been an inseparable factor of the modern world of taxation, there is no unanimous view about its existence. Different economists, tax experts and businessmen have different opinions regarding its theory of existence, base of taxing, shifting and incidence and methods of taxation. They differ in their opinion related to the impact of corporate taxation on investment. In these days, different issues have been raised in relation to the impact of inflation on business community due to corporate tax. Besides this, debates have been continuing regarding the usefulness of different types of tax incentives, rate of tax, treatment of risk and past accumulated losses, inventory valuation technique and capital gain taxation.

### **2.1.3 Objectives of Taxation**

Tax is a major source of government revenue. It is an important instrument for collecting government revenue. The sound tax police ensure the economic growth and social devolvement in the country. The main objectives of tax are as follows:

- ) **Raise More Revenue:-** The government need large amount of money to carry out development activities and to meet administration cost. Thus main objective of tax is to increase the government revenue which is necessary to meet the expenses of public interest.
- ) **Prevent Concentration of Wealth in few Hands:** Concentration of wealth in the hand of few people is harmful to the country. It may increase uncertainty, violence and other criminal activities in the country. Tax helps to prevent concentration of wealth in few hands by applying progressive tax system. High earners are imposed high tax and low earners are imposed low tax. So narrowing the gap between the rich and the poor is another objective of tax.
- ) **Re-distribution of wealth for the Common goods:** The government can collect large amount of tax from rich people applying progressive tax system and expended that amount for common goods in the country. It helps handover the wealth of rich people to poor people in the society. So, tax helps in re-distribution of wealth in the country.
- ) **Rapid Economic Growth:** The main objective of developing and undeveloped country is to achieve rapid economic growth in the country. Tax is an important instrument for it. The government control or expands the economic activities of the country by providing various concessions, rebates and other facilities. The tax systems encourage for establishing industry in the backward areas and promote export by providing special facilities. Ultimately it helps in economic growth in the country.
- ) **Remove Regional Disparities;** Regional disparities are a major problem of the all most country in the world. Liberal tax policy helps to remove regional disparities in the country. It provides special facilities, concession and rebate to the industry established in remote and backward area which helps to increase employment and earning of the

people in the remote area. Thus removing regional disparities is a major objective of tax.

- ) **Reduce Unemployment:** The government can reduce the unemployment in the country by promoting various employments is given more facilities. As a result unemployment problem can be reduced to a great extent through liberal tax policy. (Dhakal & Bhattarai 2010/11: 1-13)

#### **2.1.4 Role of Taxation in Economics Development**

Taxation is viewed as a strong tool of economic policy apart-from its importance as a source of revenue. Listed below are some of the major functions which the process of taxation performs specially in the developing countries. It is in infant stage due to these and many other major function due to which it has been used as the powerful tool by most of the countries.

- ) Taxation provides funds that are considered necessary for public consumption and investment.
- ) A sound tax policy is very often an effective tool for the reduction of inequalities among different section of people.
- ) An appropriate tax system also provides incentives in different ways to change the economic behavior of the economy. It is thus an effective tool, if properly used, to encourage private saving and investment.
- ) In most of the developing countries the necessary consumption goods cannot meet the rising demand many times. Under such situation taxes become the appropriate instrument in reducing the consumption level many a times.
- ) In the developing countries private savings are generally insufficient to back up the investment needs. Under such conditions, ‘public Savings’ has to take the lead for which appropriate taxes are best tools.



- ) Proper tax policy helps in the control of inflation besides increasing the rate of investment in the developing countries. It has therefore an anti-inflationary effect as well.
- ) Taxation plays an important role in economic development mainly in two ways-firstly by affecting the determinants of growth and secondly, by permitting the financing of governments development expenditures. (Shrestha 1976: 23).

### **2.1.5 Indirect Tax**

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

- ) Value added tax (VAT)
- ) Sales Tax
- ) Entertainment Tax
- ) Hotel Tax
- ) Excise Duty
- ) Custom Duty

#### **Merits of Indirect Tax**

- a) Convenient to the tax payer
- b) There is mass participation
- c) Less Chance of Tax Evasion
- d) Control in the use of Harmful goods

#### **Demerits of Indirect Tax**

- a) Inequitable
- b) It is Uncertain
- c) Bad effect on Economy
- d) Less consciousness of the Citizens

### **2.1.6 Sources of Government financing in Nepal**

The government of any nation required funds to carry out various activities in the country. Generally it required fund for carrying out development activities, maintaining peace and security in the country, handling day to day administration and launching social welfare programs. Generally government collects required fund from two sources as follows.

1. **Debt:** If the government has deficit budget, it is generally financed through debt. The debt may be internal and external.
2. **Revenue:** The government revenue comes from two sources. One is tax revenue and another is non-tax revenue. Tax revenue consists of amount of tax collected through direct and indirect taxes. Income tax, property tax, vehicle tax, interest tax, and the major sources of direct tax revenue. Value added tax, custom duty, and excise duty are the major sources of indirect tax revenue. Non-tax revenue consists of revenue like gift, grants, revenue from public enterprises, registration fees, other service fees for providing administration services, fine and penalties are fall under non-tax revenue.

### **2.1.7 Review of Historical Background of Taxation in Nepal**

In early days, tribe rulers, community head etc collected taxes. For communal services rendered and as a contribution to communal resources for times of emergencies, the taxes were in the forms of cattle, food grains, animal's skin and labors etc. The ancient Hindu tax system was based on the theory like such as the after of the earth goes in the sky from the heat of the sun and later it rains again on the earth. Law had fixed taxes and scales had been embodied in the sacred common law. The consequences that, whatever the form of government, the matter of taxation were not an object of ruler's caprice in these days, the people were eager to pay tax because they thought not paying the tax was great sin. Even those practicing authorities in the forest as living by gathering corn from the fields pay one sixth of it to the king.

Ancient Athens used to derive its revenue from taxes like customs, sales and poll tax on aliens and slaves. One who was taxed and failed to pay was guilty of a capital offense. Emperor Augustus introduced land and inheritance tax. Julius Caesar was the first ruler to collect tax through government institutions. At the time of Julius Caesar he levied on percent sales tax.

In ancient Nepal, land tax was the main source of revenue. In "Licchhavi" period, there was three type of taxes levied on the people, 'Bhaga' (tax on agriculture) in that period. There was tax for purification of caste by priest and even cremation tax, which was extracted in gold by the ruler of Bajhang, in far western Nepal. In ancient Nepal, tax was collected in goods and services. Anyway, all above facts show there was tax system.

After the unification of Nepal, the main sources of revenue were land tax, customs export of wood materials, birds, animals etc and fines. Taxed amount was allocated to royal palace expenses, for peace, security and construction works, for the salary and allowances of the local employees, the tax was collected on the basis of 'Istihar' and 'SanadSawal'.

There was no hard and fast rule relating to taxation in the age of Rana Regime. People of those days were familiar merely with the primitive type of taxation like Sarva Chandrayani (Six Paisa per house payable annually to the Bada Guruji i.e. chief spiritual teacher), Goda Dhuwa Chuwawom (Twenty Five Paisa payable per head by government employees to His Majesty's Treasure in times of marriage and coming of age ceremony of members of the royal family), Darshan Bhet (Three percent of annual pay of employees, above the rank of junior clerk payable to government treasury annually but not exceeding Rs. 50 and Rs 55 from officers having Rs 500 or above as annual pay respectively), a royalty (Rs one per government employee payable to His Highness Shree Tin Maharaja and the Commander-in Chief after Pajani i.e. general screening of the years). Besides other duties and service charges like

customs duties, excise duties, royalties and other charges on forest products as well as land tax.

### **2.1.8 History of Excise Duty in International Context**

The development of modern excise system is associated with the rise of the trade and commerce. The excise system as a taxation technique has emerged as a supplementary measure to check the leakage and to increase the revenue. It developed first in Holland in the 16<sup>th</sup> century. It was in the 17<sup>th</sup> century when the trading classes developed in England and they tried to escape the burden of taxation. Which the then land owning class was anxious enough to place on them that excise system developed in the country. "The selfish daring of the capitalist" remarked Seligman and the unsex fish idea of the tax reformers went hand in hand to widen the scope of indirect taxes. And as the trading class developed in other countries, the system of excise spread with it.

Urgent necessary of revenue to finance wars and the existence of ripe condition due to the growth of trading and commercial classes were the two leading factors responsible for the into introducing of excise taxation system in most of the European countries and America. (Bajracharya 1993: 34).

### **2.1.9 History of Excise Duty in Nepal**

The Civil code 1854 has given legal basis for imposing excise duty on liquor, mining of iron, animal bones, hashish, cannabis, timber wood etc. The Excise Act 1959 authorized the government to impose excise duty on domestic industrial products like matches, sugar, liquor etc. The Liquor Act 1975 was promulgated, which gave legal basis to introduce distillery system in the production and distribution of liquor. The Excise Act 2002/03 authorized the government to raise revenue from selected import products and services.

The excise duty is levied on agriculture and industrial production selected commodities and also on private borrowing for commercial purposes. The

excisable goods are the manufactured goods like cigarettes, jute, matches, sugar, liquor, clothes, cement, and vegetable ghee and so on.

The history of excise duty in Nepal is rather long. Before 1957, the main source of government revenue was traditional items like land revenue. Customs and excise duty, royalties on contract for felling trees and for supplying porters, vehicles and liquor licensing ,fees and soon. The main item under excise before 1957 was on local liquor, pig-gains, leather, ganza and hashish etc. At that time the excise tax administration was left to the responsibility of “Rakam Bandobasta Adda”

In 1955 the Department of Custom and excise was established by the abolition of “Rakam Bandobasta Adda”. But as rapid industries alization took place in various fields such as distillery, tobacco, rice and oil processing, a small branch office of custom and excise Department could not meet the heavy requirement of revenue collection. Therefore separate department of excise was established in 1966. At present this department is functioning effectively in the central and district levels. In the district where is excise office is not operation the responsibility of excise collection is done by the department of land revenue.

Excise duty is a government tax on selected goods which are manufactured, sold or used in the country. This traditional definition of the excise duty has been widened in scope in recent years. It is also applied on service sector and the import of selected goods and commodities."Product or service subject to excise duty" means any product or service which is subject to the excise duty pursuant to this Act or other law in force.

A separate Department of Excise was established in 1965 by bifurcating the Department of Customs and Excise. The purpose was to make the excise administration more effective and efficient in order to raise revenue from different kinds of domestic products on selective basis. The Department established field offices in various parts of the country. The Department was abolished in 1998. Its responsibilities were transferred to the newly created

Department of Inland Revenue and one director in the New Department was given specific responsibility on the excise administration and similar responsibility was assigned to section officer in 22 field offices. The Department of Inland Revenue has delegated its authority of issuing excise license to 17 treasury offices. As the customs tariff rate has shown declining trend in the last few years, it is necessary for the government to explore alternative means to compensate for the loss of revenue and mobilize additional revenue to meet the growing administrative expenses. Excise duty is the potential area which is expected to contribute substantially in the future. This study is therefore an attempt to explore the potential, examine the status and the constraints and suggest recommendations for resource mobilization. (Bajracharya 1993: 35).

#### **2.1.10 Excise Duty: Objective**

The government of Nepal has levied excise duty to achieve multiple objectives. The Government's main objective of levying excise duty is the mobilization of revenue. The government declares its social objective of discouraging the consumption of health hazard products. The Excise duty is therefore imposed on the manufacture of the products like beer, liquor, tobacco and cigarettes.

The countervailing duty was imposed on imported products to protect the domestic Industries from unfair competition. The excise duty applied for the domestic manufacturing industry is also applied without discrimination to the identical or similar products imported from the foreign countries. As a member of WTO, the provisions of WTO discourage to discriminate against the domestic and foreign products. Hence this objective of protection of the domestic industries by the imposition of countervailing duty has lost its significance in recent days. The excise duty is also applied with the objective of protecting the environment .The example is excise duty on plastic paper bags, the production of bricks and the import of vehicles.

In Nepal, excise duties are applicable to both domestically produced and foreign goods. Before the enactment of Excise Act 2002/03, the excise duty was imposed only on domestically produced goods. A countervailing duty of the same rate was imposed on the imported goods of similar nature. Historically, these duties had constituted one of the largest sources of tax revenue in Nepal. It has covered a wide range of domestic products (more than fifty commodities) accounting for 14.3 percent of total tax revenue during 1992. But in years as follows the almost universally accepted norms, excise duties were restricted to a narrow range of domestic products. It covered tobacco products, liquor, beer flavored soft drinks, cement and plastic goods. Consequently, its contribution dropped down to 9.9 percent of total tax revenue during 2002/03. In recent years, the government has introduced excise duties as a substitute for custom duties in selected commodities to recover the revenue loss from the reduction of custom duties due to WTO commitment. Accordingly, the number of excisable products has exceeded fifty and the contribution of excise duty in total revenue is 13.5 % in 2010/11. At present, large sales volumes, few producers, limited consumer, inelastic demand and lack of close substitutes are the basic charm of excise system in the country. The basic relatively simple administrative efforts provide limited opportunities for tax evasion. The excise duty is very helpful instrument to control the composition which is regarded as lacking merit or as likely to cause negative externalities. The excise duty has been governed and regulated by the Excise Act 2002/03, Excise Regulation 2003/04, and Alcohol Regulation 1997.

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

- a. To protect people to protect people from harming their health by abusing substance such as tobacco and alcohol, from harming themselves and others indirectly and morally engaging in activities such as gambling and prostitution and from harming those around them and the general

environment, both from over use of the above-mentioned substances, and including curbing activities contributing to pollution.

- b. To provide resources needed for the extra healthcare and other public expenditures which will be needed as a direct or indirect results of excisable activities, such as lung cancer from smoking or road accidents resulting from drunk, driving and for defense.
- c. To punish many countries impose excise taxes to punish the users. For example, USA imposes excise taxes on drugs and the UK government imposes excise on money laundering. (Bhattarai and Koirala 2010/11: 356-359).

### **2.1.11 Excisable Products**

"Excisable goods and services" refers to the goods and services on which excise duty is applicable as per Excise Act 2002/03 and the prevailing law. In Nepal, excise duties are applicable to both domestically produced and imported goods. Before the enactment of Excise Act 2002/03, the excise duty was imposed only on domestically produced goods. To maintain parity, the imported good of similar nature were taxed by a similar rate of a countervailing duty. Historically, the excise duty was charged on a wide range of products (more than fifty commodities) during 1992. With the economic liberalization in the country, the list was reduced to few goods such as liquor, tobacco, plastic goods, cement etc. only. Nowadays, again the coverage of excise duty has been extended. Today, more than fifty commodities are subject to excise duty. The excisable products include molasses, plastic goods, fruits juice, liquor, tobacco, soft drinks, ethanol, iron rods, marble, glaze tiles, noodles, fried meat, cement, paint, ceramic bricks (except domestic production), vehicles, printing equipment, telecommunication equipment (including telephone, fax machines, micro phone, speakers), television, other selected electric equipment etc. (Excise Act 2002/03)



### **2.1.12 Obtaining of License and its Termination**

Licensing requirement is adopted for all excisable commodities. The Department as well as field offices can grant licenses. No one is allowed to manufacture, import, sell and store excisable goods or sell excisable services without taking license. The industries dealing with bricks, stone crusher, tobacco and other related items (Bidi, Surti, Khaini, Paan masal, Gutkha), textile (Khandsari) industry and the industry importing molasses must obtain license form concerned authority. However, the approval is not required for the industries dealing with excisable goods and services subject to self removal system and while importing goods under diplomatic facility as per the recommendation of Foreign Ministry Person, firm or institutions who need such license may submit a prescribed application form along with the fees before excise officer at concerned Inland Revenue Officers. When an application for a license is submitted to the Excise Duty Officer then after investigating, if considered appropriate, the Department or the Excise Duty Officer designated by the Department issues the license for one year in the prescribed format. The license can be renewed from one to three years by paying the required renewal fee within Shrawan. The delay in the renewal of license is subject to a fine up to 100 percent (Bharda to Kartik 25%, Mangsir to Magh 50%, Falgun to Baishak 75% and Jestha to Ashad 100%).

The license issued can be cancelled by the Department under the following conditions:-

- ) Expense related to raw materials, parts, packaging etc.
- ) Manufacturing expenses (wages, electricity, water, repair and maintenance, insurance, depreciation, interest fuel etc)
- ) Office and administrative expenses (office rent, salaries, training expenses etc.) (Excise Act 2002/03).

### **2.1.13 Physical Control System**

Excisable commodities are controlled in two ways: physical control system and self-removal system. Excise Act 2002/03 had defined physical control system as systems in which the production, removal, imports and export of excisable goods are controlled by the excise duty officer or his designated employees. The physical control system is applied to alcoholic beverages, spirit, molasses, beer and cigarette because of high sensitivity with respect to the revenue as well as negative externalities. They are controlled and supervised physically from their starting stage of manufacturing to last selling stage. The excise personnel are stationed in the factory to maintain control of production and sales. The deployed person have been made responsible to control, supervise and monitoring the products. In respect to less sensible goods such as cement, soft drink, plastic products etc, and excisable services they have been regulated by self-removal system. (Excise Act 2002/03).

### **2.1.14 Method of Excise Assessment**

Excise duty assessment refers to the determination of excise duty of the excisable goods or services. For the purpose of this Act, the Government of Nepal can appoint the required number of Excise Duty Officers if deemed necessary. The Government can also designate any other government officials as those performing work related to excise duty.

Liquor, spirit, molasses, beer and cigarette are controlled and supervised physically under the physical control system and are allowed to sell only after charging excise duty at the time of issuance from the factory. The excise personnel are stationed in the factory to maintain control of production and sales. The deployed persons have been made responsible to control, supervise and monitoring the products. Goods and services except above are allowed to sell under self control system. As per the Act, the duty of assessment and recovery of excise duty lies with the producer producing goods or services

which are subject to excise duty. However, the assessment and recovery of excise duty in case of imported goods is done by the respective custom offices. In addition to the production and import, if the excise duty is imposed on distribution of goods and services, the duty of assessment and recovery lies with the importers and sellers. The excise duty paid on raw materials used in the production can be deducted from the excise duty realized from sale of finished goods. Likewise, the excise duties paid while importing trading goods or services can be deducted from the excise duty payable at the time of selling such goods or services. The taxpayer can claim credit in case the excisable goods are damaged/ lost by fire, theft, accident, destructive activity, date expiry etc. (Excise Act 2002/03).

#### **2.1.15 Recovery of Excise Duty**

Excise Act 2002/03 had laid down the following provisions with regard to the recovery of excise duty (Section 4):

- J In case of industry producing, excisable goods under physical control system, the excise duty is recovered at the time the goods produced by the enterprise are delivered for sale.
- J In the case of excisable goods and services under self control system, the excise duty is imposed at the time an invoice is issued.
- J In the case of imported goods, the excise duty is imposed at the time such goods enter Nepal at customs point.
- J In the case of services to be imported, the excise duty is imposed as specified by the Department.

Whatever is mentioned above, the Department may specify to recover excise duty on any goods or services at the time such goods are produced or services delivered. (Excise Act 2002/03).

### **2.1.16 Exemption from Excise Duty**

The excisable goods or services are exempt from excise duty under the following conditions:

- )] If exported from Nepal or goods other than liquor and cigarette sold to approved tax free shop (bonded warehouse and duty free shop)
- )] Liquor and cigarette sold by approved bonded warehouse or persons or entities enjoying diplomatic and duty free facility on the recommendation of Foreign Affairs Ministry of Government of Nepal.

Beside above, the Act has exempted the following goods and services from excise duty:

- )] The goods imported by person or entity enjoying diplomatic facility on recommendation of Foreign Ministry.
- )] The import of chassis of ambulance, vehicles and funeral vehicle (used to carry dead body).
- )] M.S. Wire Rod in coil imported by industry as raw materials on recommendation of the Department of Industry.
- )] Domestic production of marble.
- )] Goods which are fully exempted from custom duty which are imported for personal use under free luggage services (Jhitigunta).
- )] The goods produced by an industry using 90% or more local scrap materials. (Excise Act 2002/03).

### **2.1.17 Fines and Penalties**

Failure to comply with the Excise Act is liable to penalties. In general following are applicable to have committed offences:

- )] Engaged on manufacturing, selling and storing excisable goods or providing excisable services without license.
- )] False statement or documents in connection with excise liability.
- )] Under reporting of excise liability.

J Violating Excise Act and Rules framed under this Act.

A person who is bound by duty to provide information or provide assistance knows about transactions that are taking place, will take place or have taken place that violate this Act but purposefully avoids doing so, the person can be imprisoned for three months or charged a fine of Rs ten thousand or both depending on the nature of the offence.

If anybody commits the offences listed below, punishment in the form of confiscating the amount along with a fine equal to the confiscated amount or one year imprisonment or both can be given:-

- a. If the excise duty amount to be paid as per this Act is evaded, hidden or cheated.
- b. If excisable goods are produced or imported without obtaining license.
- c. If a person committing an offence against this Act by preparing false accounts or forge documents.
- d. If the offences indicated above in (a), (b) and (c) are attempted or instigated, the punishment will be applicable by half of the offence.

Utensils tools, machinery, equipments and vehicles used directly or indirectly in the production of the goods and services will also be confiscated. But if the person has used rented vehicle without the permission of the vehicle owner in committing the offence then the vehicle will not be confiscated but the owner will be charged a fine of Rs. 25,000 and depending on the nature of the offence the driver can be imprisoned for up to three months or charged a fine of Rs. 15,000 or both. But if a vehicle has been registered as rented vehicle and is found to be used by the vehicle owner then the vehicle will be confiscated.

In addition to above, the excise duty officer can impose following fines if person is found to have committed the following offences:

- J 100 percent of additional excise duties resulting from reassessment or additional assessment by the Department.

- J Engaging on manufacturing, selling and storing excisable goods or providing excisable services without license is liable to a fine of Rs. 5000 to Rs. 15000.
- J Failure to submit statement on time is liable to a fine of 0.05 percent a day or Rs. 1000 per return whichever is higher.
- J Failure to maintain an updated account is liable to a fine of Rs. 10,000 and obstructing in inspecting an account is liable to a fine of Rs. 5000 each time.
- J Failure to maintain accounts approved by the excise officer is liable to a fine up to Rs. 5000.
- J Failure to maintain books of accounts of the past six years is liable to a fine of Rs. 10,000.
- J Obstructing Excise Duty Officer in determining excise duty is liable to a fine of Rs. 5000 each time.
- J If the content of alcohol is found deviated by more than one percentage point, 100 percent of the revenue loss is imposed as a fine.
- J Failure to maintain stipulated ratio of output of excisable goods or services is subject to a fine of 100% of short fall of excise duty.
- J Failure to comply with the provision of controlling selling and distribution of excisable goods as specified by the government is subject to a fine of Rs. 10,000 each time
- J Violating Excise Act and Rules framed under this Act is liable to a fine of Rs. 1000 each time.

For the purpose of this Act, the Excise Duty Officer has equivalent jurisdiction to that of the court according to the prevailing law in relation to summoning and interrogating the concerned person, taking his/her statement, inspecting and collecting proof, asking for document to be presented to keep the concerned person under demand or to release him/her on bail. When the Excise Duty Officer is taking action according to this Act, he/she has to adopt the

procedure as stipulated in the "Brief Procedural Act, 1972." (Excise Act 2002/03).

## **2.2 Review of Related Literature**

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

### **2.2.1 Review of Books**

**Chelliah, (1976)**, in his scholar work has taken consideration with a few pages towards the excise taxation, while studying the taxation on Union Government of India. According his study custom is losing their relative importance and its place is taken up excise duties. This was 40% of total tax revenue at his studying time he further states. "... Excise taxation has growth by leaps and bounds in the last 25 to 30 years. In the middle thirties, excise duties covered only five commodities but now the list of articles covered is fairly long. Chelliah, (1976:140-141)

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

**Bhattarai & Koirala, (2010/11)**, wrote a book entitled, "Taxation in Nepal. "They explained about the income tax; value added tax, custom duty, excise duty, revenue administration and tax planning in Nepal. The book has been designed based on the curriculum of MBS. This book includes various direct and indirect taxes in Nepal covering income tax, value added tax, custom and

excise duty. It also covers tax planning concept and it's used in Nepal. The book also included References and Supplementary Readings. (Bhattarai & Koirala, 2010/11; 356-363)

### **2.2.2 Review of Related Previous Studies**

**Shrestha, (1976)** has studied on "Excise Taxation in Nepal. "The main objectives of research were to find out the share of excise duty to government revenue. His main objectives are: to review the excise duty contribution in revenue of Nepal, to identify the excisable goods in Nepal. His major findings are as follow: Excise duty has to play multifarious roles in an economy. Though their allocative and distributive roles or more precisely raising of internal saving for development has the main, Excise taxation, started in Holland at first and then in England to finance, wars from growth of trade and commerce, came to a present form after a series of major change from time to time, Regarding the forms of excise taxation, though it is difficult to classify, generally three forms have prevailed- 1) limited with generally 10 to 15 commodity groups with closely related products, 2) intermediate with 15 to 30 commodity groups, and 3) extended with more than 30 commodity groups spanning almost the whole range of production activities. These alternative forms are found to prevail depending upon the development stage of the economy, the extent of utilization of excise taxation as an indirect tax mainly depends upon the stage of economy. In early stages, if due to poor industrial base, excise taxes are not so important, in the latter stages; with the growth in industries they come to lime light, In Nepal, - among the various indirect taxes, custom duty, form the main source of revenue followed by land revenue, and excise in the third position. But form 1966/67 it came down to fourth position, Inter-spatial performance of excise revenue depends upon industrial location. So since major cigarette factory is located. Janakpur office comes first in terms of revenue collection, followed by Birgang, Biratnager, Kathmandu and Bhairahawa. But one encouraging sign is that all the center's exhibit upward increasing trend in revenue collection.



**Baaniya, (1979)**, has studied on "Excise Taxation in Nepal, "The main objective of that study was to analyze the present position of excise duty tax in total tax structure and excise tax, to show excise tax as a major source of revenue in less developing countries. The study has reported several findings as follows: the government should consider discouraging the liquor contract system and encouraging the distillery system. Nepal governments try to accomplish the switch over from contract system to distillery system at the earliest possible, those raw materials which are essential for running the factory should be imported only by the permission of excise officers, the running will have haller and expeller are not recorded in the industry department. Therefore further if these things are to be added could be done only the permitted of excise offices, The excise on higher brand of cigarette could be increased and the excise on lower brand should be kept contract for the time being .But the excise on Bidi should be increased. Looking at trend of excise revenue from 1968-69 to 1978-79 the normal rate of growth revenue is 26.13% per annum. Thus does the problem exist in industrial field removed then this sector can play a key role in financing the internal fund.

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

**Kunwar (1988)**, has studied on "The Role of Excise Taxation in Nepal. "The main objectives of the study was to analysis the role of indirect tax in developing countries like Nepal, evaluating the importance of excise duties in economic development, examining the trends and elasticity and buoyancies of

tax revenue indirect tax, evaluative the legal provision of excise tax and legal drawbacks. The study has responded several findings like, the revenue of indirect tax is increasing in developing countries and reliance of direct tax is decreasing due to low per capita income, of its seen that the excisable goods are producing is a longer amount such tax administration and methods of levying tax is becoming complex and uncertainty. It was extremely suggested that the excise duties on basic goods should be ether, abolished or kept at very low level. The government should take special care. In any country the effectiveness of the administration depends on its legal provision and ineffectiveness the course of legal provision and effectiveness is the cause of legal drawbacks of the concerning countries.

**Bajracharya (1993)**, has studied on “Excise Taxation in Nepal “.The main objectives of the study was to examine the extent of the resource gap in Nepal’s economy, to analysis the role of excise duty in the structure of Nepal. The study has reported several findings like: Domestic resources in Nepal can be mobilized through taxation and non-taxation methods. In Nepal the tax revenue consists of 76.20% of the total revenue in 1991/92 and the non-tax revenue consists of 23.8%. In taxation custom duty contributing 28.40%, while excise duty consists of 11.20%, sales tax revenue consists of 18.90%, income tax consists 7.40%and land revenue consists of 0.80% only, As the economy of the country starts developing and when more and more import substituting industries begin to appear, the role of excise revenue increase not only in term of its contribution to the total revenue but also an effective tool in controlling the production and consumption of socially undesirable goods like tobacco and liquor, In the fiscal year 1991/92, the most important commodity composition of the excise revenue generation were cigarettes, liquor, bidi, beer, cement, synthetics textile, soft drink etc. Cigarette was the major item contribution about 48%of the excise revenue. Second to this was liquor which includes local liquor and high quality liquor produced by the modern distilleries. The contribution from this source was about 12% of the total excise revenue. It was

followed by cement, synthetic textile, soft drinks, vegetable ghee, soybean oil, iron bar and rods. The excise duty on cigarettes, liquor, bidi and beer are levied on the ground of people's health hazard as well as a good source of revenue generation to meet the resource gap in the country.

**Ghimire, (2006/07)**, has studied on "Study on Excise Duty". The main objective of the study was to the Government's main objective of levying excise duty is the mobilization of revenue, In order to discourage the consumption of health hazard products the excise duty is therefore imposed on the manufacture of the products like beer, liquor, tobacco and cigarettes, How many excisable product in Nepal. The study reported several finding like: The contribution of total excise duty in the Gross Domestic Product reveals that the ratio is less than one percent from 1990 to 2002/03. It has however slightly increased from 1.09 percent to 1.26 percent in the next three years (2003/04-2005/06), the structure of excise duty reveals the significance of revenue generated from three excisable items –cigarette, liquor and beer. The contribution of cigarette, liquor and beer together is on average more than 90 percent of the total excise duty during 1995-2005/06 periods. The number of selected excisable products has been reduced over the period. The selected excisable products numbered 14 in 1964. The number increased to more than hundred during the period 1964 to 1990. In 1997, the number of excisable products was 13 which increased to 21 in 1998. The number has further increased to 30 in 2006/07(January), the beer production has increased marginally in the last three years. The liquor production has fluctuated from year to year and has almost stabilized in the last few years. The cigarette production has also declined in some years but has shown steady increase in the last three years. The fluctuation is attributed to the internal disturbances in the country. The volume of production of soft drinks has increased more than 50 percent from 1995 to 2005/06, and more than three times in fifteen years.

**ICA (2007/08)** Excise duty or duty of Excise is a tax on goods produced or manufactured in India and intended for home consumption i.e. sale in India.

The Excise Duty is chargeable at the time of production or manufacturing. However, for conservation it is charged at the time of removal. It is basically an indirect tax, which the manufacturer or producer passes on to the ultimate consumer. The levy and collection of Duty of Excise is provided under authority of the Central Excise Act, 1994 at the rates specified under Central Excise Tariff Act, 1985. The duty is commonly referred as the basic Excise Duty. In addition to this duty a few items like fiber, iron, etc also attract Additional Excise Duty under Additional Duties of Excise (Textiles and Textile Articles) Act, 1975. the additional Duties of Excise (Goods of Special Importance) Act, 1957 and Miscellaneous Cess Acts provide authority for collection of Additional Excise Duty and Cess respectively on several manufactured items over and above Basic Excise Duty.

**IRD (2011/12)** A daily nation newspaper which is the national daily news paper has published news on 2068 Paush 10 about the Reestablishment predation of excise offices, according to the news 520 companies have produced excisable product in Nepal. Total contribution of government revenue from excise duty is 20.76% in 2011/12 Nepal government had decided to reduce the excise offices. Now a day 22 tax office are operating in the different places of the country under the IRD in Tax payer service office are operating in the different places of the country. Then according the news the government has decided to change the 50 excisable products under the excise Act. In the first stage the government establishes excise offices in six different industrial areas. Those excise offices were removed 18 years ago. The government has needed to establish the excise offices. It is compulsory and necessary to collect the duty. (Gorkhapatra, Dec. 25: 2011/12).

**Ojha (2013)**, conducted a research entitled “Excise Duty Practice in Nepal.” He studied the excise tax structure, prescribe rate of excise duty in excisable goods, contribution of excise duty on total revenue of Nepal, It was submitted to central department of Management, Tribhuvan University, Kirtipur Kathmandu at 2013. The objective of the study were to analyze excise duty

structure of Nepal, to analyze the prescribe rate of excise duty in excisable goods, to analyze the excise duty contribution revenue to the government in Nepal and to provide necessary suggestions and recommendations.

The study shows that contribution of tax revenue is about 86.85% and than non-tax revenue was about 13.15% in 2010/11. In this way tax has been a major source of government revenue. In indirect taxes customs duty, VAT and excise duty are three major sources. The structure of excise duty would be cigarette, liquor, beer, bidi, excise on import and other industrial product. The structure of excise duty reveals the significance of revenue generated from three excisable items - Cigarette, Liquor and beer- in total excise duty. Excise duty on import is contributing significantly in current year. Indirect tax revenue is the composition of customs duty, VAT, Excise duty and other tax. The contribution of excise duty to indirect tax revenue was 13.20% in 2002/03 and it is 20.86% in 2011/12. The share of excise duty to indirect tax revenue is in increasing trend. The government increased prescribed rate of excise duty in excisable product. After 2008/09 the government increased prescribed rate of excise duty rapidly, government increased excise duty of most of the product. In cigarette, beer and liquor product, the government increased in high percent.

### **2.3 Research Gap**

All the research studies mentioned above are concerned with study of law of excise tax, structure of excise duty and its contribution of excise duty revenue in Nepal. Many of them have various problems their research objectives and no thoroughly study on a particular subject problem is done except few of the research work. I have found no more study done in excise duty practice in Nepal. So, this study has been undertaken analytically and intensively to analysis the prescribe rate of exercise duty on excisable product. Excise duty collection and its contribution of revenue in government in Nepal.

## **CHAPTER - III**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

The method was used in this study in descriptive as well as analytical. In this study, the research design based on the objective for the study was used for collection of data, their presentation, analysis and interpretation.

#### **3.2 Research Design**

The descriptive research design is used for analyzing and interpreting the data acquired from the secondary sources as well as primary source.

#### **3.3 Data Collection Procedure**

For collection of required data, questionnaires and schedule was prepared according to the data requirements. This study is used only secondary source of data. The secondary data is collected through annual reports of IRD, Ministry of Finance Economic survey (various years) and Nepal law commission etc.

This study is based on secondary data. Secondary data are collection from annual report of IRD, Ministry of Finance, economic survey, budget speech Nepal law commission and website of ministry of finance, website of IRD and website of Nepal law commission etc. the required primary information for this study is taken as a concerned personality of the topic of the study such as concerned senior staff of IRD, owners and staff of the excise duty paid industries.

#### **3.4 Population and Sample**

The population of this study has comprised all the persons belonging to excise duty in Nepal. Nearly 50 samples from IRD office and excise duty payer will be taken to fulfill the objectives of this study.

**Table 3.1: Group of Respondents and Size of the Sample**

<b>S. N.</b>	<b>Group of Respondents</b>	<b>Sample Size</b>	<b>%</b>
1	Excise Administrator	18	36
2	Beverage and Liquor Company's Staff	10	20
3	Other Company Owners and Staff	22	44
	<b>Total</b>	<b>50</b>	<b>100</b>

*Source: As Research Design*

### **3.5 Period Covered:**

This thesis has covered ten years i.e. 2002/03 to 2011/12. For the purpose of exercise the goods and its prescribed rate and excise duty contribution or government revenue.

### **3.6 Data Analysis Procedure**

It is observed that the collected data does not depict the result itself. To draw the required conclusion the collected data are classified tabulated and analyzed in descriptive and analytical way.

### **3.7 Uses of Tools for Analysis**

The different tools are required for analysis. Thesis tools and techniques depend upon the nature of study.

#### **) Mathematical tools**

- Average
- Simple percentage

#### **) Statistical tools**

- Time series analysis / Trend line / least square method
- Table and graph
- Trend line and pie chart

Under the analysis of trend line effort has been made to analyze trend in contribution of excise duty in total revenue. On the basis of 10 years of data, the revenue amount of excise duty has been forecasted

Let the trend line be

$$Y = a + bx$$

Where,

$Y_c$  = Total amount of Revenue

$b$  = constant which is the change in  $y$  corresponding to the change in  $x$  by one unit

$a$  = constant which is computed  $y$  value when  $x = 0$

$x$  = time in the case of time series analysis

Formula to be used

$$a = \frac{\sum y}{n}$$

$$b = \frac{\sum xy}{\sum x^2}$$



## CHAPTER -IV

### DATA ANALYSIS AND PRESENTATION

#### 4.1 Government Tax and Non-Tax Revenue

The sources of government revenue are divided into tax revenue and non-tax revenue. The tax revenue is a composition of custom duties, excise duties, VAT, land revenue, registration, income tax and other taxes. But non-tax revenue is the composition of revenue from dividend, royalty, sales of fixed assets, civil administration etc. The Nepal government presented first budget in 1951. The revenue structure was typically traditional with the 73% of government receipt coming from non-tax revenue and 27% from tax sources.

Table No.4.1 shows the composition of total revenue of government contributes to tax and non-tax from year 2002/03 to 2010/11. The share of tax revenue has always been greater than the share of non-revenue. The average share of tax revenue from the period 2002/03 to 2010/11 was 80.75% and average share of non-tax revenue was 19.25%. This contribution is very important for revenue mobilization of Nepal government as well as to meet the increasing demand of government expenditures. Tax revenue have occupied major share in the government revenue of Nepal.

The amount of tax revenue is shown as increasing trend over the study periods. The contribution was Rs. 39330.6 million in 2002/03 which reached to Rs.172834.8 in 2011/12.

The percent contribution of non-tax revenue total tax revenue over the study period showed on descending trend. The percent is above the average in the year 2002/03 to 2006/07 except in the year 2008/09. In rest of the study period the contribution are below the average.

In the last two year of the study period reduction in the business production could be the other factor for decrease in tax revenue.

**Table 4.1 Contribution of Tax and Non-Tax Revenue in Total Revenue of Nepal**

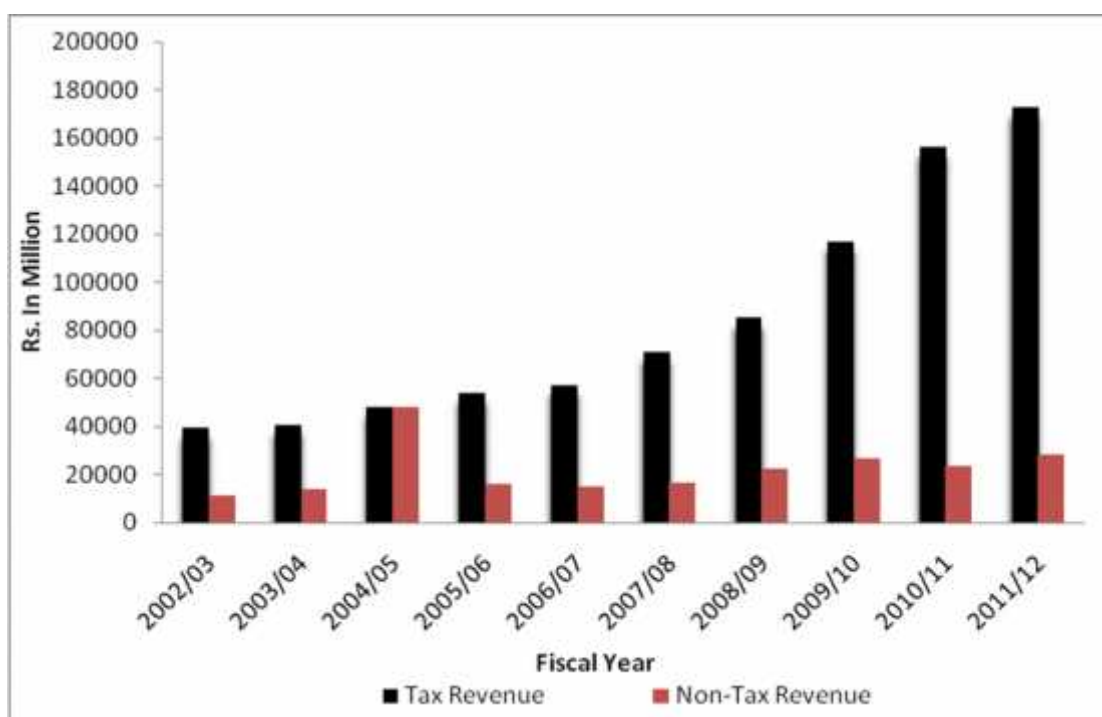
(Rs. in million)

Year	Tax Revenue	Tax Revenue as% of Total Revenue	Non-Tax Revenue	Non-Tax Revenue as % of Total Revenue	Total Revenue
2002/03	39330.6	77.95	11116	22.05	50446.6
2003/04	40896	75.00	13642.9	25.00	54538.9
2004/05	48173	77.30	14158	22.70	62331
2005/06	54104.7	77.15	16018	22.85	70122.7
2006/07	57430.4	79.45	14851.5	20.55	72281.5
2007/08	71126.7	81.10	16585.4	18.90	87712.1
2008/09	85155.5	79.10	22467	20.90	107622.5
2009/10	117051.9	81.60	26422.6	18.40	143474.5
2010/11	156294.9	86.85	23650.9	13.15	179945.8
2011/12	172834.8	85.95	28253.4	14.05	201088.2
Total	842398.5		187165.7		1029563.8
Average	84239.85	80.145	18716.57	19.855	102956.38

Source: MOF, GOV: Economic Survey of Various Years

The percentage contribution of non-tax revenue to total revenue is in fluctuating trend. It was 13.15% a minimum in year 2010/11 and 25% the maximum in the year 2003/04. After 2004/05 it is a decreasing trend. The share of non-tax revenue on study period is 19.25%. Following figure shows the trend of tax and non-tax revenue during the period.

**Figure 4.1: The Trend of Tax and Non-Tax Revenue**



## 4.2 Contribution of Total Direct and Total Indirect Tax to Total Tax Revenue

Tax revenue composed of total direct tax and total indirect tax revenue. If someone pays taxes to the government from his/her own income, it is called direct tax. Income tax, penalty tax, interest tax are direct taxes. On the other hand, indirect taxes that taxes which is imposed on one person but paid partly or wholly by others. Custom duty, VAT excise duty etc are indirect taxes. There has been simultaneous increased in total tax, total indirect tax and total direct tax revenue in absolute form. The contribution total direct and indirect tax can be shown in the table 4.2.

**Table 4.2 Contribution of Direct and Indirect Tax and Revenue on Total Tax Revenue**

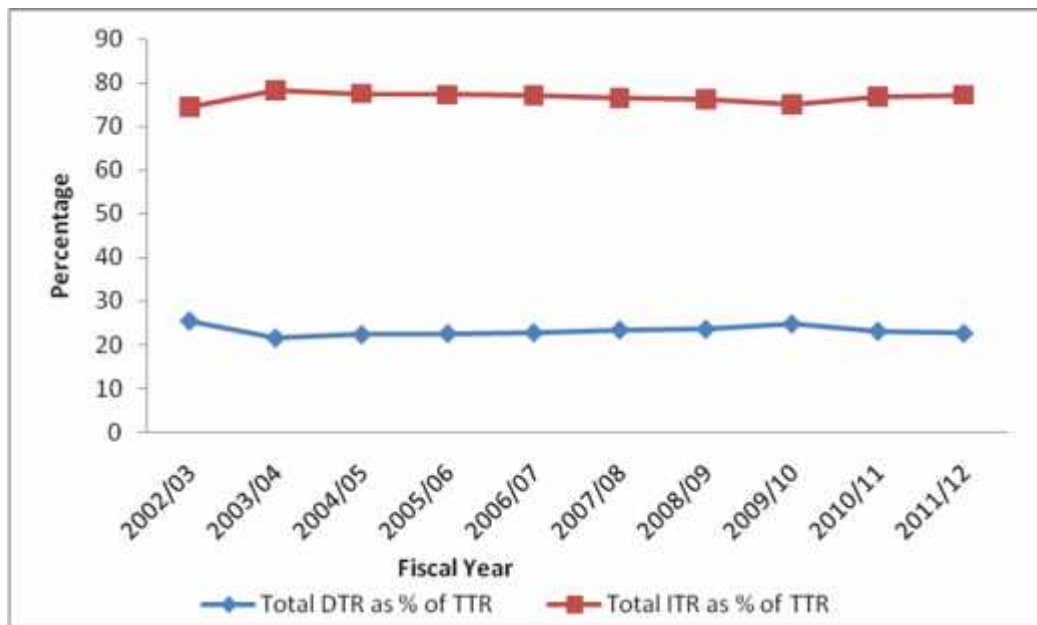
(Rs. in million)

Year	Total Tax Revenue	Total Direct Tax Revenue	Total Indirect Tax Revenue	Total DTR as % of TTR	Total ITR as % of TTR
2002/03	39330.6	10037.81	29292.78	25.52	74.48
2003/04	40896	8854.6	32041.4	21.65	78.35
2004/05	48173	11212.5	36961	22.41	77.59
2005/06	54104.7	12265	41839	22.67	77.33
2006/07	57430.4	13120.5	44309	22.85	77.15
2007/08	71126.7	16726.8	54399.9	23.50	76.50
2008/09	85115.5	20147.1	65008.4	23.65	76.35
2009/10	117051.9	29097.4	879545.5	24.85	75.15
2010/11	156294.6	36238.9	120005.6	23.19	76.81
2011/12	172834.8	39252.8	133582.0	22.71	77.29
Total	842358.2	196953.41	1436984.58	23.3	76.7
Average	84235.82	19695.341	143698.458	23.3	76.7

Source: MOF, IRD, economic survey various years

The total tax revenue for the period of 10 years is Rs. 708429 which is the sum of total direct tax and total indirect tax. In average, Rs. 70842.9 is the tax revenue per year from 2002/03 to 2011/12. Indirect tax revenue contribution to total tax is average 76.7 % and direct tax revenue contribution to total tax revenue is 23.3 %. Therefore, contribution to tax revenue of indirect tax play vital role.

**Figure 4.2: Contribution of Total Direct Tax and total Indirect Tax Revenue to Total Revenue**



In year 2002/03 the share of total tax revenue was Rs. 39330.6 million, total direct revenue was Rs. 10037.81 million and total indirect tax was Rs. 29292.78 million. During the period of ten years, the share of these amounts raised to Rs. 842358.2 million, Rs. 196953.41 million and Rs. 1436984.58 million respectively. The basic reason of increasing these taxes is due to the expansion of tax bases and tax rates.

### 4.3 Composition of Indirect Tax

The relative contribution of custom, VAT and excise duty in total indirect tax is presented in table - 4.3.

**Table 4.3: Composition of Indirect Tax**

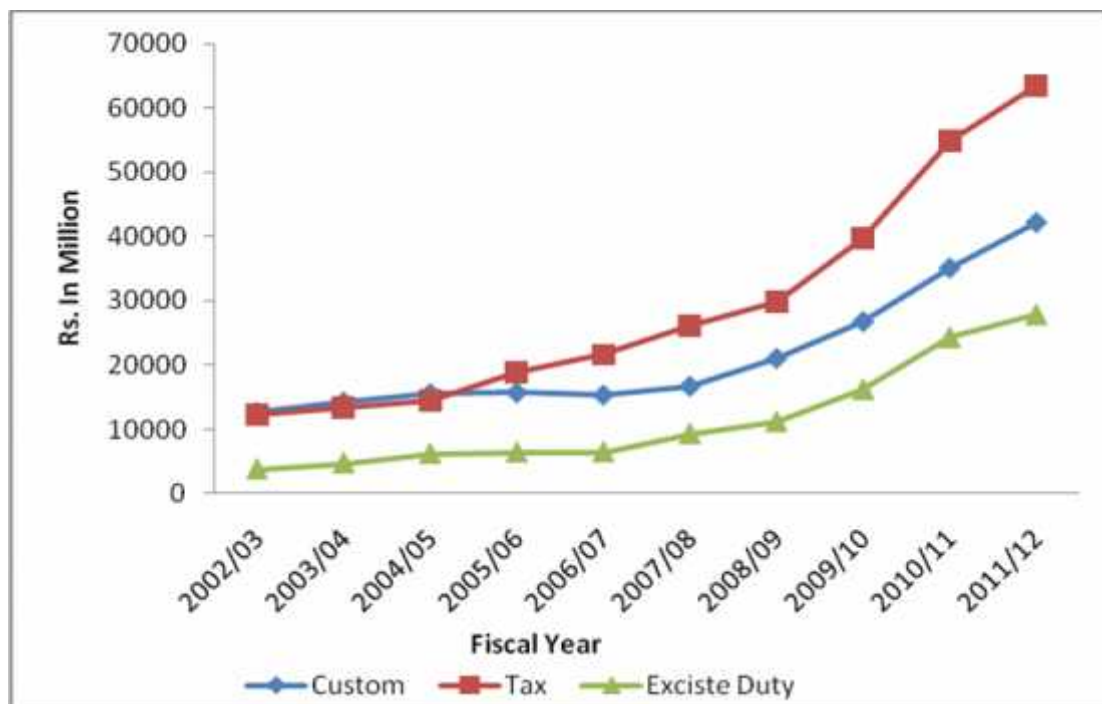
(Rs. in Million)

Year	Custom		Value added tax		Excise duty		Total indirect tax	
	Amount	%	Amount	%	Amount	%	Amount	%
2002/03	12658.8	44.10	12267.3	42.70	3807	13.20	28733.2	100
2003/04	14236.4	43.80	13459.7	41.40	4785.2	14.70	32481.2	100
2004/05	15554.8	42.90	14478.9	39.90	6226.7	14.20	36260.4	100
2005/06	15701.6	38.30	18885.4	46.00	6445.9	15.70	41031.9	100
2006/07	15344	35.30	21610.7	49.70	6507.6	15.00	43462.3	100
2007/08	16707.6	32.10	26095.6	50.00	9343.2	17.90	52146.4	100
2008/09	21062.4	33.95	29815.7	48.05	11189.6	18.00	62067.7	100
2009/10	26792.9	32.40	39700.9	48.00	16220.9	19.60	82714.6	100
2010/11	35150.8	30.65	54920.9	48.00	24306.1	21.25	114377.8	100
2011/12	42238.63	31.62	63478.17	47.52	27865.2	20.86	133582.0	100
Total	215447.93	365.12	294713.27	461.27	116697.40	170.41	626857.50	215447.93
Average	21544.79	36.51	29471.33	46.13	11669.74	17.04	62685.75	21544.79

*(Source: MOF, GOV: Economic Survey Various Years)*

The composition shows that the contribution of excise duty has remained less than 14% until 2002/03 and started rising since then which now stands at 20.86% of the total indirect tax in 2011/12. As the government changed the tariff structure of the customs in the vehicle import reducing the import tariff from 130% to 80% and imposing corresponding excise duty of 32% on the vehicle import, the relative contribution of customs declined whereas the contribution of VAT increased in 2007/08 and remained stable in 2008/09 to 2011/12. The contribution of VAT in 2011/12 is 47.52% in total indirect tax. The contribution of excise duty on total indirect tax is increased i.e. 20.86% in 2011/12. Average contribution of custom, VAT and excise duty on indirect tax revenue are 36.51%, 46.13% and 17.04% respectively.

**Figure 4.3: Composition of Indirect Tax**



#### **4.4 Excise Duty Contribution on Total Revenue of Government**

The total revenue from the excise duty has consistently increased each fiscal year since 2011/12. The total excise duty was Rs. 3807 Million in 2002/03, which more than double in sixth year 2006/07 (Rs 9343.2 Million) which increased by 631.94 % Rs. 27865.2 Million in 2011/12. As a result of the consistent increment, the total excise duty increased almost seven times during 2002/03-2011/12 periods (Table and Figure).

The ratio of excise duty to total revenue does not show consistent pattern in the study period. It was increase in year 2002/03 to 2004/05 and then declined in next 2 years. During the period 2008/09 to 2011/12 it has however shows increasing trend registering increasing ratio 10.40% to 16.12%. The contribution of total excise duty in total revenue of Nepal on 2011/12 is 27865.4 Million i.e. 16.12%.

**Table 4.4: Contribution of Excise Duty on Total Revenue of Nepal**

(Rs. in million)

Year	Total Revenue	Excise Duty	% Contribution of Total Revenue
2002/03	50446.6	3807	7.55
2003/04	54538.9	4785.2	8.77
2004/05	62331	6226.7	9.99
2005/06	70122.7	6445.9	9.19
2006/07	72281.5	6507.6	9.00
2007/08	87712.1	9343.2	10.65
2008/09	107622.5	11189.6	10.40
2009/10	143474.5	16220.9	11.31
2010/11	179945.8	24306.1	13.51
2011/12	201088.2	27865.2	13.86

Source: MOF, IRD, Economic Survey

**Figure 4.4: Ratio of Excise Duty to Total Revenue**



#### 4.5 Excise Duty Collection Ratio (Internal and excise on import)

The composition and magnitude of excise duty as well as internal and excise on import is visualized in the following table and graphs.

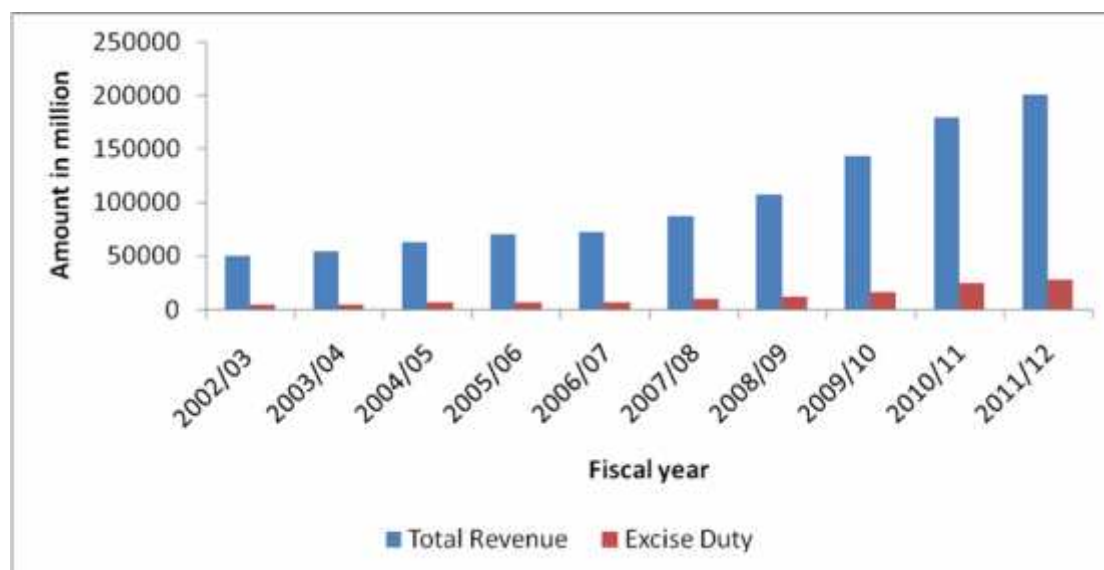
**Table 4.5: Excise Duty Collection Ratio**

(Rs. in Million)

Year	Internal		Excise on import		Total excise duty	
	Amount	%	Amount	%	Amount	%
2003/04	4594.4	96.00	190.8	4.00	4785.2	100
2004/05	4941.7	79.40	1285	20.60	6226.7	100
2005/06	5367.5	83.30	1083.4	16.70	6445.9	100
2006/07	5417.8	83.30	1089.2	16.70	6507.6	100
2007/08	7372.9	78.90	1970.3	21.10	9343.2	100
2008/09	8409.5	75.15	2779.9	24.85	11189.6	100
2009/10	10982.3	67.70	5238.7	32.30	16220.9	100
2010/11	13597.1	55.95	10709	44.05	24306.1	100
2011/12	17170.54	61.62	10694.66	38.38	27865.2	100

Source: Annual Reports IRD 2003/04-2011/12 .

**Figure 4.5: Excise Duty Collection Ratio**





It is clearly known from the above table and figure shows that the share of internal source is more than the share of excise on import in every year. In the total excise duty the contribution of internal source is 96% and excise on import is 4% on 2003/04 then often excise on import is rapidly increased and internal excise duty is decreased. In the year 2011/12 the contribution of internal source is 61.62% and excise on import is 38.38% in total excise duty.

#### 4.6 Structure of Excise Duty

The structure of excise duty reveals the significance of revenue generated from three excisable items- cigarette, liquor and beer- in total excise duty. The government introduced details classification of revenue heads in 1995, which shows six revenue heads in the excise duty in comparison to only two hands before 1995. The contribution of cigarette, liquor and beer together is average more than 80% of the total excise duty during 2002/02 to 2011/12. In the excise duty on import of vehicles and Motorcycle is contributing significantly on total exercise duty. The excise duty from the cigarettes and beer is larger contribution of the total excise duty.

**Table 4.6: Structure of Excise Duty**

(Rs. in Million)

Year	Cigarette	Bidi	Liquor	Beer	Other industrial production	Excise on import
2002/03	1813.2	4.1	930.5	807.2	252.7	N/A
2003/04	2052.5	23.1	1161.7	1032.5	324.6	190.8
2004/05	2393.1	3.3	1266.6	982.5	296.2	1285
2005/06	2473	3.4	1395.9	1164.4	325.2	1084
2006/07	2405.4	3.7	1627	1050.3	330.8	1089.8
2007/08	2851.7	4.8	1956	1478.2	1082.2	1970
2008/09	3115.6	3.4	2152.1	1539.6	1598.9	2780
2009/10	3739.9	2.4	3060	2067.3	2222.4	5238.7
2010/11	4510	2.5	3741	2843.3	2159.2	10709
2011/12	3842	2.9	3215	2344.9	2289.86	10694.66
Total	29196.4	53.6	20505.8	15310.2	10882.06	35041.96
Average	2919.64	5.36	2050.58	1531.02	1088.206	3504.196

Source-Annual Reports IRD 2002/03-2011/12

The given table shows the structure of excise duty. Excise product contributes highest share on excise duty. Excise on import contributed highest share on excise duty i.e. 35041.96 Million, thereafter cigarettes and liquor contributed i.e. 29196.4 and 20505.8 individually. Beer and other industrial products have contributed 15310.2 and 10882.06 Million individually. Excise duty of Bidi has decreased in every year. Bidi contributed in excise duty is 53.6 million. In currently excise on import, cigarettes and Beer contribution on excise duty is rapidly increased and liquor and other industrial products contribution is also increased in current year.

#### **4.7 Structure of Excise Duty Year 2010/11**

In the year 2010/11, structure of excise duty, excise on import, cigarette, bidi, liquor, beer and other individual products share contributed to total excise duty revenue in Nepal.

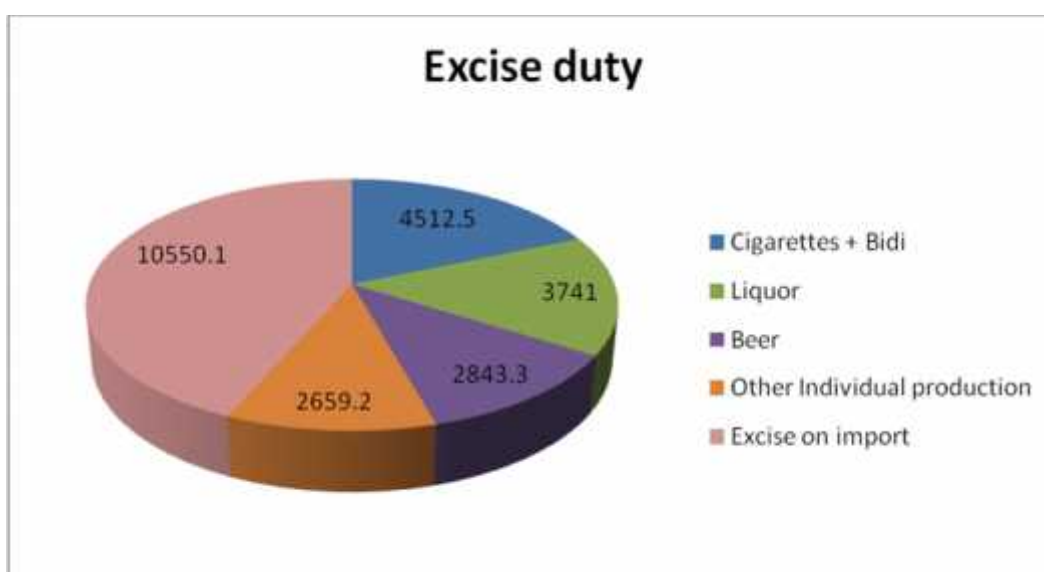
**Table 4.7: Structure of Excise Duty Year 2010/11**

(Rs in Million)

<b>Types Excisable product</b>	<b>Excise duty</b>	<b>Ratio</b>
Cigarettes + Bidi	4512.5	18.55
Liquor	3741	15.40
Beer	2843.3	11.70
Other Industrial production	2659.2	10.95
Excise on import	10550.1	43.40

*Source: Annual Report IRD. 2011/12*

**Figure 4.6: Structure of Excise Duty Year 2010/11**



The given table and figure shows the structure of excise duty in year 2010/11. Excise on import is highest contribution on total excise duty i.e. 43.40% then after cigarettes, Liquor, contributed in excise duty. Beer and other industrial production also contributed 11.70% and 10.95% individually. The analysis shows that excise on import play vital role to excise duty revenue. Then after cigarette, liquor, beer and other industrial products contribute to excise revenue.

#### **4.8 Excise rate of Beer**

The Rate of excise duty of beer is presented in table

**Table 4.8: Excise Rate of Beer (in Rs.)**

Description	2002/ 03	2003/ 04	2004/ 05	2005/ 06	2006/ 07	2007/ 08	2008/ 09	2009/ 10	2010/ 11	2011/ 12
Alcohol content up to 5% (per liter)	36	38	42	45	45	50	50	60	65	80

*Source: Finance Act and Budget Speech Various Years*

The given table shows the excise rate of Beer in 2002/03 to 2011/12. The excise rate of Beer on 2002/03 is Rs. 36 per liter and the rate of Beer in 2011/12 is Rs 80. The excise rate increasing in study period (10years) is Rs 44 per Liter i.e. 122.22%. The rate of excise duty on Beer will increase 10year period 122.22%.

#### 4.9 Excise Rate of cigarette

The Rate of excise duty of all kinds of cigarette is presented in table.

**Table 4.9: Excise Rate of Cigarette (in Rs.)**

Description	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
<b>up to 70 mm in length</b>										
filter per m	300	330	340	340	350	350	360	415	445	533
non filter per m	125	155	160	160	170	170	175	195	210	252
<b>more than 70 mm</b>										
filter per m	385	425	440	440	450	450	460	530	570	681
non filter per m	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>more than 75mm</b>										
filter per m	530	565	575	575	590	590	600	690	730	872
non filter per m	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>more than 85 mm</b>										
filter per m	710	750	770	770	785	785	795	915	950	1135
non filter per m	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

*Source: Finance Act and Budget Speech Various Years*

Note: per M mean 1000 stick cigarette. N/A: Not- applicable

The given table shown the excise rate of cigarette is Rs. Excise rate of cigarette is increasing trend. Excise rate of cigarette is increasing slowly in 2002/03 to 2006/07, therefore it increasing rapidly in 2007/08 to 2011/12. Excise rate of cigarette in 2002/03 is up to 70 mm with filter per is Rs. 300 and without filter per is Rs 125, then rate of cigarette in 2011/12 with filter per is Rs 533 and without filter is Rs 252. Change in Rate in 11 years with filter and without filter is Rs 248 and Rs 142 individually. Excise rate of More than 70 mm cigarette in 2002/03 is 385 (with filter) it is increasing from 10 year is Rs 681. As well as

excise rate More than 75 mm cigarette with filter per Rs 530 in 2002/03 it is increased by Rs. 372 in 2011/12. Excise rate more than 85 mm at cigarette in 2002/03 is Rs 710 with filter, then it is increased by Rs. 1135 in 2011/12. Therefore excise rate of cigarette will be increase rapidly in current time. The excise rate of Cigarette will increase 65% to 90% for study period individually.

#### 4.10 Excise Rate of Liquor

The rate of excise duty of all category of liquor is presented in table.

**Table 4.10: Excise Rate of Liquor (in Rs.)**

Description	Volume	2002/ 03	2003/ 04	2004/ 05	2005/0 6	2006/ 07	2007/ 08	2008/ 09	2009/ 10	2010/ 11	2011/ 12
15UP						400	425	425	511	547	695
25UP						350	360	360	432	462	587
30UP						350	360	360	432	462	587
30UP or less than 30UP											
up to 30UP											
25 and 30UP( bottled)	LP liter										
30UP to 40UP	LP liter	150									
40 UP (bottled)	LP liter					200	210	210	254	272	347
less than 40 UP	LP liter	260	275	320	340						
50UP	LP liter					75	95	95	114	146	146
65UP (pouch)	LP liter										
30to 40UP	LP liter										
more than 40UP	LP liter										
40 UP to 65 UP	LP liter		160	195	200						
more than 65 UP	LP liter	44	50	70	75						
70 UP	LP liter					10	26	26	50	50	60

*Source - Finance Act (Various Fiscal years) Ministry of Finances*

The given table shows excise rate of liquor. The excise rate of liquor is always increasing trend. Excise rate of liquor is slowly increasing from 2002/03 to 2007/08, and then after the government will increase on more amounts for

liquor. In 2010/11 the government in crease excise rate of liquor more than 20% from each level. The excise rates of liquor will more than 60% to 500% on 10 years time. Excise rate of 70 up liquor will increased 500% on 6 year time period. Other item will increase more than 60% to 95%. The classification on UP for excise duty is frequently changed, which makes comparison difficult.

#### 4.11 Trend Analysis

Under this topic effort has been made to analyze trends in contribution of excise duty in total tax revenue in Nepal. On the basis of 10 year of data, the revenue amount of excise duty has been forecasted. Here, in this study, excise duty at a time is considered as the main variable and denoted by Y, X is (t) base year, and here all the years are denoted by it. The following table shows the trend values of excise duty from 2002/03 to 2011/12.

**Table 4.11: Trend Value of Total tax Revenue and Excise Duty**

(Rs. in million)

Year (t)	$Y_c = a + bx$ (trend value of total tax revenue)	$Y_c = a + bx$ (trend value of excise duty)
2002/03	31007	2618
2003/04	42437	5416
2004/05	53867	6414
2005/06	65297	8311
2006/07	76727	10209
2007/08	88157	12107
2008/09	99587	14005
2009/10	111017	15903
2010/11	122447	17801
2011/12	133877	19699

Source: Appendix 1 and 2

Therefore by the help of trend analysis we find the value of total tax revenue and excise duty for past 10 years. By adopting same formula of trend we can get the future at trend value of total tax revenue and excise duty which will reflect the trends in contribution of excise duty. Following table reveals the trend value of total revenue and share of excise duty for next 7 years.

**Table 4.12: Trend of Total Tax Revenue and Excise Duty for next 7 Years**

<b>Year</b>	<b>Trend value of total tax revenue</b>	<b>Trend value of excise duty</b>
2012/13	145307	21596
2013/14	156737	23494
2013/14	168167	25392
2014/15	179597	27290
2015/16	191027	29188
2016/17	202457	31086
2017/18	213887	32984

*Source: Appendix 1 and 2*

From the above computation we can conclude that total tax revenue and excise duty is in increasing trend. However, share of excise duty or total tax revenue is continuously increasing.

In the above table we can see that the trend value of total revenue is 213887 Million. The contribution of excise duty in total tax revenue is 32984 million in 2017/18. Total contribution of excise duty in total tax revenue is increasing every year.

### 4.13 Empirical Analysis

An empirical investigation has been conducted in order to find out various aspects of excise duty from the experience of the real world. The major tool used for this purpose is an opinion questionnaire. Questionnaires were distributed to excise officers (Administrator) beverage & liquor staff and other excise duty payer company's staff and owner. The response received from various respondents have been arranged, tabulated and analyzed in order to facilitate the descriptive analysis of the study.

Questions were provided with two or more alternatives. Information collected from the respondents were tabulated into the separate format and they were expressed in terms of percentage of total number has been analyzed into descriptive ways.

**Table 4.13.1: Group of Respondents**

S. N.	Group of Respondents	Sample size	%
1	Excise Administrators	18	36
2	Beverage And Liquor Company's Staff	10	20
3	Other Company's Staff	22	44
	Total	50	100

*Source: As Research Design*

#### 4.13.1 Problems in Excise Duty Administration

To know the view of the respondents about the problem in excise duty Administration a question was asked "In your opinion, what are the problems in each duty administration?" the response received from the respondents are tabulated as follows:



**Table 4.13.2: Problems in Excise Duty Administration**

S.N.	Problems	Excise Adm.	Beverage & Liquor Company's Staff	Other Company's Owner & Staff	Total	%
1.	Lack of trend and competent personal	9	0	4	13	26
2.	Complicated in excise duty law & policy	5	3	5	13	26
3.	Corruption	0	5	7	12	24
4.	Lack of proper communication & direction	3	2	6	11	22
5.	Unnecessary political pressure	1	0	0	1	2
6.	Any other please specify	0	0	0	0	0
	<b>Total</b>	<b>18</b>	<b>10</b>	<b>22</b>	<b>50</b>	<b>100</b>

*Source: Opinion Survey, 2013*

The excise duty Administration of Nepal is not sound. There are many problems in excise duty Administration in Nepal. To know the problems of Excise duty Administration of Nepal a question was asked "in your opinion, what are the problems in Excise duty Administration?" The responses of the respondents are as follows:

From the above table 4.13.2, it is observed that the major problems of Nepalese Excise Duty Administration have been identified among them. Lack of trained and competent personal and complicated Excise duty have policy ranks first one is 26% of the respondents suggested to giving training to excise duty officer and make rules & policies is favorable. Then after ranks second one is

corruption 24% of the respondents suggested to central the increased corruption in the excise office. And lack of proper communication and direction ranks third. That is 22% respondent accept this problems.

#### **4.13.2 Contribution of Excise Duty to Government Revenue at Satisfactory Level**

It is said that the contribution of excise duty to government revenue is at satisfactory level. To know the fact a question was asked "Do you think the contribution of excise duty to government revenue is at satisfactory level."

**Table 4.13.3: Contribution of Excise Duty to Government Revenue is at Satisfactory Level**

S.N.	Respondents	Yes		No		Total	
		No.	%	No.	%	No.	%
1.	Excise Adm.	7	39	11	61	18	100
2.	Beverage & Liquor Company's Staff	1	10	9	90	10	100
3.	Other Company's Owners & Staff	8	14	19	86	22	100
	<b>Total</b>	<b>11</b>	<b>22</b>	<b>39</b>	<b>78</b>	<b>50</b>	<b>100</b>

*Source: Opinion Survey, 2013*

From the above table it has been clear that contributing of Excise duty to government revenue is not satisfactory. Most of the respondents thought that it was not satisfactory.

In order to know the reason of unsatisfactory contribution of excise duty to government revenue, another question was asked "If no, what may be the reason?"

**Table 4.13.4: Causes of Unsatisfactory Contribution to Government Revenue**

S.N.	Measure Causes	Excise Adm.	Beverage & Liquor Company's Staff	Other Company's Owner & Staff	Total	%
1.	Defective Excise Duty	0	0	0	0	0
2.	High Corruption	0	3	11	14	36
3.	Weakness of govt. Economic policies	1	6	5	12	30
4.	Evasion On Excise Duty By Excise Payers	10	0	3	13	34
5.	Any Other, Please Specify	0	0	0	0	0
	<b>Total</b>	<b>11</b>	<b>9</b>	<b>19</b>	<b>39</b>	<b>100</b>

Source: Opinion Survey, 2013

It can be concluded that high corruption, weakness of government economic policies and evasion on excise duty by excise payers are most important cause of unsatisfactory contribution of excise duty to government revenue.

#### **4.13.3 Prescribed Rate of Excise Duty for Excise the Goods should be changed**

It is said that prescribed rate of excise duty for excisable goods should be change a question was asked "Do you think the prescribed rate of excise duty for excisable goods should be change?" the responses received from the various respondents are tabulated as follows:

**Table 4.13.5: Prescribed Rate of Excise Duty for Excisable Good should be Changed**

S.N.	Respondents	Yes		No		Total	
		No.	%	No.	%	No.	%
1.	Excise Adm.	15	73	3	17	18	100
2.	Beverage & Liquor Company's Staff	10	100	0	0	10	100
3.	Other Company's Owner & Staff	20	90	2	10	22	100
	<b>Total</b>	<b>45</b>	<b>90</b>	<b>5</b>	<b>10</b>	<b>50</b>	<b>100</b>

Source: Opinion Survey, 2013

From the above table it has been clear that prescribed rate of excise duty for excisable goods should be increase. Most of the responding through that the prescribed rate of excise duty fro excisable goods should be increase.

In order to know the reason of change to prescribed rate of excise duty another question was asked, "If yes, what may be the reason?"

**Table 4.13.6: Cause of Change Prescribed Rate of Excise Duty for Excisable Goods**

S.N.	Measure of Reason	Excise Adm.	Beverage & Liquor Company's Staff	Other Company's Owner & Staff	Total	%
1.	Excise rate should be appropriate.	11	0	3	14	31
2.	Excise rate should be reduced	0	10	11	21	42
3.	Excise duty should be increase	4	0	5	9	20
4.	Any other information please specify	0	0	1	1	2
	<b>Total</b>	<b>15</b>	<b>10</b>	<b>20</b>	<b>45</b>	<b>100</b>

*Source: Opinion Survey, 2013*

It can be concluded that excise duty rate should be reduced is first one i.e. 47% of respondent suggested to reduce excise duty for excisable goods. Than 31% respondents suggested excise duty rate should be appropriate and 20% respondents suggested increasing excise duty rate for excisable goods.

#### 4.13.4 Future Prospects to Increase Excise Duty Revenue in Nepal

It is said that the future prospects to increase excise duty revenue in Nepal. To know the fact question was asked, "Do you think what the future prospect to increase excise duty revenue in Nepal is?"

**Table 4.13.7: Future Prospects to Increase Excise Duty Revenue in Nepal**

S.N.	Future Prospects	Excise Adm.	Beverage & Liquor Company's Staff	Other Company's Owner & Staff	Total	%
1.	Excise rate should be increased on excisable goods	1	0	0	1	2
2.	Adequate govt. economic policies	1	1	0	2	4
3.	Control on excise duty evasion	12	3	8	23	46
4.	Increase in no. of excisable goods	3	5	8	16	32
5.	Suitable excise duty law rules & regulations	1	1	6	8	16
	<b>Total</b>	<b>18</b>	<b>10</b>	<b>22</b>	<b>50</b>	

*Source: Opinion Survey, 2013*

From the above 4.13.7 table we can see that out of 50 respondents 46% of respondents suggested that control on excise duty evasion. Similarly 32% respondents suggested that increase in no of excisable goods. Then, 16% respondents suggested that government make suitable excise duty law rules and regulations. Excise duty should be increased on excisable goods and adequate government economic policies there are low respondents i.e. 4% and 2%.

#### 4.13.5 Facilities Provided by the Government to Excisable Goods Production Company

Government should generate more excise duty from excisable goods Production Company giving them more facilities. To know the fact questions was asked "What kind of facilities should the government provide to excisable goods Production Company to generate more excise duty?"

**Table 4.13.8: Facilities Provided by the Government to Excisable Goods Production Company**

S.N.	Facilities	Excise Adm.	Beverage & Liquor Company's Staff	Other Company's Owner & Staff	Total	%
1.	Excise rate should be decreased	0	1	2	3	6
2.	Increase awareness of excise duty	7	0	1	8	16
3.	Favorable economic payers policy implementation	6	4	9	19	36
4.	Clarify excise duty rules, act and regulation	3	5	10	18	36
5.	Any other, please specify	2	0	0	2	4
	<b>Total</b>	<b>18</b>	<b>10</b>	<b>22</b>	<b>50</b>	<b>100</b>

*Source: Opinion Survey, 2013*

From the above 4.13.8 table, it is observed that out of 50 respondents 38% of respondents suggested that the government should implementation favourable economic policies. Similarly, 36% of respondents suggested that clarify excise

duty rules, act and regulations. Than 16% respondents suggested that, increase awareness of excise duty payers. The highest percentage respondents (i.e. 38%) suggested that favorable economic policy implementation.

#### 4.13.6 Problems in Excise Duty Collection in Nepal

Excise duty collection in Nepal is main problem. To know the fact question was asked "Do you think that there are problem in excise duty collection in Nepal?"

**Table 4.13.9: Problems in Excise Duty Collection in Nepal**

S.N.	Respondents	Yes		No		Total	
		No.	%	No.	%	No.	%
1.	Excise duty administration	17	10	0	0	17	100
2.	Beverage & liquor company's staff	9	90	1	10	10	100
3.	Other Company's owner & staff	22	10	0	0	22	100
	<b>Total</b>	<b>49</b>	<b>98</b>	<b>1</b>	<b>2</b>	<b>50</b>	<b>100</b>

*Source: Opinion Survey, 2013*

From the above table it has become clear that there has problem in excise duty collection in Nepal. Most of the respondents i.e. 98% thought that there were problem in excise duty collection in Nepal.

In order to know the problem of excise duty collection in Nepal, the next question was asked "If yes, what may be the reason?"

From the given table it can be concluded that in the opinion of respondents, there are problems in excise duty collection in Nepal. Basically, due to the lack of office and staff, increasing habit of excise duty evasion, inadequate economic policy and complexity in excise duty act, rules and regulations were the major problems in collection on excise duty in Nepal.

**Table 4.13.10: Causes in Excise Duty Collection in Nepal**

S.N.	Major problems	Excise Adm.	Beverage & Liquor Company's Staff	Other Staff & Owner	Total	%
1.	Complexity in excise act, rules and regulation	1	2	2	5	10.20
2.	Inadequate economic policy	1	1	8	10	20
3.	Lack of office and staff	11	6	5	22	45
4.	Increasing habit of excise duty evasion	4	0	6	10	20
5.	Any other, please specify	1	0	1	2	4.80
	<b>Total</b>	<b>18</b>	<b>9</b>	<b>22</b>	<b>49</b>	<b>100</b>

Source: Opinion Survey, 2013

#### 4.13.7 Evasion of Excise Duty by Excisable Goods Production Company

To know the view of the respondents about the opinion on excisable goods Production Company evade excise duty a question was asked "Do you think excisable goods production company evade excise duty?" the response of the respondents are as follows.

**Table 4.13.11: Excisable Goods Production Company evade Excise Duty**

S.N.	Respondents groups	Yes		No		Total	
		No.	%	No.	%	No.	%
1.	Excise administration	16	89	2	11	18	100
2.	Beverage & liquor company's staff	0	0	10	100	10	100
3.	Other company's owner & staff	11	50	11	50	22	100
	<b>Total</b>	<b>27</b>	<b>54</b>	<b>23</b>	<b>46</b>	<b>50</b>	<b>100</b>

Source: Opinion Survey, 2013



From the above table 4.13.11 it is clear that excisable goods Production Company evade excise duty since 54% of respondents suggested excisable goods Production Company evade excise duty. 46% of the respondents were against the evade excise duty.

#### **4.13.8 No. of Excisable Goods should be Increased**

To know the view of the respondents about the no of excisable goods be increased. A question was asked "Do you think that the no of excisable goods should be increased?" the response of the different respondents is as follows:

#### **4.13.12: No of Excisable Goods Should Be Increased**

S.N.	Respondents groups	Yes		No		Total	
		No.	%	No.	%	No.	%
1.	Excise administration	15	83	3	17	18	100
2.	Beverage & liquor company's staff	9	90	1	10	10	100
3.	Other company's owner & staff	14	64	8	36	22	100
	<b>Total</b>	<b>38</b>	<b>76</b>	<b>12</b>	<b>24</b>	<b>50</b>	<b>100</b>

*Source: Opinion Survey, 2013*

From the above table it is clear that is no of excisable goods should be increase. Most of the respondents 76% thought that there was no of excisable goods should be increase. Than 24% respondents reject it. Most of the respondents thought the government should increase no. of excisable goods.

#### **4.14 Findings**

On the basis of data presentation and analysis some important findings of this study are summarized below:

- ) The study shows the contribution of tax revenue is about 85.95% and that of non-tax revenue is about 14.05% in 2011/12 it shows that tax has

been a major source of revenue mobilization. The contribution of tax to total revenue is 77.95% in 2002/02. It is 77.15% in 2005/06. It shows that the contribution of tax revenue is not in highly fluctuating trend. Tax revenue is the composition of direct and indirect tax in the Nepalese tax revenue in 2002/03 and 2011/12 are 80.145% and 76.81% and contribution of direct tax are 23.30% and 76.70% during the study period. It shows that the higher contribution of indirect tax than direct tax in tax revenue.

- J Composition of indirect tax custom duty contribution of indirect tax in 2002/03 and 2011/12 are 44.10% and 31.62% contribution of VAT in indirect tax in 2002/03 and 2011/12 are 42.70% and 47.52%. Excise duty contribution of indirect tax in 2002/03 and 2011/12 are 13.20% and 20.86% respectively. Contribution an excise duty and VAT in increment trend and custom is decline trend in current year.
- J Excise duty contributes to total revenue is about 7.40% contribution to total revenue in 2002/03. Then it increases and reaches up to 13.50% in 2011/12. Last three years, it will be increasing trend. Contribution in excise duty to total revenue does not show consistent pattern in the study period.
- J Excise duty to indirect tax revenue is 13.20% in 2002/03 and it is 20.86% in 2011/12. Its average contribution to total indirect tax revenue is 17.04%
- J Excise duty collection on internal source in 2002/03 and 2011/12 are 96% and 61.62% respectively. Excise duty on import in 2002/03 and 2011/12 are 4% and 38.38%. In the study period excise on internal source should be decline trend and excise on import should be rapidly increasing trend.
- J Structure and excise duty cigarette and beer contribute maximum amount to excise duty. Then liquor and other industrial production contribute. In current year excise on import will rapidly increase to excise duty. Bidi share on excise is decline in current year.

- J Excise rate of beer is increasing for studying period. Excise rate of beer is increasing Rs. 36 per when for study period i.e. 122.22%
- J Excise rate of cigarette also increasing for studying period. Excise rate of cigarette increasing slowly in 2002/03 to 2007/08, therefore, it is increasing rapidly in 2008/09 to 2011/12. The excise rate of cigarette will increase 65% to 90% for study period individually.
- J Excise rate of liquor product also slowly increasing 2002/02 to 2007/08, therefore, it increasing rapidly in 2008/09 to 2011/12. The excise rate of liquor will increase more than 60% to 500% on study period individually.
- J From the opinion survey following finding were observed;
  - a) According to the excise officer there was lack of trend and competent personal and beverage and liquor company's staff and other company's owner and staff said there was high corruption in excise duty administration.
  - b) According to excise duty officer and other company's staff and owner conclude that there was lack of trend and competent personal in excise duty administration in Nepal.
  - c) All respondents are said that the contribution of excise duty to government revenue is not satisfactory level.
  - d) According excise officer, excise duty payers evade excise duty but beverage and Liquor Company's staff says there is no evade in excise payer.
  - e) All respondent's are said there was the problem in excise duty collection in Nepal.
  - f) All respondents are said government should be increase no. of excisable goods and change the rate of excise duty to excisable goods.
  - g) According to excise duty officer government control excise duty evasion and other respondent are said control corruption in excise duty office.

## CHAPTER - V

### SUMMARY, CONCLUSION AND RECOMMENDATION

#### 5.1 Summary

In each and every country, lots of fund is required to meet the additional financial requirements for the development activities. In developing countries, lack of financial resources is the main constraint for the nation's development. The government has responsibility to fulfill fundamental needs of the country. To fulfill these fundamental needs government collects the revenue in terms of direct tax and indirect tax, Nepal has been unable for proper mobilization of internal sources. Therefore, fiscal deficit of Nepal has been increasing. Excise duty should play important role to solve the problem of fiscal deficit. But in Nepal, Excise duty contribution to government revenue is more than its estimated forecast.

The structure of government revenue of Nepal is composition of tax revenue and non tax revenue. Tax revenue is the composition of customs duties, Excise duties, Sale tax, VAT, income tax, house and land rent tax and other direct and indirect taxes. The tax revenue plays vital role in contributing to government revenue. In average, tax revenue contributes about 80.145% and non-tax revenue contributes 19.855% in total government revenue of the Nepal. From this point of view, tax revenue has been playing vital role to government revenue.

Excise duty contribution to total government revenue is 16.12% in 2011/12. The excise duty contribution to total indirect revenue is 17.04 % in 2011/12. So, excise duty is main source of government revenue.

The main objective of the research was to study the structure of excise duty, prescribed rate of excise duty in excisable goods and its contribution to government revenue in Nepal. As per the nature of the study secondary as well as primary data was collected and analyzed. The source of primary data was

from the analysis of respondents' response. Response were collected from respondents representing excise administration, Beverage and liquor company's staff and other excise duty payer company's staff and owner. Questionnaire were distributed and collected and information was also has bee tabulated. The secondary data were collected from ministry of finance, IRD's annual report, Economic Survey as well as Budget Speech various year.

There are 520 companies, who produce excise goods and no. of excisable goods are 50 in Nepal. There are 22 offices in Nepal for collection excise duty.

In Nepal, the history of Excise duty is so long. It started on 1854. the civil code 1854 has given legal basis for imposing excise duty on liquor, mining of iron, animal bones, hashish, timber wood etc. the introduction of Excise Act 1959 and the related excise regulation replaced the 1854 civil code. It is reported that the selected excisable products numbered 14 in 1964. The Excise Act 2002/03 authorized the government to raise revenue from selected import products.

## **5.2 Conclusion**

The objectives of the excise duty was to mobilize revenue, to discourage the consumption of health hazard products, to provide protection to the domestic industry by imposing countervailing duty, and the protection of environment. In 2006/07 the number of excisable products was 30. The number has further increased to 50 in 2011/12. The reason for the increase in the number is the excise duty imposed on the plastic packing, fruit juices, iron rods and other imported machinery, marble, glaze tiles, noodles, fried meat, cement, paints, ceramic brick (except domestic product), vehicles, printing equipment, telecommunication equipments, televisions and other selected electric equipments etc.

The study shows that contribution of tax revenue is about 80.145% and than non-tax revenue was about 17.04% in 2011/12. In this way tax has been a

major source of government revenue. In indirect taxes customs duty, VAT and excise duty are three major sources.

The structure of excise duty would be cigarette, liquor, beer, bidi, excise on import and other industrial product. The structure of excise duty reveals the significance of revenue generated from three excisable items - Cigarette, Liquor and beer- in total excise duty. Excise duty on import is contributing significantly in current year. The excise duty from the cigarette is the single largest contribution of the total excise duty. Other industrial production also contributes 11.2% to total excise duty revenue.

Total tax revenue is the composition of direct tax and indirect tax revenue in Nepalese tax revenue. The contribution of indirect tax revenue to total revenue was 74.97% in 2002/03 and it is 76.81% in 2011/12. The contribution of direct tax was 23.30% in 2002/03 and it is 22.71% in 2011/12. The contribution of indirect tax to government revenue is also found in fluctuating trend.

Indirect tax revenue is the composition of customs duty, VAT, Excise duty and other tax. The contribution of custom duty to indirect tax revenue was 44.10% in 2002/03 and it is 31.62 in 2011/12. The share of custom duty is in decreasing trend. The contribution of VAT to indirect tax revenue was 42.70% in 2002/03 and it is 46.13% in 2011/12. The share of VAT is slowly increased. And contribution of excise duty to indirect tax revenue was 13.20% in 2002/03 and it is 17.04% in 2011/12. The share of excise duty to indirect tax revenue is in increasing trend.

Excise duty contribution to total government revenue is 1.13%. It is increasing every year. Excise duty contribution to tax revenue is 20.76% in 2010/11 in excise duty collection ratio (internal and excise of imports). Internal excise duty was 96% in 2002/03 and it is 61.62% in 2011/12. Internal excise duty is in decreasing trend. And excise on import was 4% in 2003/04 and it is 38.38% in 2011/12. Excise on imports is in rapidly increasing every year.

One of the reasons for the growth in the annual collection of revenue is attributed to the excise duty in liquor, beer and cigarette. Excise duty is considered to be the excise duty to apply as the number of manufactures is limited in number and the burden of such duty is passed on to consumer. It is illustrated with a few examples. The duty on beer was Rs 33 per liter in 2002/03, the ratio of which increased almost every year. Now it stands at Rs 80 per liter. In case of 15 up liquor, the duty per LP liter was Rs 400 in 2006/07 which now stands at Rs 695 in 2011/12. The tax base of liquor was changed every year from 2002/03 to 2011/12.

Similarly, filter cigarette of 70mm length has attracted excise duty which has increased every year. The duty rate was 258 per M (1000 sticks) in 2002/03, which stands at Rs 533 per M in 2011/12. The excise rate of all length cigarette will increase every year. Although the government adjusted the rate of excise duty in a frequent interval apparently to protect the revenue in real terms, it has not been done in a systematic and objective manner. It appears that the adjustment in the excise duty was guided mainly to balance the revenue deficit, treating excise revenue as residue. For current year rate of excise duty is rapidly increased in this item i.e. cigarette, liquor and beer.

The government increased prescribed rate of excise duty in excisable product. After 2008/09 the government increased prescribed rate of excise duty rapidly, government increased excise duty of most of the product. In cigarette, beer and liquor product, the government increased in high percent.

## **5.2 Recommendation**

) The government of Nepal has not stimulated the vision for the excise duty. The government revenue policy has not even mentioned about the excise duty except in broad terms like administration and legal reforms and the controlling of leakage of the tax system as a whole. Indeed the policy of excise duty seems to have not been an integrated part of the national revenue policy. It is the third largest single source of revenue

which is raised from a limited number of manufacture and the importers in selected products. It appears to have been taken for granted that the excise duty will continue to be a large source of income. In need, the accession to WTO has the implications of reduced tariff rate and the loss of revenue over the next years. It is most likely that the excise duty has to contribute a larger portion of the compensation of the loss of revenue. It is therefore necessary to recognize that different aspects of excise duty should be integrated in a forward working plan for government policy. It is suggested to formulate government policy which may indicate annual target strategy to achieve the target, and review mechanism covering policy, legal, institutional, administration components.

) The Amendment of the excise act and the Liquor Act should be initiated with a view to respond to the changing socio-economic situation. The discretionary authority of the officials should be curtailed. The disqualification clauses of the applicant should be stipulated so as to make it more transparent to the applicant who should know the expectation of the government while approving the application. The juvenile drinking should be made more stringent and supplier should be liable for severe punishment in case of infringement of the Act. The penalty should be more severe and if proven guilty of violating the provisions of the Acts, the accused must serve jail sentence corresponding to the degree of criminal offence.

) The definition and classification of excisable products as per the excise act are not compatible in most of the products with the Harmonized code used in the customs. For example, while applying excise duty on soft drinks, it has defined soft drinks as containing up to 1% alcohol, which is incompatible with the HS code nomenclature which defines soft drinks containing up to 0.5% alcohol. The excise Act has not defined fruit juice in a way that is compatible with HS code. HS code has



classified fruit juice in terms of raw materials used i.e. orange, apple, grapes etc.

- ) The problems of leakage should be addressed through an integrated approach. It should start from the manufacturer's application, monitoring of the factories, follow up in the market etc. committees at the ward level should be constituted with broader representation from the society in order to make people aware of the health hazards in case of drinking impure and duplicate liquors. Moreover, the committee should be instrumental in creating awareness of bad consequences of juvenile drinking and smoking.
- ) The excisable product industry which is contributing substantial and stable amounts of revenue needs support from the government, for making the industry more competitive and efficient up in the face of liberal trade regime.
- ) There are problems in excise duty collection. The government should give training to excise duty staff, implement adequate economic policy, control on excise duty evasion and add staff and office to solve the problems.
- ) The excise duty administration must be more efficient so that more and more revenue can be collected. For making excise duty administration more effective, the provision of rewards and a punishment for the excise duty officials must be strictly implemented. The morale of the excise duty officials must be increased.
- ) Efficient government can solve the problems of excise evasion. The government has to be transparent on collection of excise duty and control the corruption on Inland Revenue office.

) To collect more excise duty, the government should provide more facilities to excisable goods Production Company and promote these industries. The government should increase the number of excisable products to generate more revenue.

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## APPENDIX 1

### TREND VALUE OF TOTAL TAX REVENUE (2002-2012)

(Rs. in million)

Year (t)	Total tax revenue(y)	x=t-2006.5	x <sup>2</sup>	xy	Yc=a+bx
2002	38864.9	-4.5	20.25	-174892.05	71012+11430(-4.5)=19577
2003	39930.1	-3.5	12.25	-137655.35	71012+11430(-3.5)=31007
2004	42587.1	-2.5	6.25	-106467.75	71012+11430(-2.5)=42437
2005	48172.9	-1.5	2.25	-72259.35	71012+11430(-1.5)=53867
2006	54104.8	-0.5	0.25	-27052.4	71012+11430(-0.5)=65297
2007	57430.4	0.5	0.25	28715.2	71012+11430*.5=76727
2008	71126.7	1.5	2.25	106690.05	71012+11430*1.5=88157
2009	85155.5	2.5	6.25	212888.75	71012+11430*2.5=99587
2010	117051.9	3.5	12.25	409681.65	71012+11430*3.5=111017
2011	156294.9	4.5	20.25	703327.05	71012+11430*4.5=122447
2012	172834.8	5.5	30.25	950591.4	71012+11430*4.5=133877

Hear, the trend line is supposed to be

$$Y_c = a + bx$$

Where,

y=Dependent variable

x=Derivation from source convenient time period

b= slope of trend line

a=y-intercept

and,

$$a = \frac{\sum y}{n} = \frac{710119.2}{10} = 71012$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{942975.8}{82.5} = 11430$$

Then, we can easily compute the trend value for each year by putting appropriate amount in the formula. The value of x is computed in the table.

**Estimated trend value of total tax revenue 2013-2018**

Rs in million

Year (t)	$x=t-2006.5$	$Y_c=a+bx$
2013	6.5	$71012+11430*6.5=145307$
2014	7.5	$71012+11430*7.5=156737$
2015	8.5	$71012+11430*8.5=168167$
2016	9.5	$71012+11430*9.5=179597$
2017	10.5	$71012+11430*10.5=191027$
2018	11.5	$71012+11430*11.5=202457$

## APPENDIX - II

### TREND VALUE OF EXCISE DUTY

(Rs in million)

Year (t)	Excise duty (y)	$x = t - 2006.5$	$x^2$	xy	$yc = a + bx$
2002	3771.2	-4.5	20.25	-16969.95	$9260.33 + 1897.87(-4.5) = 720$
2003	3807	-3.5	12.25	-13324.5	$9260.33 + 1897.87(-3.5) = 2618$
2004	4785.2	-2.5	6.25	-11963	$9260.33 + 1897.87(-2.5) = 4516$
2005	6226.7	-1.5	2.25	-3940.05	$9260.33 + 1897.87(-1.5) = 6414$
2006	6445.9	-0.5	0.25	-3222.95	$9260.33 + 1897.87(-0.5) = 8311$
2007	6507.6	0.5	0.25	3253.8	$9260.33 + 1897.87 * 0.5 = 10209$
2008	9343.2	1.5	2.25	14014.8	$9260.33 + 1897.87 * 1.5 = 12107$
2009	11189.6	2.5	6.25	27974	$9260.33 + 1897.87 * 2.5 = 14005$
2010	16220.9	3.5	12.25	56773.15	$9260.33 + 1897.87 * 3.5 = 15903$
2011	24306.1	4.5	20.25	109377.45	$9260.33 + 1897.87 * 4.5 = 17801$
2012	27865.2	5.5	30.25	153258.6	$9260.33 + 1897.87 * 5.5 = 19699$



## Estimate trend value of excise duty

(Rs. in million)

year (t)	$x = t - 2006.5$	$yc = a + bx$
2013	6.5	$9260.33 + 1897.87 * 6.5 = 21596$
2014	7.5	$9260.33 + 1897.87 * 7.5 = 23494$
2015	8.5	$9260.33 + 1897.87 * 8.5 = 25392$
2016	9.5	$9260.33 + 1897.87 * 9.5 = 27290$
2017	10.5	$9260.33 + 1897.87 * 10.5 = 29188$
2018	11.5	$9260.33 + 1897.87 * 11.5 = 31086$

So, here to identify the trend line, least squared method of time series analysis has been used, as per the formula of trend line

Where,

$$a = \frac{\sum y}{n} = \frac{92603.3}{10} = 9260.33$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{156572.75}{82.5} = 1897.85$$

Then, can easily compute the value of trend for each year by putting appropriate value for each which has been done in the above table.

## APPENDIX - III

### QUESTIONNAIRE

Firstly, I would like to introduce myself. This is me **Binonanda Jha**, the student of Master of Business Studies (MBS) at Damak Multiple Campus. I am writing a thesis entitled "**Practices of Excise Duty in Nepal.**"

I hope my respected sir/madam, you will provide me your suggestion, and share your knowledge to make this thesis effective. As you wish I have prepared a questionnaire what I think, please would you not mind to fill up according to the question and if you have your special suggestion you can write in the back side or you can advise individually to me.

Name of the respondent:

Designation:

Department:

Experience:

Please tick your answer in the corresponding box, if the questionnaire is provided with and or alternatives and in order of preference from 1 to last if there are two or more alternatives.

Q No-1 In your opinion, what are the problems in excise duty administration?

- a. Lack of trend and competent personal [     ]
- b. Complicated in excise duty law and policy [     ]
- c. Corruption [     ]
- d. Lack of proper communication and direction [     ]
- e. unnecessary political pressure [     ]
- f. Any other, please specify.....

Q No-2 Do you think the contribution of excise duty to government revenue is at satisfactory level?

I. Yes [      ]

II. No [      ]

If no, what may be the reasons?

a. Defective excise duty [      ]

b. High corruption [      ]

c. Weakness of government economic policies [      ]

d. Evasion on excise duty by excise payers [      ]

e. Any other, please specify.....

Q.No-3 Do you think the prescribed rate of excise duty for excisable goods should be change?

I. Yes [      ]

II. No [      ]

If yes, what may be the reasons?

a. Excise rate should be appropriate [      ]

b. Excise rate should be reduced [      ]

c. Excise rate should be increased [      ]

d. Any other, please specify.....

Q.No-4 Do you think what is the future prospects to increase excise duty revenue in Nepal?

a. Excise rate should be increased on excisable goods [      ]

- b. Adequate government economic policies [       ]
- c. Control on excise duty evasion [       ]
- d. Increase in no. of excisable goods [       ]
- e. Suitable excise duty laws, rules and regulation [       ]

Q.No-5. What kinds of facilities should the government provide to excisable goods production company to generate more excise duty?

- a. Excise rate should be decreased [       ]
- b. Increase awareness of excise duty payers [       ]
- c. Favorable economic policy implementation [       ]
- d. Clarify excise duty rules, act and regulation [       ]
- e. Any other, please specify.....

Q. No-6 Do you think that there are problem in excise duty collection in Nepal?

- I. Yes [       ]
- II. No [       ]

If yes, what may be the reasons?

- a. Complexity in excise duty act, rules and regulation [       ]
- b. Inadequate economic policy [       ]
- c. Lack of office and staff [       ]
- d. Increasing habit of excise duty evasion [       ]
- e. Any other, please specify.....

Q. No-7 Do you think excisable goods Production Company evade excise duty?

I. Yes [       ]

II. No [       ]

Q.No-8 Do you think that the no. of excisable goods should be increased?

I. Yes [       ]

II. No [       ]

If any comment and suggestions please specify

.....  
.....  
.....  
.....

Thank you

## **APPENDIX - IV**

### **LIST OF RESPONDENTS**

#### **Excise Administrator (Tax)**

1. Ramhari Gyawali
2. Manidev Bhattari
3. Chaudamani Devkota
4. Rajendra Paudel
5. Deepak Gautam
6. Phanindra pd. Pokhrel
7. Ishwor Prasad Koirala
8. Tulis Bhattarai
9. Gita Lamsal
10. Badri Prasad Gautam
11. Tankamani Sharma
12. Nagendra Tharu
13. Udaya K.C.
14. Chhabi Lal Koirala
15. Mina Sigdel
16. Indra Bahadur Nepali
17. Bal Bdr. Bishwakarma
18. Ditak Acharya
19. Dipak Kafle

### **Beverage and Liquor Company's and Staff**

1. Suman Khawaju
2. Tilak Basnet
3. Sunil Shakya
4. Rajeeb Rajchi
5. Ratna Magar
6. Bishnu Chaudhary
7. Tirth Raj Shakya
8. Arjun Maharjan
9. Karan Singh
10. Dugar Food and Beverage Pvt. Ltd

### **Other Excise Payer Company's and Staff**

1. Shanghai Plastic Industry Pvt.Ltd 'A'
2. Shangahi Plastic Industry Pvt.Ltd 'B'
3. Bajju Plastic Industry Pvt.Ltd
4. Anita Maharjan
5. Tanchankanya Group
6. General manager Shanghai Plastic Industry
7. Bigee Iron and Steel Industry Pvt.Ltd
8. Chandi Steel and Iron Industries
9. Parkash Shrestha
10. Roshan Chand Thakuri
11. Sanukrishna Maharjan

12. Bhairabnath Iron Industries
13. Sujal Plastic Industry Pvt.Ltd
14. Nama Raj Koirala
15. Indra Kadel
16. Prajwal Aryal
17. Raju Khanal
18. Yadav Pd. Pant
19. Anjali Shrestha
20. Raj Kumar Thapa
21. Euroj Deep Tandukar
22. Ambika Pd. Dhakal



