

# CHAPTER I

## INTRODUCTION

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

Economic development is considered as first priority of interest among almost all developing countries throughout the world. Similarly, achievement of high economic growth, reduction of poverty and income disparities and improvement of living standard of people are some of the strategies towards which most of the government activities have been directed in developing countries.

A government always needs revenue to carry out various functions for the betterment of its people. The government needs sufficient resources to carry out development plans, handle day-to-day administration, maintain peace and security and launch other public welfare activities. The government collects the required fund through different sources; mainly from revenues and debt. Revenues come basically from two sources: tax and non tax. Tax revenues include customs duty, excise duty, VAT, income tax while non tax revenues like gifts, grants, revenues from public enterprises, registration fees, fines and penalties. Among different sources, taxation is the most important source of revenues for modern government (Dhakal et. al, 2015).

Tax is compulsory contribution to the government by people for a common benefit. Increase in tax may be directed to increase in saving through postponement in consumption. The increase in saving means a higher volume of resource is available for making useful and productive investments. Taxation can be used to prevent the resource from being dissipated over speculative unproductive investment as well as over lavish and luxurious consumption.

Excise duty is generally targeted on inland sales of manufactured goods, especially to those products which cause negative impact on public health and harmful of the society. Therefore, it is a tool developed for controlling negative externalities in the economy. It is imposed on the consumption of specific goods such as alcoholic behavior, tobaccos products and luxurious things. According to Oxford English Dictionary (2005) an excise duty is “a tax levied on certain goods and commodities produced or sold within a country and on license granted for certain activities.”

In Nepalese industrial sector the excise duty has covered a narrow range of domestic product. It is applied in narrow base but generally in high amounts of tax, sometime the half or more than the price of product. It had main focus on alcoholic and tobaccos products produced and sold domestically. Now the base of excise tax is also widened and imposed on more than fifty products including tobaccos, spirituous liquor, plastic products, flavored drinks, vehicles etc. The excise duty has been governed and regulated by the Excise Act 2058 & Excise Regulation 2059.

Among the various taxes, excise duty plays an important role in tax revenue. Excise duty/tax may be defined as an inland tax on the production. An excise duty is a sales tax that applies to the specific class of goods. Tax rate varies according to the type of goods quantity purchased. According to excise duty act 2058 “product service subject to excise duty” means any product or service which is subject to the excise duty pursuant to this act or other law in force.

### **Historical Background of Taxation**

Great Britain the first country in the world to introduce modern income tax in January 9, 1799 in order to generate revenue to finance on the war fought with France which has known as Napoleonic War. However it came into force on April 5, 1799. After the ends of war in France, the tax was repealed on April 5, 1802. However the income tax was reinstated in 1803 after the outbreak of war again with France on May 18, 1803. The new Income Tax Act was enacted on August 1, 1803. As a war tax, it was abolished on March 18, 1816 after the end of Napoleonic Wars. Income tax was proposed again on March 11, 1842 as a temporary measure for three years to generate revenue to enable government to avoid budget deficits while carrying out major tariffs reforms. This tax was not abolished even after the lapse of three years because of this yield and accepted as a permanent tax by the 1880s. In 1944, the Pay-Tax-As-You-Earn (PTAYE) system was introduced in Great Britain. This replaced annual or twice yearly collection. The scheme was piloted by Sir Kingsley Wood (Khadka, 2001).

In USA also Income Tax was introduced on August 1861 to generate revenue to finance civil war. It was the first personal income tax. In 1894 Democrats in Congress passed the Wilson-Gorman tax to make up for revenue that would be lost by tariff

reduction. In 1895 the United State Supreme Court, in its ruling held a tax base on receipt from a use of property. The court held that tax on rents, on interest and other income from property were treated as direct tax from property and therefore had to be apportioned. This ruling was impractical and ratified by Congress in sixteenth amendment in 1913. The modern interpretation of sixteenth amendment was defined in 1954 in commissioner's ruling where it tried to include all gains/incomes derived from different sources. Congress imposed federal income tax on individualist. In 1950s tax rate were at quite bearable levels and president Regan and George W. Bush made US Tax code more progressive (Khadka, 2001).

### **Taxation in Nepal**

Tax has been one of the primary sources of revenue for the government from the ancient time. But its practice in Nepal was imposed later than the other developed countries. During the period taxes were levied mainly in farmers, merchants and travelers in the form of kinds, cash and labors services. In Lichchhavi regime direct tax was introduced for the first time in Nepal. These direct taxes were copied from Kautilya's Arthashastra which were imposed on agriculture and business income. Therefore tax which was levied on the income of business was 'Bhoga' (share of production) and the tax levied on the income of business called 'Kara' which was in the form of cash. Agriculture and religious monumental preservation taxes also existed at the time of King Ansuvarma of the Lichchhavi dynasty. Malla dynasty also introduced a new tax called 'Potaka' that was received for defense contribution. It was levied on water of farmer's irrigation. There were not any act/rules of tax. So, it was not fixed and used to change as per requirement. Fixed portion of agricultural products were payable to the king as tax. Compulsory labor work from all artisan and labors were also common way of paying taxes (Adhikari, 2003).

After assembly and before starting of Rana regime Nepal exercised and experienced variety of tax to generate maximum revenue of the government. During that period, government required huge revenue to fulfill the expenditure related to administration, military and other activities which increased tremendously. In the beginning, commercial taxes were levied on land, transit, market duties, mines and mints, forest product like wildlife, herbs, drugs, wax, birds and judicial fines. These taxes were

collected from three different levels, i.e. Royal Palaces, Central government and local government bodies.

Royal palace levies like 'walka', 'gadimubarak', 'Chumawa' and 'Ggoden'. 'Walak' was collected from each family on a regular basis and period of national celebration and festival or ceremonial occasion. 'Gadimubarak' was collected to finance coronation ceremony of new king. 'Chumawan' and 'Goddhawa' were collected to finance and sacred thread investiture and a marriage ceremony of royal princes and princesses. 'Godan' was levied to finance funeral expenses when a reigning king died. Central government levies which included Darshan-bhet which was collected from both civil and military employees at the time of their appointment and confirmation, 'Salami' was collected from local revenue collection functionaries in the terai region as an annual payment. Local levies were on forest and water sources. Maximization of revenue was the prime objective of the fiscal policy during that period.

Prithivi Narayan Shah in 1772 introduced 'Pota' tax which was regarded as revolutionary measure in Nepal's fiscal system. It was not based on progressive tax. There was no taxation on income. At that time land tenure system was divided into five forms: Raikar, Birta, Gouthi, Sera anskipat. Birta and Kipat were the main sources of revenue from land (Regmi, 1971).

## **1.2 Statement of the Problems**

Economic development is prime concern for overall development of a country. The challenges to Nepal's development are formidable. These include limited nature of resources, difficult topography, and poor infrastructure; land locked location, weak human capital, poor public management and a long history of political interference in the economy. The government wants to fulfill the basic needs of the people and accelerate development activities to meet objectives. It needs huge amount of capital. The rate of government expenditure is exceeding the rate of revenue growth almost every year.

Despite the various measures adopted by the government to boost revenue collection there is still a high resource gap between the expenditure and revenue. In the study, excise duty as a major source of government revenue will be discussed. There may be

some leakages or evasion found from the personal's side. Department of excise taxation is quite related to the industrial development of a country. So the planners should be interested with studying the excise taxation in Nepal.

Prasad (2015) in his article "Nepal's Excise System and the Legal Frameworks: Agendas for Reform" has stated that there has been significant contribution of excise duty from cigarettes, bidi, liquor and beer. However their share of total excise revenue has decreased significantly since the 1990s due to the increase in excise from imported vehicles and motorcycles. Further he stated that the total revenue from excise duty has been continuously increasing since the FY 1974-1975, except in the fiscal year 1977-78.

Udaundo (2010) in his article "An analysis of the excise tax on cigarettes" has stated that any proposal to increase the tax on cigarettes, despite the varying responses of different categories of smokers, will still result in increased revenue. Additionally, there is always a possibility that an increased tax on smoking may eventually discourage or reduce smoking among the young ones and the low income earners. Hence the excise tax on cigarettes may be able to achieve the twin goals of generating additional revenue and discouraging smoking.

The government has applied the excise duty on products under Excise Act 2058 and prevailing law. Even the government is collecting revenue from excise duty. It is not well planned and government is not being able to charge duty in scientific ways. There is research gap in the field of excise duty since long time. Government has not been able to fix a system regarding excise duty. There is not any evaluation of actual performance and standard fix by the government regarding rate and harmonized product. Following research questions are raised to fulfill the objectives of the study:

1. What is the position of excise duty on liquor and tobacco products?
2. How has excise duty contributed to indirect tax revenue of Nepal?
3. What is the trend of excise duty collection in Nepal?

### 1.3 Purposes of the Study

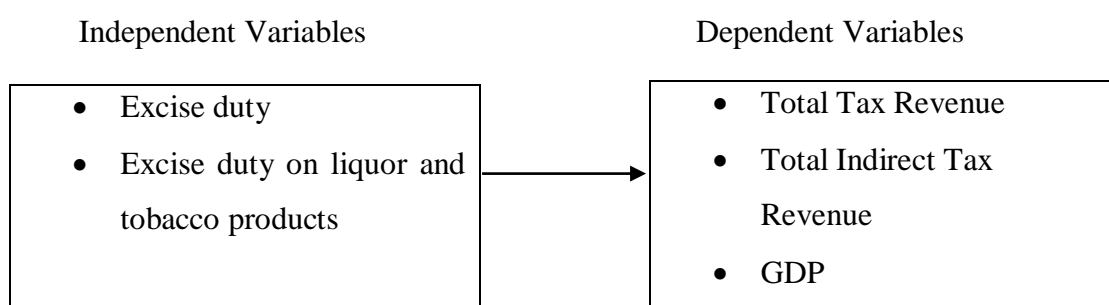
Every task is done with certain purpose. The thesis is prepared being based on the topic of tax from which one can get knowledge about structure, trend, effectiveness of collection, rates of tax, excise exemption, rebates, procedure of payments etc. The main objective of this study is to bring forward internal lineage between domestic products and imported goods and the contribution of excise duty to revenue of government of Nepal. And also to establish a relationship between the trend of excise duty charge on selected items with specific by tobaccos and liquor products and government revenue in relation to its growth over time. Thus, the specific purposes of the study are given as follows:

1. To analyze the position of excise duty collection from tobacco and liquor products in Nepal.
2. To analyze the contribution of excise duty to indirect tax revenue of Nepal.
3. To analyze the trend of excise duty collection in Nepal.

### 1.4 Conceptual Frameworks

Here total tax revenue is dependent and excise duty is independent. Total indirect tax revenue depends upon the increase or decrease of excise duty. Where for Excise duty tax collected from liquor and tobacco industry only will be considered.

**Fig 1.1: Conceptual framework**



Source: Prasad, U. S. (2015) and Edrei, Y. U. (2010)

### 1.5 Significance of the Study

Nepal is developing country with low speed in industrialization process. There is only limited number of resources of revenue collection. In this context excise duty is one of the ways to increase revenue strength of government revenue. Excise duty plays a

significant role in the overall economic development of the developed as well as developing countries. Another major role of excise duty is to protect people, to provide resource needed, to punish the people, industry and regulate those who involved in production of harmful goods and luxury's products. It occupies the significant place in overall tax structure of Nepal.

Excise duty is a kind of tool which controls the production and distribution of excisable goods. A striking feature of present structure of excise duty is that excise duties on liquor, beer and tobacco have been progressively increased at their importance as revenue sources over the year. No one is allowed to manufacture, import, sell and store excisable goods without taking license. Excise duty has been chosen as a relevant topic for the study.

Nepal had established more than 22 offices in the different place of Nepal. These offices are under Internal Revenue Department. Excise duty is main sources of government revenue of Nepal, it has positive sign but the government is not highly concentrated on leakage and crime. This research will be very useful to economists, planners, excise officers, researcher, scholars, professors, journalists, legislators and those who are interested in revenue collection from excise duty in Nepal and problem and prospects of excise duty systems.

The major significances of this study are as follows:

1. Helpful to know the most potential sources of excise duty.
2. Aids in finding contribution of excise duty in revenue of government of Nepal.
3. This study will provide information about different tax system adopting by Nepalese government.
4. This study will analyze the trend of collection of excise duty in Nepal.

### **1.6 Limitations of the Study**

Each and every study has its own limitations and boundaries. This study also has various limitations. Some of which are given below:

1. This study has covered only the period of past ten years (FY 2064/65 to FY 2073/74).
2. This study was mainly focused on only two products tobacco and liquor.
3. This study was only focused on excise duty not on other sources of tax revenue.
4. The study was based only on secondary data.
5. The study only uses the quantitative technique approach and focuses on the description of the output from SPSS and MS Excel.

### **1.7 Chapter Plan**

The chapter has been dealt with the contents mentioned in each chapter of the research. The report of this research has been organized into five chapters; Introduction, literature review, research methodology, data analysis and presentation and finally summary and conclusion.

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

The chapter deals with the introduction including general background of the study, statement of the problem, objective of the study, significance of the study, limitation of the study, organization of the study.

#### **Chapter 2: Literature Review**

The second chapter follows the first chapter and this chapter is concerned with the review of relevant literatures available in the books, journals, articles, research reports, newspapers, magazines, policy documents which are published or unpublished.

#### **Chapter 3: Research Methodology**

Research methodology deals with the method of investigation and includes research design, nature of the data, data collection procedure and tools used.

#### **Chapter 4: Results**

This chapter deals with results of the data analysis.



**Chapter 5: Summary, Conclusion and Implication**

Finally, the fifth chapter deals with the discussion, conclusion and implication of the study. This is the end of the work. Having done all the research workup to the fourth, the work comes out with a consequence that should be deliberated in this chapter as a solution.

Bibliography, appendix and other supportive documents have also been incorporated at the end of the study.

## **CHAPTER II**

### **LITERATURE REVIEW**

#### **2.1 Conceptual Review**

##### **2.1.1 Meaning of Tax**

In simple word tax is a compulsory payment to the government by tax payer without any expectation of some specified return. The word tax is derived from the Latin word 'taxare' meaning to estimate. It is a type of levy or financial charge or fee imposed by a government on legal entities or individuals. It may be levied on income, property and activity. Tax is computed and paid as prescribed in the law. If a person defies the tax payment, he/she may be punished in the court of law. Taxation can be considered as a convenient method of raising revenue which in turn is linked with the welfare of the people directly or indirectly. The government has to collect tax revenue for the benefit of the society as a whole not to a tax payer only. The tax payer dose not receives or claim corresponding revenue from the government.

There are several concepts and definitions found regarding the tax. Some of these concepts and definitions are as follows:

The Organization for Economic Co-operation and Development (OECD) defined the term "taxes" as confined to compulsory, unrequited payments to general government. Taxes are unrequited in the sense that benefits provided by government to taxpayers are not normally in proportion to their payments. According to Prof. Carl Copping Plehn, "Taxes are general contribution of wealth levied upon persons, natural or corporate to defray expenses incurred in conferring common benefits upon residents of states." Prof. Edwin RA Seligman defined tax as "a compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all, without reference to special benefit conferred."

As per the above definition, it can be concluded that the government of a country requires huge amount of revenue to carry out its activities such as infrastructure development, handling day-to-day administration, social or public welfare activities, economic development, maintain balance in regions, priority sector development etc.

To finance these activities government collects revenue from different sources and one of the government's most important revenue source is tax.

In conclusion, it can be said that tax is a liability to pay an amount to the nation. Taxation has been an essential part of the government from the beginning of the state system. However, the main objective of taxation has been different for different approaches. In ancient times, the main objective of taxation was to strengthen the muscles of the state by providing resources. Till the time of Adam Smith, the chief motive of collecting the revenue was to provide resources to the government for security to an individual and society against violence, invasion and injustice and maintaining public institutional (Kandel, 2003).

### **2.1.2 Objectives of Taxation**

The primary objective of a tax system is to generate revenues to pay for the expenditure of government at all level. Besides raising revenues, tax has become an instrument of social and economic policy for the government. Thus, it is rational to say that the basic objective of taxation is to raise fund for the functioning of the government machineries so that the responsibilities of the government towards the nation and the people can be meet. The following are the main objectives of taxation:

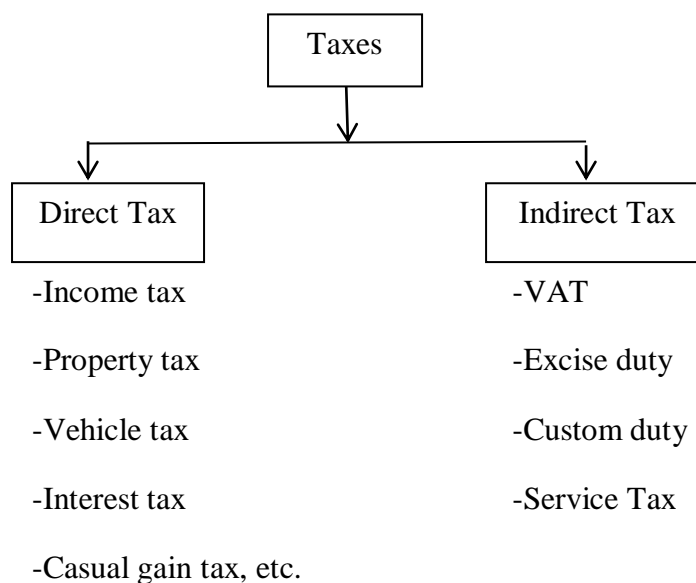
- To meet government financing
- To re-distribute the wealth
- To establish a balance regional development
- To control the consumption of health hazard products
- To promote domestic industries
- To reduce unemployment
- To maintain the welfare state
- To restrict the necessary goods for being exported outside the country
- To invest for the proper utilization of economic resources etc.

(Dhakal et. al, 2015)

### 2.1.3 Classification of Taxes

Modern tax system comprises of different types of taxes. Proper classification of taxes is essential to understand the nature and significance of different taxes. A commonly applied classification of taxes is into direct and indirect taxes. This classification is based on the shifting of the burden of tax.

**Fig 2.1: Classification of Taxes**



Source:Dhakal et.al. 2015

#### **Direct Tax**

A direct tax is a form of tax paid by a person on whom it is legally imposed. It is directly collected by the government from the person who bears the tax burden. There is no any agent between assesses and government. Therefore, direct tax cannot be shifted. It is the tax on income and property.

#### **Indirect Tax**

An Indirect tax is a form of tax imposed on one person but partly or wholly paid by another. It is collected by mediators who transfer the taxes to the government and also perform functions associated with filing tax returns. Hence, the indirect tax can be shifted. There is an agent between tax payer and government. The person paying and bearing the tax is different. It is the tax on consumption or expenditure.

#### **2.1.4 Meaning of Excise Duty**

Excise duty is a form of the indirect taxation. An excise or excise duty may be defined as broadly as an inland tax on the production or sale of specific goods especially to those products which cause negative impact on public health and harmful in the society. The producer or seller who pays tax to the government is expected to recover the tax by raising the price paid by the buyer. This tax is generally targeted on inland sales and manufacture goods. It is levied on specific goods such as alcoholic beverages, tobaccos products and luxurious things. It is applied on narrow base but generally in high amount of tax some time half or more than the price of products. The major objective of excise duty is to control harmful and health injures products, gambling and extra luxurious life style etc. and provides sufficient revenue to the government from the user of such products.

The term excise means, according to the Webster's third new international dictionary:

- a) An internal tax, duty or import levied upon the manufacture, sale or consumption of a commodity within a country, forming an indirect tax that falls on the ultimate consumer.
- b) Any of various taxes upon privileges that are after assessed in the form of license or other fees.
- c) Any of various duties or fees levied on products or excisable commodities.

When first introduced, the main purpose of excise duties was to raise revenue, but recently an alternative philosophy has emerged, recognizing the application of excise duties as a means of influencing consumer behavior. The case put forward in relation to alcohol and tobacco products is that drinking and smoking are health hazards and increased excise duties help to reduce consumption. For mineral oils, reasons for determining consumer behavior reflect a mixture of energy conservation, transport and environmental issues. Over the last decade environmental issues have played an increasing role in determining the nature and application of excise duties ([www.oecd.org](http://www.oecd.org)).

The following features can be useful to describe about excise duty:

- It is the form of indirect taxation. The amount of tax paid by producer is included in the price of goods.
- It is levied on selected goods that manufacture and sales within the country, sometime on imported goods also.
- Main focus of this tax is on harmful products in the society and health injuries products.
- It is applied in narrow base but generally in higher rate of tax.
- Public safety and health, public moral, environmental protection and national defense are all rationales for the imposition of an excise.

As regards the objective of equity, the standard approach rests on the ability to pay criterion. To achieve vertical equity, the poor should bear the light tax burden. Excise taxation on luxury goods addresses to this objective. Taking a wider view of the tax system as a whole, even regressive excises are acceptable in terms of fairness if revenues cannot be raised by other means, and if they are used to finance the badly needed public services for the poor (Cnossen, 1977).

In Nepal, excise duties are applicable to both domestically produced and foreign goods. Before the enactment of Excise Act 2058, the excise duty was imposed only on domestically produced goods. In accordance to section 9 of the Excise Act 2058, no one can be permitted to produce, import, hold and sales of excisable products without getting license from concerned Inland Revenue Office. In other words license is necessary to produce, import and sales of excisable goods except those products imported under diplomatic facility as recommended by Ministry of Foreign Affairs (Excise Regulation, 2059).

Licensing requirement is adopted for all excisable commodities. The department as well as field officers can grant licenses. No one is allowed to manufacture, import, sell and store excisable goods or sell excisable service without taking license. The industries dealing with bricks, stone, crusher, tobacco and other related items, textile industry and the industry importing molasses must obtain license from concerned authority. However, the approval is not required for the industries dealing with

excisable goods and services subject to self-removal system and while imported goods under diplomatic facility as per the recommendation of foreign ministry. Person, firm or institution that needs such license may submit a prescribed application form along with the file before excise officer at concerned Inland Revenue offices (Dhakal et. al, 2015).

### **Purpose of Excise Duty**

An excise duty was originally invented for some or all off the following reason:

- To maintain social security.
- To regulate consumption of goods that affects the environment and human health.
- To generate revenue needed.
- To motivate export and minimize import.

#### **2.1.5 Excise Duty in Nepalese Context**

Before 1951, during the Rana regime, the excise was collected on a contract basis. The “RakamBondobastaAdda” was responsible for excise administration which was set up during the reign of King Surendra. Under this office, a handful of contractors levied different excise duties in different parts of the country based on tradition and their own interest. There was no uniform excise rate and the excise duties were not linked to the fiscal policy of the country. The main items attracting excise duty during the period were local liquor, pig-hair, leathers, ganza, opium and hashish etc. There was no excise duty on industrial products. The basic purpose and philosophy behind the imposition of excise duty was to collect revenue (Pant, 1985).

In 1955 the department of customs and excise was established by abolition of “RakamBondobastaAdda”. The Excise Act 1959 authorized the government to impose an excise duty on domestic industrial products like matches, sugar and liquor. 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 a distillery system in the production and distribution of liquor. As rapid industrialization took place in various fields such as distillery, tobacco, rice and oil processing a small branch office of the custom and excise department could not meet

the heavy requirement of revenue collection therefore a separate department of excise was established in 1966.

The purpose of establishing a separate department 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 officers in various parts of the country. At present this department is functioning effectively in the central and district levels. The responsibility of excise collection is done by Inland Revenue Department (IRD). IRD has delegated its authority of issuing excise license to 17 treasury offices. As the customs tariff rate has shown declining trend in the last few years, it is necessary for the government to explore alternative means to compensate for the loss of revenue and mobilize additional revenue to meet the growing administrative expenses. Excise duty is the potential area which is expected to contribute substantially in the future.

Historically, these duties had covered a wide range of domestic products accounting for 14.3 percent of total tax revenue during 2048/49. But years as follows the almost universally accepted norms, excise duties were restricted to a narrow range of domestic products. Consequently, its contribution dropped down to 9.9 percent of total tax revenue during 2058/59. In recent years, the government has introduced excise duties as a substitute for custom duties in selected commodities to recover the revenue loss from the reduction of custom duties due to WTO commitment. Accordingly, the number of excisable product has exceeded fifty and the contribution of excise duty in total revenue is 12.4 percent in 2069/70. The effect of excise duty is also faced by narrow range of population. At present, large sales volumes, few producers, limited consumer inelastic demand and lack of close substitutes are the basic charm of excise system in the country. The excise duty is very helpful instrument to control the consumption which is regarded as lacking merit or as likely to cause negative externalities. Nowadays excise duty has been governed and regulated by Excise Act 2058, Excise Regulation 2059 and Alcohol Regulation 2033 (Dhakal et. al, 2015).



### **2.1.6 A Brief Review of Excise Duty Act 2058**

In order to mobilize revenue by making the process of collecting revenue required for economic development of the country effective it is suitable to make timely amendments and codify the laws made in respect of imposing and collecting the excise duty on the products manufactured in or imported into or the services delivered in Nepal. Therefore, it is enacted by the parliament of Nepal “Excise Duty Act 2058” by replacing Excise Act 2015 (1959).

The act is enacted from 2058-10-17 (30 January 2002), and first rules of this act is also published in same year and affected from 2059-03-24 (8 July 2002). To make the act more practical and to eliminate confusion and confusing terms the act has been composed in 26 sections. This act was amended 18 times by the finance act up to 2074. According to the policy makers and tax experts the objective of act could be pointed as follows:

- a) Economic development of the country.
- b) To make the process of revenue collection effective.
- c) To increase the revenue mobilization by imposing excise duty on home produced products and imported goods as well as services.
- d) To protect the people from harmful and over use of luxury products.
- e) To minimize excise tax avoidance and evasion.
- f) Reducing the scope of discretionary interpretation of the tax administration thereby ensuring simplicity, uniformity and the transparency.
- g) Defining the power as well as authority of tax administration.
- h) Separating administrative and judicial responsibility.
- i) To take tax system compatible to modern economy.
- j) License should be compulsory to produce and sales the excisable goods.

(Excise Act, 2058)

A striking feature of present structure of excise duty is that excise duties on liquor, beer and tobacco have been progressively increased at their importance as revenue sources over the year.

### **2.1.7 Excisable Products**

“Excisable goods and services” refer to the goods and services on which excise duty is applicable as per the act and the prevailing law (Section-2). In Nepal, excise duties are applicable to both domestically produced and imported goods. Before the enactment of Excise Duty Act 2058, the excise duty was imposed only on domestically produced goods. To maintain parity the imported goods of similar nature were taxed by a similar rate of a countervailing duty. Today, more than fifty commodities are subject to excise duty. The excisable products include molasses, plastic goods, fruit juice, liquor, tobacco, soft drinks, ethanol, iron, rods, marble, glaze tiles, noodles, fried meat, cement, paints, ceramic bricks (except domestic production), vehicles, printing equipment, telecommunication equipment (including telephone, fax machines, micro phone, speakers), television, other selected electric equipment etc (Excise Act, 2058).

### **2.1.8 Recovery of Excise Duty**

Excise Duty Act 2058 has laid down the following provisions with regard to the recovery to the recovery of excise duty (section 4):

- In the case of industry producing excisable goods under physical control system, the excise duty is recovered at the time the goods produced by the enterprise are delivered for sale.
- In the case of excisable goods and services under self-control system, the excise duty is imposed at the time an invoice is issued. Total duty determining during the month should be deposited to the concern Excise Office within 25 days of the month issuing invoice. If a taxpayer fails to submit the tax return within 25 days of next month he will be subjected to fine @0.05% per day for delay period. In some case, the producer is require purchasing bulk quantities of excise stickers and labeled itself to products.
- In the case of imported goods, the excise duty is determine at the time such goods enter Nepal at custom point. Valuation of excise made by adding custom duty on valuation of custom and applied the prescribe rate in case the tax is applied on percentage basis.

- In the case of services to be imported, the excise duty is imposed as specified by the department (Excise Act, 2058).

### **2.1.9 Exemption from Excise Duty**

Section 4 of the Excise Duty Act 2058 has made the provision of excise exemption for certain circumstances, which one as follows:

- If the goods exported from Nepal or goods (except alcoholic and tobaccos) sold to approve tax free shop.
- Liquor or cigarette sold by approved duty free shop to the person or entity enjoying diplomatic facility and duty free facility by the recommendation of Ministry of Foreign Affairs of Nepal Government.
- The goods imported by person or entity enjoying diplomatic facility and duty free facility by the recommendation of Ministry of Foreign Affairs of Nepal Government.
- The import of chassis of ambulance, vehicle and funeral vehicle (use if carry dead body)
- Goods which are fully exempted from custom duty which are imported for personal use under free baggage services.
- The goods produced by an industry using 90% or more local scrap material.
- Other specific goods by the Department or by Nepal Government (ExciseAct, 2058).

## **2.2 Review of Related Study**

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

### **2.2.1 Review of Books and Articles**

Chelliah (1976), in his scholar work has taken consideration with a few pages towards the excise taxation, while studying the taxation on Union Government of India According to his study custom is losing their relative importance and its place is taken

up by excise duties. This was 40 percent of total tax at his study time. He further states that excise taxation is growth by leaps and bounds in the last 25 to 30 years. In the middle thirties, excise duties covered only five commodities but now the list of articles covered is fairly long.

Singh (1985) has done comprehensive study on the fiscal system of Nepal. Although it is a comprehensive study even it is also a macro study on the fiscal system of Nepal. It is not concerned to a certain tax only. In chapter 6 he has stated about excise duty source and composition only.

Warner et.al(1995) suggests that the regressivity of tobacco taxes should be viewed in the context of the net effects of the overall tax system combined with the redistributive effects of the expenditure side of government. Unfortunately, however, it is difficult to compensate the effect of the discriminatory regressivity of tobacco taxes by progressive income taxes or social benefit system. In fact, it might be argued that if the poor were subject to lower tobacco taxes, families at the lower end of the income distribution might have more to spend on food.

Excise tax can play a role in discouraging consumption of goods that may not have external effects, but are nonetheless harmful to the individuals who consume them. Example of such goods includes tobacco products, alcohol, and food with poor nutritional content. Irrational consumer may begin consuming these items without fully appreciating the regret they will experience years later, in which case there could be a role for optimal excise taxation to help consumers by making it more expensive, and therefore less likely, to start early on the path of overconsumption (O'Donoghue and Rabin, 2006).

Prasad (2008) in his research has stated that Nepal's tax structure is highly dominated by indirect taxes, which tend to be stagflationary. Nepal collects a substantially higher share of its revenue from customs, sales and excise duties, the share of indirect tax revenue to total revenue and GDP tends to be very high, and numerous concessions and deductions apply to direct taxes. Therefore, a shift from the present dependence on indirect to direct taxes is considered necessary. This would lead to a decline in

prices of mass consumption items and an increase in demand, and a reduction in demand for luxury goods due to the imposition of direct taxes, which would be beneficial on balance of payments. Both would have a positive effect on growth in the economy. It should also be noted, however, that the efficiency and quality of tax administration is very weak and irregularities in tax collection are widely prevalent.

Bhattarai and Koirala (2010) explained about the income tax; value added tax, custom duty, excise duty, revenue administration and tax planning in Nepal. This book has been designed base on the curriculum of MBS. This book included various direct and indirect tax in Nepal covering income tax, value added tax, custom duty and excise duty. It also covers tax planning concept and it's used in Nepal. The book also included references and supplementary readings.

Adhikari(2011) on his article have raised main point related to excise duty are as follows:

- a) Improvement of social security and public welfare activities by increase the rate of custom and excise duty on health hazard products like liquor and cigarette etc.
- b) Promotion of private sector by giving the exemptions from excise duty on the products made by using 90 percent of national raw materials.
- c) To reduce the business cost, by avoidance of complex-cities of two steps charging of excise duty on importation of vehicle, the policy of excise duty was charged at the point of custom point are adopted, etc. As a whole writer mentioned in his article about the different types of revenue policies and their implementation aspects in Nepal.

Dhakalet.al. (2015) in their book provided insight into basic principle of taxation practiced in Nepal. This book covered the conceptual foundation, income tax, tax planning, value added tax, custom duty and excise duty. The book was designed to fulfill the needs of MBS under TU. This book not only useful to the students and teachers but also useful to those entire individual interested in 'brushing up' there knowledge in tax system of Nepal.

Sharma (2015) has published news on 2072 Poush 10 about the reestablishment predation of excise offices, according to the news 520 companies have produced excisable products in Nepal. Total contribution of government revenue from excise duty is 20.76 percent in 2014/15. Nepal government had decided to reduce the excise offices. Now a day 22 tax offices are operating in the different places of the country. Then according to the news the government has decided to change the 50 excisable products under excise Act. In the first stage the government establishes excise offices in six different industrial areas. Those excise offices were removed 18 years ago. The government has needed to establish the excise offices. It is compulsory and necessary to collect the duty.

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

As for possible searching for the government tax and excise duty related thesis continues in progress. But till now following thesis noted to be available.

Ghimire (2006) on his research mainly focuses on the excise duty mobilization in government revenue of Nepal. His objective was to fine out the contribution of total excise duty in the gross domestic products of Nepal. And the research shows that the contribution of total excise duty in the gross domestic products reveals that the ratio is less than one percent from 1990 to 2002. The structure of excise duty reveals the significance of revenue generated from three excisable items cigarette, liquor and beer. The contribution of cigarette, liquor and beer together is average more than 90 percent of the total excise duty during the periods 1995-2005.

Khanal (2013) on his research he basically concerned with the contribution of excise duty in government revenue of Nepal. The main objectives were to examine the trend of collection of excise duty in Nepal, to describe the contribution of excise duty of selected item with special reference to tobacco and liquor products in government revenue of Nepal and to fine out the trend of excise duty change in selected item with special reference to tobacco and liquor products. And the findings were the contribution of excise duty in total Inland Revenue is increasing trend. The situation of collecting excise duty is more than budgeted excise duty except some fiscal year. So collecting revenue from excise duty is motivated for the excise officers. The

government performance as well for planning collecting excise duty. Tobacco and liquor products are major sources of revenue to the excise duty. Contribution of tobacco and liquor are almost one third of excise duty. Excise duty of imported goods is also increasing subsequent fiscal year. Trend values of excise duty are positive. Variation on excise duty is up and down, FY 2002/03 and 2003/04, it is positive. In FY 2004/05 to 2008/09, it is negative then after it is positive. Trend line of excise duty on liquor and tobacco are also increasing trend variation is also same as excise duty except in FY 2004/05 and FY 2009/010.

Ojha (2013) conducted a research and he studied the excise tax structure, prescribe rate of excise duty in excisable goods, contribution of excise duty on total revenue of Nepal. It was submitted to Central Department of Management, Tribhuvan University, Kirtipur Kathmandu at 2013. The objective of the study were to analyze excise duty structure of Nepal, to analyze the prescribe rate of excise duty in excisable goods, to analyze the excise duty contribution revenue to the government of Nepal and to provide necessary suggestions and recommendations.

Khatri (2016) on his research basically concerned with the contribution of custom duty in indirect tax and government revenue of Nepal. The main objective was to find out the trend of collection of custom duty in Nepal and to explore the contribution of custom duty to government revenue. The findings were the trend of tax revenue and non-tax revenue both are increase in over the five research period (2009/010-2013/014). The major component of indirect tax is custom duty, excise duty and VAT. This study shows that all types of indirect tax are increasing trend in five research period. The study shows the contribution of custom duty of GDP is very few. In 2009/10, 5.57% of custom duty in GDP and 9.09% of 2013/14. This study shows that the GDP is increasing trend. The average ratio of contribution of custom duty is 30.06 percent of indirect tax revenue and 20.64 in total tax revenue of Nepal.

### **2.3 Research Gap**

There is not any study regarding excise duty since long time. Any researcher has not become able to find out the problems of excise system of Nepal. There are so many products making contribution is excise duty which aids in increasing government

revenue. Rate of excise duty is fixed by government authority without evaluating its impacts on the economy and the people.

This study has been done to cover research gap through contribution of excise duty to indirect tax revenue in Nepal with special reference to tobacco and liquor products, since FY 2064/65 with covering 10 years. Tobacco and liquor products are major component of contribution to the excise duty. Researcher hasn't become able to find out the contribution and trend of excise duty of the selected items. This study focuses future trend and growth potentiality of excise duty of tobacco and liquor products in Nepal. It has also focused problem and prospectus in such field. Here tobacco includes all kinds of Tobacco products i.e. Bidi, Cigarette, Surti, Khaini, Pan Masala, Gutkha and Liquor includes of kinds of alcoholic beverage products i.e. Beer, Wines and other local alcoholic products.

This study therefore, seeks to fill this gap by establishing the link between excise duty collection from liquor and tobacco products and total indirect tax revenue.



## **CHAPTER III**

### **RESEARCH METHODOLOGY**

Research methodology is a systematic way of solving the research problem. Research Methodology refers to the overall research process, which a researcher conducts during their study. Research can be conducted on the basis of primary and secondary data. Research methodology guides the research work and provides reliability and validity to it. Research methodology employed in this study is presented below.

#### **3.1 Research Design**

Most of the data and information of the study were concerned with past phenomena of the performance either they are numerical or opinions. The main objective of this study is to analyze the contribution of excise duty to indirect tax revenue of Nepal and provide suggestion on the basis of findings. For studying the stated objectives, analytical as well descriptive research design will be applied. Descriptive research studies are designed to obtain pertinent and precise information concerning the status of phenomena and whenever possible to draw valid general conclusions from the facts discovered. Therefore, a descriptive design helped to establish the factors that influence the indirect tax revenue of Nepal.

#### **3.2 Population and Sample**

Population consists of total excisable products in Nepal for this study. Currently there are more than 50 excisable products under Excise Act 2058. Sample is the selection of certain number of products out of population. The sample of products used in this study constitutes two products liquor and tobacco. Liquor and tobacco products occupy the major portion in excise revenue. These products cause more negative externalities in society than other excisable product. The selected products in sample are believed to be true representative of the population.

Government of Nepal started collecting excise duty after the enactment of Excise Act 1959. Nowadays excise duty has been governed and regulated by Excise Act 2058. There is a history of more than 100 years of collection of excise duty, which can be

taken as population year. The sample of 10 years (2064/65 - 2073/74) used in this study to find out the most recent scenario of excise duty collection in Nepal.

### **3.3 Nature and Source of Data**

The study requires adequate relevant qualitative and quantitative information. The information and data required for conducting the study was entirely based on secondary data. The data were collected from published and unpublished report and dissertations on the concern subject, publication and economic survey of various fiscal year of Ministry of Finance (MOF), Nepal government, publication and annual report of Internal Revenue Department (IRD) for the excise duty, various books written by tax officers etc.

### **3.4 Data Collection Procedure**

The data were collected and explored through the various books, articles, magazines, and journals. The required secondary data were mostly collected from IRD and various economic surveys done by ministry of finance. Some unstructured interviews with tax official were undertaken for useful information.

### **3.5 Data Analysis Tools and Techniques**

Data obtained from the various sources cannot be directly use in their original form. Further they needed to be verified and simplified for the purpose of analysis. Data, information, figure and facts related to the study has been checked, rechecked, edited and tabulated for analyzing them. According to the nature of data they are inserted in meaningful tables which are shown in the annexes. Data are analyzed and interpreted using different types of statistical tools are as follows:

#### **Percentage**

In mathematics, a percentage is a number or ratio expressed as a fraction of 100. The percent value is computed by multiplying the numeric value of the ratio by 100. Whenever we talk about percentage, it is important to specify what it is relative to, i.e. what is the total that corresponds to 100%.

## Graphs and Diagrams

One of the most effective and interesting alternative ways to present statistical data is through graphs and diagrams. A graph chart is a graphical representation of data in which the data is represented by symbols, such as bars in a bar chart, lines in a line chart, or slices in a pie. A diagram is a symbolic representation of information according to some visualization technique. Graphs and diagrams are used to ease understanding of large quantities of data and the relationships between parts of data.

## Trend Analysis

In statistics, trend analysis often refers to techniques for extracting an underlying pattern of behavior in a time series. Also, trend analysis is mathematical technique that uses historical data to predict future outcome. The mathematical tool ‘time series’ is used for analyzing the trend of variables and to predict the possible future outcomes by using past data. There are various methods of doing trend analysis. For this research least square method of time series was used for trend analysis. The method was one of the most commonly used methods to describe the trend. The trend line was fitted on the basis of following assumptions.

- a) The sum of deviation of the actual value of ‘y’ from the computed value of ‘y’ is zero i.e.  $y - y_c = 0$ .
- b) The straight line trend between the dependent variable ‘y’ and the independent variable ‘x’ (i.e. time) is represented by the equation:  

$$y = a + bx \dots\dots\dots (1)$$

Where,

- y = the given value of the variable in time series i.e. dependent variable
- a = y- intercept or value of y when x= 0
- b = Slope of trend line
- x = time variable
- $y_c$  = estimated value of y for any given value of independent variable

The value of ‘a’ and ‘b’ is obtained by solving the following two normal equations:

$$\sum y = na + b\sum x \dots\dots\dots (2)$$

$$\sum xy = a\sum x + b\sum x^2 \dots\dots\dots (3)$$

Where 'n' is the number of the years for which the data is obtained.

The value of 'a' and 'b' are obtained from the normal equation, then substituted in equation (1), gives the equation of trend line.

### **Correlation Coefficient**

Correlation coefficient is a relative measure of co-movements between variables. It is the measurement of linear relationship between two or more variables. Its values lie between -1 to +1.

Mathematically,

$$\text{Correlation coefficient } (r) = \frac{N \sum XY - (\sum X)(\sum Y)}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

To run the further analysis computer based statistical tool SPSS will be used.

## **CHAPTER IV**

### **RESULTS**

#### **4.1 Introduction**

Excise duty is a tariff or tax on the domestic products and imported products (Excise Act 2058) which are determined by prevailing law. A tax that a country imposes on its production at factory gate and imported goods at custom point is excise duty. Excise duty is an indirect tax which levied on selected goods. It is called factory gate tax. The excise duty of selected items which reference to tobaccos and liquor products (in fiscal year 2064/65 to 2073/74) is presented for contribution to the government revenue.

#### **4.2 Presentation and Analysis of Data**

##### **4.2.1 Revenue Structure of Nepal**

Every government is responsible to perform numerous functions for the betterment of the people in the country. A government needs sufficient funds to fulfill various type of expenditure. For this propose, government collects revenue from different sources. Thus, the income of the government through all sources like taxes, borrowings, fees, donations etc. is called public revenue. In general, government income sources are classified mainly into two categories, namely, tax revenue and non-tax revenue. These sources are subject to non-repayment and their sum constitutes the government revenue. Besides these sources, government has other sources that are subject to repayment such as loans, grants; however grants are not compulsory repaid. These sources are described only to meet the fiscal deficits.

Indirect tax is a popular approach concerning taxation implies in the world. It is very powerful tools of fiscal policy adopted for the optimum level of resource mobilizing with the principle: more gain from the tax payers, no pain to the tax payers. Theoretically, it is a tax that falls firstly and directly on the tax payer but the other person most bear if due to the shirting of the burden. In short, indirect tax is imposed on one person but is paid either partly or wholly by another person. So, impact and the incidence of tax are on different persons.

Nepal depends on the indirect tax rather than the directed tax because there is not any good alternative especially for the optimum level of revenue mobilization; on hand and the other hand, wide spread poverty, heavy dependency on agriculture, small space industrialization, low level income and wealth and very weak administration (Prasad, 2008). Since 1951, indirect tax had grown rapidly and speedily. The major components of indirect tax of Nepalese tax structure constitutes custom duty, excise duty, sales tax/VAT and contract tax. Excise duties are composed of mainly domestic production and same nature imported goods.

Excise duty is a form of an indirect tax which is imposed on the consumption of selected goods such as Alcoholic beverage, Tobacco products etc. Generally the list of such goods is provided by government and the list may differ from country to country. The government of Nepal has enacted Excise Act 2058, Excise Regulation 2059 and Alcohol Regulation 2033. The main aim of these acts is to amend and consolidate the prevailing excise laws in order to make safe and facilitate production, making excise administration systematic, transparent and accountable.

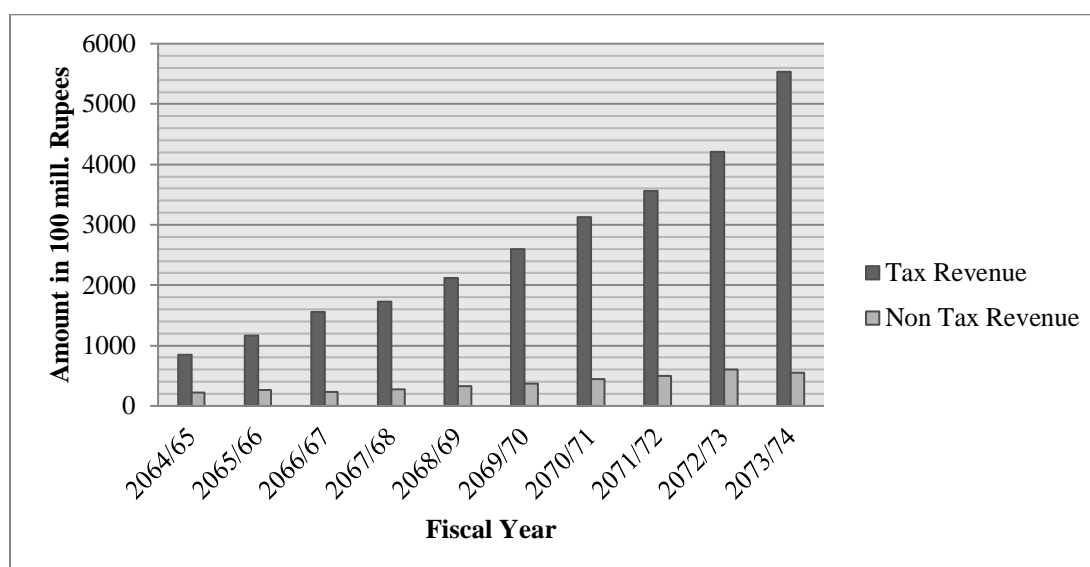
Government revenue is collected mainly from two sources. They are tax revenue and non-tax revenue. Here table no 4.1 is presented as the contribution of tax and non-tax revenue in total revenue Nepal from FY 2067/68 to 2072/73.

**Table No. 4.1: Sources of Government Revenue(FY 2064/65 to FY 2073/74)**

*(Amount in Rs.100 Million)*

<b>Fiscal Year</b>	<b>Total Revenue</b>	<b>Tax Revenue</b>	<b>% Contribution</b>	<b>Non Tax Revenue</b>	<b>% Contribution</b>
2064/65	1076.22	851.55	79.12	224.67	20.88
2065/66	1434.75	1170.52	81.58	264.23	18.42
2066/67	1799.46	1562.95	86.86	236.51	13.14
2067/68	1998.19	1727.78	86.47	270.41	13.53
2068/69	2443.74	2117.22	86.64	326.52	13.36
2069/70	2960.21	2592.15	87.57	368.06	12.43
2070/71	3566.21	3124.41	87.61	441.8	12.39
2071/72	4058.67	3559.56	87.70	499.11	12.30
2072/73	4819.62	4210.97	87.37	608.65	12.63
2073/74	6091.79	5538.66	90.92	553.13	9.08

*Source: Economic Surveys (2065/66, 2067/68, 2068/69 & 2074/75)*

**Figure No. 4.1: Sources of Government Revenue**

The table and figure no. 4.1 shows that in the FY 2064/65 there was 79.12 percent of tax revenue and 20.88 percent of non-tax revenue. Similarly in FY 2065/66 there was 81.58 percent and 18.42 percent respectively. The rate of contribution was flexible in each year after 2064/65 and reached to 90.92 percent of tax revenue and 9.08 percent of non tax revenue in FY 2073/74.

#### 4.2.2 Composition of Total Tax Revenue

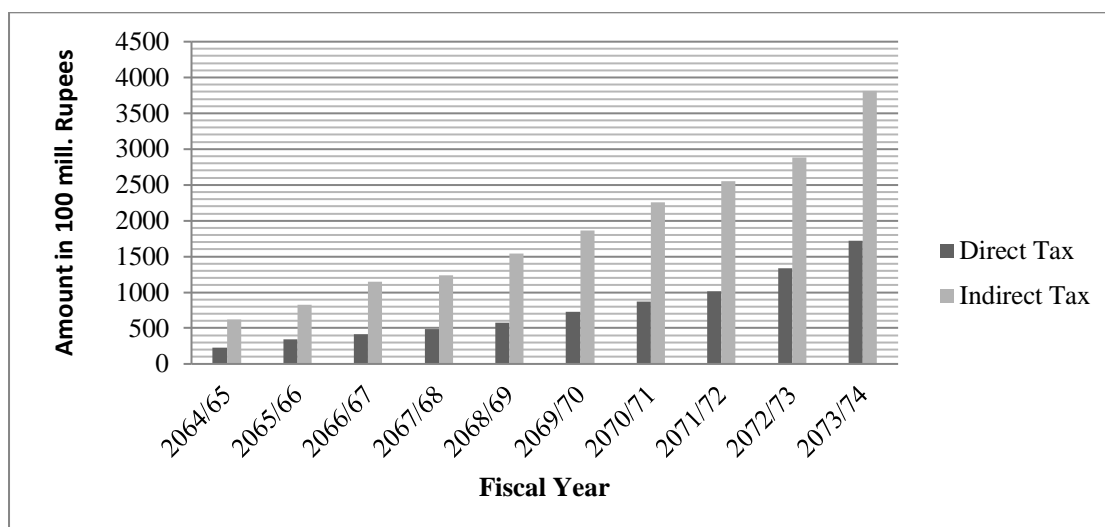
Tax revenue can be collected as direct tax revenue and indirect tax revenue. Following Table shows the composition of direct and indirect tax on total tax revenue.

**Table No. 4.2: Composition of Total Tax Revenue (FY 2064/65 to 2073/74)**

(Amount in Rs.100 Million)

Fiscal Year	Total Tax Revenue	Direct Tax	% Contribution	Indirect Tax	% Contribution
2064/65	851.55	230.87	27.11	620.68	72.89
2065/66	1170.52	343.2	29.32	827.32	70.68
2066/67	1562.95	417.5	26.71	1145.45	73.29
2067/68	1727.78	486.55	28.16	1241.23	71.84
2068/69	2117.22	577.7	27.29	1539.52	72.71
2069/70	2592.15	730.13	28.17	1862.02	71.83
2070/71	3124.41	867.42	27.76	2256.99	72.24
2071/72	3559.56	1010.89	28.40	2548.67	71.60
2072/73	4210.97	1332.69	31.65	2878.28	68.35
2073/74	5538.66	1722.38	31.10	3816.28	68.90

Source: Economic Survey (2065/66, 2067/68, 2068/69 & 2074/75)

**Figure No.4.2: Composition of Total Tax Revenue**

The table and figure no. 4.2 shows that in FY 2064/65 there was 72.89 percent of indirect tax revenue and 27.11 percent of direct tax revenue. The rate of contribution was flexible in each year after 2064/65 and reached to 68.90 percent of indirect tax revenue and 31.10 percent of direct tax revenue in FY 2073/74.

#### 4.2.3 Composition of Indirect Tax Revenue

The major component of indirect tax revenue in Nepalese tax structure is value added tax (VAT), custom duty and excise duty. Following table shows that the composition of indirect tax.

**Table No. 4.3: Composition of Indirect Tax Revenue(FY 2064/65 to 2073/74)**

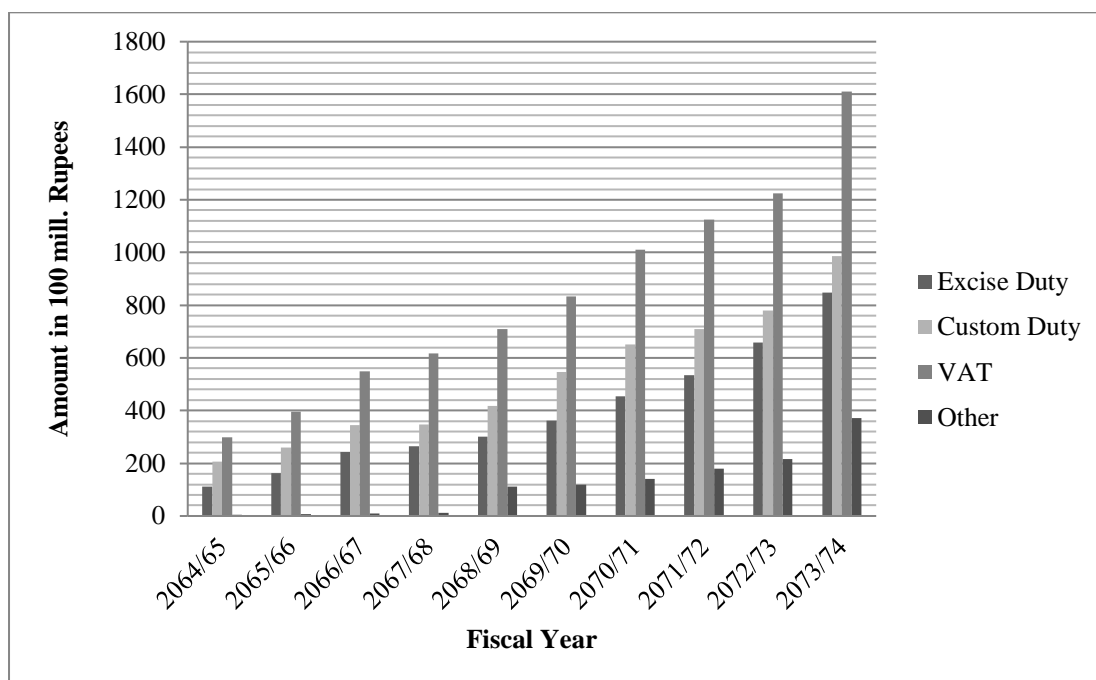
(Amount in Rs.100Million)

Fiscal Year	Total Indirect Tax	Excise Duty	Custom Duty*	VAT	Other
2064/65	620.68	111.9	205.58	298.16	5.04
2065/66	827.32	162.21	260.62	397.01	7.48
2066/67	1145.45	243.06	343.92	549.21	9.26
2067/68	1241.23	265.43	346.7	616.64	12.46
2068/69	1539.52	300.16	417.67	709.31	112.38
2069/70	1862.02	362.35	547.67	834.18	117.82
2070/71	2256.99	454.13	651.92	1011.05	139.89
2071/72	2548.67	535.38	708.41	1125.22	179.66
2072/73	2878.28	657.76	779.36	1224.12	217.04
2073/74	3816.28	848.06	985.35	1610.68	372.19

Source: Economic Surveys (2065/66, 2067/68, 2068/69 & 2074/75)

\*Custom duty except other taxes on foreign trade



**Figure No.4.3: Composition of Indirect Tax Revenue**

The table and figure 4.3 shows that the composition of indirect tax revenue. The figure shows that VAT occupies major portion in indirect tax. In the fiscal year 2064/65 the contribution of VAT was Rs.29816 million and then increased to Rs.161068 million in FY 2073/74. Custom duty was the second major sources of indirect tax in FY 2064/65 as Rs.20558 million and then increased to Rs.98535 million in FY 2073/74. Another major component of indirect tax was excise duty in FY 2064/65 as Rs.11190 million and then increased to Rs.84806 million in FY 2073/74. Other indirect taxes include taxes on specific service, taxes on use of goods and on permission to use goods and other taxes on international trade and transactions. From the above data it is clear that all type of indirect tax is in increasing trend.

#### **4.2.4 Contribution of Excise Duty to Total Revenue and Indirect Tax Revenue of Nepal**

Excise duty is tax levied by the government on the domestic production and imported goods of same nature which are specified by the prevailing laws. The contribution of excise duty on total revenue and indirect tax revenue is presented in table 4.4.

**Table No. 4.4: Contribution of Excise Duty to Total Revenue and Indirect Tax Revenue(FY 2064/65 to 2073/74)**

*(Amount in Rs.100 million)*

<b>Fiscal Year</b>	<b>Excise Duty</b>	<b>Total Revenue</b>	<b>% Contribution of TR</b>	<b>Indirect Tax Revenue</b>	<b>% Contribution of ITR</b>
2064/65	111.9	1076.22	10.40	620.68	18.03
2065/66	162.21	1434.75	11.31	827.32	19.61
2066/67	243.06	1799.46	13.51	1145.45	21.22
2067/68	265.43	1998.13	13.28	1241.23	21.38
2068/69	300.16	2443.74	12.28	1539.52	19.50
2069/70	362.35	2960.21	12.24	1862.02	19.46
2070/71	454.13	3566.21	12.73	2256.99	20.12
2071/72	535.38	4058.67	13.19	2548.67	21.01
2072/73	657.76	4819.62	13.65	2878.28	22.85
2073/74	848.06	6091.79	13.92	3816.28	22.22

*Source: Economic Surveys (2065/66, 2067/68, 2068/69 & 2074/75)*

The table 4.4 shows that the comparison of contribution of excise duty on total revenue and indirect tax revenue. From the table 4.4, proportion of excise duty in FY 2064/65 was 10.40 percent of total revenue and in the year 2073/74 it is 13.92 percent. The proportion of excise duty shows in FY 2064/65 it was 18.03 percent of indirect tax revenue and in the year 2073/74 it is 22.22 percent. The table 4.4 shows that the contribution of excise duty was in increasing trend in first 3 year and then it was in decreasing trend for 3 consecutive years and then it has been increasing.

#### **4.2.5 Comparison of Excise Duty Collection from Different Products**

Excise duty is an indirect tax levied by the government. Excisable products are mainly tobacco, liquor, other manufactured goods and imported goods of same nature. Composition of excise duty collection from different products is presented below:

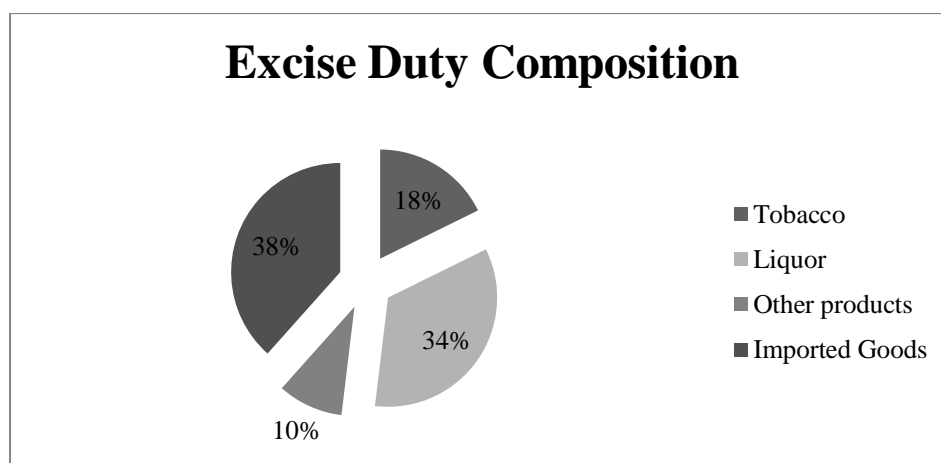
**Table No. 4.5: Composition of Excise Duty Collection from Different Products**  
(FY 2064/65 to 2073/74)

(Amount in Rs.100 Million)

Fiscal Year	Total Excise Duty	Tobacco		Liquor		Other Products		Imported Goods	
		Amount	%	Amount	%	Amount	%	Amount	%
2064/65	111.9	31.19	27.87	36.92	32.99	15.02	13.42	28.77	25.71
2065/66	162.21	37.42	23.07	51.28	31.61	28.43	17.53	45.08	27.79
2066/67	243.06	45.13	18.57	65.84	27.09	25.01	10.29	107.08	44.05
2067/68	265.43	51.39	19.36	83.88	31.60	21.61	8.14	108.55	40.90
2068/69	300.16	52.17	17.38	118.51	39.48	25.79	8.59	103.69	34.54
2069/70	362.35	53.51	14.77	133.08	36.73	30.71	8.48	145.05	40.03
2070/71	454.13	73.02	16.08	164.04	36.12	36.78	8.10	180.29	39.70
2071/72	535.38	71.68	13.39	195.42	36.50	43.44	8.11	224.84	42.00
2072/73	657.76	89.5	13.61	227.92	34.65	44.5	6.77	295.84	44.98
2073/74	848.06	109.9	12.96	298.9	35.25	63.2	7.45	376.06	44.34
Total	3940.44	614.91	17.71	1375.8	34.20	334.49	9.69	1615.25	38.40

Source: Economic Surveys (2065/66, 2067/68, 2068/69 & 2074/75)

**Figure No. 4.4: Composition of Excise Duty Collection from Different Products**



The table 4.5 and pie-chart on figure 4.4 shows about the composition of the excise duty collection from different products. The table 4.5 shows that composition of excise duty of every product flexible in each year. The pie chart on figure 4.4 shows the average of 10 fiscal years that the contribution of liquor is high in collection of excise duty and contribution from other products on collection of excise duty is low. Percentage contribution of tobacco is in decreasing form. There is high amount covered by excise collected from imported goods.

#### 4.2.6 Contribution of Excise Duty to Gross Domestic Product

Excise duty is an indirect tax levied by the government on some domestic products and imported goods of same nature. In other word excise duty is a factory gate tax. Excise duty is contributing main role of gross domestic production. Contribution of excise duty on gross domestic product is presented below on table 4.6.

**Table No. 4.6: Contribution of Excise Duty to Gross Domestic Product**

(FY 2064/65 to 2073/74)

(Amount in Rs.100 Million)

Fiscal Year	Gross Domestic Product	Excise Duty	
		Amount	% Contribution
2064/65	8156.58	111.9	1.37
2065/66	9882.72	162.21	1.64
2066/67	11927.74	243.06	2.04
2067/68	13669.54	265.43	1.94
2068/69	15273.44	300.16	1.97
2069/70	16950.11	362.35	2.14
2070/71	19645.4	454.13	2.31
2071/72	21301.5	535.38	2.51
2072/73	22474.27	657.76	2.93
2073/74	25992.34	848.06	3.26

Source: Economic Surveys (2065/66, 2067/68, 2068/69 & 2074/75)

The table 4.6 shows that contribution of excise duty on GDP. Contribution of excise duty in FY 2064/65 is 1.37 percent and in FY 2073/74 it is 3.26 percent. The table shows that contribution of excise duty in GDP is in increasing trend every year.

#### 4.2.7 Contribution of Tobacco to Excise Duty and Total Indirect Tax Revenue

Tobacco is harmful products for the people's health. So the government charges the tax on production of tobacco as excise duty. Tobacco product includes cigarettes, bidi, surti, khaini, gutkha, paan and other tobaccos products. The contribution of tobacco on excise duty and total indirect tax revenue is presented below on table 4.7.

**Table No. 4.7: Contribution of Tobacco to Excise Duty and Total Indirect Tax Revenue(FY 2064/65 to 2073/74)**

*(Amount in Rs.100 Million)*

Fiscal Year	Revenue From Tobacco	Excise Duty		Indirect Tax Revenue	
		Amount	% of Tobacco	Amount	% of tobacco
2064/65	31.19	111.9	27.87	620.68	5.03
2065/66	37.42	162.21	23.07	827.32	4.52
2066/67	45.13	243.06	18.57	1145.45	3.94
2067/68	51.39	265.43	19.36	1241.23	4.14
2068/69	52.17	300.16	17.38	1539.52	3.39
2069/70	53.51	362.35	14.77	1862.02	2.87
2070/71	73.02	454.13	16.08	2256.99	3.24
2071/72	71.68	535.38	13.39	2548.67	2.81
2072/73	89.5	657.76	13.61	2878.28	3.11
2073/74	109.9	848.06	12.96	3816.28	2.88

*Source:Annual Report 2068/69 & 2073/74, Inland Revenue Department*

The table 4.7 shows that the contribution of tobacco in excise duty and indirect tax revenue. Contribution of tobacco in FY 2064/65 was 27.87 percent on excise duty and 5.03 percent on indirect tax revenue. In FY 2073/74 the contribution is 12.96 percent on excise duty and 2.88 percent of indirect tax revenue. It shows that contribution of tobacco on excise duty and indirect tax revenue has been flexible in each year. Although the revenue from tobacco products has been increasing every year but its contribution percentage is gradually decreasing.

#### **4.2.8 Contribution of Liquor to Excise Duty and Total Indirect Tax Revenue**

Liquor product is also harmful for the people's health. So the government charges the tax on production and import of liquor. Liquor includes all kind of wine i.e. low level or high level, local wines, beer, whisky etc. the contribution of liquor on excise duty and total indirect tax revenue is presented below:

**Table No.4.8: Contribution of Liquor to Excise Duty and Total Indirect Tax Revenue(FY 2064/65 to 2073/74)**

*(Amount in Rs.100 million)*

Fiscal Year	Revenue From Liquor	Excise Duty		Indirect Tax Revenue	
		Amount	% of Liquor	Amount	% of Liquor
2064/65	36.92	111.9	32.99	620.68	5.95
2065/66	51.28	162.21	31.61	827.32	6.20
2066/67	65.84	243.06	27.09	1145.45	5.75
2067/68	83.88	265.43	31.60	1241.23	6.76
2068/69	118.51	300.16	39.48	1539.52	7.70
2069/70	133.08	362.35	36.73	1862.02	7.15
2070/71	164.04	454.13	36.12	2256.99	7.27
2071/72	195.42	535.38	36.50	2548.67	7.67
2072/73	227.92	657.76	34.65	2878.28	7.92
2073/74	298.9	848.06	35.25	3816.28	7.83

*Source:Annual Report 2068/69 & 2073/74, Inland Revenue Department*

The table 4.8 shows that the contribution of liquor in the excise duty and indirect tax revenue. In FY 2064/65 contribution of tobacco was 32.99 percent on excise duty and 5.95 percent on indirect tax revenue. In FY 2073/74 the contribution of liquor is 36.50 percent on excise duty and 7.67 percent of indirect tax revenue.It shows that contribution of liquor on excise duty and indirect tax revenue has been flexible each year. The revenue from liquor product has been increasing every year and it shows revenue from liquor is a good source of government revenue.

#### **4.2.9 Comparison of Revenue from Tobacco and Liquor Products**

Tax is a compulsory contribution to government made without reference to a popular benefit received by the taxpayer. Indirect tax is an imposed on one person but partly or wholly paid by another. Indirect tax is transferable. It is a main source of government revenue. Comparisons of revenue from tobacco and liquor products are presented in Table 4.9.

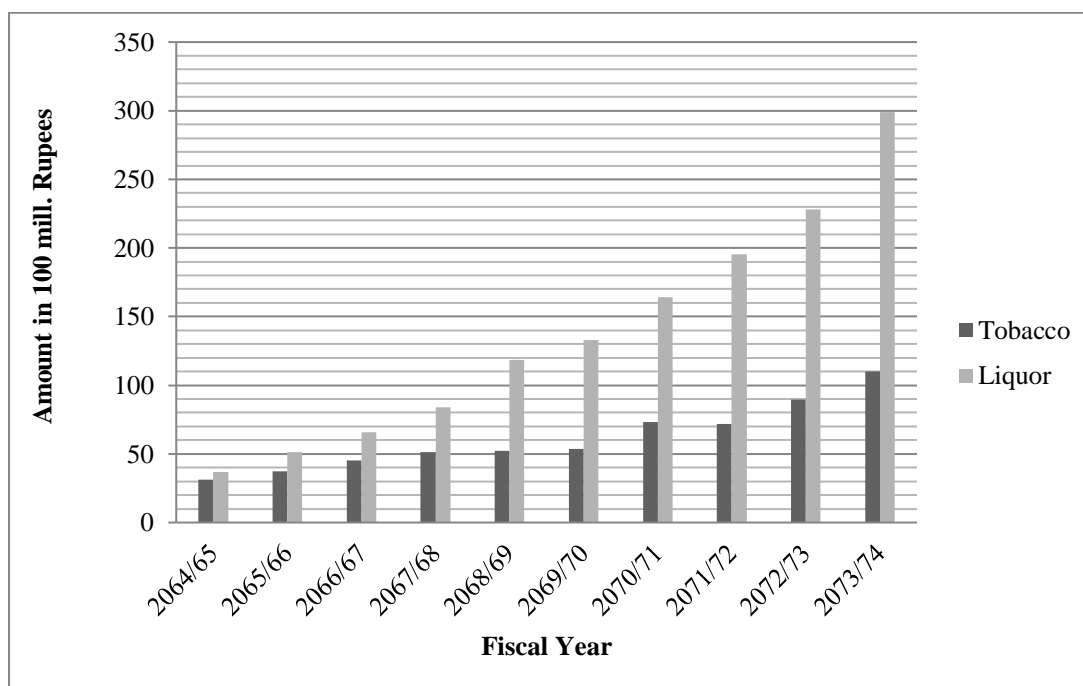
**Table No 4.9: Comparison of Revenue from Tobacco and Liquor Products**  
(FY 2064/65 to FY 2073/74)

(Amount in Rs.100 Million)

Fiscal Year	Tobacco	Percentage (%)	Liquor	Percentage (%)	Total		Ratio Between Tobacco and Liquor
					Amount	%	
2064/65	31.19	45.79	36.92	54.21	68.11	100.00	0.84
2065/66	37.42	42.19	51.28	57.81	88.7	100.00	0.73
2066/67	45.13	40.67	65.84	59.33	110.97	100.00	0.69
2067/68	51.39	37.99	83.88	62.01	135.27	100.00	0.61
2068/69	52.17	30.57	118.51	69.43	170.68	100.00	0.44
2069/70	53.51	28.68	133.08	71.32	186.59	100.00	0.40
2070/71	73.02	30.80	164.04	69.20	237.06	100.00	0.45
2071/72	71.68	26.84	195.42	73.16	267.1	100.00	0.37
2072/73	89.5	28.20	227.92	71.80	317.42	100.00	0.39
2073/74	109.9	26.88	298.9	73.12	408.8	100.00	0.37

Source: Annual Report 2068/69 & 2073/74, Inland Revenue Department

**Figure No. 4.5: Bar Diagram showing Comparison of Revenue from Tobacco and Liquor Products**



The table 4.9 and figure 4.5 shows the comparison between revenue from tobacco and liquor products only. In FY 2064/65 the composition was 45.69 percent tobacco and 54.21 percent liquor and in FY 2073/74 it is 26.88 percent of tobacco and 73.12 percent of liquor. It shows that excise revenue from liquor product is highly contributing than of tobacco products. The ratio between tobacco and liquor product has been decreasing as in FY 2064/65 excise duty on tobacco was 86 percent of excise duty on liquor and in FY 2073/74 decreased to 37 percent. The excise revenue from liquor is increasing with high rate in compared to tobacco products.

#### 4.2.10 Contribution of Tobacco and Liquor Products to Total Tax Revenue

Tax is the compulsory burden levied by the legal government. Tax is the main sources of government revenue. Tax revenue includes the Inland Revenue and custom duty. Recently, tax revenue covers more than 90 percent of government revenue. The contribution of revenue from tobacco and liquor products to total tax revenue is presented below:

**Table No. 4.10: Contribution of Revenue from Tobacco and Liquor Products to Total Tax Revenue(FY 2064/65 to FY 2073/74)**

*(Amount in Rs.100 Million)*

Fiscal Year	Total Tax Revenue	Tobacco		Liquor	
		Amount	% Contribution	Amount	% Contribution
2064/65	851.55	31.19	3.66	36.92	4.34
2065/66	1170.52	37.42	3.20	51.28	4.38
2066/67	1562.95	45.13	2.89	65.84	4.21
2067/68	1727.78	51.39	2.97	83.88	4.85
2068/69	2117.22	52.17	2.46	118.51	5.60
2069/70	2592.15	53.51	2.06	133.08	5.13
2070/71	3124.41	73.02	2.34	164.04	5.25
2071/72	3559.56	71.68	2.01	195.42	5.49
2072/73	4210.97	89.5	2.13	227.92	5.41
2073/74	5538.66	109.9	1.98	298.9	5.40

*Source: Annual Report 2068/69 & 2073/74, Economic Survey 074/75*

The table no 4.10 shows that the contribution of revenue from tobacco and liquor product on total tax revenue. Revenue from tobacco and liquor are main sources of



collecting tax by the government. In total revenue contribution of tobacco in FY 2064/65 was 3.66 percent and contribution of liquor was 4.34 percent. Similarly, these are 1.98 percent and 5.40 percent respectively in FY 2073/74. The contribution of tobacco product has been decreasing in high rate but the contribution of liquor product is increasing.

#### 4.2.11 Trend Analysis

Data about projection of excise duty in coming year are not available. The availability of data till 2073/74 only has been hardly in making projection. Despite the serious gaps in availability of information for projection as attempt has been made in this study to project income to revenue of Nepal till 2075/76. Such projection should be taken as board estimation only in view of series limitation. Additional effects resulting from the policy changes, administrative action changes and changes in the behavior of tax payer have not been disaggregated. Total most important thing is that we are calculating the historical trend line of total excise duty, tobacco and liquor for period of past 10 years (i.e. FY 2064/65 to FY 2073/74) using secular trend.

##### 4.2.11.1 Calculation of Trend Line and Trend Values of Excise Duty

**Table No. 4.11: Trend Line and Trend Value of Excise Duty**

(FY 2064/65 to 2073/74)

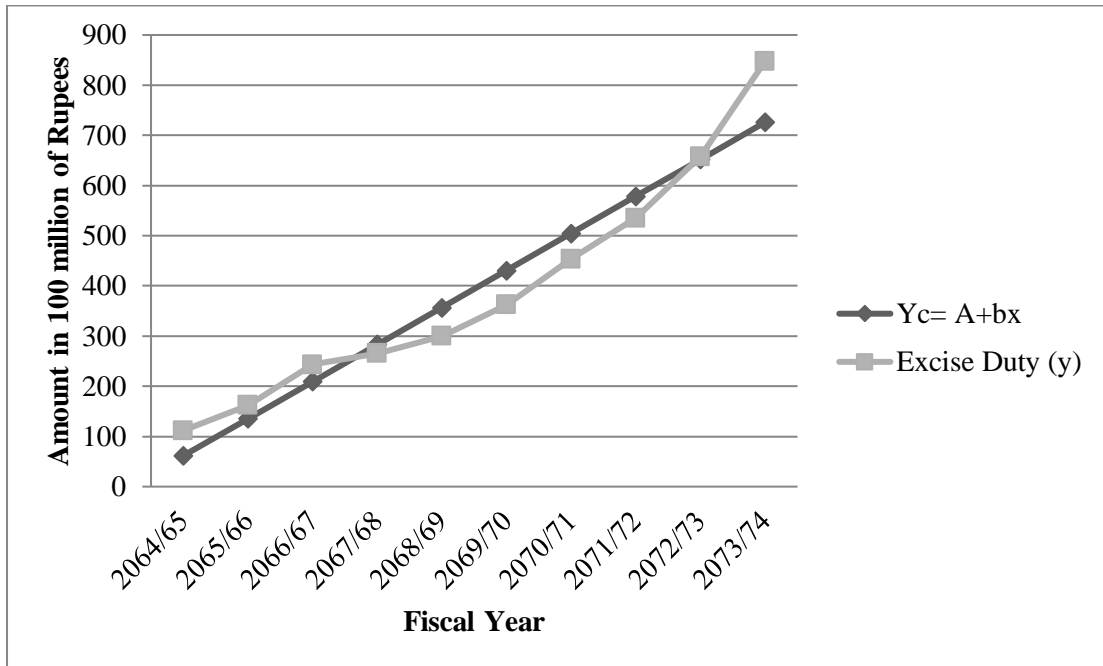
(Amount in Rs.100 Million)

Fiscal Year (X)	Excise Duty (y)	$x = 2(X - \frac{2068/69 + 2069/70}{2})$	$x^2$	xy	$A = \frac{\Sigma y}{n}$	$b = \frac{\Sigma xy}{\Sigma x^2}$	$Y_c = A + bx$	Variation (Y - Y <sub>c</sub> )
2064/65	111.9	-9	81	-1007.1	394.04	36.92	61.76	50.14
2065/66	162.21	-7	49	-1135.47	394.04	36.92	135.60	26.61
2066/67	243.06	-5	25	-1215.3	394.04	36.92	209.44	33.62
2067/68	265.43	-3	9	-796.29	394.04	36.92	283.28	-17.85
2068/69	300.16	-1	1	-300.16	394.04	36.92	357.12	-56.96
2069/70	362.35	1	1	362.35	394.04	36.92	430.96	-68.61
2070/71	454.13	3	9	1362.39	394.04	36.92	504.81	-50.68
2071/72	535.38	5	25	2676.9	394.04	36.92	578.64	-43.26
2072/73	657.76	7	49	4604.32	394.04	36.92	652.48	5.28
2073/74	848.06	9	81	7632.54	394.04	36.92	726.32	121.74
<b>Total</b>	<b><math>\Sigma y = 3940.44</math></b>	<b><math>\Sigma x = 0</math></b>	<b><math>\Sigma x^2 = 330</math></b>	<b><math>\Sigma xy = 12184.18</math></b>				

Source:IRD

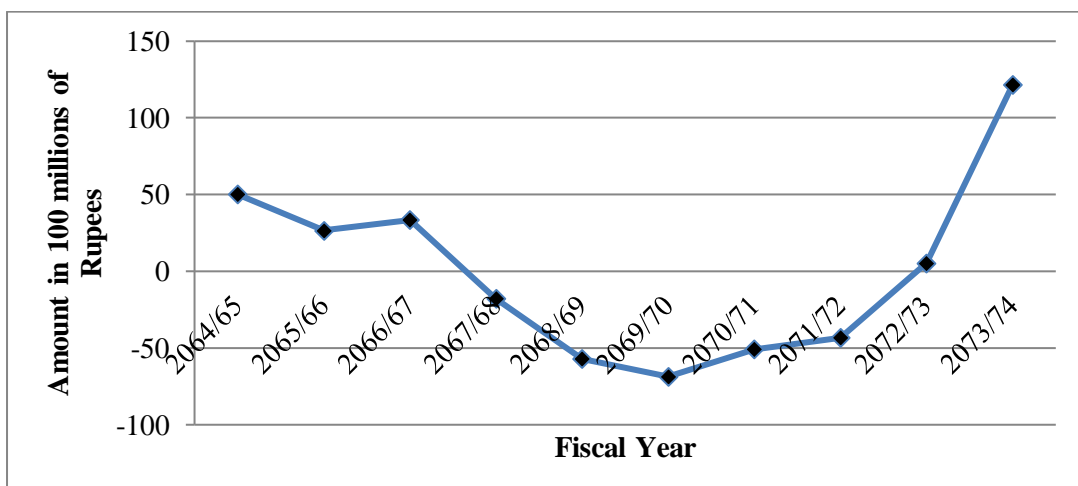
The trend value can be obtained by substituting the respective value of x in the trend line i.e.  $Y_c = 394.04 + 36.92x$ . The computation of trend value is shown in table 4.11.

**Figure 4.6: Trend Value and Trend Line of Excise Duty**



Computation of trend values of excise duty is shown in the table 4.11. The trend value of excise duty is in increasing trend and its value in FY 2064/65 was Rs.6176 million and is FY 2073/74 was Rs.72632 million. The trend line of excise duty and actual line of excise duty are shown in figure no 4.6.

**Figure 4.7: Trend Analysis of Variation in Excise Duty**



In table 4.11 and figure 4.7 it is clear that in trend of excise duty there is also exists cyclical variations. As per the trend of excise duty, it should have grown by the rate of Rs.3692 million per year; the variation was positive up to FY 2066/67 and after FY 2072/73. But the variation was negative in between FY 2067/68 to 2071/72.

#### 4.2.11.2 Calculation of Trend Line and Trend Value of Excise Duty from Tobacco Products

**Table No. 4.12: Trend Line and Trend Value of Excise Duty from Tobacco Products (FY2064/65 to 2073/74)**

(Amount in Rs 100 Million)

Fiscal Year (X)	Excise Duty (y)	$x = \frac{2(X - 2068/69 + 2069/70)}{2}$	$x^2$	Xy	A = $\frac{\Sigma y}{n}$	$b = \frac{\Sigma xy}{\Sigma x^2}$	Yc = A + bx	Variation (Y - Yc)
2064/65	31.19	-9	81	-280.71	61.49	3.86	26.75	4.44
2065/66	37.42	-7	49	-261.94	61.49	3.86	34.47	2.95
2066/67	45.13	-5	25	-225.65	61.49	3.86	42.19	2.94
2067/68	51.39	-3	9	-154.17	61.49	3.86	49.91	1.48
2068/69	52.17	-1	1	-52.17	61.49	3.86	57.63	-5.46
2069/70	53.51	1	1	53.51	61.49	3.86	65.35	-11.84
2070/71	73.02	3	9	219.06	61.49	3.86	73.07	-0.05
2071/72	71.68	5	25	358.4	61.49	3.86	80.79	-9.11
2072/73	89.5	7	49	626.5	61.49	3.86	88.51	0.99
2073/74	109.9	9	81	989.1	61.49	3.86	96.23	13.67
<b>Total</b>	<b><math>\Sigma y = 614.91</math></b>	<b><math>\Sigma x = 0</math></b>	<b><math>\Sigma x^2 = 330</math></b>	<b><math>\Sigma xy = 1271.93</math></b>				

Source: IRD

The trend value can be obtained by substituting the respective value of x in the trend line i.e.  $Yc = 61.49 + 3.86x$ . The computation of trend value is shown in table 4.12.

**Figure 4.8: Trend Value and Trend Line of Excise Duty from Tobacco Products**

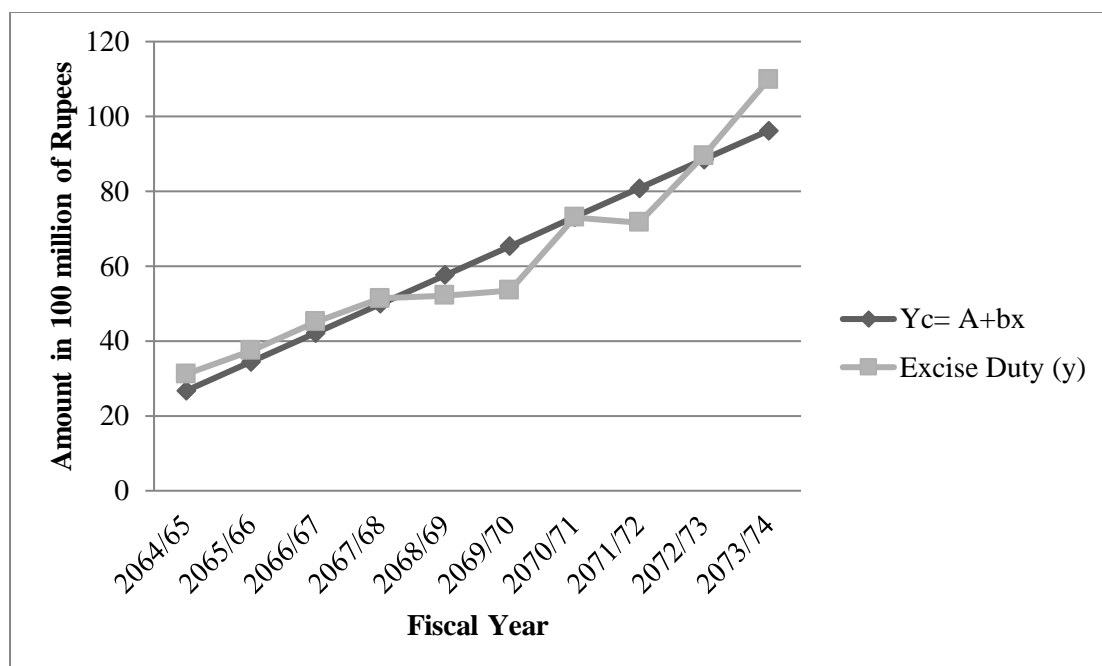
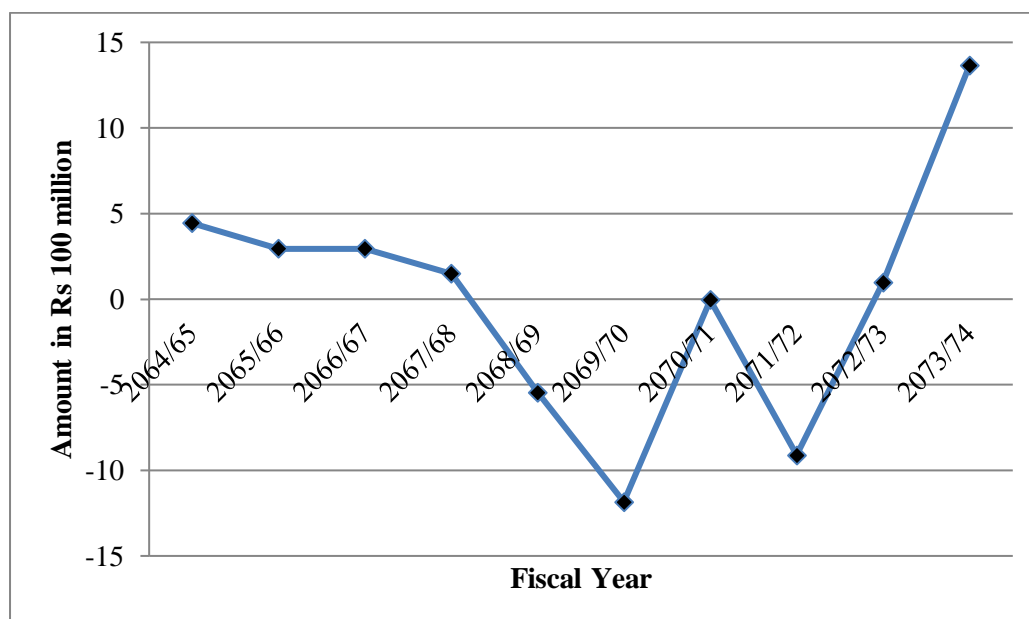


Table 4.12 and figure 4.8 shows the trend value and trend line of excise duty from tobacco products. The trend values of excise duty were in increasing trend and its value in FY 2064/65 is Rs.2675 million and in FY 2073/74 it is Rs.9623 million. The actual excise duty line is around the trend line and both lines are shown in figure 4.8.

**Figure 4.9: Trend Analysis of Variation in Excise Duty from Tobacco Products**



The table 4.12 and figure 4.9 shows the variation in trend of excise duty from tobacco. There is also exist cyclical variations. As per the trend of excise duty, it should have positive growth by the rate of Rs.386 million per year. The variation was positive in FY2064/65 to FY 2067/68 and after FY 2072/73. But in between FY 2068/69 to 2071/72 there were negative variations of excise duty from tobacco products.

#### 4.2.11.3 Calculation of Trend Line and Trend Value of Excise Duty from Liquor Products

**Table No. 4.13: Trend Line and Trend Value of Excise Duty from Liquor Products (FY 2064/65 to 2073/74)**

(Amount in Rs 100 Million)

Fiscal Year (X)	Excise Duty (y)	$x = \frac{2(X - 2068/69 + 2069/70)}{2}$	$x^2$	xy	A = $\frac{\Sigma y}{n}$	$b = \frac{\Sigma xy}{\Sigma x^2}$	Yc = A + bx	Variation (Y - Yc)
2064/65	36.92	-9	81	-332.28	137.58	13.63	14.91	22.01
2065/66	51.28	-7	49	-358.96	137.58	13.63	42.17	9.11
2066/67	65.84	-5	25	-329.2	137.58	13.63	69.43	-3.59
2067/68	83.88	-3	9	-251.64	137.58	13.63	96.69	-12.81
2068/69	118.51	-1	1	-118.51	137.58	13.63	123.95	-5.44
2069/70	133.08	1	1	133.08	137.58	13.63	151.21	-18.13
2070/71	164.04	3	9	492.12	137.58	13.63	178.47	-14.43
2071/72	195.42	5	25	977.1	137.58	13.63	205.73	-10.31
2072/73	227.92	7	49	1595.44	137.58	13.63	232.99	-5.07
2073/74	298.9	9	81	2690.1	137.58	13.63	260.25	38.65
<b>Total</b>	<b><math>\Sigma y = 1375.79</math></b>	<b><math>\Sigma x = 0</math></b>	<b><math>\Sigma x^2 = 330</math></b>	<b><math>\Sigma xy = 4497.25</math></b>				

Source: IRD

The trend value can be obtained by substituting the respective value of x in the trend line i.e.  $Y_c = 137.58 + 31.63x$ . The computation of trend value is shown in table 4.13.

**Figure 4.10: Trend Value and Trend Line of Excise Duty from Liquor Products**

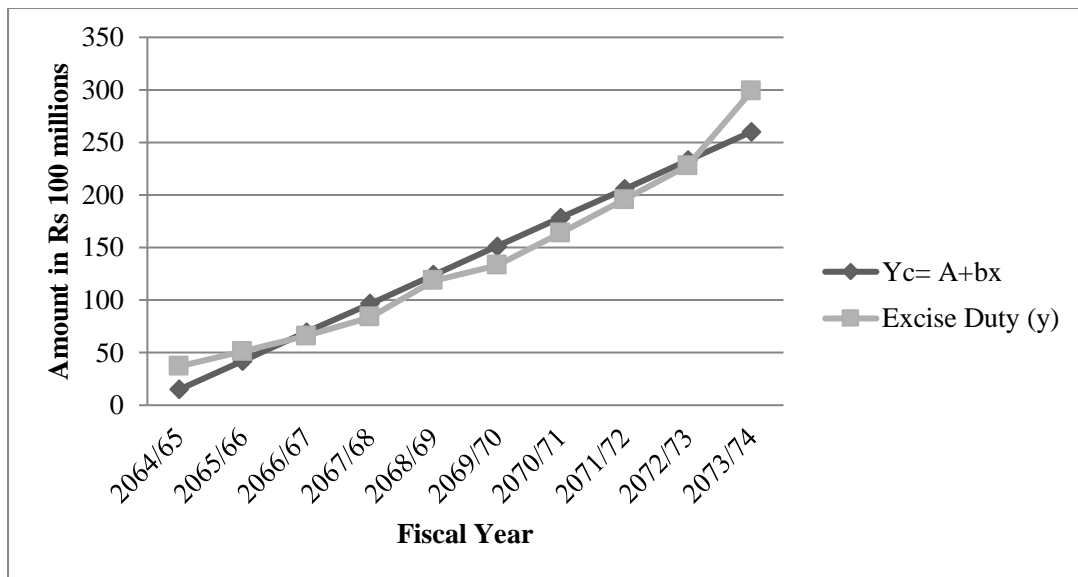
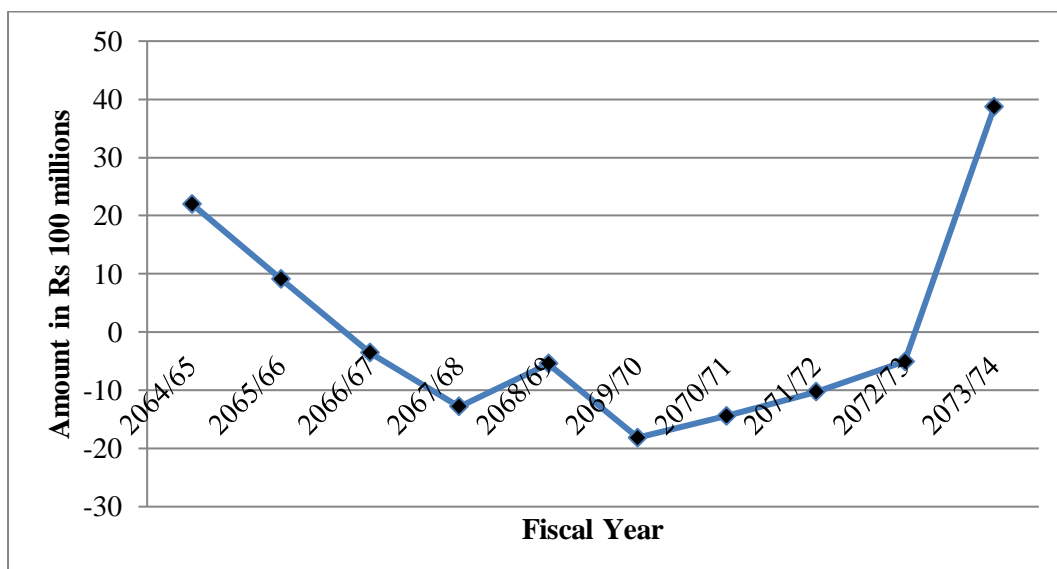


Table 4.13 and figure 4.10 shows the trend value and trend line of excise duty from liquor products. The trend values of excise duty have been increasing in subsequent year. The trend value of excise duty was Rs.1491 million in FY 2064/65, then Rs.26025 million in 2073/74. So the excise duty from liquor will be increasing in the upcoming year also. The actual excise duty line is around the trend line and both lines are shown in figure 4.10.

**Figure 4.11: Trend Analysis of Variation in Excise Duty from Liquor Products**



The table 4.13 and figure 4.11 shows the variation in trend of excise duty from liquor. There is also exist cyclical variations. As per the trend of excise duty from liquor, it should have positive growth by the rate of Rs.1363 million per year. The variation was positive in FY2064/65 to FY 2066/67 and after FY 2072/73. But in between FY 2067/68 to 2071/72 there were negative variations of excise duty from liquor products.

#### 4.2.12 Correlation Analysis

This section presents the relationship between the identified products and excise duty and its relationship with government revenue. The relationship is explained by the coefficients between the variables. The coefficients shows the magnitude and direction of the relationships, whether it is strong, weak positive or negative. The higher the values the stronger the relationship, and the smaller the coefficient is an indicator of a weak relationship. The sign also shows the direction of the relationship. The positive sign shows a positive relationship and the negative shows the opposite.

**Table 4.14: Pearson correlation analysis of variables**

<b>Variables</b>	<b>Total Tax Revenue</b>	<b>Total Indirect Tax Revenue</b>	<b>Excise Duty</b>	<b>Excise Duty on Liquor</b>	<b>Excise Duty on Tobacco</b>
<b>Total Tax Revenue</b>	1	-	-	-	-
<b>Total Indirect Tax Revenue</b>	0.999**	1	-	-	-
<b>Excise Duty</b>	0.998**	0.996**	1	-	-
<b>Excise Duty on Liquor</b>	0.998**	0.998**	0.994**	1	-
<b>Excise Duty on Tobacco</b>	0.990**	0.987**	0.993**	0.985**	1

\*\* . Correlation is significant at the 0.01 level (2-tailed).

*Source: Appendix*

The table 4.14 shows the correlation coefficient of dependent and independent variables. The correlation coefficient between excise duty and total tax revenue is

0.998 which shows that there is high degree of positive correlation between them. The correlation between excise duty and indirect tax revenue is 0.996 which also indicates that there is high degree of positive correlation between them. Therefore this result indicated that as the amount of excise duty increases, the total tax revenue and total indirect tax revenue both increases. So excise duty is major component of revenue source of total tax revenue as well as total indirect tax revenue.

The correlation coefficient between excise duty on liquor and total tax revenue is 0.998 which shows that there is strong positive correlation between them. The correlation coefficient between excise duty on liquor and total indirect tax revenue is 0.998 which also indicates that there is strong positive correlation between them. Therefore this result indicated that as the revenue of excise duty on liquor increases, both the total tax revenue and total indirect tax revenue increases.

The correlation coefficient between excise duty on tobacco and total tax revenue is 0.990 which shows that there high degree of positive correlation between them. The correlation coefficient between excise duty on tobacco and total indirect tax revenue is 0.987 which also indicates that there is high degree of positive correlation between them. Therefore this result indicated that as the revenue of excise duty on tobacco increases, both the total tax revenue and total indirect tax revenue increases.

The correlation coefficient between excise duty on liquor and total excise duty is 0.994 which shows that there is high degree of positive correlation between them. The correlation coefficient between excise duty on tobacco and total excise duty is 0.993 which also indicates that there is high degree of positive correlation. Therefore this result indicates that total excise duty has high degree of positive correlation with excise duty on both liquor and tobacco products.

### **4.3 Findings**

After presentation and analysis of data, in this chapter some important findings are given for study. The major findings from this analysis were presented below:

- Government revenue is increasing every year due to increasing total tax revenue and non-tax revenue.



- The FY 2064/65 has 79.12 percent of tax revenue and 20.88 percent of non-tax revenue of total revenue and similarly, FY 2065/66 had 81.58 percent and 18.42 percent respectively. The rate of contribution was flexible in each year after FY 2065/66 and reached to 87.37 percent of tax revenue and 12.63 percent of non-tax revenue in FY 2072/73. In FY 2073/74 contribution of tax revenue reached 90.92 percent while non tax revenue decreased to 9.08 percent of total revenue. The table indicates that the percentage contribution of tax revenue is in increasing trend and that of non-tax revenue is in decreasing trend over the 10 research period. But the amounts of revenue from both sources are in increasing trend.
- Indirect tax revenue occupies more portions in total tax revenue than direct tax revenue. In FY 2064/65 there was 72.89 percent of indirect tax revenue and 27.11 percent of direct tax revenue. The rate of contribution was flexible in each year after 2064/65 and reached to 68.90 percent of indirect tax revenue and 31.10 percent of direct tax revenue in FY 2073/74
- The analysis shows that VAT occupies major portion in indirect tax. In the fiscal year 2064/65 the contribution of VAT was Rs.29816 million then and increased to Rs.161068 million in year 2073/74. Custom duty was the second major sources of indirect tax in year 2064/65 as Rs.20558 million then and increased to Rs.95835 million in year 2073/74. The another major part of indirect tax was excise duty as Rs.11190 million in year 2064/65 and then increased to Rs.84806 million in year 2073/74. It is clear that all types of indirect tax are in increasing trend.
- The contribution of excise duty in FY 2064/65 was 10.40 percent of total revenue and increased to 13.92 percent in FY 2073/74. The contribution of excise duty on indirect tax revenue in FY 2064/65 was 18.03 percent and increased to 22.22 percent in FY 2073/74. The analysis shows that the contribution of excise duty in between FY 2067/68 to FY 2069/70 was in decreasing trend and then after it is in increasing trend.
- Composition of the excise duty collection from different products shows that the every product is flexible in each year. The average of 10 fiscal year shows that there is high contribution of liquor in collection of excise duty and besides

liquor and tobacco there is very low contribution of other products on collection of excise duty.

- On GDP, contribution of excise duty in FY 2064/65 was 1.37 percent and in FY 2073/74 it was 3.26 percent. The analysis shows that contribution of excise duty on GDP is in increasing trend.
- In FY 2064/65, contribution of tobacco was 27.87 percent on excise duty and 5.03 percent on indirect tax revenue. Despite of increase in revenue amount, the contribution of tobacco is decreased to 12.96 percent of excise duty and 2.88 percent of indirect tax revenue in FY 2073/74. In some years in between the contribution of tobacco on excise duty and indirect tax revenue was flexible in each year.
- Contribution of liquor in FY 2064/65 was 32.99 percent on excise duty and 5.95 percent on indirect tax revenue. Then after it was flexible in each year. In FY 2073/74, contribution of liquor is 35.25 percent on excise duty and 8.57 percent on indirect tax revenue. It shows revenue from liquor is a good source of government revenue.
- The ratio between tobacco and liquor in FY 2064/65 was 0.84 and in FY 2073/74 it is 0.37. It shows that revenue of liquor is contributing more than the revenue of tobacco in recent years.
- Trend value of excise duty is positive. Trend lines are going up right. Trend value of excise duty is in increasing trend and its value in FY 2064/65 was Rs.6176 million and in FY 2073/74 it was Rs.72632 million. As per the trend of excise duty, it should have positive growth by the rate of Rs.3692 million per year. Variation on excise duty is positive in FY 2064/65 to FY 2066/67 and in FY 2072/73 and FY 2073/74 and it is negative in between FY 2067/68 to FY 2071/72.
- The trend values of excise duty on tobacco products are in increasing trend and its value in FY 2064/65 was Rs.2675 million and in FY 2073/74 it is Rs.9623 million. As per the trend of excise duty, it should have positive growth by the rate of Rs.386 million per year. The variation is positive in FY 2064/65 to 2067/68, 2072/73 and 2073/74. In FY 2068/69, 2069/70 and 2071/72 there are negative variations of excise duty from tobacco products.

- The trend value of excise duty on liquor products are Rs.1491 million in FY 2064/65 and increased to Rs.26025 million in 2073/74. So the excise duty from liquor is increasing in upcoming fiscal year also. As per the trend of excise duty, it should grow by the rate of Rs.1363 million per year. The variation is positive in FY 2064/65, 2065/66 and 2073/74 but in between FY 2066/67 to 2072/73 there is negative variation of excise duty from liquor products.
- There is high degree of positive correlation between total tax revenue and excise duty i.e. 0.998. That means if revenue from excise duty increases then total tax revenue will be increased. So excise duty is a major component of revenue source of total tax revenue.
- The correlation between indirect tax revenue and excise duty is a high degree of positive correlation i.e. 0.996. That means if revenue from excise duty increases then indirect tax revenue will be increased.
- There is high degree of positive correlation between excise duty on liquor and total tax revenue i.e. 0.998. The correlation between excise duty on liquor and total indirect tax revenue is also a high degree of positive correlation i.e. 0.998. That means if the revenue from excise duty on liquor increases, both the total tax revenue and total indirect tax revenue increases.
- There is high degree of positive correlation between excise duty on tobacco and total tax revenue i.e. 0.990. The correlation between excise duty on tobacco and total indirect tax revenue is also a high degree of positive correlation i.e. 0.987. That means if the revenue from excise duty on tobacco increases, both the total tax revenue and total indirect tax revenue increases.
- There is high degree of positive correlation between total excise duty and excise duty on liquor i.e. 0.994. Also, There is high degree of positive correlation between total excise duty and excise duty on tobacco i.e. 0.993. This indicates that total excise duty has high degree of positive correlation with excise duty on both liquor and tobacco products.

## **CHAPTER V**

### **SUMMARY, CONCLUSIONS AND IMPLICATIONS**

#### **5.1 Summary**

Nepal is one of the developing countries where 25.2 percent of total population lies below poverty line (ADB, 2017). So, Nepal need huge amount of resources for economic development. Despite the various measures adopt by the government to boost the revenue collection, there is still the substantial resources gap between expenditure and revenue.

Tax is compulsory payment to the government from a person or entity according to law. In the broader senses, there are two type of taxes, direct and indirect tax. Excise duty which comes under indirect tax category is lived on domestic production and same nature of imported goods which is determining by the prevailing law. Excise duty is one of the major sources of revenue collection on taxes contributing 10.40 percent on total revenue in FY 2064/65 and 13.92 percent in FY 2073/74.

In Nepal there are limited no of industries but there is huge amount of goods consumption by the people. Government of Nepal should make good excise administration to generate maximum revenue collection. Government revenue is the composition of tax and non-tax revenue. There is dominant share of tax revenue in Nepalese government revenue structure. The contribution of excise duty has been increasing which shows the future of excise duty is progressive.

To fulfill the general objective of this study different sources of data are used to find the accurate and actual conclusion. The secondary data were collected from economic survey of different fiscal years, budget speech of different years and the books about excise duty published by Ministry of Finance and Inland Revenue Department. By analyzing the data, it is found that excise duty is in increasing trend at current fiscal years. At present excise duty covers a main source of total government revenue structure.

The study on excise duty shows that the contribution of excise duty is very important source for indirect tax revenue. Its contribution in the indirect tax revenue is increasing with 18.03 percent in FY 2064/65 and 22.22 percent in FY 2073/74. The changes of policies and planes is affected by the time with respect to excise duty are very important in the total collection of Inland Revenue. The future projection of excise duty shows the high potential of excise duty in indirect tax revenue and government revenue.

As far as previous researches are concerned, Prasad (2008) study found Nepal's tax structure is highly dominated by indirect taxes and collects a substantially higher share of its revenue from customs, VAT and excise duties. Ghimire (2006) study found the structure of excise duty reveals the significance of revenue generated from three excisable items cigarette, liquor and beer. Khanal (2013) study found contribution of tobacco and liquor are almost one third of excise duty and trend value of excise duty are positive and its variation on excise duty is up and down. The trend line of excise duty on liquor and tobacco are also in increasing trend. Therefore the results are consisting with the previous researches.

## **5.2 Conclusion**

From this study it can be concluded that there is significant contribution of these products which are taken as sample. Excise duty is levied on domestic production and same nature of imported goods for revenue collection of Nepal. The selected items with special reference to tobacco and liquor products have important role in Nepalese economy. The consumption trend of tobacco and liquor is increasing in Nepal. There is lack of different sources and government has given less priority in fixing the role of excise duty in different products. Most of the Nepalese agriculture based industries are failing due to different problems as well as the government is not being able to collect significant amount of revenue from those products.

From this study, it is found that the trend of excise duty is growing because the government has expanded the no of excisable products, increases excise duty rate and motivates employees to collect the excise duty and to care people or entity to pay the excise duty on time. The selected item with special reference to liquor and tobacco

products and their production and consumption is growing. Excise duty of tobacco and liquor products is increasing but ratio of contribution to the excise duty, indirect tax revenue and total revenue is fluctuating because government has expanded the excisable products and due to the increase in excise from imported goods. Excise duty from imported goods is also flexible in each year. By analyzing past scenario tobacco and liquor products are the main sources of excise duty revenue. The future projection of excise duty on tobacco and liquor is better. The following points are concluded as follows:

- The excise duty on tobacco and liquor has good position in revenue generation but the ratio is fluctuating of both products.
- The trend of excise duty on liquor and tobacco has been increasing but the liquor product has better position in compared to tobacco products.
- The excise duty has positive growth and plays significant role in indirect tax revenue.
- There has been positive trend of excise duty in revenue generation and it can be used as good source of government revenue.

### **5.3 Implications**

On the basis of above analysis and conclusions, implications of the study are as follows:

- Tobacco and liquor are major source of excise duty among all excisable products. Trend of excise duty from both products has been increasing over the years. Government can expand excisable products to raise revenue in years to come.
- Excise duty plays significant role in revenue generation. Excise duty has been major source of indirect tax revenue over the years. Among other sources of indirect tax revenue, excise duty has been given less priority but it has more potential to generate revenue.
- The trend of excise duty has been increasing. In countries like Nepal excise duty can be used to get double benefit. First, by imposing high excise duty rate on selected goods government can collect more revenue. Second, excise

duty can be used as a good tool to minimize negative externalities in society by controlling the use of such selected goods.

- Excise duty can be used to discourage import of expensive, unproductive and luxurious product by imposing high excise duty rate on import of such goods. Excise duty can play a big role in trade balance by discouraging import of such products.
- Inland Revenue department should make progressive policy to regulate excise duty and should minimize the lengthy procedure to registration in Inland Revenue office.
- Due to higher excise duty rate there can be smuggling of excisable products to avoid excise duty and government must have to take it under evaluation.
- This study suggests that excise duty can be used to collect government revenue on local level production also.
- This study suggests that there is need of public awareness about excise duty and its procedure and promote people to register individual and entity in excise and pay the excise duty regularly.
- The current study fully employed secondary data obtained from economic surveys and reports of IRD which can have potential bias. Thus, future research is recommended to substantial and/or triangulate secondary by primary data.
- This study can be replicated in other components of tax to establish what the determinants of tax revenue are. Thus studies can be done in sources of the government revenue such as custom duty to determine the firm specific factors that influence tariff and non-tariff revenue.
- The study also suggests that another study can be done in excise duty covering a longer period of time in order to establish trends and determine what factors mostly influence government revenue.
- Limited statistical tools and techniques were used to analyze the data and to test the result; therefore other various statistical tools could be used to get more actual result.

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## Appendix I

### Data Related With GDP, Tax and Non Tax Revenue

*In Millions*

Fiscal Year	GDP	Tax Revenue	Non Tax Revenue	Total Revenue
2064/65	815658	85155.46	22467.02	107622.48
2065/66	988272	117051.91	26422.58	143474.49
2066/67	1192774	156294.92	23650.9	179945.82
2067/68	1366954	172777.91	27041.1	199819.01
2068/69	1527344	211721.8	32651.2	244373
2069/70	1695011	259214.9	36826.2	296041.1
2070/71	1964540	312441.3	44179.5	356620.8
2071/72	2130150	355955.7	49910.7	405866.4
2072/73	2247427	421096.6	60865	481961.6
2073/74	2599234	553866.5	55313.4	609179.9

## Appendix II

### Data of Tax Revenue Collection in Nepal

*In Millions*

Revenue Heading	Fiscal Year									
	2064/65	2065/66	2066/67	2067/68	2068/69	2069/70	2070/71	2071/72	2072/73	2073/74

<b>Taxes on income, profits and capital gains</b>	<b>19078</b>	<b>27247</b>	<b>33821</b>	<b>42060</b>	<b>51303</b>	<b>64186.7</b>	<b>75613.6</b>	<b>86165.6</b>	<b>114138</b>	<b>144846</b>
<b>Taxes on payroll and workforce</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>1555</b>	<b>1880.6</b>	<b>2449.9</b>	<b>2925.8</b>	<b>3269.8</b>	<b>4136.9</b>
<b>Taxes on property</b>	<b>4010</b>	<b>7073</b>	<b>7929</b>	<b>6595</b>	<b>3588.4</b>	<b>5340.2</b>	<b>6671.1</b>	<b>9399.4</b>	<b>13149.4</b>	<b>18294</b>
<b>Taxes on goods and services</b>	<b>41005</b>	<b>55938</b>	<b>79394</b>	<b>88411</b>	<b>110561</b>	<b>129271</b>	<b>157718</b>	<b>180025</b>	<b>205669</b>	<b>278569</b>
VAT	29816	39701	54921	61664	70930.4	83418.4	101105	112522	122412	160168
Excise	11190	16221	24306	26543	30016.1	36234.7	45412.6	53538.2	65776.4	84805.5
Taxes on specific service	NA	NA	NA	NA	490.2	655.3	873.5	1031.9	1284.1	1612
Taxes on use of goods and on permission to use goods	NA	17	167	204	9124.3	8962.1	10327.7	12933.3	16196.3	31083.2
<b>Taxes on international trade and transactions</b>	<b>21062</b>	<b>26793</b>	<b>35151</b>	<b>35712</b>	<b>43390.6</b>	<b>56931.8</b>	<b>67980.5</b>	<b>74841.3</b>	<b>82159.1</b>	<b>103059</b>
Customs and other import duties	20125	25268	33476	34312	40905.9	54327.9	64125.4	70526.7	77822.2	98410.3
Taxes on export	433	794	915	358	861.5	439.1	1066.5	314.6	113.7	125.1
Other taxes on international trade and transactions	504	731	759	1042	1623.2	2164.8	2788.6	4000	4223.2	4523.3
<b>Other taxes</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>1323.8</b>	<b>1605.2</b>	<b>2007.7</b>	<b>2598.4</b>	<b>2711.6</b>	<b>4961.8</b>
<b>Grand Total</b>	<b>85155</b>	<b>117051</b>	<b>156295</b>	<b>172778</b>	<b>211722</b>	<b>259215</b>	<b>312441</b>	<b>355956</b>	<b>421097</b>	<b>553867</b>

### Appendix III

#### Data on Excise Duty Collection

*In Millions*

<b>Fiscal Year</b>	<b>Tobacco</b>	<b>Liquor</b>	<b>Other Industrial Products</b>	<b>Imported Goods</b>	<b>Total Excise Duty</b>
2064/65	3118.91	3691.77	1501.79	2877.53	11190
2065/66	3742.35	5127.34	2843	4508.31	16221
2066/67	4512.5	6584.34	2500.3	10708.86	24306
2067/68	5139.37	8387.74	2160.18	10855.71	26543
2068/69	5220	11850.36	2579.66	10366.08	30016.1
2069/70	5350	13310	3071	14503.7	36234.7
2070/71	7300	16300	3678	18134.6	45412.6
2071/72	7170	19540	4344	22484.2	53538.2
2072/73	8950	22790	4450	29586.4	65776.4
2073/74	10990	29890	6320	37605.5	84805.5

### Appendix IV

#### Data Analysis through SPSS Program

		total tax revenue	total indirect tax revenue	excise duty	excise duty on liquor	excise duty on tobacco
total tax revenue	Pearson Correlation	1	.999**	.998**	.998**	.990**
	Sig. (2-tailed)		.000	.000	.000	.000
	N	10	10	10	10	10
total indirect tax revenue	Pearson Correlation	.999**	1	.996**	.998**	.987**
	Sig. (2-tailed)	.000		.000	.000	.000
	N	10	10	10	10	10
excise duty	Pearson Correlation	.998**	.996**	1	.994**	.993**
	Sig. (2-tailed)	.000	.000		.000	.000
	N	10	10	10	10	10
excise duty on liquor	Pearson Correlation	.998**	.998**	.994**	1	.985**
	Sig. (2-tailed)	.000	.000	.000		.000
	N	10	10	10	10	10
excise duty on tobacco	Pearson Correlation	.990**	.987**	.993**	.985**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	10	10	10	10	10

\*\* . Correlation is significant at the 0.01 level (2-tailed).