

Nepal Tax Fact 2020/21 (2077/78)

*Major Taxation Provisions including
Changes by Finance Bill, 2077
(2020)*

Contents

Disclaimer	2
Budget Highlights	3
Taxes by Finance Bill.....	4
Special Proposals from Budget.....	7
Provisions amending Income Tax Act, 2058 (2002) for Income Year 2076/77	9
Major Changes in Income Tax Act, 2058 (2002) with effect from 1 Shrawan 2077	11
Income Tax provisions for 2020/21.....	17
Introduction to Income Tax Law of Nepal	17
Taxation of Individuals	19
Taxation of Business & Entities.....	23
Withholding Taxes (WHT or TDS)	32
Tax Returns	37
Fees and Interest.....	38
Tax Assessment, Appeal & Review and Renewal of Tax Exemption Certificate	39
Value Added Tax- Major Provisions & Changes	40
Overview	40
Registration Requirements.....	40
Value Added Tax Returns	41
Payment of Value Added Tax.....	41
VAT Credit	41
VAT Refund.....	41
VAT Invoice	42
Major Changes by Finance Bill, 2077 with effect from 15th Jestha 2077	43
About Baker Tilly.....	45

Disclaimer

The **Nepal Tax Facts 2020/21** booklet aims at providing a brief overview of the Nepali Taxation system based on Finance Bill 2020 (2077).

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

- To make lifestyle comfortable and safe through saving the life of people from disaster and all diseases including infectious diseases
- Continuity in the pace of development by speedy economic recovery through extensive mobilization of available tools, sources, opportunity and capacity
- Increase in public welfare role of state through fulfillment of needs in the form of fundamental rights of people
- Development of ascending, advanced, prosperous, independent, and socialism inclined economy through social, economic and physical infrastructure development

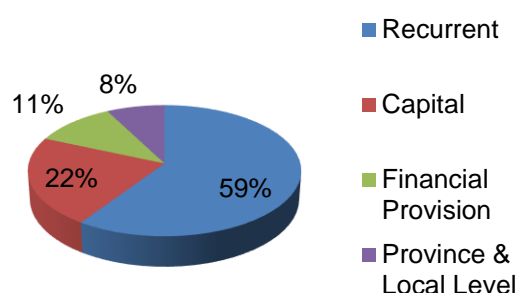
Budget Priorities

- Expansion of health service coverage, development and upgradation of health infrastructure and development of health professionals in order for the safety of people from all types of health risks including CoVID-19 and easy access of quality health facility
- Revival of affected businesses including agriculture, industry, tourism, construction by reestablishing production and supply chain broken as a result of actions taken to prevent and control outbreak of corona infection
- Opportunity of work and employment, food security, safe accommodation, all time social security and patronage to people
- Implementation of projects that gives speedy return of development and are being completed within a year
- Construction and development of social, economic and physical infrastructure including quality education, expansion of information technology,
- Implementation of federalism, accessible and quality public service and strengthened transparent governing system

Key Figures (In Billion):

Total Expenditure:	Rs. 1,596.79
Recurrent:	Rs. 948.94
Capital:	Rs. 352.92
Financial Provision:	Rs. 172.79
Province & Local level:	Rs. 122.14

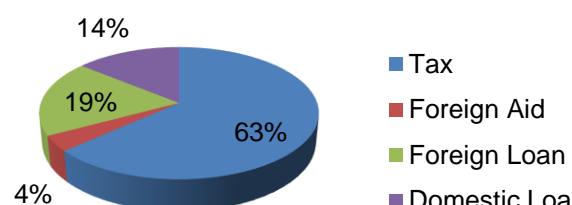
Expenditure Allocation



Sources of Fund:

Tax Revenue:	Rs. 1,011.76
Foreign Aid:	Rs. 60.53
Foreign Loan:	Rs. 299.50
Domestic Loan:	Rs. 225.00

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 bidi On Import and domestic production of Cigarette, and Cigar On Import or domestic production of chewing tobacco, khaini, Paan Masala, Gutkha 	<ul style="list-style-type: none"> 25 paisa per piece 50 paisa per piece Rs. 40 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 Petrol and Diesel Levied at Customs Frontier 	<ul style="list-style-type: none"> Rs. 10 per liter

Road Construction Fees	<ul style="list-style-type: none"> • On import and domestic production of vehicles • To be collected by Customs office on fresh import • To be collected by Transport Registration office on vehicles imported before the implementation of this provision and yet to be registered and domestic production of vehicles 	As per annex 3 of Finance Bill
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 penalize 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 	<ul style="list-style-type: none"> • 13% of Telephone fee

-
- TSC to be payable monthly, within 25 days of end of every Nepali Calendar Month
 - Telecom operator are penalize with additional @ 5% p.a. for any delay on payment of such TSC
 - Administration: as prescribed by Inland Revenue Department

Casino Royalty

- | | |
|--|--|
| <ul style="list-style-type: none"> • Operation of casino by person or entity licensed to operate Casino | <ul style="list-style-type: none"> • Rs. 40 Million per annum |
| <ul style="list-style-type: none"> • If it is played using modern machine or equipments only | <ul style="list-style-type: none"> • Rs. 10 Million per annum |
-

Special Proposals from Budget

Waiver of additional fees and annual additional fees of Casino

There shall be waiver of additional fees and annual additional fees in case of persons or entities licensed to operate casinos pays

- Casino royalty, additional fees and 50% of annual additional fees up to FY 2075/76, and
 - Casino royalty, additional fees annual additional fees in respect of FY 2076/77
- Within 2077 Chaitra end

Persons encouraged to enter into tax net

Those persons who earned income and did not pay taxes in the previous years, if pays taxes applicable on income of FY 2074/75 and 2075/76 after obtaining Permanent Account Number along with submission of Income return for the same years within 2077 Falgun end, the applicable fees and interest shall be waived

Where the return is submitted and tax is paid as above, there shall not be applicability of any taxes, fees, interest in respect of income prior to FY 2074/75 and there shall be waiver in submitting returns in respect of such periods

Proposals to settle backlogs of taxpayers

Natural persons with turnover not exceeding Rs. 50 Lakhs in any Income Years in the past

- Applicable to Natural persons who have already obtained permanent account number and has earned income not more than Rs. 50,00,000 and failed to file income return along with failure to pay income taxes on income
- These natural persons must file income return of Income Year 2073/74, 2074/75 and Income Year 2075/76 within 2077 Falgun end
- The income tax in respect of IY 2073/74, 2074/75 and 2075/75 along with 25% of applicable interest on such income tax shall be paid in addition to filing of return within 2077 Falgun end
- There shall be waiver of additional interest, applicable fees in respect of IY 2073/74, 2074/75 and 2075/76
- There shall be waiver to file income return in respect of prior income years and income tax, fees and interest applicable on such income tax in respect of prior income years shall also be waived

Natural persons and entities with turnover exceeding Rs. 50 Lakhs in any Income Years in the past

- Applicable to Natural persons and entities who have already obtained permanent account number and has earned income more than Rs. 50,00,000 and who have failed to file income return along with payment of applicable taxes
- These persons must file income return of Income Year 2073/74 and prior income years for which they have not filed income return within 2077 Falgun end
- The income tax in respect of IY 2073/74 and prior income years for which taxes are not paid along with 25% of applicable interest on such income tax shall be paid in addition to filing of return within 2077 Falgun end
- There shall be waiver of additional interest, applicable fees in respect of IY 2073/74 and prior income years for which a return is filed and tax has been paid as per this provision

Non filers of Value Added Tax Returns

- Those VAT registered persons who have failed to file Value Added Tax Return until 2075 Ashad end
-

-
- These persons must file VAT return of the period pertaining to VAT period on or before 2075 Ashad end by 2077 Falgun end
 - Value Added Tax liability in respect of such periods along with 50% of applicable fees shall also be paid within 2077 Falgun end
 - Additional interest, fees and additional fees in respect of such period shall be waived
-

Tax Exemption to Drinking Water and Sanitation Consumer Society

Income tax applicable to Drinking Water and Sanitation Consumer Societies registered under Water Resource Act, 2049 shall be waived along with the assessed tax and all applicable fees and interest until the date of application of this provision

Encouragement to settle pending tax cases

- Applicable when a taxpayer withdraws the law suit filed against tax assessment conducted until 2075 Ashad end as per Income Tax Act, 2058, Value Added Tax Act, 2053, and Excise Act, 2058 (assessed otherwise than as a result of fraudulent invoices) that are under review in administrative review process or are finalized by Inland Revenue Department and are under judicial proceeding in Revenue Tribunal or other courts due to the dissatisfaction of taxpayers within 2077 Falgun end
- In addition to withdrawal of cases, the taxpayer shall also make payment of tax principal assessed through the assessment and 50% of applicable interest on such assessed tax principal within 2077 Falgun end
- Fees, penalties, additional fees and additional interest in such tax assessment shall be waived

Baker Tilly's Comment

The applicability of this provision in case of lawsuits pending in Supreme Court, moreover, when the writ petition was filed by revenue administration is not clear, since the taxpayer does not have the option to withdraw case in this circumstance.

Waiver of TDS as per Sec. 88 when amount in approved retirement fund is transferred to Contribution based Social Security Fund

Where a beneficiary of an approved retirement fund transfers the amount deposited in Approved Retirement Fund at Social Security Fund within 2077 Chaitra end, tax applicable u/s 88 of Income Tax Act, 2058 is waived.

Provisions amending Income Tax Act, 2058 (2002) for Income Year 2076/77

Reduction in Taxes payable by a presumptive taxpayer under Sec. 4 (4) of Income Tax Act, 2058

A person opting Sec. 4(4) shall be tax as follows for Income Year 2076/77

Place of business	Amount of Tax
Metropolitan City and Sub-metropolitan city	Rs. 1,875
Urban Municipality	Rs. 1,000
Rural Municipality	Rs. 625

Reduction in Taxes payable by a taxpayer for whom Sec. 4 (4Ka) of Income Tax Act, 2058 is applicable

A person for whom Sec. 4(4Ka) is applicable shall be tax as follows for Income Year 2076/77:

Place of business	Engagement in business of	Amount of Tax
Metropolitan City and Sub-metropolitan city	Cigarette, Gas or other goods with value addition or commission up to 3%	Rs. 3,750+ (Turnover- 20,00,000)*0.125%
	Goods other than above	Rs. 3,750+ (Turnover- 20,00,000)*0.125%
	Services	Rs. 3,750+ (Turnover- 20,00,000)*0.125%
Urban Municipality	Cigarette, Gas or other goods with value addition or commission up to 3%	Rs. 2,000+ (Turnover- 20,00,000)*0.375%
	Goods other than above	Rs. 2,000+ (Turnover- 20,00,000)*0.375%
	Services	Rs. 2,000+ (Turnover- 20,00,000)*0.375%
Rural Municipality	Cigarette, Gas or other goods with value addition or commission up to 3%	Rs. 1,250+ (Turnover- 20,00,000)* 1%
	Goods other than above	Rs. 1,250+ (Turnover- 20,00,000)* 1%
	Services	Rs. 1,250+ (Turnover- 20,00,000)* 1%

Reduction in Taxes payable by a person having turnover up to Rs. 1 Crore

There shall reduction of 25% of applicable taxes

Reduction in Taxes payable by Hotel, Travel, Trekking, transport or Air Transport service

There shall reduction of 20% of applicable taxes

Contribution to Corona Infection Prevention, Control and Treatment Fund established by Nepal Government, Province Government or Local Government

Amount contributed by taxpayers in Corona Infection Prevention, Control and Treatment Fund established by Nepal Government, Province Government or Local Government shall be deductible in computing taxable income of the person

Casual labour payment up to Rs. 3,000 can be made to those labourer who does not have permanent account number

For an expense to be deductible under Income Tax Act, 2058; there was requirement of compulsory permanent account number for payment to labour.

Now, the taxpayer will not be denied deduction of expense when the payment is made up to Rs. 3,000 in respect of casual labour who does not have permanent account number

Purchases of any amount is allowed from the vendors who does not have permanent account number

For an expense to be deductible under Income Tax Act, 2058; there was requirement of compulsory permanent account number for payment exceeding Rs. 1,000

Now, the taxpayer will not be denied deduction of expense without invoice bearing permanent account number in respect of payment for purchase of agricultural, forest related, animal related and any other domestic goods from natural person who is not involved in business transactions.

Purchases up to Rs. 2,000 is allowed from the vendors who does not have permanent account number

For an expense to be deductible under Income Tax Act, 2058; there was requirement of compulsory permanent account number for payment exceeding Rs. 1,000

Now, the taxpayer will not be denied deduction of expense when the payment is made up to Rs. 2,000 without invoice bearing permanent account number

Resident natural person opting couple and making contribution to Contribution Based Social Security Fund

There shall be no 1% tax on employment income derived by a natural person opting couple and making contribution to Contribution Based Social Security Fund.

One-third additional depreciation in respect of Pool A, B, C and D Depreciable asset

The following entities have the option to claim one-third additional depreciation in respect of Pool A, B, C and D:

- It is involved in operation of special industry throughout the Income Year,
 - It is involved in building and operation road, bridge, tunnel, ropeway, railway or overhead bridge, or
 - It is involved in operation trolley bus or tram
-

Major Changes in Income Tax Act, 2058 (2002) with effect from 1 Shrawan 2077

Section	Existing Provision 2076/77	Revised Provision 2077/78
Section 10 (Ta)	No provision	Entities engaged in drinking water and sanitation registered under Water Resources Act, 2049; income derived as per their objectives are exempt from Income Tax.
Section 11(2)	Co-operative societies registered under Cooperative Act, 2074 deriving income from financial transaction are exempt from Income Tax.	Co-operative societies registered under Cooperative Act, 2074 deriving income from financial transaction are exempt from Income Tax.
Section 11(3) (Kha)	Special industries operating in highly undeveloped, undeveloped and underdeveloped area, effective tax rate shall be 10%, 20% and 30% of applicable tax rate for 10 Income Years including the first income year of operation.	Special industries operating in highly undeveloped, undeveloped and less developed area, effective tax rate shall be 10%, 20% and 30% of applicable tax rate for 10 Income Years from the date of commercial production or commencement of business.
Section 11(3) (Ga)	Newly set up special industry having capital investment more than 1 billion, with direct employment for more than 500 individuals throughout the year, there shall be exemption of income tax: (i) First 5 years: 100% (ii) Next 3 years : 50%	Newly set up special industry and tourism industry (except casino business) having capital investment more than 1 billion, with direct employment for more than 500 individuals throughout the year, there shall be exemption of income tax: (i) First 5 years: 100% (ii) Next 3 years : 50%
Proviso to Sec. 11 (3) (Ga)	Provided that in respect of existing industry, if the industry increases capital investment to 1 billion with direct employment to more than 500 individuals throughout the year after increasing capacity by at least 25%, there shall be exemption of income tax:	Provided that in respect of existing industry, if the industry increases capital investment to 2 billion with direct employment to more than 300 individuals throughout the year after increasing capacity by at least 25%, there shall be exemption of income tax: (i) First 5 years: 100% on income from increased capacity

	(i) First 5 years: 100% on income from increased capacity (ii) Next 3 years : 50% on income from increased capacity	(ii) Next 3 years : 50% on income from increased capacity
Section 11 (3Kha)	Where a person involved in transaction in exploration and extraction of minerals, petroleum and natural gases commences its commercial operation within 2080 Chaitra end, the person shall be entitled to 100% exemption on income tax for 7 Income Years from the date of commercial operation and 50% exemption for next 3 years.	Where a person involved in transaction in exploration and extraction of minerals, petroleum and natural gases and fuel commences its commercial operation within 2080 Chaitra end, the person shall be entitled to 100% exemption on income tax for 7 Income Years from the date of commercial operation and 50% exemption for next 3 years.
Section 11(3Ga)	Where a software development, statistical processing, cyber cafe or digital mapping related industry is established in technology park, biotech park and IT park prescribed by GON in Nepal Gazettee, 50% of applicable tax on income of such industry shall be exempted.	Where a software development, statistical processing, cyber cafe or digital mapping related industry is established in zoological park, geological park, biotech park, technology park prescribed by GON in Nepal Gazettee, 50% of applicable tax on income of such industry shall be exempted.
Section 11(3Gha)	A person or entity licensed for commercial production, transmission or distribution of hydroelectricity within 2080 Chaitra end shall be provided 100% exemption on income tax for the first 10 years and 50% exemption for next 5 years.	A person or entity licensed for commercial production, transmission or distribution of hydroelectricity within 2080 Chaitra end shall be provided 100% exemption on income tax for the first 10 years and 50% exemption for next 5 years from the date of commercial production.
Section 11 (3Cha)	Where an entity derives income from following activities tax shall be exempted as follows: -Operation of trolley or tram bus= 20% -Building and operation of ropeway, cable car, railway, tunnel or overhead bridge= 20% -Building and operation of airports= 40% -Building and operation of roads, bridge or tunnel way= 52% -Investment in and operation of tram or trolley bus=52%.	Where an entity derives income from following activities tax shall be exempted as follows: -Operation of trolley or tram bus= 40% -Building and operation of ropeway, cable car, overhead bridge= 40% -Building and operation of roads, bridge, subway , tunnel, railway, airport way = 50% .

Section 11 (3Ja)	Where an industry produces brandy, cider or wine based on fruits in highly undeveloped area, it shall be provided 40% of tax exemption for 10 years from the date of commercial operation.	Where an industry produces brandy, cider or wine based on fruits in highly undeveloped or underdeveloped area, it shall be provided 40% and 25% of tax exemption respectively for 10 years from the date of commercial operation.
Section 11 (3Ta)	Where an industry related to tourism sector or airlines having international flights established with capital investment of more than Rs. 2 billion, an exemption of 100% for 5 years from commencement of business and 50% for subsequent 3 years on the applicable tax rate shall be provided. However, entities currently in operation increases its capital up to 2 billion by enhancing at least 25% of its installed capacity, an exemption of 100% on the income received from such enhanced capacity for first 5 years and 50% of the applicable tax rate in subsequent 3 years shall be provided.	Where an industry related to tourism sector or airlines having international flights established with capital investment of more than Rs. 2 billion, an exemption of 100% for 5 years from commencement of business and 50% for subsequent 3 years on the applicable tax rate shall be provided. However, entities currently in operation increases its capital up to 2 billion by enhancing at least 25% of its installed capacity, an exemption of 100% on the income received from such enhanced capacity for first 5 years and 50% of the applicable tax rate in subsequent 3 years shall be provided.
Section 11 (3ta)	There shall be 100% exemption of income tax on income generated by micro industries for 5 years from the date of commencement of business or transactions, whereas if such industry is owned by woman, there shall be tax exemption for another 2 years .	There shall be 100% exemption of income tax on income generated by micro industries for 7 years from the date of commencement of business or transactions, whereas if such industry is owned by woman, there shall be tax exemption for another 3 years .
Section 11 (3da)	No provision	In respect of special industries operated in industrial areas or industrial village, 25% exemption shall be provided on applicable tax for 5 years from the date of commercial operation.
Section 11(6) (Kha)	Definition as specified in Schedule 10 of Industrial Enterprises Act, 2073	Definition as specified in Schedule 10 of Industrial Enterprises Act, 2076
Section 11(6)	Definition as specified in Section 15 of Industrial Enterprises Act, 2073	Definition as specified in Section 17 of Industrial Enterprises Act, 2076

(Ga) & (Gha)		
Section 21(1) (Gha1)	Salary and wages expenses paid to employee or labor who does not have PAN are not allowed as deduction.	Except for casual wages payment up to Rs. 3,000, Salary and wages expenses paid to employee or labor not having PAN are not allowed as deduction.
Section 21(1) (Gha2)	Payment in respect of expenditure where the invoice does not bear Permanent Account Number of vendor exceeding Rs 1,000 are not allowed as deduction	Payment in respect of expenditure where the invoice does not bear Permanent Account Number of vendor exceeding Rs 2,000 are not allowed as deduction. However, no such limitation is imposed where the payment is made in respect of purchase of agriculture, forest related, livestock related and other household items from natural person who is not involved in business
Sec 47Ka (6)	The entity desirous of disposal through merger pursuant to section 47(1) shall register the memorandum of intent to IRD within 2077 Ashad end.	The entity desirous of disposal through merger pursuant to section 47(1) shall register the memorandum of intent to IRD within 2078 Ashad end.
Sec 47Ka (7)	The entity desirous of disposal through merger pursuant to section 47(1) shall complete the merger and acquisition process within 2078 Ashad end.	The entity desirous of disposal through merger pursuant to section 47(1) shall complete the merger and acquisition process within 2079 Ashad end.
Sec 78Ka	No provision	Suspension of PAN (1) The department may suspend permanent account number in any of the following circumstances : (a) If ceases to involved into transactions, (b) In respect of entity, if the entity is closed, sold or transferred (c) In respect of private firm, if the owner dies (d) Registration in error The procedures related to suspension of permanent account number shall be as prescribed
Section 79 (1) (Kha)	A document to be served on a person under this Act is considered sufficiently	A document to be served on a person under this Act is considered sufficiently served if; handed to

	served if; handed to the person or, in the case of entity, a manager of entity.	the person or his representative or employee , in the case of entity, a manager, or representative or employee prescribed by him.
Section 88 (1) (5) (Ga)	There shall be no withholding tax on the motivation amount received by consumer as per section 25(1Kha) of VAT Act, 2052 as a result of payment of purchase through electronic means.	Repealed
Section 88 (1) (8)	TDS on payment of transportation rent service – 2.5%	In respect of payment for use of transport service or transport rent, 2.5 percent Provided that where the transport service provider or transport rental provider is registered for Value Added Tax purpose, 1.5 percent
Section 88 (1) (9)	No provision	In respect of payment of interest on loans in foreign currency obtained for the purpose of investment in sectors prescribed by Nepal Rastra bank, where the interest is by resident bank and financial institutions to foreign bank, 10 percent
Section 88(1)(10)	No provision	Withholding tax shall not be applicable where a consumer receives reward amounts pursuant to prevailing law as a result of making payment through electronic payment medium including payment card, digital wallet, mobile banking at the time of purchase of goods or services
Section 89 (3) (Ka)	Notwithstanding anything contained in section 89(1), there shall be withholding of tax in respect of payment on repair of aircraft and other contract or agreement by resident person to nonresident person at the rate of 5%.	Notwithstanding anything contained in section 89 (1), there shall be withholding of tax in respect of in respect of payment on repair of aircraft and other contract or agreement by resident person to nonresident person at the rate of 5%.
Section 90 (8)	Where a person does not submit tax return and pay tax pursuant to section 90(1) and 90(2) or where the department is satisfied that circumstances under section 90(5) prevails, the department may order the payment of tax not paid or less paid and interest under section 119.	Where a person does not submit tax return and pay tax pursuant to section 90(1) and 90(2) or where the department is satisfied that circumstances under section 90(5) prevails, the department may order the payment of tax not paid or less paid and interest under section 119 and where the person fails to withhold tax, along with fee under section 120.

Section 95Ka (6Ka)	No provision	Resident Banks and Financial Institutions on providing foreign exchange facility for language test or standardized test fee to students going abroad shall collect advance tax at 15% at the time of providing the facility.
Section 117 (1) (Kha)	Where an agent requiring collection of advance tax fails to file a return pursuant to Section 95Ka (8), the agent shall be liable to pay fee of 1.5% for each month and part of a month during which such failure continues.	Where an agent requiring collection of advance tax fails to file a return pursuant to Section 95Ka (9), the agent shall be liable to pay fee of 1.5% for each month and part of a month during which such failure continues.
Schedule 1, Section 1 (2) (Nga)	Provided that sole proprietorship firm and natural person having income from pension or contributing to contribution based retirement fund are exempt from 1% SST.	Provided that sole proprietorship firm and natural person having income from pension or who makes contribution to contribution based retirement fund or contribution based Social Security Fund are exempt from 1% SST.
Schedule 1, Section 9	Natural person having pension income shall deduct 25% of first slab.	Repealed
Schedule 1 Section 2 (3)	Cooperative societies registered under Cooperative Act, 2074 and not involved in transactions exempted under section 11 (2) shall be levied tax at 20%. However, for cooperative societies involved in financial transactions tax rate is as follows: -Cooperatives operating in municipal areas: 5% -Cooperatives operating in metropolitan and sub-metropolitan areas: 10%	Cooperative societies registered under Cooperative Act, 2074 and not involved in transactions exempted under section 11 (2) shall be levied tax as follows: (a) Cooperatives operating in urban municipal areas: 5% (b) Cooperatives operating in sub-metropolitan areas: 7% (c) Cooperatives operating in metropolitan areas: 10%
Schedule 2 Section 3 (2)	Additional one-third depreciation on depreciation rate applicable to Pool A, B,C and D shall be applicable to entities mentioned in Section 19(2) and entities under Schedule 1 Section 2 (3) and (4).	Additional one-third depreciation on depreciation rate applicable to Pool A, B,C and D shall be applicable to entities mentioned in Section 19(2) and Section 11 (2Kha), (3Cha), (3Tha) and Schedule 1 Section 2 (3) and (4) .

Income Tax provisions for 2020/21

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.

DTAT with Bangladesh is yet to be approved by Parliament of Nepal.

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 37 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 23)

*** 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 or pension 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.

- **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%. Non-resident 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 operating in Municipality Area (not an exempt transaction)	5%
• Cooperative registered as per Cooperative Act, 2074 and operating in sub-metro Area (not an exempt transaction)	7%
• Cooperative registered as per Cooperative Act, 2074 and operating in metro Area (not an exempt transaction)	10%
• Trust of deceased or incapacitated person	Rates as natural person

2 Reduced Rates to Special Industries applicable for 2020/21

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

3 Reduced Rates- Concessions for F.Y. 2020/21

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

Special Industries providing direct employment to 1,000 or more Nepali citizens throughout the year	70%	14%
Special Industries providing direct employment to 100 or more Nepali 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 Nepali 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 Nepali 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 Nepali 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 Nepali citizens throughout the year	90%	22.5%
Information Technologies Industries providing direct employment to 300 or more Nepali citizens throughout the year	80%	20%
Information Technologies Industries providing direct employment to 500 or more Nepali citizens throughout the year	75%	18.75%
Information Technologies Industries providing direct employment to 1,000 or more Nepali citizens throughout the year	70%	17.5%
Information Technologies Industries providing direct employment to 100 or more Nepali 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 Nepali 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 Nepali 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 Nepali 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 years from the date of commencement of business	10%	2%
Special Industries starting commercial operation in undeveloped area for first ten years from the date of commencement of business	20%	4%
Special Industries starting commercial operation in underdeveloped area for first ten years from the date of commencement of business	30%	6%
Special Industry starting commercial operation with capital investment of more than Rs. 1 Billion and employing more than 500 individuals throughout the 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)
Tourism Industry (not a casino) starting commercial operation with capital investment of more than Rs. 1 Billion and employing more than 500 individuals throughout the 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. 2 Billion, with direct employment to more than 300 people throughout the year	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)
Existing Tourism Industries (not a casino) increasing installed capacity by 25% and increasing the capital to Rs. 2 Billion, with direct employment to more than 300 people throughout the year	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 of 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 and fuel, 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 geological, zoological, biotech related 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- concession to be given from the date of commercial operation	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	60%	15%
Building and operation of road, bridge or subway, tunnel, railway or airport	50%	12.5%
Building and operation of ropeway, cable car or overhead bridge,	60%	15%
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%
Industry producing brandy, cider and wine based on fruits and established in underdeveloped area (for first ten years of operation)	75%	22.5%

Royalty income from export of intellectual property	75%	18.75%
Income from sale of intellectual property	50%	12.5%
Industry related to 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	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 ten years	
Micro enterprises owned by other than female	0% for first seven 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%
Special industry is established in industrial area or industrial village	75% for first five years from the date of commercial operation	15% for first five years from the date of commercial operation

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 equipments installed in Nepal. (Unless otherwise agreed by Nepal Government in Article 8 of Double Tax Avoidance Treaty)	5%
	2%

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	
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	Metro and Sub-metro	Rs. 7,500+ 0.25% of (Turnover – 20 lakhs)

commission of which is up to 3%, or sold by adding up to 3% value while selling such goods including gas, cigarette	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, sports persons, 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 Nepali 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 (not a personal expense of a natural person) having source in Nepal when a resident person makes the payment	
a. 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%
b. Payment of interest to resident banks and financial institutions and mutual fund	No TDS
c. Payment of interest on loans in foreign currency obtained for the purpose of investment in sectors prescribed by Nepal Rastra bank, where the interest is by resident bank and financial institutions to foreign bank	10%
d. In all other circumstances	15%
Payment in relation Natural Resource (not a personal expense of a natural person)	15%
Payment of Rent (not a personal expense of a natural person) having source in Nepal when a resident person makes the payment	
a. 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
b. 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%
c. Payment of Rental of vehicles to Vehicle Service Provider registered in VAT	1.5%
d. Lease of Aircraft	10%
e. Payment of rental for the use of satellite, radio, optical fiber, telecommunication equipments, electricity transmission line	10%
f. Transport Rent or rental of transport equipments	2.5%
g. Transport Rent or rental of transport equipments, where there is Value Added Tax Invoice	1.5%
h. Other rental payments	10%
Royalty (not a personal expense of a natural person)	15%

Payment of Service Fee (not a personal expense of a natural person) having source in Nepal by a resident person	
a. Service Fee paid by a Publishing house for articles in newspapers	No TDS
b. Interregional Interchange Fee paid to a bank issuing credit card	No TDS
c. Service Fee to a VAT Registered Service Provider	1.5%
d. Service Fee to a Resident Entity exempt from Value Added Tax	1.5%
e. Service fee other than described above	15%
Payment of Commission (not a personal expense of a natural person) having source in Nepal by a resident person	
a. Commission by a Resident Manpower Agency to Non-Resident	5%
b. b. Commission to a VAT Registered Service Provider	1.5%
c. 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

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

5 TDS as per Sec.89

On contract payments exceeding Rs 50,000. Contract refers to agreement entered into for supply of goods or labor or construction/erection/ establishment of tangible assets or structure or any work prescribed as contract by the Inland Revenue Department. <i>The limit of Rs. 50,000 is calculated by adding contract payments of last 10 days to the same person on same contract.</i>	1.5%
On contract payments made by resident person to non-resident persons: <ul style="list-style-type: none"> - On payment under contract and agreement to non-resident persons - Premium paid to non-resident insurance company - In other cases, if written notice is issued to the payer resident person 	5% 1.5% 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 <ul style="list-style-type: none"> - received by a resident natural person - received by resident entity - Others (Non residents) 	5% 10% 25%
On gain from disposal of interest held in a resident entity not listed in stock exchange <ul style="list-style-type: none"> - received by a resident natural person - received by Resident entity - Others (Non residents) 	10% 15% 25%
On gain on disposal of securities held by Mutual Fund	Exemption of advance tax
Capital Gain tax on disposal of land and building classified as Non Business Chargeable Assets, Advance tax to be collected by concerned government office <ul style="list-style-type: none"> - if the land and building is owned for period less than 5 years - if the if the land and building is owned for period 5 years or more 	5% 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%
Resident BFIs on providing foreign exchange facility for language test or standardized test fee to students going abroad	15% while providing exchange facility

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 (2020/21) 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% p.a. of TDS to be deposited
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 2078 (Mid October, 2021) for the income year 2077/78 (2020/21). However, a taxpayer may have due date extended for a maximum period of 3 months i.e. up to Poush end 2078 (mid January, 2022) 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 wish 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
- Trekking
- Rafting
- Ultra-light flight
- Paragliding
- Tourism Transport
- Crusher
- Sand Mine
- Slate
- Stone Business

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

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

- Hardware
- Sanitary
- Furniture
- Fixture
- Furnishing
- Automobiles
- Electronics
- Marble
- Educational Consultancy
- Accounting Services
- Auditing Services
- Catering
- Party Palace
- Parking
- Drycleaners using Machinery
- Restaurant with bar
- Ice cream Industry
- Color lab
- Boutique
- Supplier of Uniform at Educational or Health Institutions

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, 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 tri-annual tax period.

Non-submission of VAT returns triggers penalties, and also triggers 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.

Major Changes by Finance Bill, 2077 with effect from 15th Jestha 2077

Section	Previous Provision	Amended Provision
10 (2)	<p>Where the goods or services transacted by a person becomes taxable, the person shall file an application in front of tax officer in the format as prescribed within 30 days of transaction being taxable or from the date the following transaction comes into operation for the purpose of registration of such transaction:</p> <p>a. Transaction of bricks after its production, operation of business related to alcohol , wine, health club, disco theque, massage therapy, motor parts, electronic software, customs agent, business of toy, business of scrap, trekking, rafting, ultra-light flight, paragliding, tourist vehicle, crusher, sand mine, slate or stone</p> <p>b. Where a person conducts business of hardware, sanitary, furniture, fixture, furnishing, automobiles, motor parts, electronics, marble, educational and legal consultancy, accounting and auditing services , catering service, party palace, parking service, dry cleaners using machinery, restaurant with bar, ice cream industry, color lab, boutique, Tailoring with shirting suiting materials, supplier of uniform to educational, health or other entities inside Metropolitan city, sub metropolitan city, municipality or areas prescribed by IRD</p>	<p>Where the goods or services transacted by a person becomes taxable, the person shall file an application in front of tax officer in the format as prescribed within 30 days of transaction being taxable or from the date the following transaction comes into operation for the purpose of registration of such transaction:</p> <p>a. Transaction of bricks after its production, operation of business related to alcohol , wine, health club, discotheque, massage therapy, motor parts, electronic software, customs agent, business of toy, business of scrap, trekking, rafting, ultra- light flight, paragliding, tourist vehicle, crusher, sand mine, slate or stone</p> <p>b. Where a person conducts business of hardware, sanitary, furniture, fixture, furnishing, automobiles, motor parts, electronics, marble, educational and legal consultancy, accounting and auditing services , catering service, party palace, parking service, dry cleaners using machinery, restaurant with bar, ice cream industry, color lab, boutique, Tailoring with shirting suiting materials, supplier of uniform to educational, health or other entities inside Metropolitan city, sub metropolitan city, municipality or areas prescribed by IRD</p>
25 (1) (Ka2)	N/A	Tax amount paid on purchase of taxable goods and services in Nepal for the purpose of conducting activities as per its objective by United Nations Organization, its member organization and specialized agencies

25Ga1	N/a	<p>(1) VAT withheld and deposited on behalf of the contractor by government entity (fully or partially owned), public institution, or association for the purchase of goods or services under contract shall be adjusted against the amount payable of the contractor.</p> <p>(2) The amount of VAT so deposited by the government entity as mentioned in Subsection 1, if remains unutilized after offsetting for a continuous period of 4 months, the contractor at his will shall submit an application to the tax officer for refund.</p> <p>(3) If application for VAT refund is received by the tax officer as per Sub section 2, the refund shall be made within 60 days from the date of application.</p> <p>(4) Unadjusted VAT amount as per Subsection 2 shall be further adjusted with the vat of next month once the application for the refund has been made.</p>
25Ga2	n/a	<p>1. VAT paid on purchase of raw materials, auxiliary raw materials and packing materials utilized in production of medicine from domestic industry by medicine industry is refundable in trimester basis by making an application to Tax officer</p> <p>2. The amount determined as refundable shall be refunded by Tax officer within 60 days of application</p>
29 (1) (Ka)	Where a person breaches the order of registration of tax officer under Section 5B or sub-sec (1) or (2) of Section 10 or fails to get registered under Section 10 (1) or Sec. 10B (1), Rs. 10,000 for each tax period	Where a person breaches the order of registration of tax officer under Section 5B or sub-sec (1) or (2) of Section 10 or fails to get registered under Section 10 (1) or Sec. 10B (1), Rs. 40,000 20,000 for each tax period
29 (1Gha)	n/a	Where a person who is required to register conducts transactions without registration, tax officer may levy penalty up to 50% of tax principal to such person
31Ka (7)	In case where the excess of the amount to be furnished pursuant to sub-sec (1) has been furnished prior to making of application, only the remaining amount upon the deduction of the amount covered by that amount may be furnished	In case where the excess of the amount to be furnished pursuant to sub-sec (6) has been furnished prior to making of application, only the remaining amount upon the deduction of the amount covered by that amount may be furnished

About Baker Tilly

Baker Tilly Nepal Pvt. Ltd. trading as Baker Tilly is an independent member firm of Baker Tilly International for Nepal. Established in 2007, Baker Tilly Nepal is a full member (and trademark user) of global top ten accounting networks in Nepal.

Baker Tilly International is the world's 10th largest network of independent firms in the world and 8th largest (by revenue) in Asia Pacific region that provide accounting, assurance, tax and specialist business advice to privately held businesses and public interest entities. The Baker Tilly International talent pool includes 34,713 people in 147 independent member firms across 125 countries.

Baker Tilly International member firms demonstrate a high professional standard, as well as a strong commitment to the network's core values of integrity, leadership, transparency and ethics. Each member firm offers outstanding personal service combined with the expertise, strength and resources of a truly global network to support you as you grow regionally and globally.

For more information, visit www.bakertilly.global.com or <http://www.bakertilly.com.np/aboutus.php>

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

About Baker Tilly

Baker Tilly Nepal Pvt. Ltd. trading as Baker Tilly is a full-service accounting and advisory firm that offers industry specialised services in assurance, tax and advisory.

Established in 2007, Baker Tilly Nepal is a full member (and trademark user) of global top ten accounting networks in Nepal.

The Baker Tilly International talent pool includes 34,713 people in 147 independent member firms across 125 countries.

Baker Tilly Nepal Pvt. Ltd. trading as Baker Tilly is a member of the global network of Baker Tilly International Ltd., the members of which are separate and independent legal entities. © Baker Tilly, 2019



T: +977 1 5521605

www.bakertilly.com.np