

Nepal Tax Fact 2019/20 (2076/77)

*Major Taxation Provisions including
Changes by Finance Bill, 2076
(2019)*

Contents

Disclaimer	3
Budget Highlights	4
Taxes by Finance Bill.....	5
Facilities to Start-ups	8
Major Changes in Income Tax Act, 2058 (2002).....	9
Provisions amending Tax Rates	9
Additional Criteria for deduction of expenses.....	10
Application deadline to claim benefit u/s 47Ka extended.....	11
Retirement Fund of Social Security Fund and Pension Fund is an Approved Retirement Fund (Amendment in Proviso to Sec. 63 (1)).....	11
Update of Taxpayers' Registration Information in Biometric System [Addition of Sec. 78 (4Ka)]	11
Electronic Means or Service of Public Notice as a way for Summon of Notice [Amendment in Sec. 79 (1) and Addition of Sec. 79 (3)]	11
Withholding Tax not applicable in Cash Back Facility of VAT Refund [Amendment to Clause (kha) of Proviso to Sec. 88 (1)]	11
Income Tax provisions for 2019/20.....	14
Introduction to Income Tax Law of Nepal	14
Taxation of Individuals	16
Taxation of Business & Entities.....	20
Withholding Taxes (WHT or TDS)	28
Tax Returns	32
Fees and Interest.....	33
Tax Assessment, Appeal & Review and Renewal of Tax Exemption Certificate	34
Value Added Tax- Major Provisions & Changes	35

Overview35

Registration Requirements.....35

Value Added Tax Returns36

Payment of Value Added Tax.....36

VAT Credit36

VAT Refund37

VAT Invoice37

Update of Taxpayers’ Registration Information in Biometric System [Addition of Sec. 10Ga].....37

Refund of VAT to Consumer (Cash Back to Consumer).....37

About Baker Tilly.....38

Disclaimer

The **Nepal Tax Facts 2019/20** booklet aims at providing a brief overview of the Nepali Taxation system based on Finance Bill 2019 (2076).

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 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

- Quality Improvement in the lifestyle of people of the Country.
- Speedy Economic Development with Social Justice
- Development of Groundwork for Socialist-leaned Economy

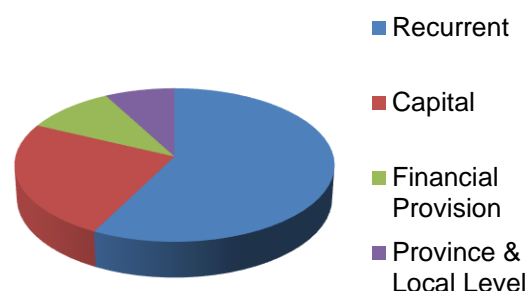
Budget Priorities

- Building people-benefitted state-system along with expansion of social security by promoting down-trodden areas, class and community and end of extreme poverty
- Development of producer powers, reformation of production relations, national capital development in cooperation with private and cooperative sector, employment generation and income increment
- Development of Economic Infrastructure including Social (Quality education, health and drinking water), agriculture, industry and tourism, development and construction of physical infrastructure with national strategic importance, implementation of partially completed projects
- Promotion of Good governance through rule-of-law, effectiveness of public service, accountability and people involvement in development

Key Figures (In Billion):

Total Expenditure:	Rs. 1,663.86
Recurrent:	Rs. 957.10
Capital:	Rs. 408.01
Financial Provision:	Rs. 167.85
Province & Local level:	Rs. 130.89

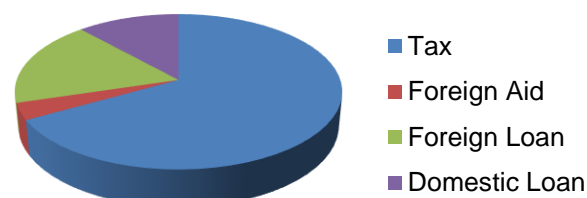
Expenditure Allocation



Sources of Fund:

Tax Revenue:	Rs. 1,112.03
Foreign Aid:	Rs. 57.99
Foreign Loan:	Rs. 298.83
Domestic Loan:	Rs. 195.00

Source



Taxes by Finance Bill

The following taxes are administered in Nepal without enacting separate law, and through the enactment of Finance Act every year.

Tax	Applicable Goods or Services	Tax Rate
Health Risk Tax (HRT)	<ul style="list-style-type: none"> On Import and domestic production of Cigarette, bidi and Cigar On Import or domestic production of chewing tobacco, khaini, Paan Masala, Gutkha 	<ul style="list-style-type: none"> 25 paisa per piece Rs. 25 per kg
<p>Administration: As prescribed by Inland Revenue Department</p> <p>Time of Payment of Tax:</p> <ul style="list-style-type: none"> At customs frontier at the time of import During the issuance of production unit, for domestic production 		
Education Service Tax (EST)	<ul style="list-style-type: none"> Applicable on students pursuing education in foreign country Collectible by Banks and Financial Institutions at the time of providing exchange facilities Applicable on Education Fee Monthly Returns to be filed by B/FIs providing such facility, within 25 days of every Nepali Calendar Month Collected EST to be payable monthly by B/FIs, within 25 days of every Nepali Calendar month 	<ul style="list-style-type: none"> 2% of Education Fee
<p>Administration: As prescribed by Inland Revenue Department</p>		
Infrastructure Development Tax	<ul style="list-style-type: none"> On Aviation Fuel, Petrol and Diesel Levied at Customs Frontier 	<ul style="list-style-type: none"> Rs. 5 per liter

Road Repair and Improvement Tax (RRIT)	<ul style="list-style-type: none"> Levied at Customs Frontier ✓ On petrol ✓ On diesel 	<ul style="list-style-type: none"> ✓ Rs. 4/ltr ✓ Rs. 2/ltr
Pollution Control Tax (PCT)	<ul style="list-style-type: none"> Levied on Petrol and diesel to be distributed in Nepal Collectible by importer Payable monthly within 25 days of end of every Nepali calendar month Administration: as prescribed by IRD 	<ul style="list-style-type: none"> Rs. 1.50 per liter
Telephone Ownership Tax (TOT)	<ul style="list-style-type: none"> Levied to customer installing telephone In case of prepaid phone, at every sim card and recharge card TOT to be payable monthly, within 25 days of end of every Nepali Calendar Month Telecom operator are penalized with interest @ 15% p.a. for any delay on payment of such TOT Administration: as prescribed by Inland Revenue Department 	<ul style="list-style-type: none"> Rs. 500 2% of value
Telephone Service Fee (TSC)	<ul style="list-style-type: none"> Levied to customers of telephone, internet, mobile Collectible by Internet service provider or Telecom service provider Exemption on Interconnection charges payable by telecom service provider TSC to be payable monthly, within 25 days of end of every Nepali Calendar Month Telecom operator are penalized with additional @ 5% p.a. for any delay on payment of such TSC Administration: as prescribed by Inland Revenue Department 	<ul style="list-style-type: none"> 13% of Telephone fee

Facilities to Start-ups

Waiver of Tax, Penalty, Additional Fees, Fees and Interest

- Applicable to Start-ups, established with innovative ideas, skills, entrepreneurship and technology; which are not already in the tax bracket
- Applicable when they obtain Permanent Account Number within 2076 Poush and register for VAT
- Exemption from filing of returns under any law in relation to Fiscal Year until 2074/75 and tax, penalty, additional fees, fees and interest in relation to such tax period is exempt

Careful steps should be taken by following start-ups:

- Start-ups already under litigation
- Start-ups already registered with PAN and is in due compliance with Income Tax law, but has failed to comply with VAT law



Major Changes in Income Tax Act, 2058 (2002)

Provisions amending Tax Rates

1. Tax Exemption and Tax Rate for Cooperatives (Amendment in Sec. 11 (2) and Sec. 2 (3) of Schedule 1)

The income of following cooperatives is exempt from Tax:

- The Agro and forest based cooperatives, established at any place in Nepal, and
- Cooperatives involved in financial transactions operated in Rural Municipality

The tax rates for the cooperatives other than those exempt from tax are as follows:

- Cooperatives involved in financial transaction
 - that operates in Metropolitan City and Sub-metropolitan city: 10%
 - That operates in urban municipality: 5%
- Other transactions of Cooperatives: 20%

2. Relocating the provisions of Applicable Tax Rate of Income of Special Industry from Schedule 1 to Sec. 11 (insertion of new Sec. 11Kha and deletion of Sec. 1 (14) and Sec. 2(3Ka) of Schedule 1)

There shall be exemption on income tax rate for the income generated from the operation of Special (Production, agro-forest or mineral based) Industry throughout the income year as follows:

- Where the special industry is operated by a resident natural person and his income from special industry is subject to 30% tax rate, at the rate one-third
- Where the special industry is operated by an entity, at the rate 20%

This rate should be taken as the applicable tax rate in case of income from operation of special industry, and other concessions under Sec. 11 is also available in addition to this concession.

3. Relocating the provisions of Applicable Tax Rate of Income from Export from Schedule 1 to Sec. 11 (Amendment of Sec. 11Nga, deletion of Sec. 1 (15) of Schedule 1 and amendment of Sec. 2 (3Ka) of Schedule 1)

There shall be exemption on income tax rate for the income generated from export during any income year:

- Where the export income is generated by a resident natural person and his income from export is subject to 30% tax rate, at the rate fifty percent and in case of income subject to 20% tax rate, at the rate 25%
- Where the export income is generated by an entity, at the rate 20%

- In case the income is from export by Manufacturing concern, there shall be additional 25% exemption on the rates derived as above

4. Relocating the provisions of Applicable Tax Rate of Income from operation of Infrastructure facilities from Schedule 1 to Sec. 11 (amendment of Sec. 11Cha and Sec. 2 (3) of Schedule 1)

There shall be exemption on income tax rate for the income generated from following activities of any entity:

- In case of operation of tram or trolley bus: at the rate 20%
- In case of building and operation of rope-way, cable car, railway, tunnel way or overhead bridge; at the rate 20%
- In case of building and operation of airport: at the rate 40%
- In case of building and operation of road, bridge or tunnel way: at the rate 52%
- In case of operation of tram or trolley bus along with own investment: at the rate 52%

5. Relocating the provisions of Applicable Tax Rate of Income of Electricity and Public Infrastructure Projects from Schedule 1 to Sec. 11 (Insertion of new Sec. 11Tha and amendment of Sec. 2 (4) of Schedule 1)

The tax rate for the income generated by any entity from Public Infrastructure projects that are ultimately handed over to Government of Nepal or that by entity involved in construction of power houses and generation and transmission of electricity shall be exempted by 25%.

6. Income deemed to be derived by different persons (Amendment of Sec. 11 (4))

In case of person entitled to various concessions under Sec. 11, the income for each concession is deemed to be derived by different persons.

Additional Criteria for deduction of expenses

- Employee expense is deductible only if the related employee obtains Permanent Account Number (PAN), *this indicates that e-TDS along with disclosure of PAN in such return*
- Business/Investment expense above Rs. 1,000 is deductible only if the person making such expense obtains valid invoice with Permanent Account Number specified in such invoice, *this indicates that a valid PAN or VAT invoice is mandatory for expense claim*

Application deadline to claim benefit u/s 47Ka extended

- Banks and Financial Institutions and Insurance Companies that wishes to merge and claim benefit u/s 47Ka should register the Letter of Intent with Inland Revenue Department by 2077 Ashad end (previously 2076 Ashad end)
- The merger process shall be completed by 2078 Ashad end (previously 2077 Ashad end).

Retirement Fund of Social Security Fund and Pension Fund is an Approved Retirement Fund (Amendment in Proviso to Sec. 63 (1))

Where Citizens Investment Trust established under Citizens Investment Trust Act, 2047, Social security Fund established under Contribution Based Social Security Fund Act, 2074 wishes to operate Retirement Fund such fund, Employees Provident Fund established under Employees Provident Fund Act, 2019 and Pension Fund established under Pension Fund Act, 2075 are approved retirement fund.

Update of Taxpayers' Registration Information in Biometric System [Addition of Sec. 78 (4Ka)]

Persons conducting transactions after obtain Permanent Account Number pursuant to Sub-section (4) shall update the registration information in the biometric system within the prescribed time as prescribed by Inland Revenue Department.

Electronic Means or Service of Public Notice as a way for Summon of Notice [Amendment in Sec. 79 (1) and Addition of Sec. 79 (3)]

- Notices are deemed to be served if these are served via telefax, telex, email or similar other electronic medium
- In case notices cannot be served through usual means, the notices may be served to the concerned persons broadcasting or publishing the concerned order via radio, television or national level newspaper. If such orders are broadcasted or published, notice is deemed to be summoned to the concerned person.

Withholding Tax not applicable in Cash Back Facility of VAT Refund [Amendment to Clause (kha) of Proviso to Sec. 88 (1)]

Where a person is entitled to VAT refund under Sec. 25 (1Kha) of Value Added Tax Act, 2052, such refund of VAT shall not be subject to withholding of Tax.

Tax Threshold increased to relieve from submission of Estimated Tax Return [Amendment in Sec. 94 (2)]

Any person whose sum of total three installments is less than Rs. 7,500 is relieved from submission of estimated tax return.

Rate of Advance Tax Collection on Gain on Disposal of Listed Securities of a Resident Natural person reduced [Amendment in Sec. 95 (2) (Ka)]

The rate is now 5% (previously 7.5%)

Method of Gain Calculation Changed on Disposal of Listed Securities of a Resident Natural person reduced [Addition of Sec. 95 (2Ka)]

The outgoings of the concerned securities shall be computed by using Weighted Average Method.

Base to collect Advance Tax on Disposal of Land and Building by Entities changed [Amendment in Sec. 95 (6)]

The advance tax shall be collected at the rate 1.5% on sales value of such land and building.

Rate of Advance Tax Collection on Gain on Disposal of Listed Securities of a Resident Natural person reduced [Amendment in Sec. 95 (2) (Ka)]

The rate is now 5% (previously 7.5%)

Advance Tax Collection at Import Frontier expanded [Amendment in Sec. 95 (7)]

- 5% advance tax will be collected on import of dry vegetables, garlic and baby corn as well
- 2.5% advance tax will be collected on import of meat, milk products, eggs, honey, millet, fapar, junelo, rice, kanika, maida, aanta, pitho, herbs, sugarcane, and plant products.

Revised Income Return [Addition of Sec. 95 (6)]

Where a person who has submitted income return within the due date requires amendment in such return, such returns may be amended with thirty days of filing return as per the procedures prescribed by IRD.

Deposit for Administrative Review Reduced [Amendment in Sec. 115 (6)]

Inland Revenue Department accepts the administrative review application if the reviewer pays 100% of undisputed tax amount and one-fourth (previously one-third) of disputed tax amount.

Fees for failure to submit Estimated Tax Return Increased and Revised [Amendment in Sec. 117 (1) (Ka)]

The fees for failure to submit estimated tax return shall be higher of following:

- a. Rs 5,000, or
- b. 0.01% of Assessable Income as specified in Income Return

Changes in Tax Rates [Amendment in Schedule 1]

The changes in tax rates are explained in Page 16 of this Tax Fact.

Income Tax provisions for 2019/20

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,
- Taxes levied by Province Government and Local Governments

Capital gains form part of normal business income. Natural persons are also charged on gain on non-business chargeable assets (investment assets).

Tax incentives focus mainly on establishments in special zones, industries such as Information Technology, Hydropower etc, and encouraging investments in agriculture, 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 world-wide 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 it has effective control and management 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 PEs 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 eleven countries: Austria, Bangladesh, 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 32 of this document). The return submitted by the taxpayer may be revised within one month of filing such return, if such returns are filed within due date.

Taxation of Individuals

1. For Resident Taxpayers

Taxable Income Slab	Individual		Taxable Income Slab	Couple*	
	Employment	Proprietorship Firm**		Employment	Proprietorship Firm*
First Rs. 400,000	1%***	-	First Rs.450,000	1%***	-
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. 13,00,000	30%	30%	Next Rs. 12,50,000	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 or if such individual makes 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:

Total Income	5,000,000.00
<i>Less: Contribution to Approved Retirement Fund</i>	<i>(300,000.00)</i>
Taxable Income	4,700,000.00
Tax Liability	
1st Rs. 400,000	4,000.00
Next Rs.100,000	10,000.00
Next Rs. 200,000	40,000.00
Balance Rs. 40,00,000	12,00,000.00
Tax Liability before Additional Tax	12,54,000.00
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
Total Tax Liability	14,16,000.00

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.

This rebate is denied by Inland Revenue Department if the female opts Couple Assessment through a notice in Income Tax Manual, 2066 (Updated 2073).

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. 14,16,000.00, i.e. Rs. 12,74,400.

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. 400,000 for individual and Rs. 450,000 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, 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. 400,000 for individual and Rs. 450,000 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, whichever is lower. Any unutilized expenses can be carried forward to next year. Approved medical expense does not include cost incurred for cosmetic surgery and reimbursement from insurance companies.

- **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%
• 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%
• Cooperative registered as per Cooperative Act, 2074 and Engaged in dealing in Financial Transactions in Municipality Area	5%
• Cooperative registered as per Cooperative Act, 2074 and Engaged in dealing in Financial Transactions in Metro or sub-metro Area	10%
• Trust of deceased or incapacitated person	Rates as natural person

2 Reduced Rates to Special Industries applicable for 2019/20

The applicable rate for Special Industries operated by an entity is 20%

3 Reduced Rates- Concessions for F.Y. 2019/20

Industries	Rates as Percentage of Applicable rate	Effective Tax Rate
Special Industries providing direct employment to 100 or more Nepalese citizens throughout the year	90%	18%
Special Industries providing direct employment to 300 or more Nepalese citizens throughout the year	80%	16%
Special Industries providing direct employment to 500 or more Nepalese citizens throughout the year	75%	15%
Special Industries providing direct employment to 1,000 or more Nepalese citizens throughout the year	70%	14%

Special 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	81%	16.2%
Special 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	72%	14.4%
Special 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	67.5%	13.5%
Special 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	63%	12.6%
Information Technologies Industries providing direct employment to 100 or more Nepalese citizens throughout the year	90%	22.5%
Information Technologies Industries providing direct employment to 300 or more Nepalese citizens throughout the year	80%	20%
Information Technologies Industries providing direct employment to 500 or more Nepalese citizens throughout the year	75%	18.75%
Information Technologies Industries providing direct employment to 1,000 or more Nepalese citizens throughout the year	70%	17.5%
Information Technologies 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	81%	20.25%
Information Technologies 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	72%	18%
Information Technologies 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	67.5%	16.875%
Information Technologies 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	63%	15.75%

Special Industries starting commercial operation in highly undeveloped (remote area) for first ten Income years	10%	2%
Special Industries starting commercial operation in undeveloped area for first ten Income years	20%	4%
Special Industries starting commercial operation in underdeveloped area for first ten Income years	30%	6%
Special Industry starting commercial operation 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)	0% (for first five years of operation) & 10% (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)	0% on incremental profit (for first five years of operation) & 10% 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)	To be calculated by applying rates
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%	7.5% (as WHT mechanism)
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	0% for first 7 yrs & 10% 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%	12.5%
Entity involved in generation, transmission or distribution of hydroelectricity, or energy from solar, bio or wind; 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	0% for first 10 yrs and 12.5% for next 5 yrs

Profit on export income of a Production-based Special industry	75%	15%
Profit on export income of other manufacturing industries	75%	22.5%
In case of dividend of industries in Special Economic Zones	exempt for first five years of operation and 50% concession in next three years	exempt for first five years of operation and 2.5% in next three years
Operation of Tram or Trolley Bus	80%	20%
Operation of ropeway, cable car, railway, tunnel or overhead bridge after building it	80%	20%
Building and Operation of Airport	60%	15%
Operation of road, bridge or tunnel way after building it	48%	12%
Operation of Tram or Trolley Bus after building it	48%	12%
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%	Calculation by applying applicable rates
Industry producing brandy, cider and wine based on fruits and established in remote area (for first ten years of operation)	60%	18%
Royalty income from export of intellectual property	75%	18.75%
Income from sale of intellectual property	50%	12.5%
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	Calculation by applying applicable tax rates
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%	10%

Community Hospitals	80%	20%
Micro enterprises owned by female	0% for first seven years	
Micro enterprises owned by other than female	0% for first five years	
Entities involved in construction of power house, generation and transmission of electricity	80%	20%
Public Infrastructure projects that are ultimately handed over to Government of Nepal	80%	20%

4 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 equipment 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%

5 Presumptive Taxation- Income Tax on Owners of public vehicles

Type of Vehicle	Tax (per vehicle per annum)
Car, Jeep, Van, Microbus	
• 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
Minibus, Mini-truck, Water tanker	6,000
Mini Tripper	7,000
Bus, Truck	8,000
Machinery equipment including dozer, loader, roller, excavator, crane	12,000
Oil Tanker, Gas Bullet, Tripper	12,000
Tractor	2,000
Power Tiller	1,500
Three wheeler, auto rickshaw, tempo	2,000

6 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 7,500
For resident natural persons operating business in Municipality areas	Rs 4,000
For resident natural persons operating business in other areas	Rs 2.500

7 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	Operation Area	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	Metro and Sub-metro	Rs. 7,500+ 0.25% of (Turnover – 20 lakhs)
	Municipality	Rs. 4,000+ 0.25% of (Turnover – 20 lakhs)
	Other than above	Rs. 2,500+ 0.25% of (Turnover – 20 lakhs)
Person dealing in goods not specified above	Metro and Sub-metro	Rs. 7,500+ 0.75% of (Turnover – 20 lakhs)
	Municipality	Rs. 4,000+ 0.75% of (Turnover – 20 lakhs)
	Other than above	Rs. 2,500+ 0.75% of (Turnover – 20 lakhs)
Person dealing in Services*	Metro and Sub-metro	Rs. 7,500+ 2% of (Turnover – 20 lakhs)
	Municipality	Rs. 4,000+ 2% of (Turnover – 20 lakhs)
	Other than above	Rs. 2,500+ 2% of (Turnover – 20 lakhs)

* 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.

8 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.

9 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.

10 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 cannot withhold Tax except that is 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 25th 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 Withholding Tax as per Sec.88

Particulars	Rates
Payment of Interest on deposit, bonds, or debentures by Banks and Financial Institutions and Cooperatives to natural person and not related to business of such recipient	5%
Payment of interest to resident banks and financial institutions and mutual fund	No TDS
Payment in relation Natural Resource	15%
House Rent Payment to a Natural Person <i>House Rent payment to a natural person may require withholding tax as per the tax related laws of concerned Local Level. The user of this document is advised to check Tax related laws of the local level where such property is located in order to ensure whether this payment attract TDS</i>	No TDS
Rent Payment to Entity <i>Rent payment to an Entity may also require withholding tax as per the tax related laws of concerned Local Level. The user of this document is advised to check Tax related laws of the local level where such property is located in order to ensure whether this payment attract TDS. In this case, there is dual payment of withholding tax, one at IRD and the other at Local Level</i>	10%
Payment of Rental of vehicles to Vehicle Service Provider registered in VAT	1.5%
Other rental payments	10%
Lease of Aircraft	10%
Payment of rental for the use of satellite, radio, optical fiber, telecommunication equipments, electricity transmission line	10%
Transport Rent	2.5%
Royalty	15%
Service Fee paid by a Publishing house for articles in newspapers	No TDS
Interregional Interchange Fee paid to a bank issuing credit card	No TDS
Service Fee to a VAT Registered Service Provider	1.5%
Service Fee to a Resident Entity exempt from Value Added Tax	1.5%
Service fee other than described above	15%
Commission by a Resident Manpower Agency to Non-Resident	5%

Commission to a VAT Registered Service Provider	1.5%
Other Commissions	15%
Payment of Sales Bonus	15%
Retirement Payments made by Government of Nepal or from Contributory Funds by Approved Retirement Fund	5% of Gain
Retirement Payments from Contributory Funds made by Unapproved Retirement Fund	5% of Gain
Retirement Payments from Non-contributory Funds	15%
Investment Return paid by Mutual Funds to Natural Person	5%
Investment Return paid by Mutual Funds to Entities	15%
Dividend paid to a Mutual Fund	No TDS
Dividend by Resident Company or Partnership (first distribution)	5%
Dividend by other resident entities	No TDS
Dividend by Resident Partnership or Company (Redistribution of amounts on which dividend tax is already levied)	No TDS
Gain from Investment Insurance	5%

4 TDS as per Sec.88 Ka

<p>On windfall gains- except national and international level prizes as prescribed by Nepal Government.</p> <p><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></p>	25%
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5 TDS as per Sec.89

<p>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.</p> <p><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></p>	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	5%
- received by resident entity	10%
- Others (Non residents)	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 (Non residents)	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 5 years or more	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>	
Advance Tax on disposal of Land and building owned by entity or business asset of natural person	1.5% of Sales Value
On gain from transaction on commodity future market	10%

7 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 30th Poush 2076 (14th January, 2020).

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. 7,500 advance tax in installments need not be paid.

- Advance Tax**

<i>Due Dates</i>	<i>Amount to be deposited (Notes)</i>
Poush end 2076 (14 th January 2020)	40% of estimated tax liability
Chaitra end 2076 (13 th April 2020)	70% of estimated tax liability
Ashad end 2077 (Mid July 2020)	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 2076 (14th January 2020).

- Advance Tax**

<i>Due Dates</i>	<i>Amount to be deposited (Notes)</i>
Poush end 2076 (Mid January 2019)	Applicable Tax based on Actual Turnover till Poush 20, 2076
Ashad end 2077 (Mid July 2020)	Applicable tax on estimated figure of turnover, The turnover shall be estimated based on actual turnover till Ashad 20, 2077

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 2076/77 (2019/20) is Asoj end 2077 (Mid October, 2020). However, a taxpayer may have this due date extended for a maximum period of 3 months i.e. up to Poush end 2077 (Mid January, 2021) 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.

The annual return may be revised within one month of filing return , if returns are filed within due date.

Fees and Interest

Particulars	Fees and Interest
For failure to submit estimated income statement	Higher of following: a. Rs. 5,000 b. 0.01% of Assessable income disclosed in income return
For delay in filing annual tax return	<u>For Small Tax Payers</u> Rs 100 per month <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.
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.
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 2077 (Mid October, 2020) for the income year 2076/77 (2019/20). However, a taxpayer may have due date extended for a maximum period of 3 months i.e. up to Poush end 2077 (mid January, 2021) 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-fourth 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 six months of the end of fiscal year, i.e. with Mid January every year, for which an application shall be filed along with the following documents:

- a. Proof of filing Annual Income Return of immediately preceding Income year
- b. Withholding Tax Return and proof of deposit of Withholding Taxes

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.

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.

Registration Requirements

1. Businesses specified in Schedule 1 of VAT Act

Person doing only the transactions of items listed in Schedule 1 of Value Added Tax Act, 2052 cannot register itself for Value Added Tax.

2. Businesses that cannot be operated in Nepal without VAT Registration

If a person wishes to conduct following transactions in Nepal, VAT registration is compulsory.

- Brick Production
- Alcohol business*
- Wine Business*
- Heath Club service*
- Disco Theque*
- Massage Therapy*
- Motor Parts Business*
- Electronic Software Business*
- Customs Agents*
- Toy Shop*
- Scrap Business*
- Trekking
- Rafting
- Ultra-light flight
- Paragliding
- Tourism Transport
- Crusher
- Sand Mine
- Slate
- Stone Business

****Added from 2076/2/15. If these businesses already in operation are not registered, these should be registered for VAT within 13th Ashad 2076. In case of failure to register until that period, VAT may be assessed by tax officers in any income generated after the period.***

3. Businesses that cannot be operated in Metropolitan, sub-metropolitan, urban municipality and areas prescribed by IRD without VAT Registration

If a person wishes to conduct following transactions in metropolitan city, sub-metropolitan city or urban municipality and any other areas prescribed by IRD, VAT registration is compulsory.

- Hardware
- Sanitary
- Furniture
- Fixture
- Furnishing
- Automobiles
- Motor parts**
- Electronics
- Marble
- Educational Consultancy
- Legal Consultancy*
- Accounting Services*
- Auditing Services*
- Catering
- Party Palace

- Parking
- Drycleaners using Machinery
- Restaurant with bar
- Ice cream Industry
- Color lab
- Boutique
- Tailoring with shirting and suiting materials
- Supplier of Uniform at Educational or Health Institutions

****Added from 2076/2/15. If these businesses already in operation are not registered, these should be registered for VAT within 13th Ashad 2076. In case of failure to register until that period, VAT may be assessed by tax officers in any income generated after the period.***

*****Duplicated provision***

4. Other Business, conditions for Registration

If a person wishes to conduct transactions not listed in Schedule 1, the registration obligation is created in any of the following conditions:

- If the person obtains business loan exceeding Rs. 10 Lakhs
- If the turnover of the person exceeds Rs. 50 lakhs in last twelve months where it is goods business, or Rs. 20 lakhs in last 12 months where it is service business or mixed business of goods and services

The person shall register for VAT within thirty days of happening of the events as above.

Value Added Tax Returns

Every person registered in Value Added Tax must submit VAT return. Usually VAT return is filed every month, within 25 days of end of every Nepali Calendar month.

Tourism service provider or hotelier may submit VAT return every two months, if they applied for a bi-monthly tax period. Publication or broadcasting media either through electronic or other medium and producer of brick may submit VAT return every four months, if they applied for a trimester tax period.

Non-submission of VAT returns triggers penalties and may also trigger VAT assessment by tax authority.

Payment of Value Added Tax

Payable VAT during any month should be paid within 25 days of the end of month. Any amount less than Rs. 10 lakhs may be paid in cash, however, payment exceeding Rs. 10 Lakhs should be made through cheque, draft or other electronic medium.

VAT Credit

Value Added Taxes paid in purchase may be claimed as VAT credit. For this, the output from the purchases should be sold by collecting VAT. Normally, VAT paid on purchases can be claimed as credit in full value where the output is VAT-attractive, however, there is certain limitations of credit claim on following purchases:

- 40% of VAT paid can be claimed on purchase of automobiles for administrative purpose

- There shall be no VAT credit (otherwise than where the main business is supply of the items listed below) on following:
 - Beverages
 - Alcohol, or beverages containing alcohol, e.g. alcohol, beer
 - Petrol, diesel and Light Petroleum Gases
 - Entertainment Expenses
- The VAT paid on purchases used for both taxable and non-taxable output is allowed credit to the extent it is used for taxable output. If such extent is not easily determinable, the credit is allowed in the ratio of taxable sales to total sales.

VAT Refund

If there is excess purchase VAT than the sales VAT during any month and the export sales of the month is more than 40% of total sales, the registered person can apply for the VAT refund along with the filing of VAT return of same month. The amount is determined the tax officer and refunded within 30 days of application, failure of which provide opportunity to taxpayer to obtain interest at the rate 15% p.a. on days delay after such 30 days.

In all other cases, excess Purchase VAT may be claimed for refund after utilizing such excess to set off any payable VAT for next four months.

VAT Invoice

Every registered person must issue VAT invoice. The format of VAT invoice is prescribed by VAT Regulation. Alteration to the format of VAT invoice without written permission from tax officer is not allowed. Retailer may issue Abbreviated VAT invoice with approval from Tax Officer.

Update of Taxpayers' Registration Information in Biometric System [Addition of Sec. 10Ga]

Persons registered pursuant to this Act shall update the registration information in the biometric system within the prescribed time as prescribed by Inland Revenue Department.

Refund of VAT to Consumer (Cash Back to Consumer)

In case a consumer makes payment to vendor through electronic means as per prevailing law, such consumer is entitled to Cash Back Facility at the rate 10% of Value Added Tax paid on such purchases. Such amount is refunded directly in the bank account of consumer as per the procedures prescribed by Inland Revenue Department.

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You can reach us at:

Baker Tilly Nepal Pvt. Ltd.
Patandhoka, Lalitpur-3
Post Box No. 158, Lalitpur DPO- 44700
Nepal

T: +977 (1) 5521195

Email: contact@bakertilly.com.np

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Contact us

Umesh Raj Pandeya
Expert, Taxation

umesh.pandey@bakertilly.com.np

T: +977 1 5521605

www.bakertilly.com.np