

# Nepal Tax Fact

## F.Y. 2018/19

June 2018



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# Disclaimer

The [Nepal Tax Facts 2018/19](#) booklet aims at providing a brief overview of the Nepalese Taxation system based on Finance Bill 2018 (2075).

The information contained in this booklet is intended as a quick reference guide, specifically designed for our clients. Details of the relevant legislation have not been included.

While every care is taken during the compilation of document, Baker Tilly Nepal does not bear any loss incurred due to the decisions taken on the basis of this Tax Fact. Specific professional advice should be obtained before taking any action.

# Budget Highlights

## Budget Objectives

- End the extreme poverty, poverty and backwardness through fast supply of minimum basic needs requirements.
- Economic and Human Development through mobilization of resources
- Development of Prosperous, strong, sovereign and socialist economy after developing economic, physical and social infrastructure

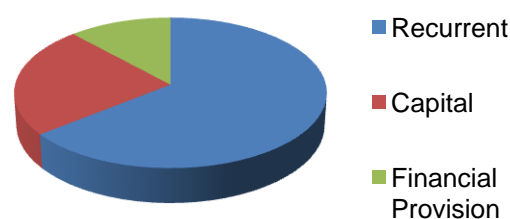
## Budget Priorities

- Promotion of areas creating jobs and employments to all Nepali
- Speedy Human Development through development of social sector including health and education
- Development of capital, technology and exploration in different sectors including agriculture, water resources, tourism in order to achieve sustainable, wider, equity oriented and high economic growth
- Construction of roads, railways, irrigation, electricity, urban infrastructure to expedite construction of modern Nepal through development of basic and modern physical structures
- Reconstruction of structures damaged due to flood and earthquake
- Quality improvement in supply of public services and good governance within the feel of citizens

## Key Figures (In Billion):

Total Expenditure:	Rs. 1,315.16
Recurrent:	Rs. 845.45
Capital:	Rs. 314.00
Financial Provision:	Rs. 155.72

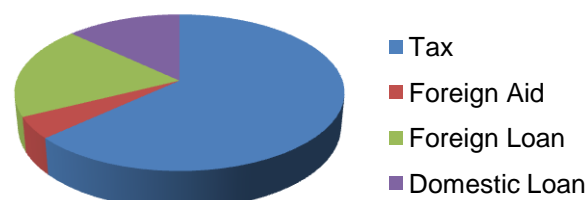
## Expenditure Allocation



## Sources of Fund:

Tax Revenue:	Rs. 831.32
Foreign Aid:	Rs. 58.82
Foreign Loan:	Rs. 253.03
Domestic Loan:	Rs. 172.00

## Source



# Taxes by Finance Bill

## No change in Tax Rates

- Infrastructure tax of Rs. 5 Per litre on import of aviation fuel, petrol and diesel
- Telephone Ownership Fee
- Pollution Control Fees

## Rates Increased

### *Education Service Tax*

- Education Service Tax to be collected by Foreign Exchange providers (banks and financial institutions) while providing exchange facility to students studying abroad
- Increased to 2% from 1%
- Effective from 28<sup>th</sup> May 2018 (16<sup>th</sup> Jestha 2075)

### *Telecommunication Service Tax*

- Increased to 13% from 11%
- Effective from 17<sup>th</sup> July 2018 (1<sup>st</sup> Shrawan 2075)

### *Casino Royalty*

- Increased to Rs. 40 Million from Rs. 30 Million
- Increased to Rs. 10 Million from Rs. 7.5 Million in case of gaming using machinery equipments

## Taxes Repealed:

- Education Service Tax for domestic private schools and colleges- effective from 17<sup>th</sup> July 2018 (1<sup>st</sup> Shrawan 2075)
- Health Service Taxes 17<sup>th</sup> July 2018 (1<sup>st</sup> Shrawan 2075)

## New Tax Introduced

- Health Risk Tax has been introduced
- Applicable on cigarette, bidi, cigar, chewing tobacco, khaini, Ghutkha, Paan Masala
- Tax to be levied at 25 paisa per piece in case of cigarette, bidi, cigar and Rs. 25 per Kilogram in case of tobacco, khaini, Ghutkha, Paan Masala
- Applicable on import and production
- Collection at the customs point in case of import
- Collection at the time of issuance from enterprises in case of domestic production

# Tax's Scope Expansion Proposals

## 1. Waiver of Fees and Interest

- This provision is applicable to Natural Person who has not submitted income return
- These persons shall obtain permanent account number and file income return of F.Y. 2071/72, 2072/73 and 2073/74 along with income tax applicable in such income until 2075 Poush end
- The natural person is not required to file income return pertaining to years preceding F.Y. 2071/72 and the tax, fees and interest applicable until such period shall also be waived
- Taxes, fees and interest pertaining to the year prior to F.Y. 2071/72 shall be waived in case of a natural person who has not submitted income return until F.Y. 2072/73 submits income return pertaining to F.Y. 2071/72 and 2072/73 until 2075 Poush end.

## 2. Special Provision to VAT non-filers

- Penalty, interest and additional fees applicable to non-filers who did not submit return of VAT until 2074 Ashad end, shall be waived in case these persons file VAT return along with deposit of VAT liability within 2075 Poush end.
- In case such non-filers does not abide by the filing formality within 2075 Poush end, the registration of such non-filers who did not submit VAT return since 2071 Ashad end or prior to that date shall be cancelled and the penalty for failure to file return shall also be waived.

## 3. Exemption of VAT on Canteen and Hostel operated by Educational Institutions and on services provided by Stock Brokers

VAT applicable to hostel and canteen operated by Educational Institutions and on services provided by Stock brokers has been waived. This waiver includes all VAT applicable until F.Y. 2074/75 and any due payable to Government of Nepal due to the assessment of Tax office.

## 4. Exemption to Social Organizations

Where any social organization registered as per Society Registration Act, 2034 submits income return pertaining to F.Y. 2074/75 within Poush end 2075 along with payment of applicable income tax, such organizations are exempted from submission of income return and payment of taxes, fees, interest, penalty, additional fees in relation to period before F.Y. 2074/75.



# Major Changes in Income Tax Act

Affected Persons	Sec	Existing Provision	New Provision
All	2 (m)	<p>“Non Business Chargeable Asset” means land, building and security or deposit in any entity, except the following:</p> <ol style="list-style-type: none"> <li>1. Business Asset, Trading Stock or Depreciable Asset</li> <li>2. Private Building of a natural person in the following conditions:               <ol style="list-style-type: none"> <li>a. Having owned for 10 years or more continuously or intermittently</li> <li>b. Having stayed for 10 years or more continuously</li> </ol> <p>For the purpose of this clause, “private building” means the building and the area occupied by the building subject to 1 ropani of land</p> </li> <li>3. Interest of a beneficiary in retirement fund</li> <li>4. Disposal of land, private building or land-building for less than Rs. 30 Lakhs</li> <li>5. Transfer within three generations except for sales/purchase</li> </ol>	<p>“Non Business Chargeable Asset” means land, building and security or deposit in any entity, except the following:</p> <ol style="list-style-type: none"> <li>1. Business Asset, Trading Stock or Depreciable Asset</li> <li>2. Private Building of a natural person in the following conditions:               <ol style="list-style-type: none"> <li>a. Having owned for 10 years or more continuously or intermittently</li> <li>b. Having stayed for 10 years or more continuously</li> </ol> <p>For the purpose of this clause, “private building” means the building and the area occupied by the building subject to 1 ropani of land</p> </li> <li>3. Interest of a beneficiary in retirement fund</li> <li>4. Disposal of land, private building or land-building for less <b>than Rs. 10 Lakhs</b></li> <li>5. Transfer within three generations except for sales/purchase</li> </ol>
All	2 (af)	<p>“Rent” means any payment made by the lessee under a lease of a tangible asset including any premium and any other payment for the granting of the lease but excludes a natural resource payment</p>	<p>“Rent” means any payment made by the lessee under a lease of a tangible asset including any premium and any other payment for the granting of the lease but excludes a natural resource <b>payment and house rent income of a natural person otherwise than that derived in relation to operation of private firm.</b></p>
Resident Natural person having sales exceeding Rs. 20 Lakhs and less than Rs. 50 Lakhs	4 (4A)	<p>Notwithstanding anything written in Sub-sec. (2), the tax liability of a resident natural person mentioned in Sec. 3 (a) satisfying any of the following conditions and that has to pay tax based on turnover shall be as per Sec. 1 (17) of Sch. 1:</p>	<p>Notwithstanding anything written in Sub-sec. (2), the tax liability of a resident natural person mentioned in Sec. 3 (a) satisfying any of the following conditions and that has to pay tax based on turnover shall be as per Sec. 1 (17) of Sch. 1:</p>

		<p>a. Income of the person shall be derived only from business having source in Nepal</p> <p><b>b. Not claimed medical tax credit pursuant to Sec. 51</b></p> <p><b>c. Not claimed advance tax pursuant to Sec. 93</b></p> <p>d. Turnover exceeds Rs. 20 lakhs and does not exceed Rs. 50 Lakhs</p> <p>e. Income does not include income from consultancy and expert services by a natural person including doctor, engineer, auditor, lawyer, sportsman, artist, consultant</p>	<p>a. Income of the person shall be derived only from business having source in Nepal</p> <p>b. Turnover exceeds Rs. 20 lakhs and does not exceed Rs. 50 Lakhs</p> <p>Income does not include income from consultancy and expert services by a natural person including doctor, engineer, auditor, lawyer, sportsman, artist, consultant</p>
SEBON	10 (k)	Income of Securities Board of Nepal as per its objective	Deleted
Special Industry and Information Technology Industry	11 (3) (a)	Where special industry and IT industry provides direct employment to 300 or more Nepali nationals throughout the year, 90% of applicable tax rate; where 1200 or more Nepali nationals are employed by Special industry throughout the year, 80% of applicable tax rate; and where 100 or more Nepali nationals of which one-third are women, oppressed or incapacitated are employed by special industry throughout the year, 80% of applicable rate	<p>Where special industry and IT industry provides direct employment throughout the year to:</p> <p>a. 100 or more Nepali nationals- 90% of applicable tax rate</p> <p>b. 300 or more Nepali nationals- 80% of applicable tax rate</p> <p>c. 500 or more Nepali nationals- 75% of applicable tax rate</p> <p>d. 1000 or more Nepali nationals- 70% of applicable tax rate</p> <p>There shall be additional 10% reduction in applicable tax rate in case special industry and IT industry providing direct employment to at least 100 Nepali nationals throughout the year has its workforce composed on at least one-third from women, dalit or incapacitated</p>
Special Industry and Tourism Industry	11 (3) (b)	Where special industry, agro based industry and tourism industry provides direct employment exclusively to Nepali nationals, the effective tax rate shall be 70% of applicable tax rate	Abolished
Special Industry and IT industry		Provisions of 11 (3) (c) and (3) (d)	Renumbered to 11 (3) (b) and 11 (3) (c)
Industry at SEZ	11 (3A) (e)	Where any special industry, agro based industry or tourism industry distributes bonus shares by	A new sub-section 11 (3L) has been inserted



		capitalizing its profit for the purpose of capacity enhancement, the dividend tax applicable on such distribution shall be exempted	
Industries involved in Extraction and exploration of petroleum products	11 (3B)	Where any person involved in transaction of exploration and extraction of petroleum products and natural gases commences its commercial operation within B.S. 2075 Chaitra end, the corporate tax applicable on income of such persons shall be exempted for first five years of commercial operation and 50% exemption on corporate tax for three years thereafter.	Where any person involved in transaction of exploration and extraction of petroleum products and natural gases commences its commercial operation within <b>B.S. 2080 Chaitra end</b> , the corporate tax applicable on income of such persons shall be exempted for first five years of commercial operation and 50% exemption on corporate tax for three years thereafter.
Special Industry & Tourism Industry capitalizing its profit to enhance capacity	11 (3L)	New Provision	Where any special industry, or tourism industry distributes bonus shares by capitalizing its profit for the purpose of capacity enhancement, the dividend tax applicable on such distribution shall be exempted
Private Companies with paid up capital exceeding Rs. 500 Million	11 (3M)	New Provision	Where a company operating as a private company with paid up capital of Rs. 500 Million or more converts into public company, there shall be 10% exemption in corporate tax for three years from the date of conversion into public company.  Provided that this provision is not applicable to such private company that requires conversion into public company as a result of application of Sec. 12 of Companies Act, 2063 (2006)
Tea, Dairy & Textile Industries	11 (3N)	New Provision	The income from sales by a domestic industry producing and processing tea, dairy industry involved in milk products and textile industry shall be subject to 50% exemption in corporate tax rate.
Community	11 (3O)	New Provision	The income of a hospital operated by community shall be entitled to 20%

Hospitals			exemptions in corporate tax rate
Micro Enterprises	11 (3P)	New Provision	The micro enterprises shall be entitled to 100% exemption in income tax from the date of commencement of business or transaction.  Where such micro enterprise is owned by female, such enterprise shall be entitled to such exemption for additional two years.
Micro Enterprises	Clarification Clause to Sec. 11	New Provision	“Micro Enterprises” means micro enterprises as specified in Sec. 15 (1) (a) of Industrial Enterprises Act, 2073.
Infrastructure Projects of National Priority	11B	The source of investment until 2075 Chaitra end shall not be asked to declare for the investment in infrastructures including hydropower, international airport, tunnel and road ways, railways and on production based industries (except bidi, cigar, chewing tobacco, ghutkha, paan masala) using more 50% domestic raw materials and employing more than 300 Nepali nationals	The source of investment until <b>2076 Chaitra end</b> shall not be asked to declare for the investment in infrastructures including hydropower, international airport, tunnel and road ways, railways and on production based industries (except bidi, cigar, chewing tobacco, ghutkha, paan masala) using more 50% domestic raw materials and employing more than 300 Nepali nationals
Persons having income from business	21 (1) (b)	Taxes paid under this Act and fees for non compliance with any statute of any country (shall not be deductible)	Taxes paid under this Act and fees for non compliance with any statute of any country (shall not be deductible)  <b>Provided that taxes paid to provinces and local level shall be deductible</b>
Banks & Financial Institutions and Insurance Companies willing for merger	47A (6)	The letter of intent for the merger shall be submitted to Inland Revenue Department until 2075 Ashad end	The letter of intent for the merger shall be submitted to Inland Revenue Department <b>until 2076 Ashad end</b>
Banks & Financial Institutions and Insurance	47A (7)	The merger process of entities submitting letter of intent pursuant to sub-section (1) shall be completed by	The merger process of entities submitting letter of intent pursuant to sub-section (1) shall be completed by

Companies willing for merger		2076 Ashad end	<b>2077 Ashad end</b>
Retirement Funds (Approved)	65 (1)	The income computation of a natural person in respect of retirement payment as a result of interest in any approved retirement fund or that made by Government of Nepal shall be as follows:	The income computation of a natural person in respect of retirement payment as a result of interest <b>of contributory in nature</b> in any approved retirement fund or that made by Government of Nepal shall be as follows:
All	Proviso (5) to 88 (1)	(The withholding tax) on rental payment by a resident person (shall be) 10%  Provided that where the rental payment is in relation to vehicle rental service provided registered in VAT, the rate shall be 1.5%	The withholding tax) on rental payment by a resident person (shall be) 10%  Provided that a. where the rental payment is in relation to vehicle rental service provided registered in VAT, the rate shall be 1.5% <b>b. There shall be no withholding of tax where the payment is of rent for leasing of house by a natural person</b>
All	Proviso (8) to S. 88 (1)	New Provision	<b>(the withholding tax) on payment of rent in relation to transport service (shall be) 2.5%</b>
Cooperatives	88 (3)	Notwithstanding anything written in sub-section (1), where the interest or interest related payment as follows is made by resident bank, financial institutions, or entities issuing debenture or companies listed under prevailing law to a natural person on deposit, debenture, bond and government bond, the withholding tax rate shall be 5%: a. Having source in Nepal, and b. Not related to operation of business	Notwithstanding anything written in sub-section (1), where the interest or interest related payment as follows is made by resident bank, financial institutions, <b>Cooperatives</b> or entities issuing debenture or companies listed under prevailing law to a natural person on deposit, debenture, bond and government bond, the withholding tax rate shall be 5%: a. Having source in Nepal, and b. Not related to operation of business
All	88 (4) (b)	(there shall be no WHT) on payment of writing articles in newspaper, <b>setting up of question paper and checking answer sheets</b>	there shall be no WHT) on payment of writing articles in newspaper
All	89 (3A)	New Provision	<b>Payment exceeding Rs. 5 Million where the payment is related to</b>

			<b>work to be conducted through Consumer Committee, there shall be withholding of tax @ 1.5%</b>
All	92 (1) (h)	Meeting fee, Occasional Lecture Fee	Meeting fee <b>not exceeding Rs. 20,000 per meeting</b> , occasional lecture fee, <b>payment of setting question paper and checking answer sheets</b>
All	92 (1) (k)	New Provision	<b>Payment of rent to a natural person in relation to leasing of vehicle and transport where such vehicle and transport is not operated through private firm</b>
Nepal Stock Exchange Ltd., Securities Broker and persons dealing in listed securities	95A (2) (a)	In case of listed securities, the person dealing in securities exchange (shall collect advance tax) at the rate 5% of gain in case of a resident natural person and 10% of gain in case of others	In case of listed securities, the person dealing in securities exchange (shall collect advance tax) at the rate <b>7.5%</b> of gain in case of a resident natural person and 10% of gain in case of <b>resident entity</b> and <b>25% of gain in case of others</b>
Entity's the securities of which is disposed, person selling non listed securities	95A (2) (b)	In case of non listed securities, the entity the securities of which is disposed (shall collect advance tax) at the rate 10% of gain in case of a resident natural person and 15% of gain in case of others	In case of non listed securities, the entity the securities of which is disposed (shall collect advance tax) at the rate 10% of gain in case of a resident natural person and 15% of gain in case of <b>resident entity</b> and <b>25% of gain in case of others</b>
Person importing agro products	95A (7)	New Provision	<b>Where he-buffalo, buffalo, he-goat, boka, sheep, chyangra falling in Part 1 of Harmonized Code System; live, fresh or frozen fish falling in Part 3 of HS System; fresh flowers falling in Part 6 of HS System; fresh vegetables, potato, onion falling in Part 7 of HS System, and fresh fruits falling in Part 8 of HS system are imported for business purpose, the customs office shall collect advance tax at the time of release of goods @ 5% on customs value determined such products</b>

	95A (8)-(13)	Existing 95A (7) is moved to 95A (8) and	
Natural Persons owning Vehicles for commercial use	97 (1) (d)	Where the vehicle owner making payment of taxes u/s 1 (13) of Sch. 1 of the Act happens to be a natural person (no return to be filed)	Where the vehicle owner <b>other than owing vehicle through private firm</b> making payment of taxes u/s 1 (13) of Sch. 1 of the Act happens to be a natural person (no return to be filed)
Natural person with income only from gain on disposal of NBCA	97 (1) (e)	New Provision	<b>Where a natural person deriving income only from gain on disposal of Non Business Chargeable Asset opts for non filing of return</b> (no return to be filed)
Co-venturer of Joint Venture	110B	New Provision	<b>The co-venturer of joint venture shall be jointly and severally responsible for the payment of taxes of the joint venture in which they are involved</b>
All	117 (3)	Where a withholding agent fails to submit withholding tax return pursuant to sec. 90 (1), fees shall be applicable at 1.5% per annum for month or part of month from the due date of filing such return and until such return is filed.	Where a withholding agent fails to submit withholding tax return pursuant to sec. 90 (1), fees shall be applicable at <b>2.5%</b> per annum for month or part of month from the due date of filing such return and until such return is filed.
Employers and Natural persons	Schedule 1	Please refer Page 16	

# Income Tax provisions for 2018/19

## Introduction to Income Tax Law of Nepal

### 1. Overview

The principal taxes in Nepal are the income tax and indirect taxes, such as value added tax (VAT), customs duty and excise duties. Capital gains form part of normal business income. Natural persons are also charged on gain on non-business chargeable assets.

Tax incentives focus mainly on establishments in special zones, industries such as Information Technology, Hydropower etc, and encouraging investments in agricultural, tourism, and undeveloped areas. The incentives are normally in the form of rebates in income tax rates.

The income tax law has provisions for GAAR, Transfer pricing and controlled foreign entities, but detailed guidelines are yet to be prepared.

Inland Revenue Department under Ministry of Finance administers income tax, VAT and excise duties while Department of Custom administers custom charges.

### 2. Charge of Tax

A resident person is charged to tax on global income, while non-residents are subject to tax only on Nepal sourced income. There are specific guidelines for ascertaining Nepal sourced incomes.

Generally, a natural person is resident if he stays in Nepal for a period of 183 days or more in an income year (Mid July to Mid July) or if his habitual place of abode is in Nepal. A company is considered resident in Nepal if it is incorporated in Nepal or if effective control and management of the company is in Nepal in the year.

### 3. Heads of Income

There are four heads of income:

- a. Employment
- b. Business
- c. Investment
- d. Windfall Gain

In general, a tax payer's taxable income is determined by aggregating the income from all of the heads. The computation of business income is normally based on the profits shown in the financial statements, after adjusting for exempt income, final withholding payments, nondeductible expenditure, special deductions and unabsorbed losses and depreciation.

Expenditures are allowed for deduction for income from business and investment. But any deductions and expenditure incurred for earning final withholding payments and exempt incomes are not allowed as deduction.

Resident Natural persons are eligible for special deductions such as contribution to approved retirement fund, life insurance premiums, remote area benefits, payment of health insurance premium, etc. There is no expenditure deduction for income from employment.



Tax on windfall gains is collected through WHT in case payments are made by resident persons. Resident tax payers are required to pay tax on windfall gains earned outside Nepal.

#### 4. Tax on Non-resident

Normally, tax on service fees etc. earned by Non-Resident by providing service in Nepal is collected through WHT deducted by the resident person. But where both service provider and recipient of service are non-resident, there is no WHT on service fee payment and the recipient is required to submit income tax return and pay tax on income from service provided in Nepal.

The non-resident may create a permanent establishment if it provides service in Nepal for more than 90 days in a 365 days period. Such permanent establishment of non-resident is treated as resident taxable entity, independent from the non-resident parent company and taxed as resident person. The PE are required to pay 5% tax on repatriation of profit to non-resident parent company.

Foreign airlines operating in Nepal pay turnover based income tax for sales arising from travel of person and goods originating from Nepal (Excluding transits) and for sales of tickets from Nepal for travel outside Nepal (other than originating from Nepal). Other income of the airlines are treated as normal income and taxed accordingly.

#### 5. Dividend Distribution & Profit Repatriation

Dividends paid by resident entities are subject to 5% WHT. This is final withholding and so is not required to be included in calculation of taxable income.

Dividends received by resident tax payers from non-residents are taxed as normal income.

Profit repatriated by permanent establishment to its parent company is subject to 5% WHT.

#### 6. Double Taxation relief

Nepal has double tax avoidance treaty (DTAT) with ten countries: Austria, China, Korea, India, Mauritius, Norway, Pakistan, Qatar, Sri Lanka and Thailand.

Nepal also has unilateral tax credit mechanism where resident tax payers are eligible to claim foreign tax credit for tax paid abroad with respect to their taxable income in Nepal.

#### 7. Self Assessment

Nepal follows a self assessment system and tax paid is not questioned unless the tax calculation is not in accordance with the law. If tax officer does not revise your assessment within four years, the tax return submitted and tax paid is considered final. The self assessment of tax liability and submission of final annual tax return and tax payment should be done within 3 months from the end of an income year. An extension for return submission is granted on request, for a maximum period of 3 months, but there is no extension for tax payment deadline. Companies and certain tax payers are also required to submit estimated tax return and pay estimated tax on three installments (Refer Page 28 of this document).

## Taxation of Individuals

### 1. For Resident Taxpayers

Taxable Income Slab	Individual		Taxable Income Slab	Couple*	
	Employment	Proprietorship Firm**		Employment	Proprietorship Firm*
First Rs. 350,000	1%***	-	First Rs.400,000	1%***	0
Next Rs. 100,000	10%	10%	Next Rs. 100,000	10%	10%
Next Rs. 200,000	20%	20%	Next Rs. 200,000	20%	20%
Next Rs. 13,50,000	30%	30%	Next Rs. 13,00,000	30%	30%
Balance	Para 1.1	Para 1.1	Balance	Para 1.1	Para 1.1

\* Husband and wife should elect to be treated as couples and the option is not an automatic choice. A declaration from the non-earning spouse is must for election.

\*\* The rates are general rates tax rates for proprietorship firms, and may differs on basis of nature of business, due to business concessions and facilities offered. (Refer Page 20)

\*\*\* The 1% tax on employment should be deposited in separate revenue account in IRD as Social Security Tax. The 1% tax is not levied if the employment income is pension income. 1% social security based income tax is also not levied for such individuals who make contribution to contribution based Social Security Fund.

### 1.1 Additional tax of 20% for taxable income exceeding Rs.2.0 million

If the natural person has taxable income of Rs. 2.0 million & above, additional tax need to be paid, calculated as 20% of tax liability for income above Rs. 2,000,000.

#### Illustration 1

Mr. Bagale has total income from employment of Rs. 5 million per annum. He has contributed Rs. 0.5 million to approved retirement fund. Assuming individual, tax will be calculated as follows.

<b>Total Income</b>	<b>5,000,000.00</b>
<i>Less: Contribution to Approved Retirement Fund</i>	<i>(300,000.00)</i>
<b>Taxable Income</b>	<b>4,700,000.00</b>
Tax Liability	
1st Rs. 350,000	3,500.00
Next Rs.100,000	10,000.00
Next Rs. 200,000	40,000.00
Balance Rs. 40,50,000	12,15,000.00
<b>Tax Liability before Additional Tax</b>	<b>12,68,500.00</b>
Additional Tax @ 20% on 30% of 27,00,000 (Rs. 2,700,000 is the difference of Rs. 47,00,000 less Rs. 20,00,000)	162,000.00
<b>Total Tax Liability</b>	<b>14,30,500.00</b>

### 1.2 Rebate on Tax Liability for Resident Female with only employment income

A female resident natural person deriving income only from employment in Nepal shall be provided with a rebate of 10% on the tax liability. Income Tax Manual, 2073 does not require the female to opt for individual assessment of tax to avail the Rebate facility.

#### Illustration 2

In illustration 1, if the income is earned by Ms. Pradhan, opting as an individual, total tax liability will be 90% of Rs. 14,30,500.00, i.e. Rs. 12,87,450.

### 1.3 Tax Rate for Non Business Chargeable Assets

Gain from disposal of Non Business Chargeable Assets of a resident natural person is taxed at 10% after taking into consideration exemption limit (i.e. Rs. 350,000 for individual and Rs. 400,000 for couples), subject to following:

- In case of land and buildings, where the disposed land & buildings has been owned for more than 5 years, tax rate of 2.5% shall apply.
- In case the disposed land & buildings has been owned for less than 5 years, tax rate of 5% shall apply.
- In case of gain from disposal of shares of listed entities, 7.5% tax rate shall apply for resident natural person.

Gain from Non Business Chargeable Assets includes:

- Gain from sale of shares of companies,
- Gain from sale of building owned and resided for less than 10 years and disposed for more than Rs. 10 lakhs and gain from sale of land disposed for more than Rs. 10 Lakhs

The tax is collected on source, by collection through an agent. The tax payer should submit tax returns to avail exemption benefit.

#### 1.4 Special Tax Rates for Natural Persons

Particulars	Applicable Tax Rates
For incomes earned from operating special industries	20% where 30% tax rate applies
For incomes earned from export business	15% where 20% or 30% tax rate applies

#### 1.5 Deductions and Facilities for Resident Persons

- Life Insurance Premium

While calculating taxable income, life Insurance premium paid by a resident natural person is deductible up to the limit of Rs 25,000. Where both husband and wife have opted as couple, the insurance paid can be clubbed to claim for deduction, subject to maximum of Rs. 25,000.

- Employees working in Diplomatic Agencies

75% of foreign allowance is deducted from taxable income in case of an employee employed at diplomatic agencies of Nepal situated at foreign countries.

- Incapacitated natural persons

In case of incapacitated natural persons, the minimum exemption limit (Rs. 350,000 for individual and Rs. 400,000 for couples) is increased by additional 50%.

- Remote Area Benefit

In case of resident natural persons working in remote areas, minimum exemption limit shall be increased by Rs 50,000 depending on remote area category, as follows:

Category A	Rs. 50,000
Category B	Rs. 40,000
Category C	Rs. 30,000
Category D	Rs. 20,000
Category E	Rs. 10,000

The facility is proportionately calculated for period of stay.

- Additional limit for pension income

If income of a resident natural person includes pension income, the taxable income is first reduced by additional 25% or pension amount included in income whichever is lower and tax liability is calculated on balance income.

- **Health Insurance Premium**

If a resident natural person pays health insurance premium to a resident insurance company, lower of the following amount is deductible for tax purpose:

- a. Rs. 20,000; or
- b. Annual Health insurance premium paid to resident insurance company

## 1.6 Tax Credits for Resident Persons

- **Medical Tax Credit**

In case of approved medical expenses, medical tax credit is available to resident natural persons as deduction from tax liabilities. The limit prescribed is Rs.750 or 15% of Approved medical expense or actual approved medical expense incurred whichever is lower. Any unutilized expenses can be carried forward to next year. Approved medical expense does not include cost incurred for cosmetic surgery.

- **Foreign Tax Credit**

If foreign income is included in taxable income of a resident person, foreign tax credit for tax paid in foreign country in respect of that income. The foreign tax paid can either be deducted as expense or tax liability in Nepal can be reduced by such tax paid up to average rate of tax applicable in Nepal, depending on the option of tax payer. The calculation should be done for each sourced income separately and tax not eligible as credit in a year can be carried forward to claim as foreign tax credit in future year from the same source country.

## 2. Tax Rate for Non Resident Natural Person

Taxable income of a non resident natural person shall be taxed at 25%. Nonresident natural persons are allowed to claim "Remote Area Benefit".

## Taxation of Business & Entities

### 1 Normal Tax Rates- *Applicable tax rates*

• General companies/firms/industries (not listed below)	25%
• Special Industries	20%
• Banks and Financial Institutions	30%
• General Insurance Companies	30%
• Entities engaged in the business of petroleum products	30%
• Industries producing products with tobacco as basic raw material and Industries producing liquors, beers and similar other products	30%
• Telecommunication or Internet Service Provider Companies	30%
• Entities involved in Money Transfer Business	30%
• Entities involved in Security Market Business	30%
• Entities Involved in Merchant Banking Business	30%
• Entities operating Commodity Future Market	30%
• Entities involved in Commodity and Security Broker Business	30%
• Entities involved in operation of roads, bridges, tunnels (including cable-car), rope-way, sky bridge, after construction	20%
• Entities involved in operation of trolley bus & tram	20%
• Cooperative Societies registered as per Cooperative Act 2048 and Engaged in business other than tax exempt	20%
• Export Income of an entity with source in Nepal	20%
• Trust of deceased or incapacitated person	Rates as natural person

### 2 Reduced Rates- *Concessions for F.Y. 2018/19*

Industries	Rates as Percentage of Applicable rate
• Special Industries and Information Technology Industries providing direct employment to 100 or more Nepalese citizens throughout the year	90%
• Special Industries and Information Technology Industries providing direct employment to 300 or more Nepalese citizens throughout the year	80%
• Special Industries and Information Technology Industries providing direct employment to 500 or more Nepalese citizens throughout the year	75%
• Special Industries and Information Technology Industries providing direct employment to 1,000 or more Nepalese citizens throughout the year	70%
• Special Industries and Information Technology Industries providing direct employment to 100 or more Nepalese citizens throughout the year, of which at least one-third are women, dalits (oppressed) or incapacitated	80%
• Special Industries and Information Technology Industries providing direct employment to 300 or more Nepalese citizens throughout the year, of which at least one-third are women, dalits (oppressed) or incapacitated	70%



• Special Industries and Information Technology Industries providing direct employment to 500 or more Nepalese citizens throughout the year, of which at least one-third are women, dalits (oppressed) or incapacitated	65%
• Special Industries and Information Technology Industries providing direct employment to 1000 or more Nepalese citizens throughout the year, of which at least one-third are women, dalits (oppressed) or incapacitated	60%
• Special Industries operating in remote area for first ten Income years	10%
• Special Industries operating in undeveloped area for first ten Income years	20%
• Special Industries operating in underdeveloped area for first ten Income years	30%
• Special Industry with capital investment of more than Rs. 1 Billion and employing 500 individuals during the whole year	0% (for first five years of operation) & 50% (for next three years)
• Existing Special Industries increasing installed capacity by 25% and increasing the capital to Rs. 1 Billion, with direct employment to at least 500 people	0% on incremental profit (for first five years of operation) & 50% on incremental profit (for next three years thereafter)
• Industries established in Special Economic Zone of hilly district as specified by the government and mountain district	0% (for 10 years), 50% (thereafter)
• Industries established in Special Economic Zone of other areas	0% for 5 years & 50% thereafter
• Income from foreign technology, management fee and royalty earned by foreign investor from industries established in special economic zone	50%
• Capitalization of profit by Special Industry, Agro-based industry and tourism industry for Capacity Expansion	Dividend Tax- Nil
• Person transacting on exploration of petroleum and natural gases, if business operation starts within 2080 Chaitra end	0% for first 7 yrs & 50% for next 3 yrs
• Industry operating in Technology Park, Biotech Park, and IT park and involved in software development, statistical processing, cyber café, digital Mapping	50%
• Entity involved in generation, transmission or distribution of hydroelectricity, if commences commercial activities related to generation, transmission or distribution within Chaitra end of 2080	0% for first 10 yrs and 50% for next 5 yrs of applicable Rate
• Entity involved in generation, transmission or distribution of electricity, if commences commercial activities related to generation, transmission or distribution within Chaitra end of 2080 when the electricity are generated from solar, wind or bio energy	0% for first 10 yrs and 50% for next 5 yrs of applicable Rate
• Profit on export income of an industry	75%

• In case of dividend of industries in Special Economic Zones	Dividend tax exempt for first five years of operation and 50% concession is provided for dividend tax in next three years
• Income from construction and operation of roads, bridges, tunnels (including cable-car), rope-way, sky bridge or investment and operation of tram, trolley bus	60%
• Manufacturing, tourism, hydroelectric generation, distribution and transmission entities and Industry operating in Technology Park, Biotech Park, and IT park and involved in software development, statistical processing, cyber café, digital Mapping; if listed in Stock Exchange	85%
• Industry producing brandy, cider and wine based on fruits and established in remote area (for first ten years of operation)	60%
• Royalty income from export of intellectual property	75%
• Income from sale of intellectual property	50%
• Industry related to Tourism Sector or aviation company for international flights with capital investment of more than Rs. 2 Billion <i>Such facility is provided to existing industry that increases its capital investment to Rs. 2 Billion after increasing its capacity by at least 25% and on income generated through utilization of increased capacity</i>	No tax for first five years and 50% of applicable rate for next three years
• Private company (other than that required to be converted into Public as per Sec. 12 of Companies Act), if converts into public company	90% (for three years from the date of conversion)
• Domestic tea production and processing industry, dairy industry and garment industry	50%
• Community Hospitals	80%
• Micro enterprises owned by female	0% for first seven years
• Micro enterprises owned by other than female	0% for first five years

### 3 Tax Rates for Special business of Non Residents

Particulars	Tax Rates
For incomes earned from operation of water transport, charter service or air transport where the departure is from Nepal or by operating a cable, radio, optical fiber or earth-satellite communication business from the transmission of news or information through the equipments installed in Nepal.	5%
For incomes earned from providing air transport, water transport or telecommunication services outside the territory of Nepal, the first point of departure being outside Nepal	2%
On repatriation of income by Foreign Permanent Establishment	5%

#### 4 Presumptive Taxation- Income Tax on Owners of public vehicles

Type of Vehicle	Tax (per vehicle per annum)
<b>Car, Jeep, Van, Microbus</b>	
• Up to 1300 CC	• 4,000
• 1301 CC- 2000 CC	• 4,500
• 2001 CC- 2900 CC	• 5,000
• 2901 CC- 4,000 CC	• 6,000
• >4,000 CC	• 7,000
<b>Minibus, Mini-truck, Water tanker</b>	6,000
<b>Mini Tripper</b>	7,000
<b>Bus, Truck</b>	8,000
<b>Machinery equipment including dozer, loader, roller, excavator, crane</b>	12,000
<b>Oil Tanker, Gas Bullet, Tripper</b>	12,000
<b>Tractor</b>	2,000
<b>Power Tiller</b>	1,500
<b>Three wheeler, auto rickshaw, tempo</b>	2,000

#### 5 Income Tax for Small Tax Payers

Resident Natural Persons who derives income only from business having source in Nepal with annual business turnover up to Rs. 20,00,000 and net income below Rs. 2,00,000 and not registered for VAT purpose may chose to pay tax as below. In such case, the person cannot claim medical tax credit or advance tax arising out of tax withheld by withholding agent.

Location of business	Tax (per annum)
For resident natural persons operating business in Metropolitan and Sub-Metropolitan areas	Rs 5,000
For resident natural persons operating business in Municipality areas	Rs 2,500
For resident natural persons operating business in other areas	Rs 1,500

#### 6 Income Tax for Person choosing to pay Tax based on Turnover

Resident Natural Persons who derives income only from business having source in Nepal with annual business turnover exceeding Rs. 20,00,000 and which is below Rs. 50,00,000 and not registered for VAT purpose shall have to pay tax as below.

Nature of Business	Rate of Tax
Person dealing in goods, which are sold on the basis of commission- the rate of commission of which is up to 3%, or sold by adding up to 3% value while selling such goods including gas, cigarette	0.25% of Turnover
Person dealing in goods not specified above	0.75% of Turnover
Person dealing in Services*	2% of Turnover

\* The person who derives income from consultancy or expert services that are provided by a natural person including doctor, engineer, auditor, lawyer, sportspersons, artist or consultant cannot choose to pay turnover tax.

## 7 Additional Deductions for businesses

- Any entity may deduct 50% of capital amount for power generating assets to be used for production of power to be consumed for own use in the year of acquisition as additional depreciation.
- Capital expenditure incurred for purchasing fiscal printer and cash machine can be claimed as depreciation in the year of purchase.

## 8 Carry forward of normal business loss

Losses arising from business in an income year may be set off against income from any other business or investment in that year of the same person. Investment loss cannot be set-off from business income. A business loss may be carried forward and set off against future business profits in the next seven assessment years. Similarly, investment loss may be carried forward and set off against future investment profits in the next seven assessment years. Foreign sourced loss can be set-off only with foreign sourced income.

In certain business such as projects involved in construction, generation and transmission of electricity; projects involved in construction and operation of public infrastructure projects under BOT and persons dealing in Petroleum under Petroleum Act 2040; the business loss is allowed to be carried forward to be set off for next 12 Income years.

Any business loss that is not set-off in seven years can be carried forward indefinitely to set off against gain from disposal of business assets and liabilities. In case of natural persons, any business loss and investment loss that is not set-off in seven years can be carried forward indefinitely to set off against gain from disposal of non-business chargeable assets.

## 9 Loss on disposal of Assets

The Income Tax law has classified assets of an entity into stock, depreciable assets and business assets. Personal assets of Natural persons may be taxed as Non Business Chargeable Assets if they meet certain criteria.

- Loss from stock is adjusted in cost of goods sold.
- Depreciation is calculated on pool basis, with assets classified into five pools. Gain or loss on disposal of depreciable assets is not calculated separately for each asset, but considered on pool basis. If there is loss on disposal of a pool of depreciable assets, it is deductible as normal loss in the concerned income year.
- Non depreciable capital assets are categorized as business assets. Any loss from disposal of business assets can be claimed as deduction in the same year as normal loss. But while calculating gain from disposal of business assets in a year, any unrelieved business loss of previous years (due to seven years limit) can be claimed for setoff. The same provision applies for disposal of business liability.

## Withholding Taxes (WHT or TDS)

### 1 Concept

- WHT is deducted only by resident persons.
- The resident natural person is allowed to withhold Tax only for payments in connection with business.
- For the recipient, WHT can be either advance tax or final tax.
  - Advance Tax can be claimed in the year such income is included as income in income tax statement of the person.
  - WHT is final tax if the payment falls within the list of final withholding payment. No further tax is levied in case of final withholding payments and so it is not required to be included in income, and any expenditure incurred for earning the income cannot be claimed.

Final withholding payments basically include:

- a. Payments received by natural persons other than in connection with business such as gains from investment insurance, retirement payments, interest etc.
  - b. Windfall gains
  - c. Payments received by tax exempt organization
  - d. Payments made to non-resident person
  - e. Dividend distributed by resident entity and benefit distributed to a natural person by Mutual Fund
  - f. Meeting allowance, Payment for occasional lecture, payment for setting question paper and checking answer sheets
- Even if the payer fails to withhold tax, it is regarded that WHT has been deducted by the payer (deemed WHT).
  - The Withholding taxes deducted from the recipient and the return of such taxes shall be filed within 25<sup>th</sup> of next month as per Nepalese calendar for every deduction in each month.  
The person choosing to pay tax based on turnover shall deposit tax withheld by it while making payment of tax in installments as per Sec. 95 (1Ka), i.e. by Poush end (Mid January) along with installment amount and by Ashad end (Mid July) along with second installment tax amount.

### 2 Income from Employment

Resident employer should withhold tax while making employment income payment with sources in Nepal to an employer as follows:

Monthly WHT = Annual Tax calculated as per schedule 1 on annual employment income divided by 12.

The WHT is not final tax, but the employee is exempt from submitting returns provided certain conditions are fulfilled, such as only Nepal sourced employment income, one employer at a time etc. and the taxable income of such person does not exceed Rs. 4 Million. If the employee has foreign sourced income or the taxable income of such employee exceeds Rs. 4 Million, tax return is mandatory.

### 3 TDS as per Sec.88

Particulars	Rates
On Interest, Royalty, Service Charge, Commission, Sales Bonus, Natural Resource Payment, Retirement Payment having source in Nepal, except mentioned below	15%

Payment made to resident person on Service Fee invoiced in VAT bill	1.5%
Payment made to Resident Entity on Service Fee which is exempted from VAT	1.5%
On Nepal sourced Interest by Banks and financial institutions and/or listed companies, cooperatives or entities issuing debentures to a natural person, except made in connection with business	5%
On payment made by a resident person for rent having source in Nepal. No TDS is required house rent income of a natural person	10%
On payment made by a resident person for rental service provided by a Vehicle Rental Service Provider registered for VAT purpose and issuing VAT Invoice	1.5%
On payment of gain from Investment Insurance	5%
On payment of gain from retirement fund	5%
On payment of commission by resident employer company to a non resident person	5%
On payment of lease rental of aircraft	10%
On payment of returns to natural person by mutual fund	5%
On payment of lease of satellite, bandwidth, optical fiber, telecommunication equipment or transmission line	10%
On payment of rent related to transport service	2.5%

#### 4 TDS as per Sec.88 Ka

On windfall gains- except national and international level prizes as prescribed by Nepal Government. <i>No windfall gain tax on national and international prizes/awards up to Rs. 500,000 in case of awards achieved in recognition of contribution towards literature, art, culture, sports, journalism, science, technology and public administration.</i>	25%
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#### 5 TDS as per Sec.89

On contract payments exceeding Rs 50,000. Contract refers to agreement entered into for supply of goods or labor or construction/erection/ establishment of tangible assets or structure or any work prescribed as contract by the Inland Revenue Department. <i>The limit of Rs. 50,000 is calculated by adding contract payments of last 10 days to the same person on same contract.</i>	1.5%
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On contract payments made by resident person to non-resident persons:	
- On repair and other contracts of aircrafts	5%
- Premium paid to non-resident insurance company	1.5%
- In other cases, if written notice is issued to the payer resident person	As per rate prescribed in notice
On contract work carried out through consumer committee, the payment of which exceeds Rs. 5,000,000	1.5%

## 6 Advance Tax Collection as per Sec.95 Ka

On gain from disposal of interest held in a resident entity listed in recognized stock exchange	
- received by a resident natural person	7.5%
- received by resident entity	10%
- Others	25%
On gain from disposal of interest held in a resident entity not listed in stock exchange	
- received by a resident natural person	10%
- received by Resident entity	15%
- Others	25%
Capital Gain tax on disposal of land and building classified as Non Business Chargeable Assets, Advance tax to be collected by concerned government office	
- if the land and building is owned for period less than 5 years	5%
- if the if the land and building is owned for period more than 5 years	2.5%
<i>(If the building is owned and resided for a period more than 10yrs., it does not fall in the definition of Non Business Chargeable Assets and so is not taxable.)</i>	
Capital Gain Tax on disposal of Land and building owned by entity	10%
On gain from transaction on commodity future market	10%

## 7 TDS as per Sec. 54

On dividend paid by resident entity and partnership firm	5%
On dividend paid by other entities	No TDS

## 8 Exceptions- WHT not required

- Payments made by natural persons other than conducting business.
- Payment of remuneration to the writer of the articles published in Newspaper & magazines.
- Interregional interchange charges paid to a bank issuing Credit Cards.
- Payment of interest to a resident bank or other resident financial institution
- Payments that are exempt from tax
- Payment of dividend or interest to Mutual Fund

## Tax Returns

### 1 Payment of Advance Tax & Estimated Tax Return

Every person liable to pay installment tax is required to file an estimated tax return within 30<sup>th</sup> Poush 2075 (14<sup>th</sup> January 2019).

Advance tax (in installment) is to be paid by every person having or likely to have assessable income from business or assessable income from investment in an income year. However, in case a person's total estimated tax liability is below Rs. 5,000 advance tax in installments need not be paid.

- Advance Tax**

*Due Dates*

Poush end 2075 (14<sup>th</sup> January 2019)

Chaitra end 2075 (13<sup>th</sup> April 2019)

Ashad end 2076 (Mid July 2019)

*Amount to be deposited (Notes)*

40% of estimated tax liability

70% of estimated tax liability

100% of estimated tax liability

### 2 Payment of Advance Tax by Person opting payment of Turnover Tax u/s 4 (4ka)

The person opting to pay turnover tax u/s 4 (4ka) shall file an estimated tax return within Poush end 2075 (14<sup>th</sup> January 2019).

- Advance Tax**

<i>Due Dates</i>	<i>Amount to be deposited (Notes)</i>
Poush end 2075 (Mid January 2018)	Applicable Tax based on Actual Turnover till Poush 20, 2075
Ashad end 2076 (Mid July 2019)	Applicable tax on estimated figure of turnover, The turnover shall be estimated based on actual turnover till Ashad 20, 2076

### 3 Annual Tax Returns

Annual tax return should generally be filed within 3 months from the end of an income year. So, the due date of filing annual tax returns for the income year 2075/76 (2018/19) is Asoj end 2076 (Mid October, 2019). However, a taxpayer may have this due date extended for a maximum period of 3 months i.e. up to Poush end 2076 (Mid January, 2020) in case he files an application in the IRD with bonafide reasons for such extension. This extension only applies to tax return submission and not for payment of tax.

## Fees and Interest

Particulars	Fees and Interest
For failure to submit estimated income statement	Rs 2,000 for each of such statements.
For delay in filing annual tax return	<p><u>For Small Tax Payers</u> Rs 100 per month</p> <p><u>For Others</u> Fee at the rate of 0.1% on <i>gross assessable income*</i> or Rs 100 per month, whichever is higher.</p>
For failure to keep documents as required by Act	Fee at the rate of 0.1% on <i>gross assessable income*</i> or Rs 1000, whichever is higher.
Failure to submit financial statements within 3 months of Income Year end by Exempt Organization	0.1% p.a. of "Amount disclosed as Revenue" by the organization
For non submission of TDS return as per Sec. 90	2.5% of TDS to be deposited per annum
For non submission of Advance Tax Collection return as per Sec 95Ka	1.5% p.a. of amount on which the advance tax is to be collected
For under estimation of advance tax installments	Interest at 15% per annum on shortfall amount. The difference amount shall be calculated as 100% of installment, had the estimation been correct and the actual amount deposited; only if the deposited amount is lower than 90% of actual tax liability
For failure to pay tax	Interest at 15% per annum for the period of failure to pay tax, considering part of a month as a complete month.

*\*Gross Assessable income of a person for a period means assessable income of the person for the period calculated by including all the items of taxable income and ignoring all allowable expenses, for the period.*

## Tax Assessment, Appeal & Review and Renewal of Tax Exemption Certificate

### 1 Self Assessment

The taxpayer is required to make self assessment of its tax and should file annual return and pay tax within 3 months from the end of an income year. So, the tax should be paid and return should be filed within Asoj end 2076 (Mid October, 2019) for the income year 2075/76 (2018/19). However, a taxpayer may have due date extended for a maximum period of 3 months i.e. up to Poush end 2076 (mid January, 2020 on request to IRD with bonafide reasons for such extension.

### 2 Amended Assessment

The tax return filed as per self assessment by a taxpayer is not final. Tax Authority may revise the assessment within four years from the date of submission of tax return under self assessment. It may revise it as many times as it deems necessary but within the four years period. If tax authority obtains evidence that the tax return of any year is misleading due to fraudulent assessment, it may revise the assessment at any time after the submission of return, but within one year of obtaining the information. If any authorized body restricts tax authority to make additional assessment, the tax authority cannot make amended assessment.

### 3 Appeal & review

When tax authority makes amended assessment, the taxpayer has the right to go for administrative review. The review petition can be filed within 30 days of obtaining notification issued under Sec 102. In case a taxpayer cannot file a review petition within the specified days, the due date may be extended for another 30 days if an application is filed within 7 days of expiry of the due date of first 30 days. A deposit of one-third of disputed tax is required for application.

In case Inland Revenue Department (IRD) does not decide in the review application within 60 days of filing the review petition or decides against the tax payer, the taxpayer may file an application to Revenue Tribunal within 35 days. The application deadline may be extended further by 30 Days. A deposit of 50% of disputed tax is required for application.

### 4 Renewal of Tax Exemption Certificate

Tax Exempt Organizations are required to renew their tax exemption certificate within 3 months of the end of fiscal year, i.e. with Mid October every year, for which an application shall be filed along with the following documents:

- a. Audited Financial Statements
- b. Withholding Tax Return and proof of deposit of Withholding Taxes

Tax Exempt Organizations are also required to submit tax returns in cases when the income is composed of such incomes which are not exempted u/s 10 of the Act or Final Withholding Payments.

After renewal of tax exemption certificate, a new certificate is issued by Tax Officer.

A Tax Exempt Organization cannot enjoy tax exemption benefits unless the certificates are renewed.

An application must be filed within Mid-October for the renewal. In case of failure to do so, tax exemption certificate will not be renewed.

# Value Added Tax- Major Provisions & Changes

## Overview

Value Added Tax is applicable on all goods and services supplied in Nepal, imported into or exported from Nepal, except those listed in Schedule 1 of Value Added Tax Act of Nepal.

General rate of VAT is 13%, whereas export and some specific supplies listed in Schedule 2 of Value Added Tax Act are subject to 0% VAT rate.

## Changes in Value Added Tax Act by Finance Bill, 2075

Affected Persons	Sec	Existing Provision	New Provision
Specific persons specified in this Provision	10 (2)	Where the transaction of goods or services of a person becomes taxable, the person shall make an application in the prescribed format for the purpose of registration in front of tax officer within 30 days of transaction being taxable or operation of transaction	Where the transaction of goods or services of a person becomes taxable or <b>the person conducts following transactions</b> , the person shall make an application in the prescribed format for the purpose of registration in front of tax officer within 30 days of transaction being taxable or operation of transaction: <ol style="list-style-type: none"> <li>a. Operation of business related to brick production, alcohol distributor, wine shop, software, trekking, rafting, ultra light flight, paragliding, tourist vehicle, crusher, sand mine, slate or stone</li> <li>b. Where a person conducts business of hardware, sanitary, furniture, fixture, furnishing, automobiles, motor parts, electronics, marble, educational consultancy, disco theque, health club, massage therapy, beauty parlour, catering service, party palace, parking service, dry cleaners using machinery, restaurant with bar, ice cream industry, color lab, boutique, Tailoring with shirting suiting materials, uniform supplier for educational, health or other entities inside Metropolitan city, sub metropolitan city, municipality or areas prescribed by IRD</li> </ol>
All	14A	New Provision	Electronic Invoicing: <ol style="list-style-type: none"> <li>1. Taxpayer may issue invoice electronically after prior approval of Department</li> <li>2. Notwithstanding anything written in Sub-</li> </ol>

			section (1), Department may publish a notice requiring the person prescribed in the notice to issue invoice electronically and link such electronic means with the Central Bill Monitoring System of Department
Province Government & Local Government	15 (3)	Notwithstanding anything written in sub-section (1) and (2), GoN, or local body or international agencies in Nepal or public enterprises dealing basically in exempted items, while dealing with taxable items shall collect VAT	Notwithstanding anything written in sub-section (1) and (2), GoN, or <b>provincial government or local government</b> or international agencies in Nepal or public enterprises dealing basically in exempted items, while dealing with taxable items shall collect VAT
All Registered persons	29 (1) (g3)	New Provision	Any person developing, installing or operating software or equipment for the purpose to issue invoice electronically, if does not comply with provisions of Sec. 14A, Rs. 5 Lakhs (penalty)
Changes in Schedule 1 of VAT Act			
Group 2			Under HS Code 27.10., "Others" added
Group 4	8701.2 0.00	Tractor in road with semi trailer up to 1800 CC (Road tractor for semi trailers)	Tractor in road with semi trailer up to 18 Kilo watt (Road tractor for semi trailers)
	8701.9 4.00	Track Laying tractor exceeding 75 KWh and not exceeding 75 KWh	Track Laying tractor exceeding 75 KWh and not exceeding 130 KWh
Group 5		Health Services (except that registered for VAT)	Health Services
Group 5		New Provision	Plastic Granules that is used as raw materials to produce saline packing materials imported by industries producing saline usable as medicine on recommendation of Health Department
Group 5		Parts and auxiliary materials falling under head 87.14 imported by industries established with an objective to produce electronic rickshaws for the purpose of	Abolished

		production of such rickshaw	
Group 6		New Provision	d. Transaction of hostel and canteen operated by the educational institutions themselves for their own purpose
Group 11	8703.8 0.10	--Tempo and Rickshaw	-- Tempo
Group 11	(aa) (4)	Financial Services, life insurance services, reinsurance services, agriculture insurance, fruit insurance, bee insurance, livestock insurance, fauna insurance, fish insurance and clearing services	Financial Services, life insurance services, reinsurance services, agriculture insurance, fruit insurance, bee insurance, livestock insurance, fauna insurance, fish insurance and clearing services, money transfer, capital market, stock market, merchant banking business, commodity future market and commodity or stock broker
	(aa) (5)	Deep Cycle acid battery (8507.20.00) usable in Safa tempo on recommendation of Population and Environment Ministry	Parts and auxiliary materials falling under head 87.14 imported by industries established with an objective to produce electronic rickshaws for the purpose of production of such rickshaw
	(aa) (6)	Equipments and installations producing energy related to bio, solar and wind on recommendation of AEPC and Solar Lead DC Battery (8539.50), Solar Heat Energy Equipments (2905.32, 7410.21, 7607.19, 8403.10, 8403.90, 8412.80, 8413.81, 8419.19, 8419.31, 8516.60), solar charge controller (8504.40)	Equipments and installations producing energy related to bio, solar and wind on recommendation of AEPC
Cash subsidy provisions		Abolished	
Community Schools		New Provision	Where a community school imports a vehicle with 30 or more seating capacity to carry students on recommendation of Education, Science and Technology Ministry, VAT applicable to the extent of one such bus

			is exempted. The school cannot sale such bus within 10 years of import
Battery Industry		New Provision	Machinery purchased by industry re-processing battery, in case such machinery is used for same purpose
Plastic Bag Producer		New Provision	Where an industry producing plastic bags replaces plastic bag by producing environment friendly jute, paper or cloth's bag, VAT applicable on purchase of new machinery for the purpose



## About Baker Tilly Nepal

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