

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Nepal is a landlocked country. It is surrounded by India to the east, south and west and by Tibet, an autonomous region of the People's Republic of China, to the north. The country has rectangular shape and stretches from east to west (Latitude of $26^{\circ} 22'$ to $30^{\circ} 4'$ N and longitude $80^{\circ} 4'$ to $88^{\circ} 12'$ E). It is largely mountainous country more than 83% of the 147181 sq. Km of its land area is either mountain or hills. The mountainous range has most of the highest peaks of the world including Mt. Everest. The Himalayan range in the north has compelled the country to search for access to the sea through India. The country has a tropical climate. About 90% of the rainfall occurs during the monsoon (June to September).

Nepal is one of the least developed countries of the world .In Nepal, agriculture accounts for around 40% of the GDP and more than 80% .

Excise duty is an indirect tax charged on the Production of particular goods or services. In recent years, this term has been applied to just about every tax except the income tax. The income tax and the property tax, while referring old context. Government leads excise tax on specific goods produced and consumed inside a country. They differed from tariffs which usually apply only to foreign made goods, and from sales taxes which typically apply to all commodities other than those specifically exempted. In their modern form, excise taxes were first developed by Holland in the seventh century and established by law in England in 1643. Introduced into the Dutch colonies in America, the system spread to other colonies. Such taxes were first used by the federal government in 1791 and arouse

a great opposition. They were repealed "1802 in Thomas Jefferson's Administration during the war of 1812 comprehensive excise taxes were levied again but were repealed in 1817. The taxes imposed during the civil war included an excise duty on all manufactured goods. Most of those were gradually repealed and by 1883 only liquor and tobacco were taxed. The Spanish American War saw a temporary expansion of excise taxes. In both world wars such taxes were greatly increased; in World War II they were levied on furs, Jewelry and leather as well as on liquor, tobacco and amusements.

In context of Nepal, Excise duty is imposed on the consumption of selected goods such as alcoholic beverages and tobacco. Historically these duties had constituted one of the largest sources of tax revenue in Nepal. It had covered a wide range of domestic products more than fifty commodities accounting for 14.30% of total tax revenue during 2048/49. But in recent years as follows the almost universally accepted norms, excise duties are restricted to a narrow range of domestic products. It covers tobacco, liquor, beer, flavored soft drinks, cement and plastic goods. It contributed 9.9% of Total tax revenue during 2058/59. The effect of excise duty is also faced by narrow range of population. At present, large sales volume, few producers, limited consumers, inelastic demand and lack of close substitute are the basic charm of excise system in the county. The basic relatively simple administrative effort provides limited opportunities for tax evasion. The excise duty is very helpful instrument to control the consumption which is regarded as lacking merits or as likely to cause negative externalities.

The main source of revenue from excise duty is liquor, leather, pig-pair, mining, herbs in hashish is and opium. The civil code 1854 has given legal basis for imposing excise duty on liquor, mining of iron, animal's bones, hashish, cannabis, timber wood etc. The excise act 1959 authorized the government to impose excise duty on domestic industrial products like matches, sugar, liquor etc. The liquor act

1975 was promulgated, which gave legal basis to introduce distillery systems in the production and distribution of the liquor .The excise act 2002 authorized the government to raise, revenue form selected imports products and services.

In order to discourage the consumption of health hazard products the excise duty is therefore imposed on the manufacture of the products like beer, liquor, tobacco and cigarettes. The excise duty is also imposed to protect the domestic industries from unfair competition. It is also applied to protect the environment.

The structure of excise duty reveals the significance of revenue generated three excisable items, cigarettes, liquor and beer. The contribution of cigarettes, liquor and beer together is on average more than 90% of the total excise duty during 1995-2005 periods. The number of selected excisable products has been reduced over the periods. The selected excisable products numbered 14 in 1964. The number increased to more than 100 during the period 1964 to 1990. In 1997, the number of excisable products was 13, which increased to 21 in 1998. The number has further increased to 30 in 2006 January.

The Duty on Beer was Rs. 20 per liter in 2000/01, the rate of which was increased almost every year .Now it stands at Rs. 50 per liter .In case of 30 UP liquor, the duty per LP liter was Rs. 205 in 2002/03 which now stands at Rs. 360 in 2007/08. The tax base of liquor was changed every year from 1998 to 2003. The base remained the same from 2003 to 2005(July) which was drastically changed in 2006(January). Similarly, filter cigarette of 70mm length has attracted excise duty which has increased every year. The duty rate was Rs. 260 per M (1000 sticks) in 2000/01, which now stands at Rs. 360 per M. The excise duty for molasses has also increased from Rs. 13 per quintal to Rs. 35 per quintal in seven years.

The beer production was increased marginally in the last three years. The liquor production has fluctuated from year to year and has almost stabilized in the last few years. The cigarettes production has also declined in some years but has shown steady increase in the last three years. The fluctuation has each attributed to internal disturbances in the country.

The dept of excise was created in 1965 to administer to the excise duty in an effective and efficient manner. The dept was merged with the dept of sales tax in 1993 which was changed into dept of value added tax in 1996. The dept of excise and sales tax was consolidated with the newly created dept of Inland Revenue in 2001. But now all these three tax are solely administered by IRO. As a result of this organizational change, the excise function got least priority in the department, despite the facts that excise duty was the fourth single largest revenue contributor. About 98 staffs (full time and part time), which is about 10.59 % of the total manpower (1925), allocated to administer the excise functions. The organizational structure shows that there are three tiers in the administration –dept level, district level and the manufacture level .There are 22 field offices in 19 districts.

The excise act 2002, Excise rule and amendment thereof by the finance act 2060, 2061 and 2062 have made provisions for excisable products, collection methods and exemptions of excise duty, deputation of the excise inspectors, licensing process, regulating mechanism and penalty of the wrongdoers.

Unpredictability of the governments excise policy during the period is notable. It is particularly observed in the organizational structure, frequent increase of the rate of excise duty without extensive homework, deductions of excise duty paid on the raw materials etc. The excise act has empowered the government with the discretionary authority. The government official can fix the price of the manufacture good for the excise duty purpose. It can order to reassess the price or

instruct the manufacture to included additional price taking into consideration with the cost. It has not defined the cost and it has not stipulated whether the manufacture should be consulted. The excise official has also the authority to issue search warrants and arrest the accused if the excise official has "adequate basis" to do so. The penalty clause has provisioned for the financial penalty or imprisonment or both which gives a wider leeway to the decision maker in awarding penalty.

As the newly created dept of inland revenue is vested with the administration of the income tax, value added tax and excise duty, it has to devote more time to address problems of income tax and vat as the number of tax payers increase substantially compare to the excise which is considered to be less complicated tax in terms of tax payers and the source of revenue. The officials are not properly trained on technical matters. The junior staffs assigned to the plants are from the revenue services. They are neither trained in the technical matters nor have the motivation to work.

Despite legal and administrative provision to control the leakages, the huge leakages and the corresponding loss of the revenue is frequently reported. The dept of Inland Revenue believes that the leakages amount to more than 40% annually. Knowledgeable source claims that it is grossly under estimated. The controversy regarding the duplicate stickers and the duplicate corks is also ramped. It seems that the monitoring on periodic basis, which the act has made the provision has not been effective because of the lack of financial and technical analytical skills of the most of the staffs.

WTO

In the course of negotiation to accession to WTO, Nepal made commitment on customs and tariffs rate, other duty and charges (ODCs) and customs valuation.

Accordingly, Nepal agreed to tariff binding rate, which obligated Nepal to adjust its tariff in a time bound schedule.

BIMST-EC

In order to prevent the negative effect on revenue from trade and to protect the domestic industry from unfair competition, The Negotiation Committee agreed to draw negative list which will include 20% of the 5224 HS subheads of the trade. Nepal has to submit the negative list which is not subjected to elimination or reduction of tariff .During the next round of negotiation; it is expected to finalize the negative list.

SAFTA

SAFTA has a provision for drawing sensitive list in order to prevent adverse effect on the revenue from trade and to protect domestic industries from unfair competition. The trade liberalization program allowed including 20-25 percent of HS subheads in the sensitive list.

As BIMST-EC and SAFTA agreements have allowed drawing negative or sensitive list in order to protect revenue and the domestic industries, the revenue implication for short term is marginal.

1.2 Statement of the Problem

Since past 16 years, the collection of excise duty has been appeared in the fluctuating trend .The growth rate was as low as 1% in 2002 to 30.13% in 2004. The year wise excise duty pattern shows that the growth rate has been less than 5 % for five years, less than 10% for three years and 17% to 30% growth rate for six years. Political instability, frequent change in government policy, conflict, extortions of industrialists, change in the list of excisable commodities, change in the excise rate, change in organizational structure, change in the acts and rules etc

may be the reason .Fluctuating growth rate in excise collections in the distressing situation.

It is known that the excise duty is levied on different products with a view to accelerate revenue mobilization in the country, reduction in the production , consumption and import of health hazard goods .However , it is interesting to mention that rather decreasing the consumption of those commodities , it has been increasing since past three years regularly . Juvenile drinking and smoking habit is increasing in the nation despite of the growth of the excise rate every year with a view to discourage it. Is the excise act and rules are responsible for the worrying situation? It is one of the problems at present to investigate.

Despite the enactment and implementation of excise act and rules in the nation, liquors made in the local levels are increasing which causes the heavy loss in excise collection .Is excise act able to control such practices that cause to reduce excise collection?

Nepal has made the international commitment to abolish tariffs with in 2013.A.D .Excise duty is one of the major contributor in government revenue .It is clear that abolition of excise by 2013 significantly bring the financial problem to the government of Nepal. In this situation, it is essential to find out the excise alternatives .Nepal also has made bilateral treaties, multilateral treaties and treaty with India .Such agreements derive some major fences to impose excise duty on the excisable commodities imported. It results into promotion of import and reductions of export. Does not Nepal have any alternative measures to discourage import of liquor, beers and cigarettes?

In the course of negotiation to accession to WTO and bilateral treaties made, focuses on enforcement of uniformity in the rate and list of excisable

commodities. By 2013, all the custom duties and tariffs shall be equalized zero except countervailing and anti dumping duty, so as to standard policy of WTO. In this perspective, the time frame and the dependency on excise duty of Nepal are essential aspects of concern.

Despite legal and administrative provision to control the leakage, the huge leakage and the corresponding loss of revenue is frequently reported .The department of Inland Revenue believes that the leakage amounts to more than 40% annually. Knowledgeable sources claim that it is grossly underestimated. It is also attempted to find out the reason in the excise evasion and uncover the remedial measures. We attempt to testify the practicability of excise act and excise rule 2002. Loopholes in the excise act and excise rules, implementation mechanism creates such situation.

Government has made policy amendments in the short periods of time. It is attempted to explore the consequences of such policy amendments in the excise collection.

Various studies have clearly stated that employees deployed in the excise department are really untrained, less qualified and their performance is less than average. It is the subject to examine and find out the facts .If it becomes truth, we need to find why such events took place and how such problems can be resolved at present.

Excise duty act has the provision to reward the informer .It is said that equal to 20% to 40% of the penalty, reward will be provided to the informer .Despite of this provision, Excise leakages crosses more than 40% .It is admitted by the IRD itself.

Excise act has delegated the discretionary power to exercise officials. Doesn't this discretionary power provide the ground to play the unlawful games, which cause the leakage in excise collection? It is the subject matter of study and shall accordingly be resolved.

The weakness in the excise act and excise rules doesn't bring all stakeholders in the excise net. It promotes the production of liquors in the local levels .Is the reasoning true? What will be done if it is so?

Without registration, there is restriction of Liquor trade, i.e. bulk distribution, export -import and even the retailing .But several unregistered retailers are easily having the trade, out of access of IRD .Why the appropriate measures are not being adhered ?

It is said that corruptions prevails in all tiers of administration of excise department. It is one of the reasons in the leakages of excise duty. Is that one of the reason? If so what provision shall be made that helps to curb the corruption.

1.3 Objectives of the Study

The main objective of the study is to analyze the Excise Duty of Nepal relating to its problems and prospects .Other specific objectives of the study are listed below:

1. To analyze the Excise Duty structure of Nepal
2. To analyze the problem of Resource gap in Nepal
3. To identify and predict the share and trend of Excise Duty on government Revenue of Nepal
4. To identify the major problems of existing Excise Duty Act
5. To identify the major prospects of Excise Duty in Nepal
6. To provide necessary suggestions and recommendations.

1.4 Rationale of the Study

It supports the government to find out the reason for excise leakages and take corrective measures to reduce it .It supports to find out the alternative sources of government revenue while complying with WTO, Regional trading blocks and bilateral agreements .It supports to find out the reasons of increment in the consumption and import of health hazard excisable commodities despite of increment of excise rate. Finally it supports for the elimination of such loop holes that cause to increase the consumption of excisable commodities.

1. It helps to find out the reason of excise collection .It examines whether enhancement of excise rate supports the enhancement of excise collections or not
2. It supports government to make its excise policy as it studies in the multiple aspects of excise act and rules.
3. It supports further researcher in their thesis writing and for the knowledge in excise duty of Nepal
4. It studies about the corruption and its reason .Finally; it helps for curbing corruption in the excise collections
5. It helps to bring necessary improvements in the organizational structure of excise departments.
6. It investigates about the employee's grievances and provides the way to handle them well .It enhances the performance of employees, which ultimately contribute to accelerate the revenue mobilization of the government.
7. It helps to uncover the reason of juvenile drinking and smoking habits
8. It helps to comply with international commitments.

1.5 Scope of the Study

-) Excise rate and production, consumption and import of liquors, tobacco and beers.
-) Excise duty on imports and growth and expansion of domestic industry

-) Major excisable commodities and their excise contribution in total excise collections.
-) Excise leakages and excise act
-) Bilateral agreements, commitment with regional trading blocks and WTO
-) Excise structure
-) Excise administration and their effectiveness
-) Efficiency, education and motivation of excise employees
-) Problems of excise duty payers
-) Overall contribution of indirect taxes
-) Reward to the informer and its effectiveness
-) Provision of penalty in excise act and its relevancy implementation and necessary improvements.

1.6 Limitations of the Study

The study has the following limitations:

1. This study is based on primary and secondary data and reliability of conclusion depends upon the true answer of respondents of questionnaires and sources of secondary data.
2. Main focus is given to Excise Duty of Nepal
3. Primary data are collected only from Katmandu valley
4. This study covers eight years data only

1.7 Organization of the Study

This study is divided in to five chapters which are as follows.

- Chapter – I: Introduction
- Chapter – II: Literature Review
- Chapter – III: Research Methodology
- Chapter – IV: Data Presentation and Analysis
- Chapter – V: Summary, Conclusion and Recommendations

The first chapters will be introduction chapter which includes background introduction, statement of problem, Rationale of study, objectives, Scope, limitations and organization of the study,

Second chapter includes the review of literature through different relevant books, journals, reports, published and unpublished dissertations .It also contains conceptual framework and legal provision regarding excise act and rule.

Third chapter is about research methodology, which includes introduction, research design, population and sampling, nature and sources of data, procedure of data collection, procedures of data analysis.

Fourth chapter includes presentation and analysis of secondary data and empirical study. It is the integral part of research. It includes composition of total revenue, composition of direct tax, and contribution of total revenue, total tax revenue, direct tax revenue and indirect tax revenue on GDP of nation, resources gap in Nepal, rate of excise duty, and production trend of excisable products, excise duty structure, revenue implication of multilateral and bi-lateral agreements. Secondary data collected from various sources are tabulated and analyzed in the descriptive form. Primary data retained from the questionnaire are tabulated and its simple average is calculated. Simple average of the tabulated primary data is analyzed in the descriptive form .It helps to achieve the research objectives.

Last chapter includes summary, conclusion and recommendations.

Bibliography and appendix will be presented in the last part of the study.

CHAPTER - II

LITERATURE REVIEW

2.1 Background

Excise duty is not the new concept and phenomenon in the field of public finance and taxation. It has been imposing since long time with multiple purpose and its form, structure, rate, act and regulation varies country wise. Lot of researches and studies were made and still are ongoing to uncover its multiple dimensions. The classic home of modern excise taxation is Holland (Seligman, 1969). First excise taxation scheme was created in England by the long parliament in 1763 A.D. In Germany; excise tax was limited only to the towns. Hamilton attempted to tax whisky in 1789 A.D as an excise tax, but the consequence led to a rebellion which is called "whisky rebellion". But it was again tried during the war with England successfully Findley Shirrs as one of the opinion that excise taxes (with reference to intoxicating liquors) are found in the Ramayana and Mahabharata period in the ancient India (Shirrs, 1936: 633-63). In china, excise taxes (mainly on salt was created by Kuna Tsar, the prime minister of Tsar State (Now the Shan- Tong province) during 770-249 B.C (Shako Koran Chen, 1914: 49) .The excise taxes (the indirect taxes) was also well developed in Greek and Roman period in the ancient world (H.M Groves,1993: 12-12). At the present time we find excise taxes employed by all most all countries developed as well as developing. In context of Nepal, the civil code 1854 has given legal basis for imposing excise duty on liquor, mining of iron, animal bones, hashish, cannabis, timber word etc. It was believed that the duty was raised to cover the expenditure on war with Tibet. The excise act 1959 authorized the government to impose excise duty on domestic and industrial products like matches, sugar liquor etc (Ghimere, 2006:1).

2.2 Theoretical Review of Excise Duty

Excise duty is an indirect taxation levied on the consumption and production of different types of commodities like tobacco, liquor, beers and other luxurious commodities. It is levied on the domestic good. It is imposed with multiple objectives like to avoid or discourage the consumption of injurious goods to health, and luxurious commodities or to increase the government revenue, to discourage the import and protect the domestic industry the foreign goods.

As per the new Columbia encyclopedia, "excise taxes, governmental levies on specific goods produced and consumed inside a country. They differ from tariffs, which typically apply to all commodities other than those specifically exempted."

According to Cambridge encyclopedia," A tax levied on many goods and services by government as a way of raising revenue, often called duty. Best known are the duties on tobacco, alcoholic drinks and fuel, VAT, and sales tax."

Ordinarily excise means a tax or duty on home produced goods either at some stage of production or before their sale-home consumers. But the term has been extended to cover various levies on sports, trades and occupations in the form of license duties. According to the canon of convenience an excise tax can be levied at an intermediate stage, on production or on the finished products.

Some times excises are used as a regulatory device. The purpose has been either to foster the growth of a particular technique or particular industry or to conserve certain minerals or to economize in the use of some raw materials.

2.3 Objectives of Excise Duty

Government of Nepal levies excise duty with following major objectives:

1. Mobilization of revenue
2. Discouraging the consumption of health hazard products
3. Protection of domestic product

2.4 Base of Excise Taxation

John F. Due opines that there are four major bases of selective excise taxation. Excises levied under various considerations according to Due are (1) the moralistic notion that the consumption of certain product is harmful and should be curtailed called sumptuary excise, (2) The belief, that "Luxury" taxes are socially and economically desirable called luxury excise, (3) Payment made for consuming benefit out of state's economic activities is called benefit excise, (4) excise used as rationing device at the time of emergency or scarcity is called diversionary excise.

2.4.1 Sumptuary Excise

The desire to control the consumption of certain allegedly harmful or undesirable products whose use results in costs to society over and above those incurred in their reproduction has long been an important motivation for selective excise taxation. Intoxicating liquor and tobacco have been the most frequent of such restrictive legislation (Pant, 1985: 11).

2.4.2 Luxury Excise

Luxury excise is justified under the ability to pay ground. David Hume supports it stating that "the best taxes are those levied on consumption, especially those of luxury because such taxes are least felt by the people". Adam Smith also supports it saying that "as he (the consumer) is at liberty, too, either to buy or not to buy as he please, it must be his own fault if he ever suffers any considerable inconvenience from such taxes (Pant, 1985: 13).

2.4.3 Benefit Excise

Benefit excise is considered as a payment for the consumption of state's economic activity. Thus in benefit excise there is quit- pro- que relation between the tax payer and the tax receivers. The gasoline excise taxes are considered as a payment for highway maintenance and construction made by the state (Pant, 1985: 13).

2.4.4 Diversionary Excise

In time of needs excises may be used as rationing device to control or curtail the consumption of the scarce commodity. It is also used too allocate the resource to the less productive to more products and less urgent to more urgent sector of the economy. In diversionary excise discrimination is always allowed (Pant, 1985: 13).

2.5 Historical Development of Excise Taxation in Global Prospective

The classic home of Modern Excise Taxation is Holland (Seligman, 1969) was first introduced in the sixteenth century. The economic cause behind the imposition of excise tax was that during the sixteenth and seventeenth centuries Holland was the leading financial and trading nation of Europe. The English did not introduce it, as late as the seventeenth century and it was one of the boast of Englishman that their country was free from internal commodity tax (Bastable, 1903: 314-315). First excise taxation scheme was created in England by the long Parliament in 1763. In France under the Ancient Regime excise taxes (indirect taxation) was extensively employed. But the disturbances that broke out in 1789 in France were check to the collection of the excise taxation (Indirect taxation). The strong popular sentiment against excise taxation in France was influenced by the physiocratic dislike to taxes on consumption.

In Germany excise tax was limited only to the towns. Hamilton attempted to tax Whisky in 1789 as an excise tax, but the consequence led to a rebellion which is called "Whisky Rebellion". But it was again tried during the war with England (1812 A.D-14) successfully. Findley Shirras is of the opinion that excise taxes (with references to intoxicating liquors) are found in the Ramayana and Mahabharata period in Ancient India (Shirrs, 1936: 662-63). In China, excise taxes (mainly on salt was created by Kuan Tsi the prime Minister of Tsi state now the Shan – Tong Province) during 770-249 B.C. The excise taxes (indirect taxes) were

also well developed in Greeks and Romans period in the ancient world²⁰. At the present time we find excise taxes employed by almost all countries developed as well as developing.

Throughout the period of tax structure development excise tax suffered from many sentimental opposition. Because the fact is that conditions are not ripe for their proposals. In the sixteen century in European countries (except Holland) wealth was centered in the landed interest. Accordingly, land tax was dominant. Harley Hinrichs in his "General Theory of Tax Structure Change during Economic Development" makes the observation that " Traditional Societies rely Primarily on Traditional Direct Taxes such as tax on land , agricultural output etc, and in the development countries between the two great wars, indirect taxes reached zenith and started to decline relative to direct taxes (Musgrave, 1969: 130-140).

R.A. Musgrave is of the opinion that the ancient world (Athens and Rome) relied on direct taxes on the gross product of land and the same pattern is found in Asia and the Near East relied on direct taxes imposed primarily on subjected group and mostly regressive in character. Medieval Europe relied on direct taxes on the (Shirras, 1936: 658-59) gross product of land and the same pattern is found in Asia and the Near East. The use of indirect taxation arose only with the dissolution of traditional society. The development of nation states, the rise of industry and the expansion of trade led to the growth of internal indirect taxes, strengthened by the continued growth of taxes on external trade (Seligman, 1909: 9).

In the seventeenth century business class in England tried their best to escape the burden of taxation, which the land owing class were anxious to place on them. The state was in an urgent need of revenue to finance war and the economic conditions for the levy of indirect taxes. Thus, according to E.R.A Seligman, "The Selfish Design of the Capitalist and the unselfish Ideas of the Tax Reformers went hand in

hand to widen the scope of indirect taxes. Earlier excises attempted to include all the various articles of consumption. The Spanish "Alcavala" & "Bolla" were imposed, the one of all kinds of goods. According to Dutch methods of taxation the greater the number of taxed articles the more perfect was the system deemed to be. No doubt general excise holds prominent position in the fiscal system, but Bastable "observes popular sentiments by no means agreed with this idea of theorists and statesman". The system of General Excise became very unpopular. Walpole was unjustly accused of attempting to introduce it into England. There was a popular cry in England that 'no slavery', no excise, no wooden shoes', and Dr. Johnson define excise as "a hateful tax levied upon commodities." Therefore Walpole dropped the scheme and said "I will not be a minister to enforce taxes at the expenses of blood." some of the writers also added the further objection that the excise sins against the doctrine of equality. One writer qualified the statement as "a notorious work of egregious ignorance so infamous a consequence of Slandorous injustice and so palpable an attempt to poison the minds of the people that are nothing more than the coinage of daily propagator of clamor (Seligman 1909)." Joseph Child is of the view that it is the dearness of wages that spoils the English Trade." Excise is also criticized' as false as it is inhuman. One writer who signs himself as Thrasybulus describes the nine inequalities of the excises in buried colors the thirty – three defects of excises. The same excitement against excise taxation existed when the first experiment in this field was made by Hamilton in the United States. One member of the Congress denounced it as the "horror of all free states and another declared it as the "nostile to the liberties of the people (Lutz, 1936:566-86)." In Pennsylvania which opposed the excise tax most strongly, "Whisky Rebellion" broke out. The successful independent struggle of Mahatma Gandhi was also started through "Salt Movement." All these historical facts show the resentment against the system of excise taxation.

While turning the pages of the history of excises, we not only meet opponents but also adherents. Hobbes was the first English writer who supported excise taxation shortly, after the imposition of first excises in 1643. He like many of the later continental tax reformers held excise taxes to be a logical corollary of the doctrines of equality and universality of taxation. In the same way, Francis Cradock also supports it on equity ground. The earlier writers prefer Dutch excises by stating " certainly the most equal and indifferent tax in the world and least prejudicial to any people." Thomas Mun the famous advocates of Mercantilist theory defend excise by saying that the excise is not burden to the poor, because, ultimately in the long run it is shifted to the employment procedure (Thomas, 1664: 151-152). Waterhouse maintaining Mun's view on excise advocates that, even (Seligman, 1909: 26-274) that if money is raised by the poor, it will be returned back to them in the shape of increased employment or higher wages. Fauquier also believes that the wages will rise more than in proportion of the tax (Ghimire, 2005: 1). Other anonymous pamphleteer of the same period also is of the view that excise are the most equal that is to why no man by it can be said to be oppressed thus it is less grievous of all other taxes. William Petty another writers of the same period stress excises on the principle of equality (Nepal Gazette of Various Year, 2015). Excise being less sensitive tax the consumer paid it almost unconsciously. Thus, Sheridan contents that the excises, if equally imposed, were the best easiest of all taxes and advanced the usual argument in its favor (Abstract of Excise Duty Act, 2015). The doctrine of excise was also accepted by later writer James Stewart and become a part of classical doctrine as elaborated by Adam Smith and Ricardo (Abstract of Excise Duty Rules, 2019).

All the earlier extreme opinion seems to be very much sentimental. The main cause behind the extreme view seem to be because of less knowledge over the subject rather that theoretical inferiority and superiority.

2.6 Historical Development of Excise Duty in Context of Nepal

Excise duty is a government tax on selected goods which are manufactured, sold or used in country. This traditional definition of excise duty has been widened in the scope in recent years. It is also applied on service sector and the import of selected goods and commodities. The civil code 1854 has given legal basis for imposing excise duty on liquor, mining of iron, animal bones, hashish, cannabis, timber wood etc. It was believed that the duty was raised to cover the war expenditure with Tibet. The excise act 1959 authorized the government to impose the excise duty on domestic industrial products like matches, sugar, liquor etc. The act was revised in 2002 expanding the scope of excisable products. The government is now authorized to impose excise on service sector as well as on imports of goods on selective basis. During the Rana regime, the excise duty was collected on the contract basis. After 1951, the contract system to raise excise duty from hashish and cannabis was terminated and the license system was introduced. The contract system on other products was continued. The contract system of low grade production and distribution of liquor was particularly significant. The liquor act 1975 was promulgated, which gave legal basis to introduce distillery system in the production and distribution of liquor. A separate department of excise was established in 1965 by bifurcating the development of customs and Excise. The purpose was to make the excise administration more effective and efficient in order to raise revenue from different kinds of domestic products on selective basis. The department established field offices in various parts of the country. The dept were abolished in 1998. Its responsibilities were transferred to the newly created Dept was given specific responsibility on the excise administration and similar responsibility was assigned to the section officer in 22 field offices. The dept of Inland Revenue has delegated its authority of issuing excise license to 17 treasury offices. As the customs tariffs rate has shown declining trend in the last few years, it is necessary for the government to explore the alternative means to compensate for the loss of revenue and mobilize additional revenue to meet the growing

administrative expenses. Excise duty is the potential area which is expected to contribute substantially in the future (Reference of Excise Act, 2058).

The history of excise duty act and regulation is as follows

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- J Feb 26; amended by the Nepal Law (Amendment and revalidation) Act, Nepal Gazette (Rajpatra) Vol -13 no 29E, Falgun 16-2020.
- J August -2 1974; amended by revenue tribunal act, 1974, Nepal Gazattee (Rajpatra), Vol 24 no 19 E, Shrawan 18, 2031.
- J August 8, 1984; amended by some Nepal Laws (amendments) act, Nepla Gazette (Rajpatra) vol34 no 230(extraordinary) Shrawan 24-2041.
- J Nov-12, 1984; second amendment, Nepal Gazette Rajpatra Vol 34, no 41A (extraordinary), Kartik 27 2043
- J Oct -2, 1986; third amendments, Nepal Gazatee Rajpatra Vol 36 no 25 C E Ashwin 6-2043
- J Dec 13, 1990, Amended by some Nepal laws relating to finance (amendments) act 1990 Nepal gazette Rajpatra Vol 40 no 44E Marg 27,2047
- J May 30/1991; Amended by judicial administration act 1991, Nepal Gazatee Rajpatra Vol 41 no 11E Jestha 16, 2048
- J April 20, 1992; fourth amendment Nepal Gazatee Rajpatra Vol 41, no 73 E Chaitra 30 2048.
- J Magh, 17, 2058 Bs or Jan 30.2002; bill formulated to amend and unify the laws related to the excise duty i.e. excise act 2058 (Ghimire, 2005: 1).

2.7 Excise Duty Act, 2015

There are 18 sections of the excise act 2015. According to the sections , 1,2,3 and 4 there are short titles, definitions , right of levying and collecting excise and prohibitions of illicit productions storing respectively. Methods of obtaining license (section 5), arresting and processing (section 6), cause concerning excise (sect 7), helping duties to excise service man (sec 8), price for real information (sec 9), fine for not informing(sec10) , are the other laws .similarly punishment to those who are arrested (sec-11),other punishments (sec-12), appeal for disliking the judgment (sec 13), confiscation and postponing the action (sec14),fine and taking money (sec15), right to make rules (sec 16) were the main legal provisions . Lastly, conflicting laws with other Nepal laws (sec-17) and exemption of excises (sec-18) were the remaining legal provisions concerning the excise act 2015.

While studying excise act 2015, we get the important provision in the 4th section of this act which was concerned with illicit production, selling and buying such goods. That provision was very important on behalf of the social benefit principle. Similarly section 11 possessed another importance. That section gave power for arrest the people and seizes the goods with the view of distressing them. Lastly, the most important management of that act was the exemption or release of excise section 18. That was another economic principle concerning industrial development. According to section 18 HMG could give full (cent percent) exemption or release, 75 % and 50% in the first second and third year of production if the government realized the reality of industrial development. In this way we could find that the above mentioned section was economically, socially and morally important.

2.8 Excise Duty Rule, 2019

There was 52 point in excise rules2019. Only important are taken here. License rate (rule -4) License duration (rule -5). Quarter for excise officers (rule-7), work

and duties of excise officers (rule -10)work and duty of factory owner(rule11), exemption of excise (rule 16), right to see case (rule-19),punishment(rule-20)are the important rules that are dealt with. Similarly, there are additions rule for matches, soaps, cigarettes, sugar and wine (rule 21-53) .Fairly collection of excise duties mostly depends upon the work and duties of excise officers and the concerned factory owner. If the work and duty is not fair by both of them, the excise taxes cannot be collected scientifically. Here we are going to study the work and duty of excise officers and the factory owners managed by excise rules 2019.

2.9 Provisions Made In Excise Act 2058 B.S.

Excise Act 2058 B.S. Came into use being after the abolishment of excise act 2015 B.S. It was amended on 2059, 2060, 2061, 2062, 2063, and 2064. Some major parts of the excise act 2058 BS is given below:

2.9.1. Definition

If by subject or context, no other meaning is implied then in this act:

- a) 'Excisable goods and services' refers to the goods and services on which excise duty is applicable as per this act and the prevailing law.
- b) 'Goods' implies both movable and immovable assets.
- c) 'Services' implies any other item that cannot be categorized as goods
- d) 'Enterprise' refers to any firm, company or organization that has been established under the prevailing law for the purpose of production, imports, storage or sales and distribution of excisable goods or for providing excisable services.
- e) 'License' refers to the license granted in accordance to clause 9.
- f) 'Excise duty officers' refers to the officers designated by HMG for the purpose of this act.

- g) Production refers to the manufacturing, construction or preparation work of excisable goods.
- h) Producer refers to individual, firms, companies, or organizations that have obtained the license to produce excisable goods; the terms also refer to the individuals, firms, companies or organizations that provide excisable services.
- i) Person refers to individual, academy, organization, association, partnership concerns, cooperatives, and joint ventures, managers of religious trusts (guthi), or funds, proprietor or the main representative or agent. This term also refers to the institution or their branches and sub branches that undertake with or without profit motive, the production or import of excisable goods and sell or distribute them in wholesale or retail or those institutions that provide excisable services ;it even refers to the places in which such transactions are carried out .
- j) 'Factory Price' implies the amount inclusive of the expenses incurred in the production and sale or distribution of excisable goods and the profit of an academy without adding the excise duty or other taxes.
- k) 'Price' implies
 - The factory price in the context of goods produced
 - a. The price as per the invoice in the context of services provided the price fixed as per section (b) of sub clause (1) or clause(7) in the context of imported goods
 - b. Import implies the act of bringing excisable goods from a foreign country into the kingdom of Nepal as per prevailing laws.
- l) 'Invoice' refers to the bills, receipt or memo slips that are given according to this act by stating the price.
- m) 'Department' refers to the department designated for the implementation of this act by NG.
- n) 'The director General refers' to the director general of the department

- o) 'Specified' or as specified refers to that which is specified or is as specified in the rule of this Act.

2.9.2 Imposition of Excise Duty

If on an annual basis or for a particular year, provision has been made in any act to levy excise duty on certain goods or services, that excise duty will be recovered as per this Act.

2.9.3 Recovering Excise Duty

1. When recovering excise duty applicable for this act, will be done under following circumstances:
 - a. In the case of goods, at the time when the goods produced by an enterprise are being given or being delivered for sale.
 - b. In the case of the services, at the time when an invoice is being issued to the customer
 - c. In the case of the goods that are to be imported, at the time when such goods enter Nepal for the purpose of customs.
2. Notwithstanding what is written in sub-clause (a), if in certain goods the excise duty has to be levied at the stage of production then the process will has been specified.

2.9.4. Appointment or Designation of Excise Duty Officers

For the purpose of this act, Nepal government can appoint the required number of Excise duty officers and if deemed necessary, the Government can also designate any other government officials as those performing work related to Excise duty.

2.9.5. Jurisdiction Area of Excise Duty Officers

The jurisdiction area of Excise duty officers will be as prescribed by Nepal Government.

2.9.6. Price Determinations of Excisable Goods and Services

If the excise duty of any goods is levied on its price then the excise duty is levied based on the following price on the production and import side:

On Production

1. The price taken at the place and time when a producer sells excisable goods to a wholesaler
2. The price fixed by the Department based on the cost of production.

On Imports

1. In relation to goods to be imported, the amount estimated at the time of living customs duty but if the goods to be imported are also produced in Nepal and of the dept has established a price of that good for the purpose of section (A), then the excise duty is levied on the basis whichever is higher between the price established by the department and the price based on section (b)
2. In the case of services, the excise duty is assessed on the basis of the invoice and is recovered accordingly.
3. For the purpose of excise duty recovery, the department can carry out or reassessment or an additional assessment if deemed necessary.

2.9.7 The Need to Take License

1. Without taking the license as per this act, nobody should undertake the production, import, sales or storage of excisable goods or provide excisable services.

2. Individuals , firms , companies or organizations willing to take the license as per sub clause (1) should submit an application requesting for license to the excise duty officers in the prescribed formats along with the fees.

2.9.8 Provision Related to the License

1. As per sub clause (8), when an application for a license is submitted to the excise duty officer then after investigation if considered appropriate , the department or the excise duty officer designated should issue the license in the prescribed format .
2. The terms of the license issued on the basis of sub clause (1) , and its renewal process. And renewal fees will be as specified

2.9.9 Cancellation Of License

The license issued on the basis of sub clause (1) of the clause 9 can be cancelled by the department under the following conditions:

- a. If the terms and conditions that has been specified in the permit have been found to be violated.
- b. If it is observed to be detrimental to public welfare.

2.9.10 Investigation to be Carried if Substantial Basis Found

If there is substantial reason to suspect that an academy is delivering or importing goods by importing excisable goods by evading excise duty then the excise duty officer or the official authorized by him or her can intervene any persons or vehicle and demand the proof of the excise duty payment. If the proof cannot be furnished then it will be considered that the payment of excise duty has been evaded.

2.9.11 The Possibility To Investigate, Seize or Arrest

1. If any individual, firm, company or organizations found to be engaged in the production, import, sale or collection of excisable goods has been providing excisable services without taking a license or if the information regarding the evasion of excise duty as per sub clause (11) is obtained by the excise duty officer or the official authorized by him/her . Then the officer or the authorized official can investigate the premises, house, land, vehicle or places associated with that academy.
2. While carrying out investigation as per sub clause (1) is found to be operation against this act in undertaking the production import sale or storage of excisable goods or in providing excisable services then the officer or the official involved in the investigation can notify the individual an arrest him/her and seize the goods found in the premises by making a statement of facts.
3. If activities against this act are taking place in any enterprise, house, land, vehicle or place and if it is foreseen that there is the possibility of the accused escaping or the proof of violation being wiped out if immediate action is not taken then the officer or the authorized official can prepare the summary sheet and can carry out following actions either himself/herself or through officials under his/her authority.
 - a. Enter such a enterprise house, land , vehicle or place
 - b. If there is obstacles or hurdles in entering such a place then allowing the inhabitants of that place an appropriate opportunity to leave and then enter by breaking windows or doors
 - c. Take hold of excisable goods that are related to the offence and other material and documents that can give evidence to or support the offence.
 - d. Suspense the registration
 - e. Arrest the person who is suspected to have committed the offence.

4. According to this clause, when entering or investigating an enterprise, house, land, vehicle or place as far as possible, one member of the relevant Metropolis , Municipality, VDC, or a local resident should be made a witness
5. As per this act, after arresting somebody or investigating an individual, academy, house, land, vehicle or place or taking into hold excisable goods or other goods, the excise duty officer involved in this should give a report to the director general of the department within 24 hours from the time of the activity that has been accomplished through the swiftest means. If the investigation has been carried out by the official authorized by the excise duty officer then that the person should give a report to the excise duty officer or sends a report to the dept within 24 hours after accomplishing the task.
6. As per this act when investigating an offence the excise duty officer has equal jurisdiction as that of Police according to the prevailing law.
7. In the process of carrying out investigation or arresting or seizing the good if the excise duty officer requests for assistance from the local administration and the police then they should provide immediate assistance.

2.9.12. Information Regarding the Offence

1. If anybody discovers that transactions against this act has been taking place, is going to take place or has taken place then it will be the duty of that person to notify the excise duty office or if such an office is not located close by then the police or any other government office regarding such transactions. The person can give either a written notification or verbal information .Offices receiving such information has to immediately send the information to the concerned excise duty office.
2. If the person providing the information wishes to keep his/her name confidential they can disclose an indicative identity.

3. The person providing the information will be not compelled to disclose the sources of his/her information.

2.9.13 Rewards

If any government official or any other person providing information or clues regarding the transaction that are taking place, will take place or has taken place that violates this act then from the amount recovered from the excisable goods seized from the accused the following amounts will be given to the person as a reward after the final court decision.

- a. To those providing clues 20% of the amount.
- b. To those producing material evidence along with the person 40% of the amount
- c. To those only producing goods 25% of the amount
 -) But if there is more than 1 person providing information or clues then the amount as per above will be distributed on a prorate basis.
 -) If any government official or the police finds the evidence and present the accused along with the recovered goods then those person will be rewarded with the 25% of the amount.

But if only the goods have been seized and produced then 25% of the price of the goods will be given as reward while making such rewards, the upper limit at one time has been fixed at Rs. 15000 and this amount shall not be exceeded even in cases when the actual calculation exceeds this amount.

2.9.14 Penalties or Punishments to those with Holding Information and Assistance

If a person who is bound by duty to provide information or provide assistance knows about transactions that are taking place, will take place or have taken place that violates this act but purposefully avoids doing so, the person can be

imprisonment three months or charged a fine of Rs 10000 or both depending upon the nature of crime or offence.

2.9.15 Punishments

- a. If anybody commits the offences listed below, punishments in the form of confiscating the amount along with the fine based on the amount or 1 year imprisonment or both can be given
 1. If the excise duty amount to be paid as per this act is evaded, hidden or cheated
 -) If clause 9 is violated
 -) If a person prepares the false account or forged documents and commits an offence against this act,
 -) If the offences indicated in the section (a), (b) and (c) are attempted or instigated the punishment will be applicable by half of that of the real offence.
 -) Utensils used directly or indirectly in the offence and the tools, machinery, equipment including vehicle used in the production of the goods and services will also be confiscated.
 2. But if the person has used rented vehicle without the permission of the vehicle owner in committing the offence then the vehicle will not be confiscated but the owner will be charged a fine of Rs 25000 .And depending upon the nature of the offence the driver can be imprisonment of three months or charged a fine of Rs 15000 or both.
 3. Notwithstanding what is written in sub clause 3, if a vehicle has been registered as rented vehicle but it is found to be used by the vehicle owner then the vehicle can be confiscated.

2.9.16 Freezing, Auctioning or Selling of Assets

Based on this act or the rules made under this act, if the excise duty officer finds valid reasons to believe that the offence committed requires confiscation of the assets of any person, and then he/she can freeze the transfer of rights or ownerships of such property.

If the confiscated assets is of such nature that it could perish, go bad or get damaged and thus could decrease in value, then the excise duty officer should immediately sell or auction the property and take into account the amount thus obtained. If the frozen property is later declared to be given back to the owner then the person will only be given back the amount that has been recovered from the auction or sale. The concerned person cannot claim to get back the assets itself.

2.9.17 Jurisdiction Equivalent to that of the Court

For the purpose of this act, the excise duty officer has equivalent jurisdiction to that of the court according to the prevailing law in relation to summoning and interrogating the concerned person, taking his/her statement, inspecting and collecting proof, asking for documents to be presented, to keep the concerned person under demand or to release him/her on bail.

When the excise duty officer is taking action according to this act, he/she has to adopt the procedure as stipulated in the “brief procedural act 2028”.

2.9.18 Appeal

According to this act, an appeal can be filed at the revenue tribunal within 35 days after the decision by the excise duty officer has been taken.

2.9.19 Authority Cannot Be Delegated

As per clause 15 and 16, the authority granted to excise duty officer cannot be delegated.

2.9.20 Conditions under Which the Action to Confiscate is Stalled

As per this act, and the rule made under them, if a decision has been taken by the excise duty officer to confiscate the property of a person but an appeal has been filled against this decision, the official in charge of the appeal can order the excise duty officer to stall the action to confiscate the property until a decision has been reached regarding the appeal but under the situation of sub clause (2) and clause 17, the provisions under this clause will not be applicable.

2.9.21 Pending Amount to Be Recovered As Per the Government Pending Amount

As per this act and the rules made under them , if any person has not paid the amount due to Nepal government and certain amount is pending than the excise duty officer has to recover the pending amount as government pending amount .

2.9.22 Provision for Review

If within 35 days from the order issued to levy the excise duty an application from the tax payers is submitted stating that the tax liability has been increased owing to the excise duty officer not following the conditions laid out in this act or through any irregularities or carelessness then after investigation if considered valid the director general can cancel the former order and issue another order to recover the excise duty.

Once an application as per sub clause (1) has been register the director general has to give a decision within 90 days from the date of registration.

If the decision taken by the director general is found to be unsatisfactory then the concerned person can file an appeal at the revenue tribunal within 35 days of the decision has been notified.

But if an appeal has been filed as per the clause 19, then the application for review based on this clause cannot be submitted.

2.9.23 Tax Related Provisions will be based on this Act

Notwithstanding what is written in the prevailing law apart from the provisions in the annual financial act to amend this act in relation to levying, assessing, increasing, decreasing, exempting or rebating tax, no other acts can amend, introduce any tax systems or change any tax related systems that are laid out in this act.

2.9.24 The Right to Formulate Right

To fulfill the objectives of this act, Nepal Government can formulate necessary rules.

2.9.25 Cancellation and Addition

The Excise Act, 2015 has been revealed.

It is understood that the entire activities carried out and to be carried out under the Excise Act, 2015 have been included in this Act.

2.10 Review of Previous Studies

2.10.1 Review of Books

Various studies and researches have been conducted in different aspects of this thesis .Especially this thesis study on the land revenue taxation and agriculture taxation, land ownership, house tax, income tax, value added tax, etc are already done by the various researchers .They are mentioned below briefly.

Singh (1976) is the well known Indian economist .He has done comprehensive study on the fiscal system of Nepal. Although it is comprehensive study, it is also a macro study of the fiscal system of Nepal. It has not concerted with a certain tax only.

Agrawal (1980), in his research has concentrated towards income tax. In their work, they have analyzed the way of resource mobilization .Excise duty has not been focused on except its calculation of taking elasticity and buoyancy .They have analyzed the effective tax system ,tax administration etc which cannot be ignored.

Also, prominent economists John, F. Due and A.F Friedlander while studying American tax structure, have focused some views regarding excise duty in use. They are of the opinion that excise duties are levied for three purposes in practice.

Sumptuary excise, according to them, is designed to improve efficiency in the use of resources, excise duty in the line of charges and excises for general revenue. They have added shifting of excise taxes in the 6th edition of the same book. Two other students, with M.A Dissertation on excise taxation, as well as:

Tripathy (1985) also holds the same view of curtailing consumption, raising saving and mobbing up purchasing power for anti –inflationary consideration as the objectives of excise taxes .Excise can also used in selective manner to encourage the flow resources into the priority sectors of the economy of a developing country to prevent them from flowing in to non priority sectors.

Pant (1985) states with his scholarly work “Excise taxation in Nepal” vast in poor Nepalese economic literature .In line with his study, he shows .The decline tendency of customs and rising tendency of excises show that Nepal. To some extent though slowly trying her to be more industrialized ‘he has outlined the major deficiencies in the Nepalese tax structure. They are namely reliance on indirect taxes, nominal income taxes, low agricultural taxes and weak administration .He has analyzed incidence of excise taxation, effect of excise taxes on selected industries .He has also calculated trend of excise taxes, but if is

not of regressional base . He has not shown the resource gap discrepancy, legal aspects of excise taxation etc.

Paudel (2005) has made an extensive research on the topic "An analysis of Excise Duty in Nepal". He has recommended the following suggestions:

-) The government should not impose high rate of Excise Duty for those products which are necessary to import.
-) The increasing rate of Excise Duty is very high on liquor and tobacco products so the annual increasing rate should be minimized and possible extent.
-) The government should increase the base of Excise Duty but not Excise Duty rate to increase the government revenue.
-) The government should provide incentives for regular Excise Duty payers and create awareness and willingness to pay duty.
-) The Excise Duty system should be practical and effective .It should match the national economic condition. It should be equaled beneficial to the people, government and duty payers.
-) The Excise Duty on higher brand of liquor and cigarette could be increased.

In each three months, the price determination committee should determine price so that excise duty revenue should be increased.

-) The excise duty collector should be trained and skilled
-) It is suggested to levy excise duty on ad-valorem basis.
-) The scientific excise duty assessment procedure has to be devised
-) Excise offices have to be art of corruption milieu
-) Encouragement for setting excisable product manufacturing company

2.10.2 Review of Research Report and Articles

United Nation (1997) published a journal on public finance entitled, “*Guidelines for Improving Tax Administration in Developing Countries*”. The study was divided into four separate parts .Among them reforming the structural organization of the tax administration and explained in two separate sub topics i.e. guidelines for appropriate initiatives and underlying consideration and explanatory .Functions of tax administration are identification and registration of tax payers education information provider and assistance etc. The study has explained these two functions and the study had recommended some valuable suggestions to the developing countries

Pant (2004) wrote an article entitled “*Problem in Tax Administration and their Remedies*” published in journal of finance and development ‘Rajashwa, 2004, April Vol .1. He had comprehensively explained about the problem and their remedies related with tax revenue and major types of practical problems and challenges, in tax administration .He had maintained in his article where showing limited amount of transactions showing low selling price, less of issuing in taking bills, lack of showing the real factory cost, commercial fraud, lack of co-operation in tax auditing, legal ambiguity and complexity in implementation and lace of co-ordination between inland revenue department and revenue investigation unit. Meanwhile, he had recommended some valuable suggestions to solve the problems and to overcome the challenges. They were statically and in formation system should be used to assess selling price and factory cost, the billing system should be made compulsory, coordination between inland revenue office with various entities of HMG, revenue investigation and its related unit should play the important role, Kandel (2004) wrote an article entitled “Are tax incentives useful?” if so, which one? Published in Journal of Finance and Development, Rajashwa, Vol 1. 2004, April. In that article he had tried to seek the answer from the survey of various empirical studies earlier done in Nepal , India ,Pakistan and

other western countries. He found that the incentives are still the controversial matter whether they promote the investment or not .But he argued that most of the developing countries need tax incentives.

As per the empirical studies done in various countries the conclusion that among different type of tax incentives investment allowance or investment tax credit and accumulated depreciation superior to other types of tax incentives, tax holiday is the most inferior type of tax incentives which causes revenue loss without enhancing the investment environment .Meanwhile, most of the researchers have opposed the tax holidays system both within Nepal and outside Nepal. He further added that the survey of the studies indicate that accelerated depreciation system has positive impact on investment .The work of reducing tax rate, specially, followed after 1990s to such lowest rate was not a proper decision .That is why, if Nepal wants to go tax incentives again, she should adopt investment allowance or investment tax credit, not the full tax holiday in future.

Revenue consultation report has studied the overall taxation situation in depth .It highly emphasized to simplify the tax policy to increase voluntary compliance .This report recommended for written communication between tax payers and tax administration rather than the informal relation. This report suggested making the not more transparent and dear in order to attract foreign a domestic investors .It was further suggested to increase income tax exemption limit with considering purchasing power and inflation rate (revenue consolation committee)

2.10.3 Review of Thesis

Dhunguna (1976) stands with his research work “Indirect Taxation in Nepal”. In his work, he has focused on all the three indirect taxes emphasizing mostly on elasticity and buoyancy development performances of concerning taxes that are in practice. According to him, excise revenue occupies a significant place in the overall tax structure of a developing economy.

He is of the view that objective excise taxes is to curtail the consumption of certain undesirable commodities affecting the allocation of resources, disturbing the tax burden and raising the revenue to meet governmental needs.

Shreshta (1976) has analyzed pace of excise duty in structure of indirect taxation to the countries economic development. He states “The Degree of Utilization if Indirect Tax as source of Revenue Collection from the Country to Country Specially Depending upon its Economic Development. In less developed countries customs duty because of the poor industrial base. Poor industrial base and excessive dependence on the external market for external goods are the basic cause leading to higher revenue from customs duty and lower revenue from excise duty.

Shrestha further states about the possible trend of revenue collection from different situation as follows:

1. The importance of necessary goods starts declining as the economy develops and the necessary base for industrialization is suit. This results in the decrease in revenue from customs duty, which is levied on imported goods.
2. The total revenue earning starts increasing because of the increasing industrial out the economy develops. This thus leads to decrease the percentage share customs duty even though the value of revenue from this source is increasing.
3. With the increasing per capita income, the consumption level also goes up. Thus leads to the consumption of more goods and services thereby increasing sales tax output.
4. As the economy develops most of the trading units including retail traders become efficient in maintaining sales record and thus chances of leakages of revenue decreases.

5. The reason for such trend is obvious i.e. although the revenue from excise duty and value added tax increases because of the increasing in total revenue earnings. Concerning the customs duty, such share may decline primarily because of the substitution of imported goods by domestically produced industrial products due to increased consumption level.

Shrestha prescribes these conclusions and recommendations on his desertion, "Excise Taxation in Nepal" .These are given below:

1. The role of excise taxation as one of the only a few influential indirect taxes is one of the key bases in the field of revenue and the promotion of agriculture and industries .Since Nepal will be depending upon imports of both consumers and producers until number of years . , customs duty will have to play prominent role as revenue earner. As contrast to this role excise revenue in Nepal has to play primarily the promotion role rather than revenue earner. This is so because Nepal's non agricultural sector is just at an embolic state and quite vulnerable.
2. As in other taxes, in case of excise also very little research has been done in Nepal. Therefore, the research section under excise tax department could conduct in depth impact studies of excise taxation, keeping in view a number of other factors like its impact on promotion of industries, impact upon customs and upon the whole import export structure of Nepalese economy.
3. The excise levied on liquor and tobacco apart from mobilizing substantial resources also serve the pig opinion objective of equalizing the marginal social and of goods not necessary for economic efficiency and release resources which are utilized for productive investment .Excise taxes have to play leading role on this regard .
4. Excises are regarded as administratively most convenient and elastic fiscal instrument for mobilization of resources .Yet much has to be done to make

the excise administration more efficient .Above all, excise officers have to be out of the corruption ,milieu.

5. Here, opening of excise offices all around the country is sheer waste of money .Therefore, before opening new branches offices, a cost benefit type of analysis is required to make establishment of the new office a profitable venture .In case of many districts in Nepal where only a few industries are just coming up, one excise branch office were assigned for two or three districts .This would be an economical undertakings.

2.11 Research Gap

Many more thesis, researches, articles are found in the process of reviewing the literature. Most of them slightly observed and studied about importance and implication of excise duty to economic development of the nation .Many dissertation available in the library are found general not the particular of specific. Merely, unorganized and non-correlated data are presented and interpreted. Basically, it is outlined the following research gap on the topic of excise duty.

-) Testifying the objectives of levying excise duty on Juvenile, smoking and drinking
-) WTO, SAFTA, BIMSTEC, Bilateral and Multilateral treaty and its relation with the government revenue and future role of excise duty
-) Contribution of Excise Duty in national revenue
-) Excise leakages
-) Excise structure
-) Excise administration
-) Problem of Excise Duty payers
-) Overall contribution of indirect tax etc
-) Legal provision of excise duty and its impact in the excise duty collection

Due to various constraints, all the research gap explored above can not be studied thoroughly that's why contribution of Excise Duty in national revenue will be the core subject of my dissertation .As per the necessity, on any point of above stated research gap, necessary study and relation will be studied to draw the logical conclusion of this thesis.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

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

3.2 Research Design

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

3.3 Population and Sampling

The targeted whole area relating to government revenue or national revenue is set for the research population .Excise duty is taken as total population .The population for primary belonging to excise duty of Nepal. 145 sample size has selected from three different groups of respondents .The following table shows the group of respondents and sample size

Table 3.1

Group of Respondents and Sample Size

S.No	Group Respondents	Sample size
1	Tax administrator	20
2	Tax expert	25
3	Excise duty payer	100
Total		145

3.4 Nature and source of Data

For fulfilling the objectives, data from both primary as well as secondary source has been used the detail regarding the sources of data is stated below:

3.4.1 Sources of Primary Data

The primary sources of data is the opinion survey through questionnaire and information received from the concerned offices of IRD .The primary sources are

4. Discussion with concerned officer
5. Personal approach and interview
6. Questionnaire

3.4.2 Sources of Secondary Data

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

-) Economic survey of various years
-) Finance Act of Various years, Ministry of Finance
-) Publication and annual reports of Department of taxation (up to fiscal year 2007)
-) Textbooks of related subject
-) Published documents of National planning commission
-) Published articles and features in various national and international magazines

- J Reports submitted to Nepal Government by international expert and agencies
- J Various books written by tax officers and scholars
- J Research and thesis reports submitted by different researchers
- J Web browsers etc

3.5 Procedure of Data Collection

The information and data required for the study were collected by visiting inland revenue office, interactions with concerned and responsible persons, visiting central library consulting with research advisers and others and so information were also collected from published and unpublished articles, leaflets, reports, thesis, magazine .books etc .

3.6 Procedure of Data Analysis

Collected data from primary as well as secondary sources were firstly tabulated into separated formats systematically. The data were tabulated into various tables according to the subject in order. The simple statistical analysis such as hypothesis, average and percentage, were calculated where necessary and they have been presented and analyzed in descriptive way. Graphs and charts have been presented to interpret visually the findings of the study.

The major findings have been collected from various sectors that pay the highest amount of tax. The conclusion of analysis of data is to recommend for the improvement of present excise policy and utilization of excise duty in increasing Gross Domestic Products.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

This chapter consists the presentation and analysis of the Excise duty, its structure and its contribution in national revenue of Nepal .To achieve the stated objectives of the study and also to make easier to understand the findings, qualitative as well as quantitative data and information has been analyzed.

4.1 Tax Structure of Nepal

Modern economics planning of Nepal had started with the initiation of first economics planning in 1956. Since then, taxes have been used for the achievement of national economics goals .so; taxes play vital role to the economics development of Nepal tax structure of Nepal comprises both direct and indirect taxes.

4.1.1 Composition of Total Revenue

Total Revenue consists of both tax revenue as well as non tax revenue. The composition of total tax revenue of government from FY 2000/01 to 2007/08 is presented in the Table 4.1

Table 4.1
Composition of Total Revenue

(Amount in million)

Fiscal year	Total revenue	Tax revenue		Non-tax revenue	
		Amount	%	Amount	%
2000/01	48893.9	338865.10	77.97	10028.8	20.51
2001/02	50445.6	39330.60	75.74	11115	22.03
2002/03	56229.7	42857.00	75.74	13642.7	24.26
2003/04	62331	48173.00	77.29	14158	22.71
2004/05	70122.7	54104.70	77.16	16018	22.84
2005/06	72282.1	57430.40	79.45	14851.7	20.55
2006/07	87712.10	71127.0	81.09	16590	18.91
2007/08*	60892.20	50898.70	83.59	9993.50	16.41

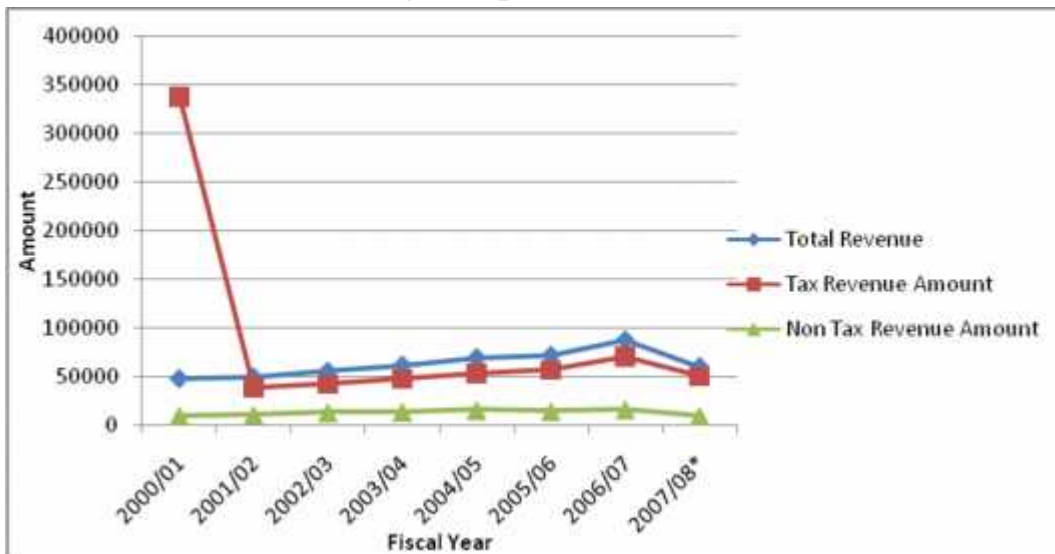
Source: Economics Survey

*First Eight Month Data

From the above table it is apparent that that the tax revenue is gradually increasing every year. It was in the line of 33000 million in FY 2000/01 whereas stands at line of 71000 million in FY 2006/07. The percentage contribution of tax revenue is found in fluctuating trends in different years .The contribution of tax revenue to total revenue is found to be maximum i.e. 83.59 % in first eight months of the FY 2007/08. Except slight changes in total percentage, Tax revenue is found to be almost constant during the last six fiscal years .During the study period. The non-tax revenue collection is found to be in fluctuating trend. % decrease in non tax revenue is seen quite rapid from the fiscal years 2004/05. But seems satisfactory during the first eight months of fiscal year 2007/08.

Figure 4.1

Chart Showing Composition of Total Revenue



4.1.2 Composition of Total Tax Revenue

Tax revenue consists of both direct and indirect tax revenue. A direct tax is a tax paid by a person on whom it is legally imposed. In direct the person paying and bearing tax is the same. Direct tax includes land revenue and registration, tax on property, profit and income whereas indirect tax includes customs, tax on consumption and product of goods and services. The composition of Nepalese tax revenue from FY 2000/01 to 2007/08 is presented in the table 4.2

Table 4.2
Composition of Total Tax Revenue

(Amount in million)

Fiscal year	Total Tax Revenue	Total Direct tax revenue		Total Indirect tax revenue	
		amount	%	Amount	%
2000/01	38865.1	10159.4	26.14	28705.7	73.86
2001/02	39330.6	10597.5	26.94	28733.1	73.06
2002/03	42587	10105.8	23.73	32481.2	76.27
2003/04	48173	11912.6	24.73	36260.4	75.27
2004/05	54104.7	13071.8	24.16	41032.9	75.84
2005/06	57430.4	13968.1	24.32	43462.3	75.68
2006/07	71727.0	18980.00	23.18	52147.00	76.82
2007/08*	50898.70	12682.50	24.92	38216.20	75.08

Source: Economics Survey

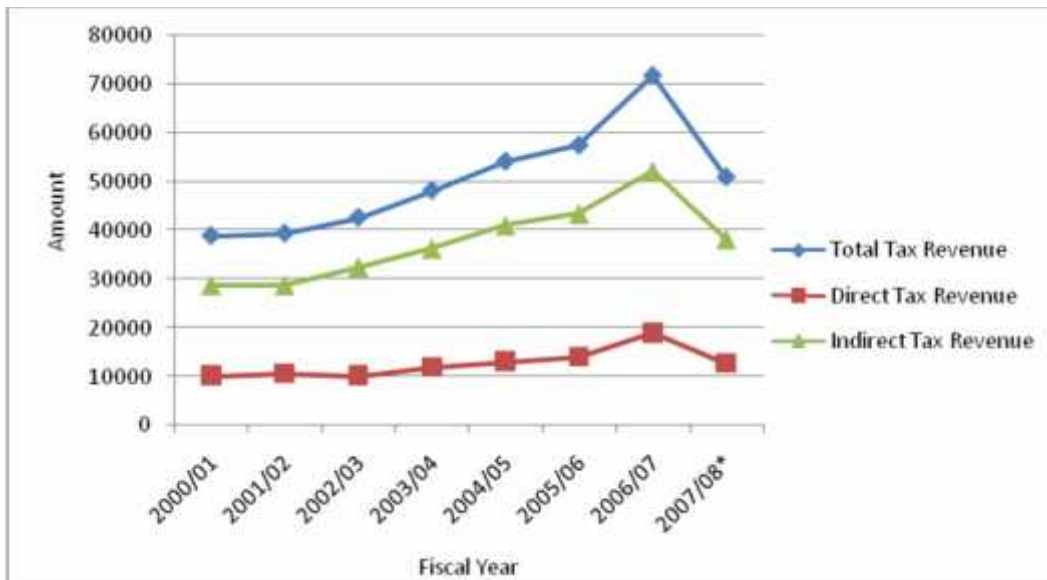
**First Eight Month Data*

From the above table; it is found that there is simultaneous increase in direct tax, indirect tax and total tax revenue in absolute terms. In FY 2000/01, the amount of direct tax, indirect tax and total tax revenue was Rs.10159.40 million, Rs.28705.70 million and Rs.38865.10 million respectively. At the end of fiscal year 2006/07, the amounts reached to Rs.18980 million, Rs.52147 million and Rs.71727 million respectively. Comparing the first two fiscal years, the amount of direct tax, indirect tax and total tax revenue is found to be continuously decreasing but is at satisfactory level during the first eight months of the fiscal year 2007/08.

.from the study it is found essence to the government to increase the share of direct tax, ultimately decreasing the share of indirect tax as it is found huge contributor on total tax revenue. Therefore, the government should pay its attention on the sufficient resource mobilization.

Figure 4.2

Contribution of Direct and Indirect Tax Revenue on Total Tax Revenue



4.1.3 Composition of Indirect Tax

The tax structure of Nepal consists of two types of tax. One is direct and other is indirect. Indirect tax constitute large share in total tax revenue. In Fiscal year 2000/01 the contribution of indirect tax was of 73.86 % in total tax revenue. The major components of indirect tax in Nepalese tax structure constitute custom duty excise duty, VAT, sales tax, Entertainment tax air flight tax, hotel tax etc .custom duty has been classified mainly into import duty and export duty. Table shows the composition of indirect tax given as follows:

Table 4.3
Composition of Indirect Tax Revenue

Fiscal year	Total Indirect Tax	Custom Duty		Tax on Consumption and production of goods and services			
				Value added tax		Excise on industrial production	
		Amount	%	Amount	%	amount	%
2000/01	28705.7	12552.10	42.73	12382.40	43.14	3771.20	14.13
2001/02	28733.1	12658.70	44.01	12267.30	42.69	3807.0	13.30
2002/03	32481.2	14236.40	43.83	13459.70	41.44	4785.10	14.73
2003/04	36260.4	15554.80	42.90	14478.90	39.93	6226.70	17.17
2004/05	41032.9	15701.60	38.27	18885.40	46.02	6445.90	15.71
2005/06	43462.3	15344.0	35.30	21610.70	49.72	6507.60	14.98
2006/07	52147.00	16708.0	32.04	26095.60	50.04	9343.20	17.92
2007/08*	38216.20	14033.90	36.72	17720.30	46.37	6462.00	16.91

Source: Economics Survey

**First Eight Month Data*

The above table revealed that the custom duty and vat occupies major portion in indirect tax. In the comparison of these two both taxes the contribution of excise tax is nominal. The share of excise duty in indirect tax was Rs 3771.20 million i.e. 14.13 % FY 2000/01 .It was gradually increased and reached to 17.92% in the FY 2006/07 .Observing the first eight months contribution in the fiscal year 2007/08, excise duty contribution is satisfactory but needs to be increased in the future.

4.1.4 Composition of Direct Tax

The major components of direct tax are land revenue and registration, tax on property profit and income. The share of major components of direct tax is shown in table 4.4.

Table 4.4
Composition of Direct Tax Revenue

Fiscal Year	Total Direct Tax	Land Revenue and Registration				Tax Property, Profit and Income				
		Land Revenue	House and Land Registration Fees	total	% of Total Direct Tax	Income Tax	Vehicle Tax	Other Tax	Total	% of Total Direct Tax
2000/01	10159.4	5.1	607.80	612.9	6.03	9114	432.50	0	9546.50	93.97
2001/02	10597.5	0.8	1131.00	1131.8	10.68	8903.7	562.00	0	9465.70	89.32
2002/03	10105.8	0	1414.30	1414.3	13.99	7966.2	559.50	165.8	8691.50	86.01
2003/04	11912.6	0	1697.50	1697.5	14.25	9245.9	700.60	268.6	10215.10	85.75
2004/05	13071.8	0	1799.20	1799.2	13.76	10159.4	806.50	306.7	11272.60	86.24
2005/06	13968.1	0	2181.10	2181.1	15.61	10373.7	847.60	565.7	11787.00	84.39
2006/07	18980.00	0	2553.50	2553.50	13.45	15030.00	995.00	697.80	16722.80	88.11
2007/08*	12682.50	0	1348.10	1348.10	10.63	9355.90	877.20	1101.40	11334.50	89.37

Source: Economic Survey

**First Eight Month Data*

From the above table it is seen that the contribution of the income tax to direct tax. was lighter than other tax and it occupied the largest share in the direct tax .The percent share of the income tax to direct tax in FY 2000/01 was 89.71% amounting Rs 9114 million which gradually increased up to 89.37 % amounting Rs 15030 million in FY 2006/07.The regular decrease in contribution percentage of income tax to direct tax is not satisfactory but even from last two fiscal years it is at satisfactory level. Land revenue contribution is found to be zero for the last five fiscal years but house and land registration fees covers small percentage of contribution in total direct tax. The vehicle tax has been one of small contributor as well. Other tax has also minor contribution to total direct tax but seems in praiseworthy trend while observing the data of the first eight months of the fiscal year 2007/08 .It seems essence to the government to pay attention towards other tax collection .The percentage of property tax to direct tax is very lower in

comparison to income tax, land revenue and registration. The major portion of direct tax covered by income tax that's why to increase the volume of direct tax we most focus in the income tax.

4.1.5 Contribution of Total Revenue, Total Tax Revenue, Direct tax Revenue and Indirect Tax Revenue on GDP

Total Revenue consists of both tax and non tax revenue. Likely, total tax revenue consist direct and indirect tax as well. The contribution of these to GDP is shown in the table 4.5 as below:

Table 4.5
Contribution of Total Tax Revenue, Total tax Revenue, Direct Tax Revenue, Direct Tax Revenue and Indirect Tax Revenue on GDP
(Amount in Million)

Fiscal Year	GDP	Total Revenue		Total Tax Revenue		Direct tax Revenue		Indirect Tax Revenue	
		Amount	% on GDP	Amount	% on GDP	Amount	% on GDP	Amount	% on GDP
2000/01	413429	48893.90	11.83	38865	9.40	10159.30	2.46	28705.70	6.94
2001/02	430397	50445.60	11.72	39331	9.14	10597.50	2.46	28733.10	6.68
2002/03	460325	56229.70	12.22	42587	9.25	10105.80	2.46	32481.20	7.06
2003/04	500699	62331.00	12.45	48173	9.62	11912.60	2.20	36260.40	7.24
2004/05	548485	70122.70	12.78	54105	9.86	13071.80	2.38	41032.90	7.48
2005/06	611089	72282.10	11.97	57430.4	9.51	13968.10	2.38	43462.30	7.20
2006/07	675484	87712.10	12.98	71127.	10.53	18980.00	2.31	52147.00	7.76
2007/08*	768832	60892.20	7.92	50899	6.62	12682.50	1.65	38216.20	4.97

Source: Economics Survey

**First Eight Month Data*

From the above table, it is found that the contribution of total tax revenue on GDP is in increasing trend. It was 11.83% in the FY 2000/01 and found to be growing continuously up to FY 2004/05 .on 2005/06 it decreased and reached to 11.97

%.The contribution of total tax on GDP was fluctuating on the past seven years. It was 9.40 % amounting to Rs 38865 million in Fy 2000/01 and became maximum to 71127 i.e. 10.51% in fiscal year 2006/07 .There is significant role of indirect tax in the tax structure of Nepal, which has contributed about three times more than the direct tax .In the FY 2000/01, the contribution of indirect tax and direct tax on GDP were 6.94% and 2.46 % respectively on FY 2000/01 and had reached to 4.97 and 1.65 % respectively during the first eight months of the fiscal year 2007/08 .

4.1.6 Resource Gap in Nepal

The conflict hitted, developing and restructuring country Nepal in all inclusive notion, has ever been confronting problem of resources GAP since last several years .Unequal development and biased behavior of government leads to the emergence of different interest group that destabilized Nepal political –economical environment. Settlement of existing conflict, development of physical infrastructure, alleviating poverty, addressing Millennium Development goal (MDG), Reducing unemployment ratio, mainstreaming all Dalit, Janajatis, Madheshi, Ethinical tribes etc are the key activities to be effectively undertaken to head Nepal in the path of long term peace and prosperity and to give resolution of current political crisis . This all needs the huge finance. All most all the industrial estate were shut off or operated in the poor situation due to the long political crisis in Nepal. In this situation there are no alternatives of deficit finance. Always, government expenditure is exceeding the government revenue. That's why, Nepalese economics is foreign grants and loan subsistence economy.

While referring the budget of Nepal right beginning from 2007 B.S, we can make due observation of deficit budget where all most all the time government expenditure exceeds government revenue. It is the common sense of developing country .Such deficit budget helps to rapidly improve the physical infrastructure of the county and help to head the country towards the development .But in reverse

,in the context of Nepal ,Deficit finance and resource gap leads to the disastrous situation .In this situation ,Nepal is confronting the huge domestic and international loan . We have no way to pay the huge international debt except bowing our head and stretching our hand before them to redeem it. None of the economy can sustain always on the resource gap, that's why; each country most tries to bridge the condition of resources gap. The under given table clearly depicts the situation of resources GAP in Nepal .Resources GAP creates the terrible situation in Nepal.

While referring the internal /domestic borrowing, we can trace it in increasing trend .In this situation; the state must be able to build the effective tax system that would be able to address the problem of resources GAP. Else the nation would go in state failure.

Table 4.6
Overall Resource Gap in Nepal

Amount in million

Fiscal Year	Total Expenditure	Total Revenue	Resource Gap ¹	Foreign Grants	Resource Gap ²	Foreign Loan	Resource Gap ³
2000/01	79835.10	48893.90	30941.20	6753.40	24187.80	12044.00	12143.80
2001/02	80072.20	50445.60	29626.60	6686.10	22840.50	7698.70	15241.80
2002/03	84006.10	56229.70	27776.40	11339.10	16437.30	4546.40	11890.90
2003/04	89442.60	62331.00	27111.60	11283.40	15828.20	7629.00	8199.20
2004/05	102560.00	70122.70	32437.70	14391.20	18046.50	9266.10	8780.40
2005/06	110889.00	72282.10	38607.10	13827.50	24779.60	8214.30	16565.30
2006/07	133604.60	87712.10	45892.50	15800.80	30091.70	10053.50	20038.20

Source: Economics Survey

Resource Gap¹ (A-B)

The resource gap was Rs. 30941.20 million in the fiscal year 2000/01 and it was Rs 45892.50 million in the fiscal year 2006/07 .The amount of resource gap was

slightly decreased from fiscal year 2001/02 to 2003/04 .But seems in increasing trend thereafter.

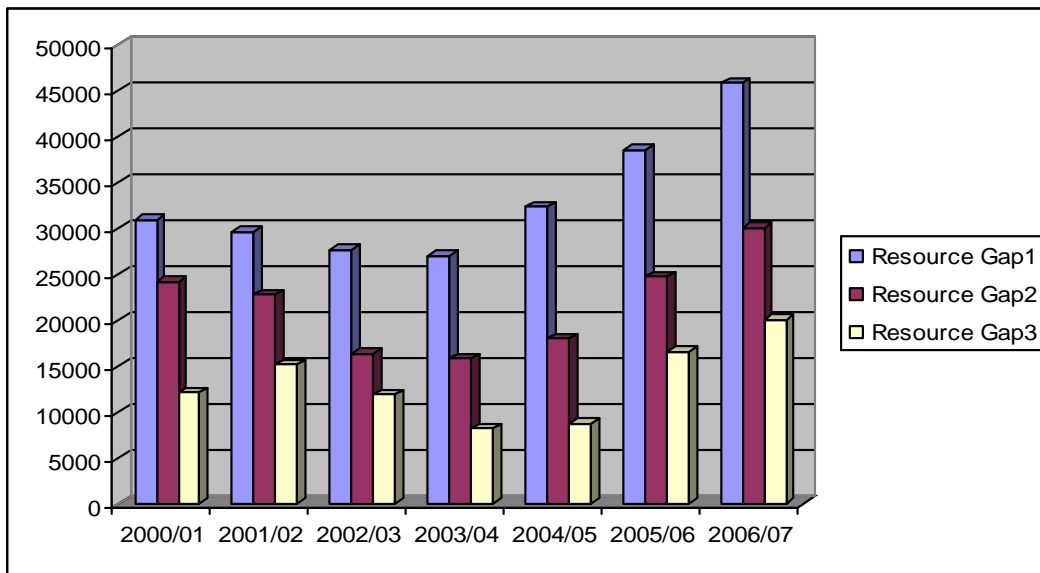
Resource Gap² [A-{B+C}]

The source gap is taken as the difference between the total expenditure and total revenue plus foreign grants. In the fiscal year 2000/01, the gap was Rs 24187.80. Then after it was in decreasing trend but is found to be increased in the fiscal year 2006/07 /04 due to the high proportionate increment in foreign grants.

Resource Gap³ [A-{B+C+D}]

This resource gap is taken as the difference between the total expenditure and total resource plus foreign grants plus foreign loan .In the fiscal year 2000/01 the gap was Rs 12143.80 million which was increased to Rs 20038.20 million in the fiscal year 2006/07.

Figure 4.3
Overall Resource Gap in Nepal



The above analysis shows a clear indication of the serious and growing financial resource problem in Nepal. The increasing magnitude of the resource gap clearly indicates that there is an urgent need for mobilizing additional resources. Income

tax has appeared as one of the most effective fiscal policy instrument to mobilize additional resources and for achieving the desired development objective of Nepal.

4.1.7 The Rate of Excise Duty

One of the reasons for the growth in the annual collection of revenue from the excise duty is the frequent increase in the rate of excise duty in liquor, beer and cigarettes. Excise duty is considered to be the easiest duty to apply as the number of manufacturers is limited in number and the burden of such duty is passed on to the consumer .It is illustrated with a few examples .The duty on Beer was Rs 20 per liter in 2000/01, the rate of which was increased almost every year .Now it stands at Rs 50 per liter .In case of 30 UP liquor, the duty per LP liter was Rs 205 in 2002/03 which now stands at Rs 360 in 2007/08. The tax base of liquor was changed every year from 1998 to 2003.The base remained the same from 2003 to 2005(July) which was drastically changed in 2006(January) .Similarly, filter cigarette of 70mm length has attracted excise duty which has increased every year. The duty rate was Rs 260 per M (1000 sticks) in 2000/01, which now stands at Rs 360 per M. The excise duty for molasses has also increased from Rs 13 per quintal to Rs 35 per quintal in seven years. Although, the government adjusted the rate of excise duty in a frequent interval apparently to protect the revenue in real terms, it has not been done in a systematic and objective manner. It appears that the adjustment in the excise duty was guided mainly to balance the deficit, treating the excise revenue as a residue. This kind of increment and frequent revision in the list of excisable products has however created uncertainty among the investors.

The rate of excise duty of cigarette, beer, molasses and liquor is presented in the Table 4.7, Table 4.8 and Table 4.9 below:

Table 4.7
Excise Duty of Cigarette

Description	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Up to 70mm in Length								
Filter per M	260	285	300	330	340	340	360	360
Non Filter per M	90	110	125	155	160	160	175	175
More than 70mm in length								
Filter Per M	335	365	385	425	440	440	460	460
Non Filter per M	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
More than 75mm in length								
Filter Per M	460	500	530	565	575	575	600	600
Non Filter per M	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
More than 85mm in length								
Filter Per M	625	675	710	750	770	770	795	795
Non Filter per M	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Note: Per M Means 1000 sticks cigarette

N/A: Not applicable

Source: Finance Act (Various years), Ministry of Finance, Katmandu

Table 4.8
Excise Duty of Molasses

Description	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Alcohol content up to 5 % (Per liter)	33	36	38	42	45	45	45	45
Molasses (Per quintal)	20	20	25	25	30	35	35	35

Source: Finance Act (Various years), Ministry of Finance, Katmandu

Table 4.9
Excise Rate of Liquors

Description	Unit	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Liquor									
15 UP								400	425
25 UP								350	360
30 UP		235	245					350	360
30 UP or less than 30UP									
Up to 30 UP									
25 and 30 UP (Bottled)	LP Liter								
30 UP to 40 UP LP liter	LP Liter			150					
40 UP (Bottled)	LP Liter							200	210
Less than 40 UP	LP Liter		260	275	320	340	340		
50 UP	LP Liter							75	95
65 UP (Pouch)	LP Liter								
60 UP to 40 UP	LP Liter								
More than 40 UP	LP Liter	42	42						
40 UP to 65 UP	LP Liter	125	135		160	195	200	200	
More than 65 UP	LP Liter			44	50	70	75	75	
70 UP								10	26

Source: Finance Act (Various years), Ministry of Finance, Katmandu

Note: Excise duty on liquor was applied in specific rates.

The classification of UP for excise duty is frequently changed, which makes comparison difficult

4.1.8 Production Trend of the Excisable Products in Selected Years

The production of the beer is found to be in increasing trend since 1995. The beer production however increased marginally in the last four years. The liquor production is found to be fluctuating from year to year and is seen almost to be stabilized in the last few years. It should be noted that from 1990 to 1995 the volume of production was almost stagnated .The production increased more than 50% in the next five years .The production remained almost at the same level in 2001. The volume of production declined in 2002 and remained at the same level in the following year.

In 2004 the volume of production increased by almost 17 percent, compared to the previous year .But its production has marginally declined in 2006. Explanation given to this fluctuation of the production is the law and order situation of the country in which had disrupted the domestic distribution and the social movement in some of the districts to declare it as liquor free zone.

Table 4.10

Production Trend of the Excisable Products in Selected Years

Commodity	Soft Drink (000 liter)	Beer (000 liter)	Liquor (000 liter)	Cigarette Mil Stick
2000/01	26211	21725	3847	6584
2001/02	27522	23354	3885	6979
2002/03	27100	22800	3700	6900
2003/04	31603	24162	3792	6812
2004/05	32472	24977	4437	7268
2005/06	33657	25951	9039	9493
2006/07	34842	26925	9490	9967
2007/08*	-	-	9870	10366

Source: Department of Commerce

**First Eight Month Data*

The producers also blamed the government for creating uncertainty in the policy, frequent change in the excise duty and closure of some of the distilleries. The cigarette production has also declined in some years but has shown steady increase in the last three years. The fluctuation is attributed to the internal disturbances in the country. The volume of production of soft drinks has increased from 2000/01 to 2006/07. The demand for soft drinks has increased due to rapid urbanization and intensive advertisement.

4.1.9 Excise Duty Collection

Excise duty collection and its ratio to GDP and ratio to total tax revenue is stated in table 4.11 as below:

Table 4.11
Excise Duty Collection

Years	GDP at Current Price	Tax Revenue		Excise Duty		Ratio of Excise Duty to GDP and Tax Revenue	
		Total	Growth Rate	Total	Growth Rate	GDP	Tax Revenue
2000/01	413428.70	38865.00	-	3771.20	-	0.91	9.70
2001/02	430396.60	39331.00	1.20	3807.00	3.58	0.88	9.67
2002/03	460325.30	42587.00	8.28	4785.10	25.69	1.03	11.24
2003/04	500699.10	48173.00	13.12	6226.70	30.13	1.24	12.93
2004/05	548484.70	54105.00	12.31	6445.90	3.52	1.18	11.91
2005/06	611088.50	57430.40	6.15	6507.60	0.96	1.07	11.33
2006/07	675484.00	71127.00	23.85	9343.20	43.57	1.38	13.14
2007/08*	768831.80	50899.00*	-	6462.00	-	0.84	12.70

Source: Economic Survey of Various Years

**First Eight Month Data*

From the above table it is apparent that the amount of excise duty is in increasing trend for the last seven fiscal years. It was 3771.20 million in the FY 2000/01 and

is found to be maximum at 9343.20 in the fiscal year 2006/07. Observing the data for the first eight months of the fiscal year 2007/08, it is around 6500 million which seems satisfactory and reflects the huge increment in the collection of excise duty. From the table it is found that the overall contribution of excise duty to Total GDP is nominal but it covers overall around 13% of share in total tax revenue. So the government should pay its high attention in the collection of the excise duty. The effective and managed excise administration may increase the duty in more proportion as collected currently.

4.1.10 Excise Duty Structure

The structure of excise duty reveals the significance of revenue generated from three excisable items –cigarette, liquor and beer –in total excise duty. The government introduced detail classification of revenue source in different heads in 1995, which shows six revenue heads in the excise duty in comparison to only two heads before 1995. The contribution of cigarette, liquor and beer together is on average more than 90% of the total excise duty during 1995-2007 periods. In the last three years, the excise duty on import of vehicles and motorcycles is contributing significantly which is 16.68 percent of the total excise duty in 2005, compared to 4% in 2003. The excise duty from the cigarettes is the single largest contributor of the total excise duty.

Table 4.12
Structure of Excise Duty

Description	2003/04		2004/05		2007/08	
	Amt.	Ratio	Amt	Ratio	Amt	Ratio
Industrial production excise						
Liquor contract						
Cigarette	2052.50	42.90	2393.1	38.40		
Bidi	4.70	0.10	3.3	0.10		
Liquor	1179.90	24.70	1266.6	20.30		
Beer	1032.50	21.60	982.50	15.80		
Other Industrial Production	324.70	6.80	296.20	4.80		
Excise on Import	190.80	4.0	1285.1	20.60		
Total Excise Duty	4785.10	100	6226.8	100		

Source: Economic Survey of Various Years

4.1.11 Cost of Collection Revenue

The government has to spend on the collection of revenue .The expenditure pattern on the department of Inland Revenue is presented below .It is our compared with the expenditure on the department of customs .Collection cost of the department of Inland Revenue is compared with the revenue that this department has collected . As a significant part of excise and VAT revenue is collected at the customs point, the expenditure /revenue ratio may be underestimated in case of department of customs and overestimated in case of department of Inland Revenue. In order to get the average figure of collection cost of the revenue departments, total expenditure ratio is also presented in table 9 .If we assume that 10% of staff is engaged in the collection of excise duty , the collection cost of excise duty is insignificant.

Table 4.13
Comparison of Expenditure to Revenue

(Rs. In million)

Year	Customs			Inland Revenue			Total		
	Rev.	Exp.	Ratio	Rev.	Exp.	Ratio	Rev.	Exp.	Ratio
2000/01	12552.10	102.60	0.81	25267.60	96.60	0.38	37819.70	199.20	0.53
2001/02	12658.70	131.50	1.03	24978.00	124.50	0.38	37636.70	256.00	0.68
2002/03	14236.40	130.30	0.92	26211.00	118.60	0.45	40447.40	248.90	0.62
2003/04	15554.80	143.90	0.92	29952.00	122.20	0.44	45506.80	266.10	0.58
2004/05	15701.60	143.90	0.92	35491.00	137.60	0.41	51192.60	281.50	0.55
2005/06	15344.0	168.70	0.91	38492.00	164.70	0.39	53836.00	336.40	0.55
2006/07	16708.0	213.70	1.01	50468.00	502.10	0.99	67176.00	715.80	0.62
2007/08*	14033.90	287.50	2.05	33538.00	238.80	0.71	47571.90	526.30	1.11

Source: Economic Survey

**First Eight Months Data*

Inland Revenue includes income tax, value added tax and excise duty.

The collection cost of the department of Inland Revenue is 0.38% in 2000/01, which is lower than the collection cost of the department of customs (0.81%). The total expenditure ratio is 0.53%. The knowledgeable source have the opinion that 2 to 3% is the collection cost in other developing countries. The figure of Japan shows 1.6% collection cost. It is interesting to that a study conducted in 1985 found that the collection cost of excise was 1.60% in that year in Nepal.

4.1.12 Specific Vis-a-Vis Advalorem Tax

The government of Nepal has applied both specific and advalorem rate for charging excise duty. Specific rate is simple to administer and is applied in the country which has weak administration. The manufactures provides the information to the excise offices which need to be analyzed in order to determine the advalorem tax. As it is complex system of an analysis, it demands qualified

and skilled manpower. The history of tax base in Nepal shows that before 1990, the government was applying the advalorem tax rates in majority of products when department of excise was functioning independently .In cigarettes, beer and liquor, the government has the policy to make the liable manufacture to pay the greater of the advalorem or the specific rates of excise duty . This policy was changed in 1995 and the specific rates were imposed. Larger number of excisable products is based on specific rates except in all kinds of vehicle and motorcycle which are based on value.

4.1.13 Revenue Implication of Multilateral, Regional and Bilateral Agreements

The modern Phenomena of the globalization has also created the opportunity as well as threats in the resource mobilization of Nepal .As Nepal got accession in WTO in 2003 A.D. It has to comply with the agreements made with it. Besides, Nepal has made the regional, multilateral agreement and bilateral treaties .In this situation, all those agreement and treaties make significant difference in the resource gap and resource mobilization. Its analytical study is essential. International agreements and treaties made and their effects on resource mobilization and GAP are clearly stated below:

4.1.13.1 WTO

Nepal signed a protocol on the accession of the kingdom of Nepal to the WTO agreement on September 11, 2003 and became member of WTO as 147th member on April 23,2004.In the course of negotiation to accession to WTO, Nepal had made commitment on customs tariff rate, other duty charges (ODCs) and customs valuation. Accordingly, Nepal agreed to tariff bindings rate which obligated Nepal to adjust its tariff in a time bound schedule .The major commitments that Nepal made in WTO are presented below:

Table 4.14
Major commitments in the process of Accession of Nepal to WTO
(Selected commitments)

Commitments	Due Date
Custom tariff for agricultural products (42%)	21/12/2006
Custom tariff for industrial products (24%)	31/12/2013
Full implementation of customs valuation agreement	31/12/2013
Zero tariff rates on goods	31/12/2008
Reduction of other duties and charges to Zero rate	31/12/2013

Report of working party on the of kingdom of Nepal to the world Trade Organization (WTO). The commitments presented in the above table shows that Nepal has to adjust customs tariff by 2006,2008 and 2013.According to this commitment ,tariff rate of 137 HS sub heads ,which falls in chapter 84,chapter 85 and chapter 90(machineries),equipment ,information technology and electrical goods),should be reduced to zero rate by 2008.Similarly the tariff rate of vehicles should be reduced progressively to 60% and 40% by 2013.In 2006 ,the tariff rates of some sub heads should be reduced to 30%,25%,20%,10% and 5% from 40%, 15% and 10% .The tariff binding rates of agriculture products is 42% which is above the current tariff rate. Nepal may choose to adjust upward the tariff rate of agriculture related trade. Government of Nepal has made commitments to reduce the ODCs in a phased schedule to zero rates by 2013. Local development fee, special fee and agricultural reform fee are the ODCs in the context of Nepal. In order to fulfill the commitment made to WTO, the government has started implementing it in a phased manner .The government has dropped the special fee in all subheads except in the import of vehicles, petrol, diesel and kerosene. Agricultural reform fee is reduced from 10% to 8% which are reflected in the Finance act 2005/06.

Nepal agreed and states as given below on the report of the report of the working party on the accession of the kingdom of Nepal to the world Trade Organization

(WTO). The representative of Nepal said that the excise tax levied to the products specified in the finance Act. This tax did not apply to imported goods. Imported goods were subject to the equalizing listed in the financial Act. The objectives of these measures were to provide the same treatment to domestically produced and imported goods. The excise tax was applied to domestic goods on the basis of ex-factory price. Imported goods were taxed on the basis of C.I.F price.

Noting that Chhyang, beer, cider and other beverages were subject to tax differentials, a member asked that Nepal explain whether chhyang was produced in Nepal for commercial sale, if chhyang was exported, if the excise tax on chhyang was collected at the time of production or at the point of sale, and whether chhyang was a fermented beverage like beer or wine, or a distilled beverage like whisky or vodka. The representative of Nepal responded that chhyang was a fermented beverage like beer and its alcohol content depends on the manner the diverse local tribal people ferment it. At present, chhyang was neither produced for commercial sale nor was it exported. In case it was produced for commercial sale; the excise tax would be collected at the time of production.

The representative of Nepal confirmed that, from the date of accession, Nepal would apply its domestic taxes, including value-added and excise taxes, in a non-discriminatory manner consistent with articles I and II of the GATT 1994. For beverage classified as “Chayang”, a fermented beverage similar to beer, Nepal would maintain an equal rate of excise duty for chhyang and beer from the date of accession. The working party took note of these commitments”

4.1.13.2 BIMST-EC

Nepal became a signatory of the framework agreement on the Bay of Bengal initiative for multi – sectoral Technical and Economic cooperation Free Trade Area (BIMST-EC Free Trade Area) in the February 2004. Article 3 of the

frameworks Agreement has made provisions for Trade in goods .It states that the products, except those included in the negative list ,shall be subject to tariff reduction or elimination on (a) fast track and (b) normal Track basis. Article 10 of the agreement has established Trade Negotiation Committee. The negotiating committee has entered into eleven rounds of negotiation among the members which led to the understanding to the principles of negotiation .The principles laid down that out of 5224 of HS subheads, 10% of subheads fall under the Fast Track which is subjected to progressive reduction leading to elimination to tariff within an already agreed timeframe. Under the normal track, out of the 5224 HS subheads (except 20% remaining subheads are subjected to Zero or 1 to 5 percent tariff).

In order to prevent the negative effect on revenue from trade and to protect the domestic industry from unfair competition, the negotiation committee agreed to draw the negative list which will include 20% of the 5224 HS subheads of trade .Nepal has to submit the negative lists which are not subjected to elimination or reduction of tariff .During the next round of negotiation, it is expected to finalize the negative list.

4.1.13.3 SAFTA

The resolution on South Asia Free Trade Area (SAFTA) was adopted at the 12th SAARC Summit held in Islamabad, Pakistan on 4 to 6 January 2004, where all the SAARC member countries were the signatories. The SAFTA has incorporated Trade Liberalization program 18 which made provision to reduce the tariff progressively and expand the coverage of HS Subheads in an agreed timeframe. SAFTA has a provision for drawing sensitive list in order to prevent adverse effect on the revenue from trade and to protect domestic industries from unfair competition .The trade liberalization program allowed drawing 20 to 25 percent of HS subheads in the sensitive list. As BIMST-EC and SAFTA agreements have

allowed drawings negative or sensitive list in order to protect revenue and the domestic industries, the revenue implication for short term is marginal .However, the member countries have agreed to enter into negotiation for reducing the number of HS subheads in the sensitive list in four years. As each round of negotiation is expected to reduce the HS subheads in the sensitive list, the revenue implication has to be assessed during the negotiation .It is therefore premature to project the revenue impact in the short term.

4.1.13.4 Bilateral Agreements

Nepal had signed the bilateral trade agreements with 17 countries and Trade cooperation Agreement had been signed with the European Union. The agreements provided most favored nation treatment on reciprocal basis. These agreements are basically related to trade in goods. As a member of WTO, Nepal has to treat all members indiscriminately .So these agreements except agreement with India may not have much relevance in the present context of Nepal had signed treaties of Transit and Trade as well as the agreement of cooperation to control unauthorized trade with India . They accord each other unconditional most favored nation treatment. They exempt imports of certain products from duties or any form of quantitative restriction on a reciprocal basis. India had granted preferential treatment to industrialist products manufactured in Nepal on the basis of non –reciprocity .In order to promote industrial development in Nepal. India provided access to Indian markets free of customs duty and the quantitative restriction for all articles with some restrictions on four products such as vegetable fats, acrylie yarn, copper products and zinc oxide manufactured in Nepal on the basis of certificate of origin. India has listed the following products in the negative list, which are alcoholic liquors and beverages, perfumes and cosmetics and cigarette and tobacco.

As India is giving preferential treatment to our products, it is difficult to project revenue loss. As the customs tariff rate is declining annually in India, the pressure will mount to align the tariff rate with India resulting in the revenue loss. Nepal India treaty of trade agreement article III and the protocol to the treaty of trade “with reference to article III “states “ The government of India will allow to Nepal government of Nepal payment of the excise and other duties collected by the government of goods produced in India and exported in Nepal provided that:

- i. Such payment shall not exceed the import duties and like charges levied by Nepal Government on similar goods imported from any other country and
- ii. Nepal government shall not collect from the importer of the said Indian goods so much of the import duty and like charges as equal to the payment allowed by the government of India”

4.2 Analysis of Empirical Study

The government collects revenue from various sources such as taxes, revenue from public enterprises, special assessment, fees, fines, grants etc. Among them, tax is the main source of government revenue .Tax is playing vital role in the economic development of every country .Taxes are collected from main two ways: one is direct and another is indirect .excise duty is one of the indirect sources of taxes. In this context a research was conducted to explore the importance and various aspects of excise duties from the experience of real life situations through the questionnaire .Data were collected from 145 persons ,out of whom 100 are business persons or excise duty payers ,20 tax administrators and 25 tax experts /policy makers .Data were analyzed using descriptive like percentage .

The respondents were requested to response on questionnaire by three ways:

-) They were requested to response on by yes or no response

-) They were requested to give points in order to preference from 1 to last on the basis of number of alternatives .Number 1 stands for least important and last number for the most
-) They could responses by selecting one or more options
-) Respondents had also option to put their views by writing wherever necessary

The following table showed the groups of respondents and code used to represent them

Table 4.15
Group of Respondents and Sample Size

S.N	Group of Respondents	Sample size	Code used
1	Tax administrators	20	A
2	Tax Experts	25	B
3	Tax Payers	100	C

4.3.1 Excise Duty as a Suitable Means of Raising Government Revenue

To know the respondents attitude about the role of excise duty in raising government revenue, the first question “Do you consider that the excise duty as a suitable means of raising government revenue?” was asked .The responses received from the respondents are tabulated as below:

Table 4.16

Excise Duty as a Suitable Means of Raising Government Revenue

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	17	85	3	15	20	100
B	22	88	3	12	25	100
C	90	90	10	10	100	100
Total	129	88.97	16	11.03	145	100

Source: Opinion Survey

From the above table it is cleared that 88.97 % of the respondents are in favor of excise duty as a suitable means of raising government revenue and only 11.03 % of total respondents are in against of excise duty as suitable means of raising government revenue.

4.3.2 Attitude towards Tax Education

To know the respondents attitude towards tax education, a question was asked, “Do you think that the public are well known about the tax and tax system of Nepal?” The responses received have been tabulated as below:

Table 4.17

Attitude towards Well Knowledge about Tax Education

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	-	-	20	20	20	100
B	-	-	25	25	25	100
C	5	5	95	100	100	100
Total	5	3.44	140	96.56	145	100

Source: Opinion Survey

From the above table it is found that 96.56% of the respondents were against the question “Do you think that public are well known about the tax and tax system of

Nepal?” only 3.44% of respondents are in favor of question .hence it is apparent that the public are unknown about the tax and tax system of Nepal, so it seems most necessary in Nepal to increase the tax consciousness among the tax payers.

4.3.3 Specific Objectives to impose or levy Excise Duty in the production and Consumption of Cigarette/Liquor/Beers

Excise duty is imposed on excise duty payer in order to achieve some specific objectives. To know the core objectives of the government to impose or levy the excise duty in the production and consumption of cigarette/liquor/Beer in Nepal, respondents were asked the question “Why does government impose or levy excise duty in the production and consumption of cigarette/liquor/Beers?”

For information , respondents were requested to give points in order to preference from 1 to last on the basis of number of alternatives. Number 1 stands for least important and last number for the most.

Table 4.18
Specific Objectives to Impose or Levy Excise Duty in the Production and Consumption of Cigarette /Liquor/Beers

S.N	Objectives	Group			Total Points	%	Rank
		A	B	C			
1	For revenue mobilization	65	115	399	579	26.62	1
2	For reducing the consumption of health hazard commodities and to protect public health	95	94	336	525	24.13	2
3	For the protection of the domestic industry	75	70	270	415	19.08	3
4	For reducing import and boosting export	35	41	174	250	11.49	5
5	All of the above	30	55	321	406	18.66	4
	Total	300	375	1500	2175	100	

Source: Opinion Survey

Specific objectives to impose or levy excise duty in the production and consumption of cigarette /liquor/Beers were ranked in order of the preference of the respondents were as follows:

- 1) For revenue mobilization
- 2) For reducing the consumption of health hazard commodities and to protect public health
- 3) For the protection of the domestic industry
- 4) For reducing import and boosting export
- 5) All of the above

From the above ranking it is clear that the major objectives of the government of levying or imposing the excise duty is to mobilize revenue, reducing the consumption of health hazard commodities, to protect public health and to protect domestic industry.

4.3.4 The Core Policies of Excise Duty

In order to know the respondents view towards the core policies of excise duty a question was asked “Every year government is increasing excise duty in the production and consumption of cigarette /liquors/beers. Despite of which, production and consumption of such commodities is not significantly reduced while observing the statistics. In these circumstances, what do you recommend government in forming the core policies of Excise duty?” the recommendation received from respondents are tabulated as follows:

Table 4.19
The Core Policies of Excise Duty

S.N	Recommendations	Group			Total Points	%
		A	B	C		
1	Adopt policies so as to wipe out all those cigarette/liquors /Beer industry in future with in certain time frame	12	13	75	100	68.97
2	Encourage these industries and adopt the policy to flourish their future with a aim to increase the government revenue	3	1	7	11	7.59
3	Leave them in their one way adopt the midway policy	5	11	18	34	23.44
	Total	20	25	100	145	100

Source: Opinion Survey

4.2.5 Growth in Excise Collection Needs

To know the growth in excise collection needs the respondents were requested to give points in the alternatives given as below. The breakdown of the responses are tabulated as below:

Table 4.20
Growth in Excise Collection Needs

S.N	Needs	Group			Total Points	%	Rank
		A	B	C			
1	Increment in excise rates	23	24	105	152	10.48	4
2	Decrement in excise rates	25	25	195	245	16.89	3
3	Expansion of excise bases	52	70	350	472	32.55	2
4	Decrement in excise rate and expansion of excise bases	100	131	350	581	40.08	1
	Total	200	250	1000	1450	100	

Source: Opinion Survey

The important factors to enhance the collection of excise duty were ranked in order of the preference of respondents were as follows:

- 1) Decrement in excise rate and expansion of excise bases
- 2) Expansion of excise bases
- 3) Decrease in excise rates
- 4) Increment in excise rates

Hence it can be concluded that decrease in excise rate and expansion of excise bases is the most important factor to enhance the excise duty collection in Nepal

4.2.6 Victims of Increment in the price of Tobacco/Cigarette/Beer

To know the victims of increment in the price of tobacco/cigarette/Beer, respondents were asked a question “Who will be the victims of increment in the price of tobacco/cigarette /Beer in Nepal?” for the information the respondents were requested to give points. The breaking down of the responses is tabulated as below

Table 4.21
Victims of Increment in the Price of Tobacco/Cigarette/Beer

S.N	Victims	Group			Total Points	%	Rank
		A	B	C			
1	Richest 20% quintile of population	20	25	100	145	10	4
2	2 nd richest 20% of population	25	30	200	245	16.89	3
3	3 rd richest 40% population	95	130	480	705	48.62	1
4	Poorest 20% of population	60	65	220	345	23.79	2
	Total	200	250	1000	1450	100	

Source: Opinion Survey

From the table 4.21, it is cleared that 3rd richest 40% populations will be the victims of increment of price of tobacco /cigarette and Beer than after poorest 20%, 2nd richest 20% and richest 20% of population respectively.

4.2.7 Problems in Excise Duties in Nepal

In order to find out whether there are problems in excise duties in Nepal or not and if it is existed then what are the major causes and how can these problem be minimized, the respondents were asked the following questions

- 1) Do you think that there are problem in excise duties of Nepal?
- 2) If yes, the major causes are

The responses to above questions received from the respondents are presented below.

Table 4.22
Problems of Excise Duty in Nepal

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	10	50	10	50	20	100
B	24	96	-	-	25	100
C	100	100	-	-	100	100
Total	134	92.41	11	7.59	145	100

Source: Opinion Survey

According to the above table it is cleared that 92.41 % of the respondents were in favor of the question .Thus it can be concluded that there are problems in the excise duty in Nepal.

In order to know the causes of the problems in excise duty in Nepal the next question was asked,” if yes, what are the causes? The causes received from the respondents are given below:

Table 4.23**Major Causes of Problems in Excise Duties in Nepal**

S.N	Major Causes	Group			Total Points	%	Rank
		A	B	C			
1	Complexity in Excise duty act, rules and provisions	65	35	150	250	11.49	5
2	Difficulties in Excise administration	35	45	255	335	15.40	4
3	Increasing habit of excise evasion	100	100	400	600	27.58	2
4	Lack of consciousness	75	80	195	350	16.09	3
5	Inefficient excise duty administration	25	115	500	640	29.42	1
	Total	300	375	1500	2175	100	

Source: Opinion Survey

From the above table it can be concluded that the major causes were inefficient excise duty administration, increasing habit of excise evasion and lack of consciousness etc.

4.2.8 Poor Excise Duty paying habits among Nepalese Manufacturing Firms and Industries

To know the respondents opinion about poor excise duty paying habit among Nepalese Manufacturing firms and industries, the question was asked, “Do you think that there is poor excise Duty paying habits among Nepalese Manufacturing firms and industries? The responses received from the respondents are tabulated as below:

Table 4.24
Existence of Poor Tax Paying Habit

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	20	100	-	-	20	100
B	25	100	-	-	25	100
C	100	100	-	-	100	100
Total	145	100	-	-	145	100

Source: Opinion Survey

From the above table it is apparent that 100% of the respondents were in favor of the question. Thus it can be concluded that there are various causes of poor tax paying habit among Nepalese manufacturing firms and industries.

In order to know the major causes of the next question was asked “if yes, what are the major causes? The suggestions from the respondents are given below:

Table 4.24
Major Causes of Poor Excise Duty Paying Habits

S.N	Causes	Group			Total Points	%	Rank
		A	B	C			
1	Complexity in Excise duty provisions and policies	32	48	195	275	18.58	3
2	Lack of incentives for regular tax payers	33	36	116	185	12.50	4
3	Weakness of government excise duty policies and provisions	45	71	314	430	29.05	2
4	Corruption in Excise duty administration	70	95	425	590	39.86	1
	Total	180	250	1050	1480	100	

Source: Opinion Survey

The causes of poor excise duty paying habits among Nepalese manufacturing Firms and industries are ranked in order of preference of respondents as follows:

-) Corruption in excise duty administration
-) Weakness of government excise duty policies and provisions
-) Complexity of excise duty provisions and policies
-) Lack of incentives for regular taxpayers

4.2.9 Excise Duty Administration of Nepal

To know the respondents view towards the effective excise duty administration in Nepal, i.e. how sound and efficient is the excise administration, a question “Do you think that the excise duty administration of Nepal is efficient?” The responses received from the various respondents are tabulated below:

Table 4.25

Attitudes towards Effective Excise Duty Administration in Nepal

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	5	25	75		20	100
B	-	-	100		25	100
C	-	-	100		100	100
Total	5	3.45	96.55		145	100

Source: Opinion Survey

From the above table it is apparent that the Nepalese excise duty administration is not sound and efficient .Around 97 % of the respondents kept their dissatisfaction on Excise administration of Nepal. To explore the causes of the weak and inefficient excise administration the respondents were requested to give points where one point for least valuable and 4 points for most valuable causes

Table 4.26

Causes of Inefficient Excise Duty Administration Of Nepal

S.N	Causes	Group			Total Points	%	Rank
		A	B	C			
1	Lack of trained and competent personnel	70	70	295	435	30	2
2	Complicated excise duty provisions and rules	60	55	110	225	15.51	4
3	Lack of proper communications and directions	50	30	195	275	18.96	3
4	Corruptions in excise duty administration	20	95	400	515	35.51	1
	Total	200	250	1000	1450	100	

Source: Opinion Survey

The causes of inefficient excise duty administration of Nepal are ranked in order of preference of respondents as follows:

-) Corruption in excise duty administration
-) Lack of trained and competent personnel
-) Lack of proper communications and direction
-) Complicated excise duty provisions and rules

4.2.10 Contribution of Excise Duty to Government Revenue

In identify whether the contribution of excise duty to government revenue of Nepal whether in satisfactory level or not, the question “Do you think that the contribution of excise duties to government revenue is at satisfactory level?” was

asked. The responses received from the various respondents are tabulated as below:

Table 4.27

Satisfactory Contribution of Excise Duty to Government Revenue

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	5	25	15	75	20	100
B	-	-	25	100	25	100
C	-	-	100	100	100	100
Total	5	3.44	140	96.55	145	100

Source: Opinion Survey

From the table above, it has been clear that 96.55% of the respondents were found in against the question “Do you think that the contribution of excise duties to government revenue is at satisfactory level?” only 3.44% of the respondents are favor of question.

In order to know the cause of unsatisfactory contribution of excise duties to government revenue the next question was asked, “If no, what are the major causes of unsatisfactory contribution of excise duties to government revenue?” The respondents were requested to give points where one point for least valuable and 5 points for most valuable causes

Table 4.28
Major Causes of Unsatisfactory Contribution of Excise Duties to Government Revenue

S.N	Causes	Group			Total Points	%	Rank
		A	B	C			
1	Defective excise duty rate	65	102	396	563	25.88	2
2	Weakness of government economic policy	95	113	481	689	31.67	1
3	Smuggling and illicit production	71	53	172	296	13.60	5
4	Discrimination in practice	33	36	160	329	15.12	4
5	Inefficient tax administration	36	71	291	398	18.29	3
	Total	300	375	1500	2175	100	

Source: Opinion Survey

The causes of unsatisfactory contribution of excise duties to government revenue are ranked in order of preference of respondents as follows

1. Weakness of government economic policy
2. Defective excise duty rate
3. Inefficient tax administration
4. Discrimination in practice
5. Smuggling and illicit production

4.2.11 Attitude towards Excise Rule 2059

In order to know the respondents view about excise rule 2059, a question was asked “Excise rule 2059, has created obligation to the compulsory use of stamp in liquor bottle and cigarette packet, how does it influence the industrialists?” the responses received from the various respondents are tabulated below

Table 4.29
Attitude towards Excise Rule 2059

S. No	Influence	Group			Total Points	%
		A	B	C		
1	Positive	20	25	100	145	100
2	Negative	-	-	-	-	-
3	Moderate	-	-	-	-	-
	Total	20	25	100	145	

Source: Opinion Survey

Table 4.30
Does This Policy Increase The Excise Collection?

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	20	100	-	-	20	100
B	25	100	-	-	25	100
C	100	100	-	-	100	100
Total	145	100	-	-	145	100

Source: Opinion Survey

From the above table it can be concluded that the compulsorily use of stamp in liquor bottle and cigarette packet make the positive effect to the industrialist and it will increase the collection of excise duty in Nepal.

4.2.12 Attitudes towards Excise Evasion

To be known with the attitudes of the people towards excise evasion a question, we know that the claim of different informal sources comes to know that around 40% of excise is leakage despite of the provision of reward and punishment system .In this circumstances why there is not the enough reporting of excise evasion? Was asked! The respondents were requested to give points where one point for least valuable and three points for most valuable causes.

Table 4.31
Attitude towards Excise Evasion

S. No	Causes	Group			Total Points	%
		A	B	C		
1	The amount of reward is nominal and people do not want to exchange that amount with huge risks	55	65	385	505	58.04
2	People don't know and are not aware about the reward system	30	44	95	169	19.42
3	They are not well acquainted about the informing system of such evasion of there is not easy means, or they don't it.	35	41	120	196	22.52
	Total	120	150	600	870	100

Source: Opinion Survey

The causes of not reporting of excise evasion are ranked in order of preference of respondents as follows:

-) The amount of reward is nominal and people do not want to exchange that amount with huge risk
-) They are not well acquainted about the informing system of such evasion or there is not easy means, or they don't it.
-) People don't know and are not aware about the reward system

4.2.13 Causes of Leakages of Excise Duty

To know the major causes of excise leakages , a question “Though there is the provision of penalty in the excise act and rules, it is reported that there is around 40% leakage of excise, in this circumstances what are the major causes of this huge leakages? Was asked. The respondents were requested to give points where one point for least valuable and 4 points for most valuable causes .The responses received from the various respondents are tabulated below :

Table 4.32
Causes of Leakage of Excise Duty

S.No	Causes	Group			Total Points	%
		A	B	C		
1	Punishments is not so stringent and powerful penalty is very nominal	75	99	280	454	2
2	Government monitoring and administrative mechanism is very poor	60	56	190	306	3
3	Monitoring mechanism is poor; those who are involved in the monitoring job are corrupted.	20	70	385	475	1
4	It is not well communicated to relevant stakeholder	45	25	145	215	4
	Total	200	250	1000	1450	100

Source: Opinion Survey

Specific causes of leakage of excise duty were ranked in order of the preference of the respondents was as follows:

-) Monitoring mechanism is poor; those who are involved in the monitoring job are corrupted
-) Punishment is not so stringent and powerful and financial penalty is very nominal
-) Government monitoring and administrative mechanism is very poor
-) It is not well communication to relevant stakeholder

From the above ranking it is clear that monitoring mechanism is poor, those who are involved in the monitoring job are corrupted, punishment is not so stringent and powerful and financial penalty is very nominal and government monitoring and administrative mechanism is very poor are the most important causes of leakage of excise duty.

4.2.14 Implementation of Excise Rule 2059

Excise rule 2059 creates the compulsion to register all types institution in the excise department to transact excisable product especially liquor in the circumstances, do you believe that this rule is property applied? The responses received from the various respondents are tabulated as below

Table 4.33
Implementation of Excise Rule 2059

Respondents	Yes		No		I don't know		Total	
	No.	%	No.	%.	No.	%	No.	%
A	20	100	-	-	-	20	20	100
B	15	60	10	40	-	25	25	100
C	60	60	20	20	20	100	100	100
Total	145	100	30	20.6	20	145	145	100

Source: Opinion Survey

From the above table it can be concluded that 65.51% respondents in favor of question that's why excise rule 2059 creates the compulsion to register all types of institution in the excise department to transact excisable products especially liquor, is properly applied.

4.2.15 Corrupt Practice in Excise Duty Administration

In order to find out whether corrupt practice existed in Nepalese excise duty administration or not and if it is existed then what are the causes and how can be minimized the corrupt practice. The following questions are asked

-) Do you think that there is corrupt practice existed is excise duty administration of Nepal?
-) How can corrupt practice existed in Nepalese Excise duty administration can be minimized?

The responses to above questions received from the respondents are presented below.

Table 4.34

Corrupt, Practice in Nepalese Excise Duty Administration

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	10	50	10	50	20	100
B	25	100	-	-	25	100
C	100	100	-	-	100	100
Total	135	93.10	10	6.90	145	100

Source: Opinion Survey

Table 4.35

Major Causes of Corrupt Practice in Excise Duty Administration

S.N	Causes	Group			Total Points	%	Rank
		A	B	C			
1	Lower remuneration of tax personal	24	51	100	175	13.05	4
2	Weakness of acts, rules and regulations	13	44	265	322	24.02	2
3	Dishonest tax payers	47	75	141	263	19.63	3
4	Dishonest personal	6	80	494	580	43.28	1
	Total	90	250	1000	1340	100	

Source: Opinion Survey

Table 4.36
Suggestions to Minimize the Corrupt Practice

S.N	Suggestions	Group			Total Points	%	Rank
		A	B	C			
1	Severe actions to corruptors	41	140	528	709	25.19	1
2	Development of check and balance system	33	90	332	455	16.16	3
3	Moral education to tax personnel	27	60	227	314	11.15	5
4	Reduction of tax officers discretionary power	47	115	513	675	23.98	2
5	Additional incentives to tax personnel	18	50	185	253	8.99	6
6	Regular supervision to tax personnel	23	70	315	408	14.49	4
	Total	189	525	2100	2814	100	

Source: Opinion Survey

From the above table it is clear that the most of the respondents i.e. 93.10% thought that there is corrupt practice existed in Nepalese excise duty administration. The major causes according to the preference of the respondents were as follows.

- Dishonest tax personnel
- Weakness of acts, rules, and regulations
- Dishonest tax payers
- Lower remuneration of tax personnel

Other causes mentioned by some of the respondents were as follows.

- There is no legal provision and no penalize the tax officer in case his misuse the power
- The act has given too much discretionary power to the tax officer so that they misuse the power

- Weak governance and ineffective administration
- Political interfere regarding appointment and transfer in custom duty department

It can be concluded that dishonest tax personnel, weakness of tax rules, acts and regulations, dishonest tax payer are the major corrupt practice in excise duty administration of Nepal.

In the opinion of respondents, corrupt practice in existed in Nepalese excise duty administration can be minimized in the following way

- Severe action to corrupters
- Reduction of tax officer’s discretionary power
- Development of check and balance system
- Regular supervision to tax personnel
- Moral education to tax personnel
- Additional incentives to tax personnel

It can be conclude that severe actions to corruptors, reduction of discretionary power, development of check and balance system, and regular supervision to tax personnel; are most essential to minimize the corrupt practice existed in Nepalese excise duty administration

4.2.16 Future prospects to increase the contribution of Excise Duty on Government Revenue

In order to know the future prospects to increase the contribution of excise duty on government revenue, respondents were requested to provide relevant information. The question was “what should be the relevant future prospects to increase contribution of excise duty on government revenue?” The probable future prospects of excise duty are given below:

-) Extension of coverage

-) Tax consciousness of people
-) Minimizing the problem of tax evasion and avoidance
-) Reform in excise duty administration
-) Adjustment of excise duty rate
-) Displacement of shortcoming of tax laws relating to custom, excise, vat and income tax,
-) Encouragement of government private sector partnership
-) Adjustment of WTO based custom rate and discouragement of discount on customs

The excise duty administration should be made free from corruption .for this, the discretion power of tax should be reduced and severe action should be taken against official who indulge into corrupt practice, the tax payer should be educated to reduce bilateral corruption, the tax administration should be made entirely free from the unnecessary outside pressure and interference of influential person. To reduce corruption it is also necessary to provide additional incentives to tax personnel and give heavy publicity for action taken against cases of corruption.

4.3 Major Findings

Through study and analysis of excise duty in Nepal, reveals the following facts:

Findings of secondary data analysis

1. Tax constitutes the largest share in the total government revenue of Nepal.
2. Indirect tax has giant share in total tax revenue. It includes the poor and undeveloped characteristics of economy .Largest share of indirect shares are the emblem of social inequality.
3. Value added tax (VAT), custom duty and excise duty on industrial products share their contribution on indirect tax respectively.

4. Income tax has the bulk share in the total direct tax. But its growth rate is nominal.
5. Indirect tax has more contribution in the GDP than of Direct Tax.
6. Nepal is constantly facing the problem of resource gap. She is largely relied on foreign grants, loans; aids .Recurrent expenditure almost all the time has excised the capital expenditure in the further years, this situation may be even worsening.
7. Rate of excise duty, roster of excisable goods and services definition, division and imposition of excise duty on liquor have been changed several times. It all goes the lack of sincere vision /policy political instability.
8. Despite the huge increment in the rate of excise of health hazard commodities, its consumptions are not decreased in the remarkable figure.
9. Juvenile drinking and smoking habits are not curbed yet.
10. Unauthorized production, distribution and consumption of liquors, beers, and cigarettes are growing .Govt administrative mechanism is failed.
11. Excise duty from cigarette constitutes the giant share in the total excise collection.
12. Collection cost of excise is very nominal in comparison with custom duty or income tax as excise offices are located in certain districts.
13. Nepal faces the top revenue crisis while complying with WTO protocol and other multilateral and bi-lateral agreements. As per the commitment made in the WTO protocol, Nepal has to bring its tax bracket to zero tariff rate on goods (with in 31/12/2008)s and reduction of other duties and charges to zero rate (12/12/2003) .Excise duty can be one of the good option to deal with the revenue crisis.

4.3.1 Findings of Empirical Study

-) Excise duty is one of the suitable means of raising government revenue
-) People has less knowledge on tax education

-) Government primarily levies excise duty to mobilize revenue, to reduce consumption of health hazard goods. (In order)
-) Government is in confusion regarding the excise duty .as a result, neither it initiates its activities totally discard those industries nor start any other supporting activities.
-) Public strong urge government to adopt the policy so that on certain time boundary, such industries vanished out.
-) The empirical study has implied that the decrement in excise rate and expansion of excise bases helps to upgrade the excise collection.
-) Poorest 60% group of the population becomes the top victims of increment in the price of excisable products which is the resultant of increment in the excise rate.
-) empirical study has replicated that there is the problem in the administration of Nepal.
-) Empirical study discloses the inefficient excise administration as the problem in the excise duty.
-) Most of the respondents agrees on the poor excise duty paying habits of the manufacturing firm in industries.
-) Empirical study disclosed the positive attitudes to the excise rule 2059 and it also tells about the possible increment in the excise collection if implementation mechanism is made strong.
-) Reward amount to the informer is nominal (Max Rs 15000). It causes lack of frequent reporting of excise leakages.
-) Excise leakages are relevant to the poor monitoring mechanism and widespread corruption.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

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

The dissertation is aimed to achieve the following objectives.

-) To analyze the excise duty structure of Nepal
-) To analyze the problem of resource gap in Nepal
-) To identify and predict the share and trend of excise duty on government revenue of Nepal
-) To identify the major problems of existing excise duty act.
-) To identify the major prospects of existing excise duty act in Nepal
-) To provide necessary suggestions and recommendations

It is attempt to find out the answer of the following research problems

-) Is government able to check the increasing juvenile drinking and smoking habits via the imposition of excise duty?
-) Is government able to stop the malpractice of producing and distributing the liquor made in local level despite the enactment of excise act and rules?
-) Discretionary power of excise officers?

-) How can Nepal comply with the provision of WTO and multilateral and bilateral treaty?
-) What are the reasons of increasing excise leakages?
-) What is the negative influence of policy instability in excise collection?
-) What are the reasons of failure in the proper enforcement of excise act and rules especially for the unauthorized production and distribution of liquors?
-) Corruption of IRD?

Literature review comprises the following elements as its contents

Background

-) Theoretical review of Excise duty
-) Objectives of Excise duty
-) Base of Excise Taxation
 - Sumptuary Excise
 - Luxury Excise
 - Benefit Excise
 - Diversionary Excise

Historical development of Excise duty in the context of Nepal

-) Excise Duty Act 2015
-) Excise Duty Rules, 2019
-) Provisions made in the Excise Act 2058 B.S and Excise Rule 2059
-) Review of Previous Studies
-) Review of Research Report and Studies
-) Research Gap

Research Methodology has highlighted on the following topic:

-) Introduction
-) Research Design
-) Population and Sampling
-) Sources of Primary Data
-) Nature and Sources of Data
-) Sources of Secondary Data
-) Procedures of Data Collection
-) Procedures of Data Analysis

Tax structure of Nepal Comprises both direct and indirect tax. The share of tax revenue has always been greater than the share, of non tax revenue. In the fiscal year 2006/07, the share of tax revenue and non tax revenue was 81.09 % and 18.91 % respectively as compared with 77.97% and 20.51 % in the fiscal year 2000/01. The percentage of tax revenue to total revenue is fluctuating every year.

It is found that there have been simultaneous increases in direct tax, Indirect tax and total tax revenue in absolute terms. The share of direct tax and indirect tax in total tax revenue of government is appeared in the fluctuating trend .The share of indirect is larger than that of direct tax of the government .Percentage share direct and indirect tax on total tax revenue is in fluctuating g trend .

The contribution of custom duty in total income from indirect tax was in decreasing trend from 2001/02 to 2005/06. Value added tax and custom duty constitutes the large chunk of revenue from indirect tax .The share of Vat on total indirect tax has been increasing since fiscal year 2001/02.

The amount of excise collection is the fluctuating trend since 2000/01 .From 2003/04; it is appeared in the decreasing trend. Among total indirect tax. Custom duty and value added tax carries almost more than 80% part and rest goes to Excise duty and other taxes.

Income tax constitutes the largest share in the total tax revenue .The percentage share of income tax to direct tax in FY 2000/01 was 93.97 % amounting 9114 million. The percentage of property tax to direct tax is very lower in comparison to income tax, land revenue and registration. The major portion of direct tax covered by income tax that's why to increase the volume of direct tax we must focus in the income tax.

We found that the contribution of total revenue on GDP was in increasing trend, which was 11.83% in the FY 2000/01 amount Rs 48893.90 million ,which was gradually increased and reached to 12.98% amount Rs 87712.10 million in the FY 2006/07. There is significant role of indirect tax in the tax structure of Nepal ,which has contributed about three times more than the direct tax .In the FY 2000/01 the contribution of indirect tax and direct tax on GDP were 6.94 % and 2.46 % . Nepal is facing the serious and growing financial resource problem. The increasing magnitude of resources gap clearly indicates that there is an urgent need for mobilizing additional resources .Income tax has appeared as one of the most effective fiscal policy instrument to mobilize additional resources and for achieving the desired developmental objectives of Nepal. One of the reasons for the growth in the annual collection of revenue from excise duty is the frequent increase in the rate of excise duty in liquor, beer and cigarettes. Excise duty is considered to be the easiest duty to apply as the number of manufactures is limited in number and with a few examples. The duty on Beer was Rs 20 per liter in 2000/01, the rate of which was increased almost every year .Now it stands at Rs 50 per liter. In case of 30 UP liquor, the duty per LP liter was Rs 205 in 2002/03

which now stands at Rs 360 in 2007/08. The tax base of liquor was changed every year from 1998 to 2003. The base remained the same from 2003 to 2005 (July) which was drastically changed in 2006 (January). Similarly, filter cigarette of 70mm length has attracted excise duty which has increased every year. The duty rate was Rs 260 per M (1000 sticks) in 2000/01, which now stands at Rs 360 per M. The excise duty for molasses has also increased from Rs 13 per quintal to Rs 35 per quintal in seven years. Although the government adjusted the rate of excise duty in a frequent interval apparently to protect the revenue in real terms, it has not been done in a systematic and objective manner. It appears that the adjustment in the excise duty was guided mainly to balance the revenue deficit, treating excise revenue as residue. This kind of increment and frequent revision in the list of excisable products has however created uncertainty among the investors.

The production of beer has increased since 1995. The beer liquor production however increased marginally in the last four years. The liquor production has fluctuated from year to year and has almost stabilized in the last few years. It should be noted that from 1990 to 1995 the volume of production was almost stagnated. The production increased more than 50% in the next five years. The production remained almost at the same level in 2001. The volume of production declined in 2002 and remained at the same level in the following year.

In 2004 the volume of production increased by almost 17% compared to the previous year, but its production has marginally declined in 2006. Explanation given to this fluctuation of production is the law and order situation of the country, which had disrupted the domestic distribution and the social movement in some of the districts to declare it as liquor free Zone.

The producers also blamed the government for creating uncertainty in the policy, frequent change in the excise duty and closure of some of the distilleries. The

cigarette production has also declined in some years but has shown steady increase in the last three years. The fluctuation is attributed to internal disturbances in the country. The volume of production of soft drinks has increased more than 50% from 1995 to 2006, and more than three times in fifteen years. The demand for soft drinks has increased due to rapid urbanization and intensive advertisement.

The total revenue from the excise duty has been found in fluctuating trend. The figure reached to 4785.10 million on 2002/03 with increment of 25.69 % as compared to its previous years whereas it reached to 6226.70 million in FY 2003/04 again as compared to FY 2002/03. Thereafter the growth rate of excise is found to be in tortoise race. The growth rate was decreased to 0.96 % as minimum during these seven years. But Contribution of Excise is found to be wide enough in the FY 2006/07. It should however be noted that the growth rate of total excise duty has fluctuated widely from year to year.

The structure of excise duty reveals the significance of revenue generated from three excisable items cigarette, liquor and beer in total excise duty. The government introduced detail classification of revenue source in different heads in 1995, which shows six revenue heads in the excise duty in comparison to only two heads before 1995. The contribution of cigarettes, liquor, and beer together is on average more than 90% of the total excise duty during 1995-2006 periods. In the last three years, the excise duty on import of vehicles and motorcycles is contributing significantly which 16.68 % of total excise duty is in 2006, compared to 4% in 2003. The excise duty from the cigarettes is the single largest contributor of the total excise duty.

Regarding the cost of collection of Excise by the government, assuming that 10% if staff is engaged in the collection of excise duty, the collection cost of excise duty is insignificant. The government of Nepal has applied both specific and

advalorem rate of changing excise duty .Specific rate is simple to administer and is applied in the countries which has weak administration. The manufacturer provides information to the excise offices which need to be analyzed in order to determine advalorem tax. As it is a complex system of analysis it demands qualified and skilled manpower. The history of tax base in Nepal shows that before 1990,the government applied advalorem rates of majority of products when department of excise was functioning independently. In cigarettes ,beer and liquor the government had the policy to make liable the manufacturer to pay the greater of the advalorem or the specific rates of excise duty. This policy was changed in 1995 and was imposed specific rates .Larger number of excisable products is based on specific rates except in all kinds of vehicles and motorcycles which are based on value.

In the course of negotiation to WTO, Nepal made commitment in customs tariff rate, other duty and charges (ODCs) and customs valuation. Accordingly, Nepal agreed to tariff binding rate which obligated Nepal to adjust its tariff in a time bound schedule. The department of customs has estimated the revenue loss of tariff adjustment and the loss due to the elimination on ODCs.

In order to prevent negative effect on revenue from trade and protect the domestic industry from unfair competition, the negotiation committee agreed to draw negative list which will include % of 5224 HS subheads of trade. Nepal has to submit the negative list which is not subjected to elimination or reduction of tariff. During the next round of negotiation; it is expected to finalize the negative list.

SAFTA has a provision for drawing sensitive list in order to prevent adverse effect on the revenue from trade and to protect domestic industries from unfair competition. The trade liberalization allowed including 20 to 25% of HS sub heads in the sensitive list.

As BIMST-EC and SAFTA agreements have allowed drawings negative or sensitive list in order to protect revenue. And the domestic industries, the revenue implication for short term is marginal.

Nepal had signed Treaties of Transit and trade as well as the agreement of cooperation to control unauthorized trade with India. They accord each other unconditional most favored nation treatment. They exempt imports of certain primary products from duties or any form of quantitative restrictions on a reciprocal basis. India had granted preferential treatment to industrial products manufactured in Nepal on the basis of non –reciprocity in order to promote industrial development in Nepal. India provided access to Indian markets free of customs duty and the quantitative restriction for all articles with some restrictions on four products.

Agreement on trade with India states “The government of India will allow to government of Nepal payment of the excise and other duties collected by the government of goods produced in India and exported to Nepal provided that such payment shall not exceed the import duties and like charges levied by government of Nepal on similar goods from any other country and Nepal government shall not collect from the importer of the said Indian goods so much of the import duty as is equal to the payment allowed by the government of India.

If the excise duty of India is higher than the import duty of Nepal, Nepal will not receive the excise duty refund equivalent to the difference between the Indian excise duty and Nepal’s import duty.

Empirical Analysis

- In the opinion survey made, 88.97 % of the respondents are in favor of the excise duty as a suitable means of raising government revenue. Only 11.03% of total respondents are against it.
- Nepali peoples are not well informed and aware about the tax laws, rules and regulation .In the opinion survey made, 96.56% of the respondents agreed on this proposition where as 3.44% nationals were against it.
- Excise duty is imposed to mobilize revenue, reduce the consumption of health hazard commodities, protect public health, protect domestic industry and reduce import for boosting export .In the opinion survey made, 26.62% of total respondents opinion was in favor of Revenue mobilization.
- Most of the respondents suggest government to adopt the core policies of excise duty to discourage the production and consumption of cigarette/beers/liquors etc.They even ask government to check the import of such commodities. In their opinion, increment in the production and consumption of such commodities directly/indirectly hamper economy in long run, so for the prosperous Nepal, it is essential to discourage such industries.
- It can be conclude that decrement in excise rate and expansion of excise bases is the most important factor to enhance the excise duty collection in Nepal.
- 3rd richest 40% of population will be the main victims of increment of price of tobacco /cigarette and Beer than after poorest 20%,2nd richest 20%and richest 20% population respectively. In this respect, we can conclude that government should increase excise rate in the line that poorest 60% population should not able to afford it.
- 92.41% of the respondents agreed in the proposition of problem in excise duty, in their opinion, major problems of excise duty are inefficient excise

duty administration, increasing habits of excise evasion, lack of consciousness etc.

- The entire respondent agreed on the proposition of poor excise duty paying habit of Nepalese manufacturing firms and industries. According to them, poor excise duty paying habits are backed by the following reasons
 -) Corruption in excise duty administration
 -) Weakness of government excise duty policies and provisions
 -) Complexity of excise duty provision and policies
 -) Lack of incentives for regular tax payers

Most of the respondents agreed about the inefficient and ineffective excise duty administration .In according them, it is the resultant of

-) Corruption in excise duty administration
-) Lack of trained and competent personnel
-) Lack of proper communications and discretion
-) Complicated excise duty provisions and rules

Large no of respondents responded the unsatisfactory level of excise contribution in the government revenue .In according to them, following are the reasons of unsatisfactory level of excise contribution.

-) Weakness of government economic policy
-) Defective excise duty rate
-) Inefficient tax administration
-) Discrimination in practice
-) Smuggling and illicit production
-) Compulsorily use of stamp in liquor bottle and cigarette packet makes the positive effect to the industrialist and it will increase the collection of excise duty in Nepal.

-) The amount of reward is nominal and people do not want to exchange that amount with huge risk.
-) They are not well acquainted about informing system of such evasion or there is not easy means, or they don't it.
-) People don't know and are not aware about the reward system
-) Excise monitoring mechanism is poor, those who are involved in the monitoring job are corrupted ,punishment is not so stringent and powerful and financial penalty is very nominal and government monitoring and administrative mechanism is very poor are the most important causes of leakages of excise duty.

It can be concluded that most of the respondents are in favor in question that's why excise rule 2059 creates the compulsion to register all types of institution in the excise department to transact excisable product especially liquor, is properly applied.

It has been clear that the most of the respondents i.e. 93.01% thought that there is corrupt practice existed in Nepalese Excise duty administration. The major causes according to the preference of the respondents were as follows:

- 1) Dishonest tax personnel
- 2) Weakness of acts, rules and regulations
- 3) Dishonest tax payers
- 4) Lower remuneration of tax personnel

Other causes mentioned by some of the respondents were as follows:

- 1) There is no legal provision and no penalize the tax officer in case his misuse his power
- 2) The act has given too much discretionary power to the tax officer so that they misuse the power

- 3) Weak governance and ineffective administration
- 4) Political interfere regarding appointment and transfer in custom duty department

It can be concluded that dishonest tax personnel, weakness of tax rules, acts and regulations, dishonest tax payer are the major causes of corrupt practice in excise duty administration of Nepal.

In the opinion of respondents corrupt practice existed in Nepalese excise duty administration can be minimized by the following way

- 1) Severe actions to corrupters
- 2) Reduction of tax officers' discretionary power
- 3) Development of check and balance system
- 4) Regular supervision of tax personnel
- 5) Moral education to tax personnel
- 6) Additional incentives to tax personnel

It can be concluded that severe actions to corrupters, reduction of tax officers discretionary power, development of check and balance system, moral education to tax personnel and additional incentives to tax personnel are the most essential to minimize the corrupt practice existed in Nepalese excise duty administration.

The probable future prospects of excise duty are given below:

-) Extension of coverage
-) Tax consciousness of people
-) Minimizing the problems of tax evasion and avoidance
-) Reform in excise duty administration
-) Adjustment of excise duty rate

-)] Displacement of shortcomings of tax laws relating to custom, excise, Vat and income tax
-)] Encouragement of government –private sector partnership

The excise duty administration should be made free from corruption. For this, the discretionary power of tax should be reduced and severer action should be taken against officials who indulge into corrupt practices, the tax payer should be educated to reduce bilateral corruption, the tax administration should be made entirely free from the unnecessary outside pressure and interference of influential persons. To reduce corruption it is also necessary to provide additional incentives to tax personnel and give heavy publicity for actions taken against cases of malicious activities.

5.2 Conclusions

5.2.1 Conclusion of Secondary Data Analysis

- There is continuous increment in the direct tax, indirect tax and total tax revenue. The share of indirect tax is larger than that of direct tax of government. Major sharing of indirect tax in the government revenue indicates the undeveloped and inequitable characteristics of the national economy.
- Custom duty and vat constitutes the large share in the total direct tax of the government.
- In all most all the year commencing from 2000/01, amount of excise collection is increasing but its percentage share to indirect tax is in the fluctuating trend. It is worrying situation as Nepal has to comply with WTO protocol and other multilateral and bilateral agreements.
- The major contributor of direct tax is income tax .But in the recent years; the share of the income tax to direct tax is appeared in the decreasing trend. As income tax is taken as one of the means of taxation which helps to

- reduce the socio-economic disparity of the population, govt has to take the special initiation to increase its amount share in the direct tax and total government revenue.
- The contribution of direct tax is least in comparison to indirect tax in the GDP and their contribution is also appeared in the fluctuating trend.
 - Resource gap problem is growing in Nepal in every year. Nepal is adopting the deficit budget. Now at this moment we don't have other option except mobilizing the existing resources or developing the resources for enhancing government revenue so that, development need can be fulfilled. Excise duty can be one of the best options. But government of goods produced in India and exported to Nepal provided that.
 - Such payment shall not exceed the import duties and like charges levied by the government of Nepal on similar goods from any other country and
 - Nepal government shall not collect from the importer of the said Indian goods so much of the import duty as is equal to the payment allowed by the government of India.
 - If the excise duty of India is higher than the import of Nepal, Nepal will not receive the excise duty refund equivalent to the difference between the Indian excise duty and the Nepal's import duty.

5.2.2 Conclusion (Empirical Study)

- Excise duty is one of the suitable means of raising government revenue. Nepal nationals are not well aware and educated about the tax laws, rules and regulation. That's why tax authorities should bring the program to aware and educate the tax payers.
- Government mainly imposes the excise duty to mobilize the revenue. Besides, it also aims to discourage the consumption and production of health and environment hazardous goods. Though, in short run, government

- revenue increases from cigarette, liquor and beers, it negatively impacts in the national economy in the long run
- Industrial growth and expansion should be bases of the growth in the excise collection. But the case of Nepal is quite different. Here, the amount of excise collection is increasing due to the increment in the excise bases and excise rates. And even they are changing year by year.
 - Growth in the price and excise rate on cigarette, liquors and beers increase burden on the poorest 60% of population .That why, it is better either to stabilize the excise rate and make it affordable and increases the awareness program to reduce the consumption of those commodities or increase the excises rate in such a quantity that, poorest 60% population can not afford it. It helps to increase the socio-economic equality in the nation. In else, economic condition of poor even goes worsening.
 - There is inefficient excise administration, increasing of excise evasion and lack of tax consciousness among tax payers and ordinary citizens. And we can conclude that, excise duty administration is not free from problems.
 - Causes of poor excise duty paying habits of Nepal manufacturing firms and industry are outlined as given below:
 -) Corruption in excise duty administration
 -) Lack of trained and competent personnel
 -) Lack of proper communications and direction
 -) Complicated excise duty provisions and rules

There is unsatisfactory level of excise contribution in the government revenue .Its reasons are:

-) Weakness of government economic policy
-) Defective excise duty rate
-) Inefficient tax administration

-) Discrimination in practice
-) Smuggling and illicit production

Compulsorily use of stamp in liquor bottle and cigarette packet make the positive effect to the industrialist and it will increase the collection of excise duty in Nepal.

Following are the causes of non-reporting of excise evasion

-) The amount of reward is nominal and people do not want to exchange that amount with huge risk
-) They are not well acquainted about the informing system of such evasion or there is not easy means, or they don't it.
-) People don't know and are not aware about the reward system
-) Excise monitoring mechanism is poor, those who are involved in the monitoring job are corrupted, punishment is not so stringent and powerful and financial penalty is very nominal and government monitoring and administrative mechanism is very poor are the most important causes of leakages of excise duty.
-) There is the existence of corrupt practice in excise administration; its main reasons are outlined as given below:
 -) Dishonest tax personnel
 -) Weakness of acts, rules and regulations
 -) Dishonest tax payers
 -) Lower remuneration to tax personnel
-) It is quite essential to register all the institution transacting excisable products .It is rigidly applied in the cases of liquor .But in practice, all these are violated.
-) The share of tax revenue has always been greater than the non-tax revenue. And the percentage of tax revenue to total revenue is fluctuating every year.

5.3 Recommendations

Following are the recommendations made to the government authority and concerned regarding the excise duty:

- It is suggested to formulate a three year rolling plan which may indicate annual target, strategy to achieve the target, and review the mechanism covering policy, legal, institutional, administrative components
- The amendment of excise act and the liquor act should be initiated with a view to respond to the changing socio-economic situation
- The discretionary authority of the officials should be curtailed
- The disqualifications clause of the applicant should be stipulated so as to make it more transparent to the applicant who should know the expectation of the government while approving the applications
- The juvenile drinking should be made more stringent and supplier should be liable for severe punishment in case of infringement of the act. The penalty should be more severe and if proven guilty of violating the provisions of the acts, the accused must serve jail sentence corresponding to the degree of criminal offence.
- It is necessary to add more high level administration and technical staff with specific responsibility and adequate authority rather creating the new excise department.
- The department is understaffed .The positions should be filled as soon as possible
- Exploration of new excisable products is necessary. In order to compensate for the loss from the reduction of tariff rate and the environmental consideration, the application of the excise rate on petroleum products, production and supply of timber may be considered as a compensation for the loss of revenue due to the implementation of WTO agreement.
- The existing rate is frequently revised which has added complication to the implementation. It should be revised in an interval of three years taking into

account the consumer price index .however, the anomalies in an excise duty of liquor, wine and raw materials used for liquor should be corrected.

- It is suggested to establish security press in collaboration with the private sector in Nepal to produce quality sticker to protect the excise leakage.
- It is suggested to support excise contributing industries for the expansion of excise collections particularly on the following issues:
- National market survey on liquor
 -) Participation of the industry in the formulation of the Act and regulations
 -) Collection of information on illegal domestic production of low quality liquor
 -) Facilitate the industry by providing bank guarantee in lieu of excise duty payment for a limited period.

The problem of leakage should be addressed through an integrated approach. It should start from the manufacturer's application monitoring of the factories, follow-up in the market etc. committees at the ward level should be constituted with the broader representation from the society in order to make people aware of the health hazard in case of drinking impure and duplicate liquors. Moreover, the committee should be instrumental in creating awareness of bad consequences of juvenile drinking and smoking.

The collection cost of revenue (excise duty) is very low in Nepal, compared of the cost of collection in Nepal 20 years ago. It is grossly inadequate compared of the collection in Nepal 20 years ago. It is grossly inadequate compared to the collection cost in Japan. The budget for the department of inland revenue should be increased for the purpose of funding the recruitment of qualified and technical staff, training of officials, cost of follow-up visits, and cost of interaction programs with manufacture, police, citizen groups, NGOs, etc. the need to build up and upgrade the capacity of the department calls for immediate attention.

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Appendix - I

Questionnaire to Tax Administrators/ Tax Experts / Tax Payers

Name:

Designation:

Office/Organization:

Occupation

You are requested to tick () the answer of your choice or from the following questions or wherever appropriate please give points then in order of preference from 1 to last on the basis of number of alternatives .Number one stands for least important and last number for the most .

1. What is your view toward excise duty as a suitable means of raising government revenue?

Yes ()	No ()
---------	--------

2. Do you think that the public are well known about the tax and tax system in Nepal?

Yes ()	No ()
---------	--------

3. What is the reason behind the government imposing or levying the excise duty especially in the production and consumption of the products like cigarette/ Liquor/Beer?

To mobilize revenue

To reduce the consumption of health hazard products

To protect the domestic industry

To reduce import and boost export

All of above

Specify if any other

Every year the government is increasing excise duty in the production of consumption of cigarette /Liquor /Beer .Despite of which ,production and consumption of such commodities is not significantly reduced while observing the static .In these circumstances, what do you recommend government in forming the core policies of excise duty?

Adopt policies so as to wipe out all those cigarette/liquors/Beers industry in future with in certain time frame.

Encourage these industries and adopt the policy in flourish their future with an aim to increase the government revenue.

Leave them in their one way. Adopt the midway policy.

Specify if any

5. Growth in excise collection needs:

Increment in excise rate

Decrement in excise rate

Expansion of excise bases

Decrement in excise rate and expansion of excise bases

Specify if any other

Who will be the victims of increment in the price of tobacco / Cigaratee/ Liquors/Beers?

Do you think that there are problems in excise duties of Nepal?

Yes ()	No ()
---------	--------

If yes, what are the major problems in Excise Duties?

Complexity in Excise duty act, Rules, Provisions

Difficulties in Excise administration

- Increasing habit of excise evasion
- Lack of consciousness
- Inefficient excise duty administration
- Please specify if any other

Do you think that there is poor excise duty paying habit among Nepalese Manufacturing firms and industries?

Yes ()	No ()
---------	--------

If yes what are the major causes of poor excise duty paying habit among Nepalese manufacturing firms and industries?

1. Corrupt in excise duty administration
2. Weakness of government excise duty policies and provisions
3. Complexity of excise duty provisions and policies
4. Lack of incentives for regular taxpayers
5. Please specify if any other

1. Do you think that the excise duty administration of Nepal is efficient?

Yes ()	No ()
---------	--------

If no, what are the major causes of an inefficient excise tax administration of Nepal?

- Lack of trained and competent personnel
- Complicated excise duty provisions and rules
- Lack of proper communication and direction
- Lack of participation of stakeholders
- Corruption in excise duty administration
- If others please specify.....

Do you think that the contribution of Excise duties to government revenue is satisfactory level?

Yes ()	No ()
---------	--------

If no, what are the major causes of unsatisfactory contribution of excise duties to government revenue?

- Defective excise duty act
- Weakness of government economic policies
- Smuggling and illicit production
- Discrimination in practice
- If others, please specify

2. Excise rule 2059 has created obligation to the compulsorily use of stamp in liquor bottle and cigarette packet, how does it influence the industrialist?

Positive	
Negative	
Moderate	

Does this policy increase the excise collection?

Yes	
No	

The claim of different informal sources to know that around 40% of excise is leakage despite of the provisions of reward and punishments system .In this circumstances why there is not the enough reporting of excise evasion?

-) The amount of reward is nominal and people do not want to exchange that amount with huge risk.
-) They are not well acquainted about the informing system of such evasion or there is not easy means or they don't it .
-) People don't know and are not aware about the reward system

Though, there is provision of penalty in the excise act and rules, it is reported that there is around 40% leakage of excise , in this circumstances what are the major causes of this huge leakages ?

-) Monitoring mechanism is poor; those who are involved in the monitoring job are corrupted
-) Punishment is not so stringent and powerful and financial penalty is very nominal
-) Government monitoring and administrative mechanism is very poor
-) It is not well communicated to relevant stakeholder

Excise rule 2059 creates the compulsion to register all types of institution in the excise department to transact excisable product especially liquor, in this circumstances, do you believe this rule is properly applied?

Yes	
No	
I don't know	

Do you think that there is corrupt practice in excise duty administration of Nepal?

Yes	
No	

If yes, the major causes are (please rank)

- Lower remuneration of tax personnel
- Weakness of acts, rules and regulations
- Dishonest tax payers
- Dishonest tax personnel
- Others please specify.....

How can corrupt practice existed in Nepalese excise duty administration can be minimized? (Please rank)

- Severe actions to corrupters
- Development of check and balance system
- Moral education to tax personnel
- Reduction of tax officers discretionary power
- Additional incentives to tax personnel
- Regular supervision to tax personnel
- Others please specify

What should be the relevant future prospects to increase contribution of Excise duty on government revenue?

Appendix - II
Government Expenditure and Sources of Financing

Description	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Expenditure	79835.10	80072.20	84006.10	89442.60	102560.40	110889.20	133604.60
Recurrent Expenditure	45837.30	48863.90	52090.5	55552.10	61686.40	67017.80	77122.40
Capital Expenditure	28307.20	24773.40	22356.10	23095.60	27340.70	29606.60	39729.90
Principal Repayment	5690.6	6434.90	9559.50	10794.90	13533.33	14264.80	16752.30
Receipts	55647.0	87131.60	67568.90	73164.40	84513.90	86109.60	103512.90
Revenue	48893.60	50445.50	56229.80	62331.0	70122.70	72282.10	877712.10
Foreign Grants	6753.40	6686.10	11339.10	11283.40	14391.20	13827.50	15800.00
Surplus(+)/Deficits(-)	-24188.10	-22940.60	-16437.20	-15828.20	-18046.5	-24779.60	-30092.30
Foreign Loan	12044.00	7698.70	4546.40	7629.00	9266.10	8214.30	10053.50
Domestic Loan	7000.00	8000.00	8880.00	5607.80	8938.10	11834.20	17892.30
Cash Balance (-) Surplus	5144.10	7241.90	3010.80	2591.40	-157.70	4731.10	2145.90

Source: Financial Comptroller Office

Note: The Expenditure heads till FY 2003/04 were classified as Regular and Development. Since FY 2004/05, Such Expenditure has been classified as recurrent, capital and principal repayment. The Expenditure heads and subheads from 200/01 to 2003/04 may not tally with previous heads/subheads as these have been presented by reclassifying as recurrent, capital and principal repayment.

**Appendix - III
Tax Revenue**

(Rs. in Million)

Headings	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08*
Customs	12552.10	12658.8	14236.4	15554.8	15701.6	15344	16708.0	14033.90
Imports	10391.9	9678.4	10567.7	10666.9	12299.1	11744.6	13626.1	11265.20
Exports	492.6	917.4	855.6	527.1	697.9	625.6	708.701	267.20
Indian Excise Refund	1456.2	1700.9	2370.6	3882.7	2188.3	2314.4	1896.50	2151.60
Others	211.4	362.1	442.5	478.1	516.3	659.4	476.30	349.90
Tax on consumption & Product of Goods and Services	16153.60	16074.3	18244.8	20705.6	25331.3	28118.3	35439.0	24182.30
Excise On Industrial Products	37712.2	3807	4785.1	6226.7	6445.90	6507.60	9343.20	6462.0
Value Added Tax	12382.40	12267.3	13459.70	14478.9	18885.4	21610.7	26095.6	17720.30
Land Revenue and Registration	612.90	1131.8	1414.30	1697.5	1799.20	2181.10	2253.50	1348.10
Land Revenue	5.1	0.80	0	0	0	0	0	0
House and Land Registration Fees	607.8	1131	1414.3	1697.5	1799.20	2181.10	2253.50	1348.10
Tax on Property ,Profit and Income	9546.5	9465.7	8691.5	10215.1	11272.6	11787	16727.0	11334.50
Income Tax from public Enterprises	2928	1769.3	1251.	2056.6	1332.40	195.7	1019.70	137.30
Income Tax from Semi –Public Enterprises	0	0	0	0	0	0	0	0
Income Tax from Private Corporate Bodies	1824.3	1412	1236.3	1531.3	2467.8	3404.3	5717.10	3645.60
Income Tax from Individuals	3200.5	4419.1	3362.3	3533.40	3926.30	4234.7	5234.40	3393.10
Income Tax from Remuneration	597.3	835.6	1252.6	1391.20	1675.90	1764.10	2007.90	1428.40
Urban House and Land Tax	2.9	2.3	0	0	0	0	0	0
Vehicle Tax	429.6	559.7	559.5	700.60	806.5	847.6	995.00	877.20
Tax on Interest	463.9	467.7	864	733.40	757	774.9	1054.90	751.50
Other Taxes	0	0	165.8	268.6	306.7	565.7	697.80	1101.40

* First Eight months

Note: Value Added Tax includes sales tax, Entertainment Tax, Hotel Tax, Air Flight Tax and Contract Tax

Source: Financial Comptroller Office

Appendix - IV
Non-Tax Revenue

(Rs. in Million)

Headings	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08*
1.Charges ,Fees, Fines and Forfeitures	386.7	518.8	579.6	1202.5	1202.5	1927.7	1945.00	1639.20
Firm Registration	60	71.9	78.7	85.1	85.1	147	204.30	178.30
Arms Registration	1.5	1.4	1.6	2.4	2.4	3.6	4.50	3.6
Vehicle License	9.5	111.1	119.5	635.40	635.4	677.4	850.30	889.10
Judiciary	106.8	192.2	104.3	102.1	102.1	506.8	196.00	93.6
Administration ,Penalty and Forfeiture	123.4	142.2	275.5	377.5	377.5	592.9	690.30	474.60
2.Receipts From Sale of Commodities & Services	2728	2611.1	3063	3497	3497	3932.4	4777.00	2947.30
Drinking Water	9.1	6.5	5.6	5.3	5.3	3.7	3.80	2.0
Irrigation	1.1	1.3	1.4	0.6	0.6	1.3	1.30	0.40
Electricity	0	0	0	0	0	0	0	0
Postal Service	229.6	230.3	219.9	247	247	246.3	226.80	136.60
Food and Agriculture	50.6	45.9	42.3	42.8	42.8	57.2	48.20	23.80
Education	94	128	112.3	128.7	128.7	143.1	219.80	176.0
Forest	602.6	546.2	683.6	674.1	674.1	410.2	510.30	268.60
Transport	86.3	99.9	93.5	131.6	131.6	116.8	102.60	61.70
Others	1654.7	1553.0	1904.4	2266.9	2266.9	2953.8	3664.0	2278.20
3.Dividend	2336.5	2512.9	2497.6	2661.1	2661.1	3394.8	4938.0	2188.50
Financial Institutions	2076.3	2281.8	1904.3	1103.1	1103.1	1313.9	3430.50	1501.60
Trading Concerns	13.4	8.8	11	9.1	9.1	4.7	6.0	0
Industrial Undertakings	0	0	6.1	3	3	3.2	3.0	80.30
Services Sector	226.6	161.8	576.2	1510.3	1510.3	2073	14776.6	606.60
Others	20.2	60.5	0	35.6	35.6	0	0	0

4.Royalty and Sale of Fixed Assets	949.6	723.9	1945.4	1465	1465	1196.8	1092.0	1451.10
Royalty from Mining	5.4	15.3	11.9	9.8	9.8	13.6	16.70	9.90
Other Royalties	483.1	637.2	1142.1	1002.2	1002.2	933.6	1003.0	716.50
Other Sales	461.1	71.4	791.4	453	453	249.6	72.10	724.70
Mint	0	0	0	0	0	0	0	0
Others	0	0	0	0	0	0	0	0
5.Principal and Interest Payment	3497.2	3109.5	2464.3	3507.1	3507.1	3251.30	2086.0	1148.60
Loan Corporations	2050.6	1880.7	1516.7	1826.7	1826.7	1510.5	1009.70	988.20
Interest from Loan to Companies & Corporation	1437.10	1206.8	911.20	1654	1654	1732.9	1057.3	156.50
Others	9.5	22	36.4	26.4	26.4	7.9	18.70	3.90
6.Miscellenaous Items	130.8	1638.8	3092.8	1825.3	1825.3	1148.7	1748.0	618.80
Miscellaneous	130.8	1638.8	3092.8	1825.3	1825.3	1148.7	174.81	618.80
Total	10028.80	11115.0	13642.70	14158.0	16018.0	14851.7	16590.0	9993.50

Source: Financial Comptroller Office

Appendix - V

GDP, GDP Growth Rate, Deflation and Composition by Broad Industry Group

Fiscal Year	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08*
GDP at Basic Prices Current)	413429	430397	460325	500699	548435	611089	675484	768832
Primary Sector	157442	168239	175113	188362	202116	214838	230239	232139
Secondary Sector	71744	75715	81228	86902	94311	101964	112113	122499
Territory Sector	196269	200101	217205	242460	270152	313498	354639	407492
FISIM	12026	13655	13221	17294	18094	19212	21505	23298
GDP at Basic Price (Constant)	413429	414091	429699	448654	461452	480409	492812	520212
Primary Sector	157442	162398	167801	175765	181979	185363	187188	197731
Secondary Sector	71744	72220	74452	75557	77756	81151	84409	85909
Territory Sector	196269	192782	199874	213504	218896	233001	242701	259439
FISIM	12026	13309	12428	16173	17180	19105	21476	22867
Annual Growth Rates of GDP (in %)		0.16	3.77	4.41	2.85	4.11	2.58	5.56
Primary Sector		3.15	3.33	4.75	3.54	1.86	0.98	5.64
Secondary Sector		0.66	3.09	1.48	2.91	4.37	4.02	1.78
Territory Sector		-1.78	3.68	6.82	2.53	6.44	4.16	6.90
Implicit GDP Deflator	100	103.94	107.13	111.60	118.86	127.2	137.07	147.79
Primary Sector	100	103.60	104.36	107.32	111.07	115.9	123.00	132.57
Secondary Sector	100	104.83	109.10	115.02	121.29	125.65	132.82	142.59
Territory Sector	100	103.80	108.67	113.56	123.42	134.55	146.12	157.07
Composition of GDP (in %)								
Primary Sector	37.01	37.89	39.98	36.42	35.67	34.09	33.03	33.09
Secondary Sector	16.86	17.05	17.15	16.78	16.65	16.18	16.09	14.46
Territory Sector	46.13	45.06	45.87	46.81	47.68	49.74	50.88	51.44
FISIM	-2.91	-3.17	-2.87	-3.45	-3.30	-3.14	-3.18	-3.03

* First Eight months

Source: Central Bureau of Statistics