

# **Nepal Tax Fact 2024/25 (2081/82)**

*Major Taxation Provisions including  
Changes by Finance Bill, 2081  
(2024)*

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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 2024 (2081).

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 based on this Tax Fact. Specific professional advice should be obtained before taking any action.

# Budget Highlights

## Budget Objectives

- To increase production, productivity, and employment
- To increase investment by increasing confidence of the private sector and increase economic activity.
- Development of Human Resources.
- Reduce economic disparities and poverty through balanced and equitable deployment of means and resources.
- To improve the effectiveness of public service delivery.

## Budget Priorities

- Economic improvement and promotion of private Sector
- Agriculture, energy, information technology, tourism, industrial development, and construction of infrastructure.
- Development of social sector including education and health.
- Inclusion and social security.
- Good governance and improvement in delivery of public service.

## Five Transformative Sector of targeted by Budget

- Agricultural sector transformation
- Energy sector development
- Information technology sector development
- Tourism promotion and
- Entrepreneurship and industrial development

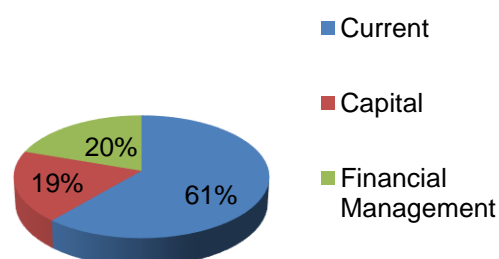
## Five strategies for economic reform

- Structural reform
- Business environment reform
- Public Finance System reform
- Financial sector reform
- Public governance reform

## Key Figures (In Billion):

Total Expenditure:	Rs. 1,860.30
Current:	Rs. 1,140.66
Capital:	Rs. 352.35
Financial Provision:	Rs. 367.28
<i>Province &amp; Local level:</i>	<i>Rs. 408.30</i>
<i>(Included in current)</i>	

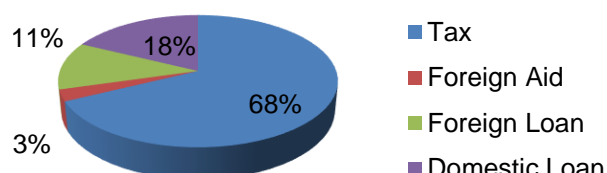
## Expenditure Allocation



## Sources of Fund:

Tax Revenue:	Rs. 1,260.30
Foreign Aid:	Rs. 52.33
Foreign Loan:	Rs. 217.67
Domestic Loan:	Rs. 330

## Source



# Taxes by Finance Bill, 2081

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
<b>Health Risk Tax (HRT)</b>	<ul style="list-style-type: none"> <li>On Import and domestic production of bidi</li> <li>On Import and domestic production of Cigarette, and Cigar</li> <li>On Import or domestic production of chewing tobacco, khaini, Paan Masala, Gutkha</li> </ul>	<ul style="list-style-type: none"> <li>30 paisa per piece</li> <li>60 paisa per piece</li> <li>Rs. 60 per kg</li> </ul>
<p><b>Administration:</b> As prescribed by Inland Revenue Department</p>		
<p><b>Time of Payment of Tax:</b></p> <ul style="list-style-type: none"> <li>At customs frontier at the time of import</li> <li>During the issuance of production unit, for domestic production</li> </ul>		
<b>Education Service Tax (EST)</b>	<ul style="list-style-type: none"> <li>Applicable on students pursuing education in foreign country</li> <li>Collectible by Banks and Financial Institutions at the time of providing exchange facilities</li> <li>Applicable on Education Fee</li> <li>Monthly Returns to be filed by B/FIs providing such facility, within 25 days of every Nepali Calendar Month</li> <li>Collected EST to be payable monthly by B/FIs, within 25 days of every Nepali Calendar month</li> <li>Fine at the rate of 15% shall be applicable if B/FIs do not deposit EST within the stipulated time</li> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>3% of Education Fee</li> </ul>
<p><b>Administration:</b> As prescribed by Inland Revenue Department</p>		

<b>Infrastructure Development Tax</b>	<ul style="list-style-type: none"> <li>On Petrol and Diesel</li> <li>Levied at Customs Frontier</li> </ul>	<ul style="list-style-type: none"> <li>Rs. 10 per liter</li> </ul>
<b>Green Tax</b>	<ul style="list-style-type: none"> <li>On import of goods mentioned in Schedule 1 of this Finance Bill</li> </ul>	<ul style="list-style-type: none"> <li>As per schedule 1 of this Finance Bill</li> </ul>
<b>Road Construction Fees</b>	<ul style="list-style-type: none"> <li>On import and domestic production of vehicles</li> <li>To be collected by Customs office on fresh import</li> <li>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</li> </ul>	<ul style="list-style-type: none"> <li>As per schedule 3 of this Finance Bill</li> </ul>
<b>Road Repair and Improvement Tax (RRIT)</b>	<ul style="list-style-type: none"> <li>Levied at Customs Frontier</li> <li>✓ On petrol</li> <li>✓ On diesel</li> </ul>	<ul style="list-style-type: none"> <li>✓ Rs. 4/ltr</li> <li>✓ Rs. 2/ltr</li> </ul>
<b>Cinema Development Tax</b>	<ul style="list-style-type: none"> <li>Levied on entry fee on showing foreign movies at Nepali cinema hall.</li> </ul>	<ul style="list-style-type: none"> <li>As per schedule 3 of this Finance Bill.</li> </ul>
<b>Pollution Control Tax (PCT)</b>	<ul style="list-style-type: none"> <li>Levied on Petrol and diesel to be distributed in Nepal</li> <li>Collectible by importer</li> <li>Payable monthly within 25 days of end of every Nepali calendar month</li> <li>Non-compliance on deposition: 15% p.a. interest</li> <li>Administration: as prescribed by IRD</li> </ul>	<ul style="list-style-type: none"> <li>Rs. 1.50 per liter</li> </ul>
<b>Telephone Ownership Tax (TOT)</b>	<ul style="list-style-type: none"> <li>Levied to customer installing telephone</li> <li>In case of prepaid phone, at every sim card and recharge card</li> <li>TOT to be payable monthly, within 25 days of end of every Nepali Calendar Month</li> <li>Telecom operator are penalized with interest @ 15% p.a. for any delay on payment of such TOT</li> </ul>	<ul style="list-style-type: none"> <li>Rs. 500</li> <li>2% of value</li> </ul>

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

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



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<b>Digital Service Tax</b>	<ul style="list-style-type: none"><li>• Levied on Non-resident person providing digital service to customers of Nepal</li><li>• Tax shall not be levied on annual transactions up to Rs. 30 lakhs</li><li>• Return and tax to be deposited on income year.</li><li>• 0.5% p.a. fee on transaction amount to be charged for non-filing of return.</li><li>• 15% p.a. interest to be charged in case of non-payment.</li><li>• 50% penalty for less deposit or conceal.</li><li>• Administration: as prescribed by Inland Revenue Department</li></ul>	<ul style="list-style-type: none"><li>• 2% of turnover</li></ul>
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# Special Proposals from the Act

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## Special provision related to waiver to those coming under tax bracket.

Any person earning income without obtaining PAN if obtains PAN and pays tax for the FY 2078/79 and 2079/80 within Falgun end 2081 then fees and interest shall be waived. No tax, fees or interest shall be levied on such person for prior year than mentioned.

## Special provision related to waiver to taxpayers who has not submitted income and VAT return.

Registered taxpayer shall be waived from fees and remaining interest if the taxpayer submits income return, pays income tax and 25% of interest on tax within Falgun end 2081.

Registered taxpayer who has not submitted VAT return upto Ashad end 2080 shall be waived from penalty, additional fees, and remaining interest if the taxpayer submits the VAT return, VAT amount and 25% of interest on VAT within Falgun end 2081.

## Special provision related to waiver to International Air Transport Service Provider

VAT registered or non-registered international air transport service provider are relieved from VAT amount collected/required to be collected from Jestha 15, 2080 to Ashoj end 2080.

For offline airlines, waiver from interest, penalty and additional fees is available for those which gets registered in VAT and pays VAT collected from Jestha 15, 2080 within Ashad end 2081.

## 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 for transaction from Jestha 15, 2076 to Jestha 14, 2078 then such person shall be exempted from remaining tax, additional fee, interest and penalty if the person pays, within Mangsir end 2081, 1% 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 VAT exemption to internal production of potato, onion or apple

Person involved in transaction of potato, onion, or apple produced within Nepal shall be exempted from VAT and interest, additional fee and interest from IRO assessment for transaction from upto Jestha 14, 2081 if the person has not collected VAT on such transaction.

## Special provision related to exemption of value added tax to credit information service provider entity

Entity established as per Section 88 of Nepal Rastra Bank Act, 2058 with an objective to provide credit information to licensed banks and financial institution shall be exempted from remaining VAT, penalty, interest and additional fees if such entity gets VAT registered within Ashad end 2081 and pays 25% of VAT on transaction upto that date within Ashoj end 2081. 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.

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# Amendments in Income Tax Act, 2058 with effect from Shrawan 1, 2081

Section	Existing Provision	New Provision
2 (ai1)	No Provision	Contribution based retirement payment means payment of amount deposited after deduction from salary of employee and any additional contribution from employer to approved retirement fund and the amount also includes increment on such contribution.
2 (aab)	"Permanent establishment" means a place where any person carries on a business fully or partly, and the term includes the following place: (1) A place where any person carries on a business fully or partly, through any agent except a general agent who acts independently in the ordinary course of carrying on business, (2) A place where any person's main equipment or main machinery is situated or used or installed, (3) One or more than one place in any country where any person has delivered technical, professional or consultancy service through an employee or in any other manner for more than ninety days at one or several times in a period of any twelve months, or (4) A place where any person is involved in a construction, installation or establishment project and has carried out supervisory works of that project for a period of ninety days or more.	"Permanent establishment" means a place where any person carries on a business fully or partly, and the term includes the following place: (1) A place where any person carries on a business fully or partly, through any agent except a general agent who acts independently in the ordinary course of carrying on business, (2) A place where any person's main equipment or main machinery is situated or used or installed, (3) One or more than one place in any country where any person has delivered technical, professional or consultancy service through an employee or in any other manner for more than ninety days at one or several times in a period of any twelve months, or (4) A place where any person is involved in a construction, installation or establishment project and has carried out supervisory works of that project for a period of ninety days or more. (5) A place where a person or entity, while residing outside Nepal, demonstrates significant digital presence in Nepal or a place where data or service business is carried for at least ninety days within the past six months using servers located outside Nepal,
10 (k)	<b>Exemptible Amount</b> Amounts earned by water and sanitation consumer organizations registered pursuant to Water Resources Act, 2049 (1992) in accordance with its objective.	<del>Amounts earned by water and sanitation consumer organizations registered pursuant to</del>

		<del>Water Resources Act, 2049 (1992) in accordance with its objective.</del>
11 (3l)	<p>If a special industry or industry related to tourism sector capitalizes its accumulated profit into shares for increase in capacity of the same industry, there shall be full exemption from the dividend tax leviable in distribution of dividends from such capitalization.</p> <p>Explanation: No Provision</p>	<p>If a special industry, <b>information technology industry</b> or industry related to tourism sector capitalizes its accumulated profit into shares for increase in capacity of the same industry, there shall be full exemption from the dividend tax leviable in distribution of dividends from such capitalization.</p> <p><b>For the purpose of this sub-section, "information technology industry" refers to technology park, information technology park, biotech park, software development, data processing, digital mapping, business process outsourcing, data mining cloud computing related industries.</b></p>
21 (1)	<p><b>Expense not allowed for deduction:</b> (b) Tax payable under this Act and a fine or similar other fee paid to the government of any country or any local body thereof for a violation of any law or regulation, byelaw framed thereunder. However, the tax paid to the Provincial Government and Local Level shall be deducted as expenses.</p> <p>No Provision</p>	<p><b>Expense not allowed for deduction:</b> b) Tax payable under this Act and a fine or similar other fee paid to the government of any country or any local body thereof for a violation of any law or regulation, byelaw framed thereunder. However, <b>any tax collected in accordance with sub-section 7 of section 95A that could not be fully utilized within that fiscal year</b>, the tax paid to Provincial Government and Local Level shall be deducted as expenses.</p> <p><b>Monthly salary payment above Rs. 25,000.00 which are not paid through bank.</b></p>
21 (e1)	No Provision	
33 (3)	No Provision	<b>The valuation method of the transfer pricing between related persons according to this section will be as per determined by the Department</b>
57 (1)	<p><b>Change in Control</b></p> <p>If the ownership of any entity changes by fifty per cent or more as compared to its ownership until before the last three years, the entity shall be deemed to have disposed the property under its ownership or the liability borne by it.</p>	<p>If the ownership of any entity changes by fifty per cent or more as compared to its ownership until before the last three years, the entity shall be deemed to have disposed the property under its ownership or the liability borne by it.</p> <p><b>However, this subsection shall not be applicable if the number of shares and capital of the existing shareholders and partners remain unchanged, and new shareholders and partners are added, resulting in an increase in capital.</b></p>

65 (1)	<b>Explanation</b>  "Contribution based on benefit" refers to the benefit related to retirement contributions made within the limits specified in sub-section (3) of section 63	<del>"Contribution based on benefit" refers to the benefit related to retirement contributions made within the limits specified in sub-section (3) of section 63.</del>
76 (6)	No Provision	Unless any advance ruling issued pursuant to this section is revoked, the department shall be obliged to act in accordance with such advance ruling.
81 (5) and (6)	No Provision	(5) Notwithstanding anything written in sub-section (4), the department may issue a notice and order the specified taxpayer in such notice to compulsorily issue invoices through electronic means and integrate such with the Department's Central Billing Monitoring System (CBMS).  (6) The department shall formulate and implement procedures regarding the security and reliability of the software or equipment used to issue invoices electronically.  Such procedures must be followed by the relevant producers, distributors, and users.
81A	No Provision	<b>Prohibition on Depositing Business Transaction Amounts into Personal Accounts:</b> No person shall deposit any amount received from business transactions, whether in cash, cheque, QR code, or any other electronic means, into a personal bank account.
88 (1)	In the payment of the interest for a loan received in foreign currency from the foreign bank or other financial institution by the resident bank and financial institution for investment in the sectors as specified by the Nepal Rastra Bank, at the rate of ten percent,	In the payment of the interest for a loan received in foreign currency from the foreign bank or other financial institution by the resident bank and financial institution for investment in the sectors as specified by the Nepal Rastra Bank, at the rate of <del>ten</del> five percent,
88A (2)	Notwithstanding anything contained in sub-section (1), no tax shall be levied on national and international award of up to five hundred thousand rupees for contribution made to literature, art, culture, sports, journalism, science, technology and public administration.	Notwithstanding anything contained in sub-section (1), no tax shall be levied on national and international award of up to five hundred thousand rupees for contribution made to literature, art, culture, sports, journalism, science, technology and public administration.

		Provided that windfall gain tax shall be levied on award amount exceeding above Rs. 500,000.00
94 (2A)	No Provision	Notwithstanding anything mentioned in this section, advance tax shall not be required to be paid in instalment as per 95A in case of income from disposal of non-business chargeable asset.
95A (7)	<p>Tax shall be withheld at the customs point at the rate of five percent for any such 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.</p> <p>And Two and half percent for such meat under Chapter 2, such milk products, eggs, honey under Chapter 4, such barley, 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.</p>	<p>In case of goods imported as per customs duty related laws for business purposes shall be subject to advance tax at custom frontier as under:</p> <p>In case goods classified under following chapter of Custom Classification, Tax shall be withheld at the customs point at the rate of 10 percent of customs value:</p> <ul style="list-style-type: none"> <li>- Chapter 1: Live animals</li> <li>- Chapter 2: Meat and inedible meat offal</li> <li>- Chapter 3: Live fish and all types of fish products</li> <li>- Chapter 6: Flowers and other products</li> <li>- Chapter7: Edible vegetables, some roots, and tubers</li> <li>- Chapter 8: Edible fruits, nuts, and other products.</li> </ul> <p>A customs duty of two and a half percent (2.5%) is applied for the import of following goods:</p> <p>Chapter 4: Dairy products, eggs, honey, and other similar products</p> <ul style="list-style-type: none"> <li>- Chapter 10: All types of cereals except rice</li> <li>- Chapter 11: Flour, grains, and other similar products</li> <li>- Chapter 12: Medicinal plants, sugarcane</li> <li>- Chapter 14: Plant-based products</li> </ul>

		Provided that goods taxable under value-added tax, are subject to one and a half percent (1.5%) advance tax.
95A (15)	No provision	<p>If a person liable to collect and deposit the tax under this section if fails to collect, deposit, short-collect, or fails to deposit tax within the stipulated time then an order may be issued to pay the amount not collected, short-collected, or not deposited along with interest under section 119 and the applicable penalty section 120 for non-collection of advance tax.</p> <p>However, before issuing such an order, a written notice for justification must be given, providing a 15-day period for the person to present a clarification regarding the order.</p>
101A	No Provision	<p><b>Tax Assessment on Asset from unidentified source:</b></p> <p>(1) The Department shall investigate on tax evasion if it is asked for tax assessment of person having asset from unidentified source as per section 28 of Anti Money Laundering Act, 2064.</p> <p>(2) If, during the investigation under sub-section (1) of this section, the tax authority finds that the person is not guilty related to tax, then income tax shall be collected at the highest tax rate for the year from such person.</p>
113 (8)	No provision	Excess of amount after settlement of advance tax paid during an income year under subsection 7 of section 95A against the tax liability payable for the income year shall not be allowed for credit transfer or refund.
117(1)	(c) If the income return of any income year is not submitted pursuant to sub-section (1) of Section 96, for the person mentioned in sub-section (4) of Section 4, amount at the rate of one hundred rupees per month and for the other persons, at the rate of 0.1 percent per year of the assessable income drawn out without deducting any amount, if any, that can be deducted and by including any amount, if	(c) If the income return of any income year is not submitted pursuant to sub-section (1) of Section 96, for the person mentioned in sub-section (4) of Section 4, twelve hundred rupees per return or amount at the rate of one hundred rupees per month if delay in submission is less than a year and for the other persons, at the rate of 0.1 percent per year of the assessable income drawn out without deducting any amount, if any, that can be

	any, that has to be included in computing the income of any income year or hundred rupees per month, whichever is higher.	deducted and by including any amount, if any, that has to be included in computing the income of any income year or <b>twelve hundred rupees per return or amount at the rate of one hundred rupees per month if delay in submission is less than a year, whichever is higher.</b>
119A	<p><b>Charge to be imposed:</b> Except as otherwise provided in this Act, there shall be imposed a charge of five thousand to twenty-five thousand rupees on a person who does not comply with any provision of this Act or the Rules framed under this Act.</p>	<p><b>Charge to be imposed:</b></p> <p>(1) Any taxpayer who has obtained permission to issue electronic invoice as per subsection 4 of section 81 or those who have not obtained such permission if uses data editable or erasable software then charge of Rs. 500,000.00 shall be imposed.</p> <p>(2) Any person who develops software or equipment for electronic billing as per subsection 4 of section 81, installs software or operate such software if does not comply with the procedures issued by the Department shall be imposed with charge of Rs. 500,000.00</p> <p>(3) Non-compliance with the provision of section 81A shall be charged with Rs. 5,000.00 per offence or 2% of total amount whichever is higher.</p> <p>(4) Except as otherwise provided in this Act, there shall be imposed a charge of five thousand to twenty-five thousand rupees on a person who does not comply with any provision of this Act or the Rules framed under this Act.</p>



# Income Tax provisions for 2081/82 (2024/25)

## Introduction to Income Tax Law of Nepal

### 1. Overview

The principal taxes in Nepal are:

- the income tax and
- indirect taxes, such as value added tax (VAT), customs duty and excise duties,
- Taxes levied by Province Government and Local Governments

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

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

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

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

### 2. Charge of Tax

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

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

### 3. Heads of Income

There are four heads of income:

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

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

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

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

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

#### **4. Tax on Non-resident**

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

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

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

#### **5. Dividend Distribution & Profit Repatriation**

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

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

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

#### **6. Double Taxation relief**

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

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

#### **7. Self-Assessment**

Nepal follows a self-assessment system and tax paid is not questioned unless the tax calculation is not in accordance with the law. If tax officer does not revise your assessment within four years, the tax return submitted and tax paid is considered final. The self-assessment of tax liability and submission of final annual tax return and tax payment should be done within 3 months from the end of an income year. An extension for return submission is granted on request, for a maximum period of 3 months, but there is no extension for tax payment deadline. Companies and certain tax payers are also required to submit estimated tax return and pay estimated tax on three installments (Refer Page 37 of this document). The return submitted by the taxpayer may be revised within one month of filing such return, if such returns are filed within due date.

## Taxation of Individuals

### 1. For Resident Taxpayers

Taxable Income Slab	Individual		Taxable Income Slab	Couple*	
	Employment	Proprietorship Firm**		Employment	Proprietorship Firm*
First Rs. 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.

\*\*\* 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:

<b>Total Income</b>	<b>6,000,000.00</b>
<i>Less: Contribution to Approved Retirement Fund (CIT/SSF etc.)</i>	<i>-500,000.00</i>
<b>Taxable Income</b>	<b>5,500,000.00</b>
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
<b>Total Tax Liability</b>	<b>1,660,000.00</b>

If retirement fund contribution has been made in Contribution based Social Security Fund, then 1% tax not levied\*.

### 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

- **Contribution to approved Retirement fund**

In any income year, a natural person who is the beneficiary of an approved retirement fund (includes SSF, CIT, PF and other approved retirement fund) may, in making retirement contribution to the retirement fund, subtract from his/her taxable income a sum of Five Hundred Thousand Rupees or One-thirds of his/her assessable income, whichever is lower.

- **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.1, 500 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 5% of the 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 2024/25

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. 2081/82

Industries	Rates as Percentage of Applicable rate	Effective Tax Rate
Special Industries providing direct employment to 100 or more Nepali citizens throughout the year	90%	18%
Special Industries providing direct employment to 300 or more Nepali citizens throughout the year	80%	16%
Special Industries providing direct employment to 500 or more Nepali citizens throughout the year	75%	15%
Special Industries providing direct employment to 1,000 or more Nepali citizens throughout the year	70%	14%
Special Industries providing direct employment to 100 or more Nepali citizens throughout the year, of which at least one-third are women, dalits (oppressed) or incapacitated	81%	16.2%
Special Industries providing direct employment to 300 or more Nepali citizens throughout the year, of which at least one-third are women, dalits (oppressed) or incapacitated	72%	14.4%
Special Industries providing direct employment to 500 or more Nepali citizens throughout the year, of which at least one-third are women, dalits (oppressed) or incapacitated	67.5%	13.5%
Special Industries providing direct employment to 1000 or more Nepali citizens throughout the year, of which at least one-third are women, dalits (oppressed) or incapacitated	63%	12.6%
Information Technologies Industries providing direct employment to 100 or more Nepali citizens throughout the year	90%	22.5%
Information Technologies Industries providing direct employment to 300 or more Nepali citizens throughout the year	80%	20%
Information Technologies Industries providing direct employment to 500 or more Nepali citizens throughout the year	75%	18.75%
Information Technologies Industries providing direct employment to 1,000 or more Nepali citizens throughout the year	70%	17.5%



Information Technologies Industries providing direct employment to 100 or more Nepali citizens throughout the year, of which at least one-third are women, dalits (oppressed) or incapacitated	81%	20.25%
Information Technologies Industries providing direct employment to 300 or more Nepali citizens throughout the year, of which at least one-third are women, dalits (oppressed) or incapacitated	72%	18%
Information Technologies Industries providing direct employment to 500 or more Nepali citizens throughout the year, of which at least one-third are women, dalits (oppressed) or incapacitated	67.5%	16.875%
Information Technologies Industries providing direct employment to 1000 or more Nepali citizens throughout the year, of which at least one-third are women, dalits (oppressed) or incapacitated	63%	15.75%
Special Industries starting commercial operation in highly undeveloped (remote area) for first ten years from the date of commencement of business	10%	2%
Special Industries starting commercial operation in undeveloped area for first ten years from the date of commencement of business	20%	4%
Special Industries starting commercial operation in underdeveloped area for first ten years from the date of commencement of business	30%	6%
Special 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, information technology 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)
<b>Car, Jeep, Van, Microbus</b>	
• 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
<b>Minibus, Mini-truck, Water tanker</b>	8,000.00
<b>Mini Tripper</b>	9,000.00
<b>Bus, Truck</b>	10,500.00
<b>Machinery equipment including dozer, loader, roller, excavator, crane</b>	15,500.00
<b>Oil Tanker, Gas Bullet, Tripper</b>	15,500.00
<b>Tractor</b>	2,500.00
<b>Power Tiller</b>	2,000.00
<b>Three wheeler, auto rickshaw, tempo</b>	2,500.00
<b>Electric vehicle</b>	
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, rent 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
  - g. Payment for rent of a motor vehicle or carrier vehicle or carriage service of an individual except a private firm.
- Even if the payer fails to withhold tax, it is regarded that WHT has been deducted by the payer (deemed WHT).
  - The Withholding taxes deducted from the recipient and the return of such taxes shall be filed within 25<sup>th</sup> of next month as per 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
<b>Payment of Interest (not a personal expense of a natural person) having source in Nepal when a resident person makes the payment</b>	
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	5%
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%
<b>Payment of Rent (not a personal expense of a natural person) having source in Nepal when a resident person makes the payment</b>	
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%
<b>Payment of Service Fee (not a personal expense of a natural person) having source in Nepal by a resident person</b>	
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%
<b>Payment of Commission (not a personal expense of a natural person) having source in Nepal by a resident person</b>	
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"> <li>- On payment under contract and agreement to non-resident persons</li> <li>- Premium paid to non-resident insurance company</li> <li>- In other cases, if written notice is issued to the payer resident person</li> </ul>	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"> <li>- received by a resident natural person having ownership over the interest for more than 365 days</li> <li>- received by a resident natural person having ownership over the interest for less than 365 days</li> <li>- received by resident entity</li> <li>- Others (Non residents)</li> </ul>	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"> <li>- received by a resident natural person</li> <li>- received by Resident entity</li> <li>- Others (Non residents)</li> </ul>	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	7.5%
- 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>	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: - Chapter 1: Live animals - Chapter 2: Meat and inedible meat offal - Chapter 3: Live fish and all types of fish products - Chapter 6: Flowers and other products - Chapter7: Edible vegetables, some roots, and tubers - Chapter 8: Edible fruits, nuts, and other products.  - Chapter 4: Dairy products, eggs, honey, and other similar products - Chapter 10: All types of cereals except rice - Chapter 11: Flour, grains, and other similar products - Chapter 12: Medicinal plants, sugarcane - Chapter 14: Plant-based products.	10%
However, Import on value added tax attractive goods (as above)	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 2081/82 is required to file an estimated tax return within Poush end 2081.

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 2081 (13<sup>th</sup> January 2025)

Chaitra end 2081 (13<sup>th</sup> April 2025)

Ashad end 2082 (15<sup>th</sup> July 2025)

*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 2081 (13<sup>th</sup> January 2024).

- **Advance Tax**

<i>Due Dates</i>	<i>Amount to be deposited (Notes)</i>
Poush end 2080 (13 <sup>th</sup> January 2025)	Applicable Tax based on Actual Turnover till Poush 20, 2081
Ashad end 2081 (15 <sup>th</sup> July 2025)	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 2080/81 (2023/24) is Asoj end 2081 (Mid October, 2024). However, a taxpayer may have this due date extended for a maximum period of 3 months i.e. up to Poush end 2081 (Mid January, 2025) in case he files an application in the IRD with bona fide 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 if delay is less than a year or Rs 1200 per return. <u>For Others</u> Fee at the rate of 0.1% on <i>gross assessable income</i> * or Rs 100 per month if delay is less than a year or Rs 1200 per return, 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 2081 (Mid October, 2024) for the income year 2070/81 (2023/24). However, a taxpayer may have due date extended for a maximum period of 3 months i.e. up to Poush end 2081 (mid-January, 2025) on request to IRD with bona fide 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, 2081

Section	Existing Provision	Revised Provision
10B1	<p><b>Provision for Registration of Non-Resident Person Providing Electronic Services:</b></p> <ol style="list-style-type: none"> <li>Notwithstanding anything contained elsewhere in this Act, non-resident person whose turnover from electronic service in Nepal during last twelve months exceeds Rs. 20 lakhs shall be registered in Value Added Tax.</li> <li>The registration process of non-resident person dealing in electronic services shall be as determined by the Department.</li> </ol> <p>In case the business of electronic services of non-resident person registered pursuant to Sub-Section (1) is closed down or ceases to exist, such person shall cancel the registration as per the procedures prescribed by the Department.</p>	<p><b>Provision for Registration of Non-Resident Person:</b></p> <ol style="list-style-type: none"> <li>Notwithstanding anything contained elsewhere in this Act, non-resident person whose turnover from electronic service in Nepal during last twelve months exceeds Rs. <del>20 lakhs</del> 30 lakh or offline air transportation service provider shall be registered in Value Added Tax.</li> <li>The registration process of non-resident person shall be as determined by the Department. In case the business of electronic services of non-resident person registered pursuant to Sub-Section (1) is closed or ceases to exist, such person shall cancel the registration as per the procedures prescribed by the Department.</li> </ol>
11 (1) (f)	<p><b>Deregistration</b></p> <p>That person is a taxpayer whose taxable transaction is less than fifty lakh rupees in the case of goods and twenty lakh rupees in the case of mixed transaction of goods and service or of service in the last twelve months,</p>	<p><b>Deregistration</b></p> <p>That person is a taxpayer whose taxable transaction is less than fifty lakh rupees in the case of goods and <del>twenty</del> thirty lakh rupees in the case of mixed transaction of goods and service or of service in the last twelve months,</p>
18 (3)	No provision	<p><b>Submission of Tax Return</b></p> <p>(3) If the taxpayer required to submit the tax return under this section does not submit the return within 4 months from the stipulated time then tax officer may restrict import or export of such taxpayer.</p>
20 (1)	<p>Power of tax officer to assess tax:</p> <p>(j) If tax is not paid pursuant to sub-section (2) or (3) of Section 8,</p>	<p>Power of tax officer to assess tax:</p> <p>(j) If tax is not paid pursuant to sub-section (2), (2A) or (3) of Section 8,</p>

# 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 12 months where it is business of goods or carriage service or rental of carriage vehicle
- If the turnover of the person exceeds Rs. 30 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. 30 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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