

Nepal's Plans to 'Bring Home' the Production of Tax Stamps

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In a recent development in Nepal, the Public Accounts Committee (PAC) of the federal parliament directed the government to make way for private domestic firms to supply excise duty stickers (ie. tax stamps).

According to the PAC, Nepal's Inland Revenue Department (IRD) uses billions of rupees of tax stamps on cigarettes and alcohol every year. But domestic firms have so far not been able to supply these stamps, as the government claims that the 'security features of domestic printing companies are not up to its standard' – a situation which has led to a huge outflow of funds to foreign security printers.

So how does the government intend to resolve this issue?

Before addressing this question, let's take a look at the history and use of tax stamps in a country which generates around NPR 57 billion (\$7.2 billion) in excise duties, value added tax and health hazard tax – imposed on cigarettes, liquor and other alcoholic beverages – and where excise duties alone account for 14% of total government revenue.

Nepal tax stamps

Nepal first started using tax stamps on tobacco products in 2003, on outer cartons as opposed to individual packs, but later introduced enhanced stamps on cigarette packs, while maintaining carton stamps on chewing tobacco.

Then, in 2013, IRD introduced a new directive that made it mandatory for producers of chewing tobacco and gutka (a type of chewing tobacco that includes crushed nuts) to paste a tax stamp on individual packs, as a way of curbing the black market in these products, as well as providing a means of gathering information on the number and nature of industries dealing with them.

According to the directive, producers of chewing tobacco, gutka, and other similar products in packets of 400 grammes and above are obliged to paste a tax stamp, distributed by the IRD, on the packets. 'The sticker should be pasted in such a way that it needs to be torn off while opening the packet,' states the directive.

The directive does not require stamps to be applied to export goods, but the packaging of such goods should clearly state 'For Export'. The directive also requires manufacturers to mention manufacturing date, batch number, serial number, trade mark and gross weight on the packets.

Regarding the outer packaging of these products (which comes in the form of sacks and cartons), the directive states that the name, address and trademark of the manufacturing company and gross weight of the products should be clearly printed on such packaging. 'The manufacturers should paste on the sticker before producing their finished products, while the importers should apply it after the goods enter their warehouse,' states the directive.

In 2016, the usage of tax stamps was extended to alcohol products, in a bid to curb an estimated excise revenue leakage of over 40%. Apart from excise evasion and leakage on liquor products, there was also leakage on products subject to self-removal (whereby excise goods are produced, dispatched, imported and exported without any regulatory or administrative government control), as well as cases involving illicit wine and cigarette imports from Tibet.

Subsequently, in 2017, new machine-readable excise tax stamps were launched, together with an online distribution system. The machine-readable feature on these security-enhanced stamps can only be read by a special device. Moreover, the new stamps cannot be removed without being destroyed, thereby ensuring that they cannot be peeled off and reused – which was quite a common practice in the past.

Nepal currently uses 36 different categories of excise stamps for cigarettes and alcohol, carrying multiple overt and covert features. These include intaglio printing, security patterns, covert IR ink marking, holographic stripes and special overt and covert fibres. The cigarette stamp size is 20mm x 45mm, while that for liquor measures 15mm x 90mm, and for beer 50mm x 100mm.

Rampant use of fake stamps

Unfortunately, despite the introduction of the high-security, machine-readable stamps, the rampant use of fake excise duty stickers on alcoholic beverages was discovered. In March 2018, the IRD uncovered the use of counterfeit stickers during a raid on the premises of more than 20 distilleries and dealers, where NPR 2.21 million (\$20,000) worth of products bearing the illegal stickers were seized.

Nevertheless, according to IRD officials, the enhanced security features on the tax stamps, together with increased market monitoring activities, helped the IRD to more easily identify the counterfeit stickers and consequently apprehend the offenders.

Current supplier and future plans

For a long time now, Perum Peruri of Indonesia has been providing tax stamps to the IRD in Nepal. In 2016, Perum Peruri entered into a procurement agreement with the IRD to print, supply and deliver excise stamps, for a contract price of \$6,581,440 and a total quantity of 4,962,600,000 pieces.

Currently, the IRD allows international firms with Intergraf certification to take part in the bidding process, which has met with criticism in the country because none of the Nepali printing companies possess this certification.

The PAC argues that, since Nepali security printing companies can print recharge cards and other sensitive documents, they should be able to print tax stamps as well.

However, Revenue Secretary Sishir Dhungana counter-argues that domestic firms cannot integrate security features according to the requirements of the government, even though they are involved in security printing. Therefore, in order to address the issue of outflowing funds for security printing, he has advised that the government has decided to establish its own security printing press in the country, at a cost of NPR 22 billion (\$200 million). 'A budget of NPR 6 billion (\$54 million) has been allocated in the current fiscal year and the process of setting up the press is underway,' he announced.

So although it looks as if private Nepali companies will not be providing tax stamps any time soon, the outflow of funds to foreign suppliers will at least be stymied by the establishment of the state-run printing press.



Nepal newly introduced cigarette packet with tax stamp.