

CHAPTER I

INTRODUCTION

1.1 General Background

A nation requires sufficient funds to carry out development plans, handle day-to-day administration, maintain peace and security and launch other public welfare activities. The funds required by the government are normally collected from two sources: tax and non-tax revenue. Non-tax sources include different revenues such as registration fees, fines and penalties. Tax sources include Customs Duty, Excise Duty, VAT, and Income Tax. In Nepal around eighty percent of the government revenue comes from taxation. Hence, tax is the major source of government revenue.

Tax is any compulsory levy from individuals, households and firms to central and local government. It is an amount of money that we have to pay to the government so that it can pay for public services. It is simply a liability to pay an amount to the government. It is a compulsory contribution from the tax payers. Tax is computed and paid as prescribed in the law. When a person or company is taxed, they have to pay a part of their income or profits to the government. When goods are taxed, a percentage of their price has to be paid to the government.

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

According to Shirras “A compulsory contribution to public authorities to meet the general expenses incurred in the common interest of all without reference to special benefit conferred”.

From the above definitions, it can be concluded that:

1. Tax is a compulsory levy imposed by the government.
2. It is levied on persons as per the prevailing laws.

3. Those who pay tax do not get corresponding benefits from the government.
4. It is spent for common interest of the people.
5. It is collected from haves and spent for the interest of have-nots in the society.

We can define tax as a compulsory contribution made by tax payers to the government without having any direct personal benefits. Basically, tax can be classified into two broad categories: Direct tax and Indirect tax.

A direct tax is a tax paid by a person on whom it is legally imposed. In direct tax, the person paying and bearing tax is the same. It is the tax on income and property. Some examples of direct tax are: income tax, property tax, vehicle tax, interest tax, expenditure tax, death tax, gift tax etc. An indirect tax is a tax imposed on one person but partly or wholly paid by another. In indirect tax, the person paying and bearing the tax is different. It is the tax on consumption or expenditure. Some examples of indirect tax are: VAT, sales tax, entertainment tax, hotel tax, excise duty, customs duty etc.

Customs is an authority or agency in a country responsible for collecting and safeguarding customs duties and for controlling the flow of goods including animals, personal effects and hazardous items in and out of a country. In other words, customs is the official organization responsible for collecting taxes on goods coming into a country and preventing illegal goods from being brought in. 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. Customs is the place where people arriving from a foreign country have to declare goods that they bring with them. 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 govt. agreements and international laws.

A kind of indirect tax is called customs duty. A customs duty is a tariff on the imports as well as exports of goods. Customs duties are taxes that people pay for importing and exporting goods. It is a border tax. NCA collects customs duty, VAT, Excise duty and other taxes at the border points. Customs Administration is in the forefront in terms of internal revenue mobilization. This does not mean that the customs role needs to be confined to internal revenue mobilization. It is equally important to recommendation and best practices without compromising with the national security. The government of Nepal has enacted Customs Act 2064 with an aim to amend and consolidate the prevailing customs laws in order to make safe and facilitate international trade by making customs administration systematic, transparent and accountable.

The customs act is confined with the export and import of goods. The government of Nepal may, by notification in the Nepal Gazette, prescribe any area of Nepal as the customs area for the purpose of administering the laws relating to customs and collecting customs duty in accordance with this Act. The government of Nepal may, by notification in the Nepal Gazette, prescribe routes through which export from or imports into Nepal is to be made through the customs areas.

Any goods to be exported from Nepal or imported into Nepal shall be exported or imported only through the routes as prescribed by the government. The Director General may prescribe that the goods of any specific nature can be exported or imported only through any specific customs office. The government of Nepal may, by notification in the Nepal Gazette, establish a customs office or sub-customs office in any customs area.

1.2 Focus of the Study

This study mainly focused on customs duty in Nepal. It also tries to show the contribution made by customs duty to total tax revenue of Nepal. Similarly, this study also tries to show the difficulties and problems relating to customs duty, rules and regulations, current trends in customs duty etc. This study gives us a solution, which is comes from presenting, analyzing and summarizing of data. It also provides a way to make a correct decision by conclusion of the study and recommendation.

1.3 Statement of the Problems

After the privatization and liberalization, the role of government of Nepal has further increased, especially with reference to poverty alleviation. The government of Nepal is bond to play a proactive role in support of programs related to education, health, drinking water, agriculture, local development and infrastructure. These activities require huge expenditure in excess of the revenue available to the treasury. Private sector is still too weak to deal with these issues. This has led to increasing revenue expenditure gap in Nepal, which calls for effective internal resources. But resources mobilization through taxation is a challenging proposition in Nepal.

The tax evasion and leakage is the main problem of the overall Nepalese tax system. The past trend of tax leakage and evasion was very dangerous for the development of the country, which is continuing in present days too. In case of customs duty, there are so many ideas and techniques have been developed to cheat the duty. Our rules and regulation is not strong and powerful to control the tax evasion and leakage. Also here is not any border point where corruption is not. If the cheater fails to buy customs employees, they used different sub-way to bring their goods without paying customs duty which is an open challenge for Nepal government.

Another challenge of customs duty in Nepal is poor administration in customs. There is tendency of providing customs duty rebate and exemption by reforming sector wise laws and cabinet decisions, customs personnel do not exhibit duty payer friendly behavior and lack of advanced information technology that is compatible with international standards are some of the problems of customs duties administration. According to 'Global Integrity 2009', customs administration is considered as one of the hotbeds of often petty, and at times heavy, corruption in Nepal. It also says that customs and excise laws are not always enforced uniformly or without discrimination in Nepal, and the customs service has a reputation of corrupt behavior and questionable professionalism. Customs administration is plagued by corruption in Nepal. Corruption exists in the top echelons of the customs authority.

The nepotism and favoritism is another most important problem of customs duty. Nepotism and favoritism is the most powerful than the customs rules in case of customs personnel of Nepal. In the reality, if anyone knowing personnel in the customs office or border point, he/she can easily import or export his/her desirable quantity of goods without any duties. Political instability and fully support to bad personnel by politician is another problem of customs duty. No one wants to follow the any rules and regulations of the country, who have the power and who gets the support of politicians.

The study tries to seek the answer to the following questions:

1. How much contribution is made by customs duty in total tax revenue of Nepal?
2. How can control the evasion and leakage of customs duty?
3. What is the trend of customs duty in Nepal?

1.4 Objectives of the Study

The basic objective of the present study is to highlight the current trend and policy of customs duty and its effectiveness in implementation. The study will try to meet the following specifies objectives:

1. To analyze the trend of contribution of customs duty to the national economy of Nepal.
2. To see the contribution ratio of customs duty in total tax revenue of the government.
3. To evaluate the composition of components of customs duty and their contribution to overall customs duty.
4. To compare the contribution of customs duty with non-tax revenue and direct tax revenue.

1.5 Limitations of the Study

The present study will try to analyze and to examine the customs duty collection in Nepal. There are many customs points have been establishing due to liberalization and globalization policy of the country. But it is not easy to collect customs duty from every customs points. The existence of tax evasion trend and leakages will hamper to bring the actual result.

The main limitations of study are as follows:

1. The study mainly focuses on customs duty which is just a one type of indirect tax.
2. One limitation of this study is the time period of the study. It has to finish within one semester. It focuses only overall contribution of customs duty to total tax revenue of Nepal.
3. Unavailability of reliable data from customs points will handicapped the study.
4. Lack of sufficient time period and lack of needed cost may limit the areas cover by the study.

5. This study use only secondary data provided by customs office, MOF and Nepal Rastara Bank in the form of economic survey, annul report, economic bulletin, articles, journals, abstracts etc.

1.6 Organization of the Study

This research work has been organized into five chapters. Here below in brief into these chapters has been made a deal.

Chapter I: Introduction

First chapter deals with introduction its historical background, statement of the problem, objectives of the study, limitations of the study and organization of the study.

Chapter II: Review of literature

Second chapter deals with the available literature review. It includes conceptual framework, review of books, report and review of related studies.

Chapter III: Research methodology

Third chapter includes the research design, sources and method of data collection, data processing procedure and analysis.

Chapter IV: Data presentation and analysis

Fourth chapter is the heart of the study. This chapter includes presentation, analysis and interpretation of data by using suitable method.

Chapter V: Summary, Conclusion and Recommendation

This chapter deals with suggestion, which includes the summary of main findings, conclusion and recommendation of the study with bibliography and appendices.

CHAPTER II

REVIEW OF LITERATURE

In terms of a literature review, “the literature” means the works we consulted in order to understand and investigate our research problem. Review is a process of systematic, meticulous and critical summary of the published literature in the field of related research. How others have dealt with topics in our research subject and of what knowledge they have acquired? Literature review also indicates that we should summarize the broad content of the research article or study and indicate clearly any linkages with other studies in the field.

Literature review is, thus, an essential part of all research studies. It is a way to discover what other research in the area of our problem has uncovered. A critical review of the literature helps us to develop a thorough understanding and insight into previous research works that relates to our study. It is also a way to avoid investigating problems that have already been definitely answered.

2.1 Theoretical Framework

The theoretical framework is the basis or foundation upon which the study is established. It is within the framework of this theory that the entire study proceeds. Since the general purpose of research is to develop theories about problems and questions, it is important that the theoretical framework be carefully developed and presented. A theoretical model may be presented in graphic form, which reflects the variables or characteristics selected for inclusion in the investigation.

Sekeran (2000) describes theoretical framework as: “The theoretical framework is the foundation on which the entire thesis is based. It is a logically developed and elaborated network of associations among variables that have been identified through such processes as interviews, observations and literature survey. These variables are deemed relevant to the problem situation.”

2.1.1 Concept of Tax

In order to maintain peace and security in the country, handle day to day administration, carryout various development activities, and launch other public welfare activities, a nation requires sufficient funds. The government collects required funds from two sources: debt & revenue. The revenue of government basically comes from two sources: tax & non tax. Income tax, Property tax, Value added tax, & other direct tax are falls under the head of tax revenue. In Nepal around 70% of the government revenue comes from taxation. Hence it is a major source of government revenue.

Tax is any compulsory levy from a person either natural or corporate to public authorities to meet the general expenses of the government, which have been incurred in the common interest of all without reference to special benefits. It is a compulsory contribution from the tax payers.

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

From the above definition it can be concluded that, tax is a compulsory levy imposed by the government & it is levied on persons as per the prevailing laws. Those who pay tax do not get corresponding benefits from the government. It is spent for common interest of the people. It is collected from haves and spent for the interest of have-nots in the society.

Tax can be defined as a levy or other type of financial change or fee imposed by state or central government on legal entities or individuals. It is a compulsory levy from individuals, households and firms to central or local government. It is a kind 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. If a person defies the tax payment, he may be punished in the court of law. A taxpayer is not entitled to compel the government, while paying taxes, to give something to him in return of the amount he has paid. Taxation can be considered as a convenient method of raising revenue which in turn is linked with the welfare of the people directly or indirectly.

Tax is a compulsory burden to the people who have taxable income. It is the major sources of government revenue. The person or entities that have taxable income is liable to pay tax without expecting any direct benefit from the government.

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

From the above, we conclude that tax is a liability to pay an amount to the government according to law. More specifically, it is a compulsory contribution from the tax payers. It is a fee charged by government on a product income or activity.

2.1.2 Meaning of Indirect Tax

Indirect tax is a tax that is imposed on one person but is paid either partly or wholly by another person. On other words, the taxes imposed on consumption or expenditures are known as indirect taxes. In indirect tax the person bearing or paying tax is different. It means the impact and incidence of indirect tax falls

on different persons. Hence the indirect tax can be shifted. Basically, tax can be classified into two broad categories: Direct tax and Indirect tax. A direct tax is a tax paid by a person on whom it is legally imposed. In direct tax the person paying and bearing tax is the same. It is the tax on income and property. Income tax, property tax, interest tax, gift taxes etc. are the some examples of direct tax. An indirect tax is a tax imposed on one person but partly or wholly paid by another. In indirect tax the person paying and bearing the tax is different. It is the tax on consumption or expenditure.

An indirect tax is one in which burden can be shifted to others. The tax payer is not the tax bearer. The impact and incidence of indirect taxes are on different persons. An indirect tax is levied on and collected from a person. An indirect tax is levied on and collected from a person who manages to pass it on to some other person or persons on whom the real burden of tax falls. For e.g. commodity taxes or sales tax, excise duty, customs duties etc. are indirect tax. Indirect tax is convenient as the tax payer does not have to pay a lump sum amount for tax. In indirect tax there is mass participation. Each and every person getting goods or services has to pay tax. Due to indirect tax there is a less chance of tax evasion as the tax payers pay the tax collected from consumers. The government can check on the consumption of harmful goods by imposing higher tax.

2.1.3 Meaning of Customs Duty

A kind of indirect tax is called customs duty. A customs duty is a tariff on the imports as well as exports of goods. Customs duties are taxes that people pay for importing and exporting goods. Nepalese customs administration collects customs duty; value added tax, excise duty and other taxes at the boarder points. Customs administration is in the forefront in terms of internal revenue mobilization. This does not mean that the customs role needs to be confirmed to internal revenue mobilization. It is equally important to recommendation and best practices without compromising with the national security. The

government of Nepal has enacted customs act 2064 with an aim to amend and consolidate the prevailing customs laws in order to make safe and facilitate international trade by making customs administration systematic, transparent and accountable.

Customs is certainly one of the oldest institutions in the world. It dates back to antiquity. It used to refer to the place where the treasury official met. The historical development of customs reveals thousands of years of recorded history. Although the origins of the customs are lost in obscurity, in some regions of the world its activities can be traced back to remote antiquity. In these regions, two necessary conditions were met, namely, the existence of commerce and the existence of a public authority or more simply a ruler or leader.

Smith (1818), in his famous book 'wealth of nations' noted that customs, meaning customary payments existed since time immemorial, but was unable to say precisely when they were first introduced.

The world history of customs and tariffs clearly reveals that customs is a very ancient fiscal mechanism and one of the oldest ways of collecting money. It is evident that the evolution of customs dates back to ancient time across the world. Nepal has also a long history of customs. Historical evidence suggests that there existed some sort of customs administration in ancient times in Nepal. But very little is known about their structure, operation and yields. It can be well assumed that revenue collection has remained one of the key activities of the government since time immemorial. Prior to the unification of the country in 1768, this activity was carried on by the government. During those days, very few economic activities were operated in the country. Hence government could not collect huge amount of money in the form of taxation. Similar is the case of Rana autocratic government. However after 1950, we find some changes in the spirit of collecting national revenue by the government.

In Nepal, the customs department (DOC) is one of the government agencies under the Ministry of Finance. The main aim of customs department is to implement the revenue policy of government of Nepal for the collection of revenue through the customs offices.

The office of the customs commissioner was set up in 1957 A.D. (2014 B.S.) to administer customs matters at the central level. This office was converted into the “Customs and Excise Department” in 1962 A.D. (2019 B.S.), at that time customs offices were assigned the duty of collecting excises on agriculture contracts and industrial production along with customs duties. As the scope of both customs duties and excises duties expanded over the years. The “Customs and Excise Department” was split into two separate departments, viz .the customs department and the excise department in 1966 A.D. (2023 B.S.). Various customs offices and sub-customs offices were established under the customs act.

A customs duty is a tax on commodities crossing a political boundary. A tariff technically is a schedule of such taxes but the terms are often used interchangeably. Tariffs have been used by governments since ancient times although they were originally sources of revenue rather than instrument of state’s economic policy. Hence customs is a very ancient fiscal mechanism and perhaps one of the oldest ways of collecting money.

A customs duty is a tariff or tax o the import as well as export of goods. It is a boarder tax. According to Singh (2010) “customs is often the first window through which the rest of the world views a country. Customs play vitally important government policies and contribute to the achievement of number of development objectives.”

The world customs organization (WCO) defines the term ‘customs’ as the government service which is responsible for the administration of customs law and the collection of duties and taxes which also has the responsibility for the application of other laws and regulations relating to the importation, movement of storage of goods.”

The customs act is confined with the export and import of goods. The government of Nepal may, by notification in the Nepal Gazette, prescribe any area of Nepal as the customs area for the purpose of administering the laws relating to customs and collecting customs duty in accordance with this act.

The government may, by notification in the Nepalese Gazette, prescribe routes through which export from or imports into Nepal is to be made through the customs areas. Government of Nepal made a customs act in 2019 B.S. which facilitate and regulate international trade and changes customs duty. This act was amended in 2054 B.S. which adapted the transaction according to WTO/GATT valuation.

There are 31 main Customs offices in all over the country (Including one at Tribhuvan International Airport) under the direct supervision of the department and 143 sub-customs offices under the supervision of main customs offices. Since Nepal is a land locked country, she does not have sea port customs. International Airport customs is headed by chief customs administrator of joint secretary level where as the other main customs offices are headed by either Chief Customs Officer of under-secretary level or Customs Officer and sub-customs offices by Customs Inspectors. The number of customs officers and sub-ordinate staffs in a customs office will vary with the volume of transaction. Altogether, there are 1273 employees under the department. The role of customs in total tax collection is significant. It contributes about one third to the total tax revenue of the government. Considering the facts about volume of transaction, the customs offices will remain open longer than office hours if necessary, to facilitate the movement of people and trade.

The harmonized system is an internationally standardized system of names and numbers for classifying traded products developed and maintained by the World Customs Organization (WCO). It comprises about 500 commodity groups; each identified by a six digit code, arranged in a legal and logical structure and is supported by a well defined rule to achieve uniform classification. The system is used by more than 200 countries and economies as a basis for their customs tariffs and for the collection of international trade statistics. Under the HS convention, the contracting parties are obliged to base their tariff schedules on the HS nomenclature, although parties set their own rates of duty.

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

2.1.4 Introduction of Import Duty

A duty levied by the government in relation to imported item is referred to as import duty. A tax on goods imported into a country is called import duty. Generally an import means bringing goods into one country from another country in a legitimate manner, typically for use in trade. Imports of goods and services are provided to domestic consumers by foreign producers. Imports of commercial quantities of goods normally require involvement of the customs authorities in both the country of import and the country of export.

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

2.1.5 Introduction to Export Duty

A duty realized on export consignments is called export duty. In another word, a duty imposed on exports of goods is called export duty or tax that is paid on goods leaving a country is called Export duty.

"Foreign demand for goods produced by home country" is called export.

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

2.1.6 Customs Duty Facility and Exemption

Customs Act 2064 and Customs Rule 2064 have laid down the following provisions relating to customs duty facility, exemption and other facilities (Bhattarai & Koirala, 2068).

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

2. The Government of Nepal may, from time to time and by notification in the Nepal Gazette, accord the diplomatic facility or duty facility to such goods to be imported by such persons or bodies as specified in that notification.
3. The Government of Nepal may, from time to time and by notification in the Nepal Gazette, accord partial or full customs duty exemption to the goods specified in that notification.
4. The Government of Nepal may accord partial or full customs duty exemption to the goods to be imported in the name of any project to be operated under foreign loan or grant assistance or in the name of the contractor of such project.
5. The Government of Nepal may accord partial or full customs duty exemption to the fuel to be consumed during international flight, engine of aircraft, spare parts, machine, equipment thereof, food, liquors, beer and light drinks consumed in flight by an international air service company.
6. The provisions for according the duty facility to any goods to be brought again into Nepal from any part of Nepal via any abroad route will be as prescribed
7. The provisions for according the duty facility to any goods to be sent again to a foreign country from the foreign country via Nepal will be as prescribed.

The Government of Nepal has power to accord customs duty exemption and other facility to goods to be exported and imported by industry situated in special economic zone (Bhattarai & Koirala, 2068).

1. The Government of Nepal will accord customs duty exemption and other facility against bank guarantee to the following goods to be exported and imported by any industry situated in the special economic zone(SEZ):

- ❖ Such raw materials, subsidiary raw materials as required to manufacture finished goods to be exported, packing materials and other materials to be used in manufacturing,
 - ❖ Plants, machineries, machines, equipment, tools and spare parts as required for the industry, and up to three motor vehicles based on the size and nature of industry.
2. If any importer sells, as prescribed, any goods which that importer has imported to any industry situated in the special economic zone and that importer has paid the customs duty for importing such goods, the customs office will refund, as prescribed, such customs duty to that importer.
 3. If any industry situated outside the special economic zone sells any finished goods manufactured by that industry to any industry situated within the special economic zone, such customs duty and other facility as is accorded in the event of export will be accorded as if that sale were an export.
 4. If an industry situated in the special economic zone so sells any goods manufactured from the raw materials imported under the customs duty exemption that such goods are consumed in Nepal, such goods will be allowed to be taken out of the special economic zone only after payment of duty chargeable on the raw materials used in such goods.
 5. The Government of Nepal may, by notification in the Nepal Gazette, issue an order specifying the procedures on the transfer by an industry situated within the special economic zone of the ownership of goods imported under duty exemption to any person within or outside the special economic zone. It will be the duty of the concerned industry to abide by such order.

2.2 Review of Books and Related Articles

For financing the development activities of Nepal both internal and external sources of revenue generation are important. Among the various internal sources, the revenue generation from customs duties on imports and exports is being most important in the case of Nepal. The contribution of customs duty is

very high. Customs duties are levied on the imports and exports of tradable items. So this study is also more or less part of international trade. Foreign trade has a direct relation with the revenue generation through customs. At the given valuation and rate higher the volume of the foreign trade higher will be the amount of customs revenue and vice versa.

This study is the outcome of the limited literature on imports and exports procedure of Nepal i.e. foreign trade and customs valuation. This chapter provides the review of the available relevant literature found in the form of Books, Research Papers and Articles.

Bhattarai and Koirala (2068) in their book “Taxation in Nepal” have focused customs as an authority or agency in a country responsible for collecting and safeguarding customs duties and for controlling the flow of goods including animals, personal effects and hazardous items in and out of a country. Depending on local legislation and regulations, the import or export of some goods may be restricted or forbidden, and the customs agency enforces these rules. The customs may be different from the immigration authority, which monitors persons who leave or enter the country, checking for appropriate documentation, apprehending people wanted by international arrest warrants, and impeding the entry of others deemed dangerous to the country. In most countries customs are attained through government agreements and international law.

Customs duty is a tariff or tax on the import as well as export of goods. It is a border tax. Nepalese customs administration collects customs duty; value added tax, excise duty and other taxes at the border points. Customs Administration is in the forefront in terms of internal revenue mobilization. This does not mean that the customs role needs to be confined to internal revenue mobilization. It is equally important to enhance trade facilitation by adopting international convention, recommendation and best practices without

compromising with the national security. The Government of Nepal has enacted customs act 2064 with an aim to amend and consolidate the prevailing customs laws in order to make safe and facilitate international trade by making customs administration systematic, transparent and accountable.

Panta (1984), in his study 'Customs Duties in Nepal' gives the bird's eye view on Customs duties in Nepal. This study consists of five chapters. First chapter deals with the evaluation of the customs duties on the historical perspective and its importance in raising revenues. The structure of customs duties, analyses of tax ratio to GDP, components of customs duties and its growth are the parts of the second chapter. Third chapter deals with the internal trade and revenue administration in Nepal. Fourth chapter is about the effect of customs duties on export promotion and import substitution in selected customs points with India. The last and final chapter deals with the effect of price on customs duties in Nepal. The researcher's effort can be considered as one of the great works done in the field of customs duties in Nepal since there has been no work done on this topic.

Thapa (1994) in his article 'Role of Customs Duty under Economic Liberalization' gives the complete view that economic liberalization is very important to accelerate the tempo of development in Nepal. Increasing control of the state over the economic activities has many drawbacks that hinder the smooth and rapid growth of the economy by making private sectors insecure to invest their scarce resources in the way what they wish. Private sectors always feel unsafe when there is inconsistency in the policy matters relating to other economic activities. There must not be the control of government in the sectors like getting import license, raw material, export of finished products, foreign exchange facility etc. difficult and lengthy administrative processes are some of the other barriers, which always try to leave the country far behind the target. Free play of the market forces of demand and supply situation must be given priority instead of controlling and suppressing these forces from the

government's side. Most of the investors, by nature, want to invest their capital in the sectors where they find easier, profitable and with low risk or no risk. The writer emphasizes and recommends the policy of economic liberalization where everything will be transparent, administrative procedure will not be difficult and lengthy. The private sectors become active and get involved in various investment activities so that the scarce resources will be properly channeled.

The writer advocates the economic liberalization policy because of the limited or no restriction on import-export, foreign exchange, license procedure etc. which ultimately insists and drags the private sector to get involved in economic activities, as a result besides the development and expansion of other sectors, foreign trade also can expand tremendously. The restricted items will be limited, the valuation and customs duty will be lower under liberal economic policy as compared to the restricted policy as a result exporters and importers do not try to evade the customs duties and other taxes by means of illegal methods viz. smuggling, false invoicing, stating false country of origin etc. The traders and businessmen can run their business freely and smoothly, as a result the government revenue from customs duty also increases because of the rise in the volume of trade transaction and reduction in the illegal trade practices which can be a normal phenomenon under restricted policy and high customs duties.

Shrestha (1994) presented an article on 'Present Customs Valuation System on Imports'. There are six chapters in this article. The first chapter deals the need of the customs duty on imports and exports and its existing system in Nepal. Second chapter consists of the developmental history of the customs valuation system in Nepal before the enforcement of the customs act 2019 BS and thereafter. In chapter three the writer tries to give a brief summary of the International Valuation System which includes Brussels definition value, GATT system, notion of SGS (Society General de Surveillance) etc. Chapter

four is about comparison of Nepalese customs valuation procedure with international procedures and the writer advocates in favor of the Present Set Value System since Nepal is not the member of GATT and full-fledged GATT valuation system has not been yet implemented in Nepal. High valuation and high rates always encouraged and motivated and the traders for illegal trade practice, such as they smuggled from the open border and did not pay the tariff. On the other hand, low valuation and low rates discouraged them to get involved in smuggling and encouraged them to pay tariffs as a result government revenue increased significantly. Besides this, the writer also mentioned the use of different system of valuation recommended by GATT such as the method of valuation of identical or similar goods, valuation from deductive method, valuation from computed method, valuation from fall back method etc.

This article explains the existing customs valuation system in Nepal in chapter five. The transaction value or bill/invoice submitted by the traders or the agreement copy of the exporters and importers are the basic and authentic documents for valuation of the goods for customs purposes. But the experiences of Nepal show that most of the traders frequently produce false documents and try to evade tariff as far as and where ever is impossible. Department of Customs is the sole and only one authentic office, which is responsible for valuation of the tradable goods on the basis of existing market price, freight, insurance and other costs incurred.

The working committee's report (1995) on the Reforms of Tax System is one of the most important analytical documents in Nepalese tax structures, which consists of pro and cons of all type of existing tax systems and structures with some suggestions and reform measures. This report has been divided into eight chapters. The first chapter deals the need of the study and its scope. The second chapter is about the existing revenue structures and its drawbacks. The third chapter mainly focused on the customs duty, existing structure, valuation

system and problems of smuggling and revenue losses due to leakage. Besides that the drawbacks of the Nepalese trade with Tibet and other trade arrangements are also included in the report. Chapter four, five and six are about internal commodity taxes, income tax and property tax where the committee has analyzed the existing tax structures and systems and has given some suggestions and has recommended some measures for the improvement. Tax administration and existing acts on various taxes are discussed on chapter seven. Because of the weak tax administration system, shortage of the trained manpower, lack of the proper equipment and other facilities, lack of control over free and open border with neighbors etc. are visualized as some of the main reasons for the loss of revenue due to leakage in different levels and situations. The legal complications including reform measures regarding various taxes are also included on this chapter.

The last chapter is about the summary of the overall existing tax system in Nepal and also includes the discussion about making the whole government revenue mechanism more efficient and productive. The committee believes that the revenue mechanism will be efficient and strong when the revenue research department is improved, a separate revenue board is established and reforms are brought about in some of the clauses of the existing customs act. The effort of the committee is very fruitful.

Singh (2010) has written an article on “Customs and Business: Improving Performance through Partnership”. The researcher explained that Customs, whose role in implementing government policy has a horizontal dimension, is a key player when it comes to the protection of borders and society and the fight against commercial fraud. Traditionally, customs tasks can be presented in three clusters: the protection and collection of revenue, the implementation of commercial policy measures, and the protection of people and society. Customs administrations throughout the world are currently experiencing dramatic technological, economic and legal changes which require new approaches to be

taken within the customs administration. Traditional function of customs administrations are highly challenged by a rapid liberalization and globalization of trade. Customs administrations therefore need to prepare for the new tasks they have to fulfill partners.

This article explains that the challenges of the new global environment are such that solutions can only be developed by engaging with all payers who have an interest in effective and efficient customs procedures. The changed international security situation has also seen an extraordinary shift in the political expectations of customs administrations. Customs administrations stand astride the international trade supply chain and there is now a realization that they are critical national strategic institutions in assuring safe and secure borders.

Global trade is conducted within a rules based framework which seeks to reduce tariffs on goods being traded internationally. As the world moves away from highly protective tariffs, the traditional role of customs as a revenue collector is being subsumed by a new mandate. The need for customs to protect society, enforce trade rules and contribute to a fair and equitable international marketplace is being added to our responsibilities. The effect of this is that customs administrations, situated as they are at land, sea and air crossing, with their unique knowledge and understanding of international trade and the dialogue and partnership they enjoy with the private sector are increasingly seen as the natural government agency to protect external national frontiers and borders.

From this article, the writer found that customs are bound by twin roles as both trade facilitator and guardian of the community. We have to find the proper balance between these parameters, and in the new globalized economy, we have to find new ways to discharge these duties. Electronic commerce, efficient procedures, cybercrimes, fraud, and transnational crimes are but a few of the new challenges that impact on work of the people today. To function

effectively, customs administrations can no longer remain isolated entities, away from the societal context. Customs office needs to build bridge with other agencies and business partners. The customs office needs to form strategic business partnership. Customs cannot work effectively alone. The department needs to work in partnership with the business community. Through dialogues and cooperative arrangements, customs and business can seek to enhance mutual understanding and cooperation. As a result, the business sector will enjoy greater predictability of customs procedures, while customs will be reciprocated with timely cargo information. With such partnership between customs and business, the performance will be inevitably improved resulting in a win-win solution for all.

Poudel (2010) has written an article “Do Informal Economic Activities Matter for Loss of Customs revenue in Nepal” including the objective of: ‘to estimate the size of the informal economy and thereby customs revenue loss due to the presence of informal economic activities and informal trade’. The researcher focused that to estimate the revenue loss for Nepalese customs we have to find the types of taxes that Nepalese customs collect in customs points. Customs points collect customs duty (import duty, export duty, agricultural reform fee etc. in customs points and Indian excise refund by customs department), import VAT and import excise duty. Then we have to find the share of customs duty in official GDP.

The researcher found that there is always debate among Nepalese policy makers about the size of informal trade in Nepal. Due to the open border to India, the informal trading is always a crucial issue of concern for Nepalese politicians and bureaucrats. They talk much about the measures to adopt for reducing informal trade and thereby reduce revenue loss for customs. Once a month there is always a high level meeting fixed to be held in the office of the revenue secretary of MOF including the high level representation of Ministry of Home Affairs, Nepal Police, Armed Police Force, Customs Department,

Department of Revenue Investigation, and IRD. The Central Monitoring Committee and District Level Monitoring Committee to control the revenue leakage are also in actions but the issue of informal trade is still in the same place.

To reduce the volume of informal trade, we need to adopt some measures such as,

- ❖ Proper co-ordination among different agencies of Nepal government like Nepalese customs, Nepal Police, Armed Police Force and Local Administration.
- ❖ Effective information channels.
- ❖ Some type of regulating mechanism for people entering to and from India.
- ❖ Review of the location of customs points.
- ❖ Simplifications of customs procedures.
- ❖ Effective co-ordination between Nepalese and Indian customs offices and,
- ❖ Effective post clearance audit.

From this article, it is concluded that the estimation shows that informal economic activities have significant impact on loss of customs revenue. Therefore, informal economic activities definitely matter for loss of customs revenue in Nepal. Absolutely controlling informal trade in case of Nepal-India trade is almost impossible but we can reduce it in relative term. Simplification of customs procedures, co-ordination and enforcement by all the concerned government agencies help to reduce the volume of informal trade and thereby customs revenue loss in Nepal.

Pandey (2010) prepared an article on “Green Customs a New Dimension in Customs Administration”. The article explains that customs administrations in these days have to oversee many facets of national life. Unlike in the past days

its roles are not confined to revenue collection and trade promotion but extended to security, human health, and even environment protection.

From this article, the writer tries to clarify that the customs administrations in developing countries are facing problems of security and trade facilitation issues. The compulsion to mobilize resources towards detecting and controlling of environmental crimes has kept them in a difficult position. Though Nepalese customs administration, is in dire need of capacity building it is still supporting the green customs initiative and checking environmental crimes effectively. It needs technical and financial support for environmentally friendly disposal of hazardous wastes, chemicals and pops.

The writer concludes that the Nepalese customs administration is committed towards fulfilling pledges of its government towards detecting and controlling illegal cross-border movements of hazardous wastes and toxic chemicals, POPs and products underlined by CITES. The gazette notification dated 2066/7/16 (November 2, 2009) has incorporated the detail list of import banned chemicals, narcotic drugs, and psychotropic substances, explosives and products covered by CITES. The authorities of Nepal and India held discussions on issues of green customs and environmental crimes during the green customs workshop held in serawasti India during November 30-December 2, 2009. Many of the GCI partners have also participated in the workshop. The workshop was very helpful to acquire knowledge and information about environmental issues and to enhance skill to enforce national environmental policies of the government from customs perspective. The workshop has come up with some important conclusions and recommendations. Since Nepal is a party of the MEAs the recommendations and conclusions of the workshop are expected to be very useful to Nepalese customs administration, too. The followings are the important conclusions and recommendations of the workshop:

1. WCO ENVIRONET, a real time communication tool for environmental border protection, is a useful platform for experience sharing and information exchange; therefore, participating agencies are encouraged to get access to ENVIRONET for future communication.
2. Customs Enforcement Network should be more widely used by Customs officers to ensure “one seizure, one report” policy. UNEP should coordinate with WCO CEN (central enforcement network) management team to facilitate the input of environmental crime. RILO will explore possibility to provide technical assistance and training to border customs officers on CEN.
3. It was engaged to explore possibilities to introduce WEN for South Asia in future dialogues between India and Nepal. Considering the route for illegal trade between ASEAN countries and South Asia, Nepal and India customs may link with efforts in the ASEAN region on wild life trade and other aspects of environmental crime.
4. It is suggested that Nepal and India inform European Commission and VROM (Organization) of seized hazardous wastes exported from EU countries. UNEP will provide list of focal points in IMPEL-TFS (International Organization) and VROM and facilitate the flow of information between EU and Nepal and India.
5. Green Customs Initiative Partners should assist Nepal and India in addressing bottleneck in implementation of MEAs, such as short of testing facilities for gases and chemicals and lack of technology and fund in storage and disposal of chemicals.
6. UNEP will provide information on the world’s main traders and manufactures of ODS to Nepal and India in order to meet the need for ODS control and monitoring.
7. Border dialogues between Nepal and India should be included in HCFC phase-out Management plan (HPMP) of India and Nepal.

Ghimire (2010) conducted an article on “Trade Facilitation from Customs Prospective”. In this article the researcher explained that customs has traditionally been responsible for collecting revenue and implementing a wide range of border management policies, often on behalf of Ministry of Finance and other agencies. In recent years the role of Customs has, however, changed significantly. In this context trade facilitation, customs control and security chain management are major issues. This is the sign of the changing environment in which customs authorities are operating, and corresponding changes in government priorities. WTO, WCO and other international agencies are responding through the development of the global standards that recognize the changing role of customs. The challenges posed by global trade facilitation initiatives are subject of major concern to Nepalese customs. The modern markets are widening rapidly and goods are becoming tradable which previously were not. The international trade has to pass through numerous steps and procedures including customs procedures. Simplification in customs procedures alone cannot reduce the cost of doing international business, but it is an important component to reduce the transaction cost of the business.

The article explains that one of the areas of trade facilitation is simplification in customs procedures. The simplification is directed to relieve traders from unnecessary customs formalities, to minimize customs interventions and allow the traders to get released goods without delay and extra cost. Modern customs administration can have a positive impact in economic competitiveness of the country.

The article also explains about customs automation. In Nepal customs automation was started from 1996 with the introduction of ASYCUDA project. For this purpose a single administrative document was introduced to facilitate the declaration. There are some short comings in the operation of the project. There is parallel run of manual customs process, because of the lack of compatible Nepali font with the version of ASYCUDA. Customs has used

limited functions of ASYCUDA such as customs branch module at the client side. It has limited benefit of the system. The system was implemented in a semi automated environment and used for duty calculation purposes only. This led ineffective system operation. As a result the parallel run of manual system has added time to the traders. To address the problem a separate project was started from 2007 for 3 years with the assistance of Asian Development Bank and technical assistance of UNCTAD. The objectives of the project was to implements other model and development connectivity through WAN. Thus attempts are being made to facilitate the trade through Customs Automations.

The researcher concluded that in recent years trade facilitation is recognized as the key factor to remove the trade barriers. In these days tariffs are no longer remain the obstacles because of reduction in each year. Still there are many technical and non technical barriers in international trade; such barriers involve the extra cost in doing business. Trade facilitations measures cover these remaining costs associated with unnecessary customs procedures at the border such steps in customs clearance, transit and logistic procedures. Trade documents and procedures if not reviewed can be some time major impediments to trade. The main objective of trade facilitation measures is to simplify trade procedures and reduce transaction cost while maintaining the effective customs control.

Regmi (2010) conducted an article on “WCO Data Model and Single Window-Nepal’s Perspective”. This article explains that customs in 21st century is the slogan of World Customs Organization which pushes each member country to intervene in different sector of customs reforms in order to materialize the above ambitious slogan. Among others, trade facilitation and preventing society from odds are some of the major responsibility of Customs Administration. Nepal Customs Administration is working to facilitate authorized trade and preventing revenue and society in the same line by employing electronic customs procedure. Nine major customs office which

cover more than 90% of the Nepal's total foreign trade are operating electronic procedure with ASYCUDA++ soft since last few years. In this juncture, it is much imperative to be familiar and adopt the best practices on data harmonization which is sound to better implement in a single window environment. This enables us to work with minimum set of standard data element which is of international standard and opens the door as a strong tool to implement single window establishing a better cooperation between government and trade. In the meantime, it is noteworthy here to remember that WCO has recommended the Data Model Version 3.0 on June 2009 and Nepal customs has received the letter from Secretary General, WCO requesting to adopt the model. Hence, we should prepare strategically ourselves, being not only as a member country but also for the mutual benefits of government and traders.

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

In this article, it is concluded that Nepal has a member country of the WCO; it should comply with the suggested guidance and recommendation. The new version of the Data Model is standard, internationally recognized with tremendous benefits. However, some of its features may not apply to country specific and particularly in Nepal because of our current Information and Communication technology resources constraints. The WCO Data Model 3.0 is an effective complementary tool for launching a single window environment. In the meantime, it is noteworthy to remember that DOC four-year action plan (2009-2013) has explicitly envisioned the introduction of single window in

Nepal. DOC can of course be the stakeholders. However, reengineering within the current customs procedures is essential before attempting to launch such single window environment. Therefore we should move forward to implement by scrutiny the steps ahead in a project modality. No doubt, there are challenges before us to such forward-looking interventions in Nepal. In the beginning phase, only major governmental regulatory agencies like agriculture, commerce and immigration can be incorporated in the single window project. A dedicated project team would be an ideal instrument to work in these new areas of intervention and pilot programmer can be taken in the starting phase. Nevertheless, if we move step by step in planned way it is certainly achievable.

Singh (2011) conducted an article “Coordinated Border Management”. This article explains that trade between nations is a vital driver of economic well-being and wealth creation. Customs administrations are a major component in the efficiency of international trade because they process every single consignment to ensure compliance with national regulatory requirements and international multilateral trading rules. While customs administrations have to discharge this mission of revenue collection, protection of society and safeguarding security of the trade supply chain, they also have to strive for increased trade facilitation to promote investment and reduce poverty. With the progress made in liberalization international trade through the reduction in tariff barriers, the focus is shifting increasingly to the removal of non-tariff barriers and the facilitation of legitimate trade. At the same time, border management is becoming more complex and this is compounded by the multiplicity of state agencies involved in that management.

It is concluded that the efficient border management and border security is a top priority for all nations. The main objective is to ensure right balance between facilitation and control. To improve cooperation and coordination between agencies, with competence at the state border, as well as with the competent bodies of other countries, different models of CBM has been

developed in different parts of the globe. Border agency coordination increases the effectiveness of existing capacities and programmed by streamlining administrative procedures and processes, thus minimizing overlap and inconsistency between policies and practices. Gaps in border management are also easier to identify when all parties are in regular contact and corrective action can then be decided upon together. Success of CBM comes down to political will and leadership. “Coordinated border management is the future in responding to the needs of international trade in the 21st century”. To initiate this approach, one should learn the experiences of the countries where the system is in use. By assessing carefully the strengths and weaknesses of the system in national context, one should develop the suitable model to meet the desired objectives.

Bhandari (2011) has written an article on “Necessity of Harmonized System and Its Effect in Facilitating International Trade”. The article explains that the harmonized system is an international goods nomenclature used by more than 200 customs administrations. If we avoid it, the process of international trade will become very complex as well as every customs administration and business sector cannot make their job easy. So the harmonized system has become the true language of international trade. It is therefore, one of the most important instruments in the world trade. Developed as a multipurpose nomenclature by the WCO, the harmonized system is now used as the basis for: customs tariffs, collection of international trade statistics, rules of origin, collection of internal taxes, trade negotiations (e.g. the WTO schedules of tariffs concessions), transport tariffs and statistics, monitoring of controlled goods (e.g. wastes, narcotics, chemical weapons, ozone layer depleting substances, endangered species), areas of customs controls and procedures (including risk assessment, information technology and compliance), to determine trade policy, to undertake economic studies and to analyze economic trends.

This article explains that day to day the new goods have been produced due to the development of information technology with various functional features. That creates the difficulties in the international trade process and to the government of exportation and importation countries for the purpose of taxation due to the lack of proper coding system. Today, a vast number of available electronic goods are capable of performing several functions. The entries in the customs tariff usually do not contain the name of the item but only the broader description of the goods. Since the duty rate depends on the appropriate classification of the goods. The appropriate classification of the goods is the responsibility of the customs administration so any wrong classification may cause revenue loss to the customs. The harmonized system contributes to the harmonization of customs and trade procedures, and the non-documentary trade data interchange in connection with such procedures. The harmonized system reduces the costs related to international trade. Wrong classification always creates the problem in the determination of customs duties and the collection of international trade statistics. The right and proper coding system always helps the customs procedures and other necessary requirement in the customs.

In this article, the researcher concluded that development of advanced technology and just in time supply chain system, multilateral and bilateral trade became major instrument of development of countries. There are millions of types of product and accessories of such product have produced and moves around the world through the chain of international trade. Though, so many complexities have come before the customs administration and business sector. And many problems would be faced by the exporter and importer in the movement of goods. So that without harmonized system it is pity difficult to facilitate the international trade. The harmonized system is only one important tool to classify and arranging into the various headings and sub-headings according to their characteristics and functions. In this regards, it is necessary to establish as an international customs tariff classification system. If there is

proper coding of each goods then it will help to facilitate international trade through the customs procedures. Since fast customs clearance is one of the most important measures for trade facilitation.

2.3 Research Gap

There are only a few studies regarding customs duty since long time. Some researcher tries to find out the problems of customs system of Nepal. But it is not sufficient in this field. There are so many products making contribution in customs duty which aids in increasing government revenue. The rate of customs duty is fixed by government authority without evaluating its impacts on the economy and the people.

This study has been done to cover research gap through contribution of customs duty in total tax structure of Nepal since 2001/02 with covering 10 years. No researcher has become able to find out the contribution of customs duty in total tax structure of Nepal. This study focuses on future trend and growth potentiality of customs duty in Nepal. It has also focused problems and prospects in such field.

To bring the new developments and to bridge the gap between the past research and the present situation, I set out to conduct the research in this stimulating topic. I have been through many literature reviews and given my best to fulfill this work. . In my research effort had been made to understand the contribution of Customs Duty to Total Tax Revenue of Nepal and I hope this research will be fruitful for future researchers as reference.

CHAPTER III

RESEARCH METHODOLOGY

The entire process based on the philosophies, principles and mechanisms of research by which we attempt to solve problems or search the answers to questions are collectively known as the research methodology. Research methodology refers to the various sequential steps to be adopted by a researcher in a studying a problem, with certain objective in view. It describes the methods and process applied in the entire aspects of the study.

The main purpose of this chapter is to discuss the research methodology such as research design, population and sample. It is widely accepted that research is simply the process of arriving at dependable solution to problem through the planned and systematic collection, analysis and interpretation of data. It is important tools for advancement of knowledge and accomplishment of purpose, thus research methodology is a way to systematically solve the research problem. This study was undertaken to evaluate the contribution of customs duty in total tax structure of Nepal.

3.1 Research Design

A research design is a plan of attack: what approach to the problem will be taken? What methods will be used? What strategies must be effective? Thus, the research design serves as a framework for the study, guiding the collection and analysis of the data, the research instruments to be utilized, and the sampling plan to be followed. It is an organized and integrated system that guides the researcher in formulating, implementing and controlling the study.

According to Ragin (1994) “Research design is a plan for collecting and analyzing evidence that will make it possible for the investigator to answer whatever questions he or she has posed. The design of an investigator touches almost all aspects of the research, from the minute details of data collection to the selection of the techniques of data analysis”. Thus it is not possible for the

researcher to conduct the research work without research design. Most of the data and information of the study were concerned with the past phenomena of the performance either they are numerical or opinions. A true research design is basically concerned with various steps to collect the data for analysis and draw a relevant conclusion. Recommendation is another important aspect of design strategy. The research design allows the researchers to take an appropriate measure and direction towards the predetermined goals and objectives. A research design is the arrangement of conditions for the collection and analysis of data in a manner to combine relevance to the research purpose with economy in procedure. Research design is the plan, structure and strategy of investigation imagines obtaining answers to research questions and controlling various things.

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. The secondary data have been used for analysis.

Research may be defined as the objectives and systematic methods of finding solution to a problem. In other word, research refers to the systematic method of consisting of enunciating the problem, collecting factors of data, analyzing the facts critically and reaching conclusion based on them.

After the collection of past data and experiences, this study analyzed and described its own procedure. Thus study also followed an analytical as well as descriptive research design.

3.2 Data and Information Gathering Technique

Data is the building block of any research. Data can be defined as the values collected through record-keeping or polling, observing or measuring. More simply, data is facts, texts or numbers that can be collected. According to Zikmund (2007) “Information is the processed data. It refers to a body of facts in a format that facilitates decision making or that defines relationship between

pieces of data”. The patterns, associations, or relationships among the data can provide information.

It is necessary to collect accurate data to achieve useful results. When we have specified the information we need to solve the problem at hand, we must proceed to find that information. For this reason, it is helpful to consider various sources of collecting data and the quality of information they produce.

Data collection is the most essential aspect of any research because the whole result of research depends on the adequacy and relevancy of the data or information, however, this study has been made from secondary data analysis only to fulfillment of the main objective of research. The necessary data and information have been collected from Ministry on Finance in the form of Economic Survey and Annual Report covering a period of ten years. This study does not cover the contribution of each of the product because of data and time problem. All data in this study are compiled from the economic survey of the customs department.

Secondary data which are obtained through published annual report. Annual report of customs departments are the major sources for secondary data.

a) Secondary Data

Secondary data is defined as data collected earlier for a purpose other than the one currently being pursued. Secondary sources refer to those for already gathered by others. Where data have been subjected to interpretation, they are referred to as coming from secondary sources. The sources of secondary data can be divided into two groups: internal and external. The internal secondary data is found within the company. External secondary data is collected from sources outside the company. Such sources may includes

- a. Published and unpublished reports, articles and dissertations on the concerned subject.
- b. Published and economic survey of various Fiscal Years of Ministry of Finance.

- c. Published and annual report of Customs Department.
- d. Various books written by tax officers and scholars.
- e. Related articles and journals.

3.3 Method of Data and Information Analysis

The purpose of analyzing the data is to change it from an unprocessed form to an understandable presentation. Raw data conveys little information as such. It must, therefore, be compiled, analyzed and interpreted carefully before its full meanings and implications can be understood. The data is thus transformed into information. This process of transforming data is called analysis: the examination and interpretation of data to draw conclusions. The analysis of data consists of organizing, tabulating, performing statistical analysis and drawing inferences. To analyze the collected data, these methods are used:

a) Mean (μ)

The mean is the figure we get when the total of all the values in a distribution is divided by the number of values in the distribution. The arithmetic mean is also known as the average. The central values that represent the characteristics of the whole distribution or the values around which all items of the distribution tend to concentrate are called average. The mean can be summarized by the following formula:

$$\text{Mean } (\mu) = \frac{\sum x}{n};$$

Where,

$\sum x$ = sum of all values of the variable 'X'

n = number of observations

x = variables involved

The mean is thus the arithmetic average of the variables.

b) Standard Deviation (σ)

One of the standard measures of variance is the standard deviation. The standard deviation indicates the ranges and size of deviance from the middle or average. The standard deviation is a function of the differences between each individual score and the overall mean score, and of the sample. Hence, if all scores were exactly the same, the standard deviation would be zero, because there would be no differences between individual score and the mean.

The standard deviation is the absolute measure of dispersion. It is defined as the positive square root of the mean of the square of the deviation taken from the arithmetic mean. The greater the amount of dispersion or variability, the greater the standard deviation, the greater will be the magnitude of the deviation of the values from their mean. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series and a large standard deviation means just the opposite.

Standard deviation is extremely useful in judging the representative of the mean. In this study standard deviation of customs revenue has been calculated to analyze and compare the dispersion of revenue between different time periods.

c) Coefficient of Variation (CV)

A statistical measure of the dispersion of data points in a data series around the mean is called coefficient of variation. The coefficient of variation represents the ratio of the standard deviation to the mean, and it is a useful statistic for comparing the degree of variation from one data series to another, even if the means are drastically different from each other. It is calculated as follows:

$$\text{Coefficient of Variation} = \frac{\text{Standard Deviation}}{\text{Mean}} \times 100$$

In another word, in probability theory and statistics, the coefficient of variation is a normalized measure of dispersion of a probability distribution. It is also known as unitized risk or the variation coefficient. The absolute value of CV is sometimes known as relative standard deviation (RSD), which is expressed as a %. The coefficient of data should be computed only for data measured on a ratio scale, which are measurements that can only take non-negative values.

d) Diagrams

Diagrammatic representation of information has now become a popular way to communicate findings to the researchers. The old saying that a picture is worth a thousand words is an appropriate one in this context. Data presentation in the form of charts and graphs can provide a quick and concise insight into the subject under investigation. The value of good charts is that they add significantly to the reader's ability to understand and follow the report.

3.4 Period Covered

This study covers a time period of 10 years from Fiscal Year 2001/2002 to 2010/2011 to analyze contribution of customs duty on the basis of 1 year i.e. 2001/2002.

3.5 Research Variables

The basic research variables of this study are mainly related with the customs duty collected by government of Nepal including import duty, export duty, Indian excise refund, agriculture refund duty and miscellaneous duties.

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

This chapter is devoted to the presentation, analysis, interpretation and scoring the empirical finding out of the study through definite course of research methodology. This is the main chapter of any research work. Data analysis is an important stage of the research process. The purpose of analyzing the data is to change it from an unprocessed form to an understandable presentation. Collected data are analyzed and interpreted with the help of appropriate tools and techniques as per the nature of research. The process of interpretation involves tabulating the results of analysis, making inferences relevant to the research relations studied, and drawing conclusions about these relations. Thus analysis covers the assembling, cleaning, and examining of the data, whereas interpretation is making sense of the data the researcher has generated. After analyzing and interpreting the data major findings are obtained. On the basis of major findings, recommendations have been derived which is made as the final product of the thesis. So the presentation and analysis of data help us to provide the valid conclusion.

4.1 Analysis of Government Revenue

The government revenue comes from basically two sources: one is Tax revenue and another is Non-Tax revenue. Tax revenue includes the revenue from indirect tax and revenue from direct tax whereas Non-Tax revenue includes the revenue from duties and fees, fines and forfeiture, public utilities, dividends, interest, royalty and sales of government property, principal repayments and miscellaneous income. The government of Nepal highly depends on the revenue received in the form of tax revenue because more than 75% of total revenue comes from tax revenue. Hence, tax revenue is the major source of revenue of government of Nepal. The government revenue, tax revenue, indirect tax revenue and customs duty come from different compositions of

different components which is shown and explained below in different headings.

4.1.1 Analysis of Compositions of Government Revenue

The income accruing from taxation to a government during a specified period of time, usually a year is called government revenue.

Government revenue includes all amounts of money (i.e. taxes and/or fees) received from sources outside the government entity. Large governments usually have an agency or department responsible for collecting government revenue from companies and individuals.

Revenue is the amount of money that is brought into a company by its business activities. In the case of government, revenue is the money received from taxation, fees, fines, inter-governmental grants or transfers, securities sales, mineral rights and resource rights, as well as any sales that are made. What a government takes in from tax and other sources, such as the privatization of government assets, to help finance expenditure is also called government revenue.

As per the Economic Bulletin published by Nepal Rastra Bank, the composition of Government Revenue includes: Government Revenue in the form of Tax Revenue and Government Revenue in the form of Non-Tax Revenue. Tax Revenue and Non-Tax revenue are allocated into the headings of Government Revenue to calculate gross national income of Nepal Government. Hence, as per this data and information the Nepalese taxation has the following composition volume of Government Revenue which has been presented into the table 4.1. The table has shown the composition of Government Revenue for the last ten years from the fiscal year 2001/02 to the fiscal year 2010/11.

Table 4.1
Composition of Components of Government Revenue

| F/Y | % of Tax Revenue | % of Non-Tax Revenue |
|------------|-------------------------|-----------------------------|
| 2001/02 | 76.95 | 23.05 |
| 2002/03 | 75.49 | 24.51 |
| 2003/04 | 77.29 | 22.71 |
| 2004/05 | 77.16 | 22.84 |
| 2005/06 | 79.45 | 20.55 |
| 2006/07 | 81.14 | 18.86 |
| 2007/08 | 79.12 | 20.88 |
| 2008/09 | 81.58 | 18.42 |
| 2009/10 | 86.86 | 13.14 |
| 2010/11 | 86.89 | 13.11 |
| Average | 80.19 | 19.81 |
| S.D. | 3.80 | 3.84 |
| C.V. | 4.74 | 19.37 |

Source: Quarterly Economic Bulletin of Nepal Rastra Bank

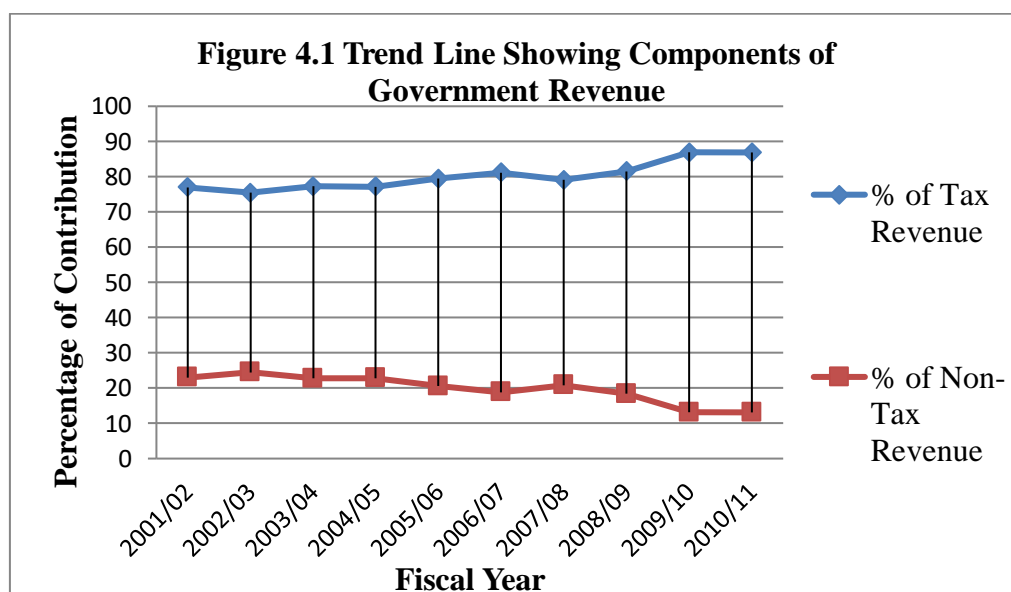
According to the table 4.1 most of the revenue collected by Nepal government is from tax revenue. Hence, the major source of government revenue is tax revenue which makes that the increasing volume of tax revenue collected from different sources play the major role in collection of government revenue. From the above table 4.1, collection of government revenue from tax revenue has reached at 86.89% from the level of 76.95% since the period of last ten years. During the research period of ten years from the fiscal year 2001/2002 to the fiscal year 2010/2011, the government has collected the largest amount of tax revenue in the fiscal year 2010/2011 i.e. 86.89% of the total government revenue. After the fiscal year 2008/2009 each year has contributed more than 80% of total government revenue. Tax revenue is being able to contribute 80.19% of government revenue in an average of the research period with standard deviation of 3.8%.

Tax revenue is one of the major sources of government revenue. Except government revenue received from tax revenue, non-tax revenue has also contributed to build the government revenue. Among total government revenue

received during the research period non-tax revenue has been contributed 19.81% in an average.

The deviations seen into the contribution of composition of different sources of government revenue during the research period of ten years are 3.8 % on tax revenue and 3.84% on non-tax revenue. The coefficients of variation seen into composition of government revenue during the research period of ten years are 4.74% on tax revenue and 19.37% on non-tax revenue.

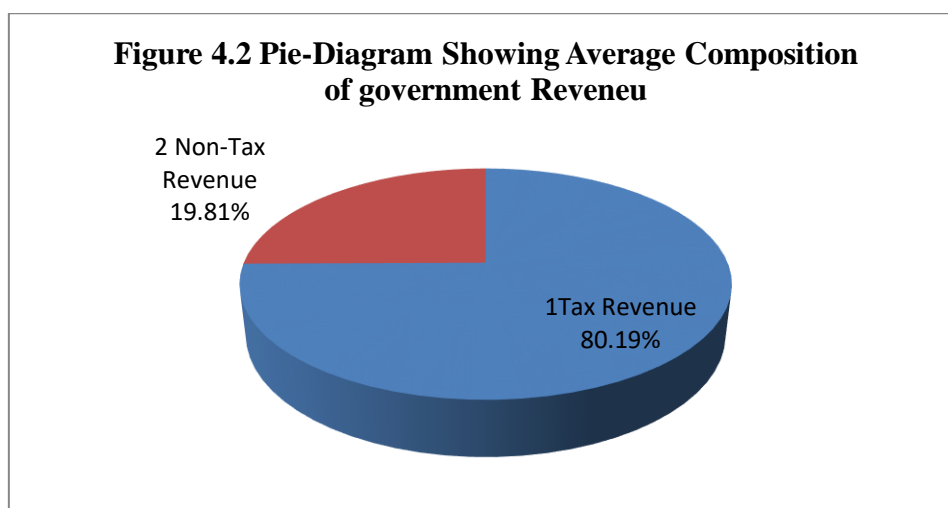
The data presented and analyzed on the table 4.1 for the period of ten years could also be presented in the trend lines for further analysis. Thus, the trend line of composition of government revenue is shown in figure 4.1.



The trend line of different sources of government revenue is indicated in the figure 4.1. The tax revenue is in higher position than non-tax revenue throughout the research period. It means that the trend line shows the revenue received from tax is higher than the revenue received from non-tax. The trend line of tax revenue is growing rapidly and the trend line of non-tax revenue is declining continuously according to the figure. This information shows that there is increasing dependency of the government towards the tax related

transactions rather than other transactions i.e. non-tax transactions. The volume of tax related transactions are increasing with the passes of time. Due to this collection of tax revenue as the form of government revenue also upgraded with the time has been passed.

While analyzing the composition of government revenue, it has been analyzed the average proportion of contribution of each sector of government revenue collection. The average composition of government revenue has been presented in the pie-diagram 4.2 which is shown below.



Pie-diagram 4.2 shows that 80.19% of total revenue collected by the government of Nepal for the research period of ten years has been collected from tax revenue and 19.81% of total revenue collected by government of Nepal for this period has been collected from non-tax revenue on average. It shows that there is highly dependency of government in tax revenue. It means that tax revenue is the major source of government revenue and it has taken the first position while collecting revenue during the research period of ten years from the fiscal year 2001/2002 to the fiscal year 2010/2011.

4.1.2 Analysis of Compositions of Tax Revenue

Tax revenue consists of amount of tax collected through direct and indirect taxes. Income tax, Property tax, Vehicle tax, Interest tax are the major sources

of direct tax revenue. Value added tax, Customs duty and Excise duty are the major sources of indirect tax revenue. So in this section the composition of tax revenue have been analyzed. Every nation has received their national income from two sources one is tax and another is non-tax. Tax is the major source of government revenue. It has contributed more than 80% of revenue to the government. So, in this section of study it is analyzed that how much these sectors contribute to the national revenue by tax revenue for the period of ten years from the fiscal year 2001/2002 to the fiscal year 2010/2011. Hence, the table 4.2 has been presented those compositions of tax revenue of research period which contributes to the government of Nepal to increase the revenue of the nation.

Table 4.2
Composition of Components of Tax Revenue

| F/Y | % of Indirect Tax | % of Direct Tax |
|------------|--------------------------|------------------------|
| 2001/02 | 79.82 | 20.18 |
| 2002/03 | 77.29 | 22.71 |
| 2003/04 | 76.75 | 23.25 |
| 2004/05 | 77.35 | 22.65 |
| 2005/06 | 75.69 | 24.31 |
| 2006/07 | 73.33 | 26.67 |
| 2007/08 | 72.90 | 27.10 |
| 2008/09 | 70.48 | 29.52 |
| 2009/10 | 73.28 | 26.72 |
| 2010/11 | 71.84 | 28.16 |
| Average | 74.87 | 25.13 |
| S.D. | 2.79 | 2.79 |
| C.V. | 3.73 | 11.11 |

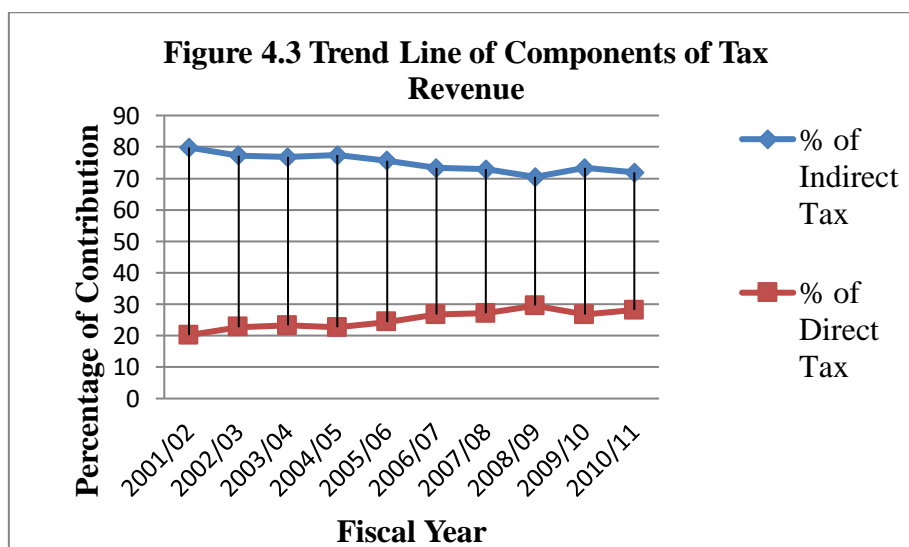
Source: Quarterly Economic Bulletin of Nepal Rastra Bank

The table 4.2 indicates the percentage of composition of tax revenue. These compositions are indirect tax and direct tax. The table shows that more than 70 % of tax revenue collected by Nepal government is from Indirect tax. So the major source of tax revenue is indirect tax. It clears that the indirect tax collected from different goods and services and different business transactions create an incremental advantage to the Nepal government as tax revenue. The

collection of tax revenue from indirect tax was at 79.82% of total tax revenue on the beginning time of research work i.e. fiscal year 2001/2002. But it has reached at 71.84% on the end of research work by declining continuously. During the research period of ten years, the fiscal year 2001/2002 has collected the largest volume of indirect tax i.e.79.82% of total tax revenue. After the fiscal year 2006/2007 each fiscal year has got contribution of less than 75% of total tax revenue from indirect tax. This sector is being able to contribute 74.87% in an average on total research period.

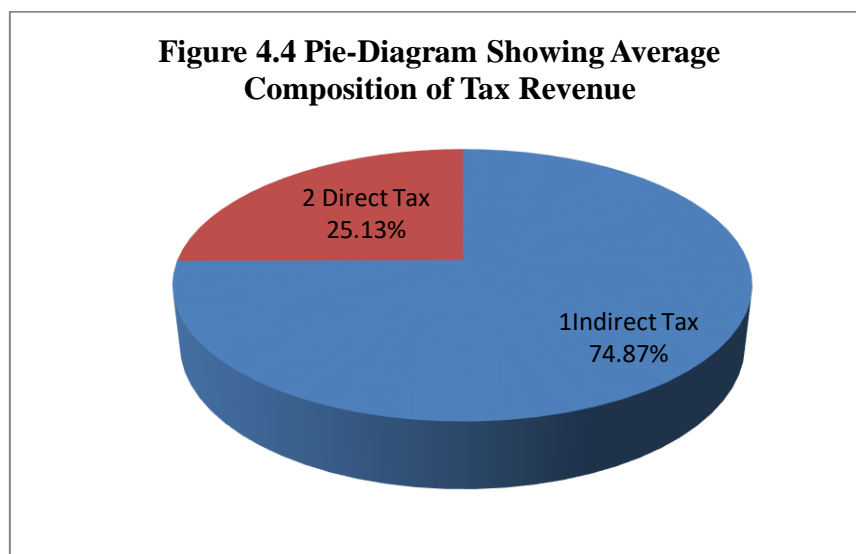
Except tax revenue received from indirect tax to government of Nepal, direct tax has also contributed to the total tax revenue. It has contributed 25.13% of total tax revenue in an average. The deviations seen into the composition of tax revenue collection during the research period of ten years are 2.79% on indirect tax and 2.79% on direct tax too. Variation seen into the contribution of total tax revenue received from indirect and direct sources are as follows: 3.73% on indirect tax and 11.11% on direct tax.

This table 4.2 could also be presented in the trend line for further more analysis. So, the trend line of composition of tax revenue is shown in the figure 4.3.



The trend line of different sources of tax revenue is indicated in the figure 4.3. The contribution of indirect tax is more than direct tax throughout the research period. The trend line shows that the revenue received from indirect tax is higher than the revenue received from direct tax. But the trend line of indirect tax is declining with fluctuation and the trend line of direct tax is growing slowly with fluctuation. The volumes of direct taxes are growing with the passes of time. But it is noted that the major sources of tax revenue is indirect tax. After declining the trend line of indirect tax, its contribution towards tax revenue is more than 70% which is more than two third of total tax revenue.

The average composition of components of tax revenue has been presented in the pie-diagram which is shown below in the figure 4.4.



The figure 4.4 shows the average composition of components of tax revenue during the research period of ten years from fiscal year 2001/2002 to the fiscal year 2010/2011. The pie-diagram shows that 74.89% of tax revenue collected by government during the research period has been collected from indirect tax revenue and 25.13% of tax revenue collected by government during the same period has been collected from direct tax. It shows that indirect tax is the major

source of tax revenue. The government is highly depends on the revenue received from indirect tax.

4.1.3 Analysis of Compositions of Indirect Tax

An indirect tax is a tax imposed on one person but partly or wholly paid by another. In indirect tax, the person paying and bearing the tax is different. It is the tax levied on consumption or expenditure made by people either natural or created by law. Indirect taxes are classified into following headings: custom duties, value added taxes, excise duties and other indirect taxes. In case of making payment of taxes by taxpayers are paid tax indirectly to the various middlemen as price charged by them for providing services, goods or any products. So, the collection of indirect taxes is done by the government of any nation with the help of different middlemen most of them are business organizations and persons and services as well.

In this section the contributions made by different composition of indirect tax have been analyzed. The government of any nation has received national income from different sources of revenue. Indirect tax is also a major source of government revenue. In this section of study it is analyzed that how much these sectors contributes to national revenue by indirect taxes for the period of ten years from the fiscal year 2001/2002 to the fiscal year 2010/2011. Hence, the table 4.3 presented those compositions of indirect tax of research period which contributes to revenue collection process of Nepal government which is shown below.

Table 4.3
Composition of Components of Indirect Tax

| F/Y | % of Customs | % of Value Added Tax | % of Excise | % of Others |
|------------|---------------------|-----------------------------|--------------------|--------------------|
| 2001/02 | 46.86 | 40.81 | 12.67 | 0 |
| 2002/03 | 43.83 | 41.46 | 14.71 | 0 |
| 2003/04 | 42.07 | 39.21 | 16.83 | 0 |
| 2004/05 | 37.52 | 45.15 | 15.40 | 0 |
| 2005/06 | 35.30 | 49.73 | 14.97 | 0 |
| 2006/07 | 32.00 | 50.10 | 17.90 | 0 |
| 2007/08 | 33.93 | 47.98 | 18.09 | 0 |
| 2008/09 | 32.27 | 48.01 | 19.72 | 0 |
| 2009/10 | 30.69 | 47.93 | 21.23 | 0.15 |
| 2010/11 | 28.84 | 49.68 | 21.39 | 0.16 |
| Average | 36.33 | 46.01 | 17.29 | 0.03 |
| S.D. | 5.76 | 3.84 | 2.76 | 0.06 |
| C.V. | 15.85 | 8.43 | 15.96 | 206.83 |

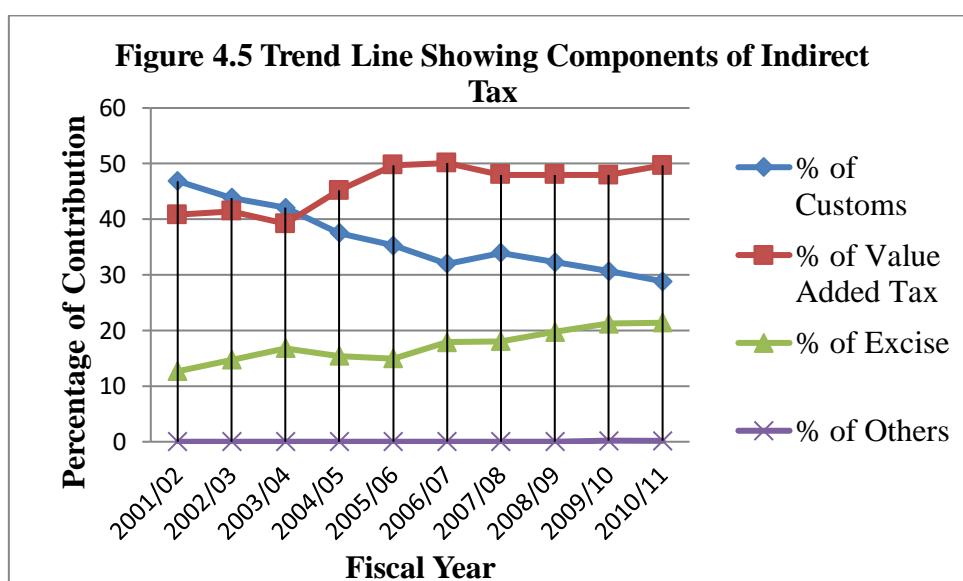
Source: Quarterly Economic Bulletin of Nepal Rastra Bank

From the above table 4.3 the contribution of customs duties on indirect is 36.33% in an average on research period. It means that the second largest contributor on indirect tax is customs duties. From the above table it is cleared that the major source of indirect tax is value added tax which contributes 46.01% on indirect tax in an average. At the beginning of research period i.e. fiscal year 2001/2002, customs duties contributed 46.86% of indirect tax but it is continuously declining and reached at 28.84% indirect tax on the fiscal year 2010/2011 i.e. at the end of research period. But customs duty is one of the major sources of government revenue.

Except indirect tax received from customs duties to the government of Nepal, value added tax, excise duty and other taxes has also contributed to the Nepal government to collect the national income by indirect tax. Their contributions are as follows: 46.01% contribution of value added, 17.29% contribution of excise duty and 0.03% contribution of other taxes on indirect tax in an average. The deviations seen into the composition of indirect tax collection during the research period of ten years are 5.76% on customs duty, 3.84% on value added

tax, 2.76% on excise duty and 0.06% on other taxes. Variations seen into the contribution of total indirect tax received from different sources are as follows: 15.85% on customs duty, 8.43% on value added tax, 15.96% on excise duty and 206.83% on other taxes.

This table 4.3 could also be presented in the trend line for further more analysis. So, the trend line of composition of indirect tax is shown in the figure 4.5.

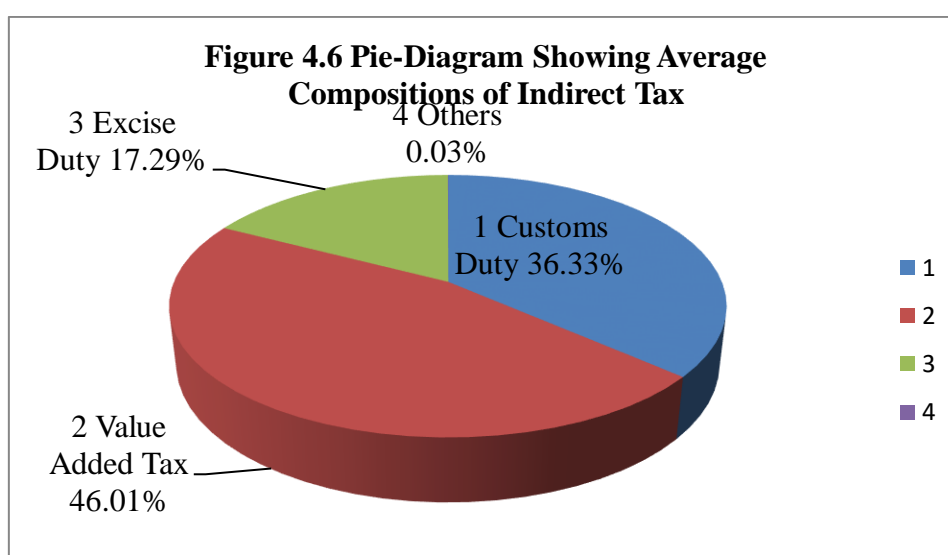


As the above trend lines indicated into the figure 4.5 except the contribution made by customs duty on collection of indirect tax of the nation all trend lines are growing. This information shows that there is increasing dependency of the nation towards these sectors of indirect taxes for the collection of national income.

At the beginning of the research work the contribution made by the customs duty to indirect tax was 46.86% and after that period of time this rate has been declining rapidly with fluctuation. At the last of the research period i.e. on fiscal year 2010/2011 the contribution of customs duty to indirect tax has been declined and reached at the level of 28.84%.

Except customs duty all other sector's contribution to indirect tax has been growing with fluctuation. As the above figure of trend lines presented those contribution made by these sectors has been grown with some degree of fluctuation. The value added tax has been contributed 46.01% to indirect tax in an average. Similarly, excise duty and other tax has been contributed 17.29% and 0.03% to the indirect tax in an average of the research period.

While analyzing the composition of indirect tax, it has been analyzed the average proportion of contribution of each sector of indirect tax collection. The average composition of indirect tax has been presented in the pie-diagram 4.6 which is shown below.



Pie-diagram shows that 46.01% of total indirect tax collected by the government of Nepal for the research period of ten years has been collected from Value added tax and 36.33% of total indirect tax collected by government of Nepal for this period has been collected from customs duty. It shows that there is highly dependency of government in case of the taxes collection from VAT and customs duty. It means that value added tax has taken the first position while collecting indirect tax during the research period from the fiscal year 2001/2002 to the fiscal year 2010/2011. Similarly, Customs Duty has

contributed second largest amount to the government of Nepal by indirect tax during this period. Excise duty has contributed 17.29% of total indirect tax and only 0.03% of total indirect tax has contributed by other taxes.

4.1.4 Analysis of Composition of Customs Duty

Customs is a general term for an agency in a country responsible for controlling the flow of goods into the country. Customs agencies attempt to prevent dangerous, hazardous or illegal materials from entering the country, and also collect tariffs and other taxes. They may also enforce import quotas. A tax levied on imports and sometimes exports of the goods by customs authorities of a country to raise state revenue and to protect domestic industries from more efficient or predatory competitors from abroad is called Customs Duty. The Customs authority may be different from the immigration authority, which monitors a person who leave or enter the country. In another words, a customs duty is basically a form of tax that is charged on goods that are imported from abroad and are collected by specifically defined customs officials in points of entry. Apart from the government raising a considerable sum of money on such imports, they are also meant to protect local manufacturers from unfair competition from imports that would be slightly cheaper than locally manufactured goods. The computation of tax usually based on the value of the goods or any other agreed criteria. In most of the countries customs are attained through government agreements and international laws. The compositions of customs duty are made for easy and clear revenue collection process. There are so many goods and their kinds from which customs duty received and that might not be possible to show through this research.

The compositions of Customs Duties includes: Import Duty, Export Duty, Indian Excise Refund, Agriculture Reform Duties and Miscellaneous Duties according to the Bulletin published by Nepal Rastra Bank. As per this data published by Nepal Rastra Bank, the Nepalese Customs Department has the

following compositions of Customs Duties which have been tabulated into the table 4.4. The table shows that how the Customs Duty has been structuring for the research period of ten years from fiscal year 2001/2002 to the fiscal year 2010/2011.

Table 4.4
Composition of Components of Customs Duty

| F/Y | Import Duty | Export Duty | Indian Excise Refund | Agriculture Reform Duties | Miscellaneous Duties |
|---------|-------------|-------------|----------------------|---------------------------|----------------------|
| 2001/02 | 69.11 | 6.88 | 19.66 | 4.14 | 0.21 |
| 2002/03 | 74.23 | 6.01 | 16.65 | 2.99 | 0.12 |
| 2003/04 | 73.54 | 3.39 | 20.00 | 2.60 | 0.47 |
| 2004/05 | 78.35 | 4.69 | 13.94 | 2.55 | 0.47 |
| 2005/06 | 76.54 | 4.08 | 15.08 | 3.51 | 0.79 |
| 2006/07 | 81.58 | 4.24 | 11.36 | 2.43 | 0.39 |
| 2007/08 | 81.32 | 2.12 | 14.23 | 1.85 | 0.48 |
| 2008/09 | 82.21 | 2.99 | 12.06 | 1.87 | 0.87 |
| 2009/10 | 85.24 | 2.59 | 10.02 | 1.41 | 0.74 |
| 2010/11 | 87.58 | 1.36 | 8.154 | 2.10 | 0.81 |
| Average | 78.97 | 3.83 | 14.11 | 2.55 | 0.53 |
| S. D. | 5.40 | 1.63 | 3.70 | 0.78 | 0.25 |
| C. V. | 6.84 | 42.49 | 26.22 | 30.66 | 45.98 |

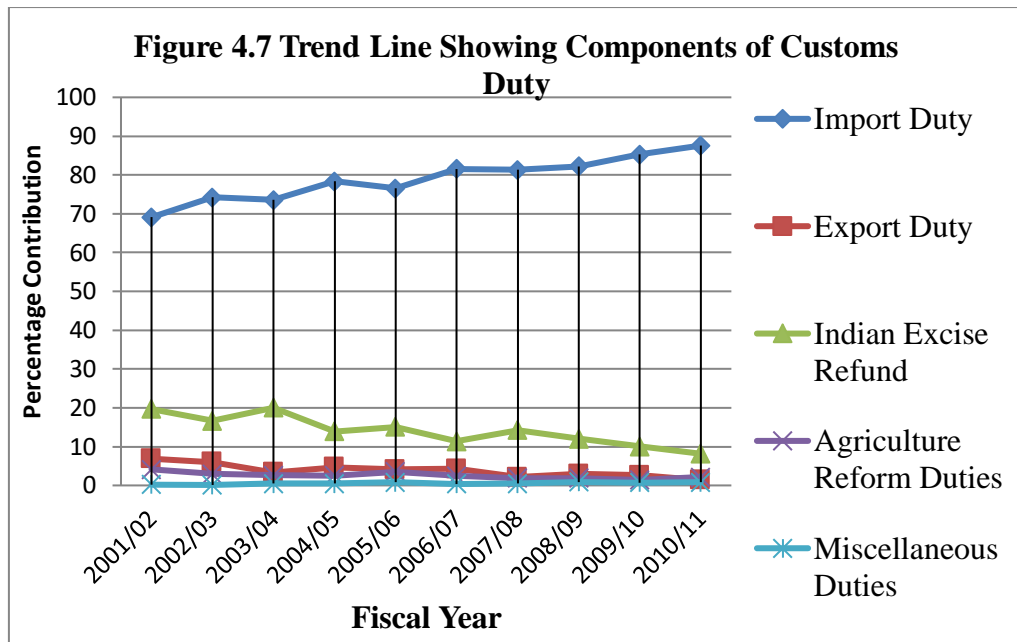
Source: Quarterly Economic Bulletin of Nepal Rastra Bank

The table 4.4 indicates the percentage of composition of Customs Duty. According to this table more than 70% of the total customs duty collected by the government of Nepal is from Import duties. This shows that the Import Duty is the major source of government revenue collecting from Customs Duty. The collection of Customs Duty from Imports of the goods and services was 69.11% at the beginning of the research period i.e. fiscal year 2001/2002. After growing continuously it has reached at 87.58% at the end of the research period i.e. fiscal year 2010/2011. The fiscal year 2010/2011 has collected the largest volume of Import Duties i.e.87.58% of total Customs Duties during the research period of ten years. The Import Duty has contributed more than 80% of total Customs Duty after the fiscal year 2006/2007. It has contributed 78.97% of total Customs Duty in an average with standard deviation of 5.4% during the research period of ten years.

The other sectors that help the government of Nepal for the collection of National Revenue except Import Duty are Export Duty, Indian Excise Refund, Agriculture Reform Duties and Miscellaneous Duties. The average contributions of these compositions of Customs Duties during the research period of ten years are as follows: 3.83% of total Customs Duty received from Export Duties, 14.11% total Customs Duty received from Indian Excise Refund, 2.55% of total Customs Duty received from Agriculture Reform Duties and remaining 0.53% of total Customs Duty received from Miscellaneous Duties.

The deviations found into the different composition of Customs Duties during the research period are as follows: 5.4% on Import Duties, 1.63% on Export Duties, 3.7% on Indian Excise Refund, 0.78% on Agriculture Refund Duties and 0.25% on Miscellaneous Duties. Similarly, the coefficient of variation found during the research period of ten years while collecting Customs Duties from these sectors are as follows: 6.84% on Import Duty, 42.49% on Export Duty, 26.22% on Indian Excise Refund, 30.66% on Agriculture Reform Duties and 45.98% on Miscellaneous Duties.

This tabulated data and information about the composition of Customs Duties for research period of ten years could also be presented into the trend line which shows the trend of these compositions of Customs Duties. The figure 4.7 is shown below showing growing and declining pattern with fluctuation.

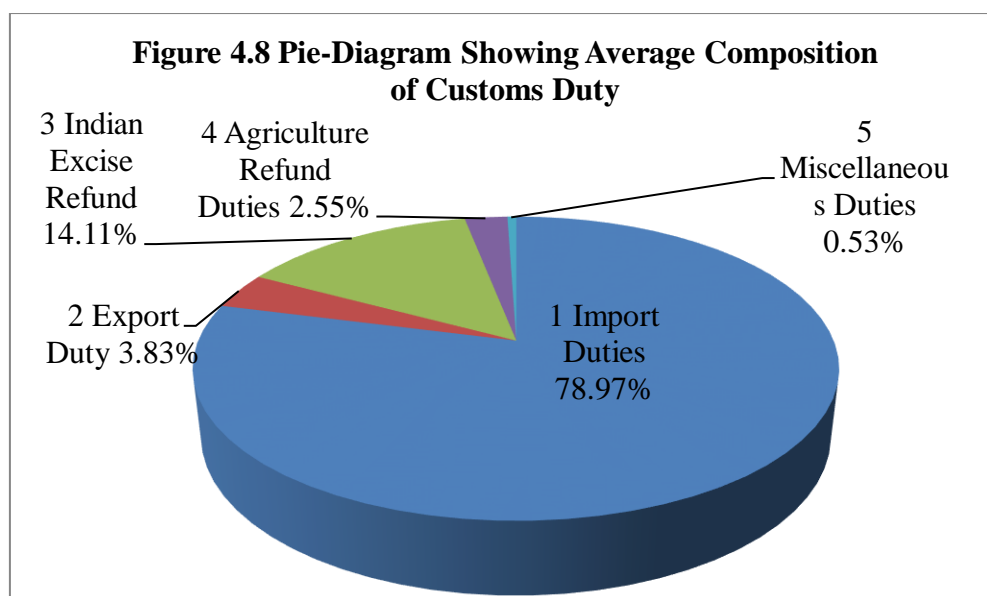


The figure 4.7 shows that the trend lines of all the compositions of Customs Duties except Import Duty are declining which shows that there is increasing dependency of government towards the Import Duties collected from goods, services and business transactions. The pattern of Customs Duties collection from the major source of collection has been analyzed during the research period of ten years from the fiscal year 2001/2002 to the fiscal year 2010/2011. At the end of the research period i.e. fiscal year 2010/2011 the contribution made by the Import Duty has reached at 87.58% which was 69.11% at the beginning period of research work i.e. fiscal year 2001/2002. After the beginning period of research work this rate has been growing towards higher level of contribution with some fluctuation. This growing rate has been declined only on the fiscal year 2003/2004 and 2005/2006. After the fiscal year 2006/2007 contribution made by Import Duty towards Customs Duty has been growing continuously with more than 80%.

Except the contribution made by Import Duty during the research period of ten years, all other sector's contribution has been reducing with fluctuation. The contribution of Export Duty, Contribution of Indian Excise Refund, contribution of Agriculture Reform Duties and other Miscellaneous Duties has

been declined during the research period. Contribution made by Export Duty was 6.88% at the beginning of the research period. But it has reached at 1.36% of total Customs Duty at the end of the research period which is declined by 5.52% of total Customs Duty. Similarly, during the research period the average contribution of Indian Excise Refund has been 14.11%, the average contribution of Agriculture Refund Duties has been just 2.55% and the average contribution of Miscellaneous Duties has been below 1%.

For furthermore analysis average compositions of Customs Duty has been presented and drawn into the Pie-Diagram which is shown into the figure 4.8.



From the above figure it shows that more than 75% of Customs Duty collected by Nepal government during the research period of ten years has been from Import Duty on average which proves that there is highly dependency of government on Import Duty collection for the revenue generation of the nation. Indian Excise Refund has made the second largest average contribution on the revenue generation process of government through the Customs Duty i.e.14.11%. Similarly, Export Duty has contributed 3.83% on revenue generation process of government through the Customs Duty on average. Agriculture Refund Duties and Miscellaneous Duties have contributed 2.55%

and 0.53% respectively on the revenue generation process of the government through the Customs Duty on average.

4.2 Analysis of Contribution of Customs Duty

Customs is an authority or agency in a country responsible for collecting and safeguarding customs duties and for controlling the flow of goods including animals, personal effects and hazardous items in and out of a country. In other words, customs is the official organization responsible for collecting taxes on goods coming into a country and preventing illegal goods from being brought in. Depending on local legislation and regulations, the import or export of some goods may be restricted or forbidden, the customs agencies enforces these rules. Customs duty is a part of indirect tax revenue. Indirect tax revenue is a part of tax revenue and tax revenue is a part of government revenue. All these information shows that customs duty helps the government of Nepal in revenue collection process through indirect tax revenue. Hence, the customs duty is a major tool in revenue collection process of Nepal government. It contributes the government of Nepal by collecting Import Duty, Export Duty, Indian Excise Refund, Agriculture Refund Duties and Miscellaneous Duties in customs points fixed by Nepal government.

4.2.1 Analysis of Contribution of Customs Duty to Government Revenue

In this section of analysis the contribution made by Customs Duties to Government Revenue has been analyzed during the research period of ten years i.e. from fiscal year 2001/2002 to the fiscal year 2010/2011. How much revenue is received form customs duty to total revenue of Nepal government has been measured during the research period of ten years. Total Customs Duty comes by adding compositions of Customs Duty. These compositions are Import Duty, Export Duty, Indian Excise Refund, Agriculture Refund Duties and Miscellaneous Duties. The table 4.5 has been presented the total volume of

customs duty, government revenue and the contribution ratio of customs duty to government revenue.

Table 4.5
Contribution of Customs Duty to Government Revenue

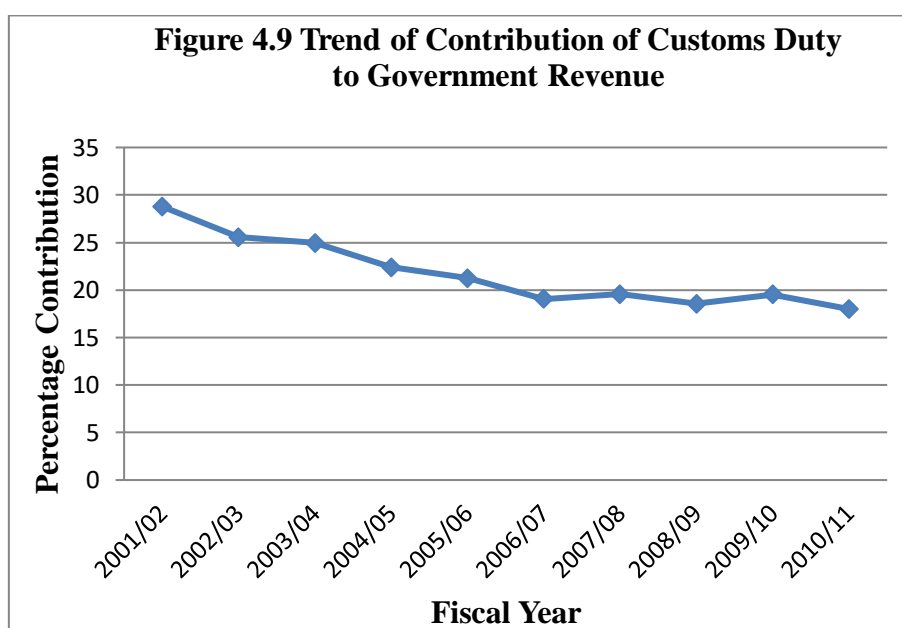
| F/Y | Government Revenue (Rs. In millions) | Customs Duty (Rs. In millions) | Percentage of Contribution |
|------------|---|---|-----------------------------------|
| 2001/02 | 48,934.80 | 14,085.60 | 28.78 |
| 2002/03 | 55,670.50 | 14,236.40 | 25.57 |
| 2003/04 | 62,331.0 | 15,554.20 | 24.95 |
| 2004/05 | 70,122.80 | 15,701.50 | 22.39 |
| 2005/06 | 72,282.10 | 15,344.10 | 21.23 |
| 2006/07 | 87,712.10 | 16,699.00 | 19.04 |
| 2007/08 | 107,622.70 | 21,062.40 | 19.57 |
| 2008/09 | 143,474.40 | 26,622.60 | 18.56 |
| 2009/10 | 179,940.40 | 35,151.50 | 19.54 |
| 2010/11 | 198,819.60 | 35,794.10 | 18.00 |
| Average | 102,691.04 | 21,025.14 | 21.76 |
| S. D. | 50828.27 | 8077.84 | 3.41 |

Source: Quarterly Economic Bulletin of Nepal Rastra Bank

According to table 4.5 the volume of income from Customs Duty to the government revenue was Rs.14085.6 millions at the beginning of the research period i.e. fiscal year 2001/2002. This volume has been growing continuously toward the higher level of revenue and reached at the volume of Rs.35794.1 millions at the end of the research period i.e. fiscal year 2010/2011. But the fact is that the volume of revenue received from customs duty has been increased during the research period of ten years but the percentage contribution of customs duty to government revenue has been decreased continuously during same periods of research. At the beginning of the research period i.e. fiscal year 2001/2002 the contribution of customs duty to government revenue was 28.78%. But during the research period it has been decreased continuously and at the end of the research period i.e. fiscal year 2010/2011 it has been covered only 18% of total government revenue. During the research period the volume of average government revenue is Rs.102691.04 millions with standard

deviation of 50828.27 and the volume of average customs duty is Rs.21025.14 millions with standard deviation of 8077.84. The average contribution of customs duty to government revenue is 21.76% with standard deviation of 3.41% during the whole research period.

The data and information about the contribution of customs duty to government revenue could also be presented into the trend line which is shown below into the figure 4.9.



The above figure shows the percentage of contribution made by customs duty to government revenue during the research period of ten years from the fiscal year 2001/2002 to the fiscal year 2010/2011. The trend line of percentage contribution of customs shows that the contribution made by customs duty has been in decreasing trend during the research period of ten years.

4.2.2 Analysis of Contribution of Customs Duty on Tax Revenue

In this section of analysis the contribution of customs duty to the government of Nepal through tax revenue has been analyzed. This contribution of customs duty is analyzed with comparison of tax revenue of government of Nepal during the research period of ten years from fiscal year 2001/2002 to the fiscal

year 2010/2011. Customs duty is the total of various sectors of customs which is classified by the government of Nepal and tax revenue is the totals of two sectors i.e. direct tax revenue and indirect tax revenue. Customs duty is a part of indirect tax. To analyze the contribution made by customs duty to the tax revenue of government of Nepal percentage contribution of each year has been compared. Those information and data presented below in the table 4.6.

Table 4.6
Contribution of Customs Duty on Tax Revenue

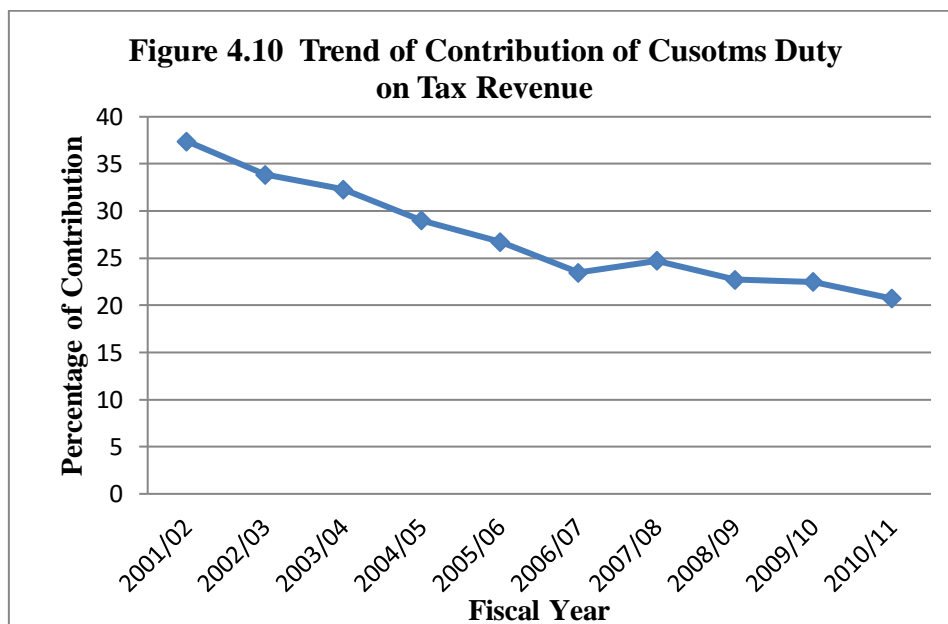
| F/Y | Tax Revenue (Rs. In millions) | Customs Duties (Rs. In millions) | % of Contribution |
|------------|--|---|------------------------------|
| 2001/02 | 37,656.30 | 14,085.60 | 37.41 |
| 2002/03 | 42,027.70 | 14,236.40 | 33.87 |
| 2003/04 | 48,175.70 | 15,554.20 | 32.29 |
| 2004/05 | 54,104.90 | 15,701.50 | 29.02 |
| 2005/06 | 57,427.00 | 15,344.10 | 26.72 |
| 2006/07 | 71,168.00 | 16,699.00 | 23.46 |
| 2007/08 | 85,147.10 | 21,062.40 | 24.74 |
| 2008/09 | 117,051.80 | 26,622.60 | 22.74 |
| 2009/10 | 156,290.70 | 35,151.50 | 22.49 |
| 2010/11 | 172,755.20 | 35,794.10 | 20.72 |
| Average | 84,180.44 | 21,025.14 | 27.35 |
| S.D. | 45993.63 | 8077.84 | 5.31 |

Source: Quarterly Economic Bulletin of Nepal Rastra Bank

The table 4.6 shows the volume of total tax revenue, customs duty and the percentage contribution of customs duty to tax revenue of Nepal government. At the beginning of the research period i.e. fiscal year 2001/2002, the volume of tax revenue was Rs.37656.3 millions and the volume of customs duty was Rs.14085.6 millions. Similarly, the at the end of the research period the volume of Tax revenue has been reached Rs.172755.2 millions and the volume of customs duty has been reached Rs.35794.1 millions. The volume of tax revenue has been seen increasing and became more than 4 times at the end of the research period with comparison to the starting time of research work. Similarly, the volume of customs duty also has been seen increasing and became more than twice at the end of the research period with comparison to

the starting period of research work. But the percentage contribution of Customs duty to the government of Nepal through tax revenue has been decreased with fluctuation. At the beginning of the research period it was 37.41% of tax revenue. But at the end of the research period it has been decreased and reached at 20.72%. The average volume of tax revenue during the research period of ten years from the fiscal year 2001/2002 to the fiscal year 2010/2011 is Rs.84180.44 millions and the average volume of customs duty for the same period is Rs.21025.14 millions. The average percentage contribution of customs duty to tax revenue during the research period is 27.35% with the standard deviation of 5.31%.

This information and data about the contribution of customs duty to tax revenue could also be presented into the trend line which shown below in the figure 4.10.



The above figure 4.10 shows the contribution made by customs duty to the government of Nepal through tax revenue during the research period of ten years from the fiscal year 2001/2002 to the fiscal year 2010/2011. This trend

line of contribution of customs duty to tax revenue has been in decreasing trend except the fiscal year 2007/2008.

4.2.3 Analysis of Comparison of Customs Duty to Non-Tax Revenue

In this section of study the comparison of customs duty to non-tax revenue has been analyzed during the research period of ten years from fiscal year 2001/2002 to the fiscal year 2010/2011. This study has done to see how much contribution made by customs duty in comparison to non-tax revenue. The government revenue basically comes from two broad sources. One is tax revenue and another is non-tax revenue. Tax revenue includes indirect tax revenue and direct tax revenue whereas non-tax revenue includes duties and fees, fines and forfeiture, public utilities, dividends, interest, royalty and sales of government property, principal repayments and miscellaneous income. The table 4.7 has been presented the non-tax revenue, customs duty and ratio of customs duty to non-tax revenue which is shown below:

Table 4.7
Comparison of Customs Duty to Non-Tax Revenue

| F/Y | Non-Tax Revenue (Rs. In millions) | Customs Duties (Rs. In millions) | Ratio |
|------------|--|---|--------------|
| 2001/02 | 11,278.50 | 14,085.60 | 1.25 |
| 2002/03 | 13,642.80 | 14,236.40 | 1.04 |
| 2003/04 | 14,155.30 | 15,554.20 | 1.10 |
| 2004/05 | 16,017.90 | 15,701.50 | 0.98 |
| 2005/06 | 14,855.10 | 15,344.10 | 1.03 |
| 2006/07 | 16,544.10 | 16,699.00 | 1.01 |
| 2007/08 | 22,475.60 | 21,062.40 | 0.94 |
| 2008/09 | 26,422.60 | 26,622.60 | 1.01 |
| 2009/10 | 23,649.70 | 35,151.50 | 1.49 |
| 2010/11 | 26,064.40 | 35,794.10 | 1.37 |
| Average | 18,510.60 | 21,025.14 | 1.12 |
| S.D. | 5293.41 | 8077.84 | 0.18 |

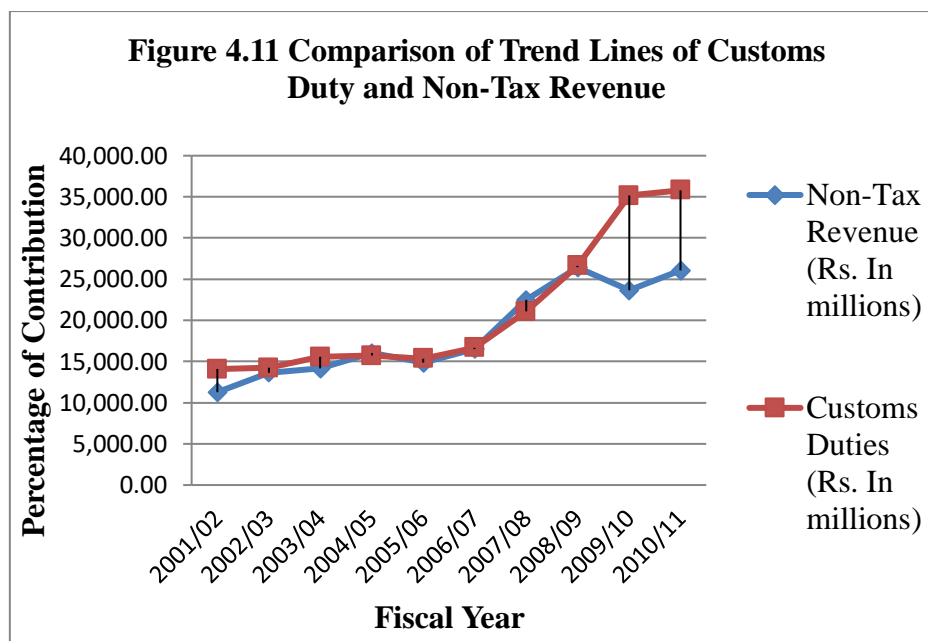
Source: Quarterly Economic Bulletin of Nepal Rastra Bank

The data on the table 4.7 shows the year wise volume of non-tax revenue and customs duty and also shows the ratio of customs duty to non-tax revenue.

From the above table, it is found that the volume of non-tax revenue and customs duty were Rs.11278.5 million and Rs. 14085.6 million respectively during the research period of ten years. Similarly, at the end of the research period i.e. fiscal year 2010/2011 the volume of non-tax revenue and customs duty have been increased and reached Rs.26064.4 million and Rs.35794.1 million respectively. The average non tax revenue is Rs.18510.6 million during the research period of ten years and the average customs duty is Rs.21025.14 million during this period.

From this information it is concluded that the customs duty contributes more than Rs. 2514.54 million to the government of Nepal in comparison to non tax revenue on average. In the beginning period of research work the contribution ratio of customs duty to non-tax revenue was 1.25 which means that the customs duty contributed 0.25 times more than non-tax revenue in the revenue generation process of Nepal government during that period. At the end of the research period the customs duty has been contributed 0.37 times more than non-tax revenue in the revenue generation process of Nepal government. During the whole research period the customs is contributed 0.12 times more than non-tax revenue in the revenue generation process of Nepal government on average with standard deviation of 0.18.

The above information and data about the comparison of customs duty to non-tax revenue could also be presented into the trend line which is shown below into the figure 4.11.



The above figure 4.11 shows the Comparison of Customs Duty to Non-Tax Revenue during the research period of ten years from fiscal year 2001/2002 to the fiscal year 2010/2011. From this trend line it has been concluded that the volume of contribution of Customs Duty with comparison to volume of contribution of Non-Tax Revenue is higher in each year except the fiscal year 2004/2005 and the fiscal year 2007/2008.

4.2.4 Analysis of Contribution of Customs Duties on Indirect Tax

The government of Nepal collects the national revenue from following two sources: one is tax revenue and another is non-tax revenue. Tax revenue includes revenue from indirect tax and revenue from direct tax. Indirect tax includes customs; value added tax, excise and others. Hence, customs is just a part of indirect tax. In this section of analysis it has been prepared that how much contribution is made by customs duty in revenue collection process of Nepal government through indirect tax revenue. The table 4.8 has been presented the volume of indirect tax, customs duty and percentage contribution of customs duty to indirect tax revenue which is shown below:

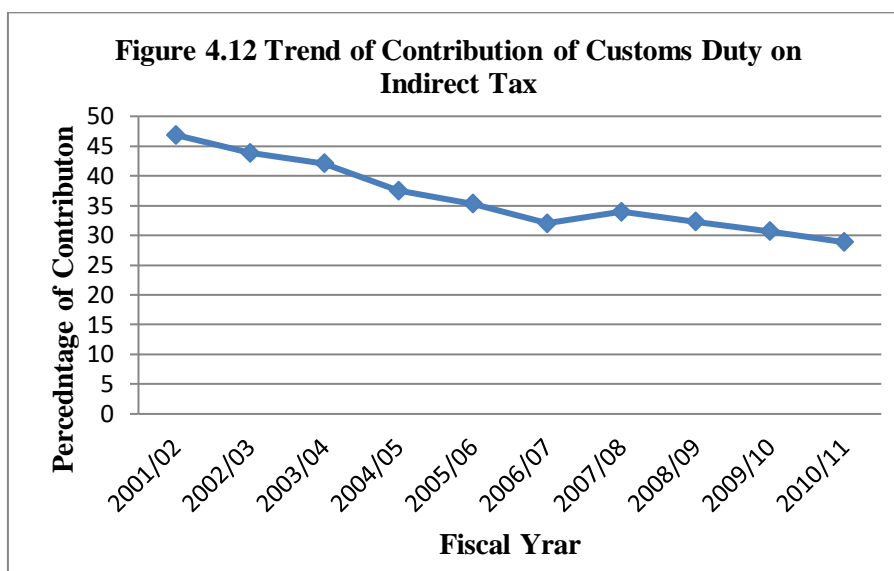
Table 4.8
Contribution of Customs Duty on Indirect Tax

| F/Y | Indirect Tax (Rs. In millions) | Customs Duties (Rs. In millions) | % of Contribution |
|------------|---|---|------------------------------|
| 2001/02 | 30,058.90 | 14,085.60 | 46.86 |
| 2002/03 | 32,481.20 | 14,236.40 | 43.83 |
| 2003/04 | 36,974.20 | 15,554.20 | 42.07 |
| 2004/05 | 41,851.80 | 15,701.50 | 37.52 |
| 2005/06 | 43,465.50 | 15,344.10 | 35.30 |
| 2006/07 | 52,188.30 | 16,699.00 | 32.00 |
| 2007/08 | 62,076.30 | 21,062.40 | 33.93 |
| 2008/09 | 82,499.20 | 26,622.60 | 32.27 |
| 2009/10 | 114,530.20 | 35,151.50 | 30.69 |
| 2010/11 | 124,114.20 | 35,794.10 | 28.84 |
| Average | 62,023.98 | 21,025.14 | 36.33 |
| S.D. | 32251.27 | 8077.84 | 5.76 |

Source: Quarterly Economic Bulletin of Nepal Rastra Bank

The data on the table 4.8 shows the volume of indirect tax revenue, customs duty and the percentage contribution of customs duty to indirect tax revenue during the research period of ten years from fiscal year 2001/2002 to the fiscal year 2010/2011. From the above table it is found that the volume of indirect tax revenue and the volume of customs duty were Rs. 30058.9 million and Rs. 14085.6 million respectively in the beginning period of the research work. With time change this volume has been increased and reached at the volume of Rs. 124114.2 million and 35794.1 million respectively at the end of the research work i.e. fiscal year 2010/2011. The average of indirect tax revenue during the whole research period is Rs. 62023.98 million and the average of customs duty for the same period is Rs.21025.14 million. The above table shows that the volume of both indirect tax and customs duty has been increased during the research period but the percentage contribution of customs duty to indirect tax revenue has been decreased with some fluctuation. The percentage contribution of customs duty was 46.86% in the fiscal year 2001/2002. After declining continuously this rate has been reached at 28.84%. The average contribution of customs duty to indirect tax revenue during the whole research period is 36.33% with standard deviation of 5.76%.

The above analyzed data and information about the percentage contribution of customs duty to indirect tax revenue has been presented into the trend line which is shown below in the figure 4.12.



The above figure 4.12 shows the contribution of customs duty to indirect tax revenue during the research period of ten years from fiscal year 2001/2002 to the fiscal year 2010/2011. From this trend line of percentage contribution of customs duty to indirect tax revenue it has been concluded that the percentage contribution of customs duty to indirect tax revenue is in decreasing trend during the research period of ten years.

4.2.5 Analysis of Comparison of Customs Duties to Direct Tax

In this section of analysis the comparison of customs duty to direct tax has been analyzed during the research period of ten years from fiscal year 2001/2002 to the fiscal year 2010/2011. Tax revenue includes both direct tax and customs duty. But direct tax is a part of tax revenue whereas customs duty is a part of indirect tax. Both contribute the government of Nepal in revenue collection process of the nation. The table 4.9 shows the ratio of contribution of customs duty with comparison to direct tax revenue which is shown below in the table 4.9.

Table 4.9
Comparison of Customs Duty to Direct Tax

| F/Y | Direct Tax (Rs. In millions) | Customs Duties (Rs. In millions) | Ratio |
|------------|---|---|--------------|
| 2001/02 | 7,597.40 | 14,085.60 | 1.85 |
| 2002/03 | 9,546.50 | 14,236.40 | 1.49 |
| 2003/04 | 11,201.50 | 15,554.20 | 1.39 |
| 2004/05 | 12,255.20 | 15,701.50 | 1.28 |
| 2005/06 | 13,961.50 | 15,344.10 | 1.10 |
| 2006/07 | 18,979.60 | 16,699.00 | 0.88 |
| 2007/08 | 23,070.80 | 21,062.40 | 0.91 |
| 2008/09 | 34,552.60 | 26,622.60 | 0.77 |
| 2009/10 | 41,760.50 | 35,151.50 | 0.84 |
| 2010/11 | 48,641.00 | 35,794.10 | 0.74 |
| Average | 22,156.66 | 21,025.14 | 1.13 |
| S.D. | 13807.69 | 8077.84 | 0.35 |

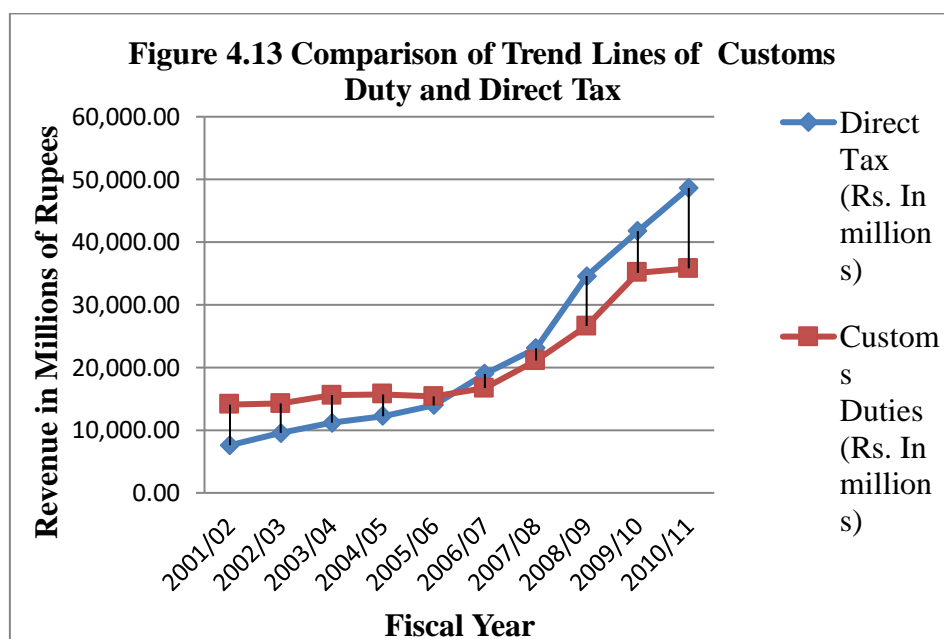
Source: Quarterly Economic Bulletin of Nepal Rastra Bank

The data on the table 4.9 shows the comparison ratio of customs duty to direct tax during the research period of ten years starting from fiscal year 2001/2002 and ending at fiscal year 2010/2011. From this table it is found that the volume of direct tax and customs duty were Rs. 7597.4 million and Rs. 14085.6 million respectively in the beginning of the research period. With the flow of time this volume of direct tax and customs duty has been changed towards the positive direction. It means that the volume of direct tax and customs duty has been increased and reached at the volume of Rs. 48641 million and Rs. 35794.1 million respectively. The average contributions of these sectors are Rs. 22156.66 million and Rs. 21025.14 million respectively during the whole research period.

The ratio of customs duty to direct tax revenue shows that the contribution of customs duty was higher than that of contribution of direct tax up to fiscal year 2005/2006. After the fiscal year 2005/2006 the contribution of customs duty has been decreased with comparison of contribution received from direct tax revenue. The ratio of customs duty to direct tax was 1.85times in the beginning of the research period but at the end of the research period this ratio has been

decreased and reached 0.74 times which shows the decreasing trend of revenue from customs. The average ratio during the whole research period of ten years is 1.13 times. This shows that the customs duty contributes 0.13 times i.e. 13% more contribution than direct tax during the whole research period with standard deviation of 0.35.

This information and data could also be presented into the trend lines of customs duty and direct tax revenue which is shown in the figure 4.13.



The above figure shows the contribution of customs duty to government of Nepal with comparison to revenue from direct tax during the research period of ten years starting from fiscal year 2001/2002 and ending at the fiscal year 2010/2011. From the above figure it is concluded that the revenue received from direct tax has been increased rapidly with comparison to revenue received from customs duty. The revenue received from customs duty was higher up to the fiscal year 2005/2006. After the fiscal year 2005/2006 the revenue received from direct tax has been increased and became higher than that of revenue received from customs duty.

4.3 Major Findings

On the basis of analysis of secondary data published in quarterly economic bulletin of Nepal Rastra Bank for the period of ten years starting from fiscal year 2001/2002 and ending at fiscal year 2010/2011, the major findings of the study are summarized below:

1. Government collects the revenue from tax has the largest contribution with comparison to the revenue collects from non-tax. Tax revenue has been contributed 80.19% on average while non-tax revenue has been contributed 19.81% on average.
2. The contribution of tax revenue has been increased whereas the contribution of non-tax revenue has been decreased with the flow of time.
3. Tax revenue is the major source of government revenue whose components are indirect tax and direct tax. The contribution of indirect tax has been seen decreasing with the flow of time but the contribution of direct tax has been seen increasing with the flow of time.
4. The percentage of revenue collects from indirect tax under the headings of customs duty has been decreased continuously whereas percentage of revenue collects under the headings of VAT, excise duty and other duty have been seen increasing.
5. It is found that the average contribution of customs duty, VAT, excise duty and other duties are 36.33%, 46.01%, 17.29% and 0.03% respectively.
6. The Department of Customs collects most of the revenue from import duty. The average collection from import duty has been seen 78.97% of total customs duty.
7. It is found that the import duty collection is increasing with the flow of time whereas export duty, Indian excise refund and agriculture refund duty are decreasing.
8. The revenue collected by government of Nepal has been increased each year and the revenue collected by customs department has been also increased each year.

9. The contribution of customs duty to government revenue has been decreased because the flow of government revenue is higher than that of the flow of revenue received from customs duty.
10. The revenue collected by Nepal government in the form of tax revenue has been increased with the flow of time.
11. The percentage contribution of customs duty to tax revenue has been seen decreasing because flow of revenue received from customs duty has been lowered than the flow of revenue received from tax revenue.
12. The comparison ratio of customs duty to non-tax revenue shows that the customs duty has been contributed more than that of non-tax revenue.
13. The contribution ratio made by customs duty to indirect tax has been decreased which shows the constant increment in customs duty and rapid increment in other components of indirect tax.
14. The comparison ratio of customs duty to direct tax shows that the revenue received from direct tax has been increased continuously whereas increasing trend of customs duty has been seen same.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

The last chapter of the research work is most important because it is the final opportunity to explain the findings. This chapter is focused on the findings and the conclusions obtained from the study of “Contribution of Customs Duty in Total Tax Structure of Nepal”. This chapter is included three sections; the first section deals with the summary of the study, second section draws the conclusion of the study and third section purposes the suggestions to the problems observed on the basis of the findings.

Summary

Nepal is a developing country in which around 26% of the total population lies below poverty line. So, for the overall development of the country a huge amount of fund and resources should be needed. In another words, to carry out the development plans, handle day-to-day administration, maintain peace and security and launch other public welfare activities, a nation requires sufficient fund. The required fund comes basically from debt and revenue. The government revenue comes from tax and non-tax revenue.

Tax is the contribution to the government without expecting any direct benefits. It is a major source of government revenue. It comes by adding the revenue of two components i.e. direct tax and indirect tax. The government collects customs duty in the form of indirect tax. In Nepal, customs duty was originated along with the period of Rana Regime by making an internal customs duty office in Kathmandu. After 1950's trade agreement, these internal customs offices were cancelled and they were established in border.

Government revenue basically comes from the composition of two components i.e. tax and non-tax revenue. More than 80% of government revenue comes from tax revenue which shows that tax revenue is a major source of

government revenue. Tax revenue is the composition of direct tax revenue and indirect tax revenue.

Customs Duty is a major source of tax revenue collected in the form of indirect tax. It contributes 22% of the total tax revenue. Customs duty is a tariff on the imports as well as exports of the goods. Nepal has a limited export and high import. The contribution of import duty is higher than the export duty collected by customs department.

The major objective of this study is to analyze the contribution of customs duty to total tax revenue of Nepal. The specific objectives of the study are as follows: to analyze the trend of contribution of customs duty to the national economy of Nepal, to see the contribution ratio of customs duty in total tax revenue of the government, to evaluate the composition of components customs duty and their contribution to overall customs duty and to compare the contribution of customs duty with non-tax revenue and direct tax revenue.

This study covers the period of 10 years data of customs duty from fiscal year 2001/2002 to the fiscal year 2010/2011 published on economic bulletin of Nepal Rastra Bank. This study has used contribution ratio, mean, standard deviation and coefficient of variation to accomplish the objective.

The study shows that the customs duty is an important source of government revenue collects in the form of indirect tax. The volume of customs duty is increasing with the flow of time. But its contribution to total revenue, tax revenue and indirect tax revenue is decreasing with the flow of time. Customs duty from import duty is higher than other components of customs duty i.e. export, Indian excise refund and agriculture refund duty. The contribution ratio of import duty is increasing with some fluctuation but the contribution of export, Indian excise refund and agriculture refund duty are decreasing which is the cause of decline of percentage contribution of customs duty.

Conclusions

From this study, it can be concluded that most of the revenue collected by the government comes from tax revenue which is increasing every year with some fluctuation whereas contribution of non-tax revenue is decreasing every year with fluctuation. It is found that the trend of contribution of indirect tax revenue is in decreasing but the contribution of direct tax revenue is in increasing trend with the flow of time.

Contribution of customs revenue to government revenue, tax revenue and indirect tax revenue has decreased with the flow of time. Because of trend of tax evasion by the tax payer, leakage of customs duty in customs points, corrupt mind of customs officers at customs points, political instability, open border and decrease in exportable goods, the government of Nepal is not being able to collect significant amount of revenue from customs duty in these days.

The government of Nepal has collected higher customs duty from import duty. Contribution ratio of import duty in revenue generation process of Nepal government is increasing each year with some fluctuation. But the contribution ratio of export duty is decreasing each year. Similarly, contribution ratio of revenue collected by the government from Indian excise refund and agriculture refund duties are also decreasing each year which shows that decreasing contribution ratio of these components is the cause of decreasing contribution ratio of customs duty on total tax revenue of Nepal.

It is also concluded that the contribution of customs duty is higher with comparison to contribution of non-tax revenue. It shows the importance of customs duty in revenue generation process of Nepal government. But, with comparison to direct tax revenue, the average contribution of customs duty is lower. It was higher than direct tax revenue during the period of first five years.

After the fiscal year 2006/2007, direct tax revenue has been seen higher than that of customs duty.

The result suggests that although different factor affects on contribution of customs duty in total tax structure of Nepal, they are not only the causes of less contribution on the customs duty of Nepal. These factors will work smoothly if the government of Nepal shows the strong attendance in customs department with up to date policies, rules and regulations with new technologies.

Recommendations

Based on the analysis, findings and conclusion of the present study, the following suggestions are recommended to increase the contribution of customs duty to total tax revenue.

The volume of customs duty is increasing with the flow of time. But the increasing volume is very low with comparison to the increasing volume of total revenue, tax revenue and indirect tax revenue. The government should be ready to find out the obstacles of the revenue collection from customs duty. And it should be able to control the leakage and corruption on customs duty. The government should strongly adopt the GATT and international trade policy to make the revenue collection process easy.

More than 75% of the customs revenue is from import duty which shows that customs means just imports of the goods. The increasing contribution of import duty and decreasing contribution of export duty shows the trade deficit and imbalance. The government should facilitate to promote the exportable goods with some exemptions on export to increase the contribution of export duty which helps to make the trade balance on the country. The export of the Nepalese products are decreasing each year by the cause of this total volume of the export is also decreasing. The government should investigate why Nepalese products are not buying and selling in international market and should take an

immediate action which will be able to re-establish the Nepalese product's brand name and helps to increase the volume of the exportable goods. It is necessary to make a strategy to increase the volume of foreign trade by expanding the area of exportable goods. The government should encourage the domestic industries to produce the quality product. It makes the people conscious about these products. At last use of domestic product will be high and import of the goods will be low. After that, the trade will be balance by reducing import of the goods and by increasing export of the domestic goods. The government should make the customs act, rules and regulation up to date with time change for the better performance of Customs Department in revenue generation process.

In case of Nepal-India trade, controlling the informal trade is impossible but it can be reduce by government agency which helps to increase customs revenue. The government should punish them who are not following the law and order of the country which helps to control the informal trade and smuggling of the goods from open border. The customs department should establish more customs points in suspicious area where the smuggling of goods and informal trades are taken place.

For the visibility of revenue collection process in customs points, the customs department should make a team who regulate and monitor them regularly. Corruption and leakage are the main problems in reduction of customs revenue. It should control by hiring the good employee and by firing the corrupt employee from customs points. The department should punish the corrupt employee and reward the better performance of the employee which motivates them to show the better performance and which warn them for negligence and corruption. The department should operate the harmonized system in easy way for the better services.

The government should provide a good direction to the customs department to use new system of revenue collection with new technology and to recruit well educated and trained manpower at customs points. The government should increase the customs revenue by providing the training program for the customs employee to compute the customs duty in fast and easy way.

Evasion of tax is another major problem while collecting customs revenue. In the absence of good computerized system, negligence of customs employee and the lack of proper knowledge about the use of tax revenue, tax evasion takes place.

Nepotism and favoritism is another problem which reduces the customs revenue. It is most powerful than the customs rules in case of customs personnel of Nepal. The government should stop nepotism and favoritism in customs points. It should stop by regular monitoring of special investigation units of Nepal government at customs points.

Corruption, leakage, informal trade, smuggling of goods, open border, reduction in exportable goods are the main causes by whom customs revenue is reduce. The government should reduce corruption and leakage with strong policy. The government should minimize the informal trade and smuggling of goods by the help of its agency and by establishing more customs points in these places where these activities are taken place. The government should do promotional activities through international televisions and channels to increase the volume of export revenue.

Contribution of customs duty to total tax revenue will be high, if the government will be able to maintain peace and security in the country, keep stability, make suitable rules and regulation and have the strong desire to implement these rules and regulation.

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APPENDICES

Appendix 1

Amount of Government Revenue, Total Tax Revenue, Indirect Tax, Direct Tax and Non-Tax Revenue of Government of Nepal

| (Rs. In Millions) | | | | | |
|-------------------|--------------------|-------------|--------------|------------|-----------------|
| Fiscal Year | Government Revenue | Tax Revenue | Indirect Tax | Direct Tax | Non-tax Revenue |
| 2001/02 | 48,934.80 | 37,656.30 | 30,058.90 | 7,597.40 | 11,278.50 |
| 2002/03 | 55,670.50 | 42,027.70 | 32,481.20 | 9,546.50 | 13,642.80 |
| 2003/04 | 62,331.0 | 48,175.70 | 36,974.20 | 11,201.50 | 14,155.30 |
| 2004/05 | 70,122.80 | 54,104.90 | 41,851.80 | 12,255.20 | 16,017.90 |
| 2005/06 | 72,282.10 | 57,427.00 | 43,465.50 | 13,961.50 | 14,855.10 |
| 2006/07 | 87,712.10 | 71,168.00 | 52,188.30 | 18,979.60 | 16,544.10 |
| 2007/08 | 107,622.70 | 85,147.10 | 62,076.30 | 23,070.80 | 22,475.60 |
| 2008/09 | 143,474.40 | 117,051.80 | 82,499.20 | 34,552.60 | 26,422.60 |
| 2009/10 | 179,940.40 | 156,290.70 | 114,530.20 | 41,760.50 | 23,649.70 |
| 2010/11 | 198,819.60 | 172,755.20 | 124,114.20 | 48,641.00 | 26,064.40 |

Source: Quarterly Economic Bulletin of Nepal Rastra

Bank

Appendix 2

Composition of Indirect Tax

Source: Quarterly Economic Bulletin of Nepal Rastra

| (Rs. In Millions) | | | | |
|-------------------|-----------|-----------------|---------|--------|
| Fiscal Year | Customs | Value Added Tax | Excise | Others |
| 2001/02 | 14,085.60 | 12267.3 | 3807.0 | 0.0 |
| 2002/03 | 14,236.40 | 13467.3 | 4777.5 | 0.0 |
| 2003/04 | 15,554.20 | 14498.2 | 6221.4 | 0.0 |
| 2004/05 | 15,701.50 | 18897.9 | 6446.3 | 0.0 |
| 2005/06 | 15,344.10 | 21615.4 | 6506.5 | 0.0 |
| 2006/07 | 16,699.00 | 26145.4 | 9343.6 | 0.0 |
| 2007/08 | 21,062.40 | 29784.6 | 11229.2 | 0.0 |
| 2008/09 | 26,622.60 | 39604.2 | 16272.5 | 0.0 |
| 2009/10 | 35,151.50 | 54896.5 | 24315.1 | 167.0 |
| 2010/11 | 35,794.10 | 61659.1 | 26542.3 | 204.4 |

Bank

Appendix 3

Composition of components of Customs Duties

| Fiscal Year | (Rs. In Millions) | | | | |
|-------------|-------------------|-------------|----------------------|---------------------------|------------------------------|
| | Import Duty | Export Duty | Indian Excise Refund | Agriculture Reform Duties | Miscellaneous Customs Duties |
| 2001/02 | 9734.80 | 968.90 | 2,768.90 | 583.70 | 29.30 |
| 2002/03 | 10,567.70 | 855.20 | 2,370.60 | 426.20 | 16.70 |
| 2003/04 | 11,439.10 | 527.40 | 3,110.10 | 404.70 | 72.90 |
| 2004/05 | 12,302.90 | 736.30 | 2,188.30 | 400.90 | 73.10 |
| 2005/06 | 11,744.90 | 625.30 | 2,314.40 | 538.80 | 120.70 |
| 2006/07 | 13,623.50 | 708.60 | 1,896.60 | 406.00 | 64.30 |
| 2007/08 | 17,128.30 | 445.70 | 2,997.10 | 390.10 | 101.20 |
| 2008/09 | 21,886.30 | 796.50 | 3,211.20 | 497.20 | 231.40 |
| 2009/10 | 29,964.80 | 908.80 | 3,521.00 | 497.30 | 259.60 |
| 2010/11 | 31,347.60 | 486.70 | 2,918.70 | 752.40 | 288.70 |

Source: Quarterly Economic Bulletin of Nepal Rastra

Bank