

# **CHAPTER - I**

## **INTRODUCTION**

### **1.1 General Background**

The study of tax under public finance is also called government finance. Governments need revenue to carry out activities need revenue to implementing activities. Such activities are included in the government annual budget. Budget is the composition of revenue and expenditure. The main sources of revenue are a) taxes b) non-taxes c) foreign loan d) domestic as well as foreign borrowing. The tax is an important source of revenue.

A tax is a compulsory levy payable by an economic unit to the government. A tax is a generalized exaction, which may be levied upon individuals groups of individuals, or other legal entities.

The base of a tax is the legal description of the object with reference to which the tax is payable. For example, the base of an excise duty is producing, packing or processing of a specific good; the base of an income tax is the income of the assets defined and estimated in terms of certain rule laid down for this purpose. The base of each tax has to be defined legally and it determines the tax liability of individual taxpayer, (Bhattraï & Koirala, 2010).

Indirect taxes are usually made on an annual basis and law has to decide whether indirect items would be taxed on the basis of accrual or receipt.

The main objective of the modern government of any developing country is to improve living standard of its people through the development process. In order to achieve the goal every government launches different economic, social, cultural and other development activities. For example the government needs various types of resources that is man, machine, materials etc. one of the most

essential things is enormous financial resources. However, the internal resources are more preferable for sustainable economic development.

Every country needs resources to develop the country and maintain security. Resources can be mobilized from two sources, internal and external sources. Internal sources include public borrowing, government bonds, surplus on public undertakings and taxation, external sources consist of foreign aid, grants and loan.

Such external sources are uncertain, inconvenient, and not good for healthy development, if there is heavy dependence on them. It better to mobilize internal sources rather than looking with beggars eye to the donors.

Developing countries are trying to mobilize their internal sources of finance necessary funds for regular and development activities. Nepal is also doing it. But Nepal's experiences show that it is mobilizing internal resources with limited success. Internal sources are better than external sources because it is sustainable and less risky.

Nepal faces a number of problems connected with economic growth like removal of poverty and inequalities on the one hand and on the other there is the additional problem of chronic unemployment and regional disparities also. Continuous borrowing to raise the necessary public funds is not good. It reduces the liquidity position of the government and increases inflation. Governments have to impose higher taxes to repay the interest and the borrowed sum.

The use of internal sources seems better for financing public revenue in developing countries. Tax is the main component of internal sources. Different forms of tax are Value Added Tax (VAT), Income Tax, Customs Duties, Excise duties and others.

A tax is a compulsory contribution to government made without reference to a particular benefit received by taxpayer. Taxpayer does not expect any return for his taxpaying. It is neither an exact amount nor a penalty for any legal offense. Taxes are divided into two distinct types: direct tax and indirect tax. On the basis of impact and incidence of tax Indirect taxes the main sources of revenue collections of government in present scenario. It has been considered as the one of the major elements of tax revenue. For this reason; developed countries like USA, UK, Japan etc. collect substantial part of their revenue by indirect taxes but developing countries like Nepal still has been unable to maximize the collection of indirect taxes. The importance of indirect taxes has increased day by day and in the 19<sup>th</sup> century it has not only remained a source of revenue for emergency, but also has become a regular source of income for government. In fact, indirect taxes system has been originated recently as an internal source to strength the source of tax, for economic growth of a country and meets the slogan of economic revolution by searching additional sources of revenue, (Bhattraï & Koirala, 2010).

Every country needs resource for fulfilling the government expenditure. To supply the expenditure tax is playing vital role where indirect taxes is also contributing it. In order to uplift the life standard of people, Nepal has given first priority to economic development through planned efforts. In the planning experience of 53 years ten long term development plans, have been completely implemented. The 11<sup>th</sup> plan which has only one goal of poverty alleviation emphasizing on agriculture sector development is schedule to end of 10<sup>th</sup> development plan. In the present chapter, taxation is viewed as a strong tool of economic policy apart from its importance as a source of revenue, (Ghimire, 2011).

## **1.2 Statement of the problem**

In Nepal, after the introduction of privatization and liberalization in the economy in 1990 the role of government has been constraints and it has to face

some challenges. The role of government has further increased, especially with reference to poverty alleviation. The government is bound to play a pro active role in support of program related to deduction, health drinking water, agriculture, local development and infrastructure. Private sector is still too weak to deal with these issues. These activities require huge expenditure in excess of the revenue available to the treasury. This has led to increasing revenue expenditure gap in Nepal, which calls for effective internal resources, although foreign aid is a critical component of development in poor economies, its effects will not only fall on the contemporary generation but also on posterity. Economic development is the prime concern of every nation of the world. Underdeveloped countries are facing serious problems in the process of economic development. Nepal is also not an exception to this condition. The majority of people have not been able to get even basic facilities. The government wants to fulfill the basic needs of the people and accelerate development activities one at a time. Thus, every nation of the world is accomplishing various activities to fulfill these objectives. It needs huge amount of capital. Despite the various measures adopted by government to boost up revenue collection there is still a substantial resource gap between expenditure and revenue. The rate of government expenditure is exceeding the rate of growth revenue almost every year. In other words Nepal has been facing persistent budget deficit from the beginning of her development phase. External deficits, currency depreciation, inflationary pressure, rising interest rate which may cause crowding out effect and reduce in economic growth are the consequences of the budget deficits. The mobilization of revenue has not increased to the level on which the level and speed of our expenditure is rising. Raising the government revenue helps to overcome the serious bottleneck of resource gap in the process of economic development program. In this context, taxation can be taken as means for resolving this problem by mobilizing additional resources from domestic sources.

Nepal, one of the least developed countries in the world, has growth rate 2.3 of real GDP (2004/5 CBS). Nepal's GDP per capita is \$612 (2011 HRD), one of the poorest in the world impaling the scarcity of resources for the development process. Thus the role to taxation has promised to provide the infrastructure for the development process and to provide the social services to the poor people, whose volume is dominant in country's demographic structure.

In Nepal after the rise of democracy, deliberate planning process began only after 1956 (2031 BS) and the huge amount of revenue was required for the process of economic development, a lot of capital was needed. Where, the first budget was brought in 2008 B.S. To fulfill the planning expenditure and for the process of economic development a lot of capital was needed. In this process of generating more revenue, Nepal Government (NG) introduces direct and indirect tax system in the country. Similarly to strengthen the existing revenue departments various rules and regulations has been enforced. During this period, indirect taxes were introduced, (Bhattraï & Koirala, 2010).

There is high resource gap in our budget. It means our budget is called deficit budget. The expenditure is higher than our revenue and foreign aid. The gap is fulfilled by internal and external loans. In every budget, it is reality. This is the main economic problem of Nepal. Tax and non-tax revenue is the major source of the internal revenue where tax is paying more vital role than non-tax revenue. In tax revenue, indirect tax is playing more vital role than direct tax. It means Nepal's tax structure is mainly based towards indirect taxes.

The experience of the developed countries clearly indicate that tax may be one of the major development for the increment of internal revenue but in Nepal its contribution has not increased significantly during 40 years.

It is mentioned above that there is significant resource gap in Nepalese finance. The gap between income and expenditure is increasing. Therefore the resource gap has been a serious bottleneck of the process of economic development of

developing nations like Nepal. To increase the government revenue it is very necessary to raise its source of revenue. Although there are various sources of government revenue, the tax revenue is the major important source.

Nepal is facing a problem of scarcity of resources for development activities. Few rich capture major economic source and they are under taxed either because of tax evidence or evasion and most of poor people suffer from commodity tax.

In the context of the discussion of the problem taken for the above studies, this study has addressed the following research issue:

- ❖ What is the present status and role of indirect tax in total tax revenue?
- ❖ What is the indirect tax structure of Nepal?
- ❖ Does indirect tax in Nepal really contribute to the generation of revenue?
- ❖ What are the problems of resource mobilization and resource gap in Nepal?

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

The basic of the specific objective of this study are;

- ❖ To study the reason for growing resources gap in Nepalese economy.
- ❖ To analyze the role of indirect taxes as an internal instrument of resource mobilization.
- ❖ To identify the role and status of indirect taxes in the total tax structure.
- ❖ To provide suitable recommendations for the improvement of internal resources mobilization through indirect taxation in Nepal.
- ❖ To identify the indirect tax structure in Nepal.
- ❖ To analyze the hour much revenue collection from indirect tax in Nepal.

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

Nepal is an agro-based developing country with low speed in industrialization process. There are only a limited number of corporate bodies and their economic performance is very dismal. So, there is need to growth and development of corporate sector in our nation. The government needs huge amount of fund to spend on daily expenses as well as development activities. Every year, Nepalese government has been presenting deficit budget, there is increment in source gap. Most of the development activities depend on bilateral and multi lateral grants and loans. The nation is hardly bearing the burden of the loan and the internal source of revenue is not sufficient even to meet the ordinary expenses. In this context, the easy and long lasting way to increase revenue to strengthen the internal source is through indirect taxes. Thus, the contribution of indirect taxes on government revenue and its impact on fulfilling resource gap has been chosen as a relevant topic for the study.

Government prepares the budget to operate the daily works, to develop the country and maintain security. Budget depends upon internal and external resources where internal source is better than external source because it is safe and sustainable in internal source tax play vital role. It means government can't go ahead towards development without sound tax system and implementation of it, (Bhattraï & Koirala, 2010).

Among the taxes, indirect taxation is one major components of tax system. There are many possibilities for extension of indirect taxation in Nepal. The developed countries of the world have proved the issue because indirect taxation is playing major role in their national revenue.

This study explains the role of indirect taxation in Nepal; this study has provided a meaningful suggestion to the Nepal government to increase the revenue from indirect taxes in Nepal. This study will be useful to economists, planners, tax officers, tax administrators, government and other interested

person about the corporate sector in internal resource and the problem and prospect of corporate sector. It will also provide the information about trends and projection of VAT, excise duty, custom duty etc.

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

Each and every research work has some of its assumptions as well as some of limitations. So, this research work also has some of them. The researcher has to finish this study within the framework determined by the Tribuvan University and its time limits. This study only consist the contribution made by indirect taxation among total taxation which also constrained this work. Besides these some of specific limitation of this research work has been presented following.

- ❖ This study deal on the mobilization of resources through indirect taxation only.
- ❖ Due to time and resources constraints, this research has covered the least period data for analytical purpose.
- ❖ Collected data may be deviated from one secondary source to another secondary source.
- ❖ Mistakes & confusion in published data may be making the differences collected data.
- ❖ There are limited publication of books, journals and abstracts on indirect taxation and its contribution to national economy.
- ❖ There may be the subjectivity of researcher to some extent.
- ❖ The study has focused the period 2002 to 2011 only.

### **1.6 Organization of the Study**

The Study is organized in the following five chapters:

#### **❖ Chapter I: Introduction**

It deals with introduction of the main topic of the study like general background, statement of the problem, objectives and significance with limitation of the study and other introductory framework.



## ❖ **Chapter II: Review of Literature**

It deals with the review of available relevant studies. It includes the conceptual review and review of the related books, journals and the published and unpublished research works as well as thesis.

## ❖ **Chapter III: Research Methodology**

It deals with methodology of the study i.e. research carried out in this size and shape. For this purpose various financial tool and statistical tool are defined which will be used for the analysis of the presented data.

## ❖ **Chapter IV: Presentation and Analysis of Data**

It deals with the presentation and analysis of all the relevant collected data. Analysis is done as per described in chapter 3. This chapter is the heart of the study.

## ❖ **Chapter V: Summary, Conclusion and Recommendations**

It contains the summary of the study, the major findings, conclusion recommendation and suggestion on the basis of the study.

## **CHAPTER - II**

### **REVIEW OF LITERATURE**

Review of literature is a necessary part of all studies. A literature review is the process of obtaining, locating, reading, and evaluating the research literature in the area of the interest of researcher. It is a way to discover what other researches in the area of problem selected has uncovered. The purpose is to develop some expertise in one's area, to see what can new contributions be made? And, will be able to receive some ideas for developing a research design. It is also a way to avoid investigating problems that have already been definitely answered.

#### **2.1 Conceptual Framework**

Review of literature is the study of past research studies and relevant materials. It is the advancement of existing knowledge and in depth study of the subject materials. "Review of literature means reviewing research studies and other relevant proposition in the related area of the study so that all the past studies, their conclusion and deficiencies may be known and further research can be conducted. It is an integral and mandatory process in research work.

The chapter is basically concerned with the review of literature relevance to analysis of indirect taxes & their contribution to national economy. It also included the theories and previous studies and research works conducted into the different period of time on the matter of taxation done by various researchers, academicians and other scholars too. Those studies are from all over the world which is related and relevant to this research work. This chapter is totally devoted to the concept of related pattern of the study which would be fruitful to solve the research problems. This framework would be helpful for gathering various knowledge and experiences. So the conceptual framework contains following backgrounds and experiences.

Different ways of minimizing the Tax Liabilities most of the people don't wish to pay any more taxes than their obligations permit and effect of tax in national economy. It shows the relationship between tax payer and tax receiver. Government wants to increase tax liability but every people wants reduce tax liability as for as possible. It studies how the tax systems are contributed in development of the nation.

### **2.1.1 An over view of Taxation**

The study of tax under public finance is also called government finance. Governments need revenue to carry out activities need revenue to implementing activities. Such activities are included in the government annual budget. Budget is the composition of revenue and expenditure. The main sources of revenue are a) taxes b) non-taxes c) foreign loan d) domestic as well as foreign borrowing. The tax is an important source of revenue, (Jagirdar, 2011).

A government requires sufficient resources to scary out development plans, handle day-to-day administration, and maintain peace and security and launch other public welfare activities. The government collects the required resources mainly from two sources debt and revenues. The debt can be collected either from internal or external sources. The internal debt collected within the country while external debt is collected from outside the country. The debt financing of the government is known as deficit financing. The revenue on the other hand, comes basically from two sources: tax and non tax. Non tax sources included different revenue like gift, grants, revenue from public enterprises, administrative revenues such as registration fees, fine and penalties. Tax sources included customs duty, excise duty, VAT, income tax, (Sinha, 2011).

In general, tax can be defined as a levy or other type of financial charge or fee imposed by state or central government on legal entities or individual. It is a compulsory levy from individual, households and firms to central or local

government. It is a kind or 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 tax payer 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 rising revenue which in turn linked with the welfare of the people directly or indirectly. Some of definitions about taxation have been reviewed below to make reference of this study.

“A compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefit conferred,” (Seligman, 1980).

According to Plehn “Tax are general contribution of wealth to levied upon person natural or corporate to defray expenses incurred in conferring common benefit upon the residence of the states.”

Findlays Shirras defined tax as “A compulsory contribution to public authorities to meet the general expenses of the government which have been incurred in conferring common benefits upon the residence to special benefits”

The following conclusion can be drawn from the above definition.

- ❖ Tax is not a voluntary contribution by the tax payer but it is compulsory in nature.
- ❖ Those failing to pay taxes are subject to punished by laws.
- ❖ There is an element of sacrifice in the payment of tax.
- ❖ Tax is levied on person as per the prevailing laws.
- ❖ Those who pay tax do not get corresponding benefits from the government.
- ❖ Tax is spent for common interest of the people.

### **2.1.2 Characteristics of Taxation**

Tax is a compulsory contribution from the person to the government to defray the expenses incurred in the common interest of all without reference to special benefit conferred so, tax has many feature which are as below

- ❖ Compulsory contribution.
- ❖ Personal obligation.
- ❖ There is no relation between taxation and government services.
- ❖ Tax is imposed for the social benefit, (Dhakal, 2010).

### **2.1.3 Objective of Taxation**

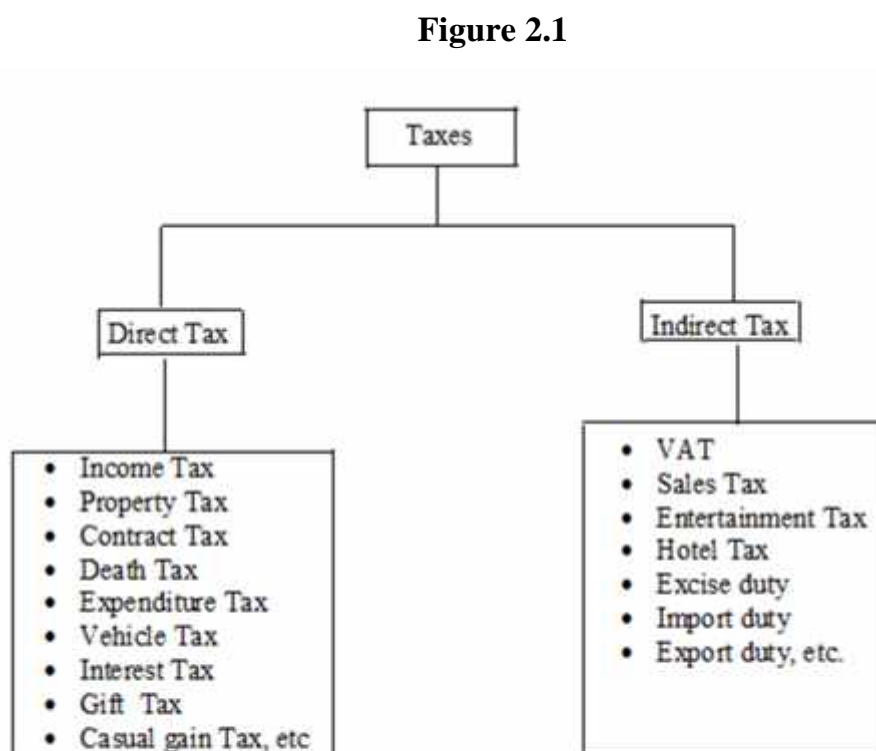
Tax is a permanent instrument of collecting revenues for the government. It is a major source of revenue in the development countries and is appearing as important sources of revenue in the developing countries as well. It has become an instrument of social and economic policy for the government. The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

- Raising more revenue
- Regulating the economy
- Preventing concentration of wealth in a few hands.
- Redistribution wealth for establishing equality of income and wealth distribution of economy
- Boosting up the economy
- Reducing unemployment problem
- Removing regional disparities:

Regional disparity has become a chronic problem to the developing countries like Nepal. Tax is one of the ways through which regional disparities can be minimized. The government provides tax exemptions or concessions for industries established or activities carried out in backward areas. This will help increase economic activities in those areas and ultimately regional disparity reduce to minimum.

### 2.1.4 Classification of Taxation

On the basis of shifting of burden, tax can be classified into two broad categories direct and indirect tax to make study easier and for presenting literature review on those matters which is presented into the following chart:



**Figure 2.1 Classification of Taxes**  
(Bhattarai and Koirala, Taxation in Nepal, 2010)

As per the above figure 2.1 shown the brief description of taxation classification has been presented as follows.

#### **a. Direct Tax**

The fact that direct tax collections may exceed revenues from indirect taxes for the first time is a sign that the tax reforms of the past few years are showing the desired results. In most developed countries, direct taxes account for a greater share of tax revenues of the government than indirect levies. A direct tax is a form of tax paid by a person on whom it is legally imposed. It is collected

directly by the government from the person who bears the tax burden. Taxpayers need to file tax returns directly to the government. Therefore, direct tax cannot be shifted. The impact or the money burden and the incidence are on the one and the same person. In other word, the same person pays and bears the tax burden. It is the tax on income and property. Examples include income tax, property tax, vehicles tax, interest tax, expenditure tax, death tax, gift tax and others, (Bhattraï & Koirala, 2010).

The following are the advantages of direct tax:

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

The following are the disadvantage of direct tax

- It gives mental pinch to the taxpayer as they to curtail their income to pay to the government.
- Taxpayer feels inconvenience as the government imposes tax progressively.
- Tendency to evade tax may increase to avoid tax burden.
- It is expensive for the government to collect tax individually.

## **b. Indirect Tax**

The term indirect tax has more than one meaning, An indirect tax is a form of tax imposed on one person partly or wholly paid by another. It is collected by mediators who transfer the taxes to the government and also perform function associated with filling tax returns. Hence, indirect tax can be shifted. In indirect

tax, the impact and incidence of tax are on different person. In other words, the person paying and bearing the tax is different. It is the tax on consumption or expenditure. If we go back in Nepal's history to 1952\53, we find that the pattern of indirect taxes and its contribution to total revenue was small (12.37%), as compared with direct taxes (15.51%),. But in 2001\2002, its contribution was 56.96 percent of total revenue against 21.01 percent of direct taxes. Example include VAT, excise duty import and export duty, etc. Indirect taxation is policy often used to generate tax revenue. Indirect tax is so called as it is paid indirectly by the final consumer of goods and services while paying for purchase of goods or for enjoying services from the above indirect taxes analysis indirect taxes concluded feature as, (Bhattraï & Koirala,2010).

1. Indirect tax is broadly based since it is applied to everyone in the society whether rich or poor.
2. The tax payer who pays the tax does not bear the burden of tax; the burden is shifted to the ultimate consumers.
3. In the case of a direct tax, the taxpayer has to bear the burden of tax personally; in case of indirect tax the taxpayer and the tax bearer are not the same person.

The following are the advantages of indirect tax:

- ❖ It is convenience the taxpayers to pay amount for tax.
- ❖ There is mass participation. Each and every person getting goods or services has to pay tax.
- ❖ There is a less chance of tax evasion as the taxpayer pay the tax collected from customers.
- ❖ The government can check on the consumption of harmful goods by imposing higher taxes.

The following are the disadvantage of indirect tax



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

### **2.1.5 Significance of Taxation**

Tax is a major source of government revenue. It is an important instrument for collecting government revenue. The sound tax policy ensures the economic growth and social development in the country. The main significance of tax are as follows:

#### **A. It Helps to Rise Revenue**

The government need large amount of money to carry out development activities and to meet administrative cost. Thus, tax is the main significance for source of collecting fund of government which is necessary to meet the expenses of public interest.

#### **B. For Prevent Concentration of Wealth in Limited 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. The 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. This tax system apply reduce the gap between the rich and poor is also another important of tax.

### **C. It Re-distribute of Wealth for the Common Good**

The government can collect large amount of tax from rich people applying progressive tax system and expected that amount for common good 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.

### **D. It Brings Rapid Economic Growth**

The main purpose of developing and undeveloped country is to achieve rapid economic growth in the country. Tax is an important instrument for it. The government controls 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.

### **E. It Helps to 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, concessions and increase 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 significance of tax system.

### **F. Tax Reduce Unemployment or Increase in Employment**

The government can reduce the unemployment in the country by promoting various employment opportunities. Industrial established providing more employment is given more facilities. As a result unemployment problem can be reduced to a great extent through liberal tax policy.

### **2.1.6 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 latter 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 gearing 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 'Sanad Sawal'.

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, (Bhattraï & Koirala, 2003).

### **2.1.7 Components of Indirect Taxation**

There are many kinds of indirect taxes and to make study easier to analyze and understand to the researcher as well as for readers too it is classified into major five groups. Those are: Value-added Tax (VAT), Sales Tax, Excise duty, Customs Duties (import duty and export duty) and others indirect taxes.

#### **1. Value-added Tax (VAT)**

Value Added Tax (VAT) is the most recent innovation in the field of Taxation. It is considered as one of the most powerful tool of the fiscal policy. From the long experience of VAT in several countries, many economists as well as policy makers have reached in the conclusion that VAT is probably the best in indirect tax. It has gain huge popularity within the short span of time. VAT was introduced in 16 November, 1997 in place of sales, contract, entertainment and hotel taxes. It is most modern form of indirect tax for Nepal. There were mainly four reasons to introduce VAT in Nepal. The first reason was to develop VAT as the main and stable source of government revenue by broadening the tax base. The second was to address the issue of smuggling or understanding the taxable value, since the former sales tax was collected only at source and value added below this point was not included. The third was to reduce the dependence on custom duties, since Nepal needed a gradual

reduction in import tariffs as its commitment to WTO, BIMSTEC, and SAFTA. Finally it was argued that VAT would modernize the tax system by enhancing accounting practice and transparency in business.

VAT is as the name itself suggests, imposed on the value-added portion in different stages of sales. It is a modern and scientific form of sales tax. Ultimately, the real and final burden of tax is shifted towards the consumers who consume goods and enjoy the services. As goods and services are shifted in the process of production and distribution, one after another stage the tax is also jointly shifted simultaneously.

VAT has also been referred to as a sort of sales tax, though it functions very differently. Sales tax is imposed on the total retail price of the item sold, while VAT is imposed on the value added at each stage of production and distribution. And though more complicated than sales tax, VAT systems have more checks against tax fraud because the tax is assessed at more than one point in the distribution process.

Over 130 countries worldwide have introduced VAT over the past three decades and Nepal is amongst the last few to introduce it. Nepal already had a system of sales tax collection wherein the taxes were collected at one point (1<sup>st</sup> \last) from the transactions involving the sale of goods. VAT would, however, be collected in stages (installment) from one stage to another. The mechanism of VAT is such that, for goods that are imported and consumed in a particular state, the first seller pays the first point tax, and the next seller pays tax only on the value-addition done leading to a total tax burden exactly equal to the last point tax, (Jagirdar, 2011).

## **2. Sales Tax**

Sales tax is commonly divided into three types: turnover tax, single stage tax and multiple stage tax. Turnover tax is imposed at all stages of production and distribution process. On the other hand, the stage tax is levied at only one stage

of the production and distribution process. It may be imposed at either manufacturing level or at the wholesale level or at the retail level. According to the stage of its imposition it is called as manufacturing tax, wholesale tax or retail tax. Multiple taxes as a turnover is also levied at different stage of production and distribution process. VAT falls in the category of multiple stage tax. It is the good combination of turn over tax and retail level tax .It is turnover tax in the sense that it as other turnover tax is imposed at each stage in the production and distribution process. Sales tax at the retail level is a recent innovation in the financing of developing economics, although it has been perfectly practiced in highly developed economics and is widely used in the countries in the intermediate years of their development. Its use in least developed countries is almost certain to increase with experience as economy grows with economic development. Sales tax in developing as well as in developed has been firmly established as a major revenue share. All industrial countries use a sales tax and the use has been expanding every year. The only problem is how to select a better form of tax since no single form has ever attained universal endorsement. Alternative forms of sales taxation for developing countries have been promoted by authorities on taxation. The alternative forms that are most widely used are: (i) Universal Retail Tax, and (ii) General Value Added Tax (VAT), (Jagirdar, 2011).

### **3. Excise Duty**

Excise duty is also one of the traditional taxes in Nepal. In the past, these duties were levied on agriculture as well as industrial products. Now these are levied only on a few industrial products such as liquors, beers cigarettes, tobaccos. They are levied on the domestically manufactured goods only and most of the imports are kept out of the excise net.

In the context of Nepal, it was introduced at the time of Rana Sasan. Excise duty was collected as lumpsum contract payments for the grant of exclusive rights for the distribution of local liquor and production and distribution of rights hair, leathers etc.

An excise duty may be define broadly as an inland tax on the production or sale of a specific good. Excise is distingue from customs duties, which are taxes on importation. Excise, whether broadly defined or narrowly defined, are inland 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.

Excise duty is a form of an indirect tax which is imposed on the consumption of selected goods such as alcoholic beverages, tobacco production etc. typical examples of excise duties are taxes on tobacco and alcohol. According to the oxford English Dictionary (2005), an excise is “A tax levied on certain goods and commodities produced or sold within a country and on licenses granted for certain activities”. The term “produce or sold” is applicable to both domestic and foreign products. But the word “certain” is not further explained in the definition. Generally the lists of such goods readily provided by government and the lists may differ from country to country. In India, it is described as an indirect tax lived and collected on the goods manufactured in India. In the United Kingdom, excisable lists included both goods and services such as “alcohol, environmental taxes, gambling, holdings and movements, hydro carbon oil, money laundering, refunds of duty, revenue trader’s records, tobacco duty, and visiting forces etc. in Australia, an excise as “ a tax lived on certain types of goods produced or manufactured or imported in Australia. These included 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 2058, 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 had covered a wide range of domestic products (more than 50 commodities) accounting for 14.3 % of total tax revenue during 2048\49. 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, (Bhattraï & Koirala, 2010).

There are different forms of excise systems:

1. Limited excise system
2. Intermediate excise system
3. Extended excise system

#### **4. Customs Duty**

Customs is an authority or agency in a country responsible for collecting and safeguarding custom duties and for controlling the flow of goods including animals, personal effects and hazardous items in and out of a country. Depending on local legislation and regulations, the import or export of some goods may be restricted or forbidden, and the customs agency enforces these rules. The seventh amendment made in 1997 in the customs act, 1962, includes new customs valuation system however; this act does not cover the entire principle of WTO valuation aggregation.

In Great Britain a custom house was established in 1304. When we come to history of customs duty in Nepal. They were charged even in ancient time. In the middle age trade between India and Tibet was carried through Nepal. Nepal use to levy customs on the good & commodities traded and used to generate good revenue. This trade was recognized in the region of King Pratap Malla (1641-1674), Regmi, (1968). In these days, the customs duty was collected on contract basis. Custom duties are divided into three categories such as transit, export and import duties, (Encyclopedia Britannia, 1973).

The customs may be different from the immigration authority, which monitors persons who leave or enter the country, checking for appropriate documentation, apprehending people wanted by international arrest warrants, and impeding the entry of others deemed dangerous to the country. In most countries customs are attained through government agreements and



international laws. A customs duty is a tariff or tax on the import as well as export of goods. It is a border tax. Nepalese Customs Administration collects Customs duty, VAT, Excise and other taxes at the border points. Custom Administration is in the forefront in terms of internal revenue mobilization. This does not mean that the custom role needs to be confined to internal revenue mobilization. It is equally important to enhance trade facilitation by adopting international convention, recommendation and best practices without compromising with the national security. The Government of Nepal has enacted customs Act 2064 with an aim to amend and consolidate the prevailing custom laws in order to make safe and facilitate international trade by making customs administration systematic and transparency, (Bhattraï & Koirala, 2010).

### **2.1.8 Contribution of Indirect Tax to National Economy**

Economic development has been the major issue for the countries all over the world. The proof of government's existence lies in its activities for the social and economic upliftment of the nation along with the life standard of the people. In order to realize this goal the government launches several economic, social, cultural and other development activities. The successful launching of these activities depends on the sufficiency of various types of resources like man, machine, material; money etc. among these resources the most crucial resources is financial resources i.e. money that can be derived internally & externally. Internal sources of financial resource consist of tax revenue and non tax revenue where as external sources consists of foreign grants, subsidies, foreign loan etc. It is to be noted that internal sources are better & safer means for resources mobilization than external sources. Internal revenue sources of government can broadly divided in to two categories i.e. tax revenue and non tax revenue. The government receives tax revenue as a compulsory payment where as non tax revenue is a conditional one. In general tax revenue also can be shifted in to direct tax and indirect tax revenue, (Due, 1970).

Developing country like Nepal, indirect taxes play a prominent role in the revenue collection. Customs duties, excise duties and sales taxes\ VAT have played Indirect taxes are more important and popular in developing countries. A dominant role is played by the tax revenue into structure the total revenue the government of developing countries. There are several advantages of indirect taxes in economic development of a country.

Some of the beneficial contribution of indirect taxes is as follows:

- ❖ Maximization of government revenue for financing infrastructure and capital investment;
- ❖ Redistribution of luxury consumption more effectively permitting a higher rate of savings and investment;
- ❖ Restriction on the import of luxury goods, thus, securing a good deal of foreign exchange;
- ❖ Administrative use; and
- ❖ Less harmful to incentives than direct taxes.

However, indirect taxes have weakness also. The main weakness of indirect taxes is that they are unable to rich the depth of income and wealth as effectively as direct taxes, (Due, 1970), asserted that “The attainment of an optimal indirect tax structure is impossible, except by sheer accident”. Indirect taxes are regressive in nature and therefore, not suitable on the grounds of equity. Further, the ratio of indirect taxes to total taxes is inversely related to the per capita income.

To what extent there would be rise and fall in the share of indirect taxes depends on the degree of development in an economy (Musgrave, 1969). However in the context of Nepalese economy, the change in the tax structure together with the economic development is exactly opposite to the theory in terms of the change indirect taxes from the period 1964\65 to 1991\92.

In Nepal, indirect taxes have played a very effective role, especially with reference to resource mobilization, since the contributions of indirect taxes to both total revenue and GDP are significantly higher in comparison to the contribution of direct taxes and non tax revenue. Nevertheless, the annual average growth rate of indirect taxes is marginally greater than that of direct taxes, the collection from indirect taxes grew at an annual average growth rate was 21.09% during the period from 1963\64 to 2001\2002.

From 1964\65 to 2001\2002, In FY1964\65, the collection amount of indirect taxes was only Rs.97.19 million, which was 50.53 percent of the total revenue. However, the collection from indirect taxes increase to Rs.38733.10 million in the period 2001\2002, contributing 42.96 percent of the total revenue and 8.82 percent of GDP. Except in 1970\71 when revenue declined marginally with respect to the previous year, the revenue from indirect taxes has increased steadily. Though the contribution of indirect taxes to total revenue has increased slightly, its contribution to GDP has increased considerable from 2.4 in the period 1966\67 to 6.82 percent in the period 2001\2002, (Shrestha, 2005).

Looking at the economic structure and assessing the performance of the major components of indirect taxes, it is bound to dominate the overall tax structure of Nepal. In the long run, heavy reliance on indirect taxes is harmful, and thus, emphasis on indirect taxes should be based in conformity with the objectives of the economy. Nonetheless, to meet the challenge of growing public spending, the growing contribution of indirect taxes cannot be overlooked, The contribution of indirect taxes on national economy can be written individually with components of indirect taxes.

### **1. Customs Duties**

In the present tax structure of Nepal, the revenue from custom duties contributes more than 50 percent of indirect taxes, 32 percent of total revenue and 3.6 percent of GDP. Among indirect taxes, custom duties have been

occupying a prominent place in the total tax structure.” Custom duties now constitute a major revenue source for developing economics, yielding on the average about half of indirect taxes revenue and a third of total tax revenues”. (Due, 1970)

In developing countries, custom duties are levied not only to raise the volume of revenue, but also to attain certain specific objectives such as the procession of domestic industry, so that import substituting industries could be set up within the country. The other important objective is to restrict the import of luxury consumption goods whereby foreign exchange reserves could be maximized and used for productive purposes.

The contribution of custom duties in Nepal has declined substantially during the period from 1966\67 to 2001\2002. The contribution of custom duties to indirect taxes has declined from nearly 79.13 percent in FY 19667 to 37.51 percent in FY 1983\84. Nevertheless, the contribution remained fairly stable between 41 to 44 percent beyond FY1983\84 up to 2001\2002. The custom duties in Nepal as present of total revenue and GDP, however, have declined throughout during the period from 42.5 percent in FY 1966\67 to 25.1 percent in FY 2001\02. Similarly, the contribution of custom duties to GDP increases from 1.9 percent in FY 1966\67 to 3 percent in FY 2001\2002, (Shrestha, 2005).

## **2. Excise Duties**

As industrial development begins in a country, experience suggests that it centers in the production of commodities that previously yielded considerable customs revenue, for the obvious reason that these commodities offer relatively large and stable domestic markets (Due, 1970). Thus, the contribution excise revenue to the total tax structure depends on the scale of industrialization.

Presently, there are three sources of excise revenue: (a) excise from contract tax, (b) excise from agricultural production and (c) excise from industrial

production. The significant position of excise revenue in both developed and developing countries is of vital interest. In a study of 82 developing and industrial countries, the contribution of excise duties was found to be nearly 25 percent of the total revenue (Cnosser, 1974). Excise duty is the fourth largest source of tax revenue in Nepal. Due to the exclusion of imported goods from the excise net, after the implementation of VAT in 1997, the contribution is relatively small now. In Nepal, up to the period of 2001\2002, excise duties contributed more than all the individual taxes, except custom duties and sales tax. The amount collected from excise duties in FY 1966\67 was only Rs. 19.96 million which increased to Rs.38 07 million in FY2001\2002. The contribution of excise duties as percent of indirect taxes remained at an average of 12.11 percent during the fiscal years from 1966\67 to 2001\2002. The contribution of excise duties to indirect taxes remained below up to FY 1967\70, which increased to above 15 percent during the 1970s and 1980s, and remained in between 15 to 22 percent during the period. However, since the mid-1990s till now, the contribution of excise duties remained below 15 percent again.

The structure of the contribution of excise duties to total revenue also shows of similar pattern. The contribution increase from as low as 6.96 percent in FY 1966\67 to as high as 12.65 percent in FY 1983\84. However, the contribution declined monotonically from 11.78 percent in FY in 1989\90 to 6.74 percent in FY 1994\95.

The ratio of excise duties to GDP was 0.82 percent on an average during the period from 1966\67 to 2001\2002. The contribution of excise duties to GDP, nonetheless, increased during the 1970s and 1980s. The excise revenue as percent of GDP increased from 0.31 percent in FY 1966\67 to 1.10 percent in FY 1983\84, which remained around up to FY 1990\91. But during the yearly 1990s, the fraction of excise revenue to GDP declined which was 0.76 percent in the year 1994\95, (Shrestha, 2005).

### **3. Sales Tax\VAT(Value-added Tax)**

Sales tax was the second largest source of revenue for the government of Nepal during the 1960s. The contribution of sales tax\VAT to the total revenue during the period from 1966\67 to 2001\2002 remained at 24.6 percent, which is higher than all other individual taxes except custom duties. In fact, the contribution of sales tax rose from 4.2 percent in the year 1966\67 to 22.7 percent in the year 2001\2002. This increase in the contribution of sales tax\VAT is mainly attributed to the government policies regarding (i) the frequent upward revision of tax rates, and (ii) the expansion in coverage.

The contribution of sales tax\VAT to indirect taxes, total revenue and GDP follow an almost similar increasing trend. The fraction of sales tax\VAT to indirect taxes increased from 7.9 percent in FY 1966\67 to 51.64 percent in FY 2001\2002, and remained at 22.21 percent on an annual average during the period, with some minor fluctuations. However, during the period from 1982\83 to 1987\88, the contribution declined sharply from 35.71 to 27.4 percent. Similarly, the ratio of sales tax\VAT to total revenue rose from 4.24 percent in FY 1966\67 to 22.72 percent in FY 2001\2002. While the annual average contribution of sales tax\VAT to total revenue remained at 18.62 percent during the period from 1966\67 to 2001\2002, it rose sharply from 4.24 percent in FY 1966\67 to 20.17 percent in FY 1980\81 and remained fairly stable in between 17 to 24 percent throughout.

The contribution of sales tax\VAT to GDP during the period from 1966\67 to 2001\2002 was 1.66 percent on an annual average. The contribution increased from 0.19 percent in FY 1966\67 to 2.84 percent in FY 2001\2002 with two short periods where there was remarkable decline in the contribution. The ratio of sales tax\VAT to total revenue decline from 22.32 percent in FY in 1982\83 to 17.72 percent in FY 1988\89. A similar decline in the ratio occurred when the contribution fell from 24.91 percent in FY 1994\95 to 13.72 in FY 2001\2002, (Shrestha, 2005).

## **2.2 Review of Articles and Journals**

The meaning and zest of Indirect taxes & there contribution to national economy has already been mentioned on different sections of this thesis as per the nature and its requirements. It is a way that helps to increase national income from taxpayer's by proper use of different facilities provided by the government, provisions made in Income Tax Acts, Laws and Rules. And the various tax experts and writers in their own ways have defined the same word “Indirect Taxes”. Most of them agree to more tax pay system increase the national economy but some of them extremely disagree. Some of their opinions have been presented here as they have written in their texts, journals and other articles.

K.C. (2008), wrote that taxes are only one of the many factors which people and organizations consider when making decisions. In some cases, taxes are a dominant factor; in others, tax considerations play a minor part. Rational decision makers generally seek to manage taxes on every transaction. One way to measure how well a firm is managing its taxes is to look at its effective income tax rates. Before 50 years ago the main source of government is direct taxes only at that time position of indirect taxes was very small but now days collection of revenue from indirect taxes is more effective compare to direct taxes. VAT, sales tax, custom duties, excise duties the main source of indirect taxes. Thus, direct and indirect taxes are the pillar of the nation each and every country, its play vital role on an economic development of a country. KC has recommended the following tax maximization strategies.

- ❖ Tax maximization strategies related to income.
- ❖ Tax maximization strategies related to Deductions.
- ❖ Tax maximization strategies related to Tax Rates.

K. Sthvraman (2011), have stated that an indirect tax is a form of taxes imposed on one person but partly or wholly paid by another. It is collected by

mediators who transfer the taxes to the government and also perform functions associated with filling taxes return. Hence indirect taxes can be shifted. In indirect taxes, the impact and incidence of taxes are on different persons. In other words, the person paying and bearing the taxes is different. It is the taxes on consumption or expenditures. Value Added Tax (VAT) is the most recent innovation in the field of Taxation. It is considered as one of the most powerful tool of the fiscal policy. From the long experience of VAT in several countries, many economists as well as policy makers have reached in the conclusion that VAT is probably the best in indirect tax. It has gain huge popularity within the short span of time.

Sales tax is commonly divided into three types: turnover tax, single stage tax and multiple stage tax. Turnover tax is imposed at all stages of production and distribution process. On the other hand, the stage tax is levied at only one stage of the production and distribution process. It may be imposed at either manufacturing level or at the wholesale level or at the retail level.

Jagirdar (2012), has made the research work about that indirect tax (such as sales tax, a specific tax, value added tax (VAT), or goods and services tax (GST)) is a tax collected by an intermediary (such as a retail store) from the person who bears the ultimate economic burden of the tax (such as the consumer). The intermediary later files a tax return and forwards the tax proceeds to government with the return. In this sense, the term indirect tax is contrasted with a direct tax which is collected directly by government from the persons (legal or natural) on which it is imposed. Some commentators have argued that "a direct tax is one that cannot be shifted by the taxpayer to someone else, whereas an indirect tax can be.

An indirect tax may increase the price of a good so that consumers are actually paying the tax by paying more for the products. Examples would be fuel, liquor, and cigarette taxes. An excise duty on motor cars is paid in the first instance by the manufacturer of the cars; ultimately the manufacturer transfers



the burden of this duty to the buyer of the car in form of a higher price. Thus, an indirect tax is such which can be shifted or passed on. The degree to which the burden of a tax is shifted determines whether a tax is primarily direct or primarily indirect. This is a function of the relative elasticity of the supply and demand of the goods or services being taxed. Under this definition, even income taxes may be indirect. Indirect tax collections rose 7.9% in October from a year ago, allaying concerns that had arisen from the sharp drop in excise collections in September.

In the first seven months of the fiscal (April-October), the indirect tax collections have risen 18.5% to Rs 2.21 billions, prompting a more bullish central board of excise and customs (CBEC) to say that it will meet the indirect tax target for the year. Indirect taxes include customs duty, excise and service tax.

A report presented by to ministry of finance covering various aspect of tax system in Nepal. This study addressed the narrow tax base, low tax elasticity, higher burden of indirect taxes compared to direct taxes, lack of voluntary compliance, wide spread tax evasion, leakages etc. as main constraints of Nepalese tax system. As explored by the research, the cause behind the narrow tax base in Nepal was exclusion of income from agriculture that contributes 40 to 45 percent to GDP, from the tax bracket. Agriculture income, income from domestic industries, electricity projects and other social sector contributing more than 50 percent to GDP were exempted from direct and indirect taxes was levied only on large industries, mines, construction, trade and business , hotel and restaurant etc. with in tax grip. The main decency of tax system was unnecessary high tax rates and unnecessary very limited coverage less than 1 percent of economically active population was caught inside the tax bracket.

Mr Dahal has suggested increasing the tax to GDP ratio from 10 to 15 percent to increase the total numbers of tax payers by reducing tax rate and expending

the base in increasing per capita income. This study explored the feasibility if 40 percent extra resources mobilization of recommended policies to widen tax base. This study also suggested 20 percent exemption from total tax liabilities to encourage self assessment of tax and consideration of inflation while fixing limit for exemption, (Dahal, 2005).

An article titled “*Soyam Kar Nirdharan Ra Aaya Biberan*” written by Abinath Rai (Feb, 2006) was published in journal “*Rajoshwo*”. In his article he has described about the self assessment procedure of income tax provided by income tax Act-2002 (2058 B.S.). under this law every assessment will be treated as self assessment where person files return of income tax for an income year, an assessment is as made on the due date for filing the return of the tax payable by the person for the year and in the amount shown in the return and the amount of that tax still be paid for the year being the amount shown in the return. He has mentioned about the types of income tax return, due date of filing income tax return, structure of income tax return, financial auditing and tax auditing.

And finally he concludes that to get the targeted percentage on GDP as assumed by tenth five year plan we should improve the existing income tax system and it is necessary to modernize the tax administration to implement income tax law effectively.

Dr. Chandra Mani Adhakari (Apr-May, 2006) has published an article titled “*Nepal Ko Kar Niti, Prasasan Ra Sanghatan Tatha Tesko Karyanoun Pachheya.*” On the journal “*Rajoshwo*”. In his article he has tried to describe about the tax policy of Nepal, tax administration and implementation of tax policy in Nepal. He has described area of public finance, objective of tax policy in Nepal, results by improving income tax policy, shortcomings and challenges of tax policy etc.

In his article he has clearly mentioned about the policy reform in income tax and implementation of policy and its administrative aspects. And he has concluded that it is necessary to improve tax administration to implement tax policy and law correctly and then the well tax management can be done in the nation.

Surendara.M. Trephati (Jan-Feb, 2006) has published an article titled “Aadhunik Kar Prasasan Ka Bibidh Pacchhyaharu” on journal “*Rajoshwo*”. He has overviewed and explained the different aspect of income tax administration in his article. He further mentioned that, tax policy, tax law, tax objective or administration, organization, capable manpower, transparency, self assessment of income and its inspection, tax examination and research, up to date records of tax payers and the use of information technology, physical facilities etc are the different aspects of tax administration.

He has analyzed all the above mentioned aspects of modern tax administration detailed and he concludes that the modern tax administration is not functioning well because there is the lack of full implementation of tax law, lack of transparency in both tax payers and administrator, lack of adequate tax officers, frequent change in policy and laws, lack of adequate training to people working at tax offices etc.

He further concludes that, although there exist some defects in modern tax administration, it is improving its way of functioning, and he is hopeful to see the well functioning tax administration in near future.

### **2.3 Review of Thesis and Dissertations**

The precious research studies related to “An Analysis of Indirect Taxes & Their contribution to National Economy,” has been found rarely. However, many research studies have been made in the area of taxation in the Nepalese contest. These researches also cover some of the aspects of indirect taxes and

its contribution to national economy so that the same researches related to indirect taxes has been taken into consideration for the review of literature. Out of these research studies some selected researches have been submitted as a review.

Subedi, (2011) presented a thesis having analysis done on “indirect taxation”. He has shown the contribution of indirect taxes to the total revenue and a heavy reliance on indirect taxes in generally tax revenue for the government. According to him the problem of Nepalese taxation were poor tax consciousnesses. In his study, he has examined the contribution of indirect taxes to the total revenue. As well as, he has shown the growth pattern of indirect tax collection and its ratio to GDP and elasticity of indirect tax collection. Mr. Subedi has concluded that the share of indirect tax in total revenue was increasing although its coverage was very limited. He has recommended for controlling tax evasion practices for proper distribution of indirect taxes to economic growth in nation.

Shrestha, (2010), presented a research on direct and indirect taxes in Nepal with the concentration on historical background and role of indirect tax in Nepalese total tax structure. This study was focused on the contribution of indirect taxes to national economy. The researcher came to find that the main problem of indirect taxes collection was high amount of tax evasion because of weak taxes policies in Nepal. She has recommended increasing per capita income and GDP to increase tax revenue with effective and efficient tax administration. She has also suggested controlling tax evasion practices that are main constraints for revenue generation for the economic development of the nation.

Shrestha, (2011), made a study on collection procedures of tax revenue in Nepal. Mr. Shrestha had concentrated his research on structural analysis of indirect taxes and productivity and responsiveness of indirect taxes with respect

to Gross Domestic Product (GDP). He found a significant contribution of indirect taxes as compare to direct taxes in Nepal. As concluded by previous researcher he also concluded that financial resources gap a major constraint for economic development and crucial role of taxes to reduce the source gap. He found that Nepal's taxation effort ratio was still very low in comparison to other developing countries. Contribution of individual tax payers to total indirect tax revenue was near about two third of total tax revenue. He ended his research with the recommendation of immediate action by the government to control tax evasion and avoidance practices.

Shahu (2011), wrote a thesis entitled "Contribution of Tax National Revenue In Nepal". He found that only 0.35 percent of total population to be under net taxes. He has also shown 1<sup>st</sup> to 3<sup>rd</sup> position of indirect taxes in internal revenue composition of Nepal. The contribution of indirect taxes in the total tax revenue was 5.6 percent respectively during his research period. The tax paid by individual was higher than the tax paid by wage earner. As shown by him indirect taxes like custom, excise and sales tax occupied 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup> rank respectively in tax revenue of the government.

Since most of the articles, research publication, dissertations and books already published have mealy analyzed the relationship of direct and indirect taxes which the total revenue and GDP. Hence this study is aimed to make review of revenue structure of Nepalese government to analyze the relationship of direct and indirect taxes with the total revenue and gross domestic products

## **2.4 Research Gap**

Into this matter of the study of contribution of indirect taxation into national economy of Nepalese economy only limited study had been conducted into the past period of time. But there is huge different into time gap between them and now into the process of analyzing so they are not much useful and now present no study is made. Some of them have been done on collection of direct and

indirect taxes in Nepal. But only few theses or researches has been done on the contribution of indirect taxes in the national economy since tax revenue is the only one sector which is indicator to develop a country and indirect taxes collect heavy tax to the government. Some researcher has included the indirect taxes in Nepal in their research but their numbers of sample size of FY is very few years hence, there must be the research regarding the indirect taxes and its contribution to national economy. Today the world has become modernized and the information technology has also been advanced drastically so there is a lot of difference in the modern tax collection system which results in the better outcome in the management and improvement in the country. There has been the gap of time which differentiates the research before and after. Till today's scenario the indirect taxes collection is the main sources of making a country developed

## **CHAPTER - III**

### **Research Methodology**

Research is essentially a systematic inquiry seeking facts through objectives verifiable methods in order to discover the relationship among them and deduce from them broad principles or laws. It is a method of defining and refining problems, formulating hypothesis or suggested solution, collecting, organizing and evaluating data, making decision and making conclusions. "Research is the process of a systematic and in-depth study or search of any particular topic, subject, or area of investigation backed by the collection, compilation, presentation, and interpretation of relevant details or data. It is a careful search or inquiry into any subject matter, which is an endeavor to discover or find out valuable facts which will be useful for further application or utilization," (Joshi, 2010).

Research methodology depends on the various aspects of the research project. The size of the project, the objectives of the project, importance of the project, time frame of the project, impact of the project in the various aspects of the human life etc. are the variables that determines the research methodology of the particulars project.

"Research methodology refers to the various sequential steps to adopt by a researcher in studying a problem with certain objectives in view," (Kothari, 1989).

#### **3.1 Research Design:**

This chapter is developed to the research methodology applied in the study for the achievement of desired objectives. Both primary as well s secondary sources of data are used to conduct this study.

A Research Design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure,"(Kothari, 1999).

Research Design is the plan, structure and strategy of investigations conceived so as to obtain to research questions and to control variances. It is the arrangement of the conditions for collection and analysis of data. "A research design is the specification of methods and procedures for acquiring the information needed. It is the overall operational pattern of framework, of the project that stipulates what information is to be collected form, which sources by what procedures. If it is good design, it will ensure that the information obtained is relevant to the research questions and that it was collected by objective and economical procedures, "(Paul, 2007).

The analytical & descriptive research design has been adopted current role of "An analysis of indirect taxes and their contribution to national economy". The research has tries to analyze & describe the taxation system by its own procedure. Historical data of last 55 years were fully taken into consideration. The main variables used in analysis were GDP. Tax revenue of the government was broken down or categories in to direct and indirect taxes component. Both direct and indirect were again subdivided into different sub components.

Secondary data were collected by using different data were collection procedure. Collected data were summarized, tabulated and presented in appropriate formats using diagram, table etc.

### **3.2 Types of Research**

This study includes three types of research as descriptive, analytical as well as empirical

- ❖ Descriptive research includes survey and fact finding inquiries of different kinds. The major purpose of descriptive research is the description of the state of affairs, as it exists at present.
- ❖ In analytical research has to use facts or information already available and analyze these to make a critical evaluation of the material.



- ❖ The empirical research relies on observation alone often without due regards for system and theory, it is data based research coming up with conclusion, which is capable of being verified

### 3.2 Nature & Sources of Data

Both primary as well as secondary sources of data are used for the analysis and the information received from books, journals, newspapers reports and dissertations were collected. Other sources which are useful for the research analysis as per the objectives of the study are:

- ❖ Questionnaire
- ❖ NRB publication
- ❖ Useful data & information were collected from different news paper, journals, magazines, website and empirical studies from T.U central library, CEDA and other relevant sources.
- ❖ Recently issued thesis of different student of different university.

### 3.4 Population and Sample

It is very difficult task to study about the universe. In other words, an individual can't study about the universe and it was absolutely impossible to take large sample size from the population in Nepal. There fore indirect tax payer from Kathmandu valley were included in the sample. The respondents were divided into four group having 10 respondents. Respondents included in the sample were top tax official, economist\professor, businessman and general people category of the respondent in sample and questionnaire distributed to the respondents are presented in table no 3.1

**Table 3.1**

#### **Group of Respondents & Questionnaire Distributed**

<b>Group of Respondents</b>	<b>Questionnaire Distributed</b>	<b>% of Sample</b>
Tax official	10	25
Economist\Professor	10	25
Businessman	10	25
General People	10	25
<b>Total</b>	<b>40</b>	<b>100</b>

### **3.5 Procedures of Data Presentation and Analysis**

The result of each and every question out of the questionnaire was submitted respectively. Similarly they were ranked and planned in order by editing and coding. The view of the respondents about the questions was presented in respective orders so that the analysis was fully based on the respondents. The cumulative result of each question was described in the respondent language. The main priority was given to the highest support and decision of respondents. The supports of the respondents were collected in the numerical form as well as in the language form. Finally, the conclusion and suggestion of the study were presented in summary.

### **3.6 Statistical Tools for Processing & Analyzing Data**

After the collection of primary and secondary data they were tabulated & processed according to needs & objectives of the research. Collected data were presented in appropriate form and analyze with the help of statistical tools mentioned below

- ❖ Tabulation
- ❖ Calculation( Mean, Standard deviation and Coefficient of variation)
- ❖ Graphic presentation
- ❖ Bar diagram
- ❖ Chart
- ❖ Line
- ❖ Simple average

### **3.7 Various Tools Used for the Analysis**

#### **i) Mean ( $\bar{x}$ )**

Mean is the most popular and widely used statistical tool to measure the entire data by one value called average. The mean value can be obtained when the total of all the values in a distribution is divided by the number of values in the distribution. It can also be defined as the sum of the observations divided by the number of observations is called Mean. In such cases all the items are

equally important. It is usually developed by X. It is defined by the following formula.

Symbolically,

$$\text{Mean } (\bar{x}) = \frac{x_1 + x_2 + x_3 \dots + x_n}{N}$$

i.e.  $\bar{x} = \frac{\sum x}{N}$

Where,

$\bar{x}$  = Mean

$\sum x$  = Sum of Observations

N = Total no. of Observations

## ii) Standard Deviation (SD)

It is quantitative measure of the total risk of assets. It provides more information about the risk of the asset. It is a measure of the total risk of the asset. It measures the dispersion of returns around the mean. Its advantage is that the uncertainty of returns can be summarized into a single easily calculated number. In general, if different values of data are reasonably close to mean then there is very little variability of dispersion of data. On the other hand if values are at a considerable distance from the center of mean, the variability is said to be small. Standard deviation measures such variability and it can be computed by using following formula:

$$\dagger = \left[ \frac{\sum_{t=1}^T (r - \bar{r})^2}{T-1} \right]^{1/2}$$

Where,

$r$  = Rate of return

$\bar{r}$  = Average rate of return (Mean)

$\dagger$  = Standard deviation

### iii) Coefficient of Variation (CV)

Coefficient of variations is the qualitative measure of the dispersion. To compare more than two assets co-efficient of frequency variation is used. It is relative measurement of dispersion based on standard decimation. Co-efficient is given by following formula,

$$CV = \frac{\dagger}{R} \times 100$$

Where,

$\dagger$  = Standard deviation

$R$  = Average expected return of assets

$CV$  = Coefficient of variation of asset

It is percentage of variation mean, standard deviation being considered as the total variation in average. Smaller CV represents more homogeneous or uniformly of the data about the average line. While greater CV has been employed to compute and analyze the vitality of the data over the study period.

## **CHAPTER - IV**

### **PRESENTATION AND ANALYSIS OF DATA**

#### **4.1 Role of Indirect Tax in Nepalese Tax Structure**

Tax structure refers to the level as well as relative importance of various taxes in the composition of total tax revenue of a country. Structural analysis of tax deals with the balance between direct and indirect taxes. The base for levying taxes may be consumption, income and capital. Indirect taxes are taxes imposed on consumption where as taxes imposed on income and capital are known as direct taxes. Tax structure of any country is composed of both direct as well indirect taxes.

##### **4.1.1 Structure of Nepalese Revenue**

The income of the government through all sources like taxes, fees, fines, donation, etc is called government revenue. Government revenue may be divided into two main headings: tax revenue and by non tax revenue. Tax revenue contributes about three quarters of total revenue while non-tax revenue respondents about one quarter of total revenue of the central level.

Total revenue is divided into total tax revenue and total non tax revenue. Tax revenue consists of customs, taxes imposed upon consumption and production of goods and services, land revenue and registration fees and taxes on property and income. Non-tax revenue is a composite of government charges fees and forfeitures, receipts from sale of commodities, interest receipts and other miscellaneous receipts.

Direct tax revenue included income tax, (i) Corporate income tax; (Government Corporation, Public Limited Corporation, Private Limited Corporation, Individual and Sole trading firm and income from other

institution), (ii) Remuneration income, (iii) Investment income and (iv) Other income.

The trend and composition of tax revenue and non-tax revenue in the recent year are given in following table 4.1

**Table 4.1**  
**Structure of Total Revenue**

<i>(RS IN MILLIONS)</i>						
<b>Fiscal Year</b>	<b>Total Revenue</b>		<b>Tax Revenue</b>		<b>Non-Tax Revenue</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>% TR</b>	<b>Amount</b>	<b>% TR</b>
2002\03	55670.5	100	42027.7	75.5	13642.8	24.5
2003\04	62331.0	100	48175.7	77.2	14155.3	22.7
2004\05	70122.8	100	54104.9	77.1	16017.9	22.8
2005\06	72282.1	100	57427.0	79.4	14855.1	20.5
2006\07	87712.1	100	71168.0	81.3	16544.1	18.9
2007\08	107622.7	100	85147.1	79.1	22475.6	20.9
2008\09	143474.4	100	117051.8	81.6	26422.6	18.4
2009\10	179940.4	100	156290.7	86.9	23649.7	13.1
2010\11	199819.6	100	172755.2	86.5	27064.3	13.5
<b>Average</b>	108775.07	100	89349.8	82.1	19425.3	17.86
<b>S.D</b>	50338.3	-	45642.50	-	3525.91	-
<b>C.V.</b>	46.28	-	51.08	-	18.15	-

*Source: Quarterly Economic Bulletin of mid-July 2011.*

Nepalese revenue structure is heavily dominated by tax revenue with an average annual contribution of 82.1 Percentage. It has grown absolutely from Rs. 42027.7 million in FY 2002\03 to Rs. 172755.2 million on in FY 2010\11. Tax revenue for FY 2011\12 is estimated to be Rs.190219.7 million. The relative contribution of tax revenue to the total revenue has been fluctuating

within the range of 75.5 percent and 86.9 percent. In 2009\10 tax revenue was 86.9 percent of total revenue of Rs. 179940.4 million. In the year 2010\11 out of total revenue of Rs. 199819.6 million, the share of tax revenue was 86.5 percent with an absolute contribution of Rs. 172755.2 million. The average contribution of tax revenue during last 10 years was 82.1 Percent.

Non tax revenue has low contribution in total revenue as compared to tax sources of government revenue generation. Contribution from non tax measures has remained less than 18 Percent in average. In the year 2002\03, non- tax revenue accounted Rs. 13642.8 million with the contribution of 24.5 percent in total revenue. Then after, revenue collection from non-tax sources remained fluctuating with an average annual contribution of Rs.19425.3 million. In the year 2010\11, non-tax revenue was 27064.3 million. It was 13.5 percent of total revenue.

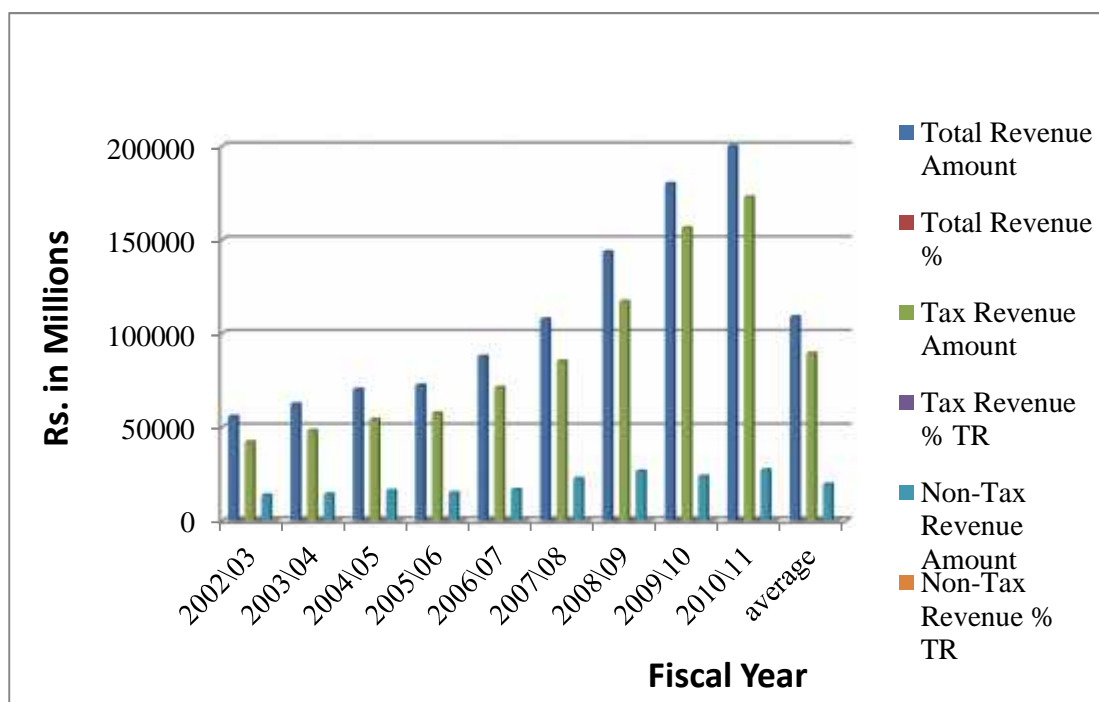
From FY 2002\03 to 2010\11 total revenue increased at an average annual growth rate of 18.875 percent. However the growth rate in revenue increment is in decreasing trend for last few years of observation. Total revenue in 2002\03 was Rs. 55670.5 million and it rose to Rs. 199819.6 Million in 2010\11. It is estimated that total revenue generation in FY 2011\12 will be Rs.219819.6 million. S.D of tax revenue is greater than non-tax revenue that was 45642.5 and 3525.91 respectively, with contribution of C.V 51.08 & 18.1, these analyses shown in given figure.

It was found that total revenue structure is dominated by tax revenue as compare to non tax revenue in each of the year is more than 75 percent where as non tax revenue is in the range between 13 to 25 percent each year.

Tax structure refers to the level as well as relative importance of various taxes in the composition of total tax revenue of a country. Structural analysis of tax deals with the balance between direct and indirect taxes. The base for levying taxes may be consumption, income and capital. Indirect taxes are taxes imposed on consumption where as taxes imposed on income and capital are

known as direct taxes. Tax structure of any country is composed of both direct as well indirect taxes.

**Figure 4.1**  
**Structure of Total Revenue**  
**(From FY 2002\03 to FY 2010\11)**



Above figure explains about the structure of total revenue during the fiscal year 2002/03 to 2010/11. Nepalese revenue structure is heavily dominated by tax revenue with an average annual contribution of 82.1Percentage. In the year 2010\11 out of total revenue of Rs. 19819.6 million, the share of tax revenue was 86.5 percent with an absolute contribution of Rs. 17275.2 million. Non tax revenue has low contribution in total revenue as compared to tax sources of government revenue generation. From FY 2002\03 to 2010\11 total revenue increased at an average annual growth rate of 18.875 percent.

#### **4.1.2 Contribution of direct and indirect tax on total revenue**

Nepalese total tax revenue is divided broadly into direct tax revenue and indirect tax revenue. Direct tax revenue includes revenue from land registration



and fees, land & building registration, property tax, vehicle tax and income tax where as indirect tax revenue is composed of taxes like customs, Value Added Tax, excise, export and import, taxes on consumption and production of goods and services. The absolute and relative share of direct and indirect tax revenue is presented in table 4.2

**Table 4.2**  
**Structure of Nepalese Tax Revenue**  
**(From FY 2002\02 to 2010\11)**

(RS IN MILLIONS)						
Fiscal Year	Total Tax Revenue		Direct Tax Revenue		Indirect Tax Revenue	
	Amount	%	Amount	% to TTR	Amount	% to TTR
2002\03	42027.7	100	9546.5	22.7	32481.2	77.3
2003\04	48175.7	100	11201.5	23.3	36974.2	76.7
2004\05	54104.9	100	12255.2	22.7	41851.8	77.3
2005\06	57427.0	100	13961.5	24.3	43465.5	75.7
2006\07	71168.0	100	18979.6	26.7	52188.3	73.3
2007\08	85147.1	100	23070.8	27.1	62076.3	72.9
2008\09	117051.8	100	34552.6	29.5	82499.2	70.5
2009\10	156290.7	100	41760.5	26.7	114530.2	73.3
2010\11	172755.2	100	48641.0	28.1	124114.2	71.8
Average	89349.8	100	23774.4	26.6	65575.6	73.4
S.D	45642.5	-	13625.95	-	32086.94	-
C.V.	51.08	--	57.31	-	48.93	-

*Source: Quarterly Economic Bulletin of mid-July 2011.*

Table 4.2 shows that indirect tax has been playing a dominant role in Nepalese tax structure. In the year 2002\03 direct tax and indirect tax contributed Rs.

9546.5 and 32481.2 million in total tax revenue of Rs. 42027.7 million. Total tax revenue raised to Rs. 172755.2 million in 2010\10, out of which Rs. 48641.0 million from direct tax and Rs. 124114.2 from indirect taxes.

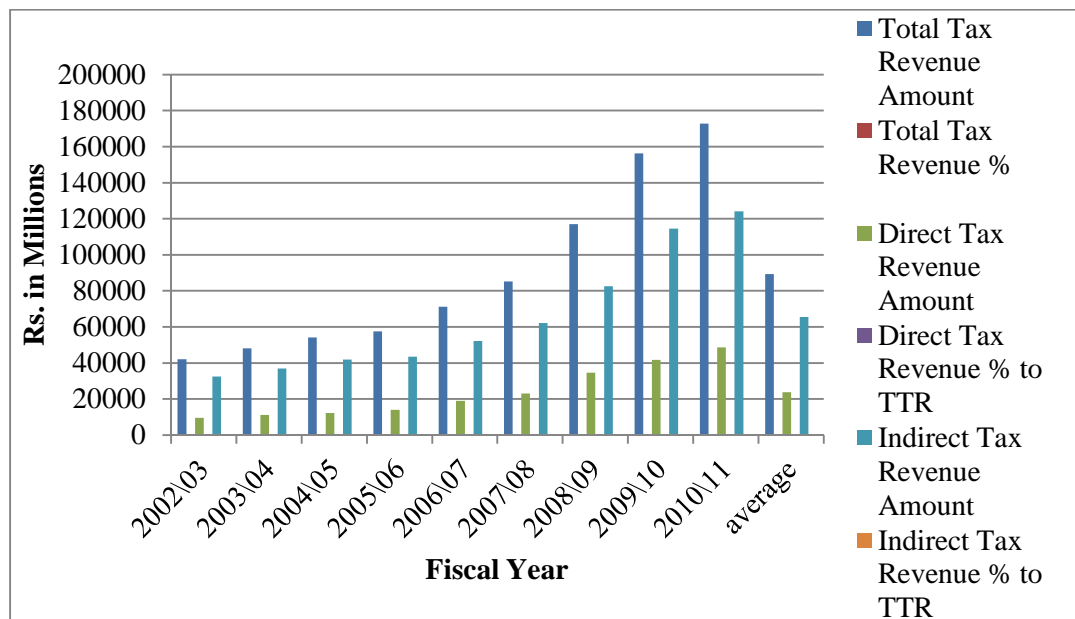
Despite of increase in absolute share of direct tax in total tax revenue during the study period its relative share was shrinking no change from 22.7 percent in 2002\03 to 22.7 percent in 2004\05. After then, in FY 2008\09, the share of direct tax was Rs. 34552.6 million in total tax revenue of Rs. 117051.8 was Rs. 34552.6, making the highest relative contribution of 29.5 percent. The share of direct tax again decline to 26.7 percent in FY 2009\10, 28.1 percent in 2010\11. The mean contribution of direct tax in total tax revenue remained around 27 percent from FY 2002\03 to FY 2010\11.

The share of indirect tax to total tax revenue was Rs. 32481.2 representing 77.3 percent of total tax revenue of Rs. 42027.7 million in 2002\03. In the year 2003\04, contribution of indirect tax declined to 76.7 percent and it down to further FY. In FY 2010\11 indirect tax revenue accounted Rs. 124114.2 million, which was 71.8 percent of total revenue. The average share of indirect tax in total tax revenue for the period 2002\03 to 2010\11 was 73.4 percent. S.D of direct and indirect tax was 13625.95 and 32086.94 million respectively and C.V of direct and indirect taxes was 57.31 and 48.93 percent individually. S.D and C.V of total tax revenue to national economy was Rs. 45642.5 million and 51.08 percent

In this way, Nepalese tax structure has heavily dominated by indirect tax. As indirect tax is considered regressive in nature, the structure of Nepal is not justifiable on equity ground although it might be on administrative ground in underdeveloped countries like Nepal.

The contribution of indirect tax revenue is higher than the contribution of direct tax. It was found the percentage contribution of indirect tax in each year of study period are 77.3, 76.7, 77.3, 75.7, 73.3, 72.9, 70.5, 73.5, 71.8 and 73.4 percent, in the fiscal year 2002\03 up to 200\11.

**Figure 4.2**  
**Structure of Nepalese Tax Revenue**  
**(From FY 2002\02 to 2010\11)**



Above figure explains about the structure of Nepalese tax revenue during the fiscal year 2002/03 to 2010/11. This figure Shows that indirect tax has been playing a dominant role in Nepalese tax structure. Indirect tax revenue was collection more than direct tax collection. In this way, Nepalese tax structure has heavily dominated by indirect tax. As indirect tax is considered regressive in nature, the structure of Nepal is not justifiable on equity ground although it might be on administrative ground in underdeveloped countries like Nepal.

## **4.2 Comparative Analysis of Direct and Indirect taxes Contribute to National Economy:**

### **4.2.1 Structure of Direct Tax in Nepal**

Direct tax in Nepal is composed up income tax, land & building registration, property tax and vehicle tax. The composition of total direct tax revenue is presented in table 4.3.

**Table 4.3**  
**Structure of Direct Tax in Nepal**

<i>(RS IN MILLIONS)</i>								
Fiscal Year	Total Direct Tax Revenue		Income Tax		Land & Building Tax		Vehicle Tax	
	Amount	GDP	Amount	% of DTR	Amount	% of DTR	Amount	% of DTR
2002\03	9546.4	435531.0	8132.2	85.02	1414.2	14.8	559.3	5.8
2003\04	11201.5	474242.0	9504.0	84.8	1697.5	15.1	700.4	6.3
2004\05	12255.2	508651.0	10456.0	85.3	1799.2	14.7	806.1	6.6
2005\06	13961.5	557870.0	10933.5	78.3	2180.3	15.6	847.6	6.07
2006\07	18979.6	603781.4	15730.0	82.9	2238.7	11.8	1011.0	5.3
2007\08	23070.8	606852.5	19067.5	82.6	2933.0	12.7	1070.2	4.6
2008\09	34552.6	709251.2	27479.7	79.5	5248.4	15.2	1824.5	5.2
2009\10	41760.5	798125.1	33832.1	81.01	5510.8	13.2	2417.6	5.8
2010\11	48641.0	881381.0	42066.3	86.5	3552.0	7.3	3022.7	6.2
average	23774.3	-	19689.03	82.8	2952.7	12.4	1362.1	5.7
S.D	13625.96	-	11434.48		1435.78	-	813.09	-
C.V.	57.31	-	58.08		48.63	-	59.69	-

*Source: Quarterly Economic Bulletin of mid- July 2011.*

Table 4.3 shows that major components of Nepalese direct tax are income tax, land & building registration and Vehicle tax.

The share of income tax, which is the most important sources for direct tax revenue, was 85.02 percent of total direct tax in 2002\03. The ratio of income tax to direct tax fell down to 84.8 percent in 2003\04 and next FY it raised to same ratio, further some time it decline and some time it raised so, it is not regular. Share of income tax in direct tax structure improved continuously until

2010\11 making contribution of 86.5 percent in total direct tax revenue with a collection of Rs. 19689.03 million.

The relative contribution of income tax to the total direct tax revenue has been fluctuating within the range of 78.3 to 86.5 percent. The average contribution of land & building tax revenue to direct tax during last ten years was 12.4 percent.

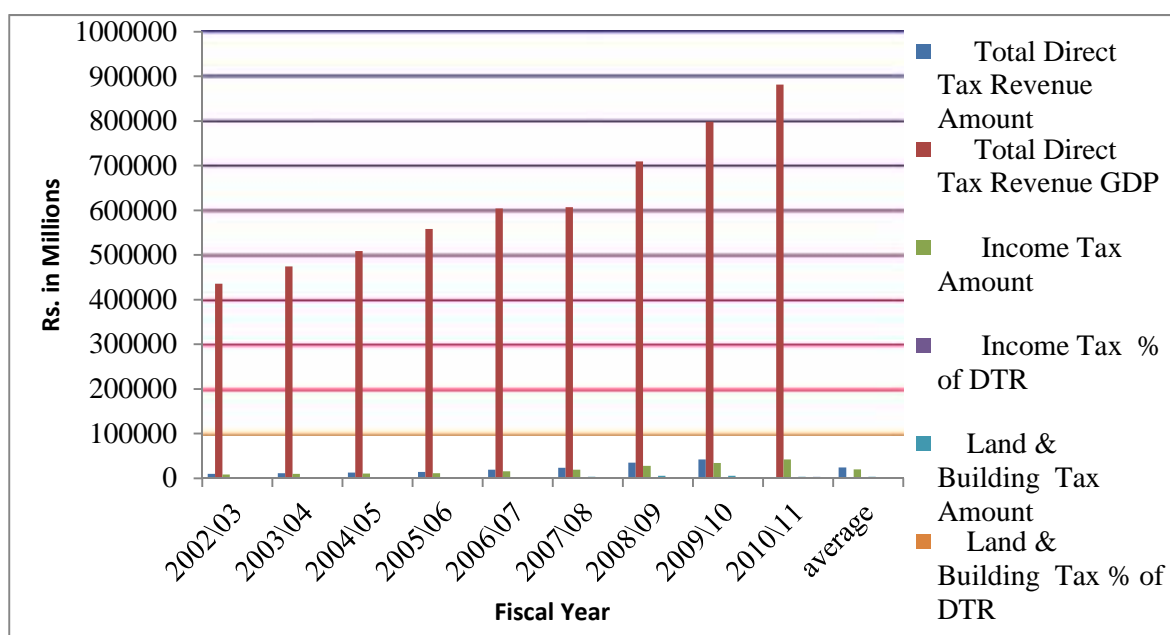
Further share of land & building tax is the 2<sup>nd</sup> most important sources for direct tax revenue, was 14.8 percent of total direct tax in FY 2002\03. The ratio land & building tax to direct tax rose to 15.1 percent in FY 2003\04, and further it decline in FY 2004\05 to 14.7 percent. And it's also decline in FY 2007\07 and 2007\08 to 11.8, 12.7 respectively. Share of land & building tax in direct tax structure improved continuously until in FY 2008\09 making the contribution 15.2 percent in direct tax revenue. But in FY 2010\11 it declined to 7.3 percent with a collection of Rs.3552.0 million. The relative contribution of land & building tax to the total direct tax revenue has been fluctuating within the range of 7.3 to 15.6 percent. The average contribution of land & building tax revenue to direct tax during last ten years was 12.4 percent.

Vehicle tax is the 3<sup>rd</sup> most important source of direct tax revenue, was 5.8 percent of total direct tax in FY 2002\03. The ratio of vehicle tax to direct tax rose in 2003\04 and 2004\05 from 6.3 to 6.6 percent respectively. The relative contribution of vehicle tax to the total direct tax revenue has been fluctuating within the range of 4.6 to 6.6 percent. The average contribution of vehicle tax revenue to direct tax during last ten years was 5.7 percent.

Contribution of direct tax in different component with S.D was Rs 11434.48, 1435.78, 813.09 and C.V 58.08, 48.63, 59.69 percent respectively and it contribute to total direct tax revenue was Rs.13625.96 million and 57.31 percent as S.D and C.V individual.

It is concluded that, income tax has highest contribution where as the vehicle tax has least contribution among all components of direct tax. The average contribution of income tax is 82.8 percent, average contribution of land and building tax is 12.4 percent and vehicle tax is only 5.7 percent.

**Figure 4.3**  
**Structure of Direct Tax in Nepal**



Above figure explains about the structure of direct tax revenue during the fiscal year 2002/03 to 2010/11. Contribution of direct tax in different component with S.D was Rs 11434.48, 1435.78, 813.09 and C.V 58.08, 48.63, 59.69 percent respectively and it contribute to total direct tax revenue was Rs.13625.96million and 57.31 percent as S.D and C.V individually. Direct tax also sources of government sources of revenue.

#### 4.2.2 The Structure of Indirect Tax in Nepal

The Indirect tax is a fairly general tax. The system of indirect taxation in Nepal has forty-five years of history. During this period, indirect tax is classified in to different categories such as Customs, VAT, Excise and Other. The trend and

contribution of indirect tax revenue has also become matter of collection of revenue.

The structure of indirect tax is studied on the basis of following area:

- ❖ General trends of indirect tax revenue as percentage total revenue. It covers the past 10 years (From 2002 to 2011)
- ❖ Structure analysis of indirect tax revenue From 2002 to 2011)
- ❖ The trend of Customs duties, VAT, Excise duties from 10 years.

**Table 4.4**  
**Structure of Indirect Tax in Nepal**

(RS IN MILLIONS)								
Fiscal Year	Total Indirect Tax Revenue		Customs Duties		VAT		Excise Duties	
	Amount	GDP	Amount	% of ITR	Amount	% of ITR	Amount	% of ITR
2002\03	32481.2	435531.0	14236.4	43.8	13467.3	41.5	4777.5	14.7
2003\04	36974.2	474242.0	15554.2	42.07	14498.2	39.2	6221.4	16.8
2004\05	41841.8	508651.0	15701.5	37.5	18897.9	45.2	6446.3	15.4
2005\06	43665.5	557870.0	15343.7	35.14	21615.4	49.5	6506.5	14.9
2006\07	52188.3	603781.4	16699.3	32.0	26145.4	50.1	9343.6	17.9
2007\08	62076.3	606852.5	21062.6	33.9	29784.6	47.9	11229.2	18.9
2008\09	82499.2	709251.2	26622.5	32.3	39640.2	48.05	16272.5	19.7
2009\10	114530.2	798125.1	35151.6	30.69	54896.5	47.9	24315.1	21.23
2010\11	124114.2	881381.0	35708.7	28.8	61659.1	49.7	26542.3	21.4
average	65596.8	-	21786.7	33.2	31178.3	47.5	12406.04	18.9
S.D	32072.51	-	8141.98	-	16413.65	-	7703.82	-
C.V.	48.89	-	37.37	-	52.64	-	62.10	-

*Source: Quarterly Economic Bulletin of mid-July 2011.*

Table 4.4 shows that major component of indirect taxes and its contribution to Gross Domestic Product (GDP). The major component of indirect taxes are custom duties, VAT and excise duties. The contribution of VAT, which is the most important source of indirect tax revenue, was 41.5 percent of total indirect taxes in 2002\03. The ratio of VAT to indirect tax fell down to 39.2 percent in FY 2003\04 and further rose to 50.1 percent up to 2006\07, and then it declined 47.9 percent in FY 2009\10. But in 2010\11 it rose to 49.7 percent with a collection of Rs. 61659.1 million to compare other.

The relative contribution of VAT to the total indirect tax revenue has been fluctuating within the range of 39.2 to 50.1 percent. The average contribution of VAT revenue to indirect tax during last ten years was 47.5 percent.

The second most important component of indirect tax to revenue collection is customs duties; it was 43.8 percent of total indirect tax in FY 2002\03. The ratio of customs duty to indirect tax fell down up to 28.8 percent in FY 2010\11. The trend of customs duty show in this research period was declined stage.

The relative contribution of custom duties to the total indirect tax revenue has been fluctuating within the range of 28.8 to 43.8.1 percent. The average contribution of customs duty revenue to indirect tax during last ten years was 33.2 percent.

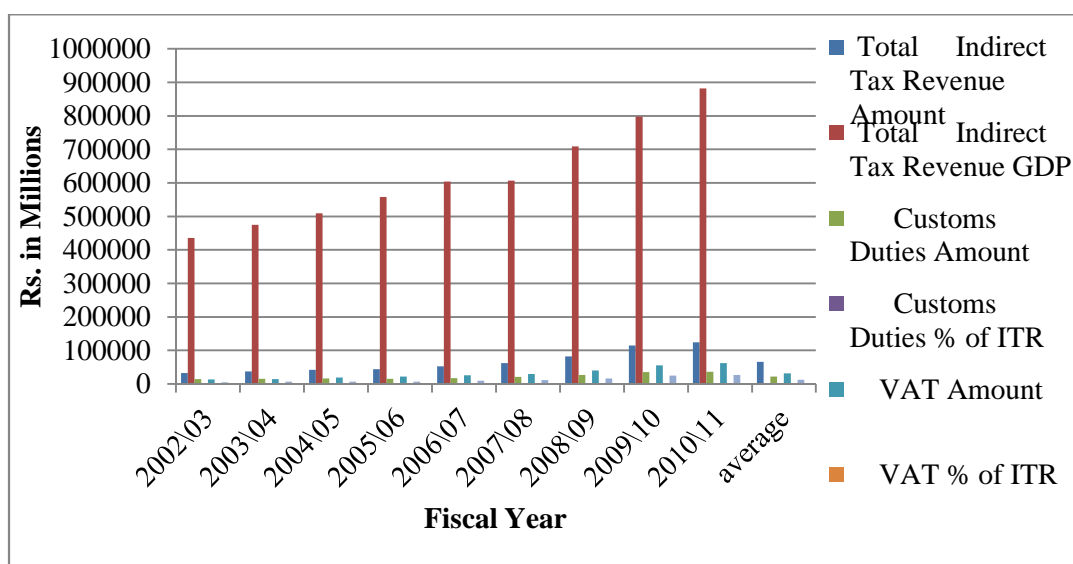
Excise duties also contribute in the field of indirect tax revenue collection in the nation. The contribution of excise duty for indirect tax revenue was 14.7 percent of total indirect tax in 2002\03. The ratio of excise duties was in increasing trend during the last 10 years. The ratio of excise duties to indirect taxes rose to 16.8 percent in 2003\04, and further it declined to 14.9 percent in 2005\06. Since 2006\07, share of excise duty in indirect tax structure improved continuously until 2010\11.



The relative contribution of excise duty to the total indirect tax revenue has been fluctuating within the range of 14.9 to 21.7 percent. The average contribution of excise duty revenue to indirect tax during last ten years was 18.9 percent.

At last contribution of indirect tax in different component with S.D was Rs 8141.98, 16413, 7703.82 and C.V percent respectively and it contribute to total direct tax revenue was Rs.13625.96 million and 57.31 percent as S.D and C.V 37.37, 52.64, 62.10 individually Income tax has highest contribution where as the vehicle tax has least contribution among all components of direct tax. The average contribution of income tax is 82.8 percent, average contribution of land and building tax is 12.4 percent and vehicle tax is only 5.7 percent. In the initial period the proportion of customs duties in total indirect tax revenue is higher than other two components (VAT and Excise duties) but in the middle of the study period it was found that this proportion started to dominated by VAT and this trend continued up to ending fiscal year (2010\11).

**Figure 4.4**  
**Structure of Indirect Tax in Nepal**



This figure explains about the structure of indirect tax revenue during the fiscal year.

Contribution of indirect tax in different component with S.D was Rs 8141.98, 16413, 7703.82 and C.V percent respectively and it contribute to total direct tax revenue was Rs.13625.96 million and 57.31 percent as S.D and C.V 37.37, 52.64, 62.10 individually

### 4.2.3 Trend of Indirect Tax Collection

Indirect is a most scientific, innovation and powerful tax with the quality of universal application for both developed and developing economics. Indirect taxes are the main source of government. Nepalese VAT, customs and excise administration practicable. Nepalese VAT, customs and excise system has already come a long way and that it should experience further revenue productivity in the future. In spite of preliminary resistance, indirect taxes are currently well received by the consumers as well as businessmen and industrial communities of Nepal. For this is account based tax that leads to transparency and accountability both on the part of tax payers and tax collectors. The trend of Nepalese indirect tax collection was shown in the following table 4.5

**Table 4.5**  
**Trend of indirect tax in Nepal**

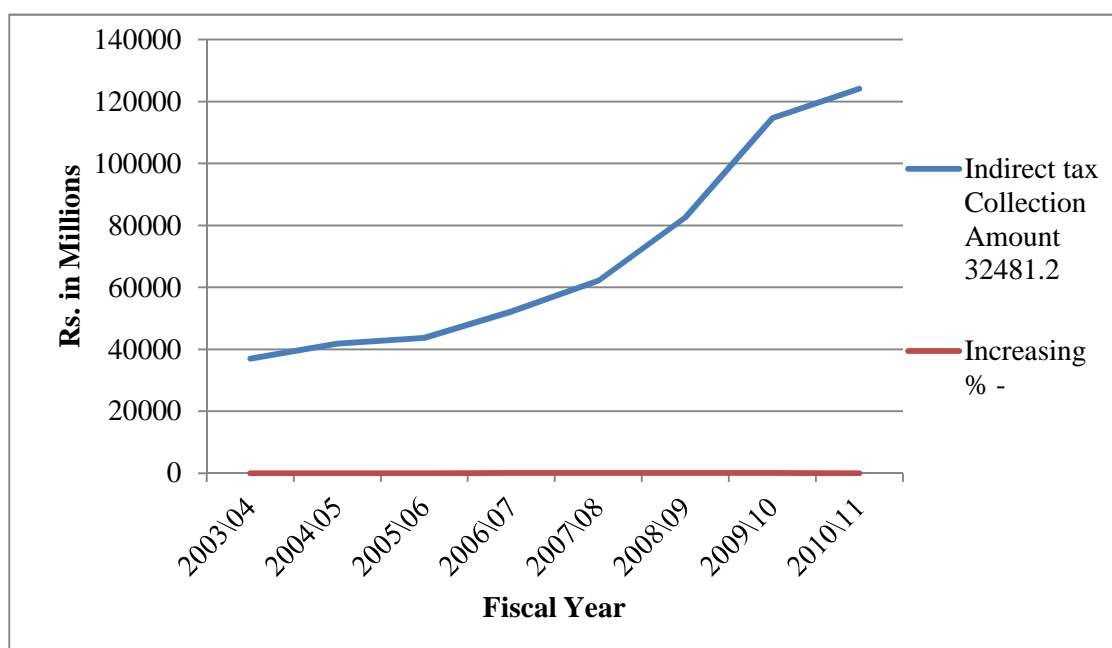
<i>(RS IN MILLIONS)</i>		
<b>Fiscal Year</b>	<b>Indirect tax Collection</b>	<b>Increasing</b>
	<b>Amount</b>	<b>%</b>
2002\03	32481.2	-
2003\04	36974.2	13.83
2004\05	41841.8	13.16
2005\06	43665.5	4.36
2006\07	52188.3	19.52
2007\08	62076.3	18.95
2008\09	82499.2	32.9
2009\10	114530.2	38.83
2010\11	124114.2	8.37

*Source: Quarterly Economic Bulletin of mid-July 2011.*

The above table shows that indirect tax revenue collection was an increasing trend. Besides fiscal year 2005\06 and 2010\11, in these fiscal years, the revenue collection was decreased in comparison to the past. This decrease in percentage was 4.36 and 8.37 respectively. The net indirect tax revenue collection in last FY 2010\11 it was Rs 124114.2 million. The highest increasing percentage of indirect tax revenue collection was in the FY 2009\10 which was 38.83 percent. The revenue collection in the fiscal year 2006/07 was Rs. 32145.41 million and increasing percentage was 31.42. In the initial period the proportion of customs duties in total indirect tax revenue is higher than other two components (VAT and Excise duties) but in the middle of the study period it was found that this proportion started to dominated by VAT and this trend continued up to ending fiscal year (2010\11).

**Figure 4.5**

**Structure of indirect tax in Nepal**



This figure explains about the trend of indirect tax revenue during the research period of fiscal year. Indirect tax revenue collection was an increasing trend. Besides fiscal year 2005\06 and 2010\11, in these fiscal years, the revenue collection was decreased in comparison to previous fiscal year the past. This trend also explained indirect tax was increasing in the decreasing trend.

#### 4.2.4 Contribution of Indirect Taxes to GDP in Nepal

Nepal has late started in practicing of indirect tax. First time direct tax collection more tax revenue as compare to indirect tax but recent scenario indirect tax contribute more than direct taxes. The share of indirect tax is increasing continuously. The role of indirect tax in the economic development of Nepal will be very clear, if we review the magnitude and share of indirect tax on GDP, total revenue, total tax revenue, and direct tax revenue.

The contribution of indirect tax on different revenue, during the study period is given in the following table no. 4.6.

**Table 4.6**

#### **Contribution of Indirect Tax on Different Revenue Heads**

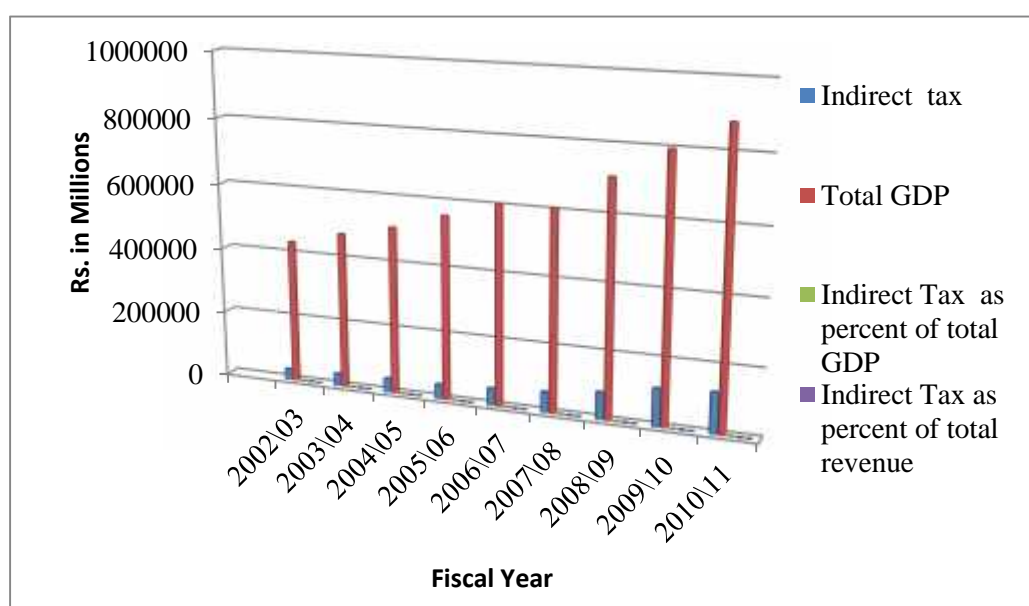
<b>(RS IN MILLIONS)</b>					
<b>Fiscal Year</b>	<b>Indirect tax</b>	<b>Total GDP</b>	<b>Indirect Tax as % of Total GDP</b>	<b>Indirect Tax as % of Total Revenue</b>	<b>Indirect Tax as % of Tax Revenue</b>
2002\03	32481.2	435531.0	7.46	58.4	77.3
2003\04	36974.2	474242.0	7.8	59.2	76.8
2004\05	41841.8	508651.0	8.2	59.7	77.4
2005\06	43665.5	557870.0	7.8	60.1	75.7
2006\07	52188.3	603781.4	8.6	59.5	73.3
2007\08	62076.3	606852.5	10.2	57.7	72.9
2008\09	82499.2	709251.2	11.6	57.5	70.5
2009\10	114530.2	798125.1	14.3	63.7	73.3
2010\11	124114.2	881381.0	14.08	62.1	71.8

*Source: Quarterly Economic Bulletin of mid-July 2011.*

Indirect tax contribute about 59.2 percent in FY 2002\03, as against to compare FY 2003\04. From the above table, we can say that the indirect tax is one of the

main sources of tax revenue in Nepal. But the contribution of indirect tax to the total tax revenue is still lower than the developed countries. Nevertheless, indirect tax is most likely to surpass the custom duties in future and will be the second largest source of revenue and the first largest source was VAT. The contribution of indirect tax is higher in tax revenue as compared to contribution of indirect tax in total revenue, but it has more contribution in both sectors as compared to contribution by direct tax.

**Figure 4.6**  
**Contribution of Indirect Tax on Different Revenue Heads**



Above figure explains about the structure of indirect tax revenue contribution to total GDP, total revenue and total tax revenue during the fiscal year 2002/03 to 2010/11. This figure shows the contribution of indirect tax is higher in tax revenue as compared to contribution of indirect tax in total revenue.

### **4.3 Contribution of Indirect Tax to National Economy via Different Sub Heading**

The income of the government through all sources like taxes, fees, fines, donation, etc is called government revenue. Government revenue may be divided into two main headings: tax revenue and by non tax revenue. Tax

revenue contributes about three quarters of total revenue while non-tax revenue respondents about one quarter of total revenue of the central level. Sun heading of indirect tax is VAT, Customs & Excise duties. In this chapter we analyze these terms contribute with respect to total revenue & total indirect tax in national economy of Nepal.

### **4.3.1 Contribution of VAT with respect to Total Revenue & Indirect Tax**

VAT is first largest sources of government revenue from indirect taxes. It was contribute to national economy an average 28.66 & 47.7 percent in total revenue and total indirect tax respectively. VAT included these term;

- ❖ Production
- ❖ Import
- ❖ Sales & Distribution
- ❖ Services

Value Added Tax (VAT) is the most recent innovation in the field of Taxation. It is considered as one of the most powerful tool of the fiscal policy. From the long experience of VAT in several countries, many economists as well as policy makers have reached in the conclusion that VAT is probably the best in indirect tax. It has gain huge popularity within the short span of time. VAT was introduced in 16 November, 1997 in place of sales, contract, entertainment and hotel taxes. It is most modern form of indirect tax for Nepal. There were mainly four reasons to introduce VAT in Nepal. The first reason was to develop VAT as the main and stable source of government revenue by broadening the tax base. The second was to address the issue of smuggling or understanding the taxable value, since the former sales tax was collected only at source and value added below this point was not included. The third was to reduce the dependence on custom duties, since Nepal needed a gradual reduction in import terrific as its commitment to WTO, BIMSTEC, and SAFTA. Finally it was argued that VAT would modernized the tax system by enhancing accounting practice and transparency in business.

The contribution of VAT on different revenue for the study period is given in the following table no. 4.7

**Table 4.7**

**Contribution of VAT with respect to Total Revenue & Indirect Tax**

<b>(RS IN MILLIONS)</b>					
<b>Fiscal year</b>	<b>Total Revenue</b>	<b>Indirect Revenue</b>	<b>VAT</b>		
			<b>Amount</b>	<b>% of TR</b>	<b>% of ITR</b>
2002\03	55670.5	32481.2	13467.3	24.19	41.5
2003\04	62331.0	36974.2	14498.2	23.26	39.2
2004\05	70122.8	41841.8	18897.9	26.95	45.2
2005\06	72282.1	43665.5	21615.4	29.9	49.5
2006\07	87712.1	52188.3	26145.4	29.81	50.1
2007\08	107622.7	62076.3	29784.6	27.68	47.9
2008\09	143474.4	82499.2	39640.2	27.63	48.05
2009\10	179940.4	114530.2	54896.5	30.51	47.9
2010\11	199819.6	124114.2	61659.1	30.86	49.7
average	108775.07	65596.8	31178.3	28.66	47.5
S.D	50338.31	32072.51	16413.65	-	-
C.V.	46.27	48.89	52.64	-	-

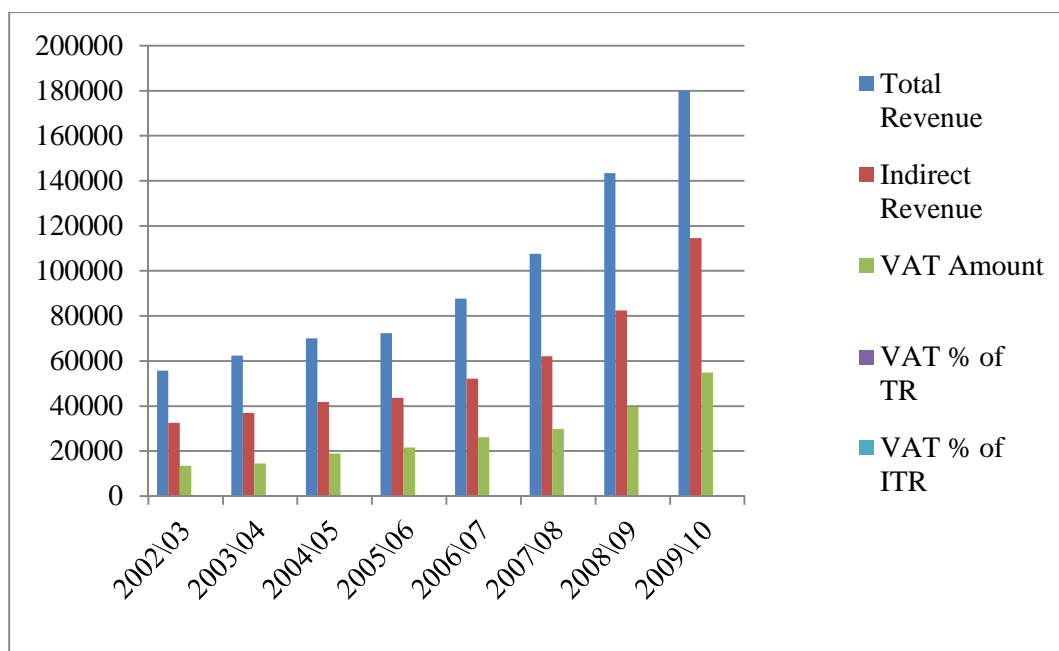
*Source: Quarterly Economic Bulletin of mid-July 2011.*

The above table shows that sub component of indirect tax (VAT), contribute to the national economy in Nepal. It shows that share of VAT as a percent on total tax revenue and total indirect tax revenue. In FY 2002\03 percentage of VAT on total revenue and indirect tax was 24.19, 41.5 respectively, but it was decrease in FY 2003\04 by 23.2639.2 respectively. Than after, it was rose up to FY 2006\07. From FY 2007\08 to 2010\11 again it was felt down as compared to previous fiscal year, with an average 28.66 & 47.5 percent respectively. It can be clearer from above figure. S.D & C.V of VAT was Rs 16413.65 and

52.64 percent individually. Contribution of VAT with respect to total revenue and indirect tax revenue is lower in the initial year but later it was contribute higher in the percentage compare with other component of indirect tax (customs and excise duties).

**Figure 4.7**

**Contribution of VAT with respect to Total Revenue & Indirect Tax**



This figure explains about the contribution of VAT revenue during 2002/03 to 2010/11. It shows the total revenue, indirect tax, VAT, VAT contribute to total revenue & total indirect tax revenue in percentage from FY 2002\03 to 2010\11.

**4.3.2 Contribution of Customs with respect to Total Revenue & Indirect Tax**

Customs duties play vital role to national economy. It contributes to national economy more than excise duties. Customs duties include these terms to develop national economy of Nepal;

- ❖ Export
- ❖ Import
- ❖ Indian Excise Refund



❖ Agriculture Reform Duties

❖ Miscellaneous

The contribution of Customs with respect to total revenue & indirect tax for the study period is given in the following table no. 4.

**Table 4.8**

**Contribution of Customs with respect to Total Revenue & Indirect Tax**

<b>(RS IN MILLIONS)</b>					
<b>Fiscal year</b>	<b>Total Revenue</b>	<b>Indirect Revenue</b>	<b>Customs Duties</b>		
			<b>Amount</b>	<b>% of TR</b>	<b>% of ITR</b>
2002\03	55670.5	32481.2	14236.4	25.57	43.8
2003\04	62331.0	36974.2	15554.2	24.95	42.07
2004\05	70122.8	41841.8	15701.5	22.39	37.5
2005\06	72282.1	43665.5	15343.7	21.23	35.14
2006\07	87712.1	52188.3	16699.3	19.04	32.0
2007\08	107622.7	62076.3	21062.6	19.57	33.9
2008\09	143474.4	82499.2	26622.5	18.56	32.3
2009\10	179940.4	114530.2	35151.6	19.54	30.69
2010\11	199819.6	124114.2	35708.7	17.87	28.8
average	108775.07	65596.8	21786.7	20.03	33.2
S.D	50338.31	32072.51	8141.98	-	-
C.V.	46.28	48.89	37.37	-	-

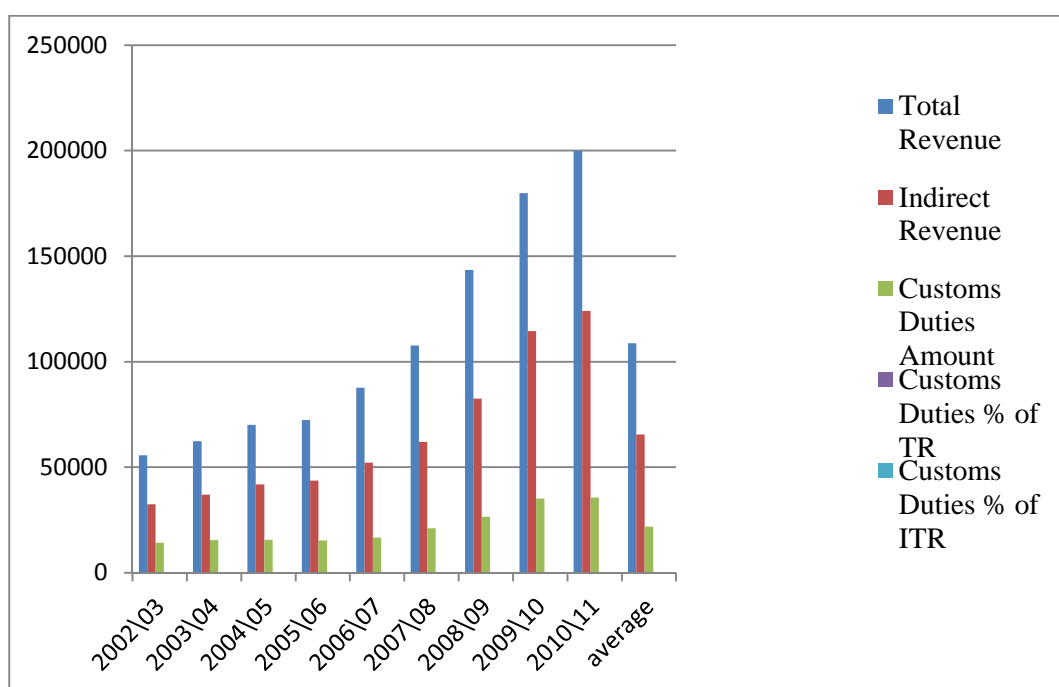
*Source: Quarterly Economic Bulletin of mid-July 2011.*

The above table shows that sub component of indirect tax (Customs Duties), contribute to the national economy in Nepal. It shows that share of Customs Duties as a percent on total tax revenue and total indirect tax revenue. In FY 2002\03 percentage of Customs Duties on total revenue and indirect tax was 25.57 & 43.8 respectively, but it was decrease from FY 2003\04 up to end of FY 2010\11 as compared to FY 2002\03 by 24.95, 22.39, 21.23, 19.04, 19.57,

18.56, 17.85 and 42.07, 37.5, 35.14, 32, 33.9, 32.3, 30.69, 28.8 respectively. The average contribution of customs is 20.03 & 33.2 percent respectively. And its S.D & C.V was 8141.98 and 37.37 respectively. It can be clear from figure below. If we go through table 4.8 most of the developing countries generate substantial revenue from this sources so, far as the developed countries are concern the revenue generation from this sources become negligible.

**Figure 4.8**

**Contribution of Customs with respect to Total Revenue & Indirect Tax**



This figure explains about the contribution of customs duty during the research period of fiscal year. It shows the total revenue, indirect tax, customs, customs duty contribute to total revenue & total indirect tax revenue in percentage from FY 2002\03 to 2010\11.

**4.3.3 Contribution of Excise Duties with respect to Total Revenue & Indirect Tax**

Excise duties also play vital role to national economy. It contributes to national economy less than Customs as well as VAT. Excise duties represent these term of taxes;

- ❖ Cigarettes & Bidi
- ❖ Liquor & Beer
- ❖ Other Industrial Production
- ❖ Excise on Imports
- ❖ Other taxes

The contribution of Excise Duties with respect to total revenue & indirect tax for the study period is given in the following table no. 4.9

**Table 4.9**

**Contribution of Excise Duties with respect to Total Revenue & Indirect Tax**

(RS IN MILLIONS)					
Fiscal year	Total Revenue	Indirect Revenue	Excise Duties		
			Amount	% of TR	% of ITR
2002\03	55670.5	32481.2	4777.5	8.58	14.7
2003\04	62331.0	36974.2	6221.4	9.98	16.8
2004\05	70122.8	41841.8	6446.3	9.19	15.4
2005\06	72282.1	43665.5	6506.5	9.0	14.9
2006\07	87712.1	52188.3	9343.6	10.65	17.9
2007\08	107622.7	62076.3	11229.2	10.43	18.9
2008\09	143474.4	82499.2	16272.5	11.34	19.7
2009\10	179940.4	114530.2	24315.1	13.51	21.23
2010\11	199819.6	124114.2	26542.3	13.28	21.4
average	108775.07	65596.8	12406.04	11.41	18.9
S.D	53391.84	34018.04	8171.14	-	-
C.V.	4.91	51.86	65.86	-	-

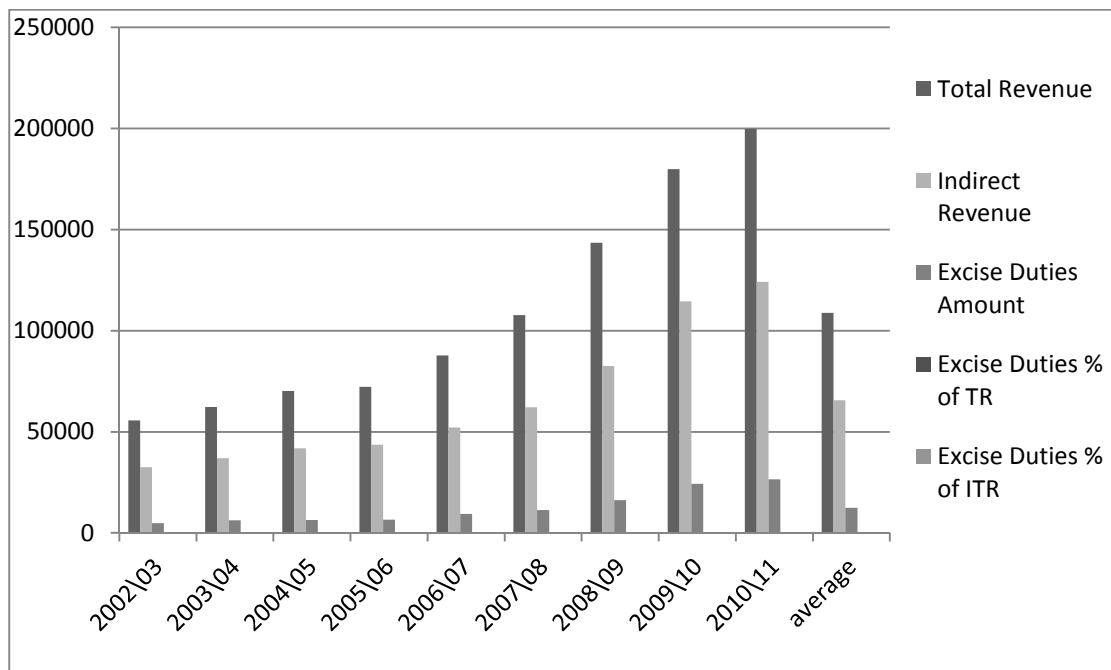
*Source: Quarterly Economic Bulletin of mid-July 2011.*

The above table shows that sub component of indirect tax (Excise Duties), contribute to the national economy in Nepal. Its shows that share of excise

duties as a percent on total tax revenue and total indirect tax revenue. In FY 2002\03 percentage of excise duties on total revenue and indirect tax was 8.58 & 14.7 respectively; it was increase in FY 2003\04 by 9.98 & 16.8 respectively. Than after, contribution of excise duties to indirect tax was rose up to FY 2010\11. But share of total revenue was decrease in FY 2004\05 & 2005\06, 15.4 & 14.9 respectively. From FY 2006\07 to 2010\11 again it was increased as compared to previous fiscal year, with an average 18.9. But share of excise duties in total tax was increased in each fiscal year. The standard deviation and coefficient of variance was 8171.14It can be more clear to analysis of figure no 4.9

**Figure 4.9**

**Contribution of Excise Duties with respect to Total Revenue & Indirect Tax**



If we go through figure no 4.9 we find that the share of excise duty as compared to the custom is not very significant in developing countries. But in the develop countries. It generates really a substantial amount of revenue for the government. So we can concluded that this tax contribute

a very reliable sources of revenue generation with advancement, in the process of economic development of the nation.

#### **4.4 Comparatively Analysis of Component of Indirect Taxes with respect to Total Revenue & Total Indirect Taxes Revenue**

VAT, Customs & Excise Duties are the main component of indirect taxes, which has completely differently contributed to national economy of Nepal. The shares of component of indirect taxes are given in percent bases to compare how many percentages contribute individually in total revenue and total indirect taxes. VAT is as the name itself suggests, imposed on the value-added portion in different stage of sales. It is modern and scientific form of sales tax. Ultimately, the real and final burden of tax is shifted towards to the consumers who consumes goods and enjoys the services. As goods and services are shifted in the process of production and distribution, one after another stage the tax is also jointly shifted simultaneously.

VAT has also been referred to as a sort of sales tax, though it functions very differently. Sales tax is imposed on the total retail price of the item sold, while VAT is imposed on the value added at each stage of production and distribution. And though more complicated than sales tax, VAT systems have more checks against tax fraud because the tax is assessed at more than one point in the distribution process.

Excise duty is also one of the traditional taxes in Nepal. In the past, these duties were levied on agriculture as well as industrial products. Now these are levied only on a few industrial products such as liquors, beers cigarettes, and tobaccos. They are levied on the domestically manufactured goods only and most of the imports are kept out of the excise net. The Government of Nepal has enacted customs Act 2064 with an aim to amend and consolidate the prevailing custom laws in order to make safe and facilitate international trade by making customs administration systematic and transparency

It is more clear above table no 4.10.

**Table 4.10****Comparatively Analysis between VAT, Customs and Excise Duties**

Fiscal year	VAT		Customs Duties		Excise Duties	
	% of TR	% of ITR	% of TR	% of ITR	% of TR	% of ITR
2002\03	24.19	41.5	25.57	43.8	8.58	14.7
2003\04	23.26	39.2	24.95	42.07	9.98	16.8
2004\05	26.95	45.2	22.39	37.5	9.19	15.4
2005\06	29.9	49.5	21.23	35.14	9.0	14.9
2006\07	29.81	50.1	19.04	32.0	10.65	17.9
2007\08	27.68	47.9	19.57	33.9	10.43	18.9
2008\09	27.63	48.05	18.56	32.3	11.34	19.7
2009\10	30.51	47.9	19.54	30.69	13.51	21.23
2010\11	30.86	49.7	17.87	28.8	13.28	21.4
average	28.66	47.5	20.03	33.2	11.41	18.9

**Source: Quarterly Economic Bulletin of mid-July 2011.**

The above table shows that the contribution of component of indirect taxes to national economy in percent to total revenue and total d\indirect taxes. Percentage of customs was higher than VAT and excise duty in FY 2002\03 to 2003\04, 25.57, 24.95 and 43.8, 42.07 respectively. But from FY 2004\05, percentage of customs was decrease as compare to previous fiscal year. VAT was the highest revenue collection rather than customs and excise duty since FY 2004\05 to 2010\11. Share of excise duty was low as compared to VAT and customs duty. It was 8.58 & 14.7 percent for both total revenue and total indirect tax collection in FY 2002\03. Percentage rank of VAT, customs and excise was first, second and third respectively to national economy of Nepal. But percentage of revenue was decrease from FY 2007\08 to FY 2010\11 as compared to FY 2006\07. Due to some factor of national crisis that was political misbalance of Nepal. But nowadays after “Ganatantra” Nepal has more progress in collection component of indirect taxes rather than previous year. From FY 2002\03 up to FY 2010\11, the average percentage of collection

of total revenue and total indirect tax of VAT, customs and excise duties was 28.66, 47.5, 20.3, 33.2, 11.41 and 18.9 percentages respectively.

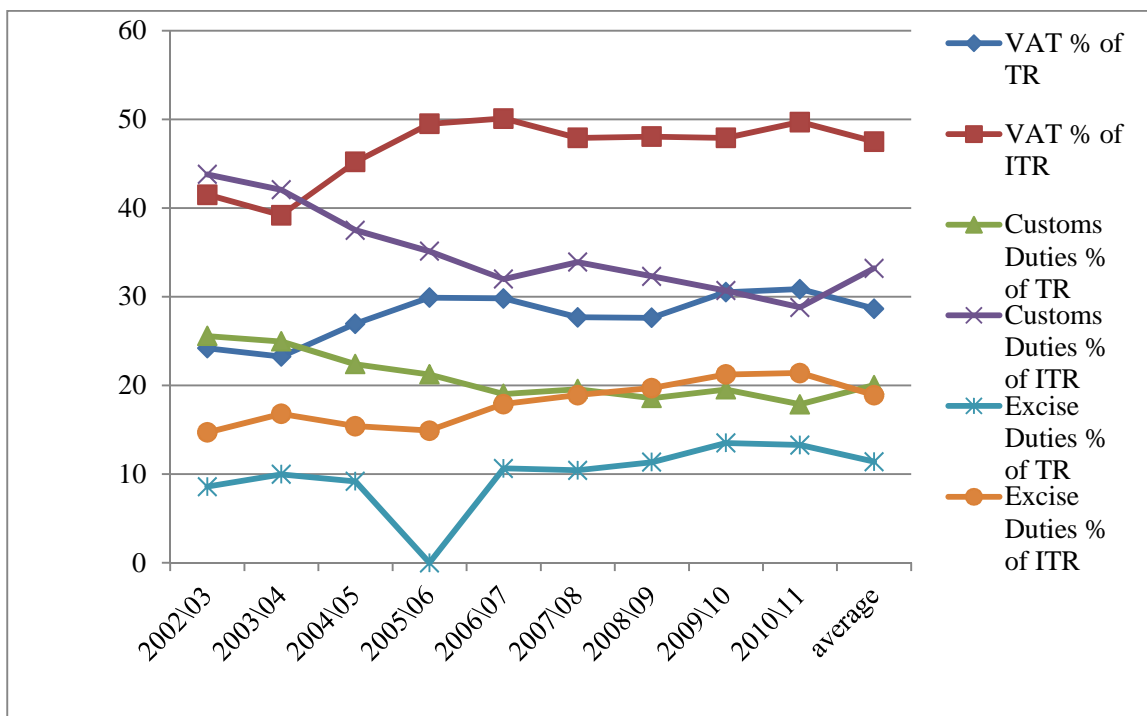
At conclusion VAT is the main sources of indirect tax revenue rather than customs and excise duty. Customs duty was also play vital role to Nepalese economy to compare excise duty. The position of excise duty was also not forgettable in Nepalese economy. It was third position of indirect taxes in Nepal.

We also make more meaningful to analysis the related study from above figure. From the above analysis it concluded that;

Contribution of VAT with respect to total revenue and indirect tax revenue is lower in the initial year but later it was contribute higher in the percentage compare with other component of indirect tax (customs and excise duties).

**Figure 4.10**

**Comparatively Analysis between VAT, Customs and Excise Duties**



This figure explains about the contribution of VAT, customs duty during the research period of fiscal year. It shows the percentage contribution to total revenue, indirect tax revenue of VAT, customs and excise duties it also explain

, customs, customs duty contribute to total revenue & total indirect tax revenue in percentage from FY 2002\03 to 2010\11. Contribution of VAT with respect to total revenue and indirect tax revenue is lower in the initial year but later it was contribute higher in the percentage compare with other component of indirect tax (customs and excise duties).

This trend line shows, in the initial period the proportion of customs duties in total indirect tax revenue is higher than other two components (VAT and Excise duties) but in the middle of the study period it was found that this proportion started to dominated by VAT and this trend continued up to ending fiscal year (2010\11).

## 4.5 Primary data Analysis

### 4.5.1 Responsible for Tax Revenue

To know the familiarity of tax evasion among the business houses (respondents) a question was asked. The result has been presented in the following table:

**Table no 4.11**  
**Responsible for tax revenue**

<b>Option</b>	<b>Economist</b>	<b>Tax official</b>	<b>Businessman</b>	<b>General people</b>	<b>Total no of respondent</b>	<b>% of respondent</b>
Male	7	4	6	3	20	80
Female	2	0	3	0	5	20
Total	9	4	9	3	25	100

*Source: Field Study, September 2012*

From the table 4.11 is observed that 80% of the respondents have some knowledge of tax evasion and remaining 20% of them are unknown about tax.

From the above table it is observed that some businessmen known the concept of tax evasion and have utilized it properly to reduce tax liability.



#### 4.5.2 Needed of Present Tax Structure in Nepal

To know the condition of present tax structure in Nepal a question was asked among the business houses (respondents). The result has been presented in the following table:

**Table no 4.12**  
**Need of present tax structure**

<b>Option</b>	<b>Slightly reform</b>	<b>Entire reform</b>	<b>Constant</b>	<b>No of respondent</b>
Male	2	0	3	5
Female	7	4	6	20
Total	9	4	9	25

*Source: Field Study, September 2012*

This table explains condition of present tax structure. Some respondent are want to slightly reform, entire reform and some want not change in present condition. Among 25 respondents there are equal opinions in slightly reform and continue present condition.

#### 4.5.3 Impact of Tax in Nepal

The following question regarding location of business has been asked to the sample tax officials. Only twenty have provided their responses. The question, its responses and its analysis have been presented below.

Asked Question: There is a global trend of tax reform in the world, under such condition, these analysis explain the Nepal will be independent of such changes and it also shows the impact of taxation in Nepal?

**Table no 4.13**  
**Application of Indirect Taxation**

<b>Option</b>	<b>Economist</b>	<b>Tax official</b>	<b>Businessman</b>	<b>General people</b>	<b>No of respondent</b>
Yes	4	5	5	3	17
No	1	0	0	2	3
Total	5	5	5	5	20

*Source: Field Study, September 2012*

Among the respondent there are a question asked and there are three option to answer the answer is we will certainly influenced, there will fairly influence and will any influence through this answer I concluded that there will fairly influence in Nepal. The analysis derived from respondent choice among 20 respondent 10 in favor of fairly influence and rest 10 is equally divided in to other choice.

#### 4.5.4 Application of Indirect Taxation

To know the application of VAT, customs and excise duties a question was asked among the business houses (respondents). The result has been presented in the following table no 4.14

**Table no 4.14**  
**Application of Indirect Taxation**

<b>Option</b>	<b>Economist</b>	<b>Tax official</b>	<b>Businessman</b>	<b>General people</b>	<b>No of respondent</b>
Yes	4	5	5	3	17
No	1	0	0	2	3
Total	5	5	5	5	20

*Source: Field Study, September 2012*

The following question regarding location of business has been asked to the sample indirect taxation officials. Only 25 respondents have provided their responses. The question, its responses and its analysis have been presented below.

Asked Question: Is VAT, customs & Excise duties applicable in Nepal?

The table show among 20 respondent only 17 respondents have provide positive response and only 3 respondents have provide negative response about the question. We can conclude from the analysis of table no 4.14 indirect tax only 85 percentage applied in Nepal, and 15 percentages are unapplied.

#### 4.5.5 Condition of Indirect Taxation in Nepal

The following question regarding location of business has been asked to the sample indirect taxation officials. The question, its responses and its analysis have been presented below. Asked Question: Is indirect tax superior than direct?

**Table 4.15**  
**Condition of indirect taxation in Nepal**

Option	Economist	Tax official	Businessman	General people	No of respondent
Yes	3	5	4	3	15
No	2	0	1	2	5
Total	5	5	5	5	20

There are only 20 respondent in the survey, among them 15 are positive response about indirect taxes are superior 3 economist\professor, 5 tax official, 4 businessman and 3 general people have positive and 2 economist, 1 business man and 2 general people have provide their negative opinion. From the above analysis of table no 4.15 only 75 percentage have positive and 25 percentage have negative about the condition of indirect tax compare to direct tax.

#### 4.5.6 Contribution of Indirect Taxation

The following question regarding location of business has been asked to the sample indirect taxation officials. Only 20 respondents have provided their responses. The question, its responses and its analysis have been presented below.

Asked Question: Will indirect tax be helpful to enhance investment, exports & economic growth in Nepal?

**Table no 4.16**

**Contribution of Indirect Taxation**

<b>Option</b>	<b>Economist</b>	<b>Tax official</b>	<b>Businessman</b>	<b>General people</b>	<b>No of respondent</b>
Yes	4	5	5	3	17
No	1	0	0	2	3
Total	5	5	5	5	20

*Source: Field Study, September 2012*

The table explains the result about contribution of indirect taxation among the respondents in the survey. There is 85 percent respondent have provide tax helpful to enhance to investment, export & economic Growth out of 20 respondent, rest 3 says their negative opinion it consist 15 percent. From above analysis it can be concluded indirect tax is helpful to enhance investment, export & economic very much in Nepal.

**4.5.7 Contribution of Indirect Taxation in Industrial Sector**

The following question regarding location of business has been asked to the sample indirect taxation officials. Only 20 respondents have provided their responses. The question, its responses and its analysis have been presented below.

Asked Question: To what extent the present tax incentives have helped to indirect tax in industrial sector?

**Table no 4.17**

**Contribution of Indirect Taxation in Industrial Sector**

<b>Option</b>	<b>Economist</b>	<b>Tax official</b>	<b>Businessman</b>	<b>General people</b>	<b>No of respondent</b>
Very much	4	3	3	0	10
sufficient	1	0	2	0	3
Somehow	0	2	0	2	4
Not at all	0	0	0	3	3
Total	5	5	5	5	20

*Source: Field Study, September 2012*

The table explains the result about contribution of indirect taxation in industrial sector among the respondents in the survey. There is 50 percent respondent have provide tax helpful to enhance to investment very much, out of 20 respondent, it cover 50 percentage. Out of them 3 says sufficient it cover 15 percent, 4 says somehow and 3 says not at all it consist 15 percent. From above analysis it can be concluded indirect tax is helpful to enhance investment, export & economic very much in Nepal.

#### **4.5.8 Comparatively Analysis of Indirect Taxation**

The following question regarding location of business has been asked to the sample indirect taxation officials. Only 20 respondents have provided their responses. The question, its responses and its analysis have been presented below.

Asked Question: What type of impact do you think indirect tax will have carry on production, distribution & consumption as compare to direct tax?

**Table no 4.18**

#### **Comparatively Analysis of Indirect Taxation**

<b>Option</b>	<b>Economist</b>	<b>Tax official</b>	<b>Businessman</b>	<b>General people</b>	<b>No of respondent</b>
Neutral	1	2	3	0	6
Positive impact	4	3	2	0	9
negative impact	0	0	0	2	2
Distortive	0	0	0	3	3
Total	5	5	5	5	20

*Source: Field Study, September 2012*

The table explains the result about impact of indirect taxation on production, distribution & consumption as compare to direct taxation. There four optional answer to analysis such as neutral, positive impact, negative impact and distortive. Positive impact is the positive result it consist 45 percentages in total

neutral has second position, it consist 30 percentage and other consist 25 percentage in total.

From above analysis it can be concluded indirect tax have carry on production, distribution & consumption as compare to direct tax in Nepal.

#### **4.5.9 Methods used by Taxpayers for the Assessments of Tax**

The tools of assessment for submitting the tax liability has been presented in the following table:

**Table 4.19**

**The Tools of Assessment for Submitting the Tax Liabilities**

<b>Assessments</b>	<b>No of Respondents</b>	<b>% of Respondents</b>
Self – assessment	10	50
Jeopardy assessment	5	25
Amended assessment	5	25
Total	20	100

*Source: Field Study, September 2012*

The table 4.18 shows that of the total respondents 100% of them use self-assessment for submitting tax liabilities 50 percent, because tax act has focused on the self assessment system. Self-assessment is the assessment done by assesses him at the time of submission filling return of income. Under tax act every assessment will be treated as self-assessment. They always use to submit their tax liabilities by taking advantages of concessions, rebates, relief, incentives, and allowances provided by the tax law. These were the facilities they could follow under self-assessment. There are varies levels of fine and penal for those who violate the tax law. So, they never take advantages of self-assessment. But, 25 percent of the respondents said that they use jeopardy as well as amended assessment.

#### **4.5.10 Use of Indirect Taxation**

The tools of assessment for submitting the tax liability has been presented in the following table:

Asked Question: Do you believe that indirect taxation is being misused as tax evasion and tax avoidance in Nepal?

**Table no 4.20**  
**Use of Indirect Taxation**

<b>Option</b>	<b>Economist</b>	<b>Tax official</b>	<b>Businessman</b>	<b>General people</b>	<b>No of respondent</b>
Yes	4	5	5	3	17
No	1	0	0	2	3
Total	5	5	5	5	20

*Source: Field Study, September 2012*

The table explains the result about use of indirect taxation among the respondents in the survey. There is 85 percent respondent have provide about miss use of tax out of 20 respondent, rest 3 says their negative opinion it consist 15 percent. From above analysis it can be concluded indirect tax is miss usable in Nepal.

#### **4.6 Major Findings of the Study**

The major findings of the study are as follows:

- ❖ It was found that total revenue structure is dominated by tax revenue as compare to non tax revenue in each of the year is more than 75 percent where as non tax revenue is in the range between 13 to 25 percent each year.
- ❖ The contribution of indirect tax revenue is higher than the contribution of direct tax. It was found the percentage contribution of indirect tax in each year of study period are 77.3, 76.7, 77.3, 75.7, 73.3, 72.9, 70.5, 73.5, 71.8 and 73.4 percent, in the fiscal year 2002\03 up to 200\11.
- ❖ Income tax has highest contribution where as the vehicle tax has least contribution among all components of direct tax. The average contribution of income tax is 82.8 percent, average contribution of land and building tax is 12.4 percent and vehicle tax is only 5.7 percent.
- ❖ In the initial period the proportion of customs duties in total indirect tax revenue is higher than other two components (VAT and Excise duties)

but in the middle of the study period it was found that this proportion started too dominated by VAT and this trend continued up to ending fiscal year (2010\11).

- ❖ Fluctuating trend was appeared in the structure of the indirect tax. In fiscal year 2005\06 the amount of indirect tax. In 2005\06 the amount of indirect tax is decreased by 8.8 percent but in 2006\07 it was increased by 15.16 percent. The increasing trend continued till 2009\10, but it was decreased in the ending year of the study period by 30.46 percent.
- ❖ The contribution of indirect tax is higher in tax revenue as compared to contribution of indirect tax in total revenue, but it has more contribution in both sectors as compared to contribution by direct tax.
- ❖ Contribution of VAT with respect to total revenue and indirect tax revenue is lower in the initial year but later it was contribute higher in the percentage compare with other component of indirect tax (customs and excise duties).
- ❖ From the analysis of above research. It was found that in Nepal indirect tax has dominated direct tax in total revenue of national economy. The major components of indirect tax are VAT, customs and excise duties and these components play vital role in the development national economy.



## **CHAPTER - V**

### **SUMMARY CONCLUSION AND RECOMMENDATION**

This chapter is the important chapter for the research because this chapter is the extracts of all the previously discussed chapters. This chapter consists of mainly three parts: Summary, Conclusion and Recommendation. In summary part, the result from the research is summed up and in recommendation parts, suggestion and recommendation is made based on the result and experience of thesis. Recommendation is the made for improving the present situation to the concerned parties as well as for further research.

#### **5.1 Summary**

The major tools of internal resources of government are tax form which government can mobilize the sector of economic and social development. Indirect tax is the main sources of revenue collection. Value Added Tax, Custom and Excise duty is the main component of indirect tax. VAT form of Sales tax, which is the most recent innovation in the field of taxation. In recent decades, implementation of indirect taxes has gained more popularity among the developing countries all over the world. Taxation has played an important role in the economic development of each country. VAT is a form of indirect taxation which is levied on the value added goods and services. VAT is imposed on each stage like import; production, whole sale distribution and on the retailer. Customs is levied export, import, Indian excise fund, and agriculture reform duties and miscellaneous similarly, excise is levied cigarettes & bidi, liquor & beer, other industrial production, excise on import and other taxes.

Indirect is a most scientific, innovation and powerful tax with the quality of universal application for both developed and developing economics. Indirect taxes are the main source of government. Nepalese VAT, customs and excise

administration practicable. Nepalese VAT, customs and excise system has already come a long way and that it should experience further revenue productivity in the future. In spite of preliminary resistance, indirect tax is currently well received by the consumers as well as businessmen and industrial communities of Nepal. For this is account based tax that lead to transparency and accountability both on the part of tax payers and tax collectors

Trend of contribution of indirect taxes to Nepalese economy is more than other sources of tax revenue that is direct tax. Collection and indirect tax revenue generation shown in table reveal indirect tax revenue in past years. It shows collection of revenue as 32481.2, 36974.2, 41841.8, 43665.5, 52188.3, 62076.3, 82499.2, 114530.2 and 124114.2 million in the year 2002\03, 2003\04, 2004\05, 2005\06, 2006\07, 2007\08, 2008\09, 2009\10 and 2010\2011 is seen that revenue is fluctuating some time it is increase and some time it is decrease.

The major findings of this research study are summarized

- ❖ Government revenue is the composition of external and internal revenue. Internal revenue. There is dominant share of tax revenue in Nepalese government revenue. The contribution of tax revenue shows the fluctuating trend as it had contributed 75.5 percent in FY 2002\03 on total revenue but it had contributed 86.5 percent in FY 2010\11.
- ❖ Nepalese tax revenue is the composition of direct and indirect tax revenue. There is dominant role of indirect tax. The average contribution of direct and indirect tax revenue were 26.6 percent and 73.4 percent respectively in whole research period.
- ❖ Among the various sources of government revenue, custom duty, sales tax (VAT), income tax and excise duty are the major sources of government revenue. VAT has first position and Income tax revenue has occupied third position at present on the basis of contribution among these revenue. The contribution of VAT, customs and excise duties to

government revenue is in increasing trend. So the future of indirect tax can be highly evaluated.

- ❖ The tax/GDP ratio of Nepal is not satisfactory. It has never exceeded 14.08 percent. In 2002\03, the tax/GDP ratio was only 7.46 percent which reached to 14.08 percent in 2010\11. This shows the increasing trend of tax/GDP ratio in slower pace.
- ❖ The major components of indirect taxes are VAT, Customs and Excise duties. Among them, VAT occupies largest share. Its share of total revenue and total direct tax in fiscal year 2002\03 was 24.19 & 41.5 percent and 28.66 & 49.7 percent respectively in FY 2010\11.
- ❖ The contribution of indirect tax on total tax revenue, GDP and Total Revenue is continuously increasing in slower pace. It's contribution on total tax revenue, GDP and Total revenue was 77.3 percent, 7.46 percent and 58.4 percent respectively in 2002\03 which was 71.8 percent, 14.08 percent and 62.1 percent in 2010\11.
- ❖ The contribution of customs duty to the total revenue, tax revenue, indirect tax and total GDP is in increasing trend. Its contribution was 25.57 percent, 43.8 percent, respectively in the FY 2002\03, which increased to 17.87 percent and 28.8 percent in 2010\11, with an average 20.03 & 33.2 percent respectively.
- ❖ The contribution of excise duty to the total revenue, tax revenue, indirect tax and total GDP is also in increasing trend. Its contribution was 8.58 percent, 14.7 percent, respectively in the FY 2002\03, which increased to 13.28 and 21.4 percent in 2010\11, with an average 11.41 & 18.9 percent respectively
- ❖ Customs duties is export, import, Indian excise fund, agriculture reform duties and miscellaneous.
- ❖ Excise is levied cigarettes & bidi, liquor & beer, other industrial production, excise on import and other taxes.

- ❖ VAT is a form of indirect taxation which is levied on the value added goods and services. VAT is imposed on each stage like import; production, whole sale distribution and on the retailer.
- ❖ From the analysis of above research. It was found that in Nepal indirect tax has dominated direct tax in total revenue of national economy. The major components of indirect tax are VAT, customs and excise duties and these components play vital role in the development national economy.

Due to some problems like narrow coverage, unscientific tax assessment, deviation from the basic principle of taxation, long time lag, defective system for the perspective of international taxation, weak tax administration etc. Tax revenue collection has not been implemented to the optimum level.

The Nepalese tax administration has been attempting to modify itself to meet the pressing challenge brought about by change in technology and economic policies. Some reformations have been observed with the implementation of new tax act However, still its working procedure is traditional and the cost of administration has not been brought to the satisfactory level.

## **5.2 Conclusion**

Developing countries like Nepal are facing serious problems in the process of economic development. Lack of sufficient financial resource is the main constraint for economic development of Nepal. A lot of funds are required to meet the objective of economic development. But Nepal is not being able to collect necessary fund. Due to poor performance on internal revenue (fund) collection and mobilization, Nepal has been heavily relying on foreign loans and grants. The dependence is increasing, which is not desirable for any economy. Thus, it is more essential to mobilize the internal fund to the optimum level.

To increase the government revenue, Nepalese government is trying to extract money from people through taxation. Tax revenue is composed of direct tax and indirect tax. But the contribution of indirect tax is higher than direct tax.

Within tax, indirect tax is the most important source of government revenue. It is considered as a good remedy to cure growing resource gap problem in Nepal. Governments need revenue to carry out activities need revenue to implementing activities. Such activities are included in the government annual budget. Budget is the composition of revenue and expenditure. The main sources of revenue are a) taxes b) non-taxes c) foreign loan d) domestic as well as foreign borrowing. The tax is an important source of revenue,

A government requires sufficient resources to carry out development plans, handle day-to-day administration, and maintain peace and security and launch other public welfare activities. The government collects the required resources mainly from two sources debt and revenues. The debt can be collected either from internal or external sources. The internal debt collected within the country while external debt is collected from outside the country. The debt financing of the government is known as deficit financing. The revenue on the other hand, comes basically from two sources: tax and non tax. Non tax sources included different revenue like gift, grants, revenue from public enterprises, administrative revenues such as registration fees, fine and penalties. Tax sources included customs duty, excise duty, VAT, income tax, above these analysis we concluded that:

- ❖ Indirect tax is broadly based since it is applied to everyone in the society whether rich or poor.
- ❖ The tax payer who pays the tax does not bear the burden of tax; the burden is shifted to the ultimate consumers.
- ❖ In the case of a direct tax, the taxpayer has to bear the burden of tax personally; in case of indirect tax the taxpayer and the tax bearer are not the same person.
- ❖ Maximization of government revenue for financing infrastructure and capital investment;
- ❖ Redistribution of luxury consumption more effectively permitting a higher rate of savings and investment;

- ❖ Restriction on the import of luxury goods, thus, securing a good deal of foreign exchange;
- ❖ Administrative use; and
- ❖ Less harmful to incentives than direct taxes.

## **5.2 Recommendations**

On the basis of the analysis and findings of the present study, some recommendation has made so as to overcome some shortfalls regarding the issue of implementation of indirect taxes of Nepal.

- ❖ Area of taxation in Nepal is very narrow, there is no tax practices in Nepalese context. This strategy, however, may not be as easy and effective in the present Nepalese context as it has been in many other countries. This is because, in Nepal, broadening the coverage would mean the extension of indirect tax to agriculture income, capital gains and dividends, a reduction in tax incentives, and the identification of new taxpayer; neither a reduction in deductions nor the removal of exemption in the case of labor tax as has been important in many countries would be of significant help in Nepal as the scope of remuneration tax is very limited in this country. Let us examine the possibilities for the extension of indirect tax to agricultural tax, capital gains, dividends, etc.
- ❖ Nepal is one of the poorest countries in the world. There is no political stability during one decade. The tax implementation system is also loose among the other developing country. Tax revenue is the main sources of government revenue. To better collection of indirect taxes first of all government should apply the good tax practice system.
- ❖ Enforcement of indirect taxes should be made on basis of well set up legal basis. Preparation of legal basis should framed very sincerely

which will minimized the operational problems. The problems that show up later will be costly to correct.

- ❖ VAT should be implemented after preparing minimum required level of infrastructure. Before implementing VAT registration campaign should be launched to the related tax offices and training should be operated as required.
- ❖ At the final stage of preparation tax payers should be encouraged to register their business voluntary.
- ❖ Lastly indirect taxation is based on market economy, price control & desecration of the tax officials should be fully avoided.
- ❖ The accounting system of indirect taxation should be transparent.
- ❖ In view of the low elasticity coefficient of indirect taxes in the second sample period, there is a need for effective implementation and administrative reform of VAT.
- ❖ Present budget deficit and resources gap situation can be addressed in short run by focusing on indirect taxes such as VAT, customs and excise duty which are easier to administer.

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## APPENDIX-1

### An Analysis of Indirect Tax & Their Contribution to National Economy

Dear Sir,

I would like to introduce myself as a student of **Central Department of Management**. In order to fulfill the partial requirement of Master's Degree in Business Studies (M.B.S.) of Tribhuvan University, I am going to prepare a dissertation on "**An Analysis of Indirect Tax and Their Contribution to National Economy**". Would you provide me necessary information for the following questionnaire in the research work?

I also promise that the information supplied by you will be exclusively used for academic research purpose only.

Thanking you.

Name of the respondent .....

Designation .....

Office/organization .....

Address .....

Telephone No .....

Date .....

1. Who is more responsible for tax evasion in Nepal?

- a. Economist ( )
- b. Tax official ( )
- c. Business man ( )
- d. General people ( )

2. On the present Nepalese context of rising needs of development expenditure and deficiency of government revenue, whether do you think the need of reforms on present tax system of the country?

- a. Slightly reform is needed ( )
- b. Entire reform is necessary ( )
- c. Present condition is quite satisfactory ( )
- d. Your valuable opinion (if any)..... ( )

3. There is a global trend of tax reform, under such condition, whether do you think Nepal will be independent of such changes?

- a. We will certainly influence ( )
- b. There will fairly influence ( )
- c. Will any influence ( )
- d. Other comments (if any)..... ( )

4. Is VAT, customs & excise duties applicable in Nepal?

- a. Yes ( )      b. No ( )

5. Is indirect tax superior to direct tax??

- a. Yes ( )      b. No ( )

If yes, please specify:

- i. ....
- ii. ....

6. Will indirect tax be helpful to enhance investment, exports & economic growth in Nepal?

- a. Yes ( )
- b. No ( )
- c. No idea ( )

7. To what extent the present tax incentives have helped to indirect tax in industrial sector?

- a. Very much ( )      b. sufficient ( )  
c. Somehow ( )      d. Not at all ( )

8. What type of impact do you think indirect tax will have carry on production, distribution & consumption as compare to direct tax?

- a. Neutral ( )  
b. Positive impact ( )  
c. Fairly negative impact ( )  
d. Distortive ( )

9. Do you believe that indirect taxation is being misused as tax evasion and tax avoidance in Nepal?

- a. Yes ( )      b. No ( )      c. No idea ( )

10. Which assessment procedure do you use for submitting the tax liability?

- a. self- assessment ( )  
b. jeopardy assessment ( )  
c. amended assessment ( )

Thank you very much for your kind co-operation.

## APPENDIX-2

### Calculation of Mean and Standard Deviation of total revenue

Fiscal year	Total Revenue (x)	$(x - \bar{x})$	$(x - \bar{x})^2$
2002/03	55670.5	-53104.56	2820095001
2003/04	62331.0	-46444.067	2157051329
2004/05	70122.8	-38652.267	1493997718
2005/06	72282.1	-36493.57	1331736616
2006\07	87712.1	-21062.967	443648564.8
2007\08	107622.7	-1152.36	1327948.934
2008\09	143474.4	34699.3	1204043734
2009\10	179940.4	71165.33	5064504668
2010\11	199819.6	91044.53	8289107050
Total	$\Sigma X = 978975$		$\Sigma (x - \bar{x})^2 = 22805512630$

We know,

$$\text{Mean } (\bar{X}) = \frac{\Sigma X}{N} = \text{Rs. } 108775.067 \text{ (Million)}$$

$\therefore$  The average revenue is= Rs. 108775.067 (Million)

$$\text{Standard deviation } (s) = \sqrt{\frac{\Sigma (x - \bar{x})^2}{n}} = \text{Rs. } 50338.3 \text{ (Million)}$$

$\therefore$  Standard deviation (s) = Rs.50338.3 (Million)

$$\text{Coefficient of variance (CV)} = \frac{s}{\bar{X}} = 46.28\%$$

### APPENDIX – 3

#### Calculation of Mean and Standard Deviation of tax revenue

Fiscal year	Tax Revenue (x)	$(x - \bar{x})$	$(x - \bar{x})^2$
2002/03	42027.7	-47322.1	2239380097
2003/04	48175.7	-41174.1	1695305596
2004/05	54104.9	-35244.9	1242202193
2005/06	57427.0	-31922.8	1019064450
2006\07	71168.0	-18181.8	330577447.2
2007\08	85147.1	-4202.69	17662593.9
2008\09	117051.8	27702.01	767401419.6
2009\10	156290.7	66940.91	4481085580
2010\11	172755.2	83405.41	6956462603
Total	$\Sigma X = 978975$		$\Sigma (x - \bar{x})^2 = 18749141980$

We know,

$$\text{Mean } (\bar{X}) = \frac{\Sigma X}{N} = \text{Rs. } 89349.8 \therefore$$

The average tax revenue is = Rs. 89349.8 (Million)

$$\text{Standard deviation } (s) = \sqrt{\frac{\Sigma (x - \bar{x})^2}{n}} = \text{Rs. } 45642.50 \text{ (Million)}$$

$\therefore$  Standard deviation (s) = Rs. 45642.50 (Million)

$$\text{Coefficient of variance (CV)} = \frac{s}{\bar{X}} = 51.08 \%$$



## APPENDIX – 4

### Calculation of Mean and Standard Deviation of VAT

Fiscal year	VAT Revenue (x)	(x - $\bar{x}$ )	(x - $\bar{x}$ ) <sup>2</sup>
2002/03	13467.3	-17711	313679127
2003/04	14498.2	-16680.1	278225365
2004/05	18897.9	-12280.4	150807951
2005/06	21615.4	-9562.89	91448843.9
2006\07	26145.4	-5032.89	25329970.6
2007\08	29784.6	-1393.69	1942368.72
2008\09	39640.2	8461.911	71603939.7
2009\10	54896.5	23718.21	562553538
2010\11	61659.1	30480.81	929079846
Total	$\Sigma X = 280604.6$		$\Sigma (x - \bar{x})^2 = 2424670951$

We know,

$$\text{Mean } (\bar{X}) = \frac{\Sigma X}{N} = \text{Rs } 31178.3$$

The average tax revenue is = Rs. 31178.3 (Million)

$$\text{Standard deviation } ( ) = \sqrt{\frac{\Sigma (x - \bar{x})^2}{n}} = \text{Rs. } 16413.65 \text{ (Million)}$$

$\therefore$  Standard deviation ( ) = Rs. 16413.65 (Million)

$$\text{Coefficient of variance (CV)} = \frac{\text{Standard Deviation}}{\bar{X}} = \frac{16413.65}{31178.3} = 52.64\%$$

## APPENDIX – 5

### Calculation of Mean and Standard Deviation of customs duty

Fiscal year	Customs Revenue (x)	$(x - \bar{x})$	$(x - \bar{x})^2$
2002/03	14236.4	-7550.32	57007366
2003/04	15554.2	-6232.52	38844333
2004/05	15701.5	-6085.22	37029929
2005/06	15343.7	-6443.02	41512535
2006\07	16699.3	-5087.42	25881865
2007\08	21062.6	-724.122	524352.99
2008\09	26622.5	4835.778	23384747
2009\10	35151.6	13364.88	178619958
2010\11	35708.7	13921.98	193821465
Total	$\Sigma X = 196080.3$		$\Sigma (x - \bar{x})^2 = 596626552$

We know,

$$\text{Mean } (\bar{X}) = \frac{\Sigma X}{N} = \text{Rs } 21786.$$

The average tax revenue is= Rs. 21786. (Million)

$$\text{Standard deviation } ( ) = \sqrt{\frac{\Sigma (x - \bar{x})^2}{n}} = \text{Rs. } 8141.98 \text{ (Million)}$$

∴ Standard deviation ( ) = Rs. 8141.98 (Million)

$$\text{Coefficient of variance (CV)} = \frac{\bar{X}}{\text{Standard Deviation}} = \frac{21786}{8141.98} = 37.37\%$$

## APPENDIX – 6

### Calculation of Mean and Standard Deviation of excise duty

Fiscal year	Excise Revenue (x)	$(x - \bar{x})$	$(x - \bar{x})^2$
2002/03	4777.5	-7628.54	58194690
2003/04	6221.4	-6184.64	38249827
2004/05	6446.3	-5959.74	35518554
2005/06	6506.5	-5899.54	34804625
2006\07	9343.6	-3062.44	9378566
2007\08	11229.2	-1176.84	1384962.8
2008\09	16272.5	3866.456	14949479
2009\10	24315.1	11909.06	141825604
2010\11	26542.3	14136.26	199833721
<b>Total</b>	$\Sigma X = 111654.4$		$\Sigma (x - \bar{x})^2 = 34140028$

We know,

$$\text{Mean } (\bar{X}) = \frac{\Sigma X}{N} = \text{Rs } 12406.04$$

The average tax revenue is= Rs. 12406.04 (Million)

$$\text{Standard deviation } (s) = \sqrt{\frac{\Sigma (x - \bar{x})^2}{n}} = \text{Rs. } 7703.82 \text{ (Million)}$$

∴ Standard deviation (s) = Rs. 7703.82 (Million)

$$\text{Coefficient of variance (CV)} = \frac{s}{\bar{X}} = \frac{7703.82}{12406.04} = 62.10\%$$