

Nepal Tax Fact 2023/24 (2080/81)

*Major Taxation Provisions including
Changes by Finance Bill, 2080
(2023)*

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Disclaimer

The **Nepal Tax Facts 2023/24** booklet aims at providing a brief overview of the Nepali Taxation system based on Finance Bill 2023 (2080).

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

- Achieve wide, sustainable and inclusive economic growth by making the economy dynamic.
- Assure quality social development, security and justice.
- Heighten the confidence of private sector by developing investment friendly environment and alleviate poverty through income and job creation.
- Maintain overall stability of economy.
- Strengthen federal system and maintain good governance.
- Increase the effectiveness of public expenses by improving the budget system.

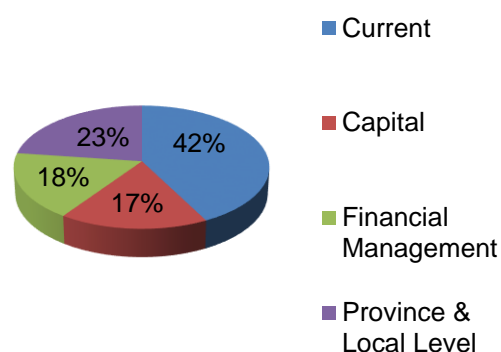
Budget Priorities

- Development of agricultural, energy and tourism sector.
- Investment promotion, industrial development and trade balance.
- Development of social sector and social security
- Construction of quality physical infrastructure
- Promotion of digital and green economy
- Environment conservation, climate change and disaster management
- Human resource development and job creation
- Improvement of financial sector
- Strengthen of federal finance and improvement in service delivery
- Improvement on public financial system.

Key Figures (In Billion):

Total Expenditure:	Rs. 1,751.31
Current:	Rs. 1,141.78
Capital:	Rs. 302.07
Financial Provision:	Rs. 307.45
Province & Local level: (Included in current)	Rs. 400.08

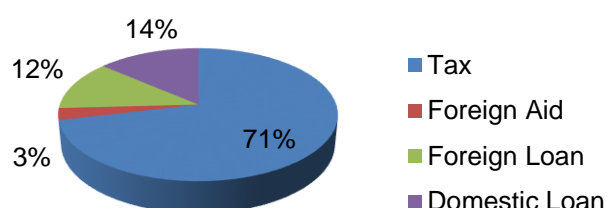
Expenditure Allocation



Sources of Fund:

Tax Revenue:	Rs. 1,248.62
Foreign Aid:	Rs. 49.94
Foreign Loan:	Rs. 212.75
Domestic Loan:	Rs. 240

Source



Taxes by Finance Bill, 2080

The following taxes are administered in Nepal without enacting separate law, and through the enactment of Finance Bill 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"> 30 paisa per piece 60 paisa per piece Rs. 60 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 Fine at the rate of 15% shall be applicable if B/FIs do not deposit EST within the stipulated time Refund of EST to those students who have not been able to pursue the foreign education after exchange of foreign currency from the concerned bank as per the prescribed provision from IRD. 	<ul style="list-style-type: none"> 3% 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 schedule 3 of this 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
Cinema Development Tax	<ul style="list-style-type: none"> • Levied on entry fee on showing foreign movies at Nepali cinema hall. 	As per schedule 4 of this Finance Bill.
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 • Non-compliance on deposition: 15% p.a. interest • Administration: as prescribed by IRD 	<ul style="list-style-type: none"> • Rs. 1.50 per liter
Telephone Ownership Tax (TOT)	<ul style="list-style-type: none"> • Levied to customer installing telephone • In case of prepaid phone, at every sim card and recharge card • TOT to be payable monthly, within 25 days of end of every Nepali Calendar Month • Telecom operator are penalized with interest @ 15% p.a. for any delay on payment of such TOT • Administration: as prescribed by Inland Revenue Department 	<ul style="list-style-type: none"> • Rs. 500 • 2% of value

Telephone Service Fee (TSC)	<ul style="list-style-type: none"> • Levied to customers of telephone, internet, mobile • Collectible by Internet service provider or Telecom service provider • Exemption on Interconnection charges payable by telecom service provider and up to 50% of repair and maintenance of fixed bandwidth service charge • TSC to be payable monthly, within 25 days of end of every Nepali Calendar Month • Telecom operator are penalized with additional @ 5% p.a. for any delay on payment of such TSC • Administration: as prescribed by Inland Revenue Department 	<ul style="list-style-type: none"> • 10% of Telephone fee
Casino Royalty	<ul style="list-style-type: none"> • Operation of casino by person or entity licensed to operate Casino • If it is played using modern machine or equipment only 	<ul style="list-style-type: none"> • Rs. 50 million per annum • Rs. 15 million per annum
Luxury Fee	<ul style="list-style-type: none"> • Levied on: <ol style="list-style-type: none"> 1. Service provided by five star or higher rated hotels and luxury resorts 2. Imported alcohols 3. Ornaments costing more than NPR 1 million made from diamonds, pearls, and stones with gold or valuable elements. • Shall be collected: <ol style="list-style-type: none"> 1. At the time of providing service by five star or higher rated hotels and luxury resorts 2. At the time of import of alcohols 3. At the time of sale of ornaments • The fee and return to be deposited within 25th of next month 	<ul style="list-style-type: none"> • 2% of value

		<ul style="list-style-type: none"> • 15% p.a. interest to be charged in case of non-payment. • 2.5% p.a. fee to be charged in case of non-submission of return. • 25% fee to be charged in case luxury fee is not collected • Administration : as prescribed by Inland Revenue Department 	
Foreign Fee	Tourism	<ul style="list-style-type: none"> • Levied on Nepalese tourist going outside Nepal • To be collected at : <ol style="list-style-type: none"> 1. The time of sale of foreign visit package 2. The time of recognition of expense when a firm or company take related person on foreign visit for business promotion • The fee and return to be deposited within 25th of next month • 15% p.a. interest to be charged in case of non-payment. • 2.5% p.a. fee to be charged in case of non-submission of return. • 25% fee to be charged in case luxury fee is not collected • Administration : as prescribed by Inland Revenue Department 	<ul style="list-style-type: none"> • 5% on payment
Foreign Employment Service Fee		<ul style="list-style-type: none"> • Levied on person going on foreign employment through licensed person on business of foreign employment. • Transaction value: Amount paid to such licensed business person • Amount of such fee to be expensed on benefit of person on foreign employment. • Fee to be deposited within 25th of next month. • 15% p.a. interest to be charged in case of non-payment. • Administration : as prescribed by Inland Revenue Department 	<ul style="list-style-type: none"> • 1% of value

Special Proposals from the Act

Digital Service Tax

Non-resident person providing digital service to customers of Nepal shall be tax at the rate of 2% of turnover. However, tax shall not be levied on annual transactions up to Rs. 20 lakhs. The return and tax shall be submitted as per income year. Fee at the rate of 0.5% on transaction shall be charged for non-filing of return and 15% interest shall be charged for non-payment of tax along. 50% penalty shall be charged in case tax has not been submitted or concealed. Income tax as per the Income Tax Act, 2058 shall not be applicable if tax has been paid as per this provision.

Special provision related to waiver of fees and interest to those who have issued bonus share from share premium from FPO

If an entity which has issued bonus share as distribution up to the income year 2078/79 from the amount derived from shares issued in premium through FPO includes such amount as income as per the section 56 of Income Tax Act, 2058 and pay the tax within Mangsir end 2080 then fees and interest shall be waived.

Special provision related to waiver of fees and interest on tax on bargain purchase gain from merger or acquisition

If an entity pays includes bargain purchase gain form merger or acquisition up to income year 2079/80 as income and pays tax on such amount within Mangsir end 2080 then fees and interest shall be waived.

Special provision related to tax exemption to Media House

Exemption of 25% on tax to resident person having income from business of media house.

Special provision related to exemption to those having business transaction of securities, land and building

Any natural person in regular business from transaction of securities, land and building is exempted from 50% of tax and fees and interest if the person:

- Files income return from 2076/77 to 2078/79 and
- Pays 50% of tax
Within Chaitra end 2080.

Such person shall be exempted from tax, fees and interest of year prior to 2076/77.

Special provision related to waiver to person in business of foreign employment or educational consultancy

Any person in business of foreign employment (manpower) or education consultancy which has not declared real income received from Nepal or abroad, if declares so and pays tax up to Chaitra end 2080 shall be waived form fees and interest.

Special Provision related to exemption of value added tax to eye hospital

Eye hospital (registered or non-registered) having taxable transaction in but not collected and deposited value added tax on transaction from year 2076/77 to Jestha 14, 2080 shall be exempted from tax, additional fee, interest and penalty of it deposits 5% of the mentioned period's transaction value within Ashoj end 2080. Such person shall be exempted from tax of any kind related to year prior to 2076/77.

The same exemption is also available to those eye hospital which has not paid the tax and is under tax assessment, administrative review or under any judicial entity if the hospital withdraws from the lawsuit related to above mentioned period.

Special provision related to exemption of value added tax to transaction of Suji (selomina) flour

The person involved in business of production or sale of suji flour which has not collected and deposited the value added tax on transaction from year 2071/72 to Jestha 14, 2076 shall be exempted from tax, additional fee, interest and penalty of it submits 5% of the mentioned period transaction value within Ashoj end 2080. Such person shall be exempted from tax of any kind related to year prior to 2071/72.

The same exemption is also available to those person involved in same business which has not paid the tax and is under tax assessment, administrative review or under any judicial entity if the person withdraws from the lawsuit related to above mentioned period.

Special provision related to waiver of fees, interest and additional fees to non-resident person

A non-resident person having more than NPR 2 million of annual sales from digital service shall be waived from fees, interest and additional fees if the person obtains PAN and deposits value added tax on transactions tills Jestha end 2080 within Ashad 25, 2080. This waiver shall also be available to those that are already under tax radar.

Special provision for concession of tax to person involved in hire purchase business

The person involved in business of hire purchase which has not collected and deposited the value added tax on transaction from year 2074/75 to 2077/78 shall be exempted from tax, additional fee, interest and penalty of it submits 2% of the mentioned period transaction value within Mangsir end 2080. Such person shall be exempted from tax of any kind related to year prior to 2071/72.

The same exemption is also available to those person involved in same business which has not paid the tax and is under tax assessment, administrative review or under any judicial entity if the person withdraws from the lawsuit related to above mentioned period.

Special provision for concession of tax on donation received by non-governmental organization

The tax, additional fee, interest and penalty on such tax shall be waived if any non-governmental organization registered under Firm Registration Act, 2034 receiving donation from donor agency or international non-governmental organization withdraws from lawsuit related to tax assessment of value added tax on such donation within Mangsir end 2080 under assessment at tax office or administrative review or any judicial entity.

Special provision related to waiver to person in construction business

A registered person involved in construction business who has not submitted both value added tax return and tax amount or submitted value added tax return but not deposited the tax amount related to transactions up to Chaitra end 2079, shall be exempted from 50% of tax, penalty, additional fee and interest if the person pays the remaining tax and 50% of applicable interest within Poush end 2080.

Special provision related to exemption of value added tax to person in transportation service

Person involved in transportation business who was required to get registered under value added tax however, was not registered and has not paid the tax amount then such person shall be exempted from remaining tax, additional fee, interest and penalty if the person pays, within Poush end 2080, 5% of the taxable transaction during the period under which the person was required to get registered. The same exemption is available under the same condition if the person withdraws from any related lawsuit under assessment at tax officer or administrative review or any judicial entity.

Special provision related to exemption to industry based on herbs coming under the radar of value added tax

Person (registered or not) involved in industry based on herbs who has not collected and paid tax on taxable transaction since the year 2071/72 if gets registered and pays 5% tax on transaction from the year 2071/72 to Jestha 14, 2080 within Poush end 2080 shall be exempted from remaining tax, additional fee, interest and penalty. The same exemption is available under the same condition if the person withdraws from any related lawsuit under assessment at tax officer or administrative review or any judicial entity.

Special provision related to exemption from excise duty to industry producing beverage based on milk

Industry (licenced or not) involved in production of beverage based on milk who has not collected and paid excise duty on taxable transaction upto Chaitra end 2079 if gets licensed and submits return and pays excise duty on transaction upto Chaitra end 2079 within Ashoj end 2080 shall be exempted from penalty and late fee. The same exemption is available under the same condition if the person withdraws from any related lawsuit under assessment at tax officer or administrative review or any judicial entity and pays the outstanding duty within Ashoj end 2080.

Amendments in Income Tax Act, 2058 with effect from Shrawan 1, 2080

Section	Existing Provision 2077/78	Revised Provision 2078/79
2 Ka Na 1	"Adjusted taxable income" means the taxable income of any person for any income year calculated without reducing any amount under Section 12 or without any deduction under sub-section (2) of Section 14, Section 17 or 18.	"Adjusted taxable income" means the taxable income of any person for any income year calculated without reducing any amount under Section 12, 12A, 12B and 12C or without any deduction under sub-section (2) of Section 14, Section 17 or 18.
4 (4A)	Notwithstanding anything contained in sub-section (2), the tax to be paid by an individual referred to in clause (a) of Section 3 who has meet the following conditions on the basis of transaction in any income year shall be equal to the amount calculated according to the rate prescribed in sub-section (17) of Section 1 of Schedule- 1 : (a) that person has income only from the source of occupation in Nepal in that income year, (b) the taxable income from business is up to 10 lakhs rupees and annual turnover of the occupation is more than 10 lakh rupees and less than hundred lakh rupees, (c) (d) income not for consultancy and expertise service to be provided by doctor, engineer, chartered accountant, legal professional, sportsperson, actor, consultant like individuals.	Notwithstanding anything contained in sub-section (2), the tax to be paid by an individual referred to in clause (a) of Section 3 who has meet the following conditions on the basis of transaction in any income year shall be equal to the amount calculated according to the rate prescribed in sub-section (17) of Section 1 of Schedule- 1 : (a) that person has income only from the source of occupation in Nepal in that income year, (b) the taxable income from business is up to 10 lakhs rupees and annual turnover of the occupation is more than 10 lakh rupees and less than up to hundred lakh rupees, (c) (d) income not for consultancy and expertise service to be provided by doctor, engineer, chartered accountant, legal professional, sportsperson, actor, consultant like individuals.
10(m)	Amount earned as per its objective on the basis of the Memorandum of Understanding signed with Government of Nepal or any associated entity of Government of Nepal by an educational institution in operation the established with as objective of not for profit or not for profit distribution.	Amount earned as per its objective on the basis of the Memorandum of Understanding signed with Government of Nepal or any associated entity of Government of Nepal by an educational institution in operation the established with as objective of not for profit or not for profit distribution.
11 (1)	No tax shall be levied on an income earned by carrying on an agricultural business by getting one registered as a firm, company, partnership and corporate body and on agricultural income	No tax shall be levied on an income earned by carrying on an agricultural business by getting one registered as a firm, company, partnership and corporate body and on agricultural income

	<p>other than that earned from an agricultural business in the land as referred to in clauses (d) and (e) of Section 12 of the Act Relating to Land, 2021(1964).</p> <p>Provided that hundred percent tax shall be exempted in income derived by a registered private firm, partnership, company or corporate body from agricultural business, vegetable dehydrate business and cold store business.</p>	<p>other than that earned from an agricultural business in the land as referred to in clauses (d) and (e) of Section 12 of the Act Relating to Land, 2021(1964).</p> <p>Provided that hundred fifty percent tax shall be exempted in income derived by a registered private firm, partnership, company or corporate body from agricultural business, vegetable dehydrate business and cold store business.</p>
11 (2B)	<p>Exemption from tax on the income earned by a special industry in full operation throughout the year in any income year shall be as follows:</p> <p>(a) by one-thirds of the tax if tax is levied at the rate of thirty percent on the income of a resident individual,</p> <p>(b) by twenty percent on tax levied on the income of an entity,</p> <p>(c) a person having enjoyed the facility under clause (a) or (b) shall also be entitled to such exemption and facility if the person is eligible to enjoy another tax exemption facility under this Section.</p>	<p>Exemption from tax on the income earned by a special industry in full operation throughout the year in any income year shall be as follows:</p> <p>(a) by one-thirds of the tax if tax is levied at the rate of thirty percent on the income of a resident individual,</p> <p>(b) by twenty percent on tax levied on the income of an entity,</p> <p>(c) a person having enjoyed the facility under clause (a) or (b) shall also be entitled to such exemption and facility if the person is eligible to enjoy another tax exemption facility under this Section.</p>
11 (3D)	<p>The person having commercial transaction of electricity shall be provided with tax exemption as follows:</p> <p>(a) The licensed person or entity commencing commercial production, transmission or distribution of hydropower, electricity produced from solar, wind and biological substance till Chaitra of 2083 shall be provided full income tax exemption for the first ten years and fifty percent exemption for another five years afterwards.</p> <p>Provided that in the case of the hydropower projects of more than 40 MW capacity with reservoir and semi reservoir concluding financial closure till the month of Chaitra of 2085, full tax exemption shall be provide for first fifteen months and fifty percent tax exemption for further six years.</p>	<p>The person having commercial transaction of electricity shall be provided with tax exemption as follows:</p> <p>(a) The licensed person or entity commencing commercial production, transmission or distribution of hydropower, electricity produced from solar, wind and biological substance till Chaitra of 2083 2084 shall be provided full income tax exemption for the first ten years and fifty percent exemption for another five years afterwards.</p> <p>Provided that in the case of the hydropower projects of more than 40 MW capacity with reservoir or semi reservoir concluding financial closure till the month of Chaitra of 2085 and lower belt hydropower project based on such projects, full tax exemption shall be provide for first fifteen months and fifty percent tax exemption for further six years.</p>

11 (3E)	<p>Tax exemption on income earned from export in any income year from a source in Nepal shall be as follows:</p> <p>(a) if tax is chargeable at the rate of twenty percent on an income of an individual resident, twenty-five percent of that tax and if thirty percent is taxable, fifty percent of that tax,</p> <p>(b) twenty percent of tax leviable on the income of an entity,</p> <p>(c) additional fifty percent of the tax on income earned from export of goods produced in Nepal, after deduction of the exemption under clause (a) or (b).</p>	<p>Tax exemption on income earned from export in any income year from a source in Nepal shall be as follows:</p> <p>(a) if tax is chargeable at the rate of twenty percent on an income of an individual resident, twenty-five percent of that tax and if thirty percent is taxable, fifty percent of that tax,</p> <p>(b) twenty percent of tax leviable on the income of an entity,</p> <p>(c) additional fifty percent of the tax on income earned from export of goods produced in Nepal, after deduction of the exemption under clause (a) or (b).</p> <p>(c) fifty percent tax on income earned in foreign exchange if a person earns foreign exchange by exporting service of business process outsourcing, software programming, cloud computing and related service based on information technology.</p>
11 (3M)	<p>If any company having the paid-up capital of five hundred million rupees or more operating as a private company converts into a public company and operate its transaction, it shall have ten percent exemption from the chargeable tax for three years from the date of its conversion into public company.</p>	<p>If any company having the paid-up capital of five hundred million rupees or more operating as a private company converts into a public company and operate its transaction, it shall have ten percent exemption from the chargeable tax for three years from the date of its conversion into public company.</p>
11(5)	<p>A person who is in a position to have more than one exemption in respect of the same income pursuant this Section shall enjoy only one exemption chosen by him.</p>	<p>A person who is in a position to have more than one exemption in respect of the same income pursuant this Section shall enjoy only one exemption chosen by him in addition to the exemption under Sub-section 2B.</p>
22(2)	<p>An individual shall, while computing the income to be earned from his employment and investment, maintain accounts on the cash basis, for purposes of tax.</p>	<p>An individual shall, while computing the income to be earned from his employment and investment, maintain accounts on the cash basis, for purposes of tax.</p> <p>However, in case a natural person receives a lump sum amount as income from employment related to previous after decision under law suit by a court, the amount has to be recognized on accrual basis on related income year.</p>
47A (6)	<p>The entity of same class willing to be amalgamated pursuant to sub- section (1) shall provide the letter of intent for amalgamation to</p>	<p>The entity of same class willing to be amalgamated pursuant to sub- section (1) shall provide the letter of intent for amalgamation to the</p>

	the Inland Revenue Department not later than the end of Ashad 2079.	Inland Revenue Department not later than the end of Ashad 2079.
57 (2) (d)	To make adjustment pursuant to sub-section (4) of Section 24, if it has been calculated for any amount or expenses pursuant to clause (a) of subsection (4) of Section 24 prior to the change in ownership, and correction has been made on that amount or expenses pursuant to sub-section (4) of Section 24 after the change in ownership	To make adjustment pursuant to sub-section (4) of Section 24, if it has been calculated for any amount or expenses pursuant to clause (a) of subsection (4) of Section 24 prior to the change in ownership, and correction has been made on that amount or expenses pursuant to sub-section (4) of Section 24 after the change in ownership
88 (1) Clause 8	Payment for carriage service and vehicle provided as rent for carriage service at the rate of two and half percent.	Payment for carriage service and vehicle provided as rent for carriage service at the rate of two and half percent. Provided that at the rate of one and half percent will be charged in case of carriage service provider and vehicle rent for carriage service provider who are registered in value add tax.
88 (1) Clause 9A	No Provision	Payment of interest on foreign exchange loan to foreign bank or other foreign financial institution by hydropower projects of more than 200 MW capacity with reservoir or semi reservoir concluding financial closure till the month of Chaitra of 2082 at the rate of five percent.
88(3)	Notwithstanding anything contained in sub-section (1), in making payment to any individual of interest or of an amount in the form of interest as follows, in consideration for deposits, bonds, debentures an government bonds, a resident bank, financial institution, cooperative organization or any other body issuing bonds or company enlisted under the prevailing law shall withhold tax at the rate of five percent of the total amount of payment: (a) Which has source in Nepal, and (b) Which is not related with the operation of business.	Notwithstanding anything contained in sub-section (1), in making payment to any individual of interest or of an amount in the form of interest as follows, in consideration for deposits, bonds, debentures an government bonds, a resident bank, financial institution, cooperative organization or any other body issuing bonds or company enlisted under the prevailing law shall withhold tax at the rate of five six percent of the total amount of payment: (a) Which has source in Nepal, and (b) Which is not related with the operation of business.
88 (4) (B2)	Payment of interest on foreign exchange loan to foreign bank or other foreign financial institution by hydropower projects of more than 200 MW capacity with reservoir or semi reservoir concluding financial closure till the month of Chaitra of 2082.	Payment of interest on foreign exchange loan to foreign bank or other foreign financial institution by hydropower projects of more than 200 MW capacity with reservoir or semi reservoir concluding financial closure till the month of Chaitra of 2082.

89 (3)	Provided that this section shall not be attracted on purchase of weapons, bullets and communication equipment by Nepal Army, Nepal Police and Armed Police Force for their own purpose.	Provided that this section shall not be attracted on purchase of weapons, bullets and communication equipment by Nepal Army, Nepal Police and Armed Police Force for their own purpose.
95A (6B)	The bank or financial institution or money transfer shall deduct tax at the rate of one percent at the time of receipt of sales income in foreign currency by a resident natural person not involved in business providing software or electronic services of similar nature outside Nepal.	The bank or financial institution or money transfer shall deduct tax at the rate of one five percent at the time of receipt of sales income in foreign currency by a person not involved in business providing software or electronic services of similar nature outside Nepal.
95A (6C)	The bank or financial institution or money transfer shall deduct tax at the rate of one percent at the time of receipt of sales income in foreign currency by a resident natural person not involved in business providing consultancy service outside Nepal in personal capacity.	The bank or financial institution or money transfer shall deduct tax at the rate of one five percent at the time of receipt of sales income in foreign currency by a resident natural person not involved in business providing consultancy service outside Nepal in personal capacity.
95A (6D)	The bank or financial institution or money transfer shall deduct tax at the rate of one percent at the time of receipt of sales income in foreign currency by a resident natural person not involved in business by uploading audio-visual material in social network.	The bank or financial institution or money transfer shall deduct tax at the rate of one five percent at the time of receipt of sales income in foreign currency by a resident natural person not involved in business by uploading audio-visual material in social network.
95A (6E)	No Provision	The resident e-commerce operator shall deduct tax at the rate of one percent on income from sale of goods, service or both earned by the person involved in sales of good, service or both through the operator's platform.
95A (7)	No Provision	Provided that tax at the rate of 1.5% shall be deducted on import of value added tax attractive goods.
97 (5)	The format of income return to be submitted pursuant to subsection (2) shall be as prescribed by Inland Revenue Department.	The format of income return to be submitted pursuant to subsection (2) shall be as prescribed by Inland Revenue Department.
Schedule-1 Section-1 (1)	Tax shall be levied by the following rate on the taxable income of any resident individual in any income year, subject to sub-sections (2) and (4) of this Schedule:	Tax shall be levied by the following rate on the taxable income of any resident individual in any income year, subject to sub-sections (2) and (4) of this Schedule:

	<p>(a) Where the taxable income from employment is up to five hundred thousand rupees, one percent,</p> <p>(b) Where the taxable income is more than five hundred thousand rupees but less than seven hundred thousand rupees, five thousand rupees up to five hundred thousand rupees pursuant to clause (a), and ten percent on the taxable income of more than five hundred thousand rupees,</p> <p>(c) Where the taxable income is more than seven hundred thousand rupees but less than ten hundred thousand rupees, twenty-five thousand rupees up to seven hundred thousand rupees pursuant to clause (b), and twenty percent on the taxable income of more than seven hundred thousand rupees,</p> <p>(d) Where the taxable income is more than ten hundred thousand rupees but less than twenty lakh rupees, eighty-five thousand rupees up to ten hundred thousand rupees pursuant to clause (c), and thirty percent on the taxable income of more than ten hundred thousand rupees,</p> <p>(e) Where the taxable income is more than twenty lakh rupees, additional twenty percent tax to the rate of tax under clause (d), to the extent of the taxable income that so exceeds.</p> <p>Provided that the tax referred to in clause (a) shall not be levied on the income earned by way of pension, in the case of a taxpayer registered as a sole trading firm, and on the income of an individual making contribution to a pension fund or contributory social security fund.</p>	<p>(a) Where the taxable income from employment is up to five hundred thousand rupees, one percent, Provided that the tax referred to in this clause shall not be levied on the income earned by way of pension, in the case of a taxpayer registered as a sole trading firm, and on the income of an individual making contribution to a pension fund or contributory social security fund.</p> <p>(b) Where the taxable income is more than five hundred thousand rupees but less than seven hundred thousand rupees, five thousand rupees up to five hundred thousand rupees pursuant to clause (a), and ten percent on the taxable income of more than five hundred thousand rupees,</p> <p>(c) Where the taxable income is more than seven hundred thousand rupees but less than ten hundred thousand rupees, twenty-five thousand rupees up to seven hundred thousand rupees pursuant to clause (b), and twenty percent on the taxable income of more than seven hundred thousand rupees,</p> <p>(d) Where the taxable income is more than ten hundred thousand rupees but less than twenty lakh rupees, eighty-five thousand rupees up to ten hundred thousand rupees pursuant to clause (c), and thirty percent on the taxable income of more than ten hundred thousand rupees,</p> <p>(e) Where the taxable income is more than twenty lakh rupees and up to fifty lakh rupees, additional twenty percent tax to the rate of tax under clause (d), and where the taxable income is more than fifty lakhs rupees, additional thirty percent tax to the rate of tax under clause (d) to the extent of the taxable income that so exceeds.</p>
Schedule-1 Section-1 (2)	<p>Tax shall be levied by the following rate on the taxable income of any couple making a choice pursuant to Section 50 in any income year, subject to sub-section (4) of this Schedule:</p> <p>(a) Where the taxable income from employment is up to six hundred thousand rupees, one percent,</p> <p>(b) Where the taxable income is more than six hundred thousand rupees but less than eight hundred thousand rupees, six thousand rupees</p>	<p>Tax shall be levied by the following rate on the taxable income of any couple making a choice pursuant to Section 50 in any income year, subject to sub-section (4) of this Schedule:</p> <p>(a) Where the taxable income from employment is up to six hundred thousand rupees, one percent, Provided that the tax referred to in this clause shall not be levied on the income earned by way of pension, in the case of a taxpayer registered as a sole trading firm, and on the income of an</p>

	<p>up to six hundred thousand rupees pursuant to clause (a), and ten percent on the taxable income of more than six hundred thousand rupees,</p> <p>(c) Where the taxable income is more than eight hundred thousand rupees but less than eleven hundred thousand rupees, twenty-six thousand rupees up to eight hundred thousand rupees pursuant to clause (b), and twenty percent on the taxable income of more than eight hundred thousand rupees,</p> <p>(d) Where the taxable income is more than eleven hundred thousand rupees but less than twenty lakh rupees, eighty-six thousand rupees up to eleven hundred thousand rupees pursuant to clause (c), and thirty percent on the taxable income of more than eleven hundred thousand rupees,</p> <p>(e) Where the taxable income is more than twenty lakh rupees, additional twenty percent tax to the rate of tax under clause (d), to the extent of the taxable income that so exceeds.</p> <p>Provided that the tax referred to in clause (a) shall not be levied on the income earned by way of pension, in the case of a taxpayer registered as a sole trading firm, and on the income of an individual making contribution to a pension fund or contributory social security fund.</p>	<p>individual making contribution to a pension fund or contributory social security fund.</p> <p>(b) Where the taxable income is more than six hundred thousand rupees but less than eight hundred thousand rupees, six thousand rupees up to six hundred thousand rupees pursuant to clause (a), and ten percent on the taxable income of more than six hundred thousand rupees,</p> <p>(c) Where the taxable income is more than eight hundred thousand rupees but less than eleven hundred thousand rupees, twenty-six thousand rupees up to eight hundred thousand rupees pursuant to clause (b), and twenty percent on the taxable income of more than eight hundred thousand rupees,</p> <p>(d) Where the taxable income is more than eleven hundred thousand rupees but less than twenty lakh rupees, eighty-six thousand rupees up to eleven hundred thousand rupees pursuant to clause (c), and thirty percent on the taxable income of more than eleven hundred thousand rupees,</p> <p>(e) Where the taxable income is more than twenty lakh rupees and up to fifty lakh rupees, additional twenty percent tax to the rate of tax under clause (d), and where the taxable income is more than fifty lakhs rupees, additional thirty percent tax to the rate of tax under clause (d) to the extent of the taxable income that so exceeds.</p>
<p>Schedule-1 Section-1 (4A)</p>	<p>Notwithstanding anything mentioned in this section, rate of income tax applicable to income pursuant to subsection 6(B), 6(D) and 6(E) of section 95A of resident natural person not involved in business operation shall be one percent..</p>	<p>Notwithstanding anything mentioned in this section, rate of income tax applicable to income pursuant to subsection 6(B), 6(D) and 6(E) of section 95A of resident natural person not involved in business operation shall be one five percent.</p>

Schedule-1 Section-1 (13)	Notwithstanding anything contained elsewhere in this Section, the following annual tax shall be recovered from the owner of a rented motor vehicle at the time of registration and renewal of the vehicle through the Department of Transport Management:																																																													
	<table border="1"> <thead> <tr> <th data-bbox="316 555 853 651">Type of Vehicle</th> <th data-bbox="853 555 1107 651">Tax Old Provision (per vehicle per annum)</th> <th data-bbox="1107 555 1498 651">Tax New Provision (per vehicle per annum)</th> </tr> </thead> <tbody> <tr> <td data-bbox="316 651 853 689">Car, Jeep, Van, Microbus</td> <td data-bbox="853 651 1107 689"></td> <td data-bbox="1107 651 1498 689"></td> </tr> <tr> <td data-bbox="316 689 853 728">• Up to 1300 CC</td> <td data-bbox="853 689 1107 728">4,000.00</td> <td data-bbox="1107 689 1498 728">5,500.00</td> </tr> <tr> <td data-bbox="316 728 853 766">• 1301 CC- 2000 CC</td> <td data-bbox="853 728 1107 766">4,500.00</td> <td data-bbox="1107 728 1498 766">6,000.00</td> </tr> <tr> <td data-bbox="316 766 853 804">• 2001 CC- 2900 CC</td> <td data-bbox="853 766 1107 804">5,000.00</td> <td data-bbox="1107 766 1498 804">6,500.00</td> </tr> <tr> <td data-bbox="316 804 853 842">• 2901 CC- 4,000 CC</td> <td data-bbox="853 804 1107 842">6,000.00</td> <td data-bbox="1107 804 1498 842">8,000.00</td> </tr> <tr> <td data-bbox="316 842 853 880">• >4,000 CC</td> <td data-bbox="853 842 1107 880">7,000.00</td> <td data-bbox="1107 842 1498 880">9,000.00</td> </tr> <tr> <td data-bbox="316 880 853 918">Minibus, Mini-truck, Water tanker</td> <td data-bbox="853 880 1107 918">6,000.00</td> <td data-bbox="1107 880 1498 918">8,000.00</td> </tr> <tr> <td data-bbox="316 918 853 956">Mini Tripper</td> <td data-bbox="853 918 1107 956">7,000.00</td> <td data-bbox="1107 918 1498 956">9,000.00</td> </tr> <tr> <td data-bbox="316 956 853 994">Bus, Truck</td> <td data-bbox="853 956 1107 994">8,000.00</td> <td data-bbox="1107 956 1498 994">10,500.00</td> </tr> <tr> <td data-bbox="316 994 853 1077">Machinery equipment including dozer, loader, roller, excavator, crane</td> <td data-bbox="853 994 1107 1077">12,000.00</td> <td data-bbox="1107 994 1498 1077">15,500.00</td> </tr> <tr> <td data-bbox="316 1077 853 1115">Oil Tanker, Gas Bullet, Tripper</td> <td data-bbox="853 1077 1107 1115">12,000.00</td> <td data-bbox="1107 1077 1498 1115">15,500.00</td> </tr> <tr> <td data-bbox="316 1115 853 1153">Tractor</td> <td data-bbox="853 1115 1107 1153">2,000.00</td> <td data-bbox="1107 1115 1498 1153">2,500.00</td> </tr> <tr> <td data-bbox="316 1153 853 1191">Power Tiller</td> <td data-bbox="853 1153 1107 1191">1,500.00</td> <td data-bbox="1107 1153 1498 1191">2,000.00</td> </tr> <tr> <td data-bbox="316 1191 853 1229">Three wheeler, auto rickshaw, tempo</td> <td data-bbox="853 1191 1107 1229">2,000.00</td> <td data-bbox="1107 1191 1498 1229">2,500.00</td> </tr> <tr> <td data-bbox="316 1229 853 1267">Electric vehicle</td> <td data-bbox="853 1229 1107 1267"></td> <td data-bbox="1107 1229 1498 1267"></td> </tr> <tr> <td data-bbox="316 1267 853 1305">a. Up to 50 KW</td> <td data-bbox="853 1267 1107 1305"></td> <td data-bbox="1107 1267 1498 1305">3,000.00</td> </tr> <tr> <td data-bbox="316 1305 853 1344">b. 50 KW to 125 KW</td> <td data-bbox="853 1305 1107 1344"></td> <td data-bbox="1107 1305 1498 1344">4,000.00</td> </tr> <tr> <td data-bbox="316 1344 853 1382">c. 125 KW to 200 KW</td> <td data-bbox="853 1344 1107 1382"></td> <td data-bbox="1107 1344 1498 1382">6,000.00</td> </tr> <tr> <td data-bbox="316 1382 853 1435">d. All above 200 KW</td> <td data-bbox="853 1382 1107 1435"></td> <td data-bbox="1107 1382 1498 1435">7,500.00</td> </tr> </tbody> </table>		Type of Vehicle	Tax Old Provision (per vehicle per annum)	Tax New Provision (per vehicle per annum)	Car, Jeep, Van, Microbus			• Up to 1300 CC	4,000.00	5,500.00	• 1301 CC- 2000 CC	4,500.00	6,000.00	• 2001 CC- 2900 CC	5,000.00	6,500.00	• 2901 CC- 4,000 CC	6,000.00	8,000.00	• >4,000 CC	7,000.00	9,000.00	Minibus, Mini-truck, Water tanker	6,000.00	8,000.00	Mini Tripper	7,000.00	9,000.00	Bus, Truck	8,000.00	10,500.00	Machinery equipment including dozer, loader, roller, excavator, crane	12,000.00	15,500.00	Oil Tanker, Gas Bullet, Tripper	12,000.00	15,500.00	Tractor	2,000.00	2,500.00	Power Tiller	1,500.00	2,000.00	Three wheeler, auto rickshaw, tempo	2,000.00	2,500.00	Electric vehicle			a. Up to 50 KW		3,000.00	b. 50 KW to 125 KW		4,000.00	c. 125 KW to 200 KW		6,000.00	d. All above 200 KW		7,500.00
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Schedule-1 Section 2 (2)	Tax shall be levied at the rate of thirty percent on the taxable income of any bank, financial institution, an entity carrying on general insurance business or telecommunication and internet service, money transfer, capital market business, securities business, merchant banking business, commodity future market, securities and commodities broker business, conducting transaction of cigarette, bidi, cigar, chewing tobacco, powder tobacco, gutkha, panmasala, liquor, beer or petroleum works pursuant to the Nepal Petroleum Act, 2040 (1983), in any income year.	Tax shall be levied at the rate of thirty percent on the taxable income of any bank, financial institution, an entity carrying on general insurance business, entity carrying out financial transaction or telecommunication and internet service, money transfer, capital market business, securities business, merchant banking business, commodity future market, securities and commodities broker business, conducting transaction of cigarette, bidi, cigar, chewing tobacco, powder tobacco, gutkha, panmasala, liquor, beer or petroleum works pursuant to the Nepal Petroleum Act, 2040 (1983), in any income year.																																																												
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	<p>(a) If being operated in the area of a Municipality, five percent, (b) If being operated in the area of a Sub-metropolitan city, seven percent, (c) If being operated in the area of a Metropolitan city, ten percent,</p>	<p>(a) If being operated in the area of a Municipality, five percent, (b) If being operated in the area of a Sub-metropolitan city, seven percent, (c) If being operated in the area of a Metropolitan city, ten percent.</p> <p>Provided that the tax shall be levied as follows on the transaction of saving and credit cooperatives:</p> <p>(a) If being operated in the area of a Municipality, ten percent, (b) If being operated in the area of a Sub-metropolitan city, fifteen percent, (c) If being operated in the area of a Metropolitan city, twenty percent.</p>
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Income Tax provisions for 2080/81 (2023/24)

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 41 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. 500,000	1%***	-	First Rs.600,000	1%***	-
Next Rs. 200,000	10%	10%	Next Rs. 200,000	10%	10%
Next Rs. 300,000	20%	20%	Next Rs. 300,000	20%	20%
Next Rs. 10,00,000	30%	30%	Next Rs. 900,000	30%	30%
Next Rs. 30,00,000	36%	36%	Next Rs. 30,00,000	36%	36%
Remaining	39%	39%	Remaining	39%	39%

- * 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 28)
- *** 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 from Rs. 20,00,000 to Rs. 50,00,000 and additional tax of 30% for income above Rs. 50,00,000.

Illustration 1

Mr. Bagale has total income from employment of Rs. 60,00,000 per annum. He has contributed Rs. 5,00,000 to approved retirement fund. Assuming individual, tax will be calculated as follows:

Total Income	6,000,000.00
<i>Less: Contribution to SSF</i>	<i>-500,000.00</i>
Taxable Income	5,500,000.00
Tax Liability	
1st Rs. 500,000 (1%)	5,000.00
Next Rs.200,000 (10%)	20,000.00
Next Rs. 300,000 (20%)	60,000.00
Next Rs. 1,000,000 (30%)	300,000.00
Next Rs. 3,000,000 (36%)	1,080,000.00
Remaining Rs. 500,000 (39%)	195,000.00
Total Tax Liability	1,660,000.00

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.

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. 500,000 for individual and Rs. 600,000 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 5% shall apply.
- In case the disposed land & buildings has been owned for less than 5 years, tax rate of 7.5% shall apply.
- In case of gain from disposal of shares of listed entities, 5% tax rate shall apply for resident natural person holding such shares for more than 365 days and 7.5% tax rate shall apply for resident natural person holding such shares for less than or equal to 365 days.

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
For incomes earned in foreign exchange from export of service of business process outsourcing, software programming, cloud computing and related service based on information technology.	Exemption of 50% on applicable tax rate

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 40,000. Where both husband and wife have opted as couple, the insurance paid can be clubbed to claim for deduction, subject to maximum of Rs. 40,000.

- **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. 500,000 for individual and Rs. 600,000 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:

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

- **Personal Building Insurance**

If a resident person pays insurance premium for personal building under his/her ownership at the resident insurance company then amount lower of following is deductible for tax purpose

- Annual insurance premium or
- Five thousand rupees.

- **Pension Income**

If a resident individual has pension income, lower of the following amount is deductible for tax purpose:

- Rs. 125,000 in case of individual and Rs. 150,000.00 in case of couple or
- Actual pension income

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 Resident Individual not involved in business but earning in foreign exchange

Any individual resident not involved in the operation of business receiving payment in foreign currency for:

- Providing software or similar kind of other electronic service outside Nepal or,
- Providing consultancy service outside Nepal or,
- Uploading audio- visual material in social network

Will be taxed at the rate of 1% of amount received at the time of such payment. Concerned bank or financial institution or money transfer institution shall collect such amount and deposit it.

3. 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 financial transaction	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%
• Saving and Credit Cooperative registered as per Cooperative Act, 2074 and operating in Municipality Area	10%
• Saving and Credit Cooperative registered as per Cooperative Act, 2074 and operating in sub metro Area	15%
• Saving and Credit Cooperative registered as per Cooperative Act, 2074 and operating in Metro Area	20%
• Trust of deceased or incapacitated person	Rates as natural person

2 Reduced Rates to Special Industries applicable for 2023/24

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

3 Concession on Income from Agricultural Business

Income derived from agricultural business is exempted from income tax. However, the income derived from agricultural business done at land held as per section 12(d) and 12(e) of Land Act, 2021 is not exempted and 50% exemption is given to income derived by a registered private firm, partnership, company or corporate body from agricultural business, vegetable dehydrate business and cold store business.

4 Reduced Rates- Concessions for F.Y. 2080/81

Industries	Rates Percentage as 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 Industries starting commercial operation in Karnali Province or hilly districts of Sudur Paschim Province giving direct employment to more than 100 Nepali citizen for first fifteen years from the date of commencement of business	0%	0%
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	0% on incremental profit (for first five years of operation) & 10% on incremental

	profit (for next three years thereafter)	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 2084-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
Entity involved in generation, transmission or distribution of hydroelectricity (reservoir or semi-reservoir) with capacity of more than 40 MW having completed financial closure within Chaitra end 2085 and lower belt hydropower project operated based on such projects.	0% for first 15 yrs and 50% for next 6 yrs of applicable Rate	0% for first 15 yrs and 12.5% for next 6 yrs
Profit on export income earned up to 2084/85 in foreign exchange by exporting service of business process outsourcing, software programming, cloud computing and related service based on information technology	50%	12.5%
In case of dividend of industries in Special Economic Zones	exempt for first five years of	exempt for first five years

	operation and 50% concession in next three years	of operation and 2.5% in next three years
Operation of Tram or Trolley Bus up to 10 years from commercial operation	60%	15%
Building and operation of road, bridge or subway, tunnel, railway or airport up to 10 years from commercial operation	50%	12.5%
Building and operation of ropeway, cable car or overhead bridge up to 10 years from commercial operation	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, cybercafe, 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 through transfer	50%	12.5%
Industry established related to tourism or aviation company for international flights with capital investment of more than Rs. 1 billion	No tax for first five years and 50% of applicable rate for next three years	Calculation by applying applicable tax rates
Industry established related to tourism or aviation company for international flights with capital investment of more than Rs. 3 billion	No tax for first ten years and 50% of applicable rate for next five years	Calculation by applying applicable tax rates
Industry established related to tourism or aviation company for international flights with capital investment of more than Rs. 5 billion	No tax for first fifteen years	0% for first fifteen years
Private company having more than or equal to Rs. 50 Cr. paid up capital (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%

Hospitals run by community organization	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 and	80%	20%
Public Infrastructure projects that are ultimately handed over to Government of Nepal	80%	20%
Special industry is established in industrial region or industrial village	50% for first three years from the date of production and 75% for next five years	10% for first three years from the date of production and 15% for next five years
Any industry's income earned from the sales of raw material or auxiliary raw material produced within the country to special industry	80% on applicable rate	
Start-up business using innovative knowledge, thought, skill, technology, behaviour and process and prescribed by the department having turnover up to 1 crore rupee	No tax for first five years from the date of commencement of commercial transaction	
Special industry in operation inside the Kathmandu Valley which has been shifted outside the Kathmandu Valley	No tax for first three years from date of operation after being shifted 50% tax for two years after that	0% first three years from date of operation after being shifted 10% for two years after that
Industry involved in production of new product by using materials having direct impact on environment as its only raw materials	50% tax for first three years and 75% tax for next two years from the date of commencement of commercial transaction	To be calculated separately.
Entity producing health related vaccine, oxygen gas and sanitary pads	0% tax for first five years and 50% tax for next two years from the date of commencement	0% for first five years and 10% for next two years

	of commercial transaction	
Industry with objective to produce and assemble electric vehicle established within Ashad end 2082	60% tax for first five years from the date of commencement of commercial transaction	12% for first five years
Industry with objective to produce agricultural equipment established within Ashad end 2082	0% tax for first five years from the date of commencement of commercial transaction	0% tax for first 5 years

5 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%
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%

6 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	5,500.00
• 1301 CC- 2000 CC	6,000.00
• 2001 CC- 2900 CC	6,500.00
• 2901 CC- 4,000 CC	8,000.00
• >4,000 CC	9,000.00
Minibus, Mini-truck, Water tanker	8,000.00
Mini Tripper	9,000.00
Bus, Truck	10,500.00
Machinery equipment including dozer, loader, roller, excavator, crane	15,500.00
Oil Tanker, Gas Bullet, Tripper	15,500.00
Tractor	2,500.00
Power Tiller	2,000.00
Three wheeler, auto rickshaw, tempo	2,500.00
Electric vehicle	
a. Up to 50 KW	3,000.00
b. 50 KW to 125 KW	4,000.00
c. 125 KW to 200 KW	6,000.00
d. All above 200 KW	7,500.00

7 Income Tax for Small Tax Payers

Resident Natural Person who derives income only from business having source in Nepal with annual business turnover up to Rs. 30,00,000 and net income below Rs. 3,00,000 shall pay tax as under whether or not registered in VAT. 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

8 Income Tax for Person choosing to pay Tax based on Turnover

Resident Natural Person who derives income only from business having source in Nepal with annual taxable income up to Rs. 10,00,000, annual business turnovers exceeding Rs. 30,00,000 and which is up to Rs. 1,00,00,000 and whether or not registered for VAT purpose shall have to pay tax as below.

Nature of Business	Operation Area	Tax if turnover is between Rs. 30 lakhs to 50 lakhs (A)	Tax if turnover is between 50 lakhs to 1 Crore
Person conducting transaction of goods including gas, cigarette by adding up to three percent commission or price	Metro and Sub-metro	Rs. 7,500+ 0.25% of (Turnover-30,00,000)	Rs. 12,000 + 0.3% of (Turnover-50,00,000)
	Municipality	Rs. 4,000+ 0.25% of (Turnover-30,00,000)	Rs. 9,000 + 0.3% of (Turnover-50,00,000)
	Other than above	Rs. 2,500+ 0.25% of (Turnover-30,00,000)	Rs. 7,500 + 0.3% of (Turnover-50,00,000)
Person dealing in goods not specified above	Metro and Sub-metro	Rs. 7,500+ 1% of (Turnover-30,00,000)	Rs. 27,500 + 0.8% of (Turnover-50,00,000)
	Municipality	Rs. 4,000+ 1% of (Turnover-30,00,000)	Rs. 24,000 + 0.8% of (Turnover-50,00,000)
	Other than above	Rs. 2,500+ 1% of (Turnover-30,00,000)	Rs. 22,500 + 0.8% of (Turnover-50,00,000)
Person dealing in Services*	Metro and Sub-metro	Rs. 7,500+ 2% of (Turnover-30,00,000)	
	Municipality	Rs. 4,000+ 2% of (Turnover-30,00,000)	
	Other than above	Rs. 2,500+ 2% of (Turnover-30,00,000)	

* 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.

9 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.

10 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.

11 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	6%
b. Payment of interest on fixed deposit by banks or financial institutions to life insurance company	5%
c. Payment of interest to resident banks and financial institutions and mutual fund	No TDS
d. Payment of interest on inter cooperative loan provided by cooperative bank or cooperatives.	No TDS
e. 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 banks or other financial institution	10%
f. Payment of interest on foreign exchange loan to foreign bank or other foreign financial institution by hydropower projects of more than 200 MW capacity with reservoir or semi reservoir concluding financial closure till the month of Chaitra of 2082.	5%
g. In all other circumstances	15%
Payment in relation to 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. Lease of Aircraft	10%
d. Payment of rental for the use of satellite, radio, optical fiber, telecommunication equipment, electricity transmission line	10%

e. Payment of carriage service or rent of vehicle for carriage service to VAT registered person	1.5%
f. Payment for carriage service or rental payment of carriage vehicle	2.5%
g. Other rental payments	10%
Royalty (not a personal expense of a natural person)	15%
Royalty payment to resident person for literature writing	1.5%
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. Other Commissions	15%
Payment of registration fee, tuition fee and exam fee to foreign school or university	5%
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 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%
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5 TDS as per Sec.89

On contract payments exceeding Rs 50,000. Contract refers to agreement entered into for supply of goods or labor or construction/erection/ establishment of tangible assets or structure or any work prescribed as contract by the Inland Revenue Department. <i>The limit of Rs. 50,000 is calculated by adding contract payments of last 10 days to the same person on same contract.</i>	1.5%
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/shares held in a resident entity listed in recognized stock exchange <ul style="list-style-type: none"> - received by a resident natural person having ownership over the interest for more than 365 days - received by a resident natural person having ownership over the interest for less than 365 days - received by resident entity - Others (Non residents) 	5% 7.5% 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%

Capital Gain tax on disposal of land and building classified as Non Business Chargeable Assets, Advance tax to be collected by concerned government office - if the land and building is owned for period less than 5 years - if the if the land and building is owned for period 5 years or more <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>	7.5% 5%
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
Sales income in foreign currency by a person not involved in business providing software or electronic services of similar nature outside Nepal. (to be deducted by the banks, financial institutions or money transfer)	5% while receiving the amount
Sales income in foreign currency by a resident natural person not involved in business providing consultancy service outside Nepal in personal capacity. (to be deducted by the banks, financial institutions or money transfer)	5% while receiving the amount
Sales income in foreign currency by a resident natural person not involved in business by uploading audio-visual material in social network. (to be deducted by the banks, financial institutions or money transfer)	5% while receiving the amount
Income from sale of goods, service or both earned by the person involved in sales of good, service or both through the resident e-commerce operator's platform.	1%
Tax shall be withheld at the customs point on import for business purpose on: - ox, buffalo, goat, sheep, mountain goat under Chapter 1 of the Custom Classification, live, fresh and frozen fish under Chapter 3, such fresh flowers under Chapter 6, such fresh vegetables, potato, onion, dry vegetables, garlic, baby corn under Chapter 7 and such fresh fruits under Chapter 8 - meat under Chapter 2, such milk products, eggs, honey under Chapter 4, sucbarley, millet, sorghum (Junelo), rice, beaten rice under Chapter 10, such refined wheat flour, wheat flour under Chapter 11, such herbal medicines, sugarcane under Chapter 12 and such vegetation products under Chapter 14 as are imported for business purpose. However, Import on value added tax attractive goods (as above)	5% 2.5% 1.5%

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

Tax Returns

1 Payment of Advance Tax & Estimated Tax Return

Every person liable to pay installment tax for FY 2080/81 is required to file an estimated tax return within Poush end 2080.

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**

Due Dates

Poush end 2080 (14th January 2024)

Chaitra end 2080 (12th April 2024)

Ashad end 2081 (15th July 2024)

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 2080 (14th January 2024).

- Advance Tax**

Due Dates

Poush end 2080 (14th January 2024)

Ashad end 2081 (15th July 2024)

Amount to be deposited (Notes)

Applicable Tax based on Actual Turnover till Poush 20, 2080

Applicable tax on estimated figure of turnover, The turnover shall be estimated based on actual turnover till Ashad 20, 2081

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 2079/70 (2022/23) is Asoj end 2080 (Mid October, 2023). However, a taxpayer may have this due date extended for a maximum period of 3 months i.e. up to Poush end 2080 (Mid January, 2024) 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 2080 (Mid October, 2023) for the income year 2079/80 (2022/23). However, a taxpayer may have due date extended for a maximum period of 3 months i.e. up to Poush end 2080 (mid-January, 2024) 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.

Amendments in Value Added Tax, 2052 with effect from Jestha 15, 2080

Section	Existing Provision	Revised Provision
8(2A)	No Provision	A person who is registered or not registered receiving carriage service or rent of carriage vehicle from non-registered person shall assess and realize the tax on the taxable value in accordance with this act and rules framed under this act at the time of receiving the service or making payment whichever is earlier.
17 (5B)	The concerned taxpayer shall be allowed to deduct the tax paid pursuant to sub-section (2) of Section 8, Section 12A. and sub section (3) of Section 15	The concerned taxpayer shall be allowed to deduct the tax paid pursuant to sub-section (2) and 2A of Section 8, 12A and sub section (3) of Section 15.
19 (4)	If a taxpayer submits an application for the remission of the additional charges imposed under sub-section (2) stating the reason that the failure to make timely payment was caused by a situation beyond the taxpayer's control (force majeure), the Director General may, if he/she finds the reason reasonable, remit such charges.	If a taxpayer submits an application for the remission of the additional charges s imposed under sub-section (2) stating the reason that the failure to make timely payment was caused by a situation beyond the taxpayer's control (force majeure), the Director General may, if he/she finds the reason reasonable, remit such charges.
19(5)	The liability of tax amount to be paid on calculation of the additional charges 67 referred to in sub-section (2) and the interest referred to in Section 26 shall be charged calculating the period from the date of expiration for submission of the tax of the transaction of the month by which the duty is created within that tax period.	The liability of tax amount to be paid on calculation of the additional charges s 67 referred to in sub-section (2) and the interest referred to in Section 26 shall be charged calculating the period from the date of expiration for submission of the tax of the transaction of the month by which the duty is created within that tax period.
19(7B)	Notwithstanding anything mentioned in this section, the tax payment procedure of person registered in accordance to 10B shall be as determined by the department	Notwithstanding anything mentioned in this section, the tax payment procedure of person registered in accordance to Section 10B shall be as determined by the department
25(1B)	If the price of any consumable goods or service purchased is paid through electronic mode of payment pursuant to the prevailing laws, ten percent of such payment shall be refunded to his or her bank account under the procedure	If the price of any consumable goods or service prescribed by notice published by the department purchased is paid through electronic mode of payment pursuant to the prevailing laws, ten percent of such payment shall be refunded to his

	prescribed by the Department as a cash incentive.	or her bank account under the procedure prescribed by the Department as a cash incentive.
28 (1A)	If any goods produced or prepared in Nepal is rejected either by the related party in abroad after completion of export process or due to any other reason is imported and would be exported within three month then the value added tax on import can be paid by producing the bank guarantee. The guarantee shall be released after export of such items. The return related to guarantee and export of such items should be provided to Inland Revenue Department by the concerned customs office.	If any goods produced or prepared in Nepal is rejected either by the related party in abroad after completion of export process or due to any other reason is imported and would be exported within three month then the value added tax on import can be paid by producing the bank guarantee. The guarantee shall be released after export of such items. The return related to guarantee and export of such items should be provided to Inland Revenue Department by the concerned customs office.
29 (1E)	No provision	25% of the disputed tax as penalty shall be charged if a person in accordance to Clause A, A1 and A2 of Subsection 1 of section 25 receives tax refund from automated electronic medium which should not have been refunded.

- Note: Schedule 1 of Value Added Tax has been updated by the Finance Bill and it is advised to go through the list. Air tickets, tour packages, carriage service and rental, etc. are taxable from the date of Finance Bill.

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. It is advised to go through the Schedule 1 list of the act.

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. 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
- If the person imports goods worth more than Rs. 10,000 at one time.

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

If the turnover of a non-resident person in digital service exceeds Rs. 20 lakhs in last 12 months then such person shall also get registered in VAT.

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.
- 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 for means of transportation
 - 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.

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