

# Nepal Tax Fact F.Y. 2015/16

July 2015



The [Nepal Tax Facts 2015/16](#) booklet aims at providing a brief overview of the Nepalese Taxation system based on Finance Bill 2015 (2072).

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.

# Contents

## Special Budget Proposals

- Tax Proposals- Income Tax & VAT Page 4
- Major Changes in Income Tax & VAT Act Page 6

## Income Tax Provisions for F.Y. 2015/16

- Introduction to Income Tax law in Nepal Page 10
- Taxation of Individuals Page 12
- Taxation of Businesses Page 16
- Withholding Taxes Page 20
- Tax Returns Page 23
- Fees and Interest Page 24
- Tax Assessment, Appeal & Review Page 25

## Excise & Custom Provisions for F.Y. 2015/16

- Excise Duty Page 26
- Custom Duty Page 26

## Baker Tilly Nepal- Introduction

Page 27

# Special Budget Proposals

## A. Tax Proposals- Income Tax & VAT

### 1. Presumptive Tax Payers

1.1 In case the presumptive tax payers received relief as a result of complete collapse of business due to earthquake and are proved by District Natural Disaster Rescue Committee, the income tax applicable on business and applicable house rent for F.Y. 2071/72 shall be exempted.

1.2 For such taxpayers, the applicable license renewal fee for 2072/73 as per Excise Duty shall also be exempted.

### 2. Doctors, Engineers, Artists, Lawyers, Auditors, Traders, Industrialists, Consultants, Commission Agents, others:

In case doctor, engineer, artists, lawyers, auditors, traders, industrialist, consultants, commission agents, or authorities, employees, teachers, professors whether in the job or retired or entities have earned taxable income before F.Y.2069/70 but have not paid tax on that income shall be exempt from Fees, Interest and Taxes of Income Year 2066/67 and earlier; submits tax returns and pays taxes on Income of F.Y. 2067/68, 2068/69, 2069/70, and 2070/71 within Poush end, 2072. In case the above mentioned facility is not utilized, the applicable tax, fees and interest will be collected for all the years in which the return is not submitted or the tax is not paid.

### 3. Special Provision related to Crusher Industry

The crusher industry which did not obtain excise license as a result failure of operation due to any reason or which failed to renew license, in case commences its business within Ashwin end 2072 obtaining excise license; the license fee, delay fee, fines, and interest related to previous years shall be exempted.

### 4. Provision related to refund of VAT of Small Hydropower Projects

- a. The VAT paid by hydroelectricity projects that are eligible to Zero rated VAT, which are constructed and operated by Consumer Group formed without any objective to generate profit based on Community or the projects that failed to entertain Zero rated facility (Including projects that have completed work through contract), as per the procedures prescribed by Inland Revenue Department on recommendation of Alternative Energy Promotion Center in case of projects approved from AEPC and on recommendation of Electricity Development Department in case of other Small Hydropower Projects.
- b. Notwithstanding anything written in VAT Act 2052, the VAT claimed till 2072 Poush end shall be refunded to the Small Hydropower Projects.

### 5. Special Provision related to default tax amount

Out of the outstanding tax amount as per Income Tax Act 2031 and Hotel Tax, Entertainment Tax, Contract Tax and Sales Tax Act repealed by VAT Act 2052, the record of which have been maintained within Ashad End 2060; the tax per record of Rs. 20,000 and the applicable interest on such tax is exempted.

## B. Tax Proposals- Other Taxes

### 1. Health Service Tax

5% of Health Service Tax is levied on Health Services invoices of all entities providing health services, except for those provided by Government of Nepal and Community Hospitals.

### 2. Education Service Fee

Education Service Fee is levied as follows:

2.1. All educational institutions operated by Private sector within Nepal providing education above Higher Secondary Level: 1% on Monthly fee and Admission Fee

2.2. All private sector educational institutions within Kathmandu Valley, sub metropolitan city, municipality, district headquarters and area prescribed by IRD: 1% on Monthly Fee and Admission Fee

*Date of submission of Return and payment of tax:* On quarterly basis within 25<sup>th</sup> of next month immediately succeeding the quarter end (i.e. tax collected from Shrawan to Kartik shall be deposited within 25<sup>th</sup> of Mangsir; from Mangsir to Falgun within 25<sup>th</sup> of Chaitra and from Chaitra to Ashad within 25<sup>th</sup> of Shrawan)

*Interest & Fees due to non submission and non-payment:*

15% p.a. interest, if not deposited on time and Rs. 1,000 fess if return is not submitted on time

2.3. All the educational institutes under public Educational Guthi are not required to collect educational service fee.

2.4. All students who are obtaining exchange facility for educational fees: 1% of Fees at the time of granting such exchange facility

*Date of submission of Return and payment of tax:* On monthly basis within 25<sup>th</sup> of next month

### 3. Road Repair and Improvement Fees

Rs. 4 per liter in petrol and Rs. 2 per liter in Diesel.

### 4. Pollution Control Tax

50 Paisa per liter in petrol and diesel.

### 5. Royalty of Casino

5.1. Royalty of Rs. 30 Million per annum by the license holder which is Rs. 20 Million for games using modern machines and equipments

5.2. The amount shall be paid within 2 months of the beginning of fiscal year

5.3. In case of casinos that are closed registering a letter with Ministry of Culture within Ashwin 2070 pays 25% of applicable annual royalty along with 50% of fees applicable on such royalty and additional fees within Ashoj 2072, remaining royalty, and applicable fees, interest, fines are waived

5.4. In case the casinos that were forced to be closed by Ministry of Culture since Baisakh 2071 pays 75% of applicable annual royalty along with 50% of applicable fees, interest, fines within Poush 2072, remaining royalty, and applicable fees, interest, fines are waived.

### 6. Fees related to Forest Products

6.1. If woods of Sal and Khaer is sold to outsiders by Community Forest: 15% of sales to be deposited to GON's reserve fund.

# Major Changes in Income Tax Act & VAT Act

## A. Change in Income Tax Act

Affected Persons	Section	Existing Provision	New Provision
Resident Natural Persons	4 (4)	In case all the following conditions are satisfied, the tax payable by a resident natural shall be as specified in Section 1 (7) of Schedule 1: a. The person derives income only from business having source in Nepal, b. The person's business turnover shall not exceed Rs. 20 lakhs and profit shall not exceed Rs. 2 Lakhs c. The person shall not claim medical tax credit and advance tax arising out of tax withheld by withholding agents	In case all the following conditions are satisfied, the tax payable by a resident natural shall be specified in Section 1 (7) of Schedule 1: a. The person derives income only from business having source in Nepal, b. The person's business turnover shall not exceed Rs. 20 lakhs and profit shall not exceed Rs. 2 Lakhs c. The person shall not claim medical tax credit and advance tax arising out of tax withheld by withholding agents d. <b>The person shall not be a VAT registered person</b>
Resident natural person	4 (4Ka)	No provisions	In case all the following conditions are satisfied, the tax payable by a resident natural person shall be as specified in page 19: a. The person shall derive income exclusively from business having source in Nepal b. The person shall not claim medical tax credit c. The person shall not claim advance tax arising out of tax withheld by withholding agents d. The turnover of the business shall exceed Rs. 20 Lakhs and it shall be less than Rs. 40 Lakhs e. The person shall not be registered for VAT purpose f. The person shall not be doctor, engineer, lawyer, auditor, sportsperson, artist, consultant and derive income from consultancy or expert service

			provided by a natural person.
Special Industry, Tourism Industry & Agricultural Industry	11 (3) (kha)	No Provision	In case these industry employs 100 or more Nepalese national (only Nepalese national, not the foreign national), the effective tax rate is 70% of applicable tax rate
Special Industry, Tourism Industry & Agricultural Industry located at Special Economic Zone	11 (3Ka)	No provision	In case the industries issues bonus shares by capitalizing its profit for the purpose of capacity enhancement of the industry, dividend tax applicable on it is exempted
Bank & Financial Institutions & Insurance	47Ka (6)	The merging entities shall register their willingness to merge within 2072 Ashad end to avail the facilities u/s 47Ka	The merging entities shall register their willingness to merge within 2073 Ashad end to avail the facilities u/s 47Ka
Bank & Financial Institutions & Insurance	47Ka (7)	The entities registering the willingness u/s 47ka (7) shall complete the merger procedure within Asadh end 2073	The entities registering the willingness u/s 47ka (7) shall complete the merger procedure within Asadh end 2074
All natural persons	Sec. 1 (16) of Sch 1	No Provision	In case a resident natural person makes payment of medical insurance premium to resident insurance company, lower of the annual premium paid or Rs. 20,000 can be deducted from the taxable income while calculating tax liability

## B. Change in VAT Act

Related Provision	Section	Existing Provision	New Provision
Definition of Group Entity or Company	2	Group Entity or Company includes the group of companies or entities in which the following condition prevail: <ol style="list-style-type: none"> <li>a. An individual related in a group entity or representative of a group entity operating a business.</li> <li>b. In case the permanent address of businesses of two or more entities is the same.</li> <li>c. In case one individual or group of individuals directly</li> </ol>	Provision Scrapped

		or indirectly has control over the management of the group entity	
Transaction Threshold for VAT Registration		Rs. 20 Lakhs for person dealing in goods	Rs. 50 Lakhs (the VAT regulation is yet to be updated)
Registration requirement	10	<p>In case the transaction becomes taxable or a person conducts following transactions, such person shall get registered for VAT within 30 days of the transaction being taxable or operation of business:</p> <p>a. Transaction of brick after producing it, or conducts transaction of distributor of alcohol, wine shop, software, trekking, rafting, ultra light flight, paragliding, tourist transportation, crusher, slate or stone industry</p> <p>b. Transaction of hardware, sanitary, furniture, fixture, furnishing, automobiles, motor parts, electronics, marble, educational consultancy, disco theque, health club, catering service, party palace business, parking service, dry cleaners using machinery equipments, restaurant with bar, colour lab, boutique, tailoring with shirting-suiting materials, supplier of uniform in educational/health/ other institutions, ice cream industry in Metro/submetro/ municipality or areas prescribed by IRD</p>	The other provisions for VAT registration are scrapped, and the registration is exclusively based on the transaction threshold of last 12 months
Cancellation of Registration	11	There was provision related to restriction for voluntarily registered person to cancel registration within 1 Year.	The restriction is now waived
Cancellation of Registration	11	No Provision	In case of the existing persons who are registered for VAT purpose, the turnover of whom does not exceed Rs. 5 Million in next 12 months, the tax officer shall order for

			<p>cancellation of registration          Provided that the registered person who is willing to continue as registered for VAT purpose shall make an application with Ashad 2073 to keep the registration intact.</p>
Cancellation of Registration	11	No Provision	<p>The person who is registered for VAT purpose even when the transaction threshold is below Rs. 20 Lakhs voluntarily as on the date of application of the provision, the procedure for cancellation of registration, tax credit on purchase and import and stock shall be as prescribed</p>

# Income Tax provisions for 2015/16

## A. 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.

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 23 of this document).

## B. Taxation of Individuals

### 1. For Resident Taxpayers

Taxable Income Slab	Individual		Taxable Income Slab	Couple*	
	Employment	Proprietorship Firm**		Employment	Proprietorship Firm*
First Rs. 250,000	1%***	-	First Rs.300,000	1%***	0
Next Rs. 100,000	15%	15%	Next Rs. 100,000	15%	15%
Next Rs. 21,50,000	25%	25%	Next Rs. 21,00,000	25%	25%
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.

\*\* 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 16)

\*\*\* The 1% tax on employment should be deposited in separate revenue account in IRD as Social Security Tax.

#### 1.1 Additional tax of 40% for taxable income exceeding Rs.2.5 million

If the natural person has taxable income of Rs. 2.5 million & above, additional tax need to be paid, calculated as 40% of tax liability for income above Rs. 2,500,000.

##### Illustration 1

Mr. Thapa has total income from employment of Rs.3 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>3,000,000.00</b>
<i>Less Contribution to Approved Retirement Fund</i>	<i>(300,000.00)</i>
<b>Taxable Income</b>	<b>2,700,000.00</b>
Tax Liability	
1st Rs. 250,000	2,500.00
Next Rs.100,000	15,000.00
Balance Rs. 23,50,000	587,500.00
<b>Tax Liability before Additional Tax</b>	<b>605,000.00</b>
Additional Tax @ 40% on 25% of 200,000 (Rs. 200,000 is the difference of Rs. 27,00,000 less Rs. 25,00,000)	20,000.00
<b>Total Tax Liability</b>	<b>625,000.00</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, 2068 requires 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. 637,000.00, i.e. Rs. 573,300.00.

## 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. 250,000 for individual and Rs. 300,000 for couples), subject to following:

- In case of land and buildings, if 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 land and building owned and resided for less than 10 years and disposed for more than Rs.30 lakhs.

The tax is collected on source, deducted as withholding tax (WHT). 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 25% tax rate applies
For incomes earned from export business	15% where 25% 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 20,000. Where both husband and wife have opted as couple, the insurance paid can be clubbed to claim for deduction, subject to maximum of Rs. 20,000.

### • 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. 250,000 for individual and Rs. 300,000 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:

- Rs. 20,000; or
- 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%. No any deduction is allowed.

## C. Taxation of Business & Entities

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

• General companies/firms/industries	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%
• 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 dead or incapacitated person	Rates as natural person

### 2 Reduced Rates- Concessions for F.Y. 2015/16

Industries	Rates as Percentage of Applicable rate
• Special Industries and Information Technology Industries providing direct employment to 300 or more Nepalese citizens during a period	90%
• Special Industries providing direct employment to 1200 or more Nepalese citizens during a period	80%
• Special Industries providing direct employment to more than 100 Nepalese citizens during a period; 33% of which are women, incapacitated and dalits	80%
• Special industries providing direct employment to 100 or more Nepalese national during a period, and that provides employment exclusively to Nepalese national only	70%
• Special Industries operating in remote area for first ten years	10%
• Special Industries operating in undeveloped area for first ten years	20%
• Special Industries operating in underdeveloped area for first ten 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% of applicable rate thereafter for next three years
• Existing Special Industries increasing installed capacity by 25% and increasing the capital to Rs. 1 Billion	No tax on incremental profit & 50% of applicable rate for next three

	years thereafter
• Agriculture based industry providing direct employment to 100 or more Nepalese national during the year, and all the employees shall exclusively be the Nepalese national	70%
• Tourism industry providing direct employment to 100 or more Nepalese national during the year, and all the employees shall exclusively be the Nepalese national	70%
• 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% of rate 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 established at Special Economic Zone for Capacity Expansion	Dividend Tax- Nil
• Person transacting on exploration of petroleum and natural gases, if business operation starts within 2075 Chaitra end	0% for 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 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 10 yrs and 50% for next 5 yrs of applicable Rate
• Profit on export income of an industry	25% Rebate on applicable rate
• 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	40% rebate on applicable rate
• 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	10% rebate on applicable rate

processing, cyber café, digital Mapping; if listed in Stock Exchange	
• Industry producing brandy, cider and wine based on fruits and established in remote area (for first ten years of operation)	40% rebate on applicable rate
• Royalty income from export of intellectual property	25% rebate on applicable rate
• Income from sale of intellectual property	50% rebate on applicable rate
• Industry related to Tourism Sector or aviation company for international flights with capital investment of more than Rs. 2 Billion	No tax for first five years and 50% of applicable rate for next three 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
Minibus, Minitruck, Truck and Bus (per vehicle per annum)	Rs. 3,000
Car, Jeep, Van, Micro bus (per vehicle per annum)	Rs. 2,400
Three Wheeler, Auto Rikshaw and Tempo (per vehicle per annum)	Rs. 1,550
Tractor and Power Tiller (per vehicle per annum)	Rs. 1,000

### 5 Income Tax for Small Tax Payers

Resident Natural Persons who derives income only from business having source in Nepal with annual business turnover of 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
For resident natural persons operating business in Metropolitan and Sub-Metropolitan areas (per annum)	Rs 5,000
For resident natural persons operating business in Municipality areas (per annum)	Rs 2,500
For resident natural persons operating business in other areas (per annum)	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 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.

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	0.5% of Turnover
Person dealing in goods not specified above	1.5% 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

- Manufacturing entities may deduct 50% of capital amount for power generating assets 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 business 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 can carry forward their business loss to be set off for next 12 Income years.

Any business loss that is not set-off in seven years can be carried forward infinitely 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 infinitely 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 assets, 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.

## D. Withholding Taxes (WHT or TDS)

### 1 Concept

- WHT is deducted only by resident persons.
- The resident natural person is allowed to deduct WHT 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 part time lecture
- Even if the payer fails to deduct WHT, 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 as per newly introduced Sec. 4 (4Ka) shall deposit tax withheld by it while making payment of tax in installments as per Sec. 95 (1Ka), i.e. by Poush end along with installment amount and by Ashad end along with second installment tax amount.  
The house rent tax for an Income Year shall be deposited at once during the month of Ashad of the particular Income Year (applicable to resident person, not in connection with business)

## 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, Retirement Payment having source in Nepal, except mentioned otherwise	15%
Payment made to resident person on Service Charge invoiced in VAT bill	1.5%
Payment made by Resident person on Service Fee which is exempted from VAT	1.5%
On Nepal sourced Interest by Banks and financial institutions and/or listed companies 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 on vehicle rent paid to owners of public vehicles who pay presumptive tax each year (Introduced from FY 2015/16)	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 (Introduced from F.Y.2013/14)	5%

## 4 TDS as per Sec.88 Ka

On windfall gains- except national and international level prizes as prescribed by Nepal Government. But there shall be no windfall gain tax on national and international prizes/awards up to Rs. 500,000 in case the awards are achieved due to contribution towards literature, art, culture, sports, journalism, science, technology and public administration.	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. The limit of Rs.50,000 is calculated by adding contract payments of last 10 days to the same person on same contract.	1.5%
On contract payments made by resident person to non-resident persons:	
- On repair of aircrafts and other contracts	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

**6 TDS as per Sec.95 Ka**

On gain from disposal of interest held in a resident entity listed in stock exchange	
- received by a resident natural person	5%
- received by others	10%
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 others	15%
Capital Gain tax on disposal of land and building classified as Non Business Chargeable Assets, TDS to be deducted 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 (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.)	2.5%
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.
- Payment of remuneration for preparation of question paper or checking of answer sheet
- Interregional interchange charges paid to a bank issuing Credit Cards.

- Interest or fee paid by Nepal Govt., under an agreement, to Foreign Govt. or an international organization (to which Nepal is a party).
- 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

## E. 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 Poush end 2072 (14<sup>th</sup> January 2016).

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 2072 (Mid January 2016)

Chaitra end 2072 (Mid April 2016)

Ashad end 2073 (Mid July 2016)

*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 2072 (14<sup>th</sup> January 2016).

- **Advance Tax**

*Due Dates*

Poush end 2072 (Mid January 2016)

Ashad end 2073 (Mid July 2016)

*Amount to be deposited (Notes)*

Applicable Tax based on Actual Turnover till Poush 20, 2072

Applicable tax on estimated figure of turnover,

The turnover shall be estimated based on actual turnover till Ashad 20, 2073

### 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 2072/73 (2015/16) is Asoj end 2073 (Mid October, 2016). However, a taxpayer may have this due date extended for a maximum period of 3 months i.e. up to Poush end 2073 (mid January, 2017) 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.

## F. 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 Gross Revenue of the organization
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 be correct and the actual amount deposited; only if the deposited amount is lower than 90% or less of actual tax liability
For non submission of TDS return as per Sec 90	1.5% 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 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.

## G. Tax Assessment, Appeal & Review

### 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 2073 (Mid October, 2016) for the income year 2072/73 (2015/16). However, a taxpayer may have due date extended for a maximum period of 3 months i.e. up to Poush end 2073 (mid January, 2017) 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 33% of disputed tax is required for application.

In case Inland Revenue Department (IRD) does not decide in the review 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.

## Major Provisions of Excise Act & Custom Acts- amended through Finance Bill 2072

### A. Excise Duty:

New Introduction of Excise in Following Products – Major Products:

Products	Excise Rate
Semi processed Khayar Kathha (Kathha Juice) (1404.90.11)	Rs. 10 per Kg
Khayar Kathha	Rs. 115 per Kg
Processed meat, blood (16.02)	5%
Import of Sakhkhar (1701.13.10 & 1701.14.10)	90 per Quintal

There are major changes in the rates of excise duty for different items. We recommend you to go through Finance Bill for the changes in Rate. Along with the change in rate, the government has revised the harmonized codes for different items.

### B. Customs Duty

Please refer the Finance Bill for change in rate of Custom duty.

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