



## **Nepal Budget Statement Highlights & Tax Rates For FY 2018/19 (2075-76)**

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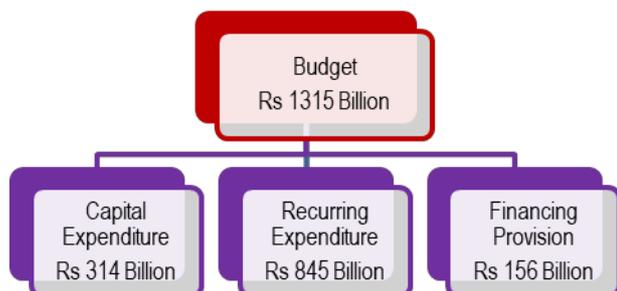
# Nepal Budget Statement FY 2018/19

## Highlights

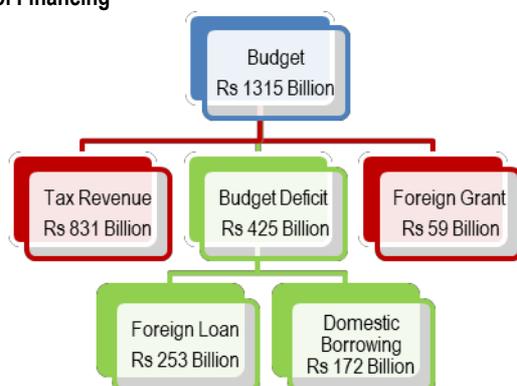
On Tuesday, 29 May 2018, Honorable Finance Minister, Dr. Yubaraj Khatiwada presented the full budget for the fiscal year 2075/76.

### Budget and Source of Financing

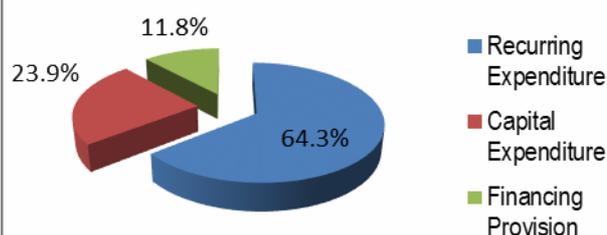
#### Allocation of Budget



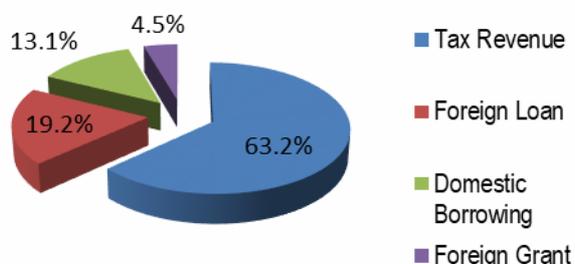
#### Source of Financing



### Budget Outlay FY 2018-19



### Source of Financing FY 2018-19



#### Objectives of Budget

- To immediately fulfill basic livelihood requirements to eradicate extreme poverty, inadequacy and backwardness.
- To utilize resources, opportunity and capability for rapid economic and human development.
- To create fair, improved, autonomous and socialist economy through development of economic, social and physical infrastructure.

#### Budget Priority

- To promote employment generating sectors.
- Rapid human development through development of social sectors such as education and health sectors.
- Advancement of capital, technology and research in sectors like agriculture, hydro and tourism to achieve enduring, broader, contemporary and high economic growth;
- Progression of baseline and modernistic physical infrastructures to stimulate formation of modernized Nepal through development of roadways, railways, irrigation, power and urban infrastructure.
- To reconstruct structures damaged by earthquake and flood.
- To improve quality of delivery of public service and good governance.

#### Allocation to Province and Local level

- Based on population, area, human development indicator, infrastructure and expenditures necessity, out of total VAT and excise duty collected from domestic production, Rs 114 billion is projected for allocation to provincial and local government.
- Based on level of education, health, drinking water, infrastructure, expenditure necessity, revenue capacity, social and economic discrimination; grant of Rs 135 billion is allocated to provincial and local government.
- Conditional grant of Rs 63 billion and Rs 110 billion to be provided to provincial and local governments, respectively.

#### Objectives of Revenue Policy and Program for FY 2075/76

The objectives of the revenue policy and program, which are inspired by the expectations of tax payers, investors and citizens, are presented below:

- To bring all economic activities within the ambit of taxation and broaden the revenue base.
- To promote productive industries and business and assist in expansion of economic activities through establishment of investor friendly taxation system.
- To make taxation system more progressive and equitable through timely improvement in tax structure and rates.
- Improvement in revenue administration to assure to taxpayers regarding competent, professional, transparent and improved tax administration.
- Take necessary measures to ensure compliance of taxation laws and control tax evasion and revenue leakage.
- To expand and adjust non-tax revenue sectors and rates to increase revenue.

## Major changes and improvements in tax system:

### Indirect Tax

- ⊗ Mandatory VAT registration of entity engaged in transactions of liquors, cigarettes, sanitary, electronics and construction materials in metropolitan and sub-metropolitan area.
- ⊗ Withdrawal of existing system of self-refund of VAT collected from consumers.
- ⊗ Withdrawal of existing system of refund of VAT paid on import of mobile sets by importer in case of sales of such mobile set to VAT registered person.
- ⊗ Withdrawal of education service fee and health service tax. Also, withdrawal of existing provision of VAT levied by private hospitals on health services.
- ⊗ Exemption from payment of penalty related to submission of VAT returns to taxpayers who have not submitted VAT return for long period and now willing to submit VAT returns of previous periods.
- ⊗ Increment of excise duty in liquors, cigarettes and tobacco products. Introduction of excise duty on production and import of items such as Cocoa mixed chocolates, perfumes, toys and refrigerators.
- ⊗ Increment of excise duty in two-wheelers and four-wheelers exceeding the capacity of 150 CC and 1000 CC, respectively.
- ⊗ New category of tax (**Health Risk Tax**) at the rate of Rs 0.25 per stick of cigarette on production and import has been introduced and shall be levied effective from 29 May 2018.
- ⊗ Abatement of 75% on customs duty and 100% on excise duty and VAT on purchase of bus having seat capacity of 30 or more for community schools. The benefit is available for one bus per community school.
- ⊗ Nepalese individual returning from abroad will be allowed to bring up to 100 grams of raw gold after duly making payment of applicable duties.

### Direct Tax

- ⊗ Replacement of existing personal income tax slab rates of 15% and 25% with new tax slab rates of 10%, 20% and 30%. Also, additional 20% tax is applicable on taxable income exceeding Rs 2 million.
- ⊗ Reduction of threshold applicable for levy of capital gain tax from existing Rs 3 million to Rs 1 million in case of real estate transaction.
- ⊗ Introduction of concession on income tax to industries providing direct employment to more than 100 Nepali citizens.
- ⊗ Concession of 50% on applicable income tax to Tea, Garment and Dairy industries on its core business income.
- ⊗ Tax Holiday of 5 years to micro enterprise business. Further extension of 2 years if operated by women.
- ⊗ To promote conversion to public company, concession of 10% on normal applicable tax for three years to Private limited companies with paid up capital of Rs 500 million or more is introduced.
- ⊗ Concession of 20% on applicable income tax to community hospitals.

- ⊗ Exemption of income tax and fees with respect to previous financial years to social institutions submitting returns in compliance with the provisions of Income Tax Act.
- ⊗ Exemption of social security tax to person participating in contribution based pension fund.
- ⊗ Increment of deduction limit from Rs 20,000 to Rs 25,000 in case of payment of life insurance premium.

### Tax Administration

- ⊗ All necessary measures will be adopted to ensure honesty, transparency and truthfulness among both taxpayer and tax administration. Strict action will be taken against those engaged in revenue leakage and non-compliance. Registered taxpayer not issuing invoice shall be subject to special fine/penalty at place of operation.
- ⊗ Automated information system will be developed to facilitate communication and exchange of financial statements submitted to tax office and to financial institutions for the same period by taxpayer.
- ⊗ LC (letter of credit) based trading will be encouraged. Necessary measures will be taken to ensure that importer can import only determined nature of goods along with determined quantities at a time. To control illegal import or smuggling, necessary measures will be taken along with monitoring at border area/
- ⊗ Declaration, classification and assessment of commodities at customs point to be based on reality and transaction value.
- ⊗ Establishment of liquor, beer, cigarette and tobacco related industries only in the specified area declared by the government.
- ⊗ Development of taxpayer information management system to integrate taxpayers related information at various regulatory authorities.
- ⊗ Mandatory issuance of electronic invoice by sellers to ensure transparency in transaction. Such invoice to be linked with the central invoice monitoring system of the Inland Revenue Department.
- ⊗ Non-tax collections to be made cost effective and its rate to be reviewed. Amendments to be made in the existing policies.

### Economic Situation

- ⊗ Economic growth rate is estimated to be 5.9 percent during FY 2074/75 and is forecasted to be 8 percent in FY 2075/76.
- ⊗ Inflation rate for the first nine months of this fiscal year is maintained at 4.1 percent.

## Executive Summary

### Personal Tax Rates

The taxable income is taxed as follows:

Rate	Individual	Couple
1%	First 350,000	First 400,000
10%	Next 100,000	Next 100,000
20%	Next 200,000	Next 200,000
30%	Next 1,350,000	Next 1,300,000
36%	Remaining	Remaining

### Corporate Tax

Several changes are brought in the existing tax rate payable by domestic companies for the fiscal year 2075/76:

Companies	Rate (%)
Banks and financial institutions	30
General Insurance Business, <b>Telecommunication, internet service provider, money transfer, capital market business, securities business, merchant banking business, commodity future market, securities and commodities broker business</b>	30
Cigarettes, <i>Bidi</i> , Cigar, Chewing Tobacco, <i>Khaini</i> , <i>Guthka</i> , <i>Panmasala</i> , Liquor, Beer	30
Petroleum companies,	30
Special industries*	20
Export industries	20
Power generation, transmission, distribution, infrastructure projects etc.	20
Other entities not covered above	25

\*Special industry includes agro, forestry and mining industries.

### Concessions on business income

Special industry or Information technology industry providing direct employment throughout the year to	Applicable Tax Rate*
100 or more Nepalese citizens	90% of Normal Rate
300 or more Nepalese citizens	80% of Normal Rate
500 or more Nepalese citizens	75% of Normal Rate
1000 or more Nepalese citizens	70% of Normal Rate
Additional 10% concession is provided if direct employment is provided to 100 or more Nepalese citizens including at least 33% of women, oppressed or handicapped person.	
Industries	Tax rate
Private company with paid up capital of Rs 500 million or more that conducts its operation by converting into public company.	10% concession on Normal Rate for 3 years from date of conversion
Domestic tea production and processing industry, dairy industry and garments industry	50% concession on Normal Rate
Health institution operated by community based organization.	20% concession on Normal Rate
Microenterprises	100% concession on NR for 5 years from the date of operation Additional 2 years, if it is under entrepreneurship of woman.

### Withholding Rate

Payments	Rate
Payment for question setting, answer evaluation	15%
Payment of commission on reinsurance premium from non- resident insurance company	1.5%
Payment exceeding 50 lakhs made towards the works done through consumer committee	1.5%
Gain on disposal of listed interests in any resident entity:	
- To resident natural person	7.5%
- To resident entity	10%
- Others	25%
Gain on disposal of unlisted interests in any resident entity:	
- To resident natural person	10%
- To resident entity	15%
- Others	25%

### Presumptive Income taxation on vehicles

Vehicles	Tax Amount
Minibus, Mini Truck, Water Tanker	Rs 6,000
Mini Tripper	Rs 7,000
Truck and Bus	Rs 8,000
Dozer, Excavator, Roller, Loader, Crane and similar machineries	Rs 12,000
Oil tanker, Gas bullet, Tipper	Rs 12,000
Car, Jeep, Van, Micro Bus	
(a) 0 to 1300 cc	Rs 4000
(b) 1301 to 2000 cc	Rs 4,500
(c) 2001 to 2900 cc	Rs 5,000
(d) 2901 to 4000 cc	Rs 6,000
(e) 4001cc and above	Rs 7,000
Three Wheeler, Auto Rickshaw, Tempo	Rs 2,000
Tractor	Rs 2,000
Power Tiller	Rs 1,500

### Excise Duty

Goods	New Rate(Rs)	Previous (Rs)
Cigars, cheroots and cigarillos containing	0.15/stick	0.12/stick
Processed tobacco	0.09 units	0.084 units
Pipe tobacco	1,210/kg	1,008/kg
Refined tobacco for cigarette and bidi	250/kg	205/kg
Pan masala including tobacco	555/kg	462/kg
Junk foods (Kurkure, Kurmure, Cheese balls, Lays and similar	15/kg	7.5/kg
Flavored areca (supari) with tobacco	205/kg	171/kg
Beer	15/l	7/l
Beer produced from barley	150/l	115/l
Liquors using wine, brandy, whisky and spirit in raw form	150/l	127/l
Hydraulic Cement	200/m.ton	180/m.ton

### Other significant increments in Excise Duty:

- ⊗ In case of filtered cigarettes, the excise rate has been increased by approximately 20% on the basis of length of filter.
- ⊗ Increment in excise rates of paint from 5% to 7%.
- ⊗ Excise duty has been increased from 60% on 4 wheelers on the basis of cylinder capacity starting from 1000cc to the extent of 65%, 70%, 80%, 90% and 100%.
- ⊗ Excise duty has been increased from 40% on motorcycle on the basis of cylinder capacity starting from 150cc to the extent of 50%, 60%, 80% and 100%.
- ⊗ On the basis of concentration of alcohol in wine, the excise rate has been increased ranging from 19.64% to 20%.

### New Additions:

- ⊗ Excise duty has been introduced on energy drinks at the rate of Rs 25/liter.
- ⊗ Introduction of 5% excise rate in case of perfumed water or water for sanitization, cosmetics, hygiene and makeup items.
- ⊗ Rs 1500 per metric ton excise duty in case of steel pipes, bridges, tower and other steel structures.
- ⊗ 5% excise duty for refrigerator, freezer, vacuum cleaners, juice extractors and its parts, puzzles, toys, video games, billiard and special tables for casino.
- ⊗ 5% excise duty in case of chocolates containing cocoa or not and 10% in case of other chocolate layered or not layered with sugar.

### Customs Duty

- ⊗ Resident of Nepal returning from foreign country can bring gold up to 100 grams after payment of Rs 5,200 per 10gm up to 50 gm and Rs 6,200 per 10 gm for next 50 gm. Gold in excess of 100 gm shall be seized by the custom office.
- ⊗ 5% custom duty shall be levied on urine bag imported on the recommendation of Ministry of Health and Population.

### Value Added Taxes

The rate of VAT levied at 13% on goods and services remains unchanged from previous year. Major changes in VAT laws are:

- ⊗ The authority and jurisdiction of tax officer will be as defined by the Ministry of Finance instead of Government of Nepal.
- ⊗ In case of import of service, the point of taxation for Reverse VAT is earlier of payment or booking of expense.
- ⊗ Mandatory registration under VAT for industry manufacturing bricks, trading and distribution of wine and alcohol respectively, software business, trekking, rafting, ultra-light flight, paragliding, tourist transport, crusher, soil mine, slate and stone industry.
- ⊗ In addition, transactions of hardware, sanitary, furniture, fixture, furnishing, automobiles, motor parts, electronics, marble, educational consultancy, discotheque, health club, massage therapy, beauty parlor, catering service, party palace business, parking service, dry cleaners using machinery, restaurant (with bar), ice-cream industry, color-lab, boutique, tailoring business with shirting and suiting materials, supplier of uniforms to educational and health institution or other sector in metropolitan city, sub-metropolitan city, municipality or specified, are required to get registered under VAT.
- ⊗ Federal and Provincial Governments are also required to collect VAT on sale of Vatable goods and services.
- ⊗ Exemption in fines to be provided for tax payers who have not been submitting VAT for a long period and are willing to pay on a regular basis henceforth.

### Major additions in Schedule 1 (VAT Exemption)

- ⊗ Inclusion of health service. Providers of health services are exempted from registration in VAT. (Group 5)
- ⊗ Plastic materials used in preparation of packing materials for saline production industry. (Group 5)
- ⊗ Canteen and hostel facility operated by the educational institution for captive consumption. (Group 6)

- ⊗ Money transfer, capital market, security business, merchant banking business, commodity future market and security and commodity brokerage business. (Group 11)
- ⊗ Materials imported under heading 87.14 for electronic rickshaw production.
- ⊗ Constitutional services provided by provincial and local Government.

### Others

- ⊗ Withdrawal of Solar LED DC bulbs, parts and accessories of solar powered equipment and solar charge controllers from Schedule 1.
- ⊗ Deep Cycle Lead Acid Batteries used in electronic transport produced in Nepal is transferred from Schedule 1 to Schedule 2 (Zero rated items)
- ⊗ Fine of Rs 500,000 for non-compliance of directives issued under section 14 Ka for person producing software or equipment issuing electronic invoice, its installation and operation.
- ⊗ Fine of 50% of invoice value would be levied if only invoice is raised without delivering goods and services.

### Infrastructure Tax

Infrastructure tax of Rs 4 and Rs 2 per liter is levied on petrol and diesel, respectively.

### Casino Royalty

- ⊗ Royalty of Rs 40 million per annum to be charged for operation of casino.
- ⊗ Royalty of Rs 10 million per annum to be charged in case the game at casino is played through modern machines and equipment.

### OTHER TAX PROVISIONS

#### Road construction duty

The duty will be collected as follows:

Types of Vehicles	Duty	
Car, Jeep, Van (0-2000cc)	8% of the value inclusive of all other taxes and duties	
Car, Jeep, Van (2001+cc)	10% of the value inclusive of all other taxes and duties	
Microbus, truck, tipper, truck mixture, minibus, mini truck and mini tipper	7% of the value inclusive of all other taxes and duties	
<b>Motor cycle per piece:</b>	<b>FY 2075/76</b>	<b>FY 2074/75</b>
Up to 150cc	Rs 15,000	Rs 10,000
151cc to 250cc	Rs 18,000	Rs 12,000
251cc to 400cc	Rs 50,000	Rs 15,000
401cc and above	Rs 200,000	Rs 20,000

*Not applicable to ambulances, fire brigade, vehicles carrying dead bodies (hearse), diplomatic missions, individuals having diplomatic immunity, cooperative societies and companies importing more than 5 buses having seating capacity of 40 or more for use in public transportation business and scooters up to 150cc made for disabled persons.*

#### Concession for electronic and solar powered vehicles

The duty will be collected as follows:

Particulars	Duty
Electronic two-wheelers having power lesser than or equal to 1500 watt	Rs 7,500
Electronic two-wheelers having power greater than 1500 watt	Rs 9,000

# Income Tax Rates FY 2018-19

## 1. Personal Income Tax

### 1.1 For Residents: Natural Person

Tax Banding	Tax Rates			
<b>Individual</b>	FY 2018-19		FY 2017-18	
(a) Band 1	<b>First 350,000</b>	<b>1%*</b>	First 350,000	1%*
(b) Band 2	<b>Next 100,000</b>	<b>10%</b>	Next 100,000	15%
(c) Band 3	<b>Next 200,000</b>	<b>20%</b>	Next 2,050,000	25%
(d) Band 4	<b>Next 1,350,000</b>	<b>30%</b>	Remaining	35%
(e) Additional Tax	<b>Remaining above 2,000,000</b>	<b>36%**</b>	-	-
<b>Couple/Married</b>				
(a) Band 1	<b>First 400,000</b>	<b>1%*</b>	First 400000	1%*
(b) Band 2	<b>Next 100,000</b>	<b>10%</b>	Next 100,000	15%
(c) Band 3	<b>Next 200,000</b>	<b>20%</b>	Next 2,000,000	25%
(d) Band 4	<b>Next 1,300,000</b>	<b>30%</b>	Remaining	35%
(e) Additional Tax	<b>Remaining above 2,000,000</b>	<b>36%**</b>	-	-

**Note:-**

A. Additional Deductions	Remarks
Natural person working in remote areas entitled for Remote Area Allowance	Additional deduction from taxable amount up to Rs 50,000. (A-50,000, B-40,000, C-30,000, D-20,000, E-10,000).
Natural person with pension income included in the taxable income	Additional deduction from taxable amount equal to 25% of amount prescribed under first tax band or Actual pension receipts whichever is less.
Incapacitated natural person	Additional deduction from taxable amount equal to 50% of amount prescribed under first tax band.
B. Deduction on Income	
Life Insurance Premium	A natural person who has procured life insurance and paid premium amount thereon shall be entitled to a reduction of actual <b>annual insurance premium or Rs 25,000</b> whichever is less from taxable income.
Medical Insurance	A natural person insured with resident insurer/insurance company for health insurance shall be entitled to a reduction of actual premium paid or Rs 20,000 whichever is less.
Contribution to Retirement Fund	1/3rd of taxable income or Rs 300,000 or Actual contribution whichever is lower.
C. Rebate on Tax Rates	
In case of resident individual women having only remuneration income	Rebate of 10% on the tax liability calculated as other natural person. i.e. not applicable for women with couple status.
Retirement payment resulting from Merger	In case of decision of the organization to provide group retirement to its employees (in the event of merger or acquisition) except to the payment made as per the employment term or the payment made by retirement fund, a rebate of 50% on withholding tax.
D. Foreign Allowances	
In case of the employee employed at the foreign diplomatic mission of Nepal	Only 25% of the foreign allowances are to be included in the income from employment.
E. Tax Exemption	
Compensation received against deceased natural person	Compensation received against the deceased of natural person is not required to be included in income.
F. Compulsory Filing	
<ul style="list-style-type: none"> <li>- A natural person with only gains from disposal of Non Business Chargeable Assets (NBCA), may opt not to file the income tax return under Section 96.</li> <li>- Natural person other than sole proprietor with income solely from income from vehicle on hire not required to file the income tax return.</li> <li>- However, a natural person having taxable income exceeding Rs 4 million during an Income Year shall submit income return under Section 96.</li> </ul>	

\* This is the Social Security Tax to be deposited in a separate revenue account (11211) provided for this purpose. However, tax payer registered as sole proprietorship or on pension income or on income from contribution based pension fund shall not attract social security tax i.e. 1%.

\*\* 36 % is computed as 30% plus additional 20% on such tax rate applicable to taxable income above Rs 2,000,000.

## 1.2 For Non Residents

S.N	Nature of Transaction	FY 2018/19	FY 2017/18
a.	Income earned from normal transactions	25% flat rate	25% flat rate
b.	Income earned providing shipping, air or telecom services, postage, satellite and optical fiber project	5%	5%
c.	Income earned providing shipping, air or telecom services through the territory of Nepal	2%	2%
d.	Repatriation of profit by Foreign Permanent Establishment	5%	5%

## 1.3 Special provisions for Resident Natural Person

S. No	Particulars	FY 2018/19	FY 2017/18
a.	Income earned by natural person engaged on special industry under Section 11 for whole year	<b>Tax @ 20% on taxable income for which tax rate of 30% is applicable.</b>	Tax @ 20% on taxable income for which tax rate of 25% is applicable.
b.	Income earned from export by natural person	<b>Tax concession of 25% and 50% on tax slab rate of 20% and 30% is applicable, respectively.</b>	Tax @ 15% on taxable income for which tax rate of 25% is applicable.
c.	Taxable income of a trust: - acquiring an estate of a deceased resident individual; or - of an incapacitated resident individual for an income year.	Tax rate as applicable to Natural Person.	Tax rate as applicable to Natural Person.

## 1.4 Special Provision for resident natural person having income exceeding Rs 2 Million but less than Rs 5 Million

Natural person those who meet following criteria shall be taxed on the basis of turnover as follows:

S. No	Natural person engaged in	FY 2018/19	FY 2017/18
a.	Gas, cigarette business doing transaction with 3% margin or commission	0.25 % of Transaction amount	0.5 % of Transaction amount
b.	Other person except those involved in business as above (a)	0.75 % of Transaction amount	0.75 % of Transaction amount
c.	Person engaged in service business except doctor, engineer, auditor, player, actor or consultants.	2% of Transaction amount	2% of Transaction amount

*Note: If income tax calculated is below Rs 5,000 then above person shall pay Rs 5,000 instead of tax at above rate.*

### Conditions for turnover taxation:

- Person having income from business only.
- Having turnover of business more than Rs 2 million but not exceeding Rs 5 million.
- Person not registered with VAT.
- Natural person not having income from consultancy or specialized services such as those provided by doctor, engineer, auditor, layer, player, actor or consultants.

## 2. Corporate Income Tax

### 2.1 Tax rates for Entity- Company/Firm/Industry

S. No.	Particulars	FY 2018/19	FY 2017/18
<b>A</b>	<b>Tax rate @ 25%</b>		
	Normal business	25 %	25%
<b>B</b>	<b>Tax rate @ 20%</b>		
i.	Entity operating Special Industry under section 11 for whole year	20%	20%
ii.	Other entities involved in business of construction of roads, bridges, tunnels, rope-ways, suspension bridges		
iii.	Entity operating trolley bus or tramps		
iv.	On transactions of cooperatives (other than tax exempted transactions) registered under Cooperative Act, 2048		
v.	Taxable income Export of entity having income source from Nepal		
vi.	Entity those involved in construction or operation of public infrastructure and to be transferred to Nepal Government or involved in construction of hydropower house and its generation and transmission.		
<b>C</b>	<b>Tax Rate @ 30%</b>		
i.	Banks and financial institutions (Commercial Banks, Development Banks and Finance Companies)	30%	30%
ii.	Entity carrying General insurance business (Non-life Insurance)		
iii.	Entity engaged in petroleum business under Nepal Petroleum Act, 2040		
iv.	Entity engaged in business of cigarette, tobacco, cigar, chewing tobacco, pan masala, alcohol and beer		
v.	<b>Entity engaged in Telecommunication and Internet service</b>	30%	25%
vi.	<b>Entity engaged in Money transfer</b>		
vii.	<b>Entity engaged in Capital market business, Securities business, Merchant banking, Commodity future market, Securities and Commodity broker</b>		

### 2.2 Tax Concessions and Rebate on Business Income

S.No.	Particulars	FY 2018/19
<b>1.</b>	<b>Concessions based on employment provided</b>	
	Special industries and information technology industries providing direct employment to 100 or more Nepalese citizens throughout the year	<b>*Applicable tax rate is 90% of NR</b>
	Special industries and information technology industries providing direct employment to 300 or more Nepalese citizens throughout the year	<b>*Applicable tax is 80% of NR</b>
	Special industries and information technology industries providing direct employment to 500 or more Nepalese citizens throughout the year	<b>*Applicable tax is 75% of NR</b>
	Special industries and information technology industries providing direct employment to 1000 or more Nepalese citizens throughout the year	<b>*Applicable tax is 70% of NR</b>
<p>* Additional 10% concession is provided if direct employment is provided to 100 or more Nepalese citizens including at least 33% of women, oppressed or handicapped person.</p>		

S.No.	Particulars	FY 2018/19
<b>2.</b>	<b>Concessions to Special industries based on locations</b>	
	- Special industries established in very undeveloped areas	Concession of 90% of the NR (for 10 yrs from the year of establishment)
	- Special industries established in undeveloped areas	Concession of 80% of the NR (for 10 yrs from the year of establishment)
	- Special industries established in under developed areas	Concession of 70% of the NR (for 10 yrs from the year of establishment)
<b>3.</b>	<b>Concessions to Special industries based on investment amount</b>	
	- Special industry with capital of Rs 1 billion or more and providing direct employment to more than 500 persons throughout the year	100% exemption for first five years from the date of operation of business and 50% concession for next 3 years
	- For special industry existing at the advent of this Section, if capital is increased to exceed Rs 1 billion, installed capacity is increased by 25% and provided employment to 500 or more persons throughout the year	100% concession for first 5 years and 50% concession for next 3 years on income generated due to increased capacity
	- Industry related to tourism or international flight operation entity established with capital investment of more than Rs 2 billion	100% concession for 5 years from commencement of business and 50% concession for next 3 years
	- For industry related to tourism industry or international flight operation entity existing at the advent of this Section, if capital is increased to exceed Rs 2 billion and installed capacity is increased by 25% at minimum	100% concession for 5 years and 50% concession for next 3 years on income generated due to increased capacity.
<b>4.</b>	<b>Concessions to industry established in special economic zone</b>	
	- Industry established in 'Special Economic Zone' recognized in mountain areas or hill areas by the GON	100% exempt up to 10 yrs from date of operation of business and 50% rebate in subsequent years
	- Industry established in 'Special Economic Zone' other than above locations	100% exempt up to first 5 yrs from date of operation and 50% rebate in subsequent years
	- Dividend distributed by the industry established in special economic zone	100% exempt for first 5 years and 50% rebate in subsequent 3 yrs

	- Income derived by the foreign investors from investment in 'Special Economic Zone' (Source of income-use of foreign technology, management service fee and royalty)	50% of NR
	- On capitalization of accumulated profit through bonus share by Special Industry, <b>Manufacturing Industry</b> , Agro-based industry or industry related with tourism for expansion of capacity of industry	No tax on dividend distribution
<b>5.</b>	<b>Concessions based on establishment in special area</b>	
	- Entity established in Technology park, Bio tech park and IT Park engaged in Software development or, data processing or, Cyber Café or, Digital Mapping	50% on NR
<b>6.</b>	<b>Concession related to hydropower project</b>	
	- Institution having license to generate, transmit or distribute electricity shall be provided concession if the commercial electricity generation, transmission or distribution commences before BS 2080 Chaitra End. (Provisions shall be applicable for electricity generated from solar, wind or organic material)	100% exempt up to 10 years and 50% rebate in subsequent 5 years
<b>7.</b>	<b>Concession to Petroleum Industry</b>	
	- If person involved in exploration and extraction of petroleum, <b>natural gas</b> and starts commercial operation by BS 2075 Chaitra end.	100% exempt up to 7 years and 50% rebate in subsequent 3 years
<b>8.</b>	<b>Other Specific concessions</b>	
	- Income from export of manufactured goods by Manufacturing Industries	Concession of 25% on NR
	- Income from construction and operation of Bridge, Airport and Tunnel and income from investment in tram and trolley	Concession of 40% on NR
	- Income of Manufacturing Industry, tourism service industry and hydropower generation, distribution and transmission industry listed in capital market and entities mentioned in section 11 (3 Ga)	Concession of 15% on NR
	- <b>Private company with capital of Rs 50 crore or more which conducts its operation by converting into public company</b>	Concession of 10% on NR for 3 years from the date of conversion
	- <b>Domestic tea production and processing industry, Dairy industry, Garments industry</b>	Concession of 50% on NR
	- <b>Health institution operated by community based organization</b>	Concession of 20% on NR
	- <b>Micro entrepreneurial industry</b> <i>if it is under entrepreneurship of woman concession of 100% on NR for 7 years from the date of operation</i>	Concession of 100% on NR for 5 years from the date of operation
	- Industry established in least developed areas producing brandy, wine, cider from fruits	Concession of 40% on NR for 10 years
	- Royalty from export of intellectual asset by a person	Concession of 25% on NR
	- Income from sale of intellectual asset by a person through transfer	Concession of 50% on NR

**Note:**

1. If any entity is entitled to more than one privilege U/S-11 only one will be entitled as opted by the entity.
2. Special industry" refers to all the manufacturing industries as classified in section 3 of Industrial Enterprises Act, 2073 except the industry related to the manufacturing of cigarette, bidi, cigar, chewing tobacco, tobacco, gutkha, pan masala other products having main ingredient as tobacco, alcohol, beer and other such related products but includes agriculture, forestry and mineral industries.

### 3. Special Provisions

S. No.	Particulars	Remarks
a.	Waiver from audit to small and medium tax payer with proprietorship income.	Small and medium tax payer, having annual turnover not exceeding Rs 10 Million, are waived from audit and they can self-attest their Income tax return.
b.	Financial statement to be stored in information centre.	Financial Statements of taxpayer having earning exceeding Rs 4 Million shall be stored in Information Centre.

### 4. Allowable Deductions

S. No.	Particulars	FY 2018/19
a.	To tax exempt organization	- Up to Rs 100,000 or 5% of adjusted taxable income whichever is lower
b.	For conservation or promotion of historical, religious or cultural heritage, or for construction of public sports infrastructure	a. On prior approval of department b. Actual up to Rs 1 million or 10% of assessable income whichever is lower
c.	Contribution to Prime Minister Relief Fund or National Reconstruction Fund established by Nepal Government	Actual amount of contribution

### 5. Tax Payment

#### 5.1 Advance Tax to Normal taxpayer

S. No.	Particulars	Installment Amount
a.	Up to Poush end	Remaining amount of 40% of estimated tax
b.	Up to Chaitra end	Remaining amount of 70% of estimated tax
c.	By Ashad End	Remaining amount of 100% of estimated tax*

\* Amount to be paid under each instalment is 90% of the amount of estimate or revised estimate payable as the instalment of tax for each instalment period for the year reduced by the amount of each instalment paid by the person for an income year

#### 5.2 Advance Tax to taxpayer based on turnover

S. No.	Particulars	Installment Amount
a.	Up to Poush end	Tax at the rate specified on actual transaction up to 20 <sup>th</sup> of Poush
b.	Up to Ashad end	Remaining Amount of Tax calculated at the rate specified on estimated transaction amount at Ashad End based on actual transaction up to 20 <sup>th</sup> of Ashad

Note: It is required to pay advance tax if tax payable is less than Rs 5,000.

#### 5.3 Rental tax payment

S. No.	Rental Tax by Natural Person	Remarks
	Tax applicable on house rent income of a natural person	The amount obtained by natural person towards the house rental has been excluded from the definition of "Rent". Hence, 10% withholding rate on rental payment doesn't apply to the house rental payment to natural person.  The 10% tax (in case of Lalitpur and Kathmandu municipal authority) on house rental payment to natural person should be deposited in respective office.

## 6. Taxation to Small Taxpayer

### 6.1 Presumptive Taxation

Particulars	FY 2018/19	FY 2017/18
<b>Vehicle Tax*</b>		
Minibus, Mini Truck, Water Tanker	Rs 6,000	Rs 3,000
Mini Tripper	Rs 7,000	-
Truck and Bus	Rs 8,000	Rs 3,000
Dozer, Excavator, Roller, Loader, Crane and similar machineries	Rs 12,000	-
Oil tanker, Gas bullet, Tipper	Rs 12,000	-
Car, Jeep, Van, Micro Bus		
(a) 0 to 1300 cc	Rs 4,000	Rs 2,400
(b) 1301 to 2000 cc	Rs 4,500	Rs 2,400
(c) 2001 to 2900 cc	Rs 5,000	Rs 2,400
(d) 2901 to 4000 cc	Rs 6,000	Rs 2,400
(e) 4001cc and above	Rs 7,000	Rs 2,400
Three Wheeler, Auto Rickshaw, Tempo	Rs 2,000	Rs 1,550
Tractor	Rs 2,000	Rs 1,000
Power Tiller	Rs 1,500	Rs 1,000
<b>Small Tax Payer having turnover not exceeding Rs 2 Million and taxable income not exceeding Rs 200,000**</b>		
Metropolitan, Sub-Metropolitan	Rs 5,000	Rs 5,000
Municipal Areas	Rs 2,500	Rs 2,500
Other than municipal areas	Rs 1,500	Rs 1,500

**Note:**

\* Schedule 1(1) (13): If the owner of the vehicle is a natural person, the tax so paid shall be final. However, this provision has been removed by Finance Ordinance 2018/19.

Small taxpayer means natural person whose annual turnover is not more than Rs 2 million and income not exceeding Rs 200,000.

\*\* w.e.f. FY 2017/18 such taxpayers are not required to register with VAT.

### 6.2 Taxation to Small Vendors

Tax payable turnover basis	Tax Amount
Person paying tax based on place of business under Section 4(4) *	Schedule 1(1)(7): For Individuals conducting business in Metropolitan/ Sub-metropolitan city: Rs. 5,000 Municipality : Rs. 2,500 Other places : Rs. 1,500

\*This includes the resident natural person meeting the following criteria:

- Annual business over Rs 2 million and less than Rs 5 million
- Not registered in VAT
- Only Nepal source income from business in that FY
- Advance tax not claimed under Section 93

## 7. Tax Withholdings

### 7.1 Tax withholding Rates (TDS)

S. No.	Nature of Transaction	FY 2018/19	FY 2017/18
i.	Interest income from deposit under 'Micro Finance Program', 'Rural Development Bank', 'Postal Saving Bank & Co- operative (u/s-11(2)) in rural areas is exempted from tax	Up to Rs 25,000	Up to Rs 25,000
ii.	Windfall gains	25%*	25%*
iii.	Payment of rent except house rent to natural person and except provided in serial number (iv) & (v) below, made by resident person **	10%	10%
iv.	Payment for vehicle hire to VAT registered person	1.5%	1.5%
v.	Payment for freight relating to carriage of goods	2.5%	-
vi.	Profit and gain from transaction of commodity future market	10%	10%
vii.	On returns to be distributed by Mutual Fund: - Natural person - Other than Natural Person	5% 15%	5% 15%
viii.	On Dividend paid by the resident company and partnership firm - To Resident person - To Non-resident Person	5% for both	5% for both
ix.	On payment of gain from investment insurance	5%	5%
x.	On payment of gain from unapproved retirement fund	5%	5%
xi.	On payment of interest or similar type having source in Nepal by Resident Bank, <b>Cooperatives</b> , financial institutions or debenture issuing entity, or listed company - In case of payment made to natural person [not involved in any business activity] - In case of payment made to entities	5% 15%	5% 15%
xii.	On payment of premium to non- resident insurance company <b>On payment of commission relating to reinsurance premium to non- resident insurance company</b>	1.5%	1.5%
xiii.	<b>On payment exceeding 50 lakhs made towards the works done through the consumer committee</b>	1.5%	-
xiv.	Contract payments exceeding Rs 50,000	1.5%	1.5%
xv.	Payment of consultancy fee/ for procurement of services: - by resident person against VAT invoice - by resident person against Non-VAT invoice	1.5% 15%	1.5% 15%
xvi.	Payment of contract to Non-Resident person for repair of aircraft & other contract	5%	5%
xvii.	On payment for use of Satellite, Bandwidth, Optical fiber, telecommunication equipment or electricity transmission by resident person irrespective of its location	10%	10%

### 7.2 Rates of Tax Collected at Source (TCS)

xviii.	Gain on disposal of Interest in any resident entity (listed) - To resident natural person - To resident entity - <b>Others</b> (including non-resident person)	7.5% 10% 25%	5% 10% 10%
	Gain on disposal of Interests in any resident entity (unlisted) - To resident natural person - To resident entity - <b>Others</b> (including non-resident person)	10% 15% 25%	10% 15% 15%

xix.	On import of items under <ul style="list-style-type: none"> <li>• Custom Banding Category 1 (Live Animals),</li> <li>• Custom Banding Category 6 (Live Trees and Other Plants; Bulbs, Roots and The Like; Cut Flowers And Ornamental Foliage),</li> <li>• Custom Banding Category 7 (Edible Vegetables and Certain Roots and Tubers),</li> <li>• Custom Banding Category 8 (Edible Fruit and Nuts; Peel of Citrus Fruit or Melons)</li> </ul>	5%	-
Xx	Gain on Disposal of land or land & building: <ul style="list-style-type: none"> <li>- Owned by individual for over 5 years</li> <li>- Owned by individual for up to 5 years</li> <li>- Owned by person other than individual</li> </ul> <p>* The land and building disposed of at proceeds less than Rs 3,000,000 doesn't fall under the category of non-business chargeable assets (NBCA). The limit has now been reduced to Rs 1,000,000.</p>	2.5% 5% 10%	2.5% 5% 10%

*\*Windfall gain tax of 25% will be exempted for the reward up to Rs 500,000 received on behalf of contribution in the field of literature, art, culture, sports, journalism, science and technology and general administration*

*\*\* In case of house rent other than payment to natural person, additional municipality tax to be included and deposited with the local ward/municipal office (2% in case of Kathmandu and Lalitpur Municipal Authorities)*

### 7.3 Applicability of TDS

S. No.	Nature of transaction	FY 2018/19	FY 2017/18
I	Payment for question setting, answer evaluation	15%	No TDS
li	Payment made by natural person relating to activities other than business activities	No TDS	No TDS
lii	Payment for articles published in Newspaper	No TDS	No TDS
Iv	Interest payment to resident bank and other financial institutions	No TDS	No TDS
V	Interregional interchange fee paid to credit card issuing bank	No TDS	No TDS
Vi	Interest or fees paid by GON under bilateral agreement	No TDS	No TDS
Vii	Tax Exempt payment or TDS deductible u/s 87	No TDS	No TDS
Viii	Dividend or interest paid to Mutual Fund/ Collective Investment	No TDS	No TDS

### 7.4 Final Withholding Payments

S. No.	Nature of transaction	FY 2018/19	FY 2017/18
i.	On Dividend paid by the resident company and Partnership firm <ul style="list-style-type: none"> <li>- To Resident person</li> <li>- To Non- resident Person</li> </ul>	5% for both	5% for both
ii.	Payment of vehicle rent and freight made to resident natural person other than sole proprietor	10%	10%
iii.	On payment of gain in investment insurance by resident natural Person	5%	5%
iv.	On payment of gain from unapproved retirement fund	5%	5%
v.	On payment of interest or similar type having source in Nepal to natural person [not involved in any business activity] by Resident Bank, financial institutions or debenture issuing entity, or listed company	5%	5%
vi.	Windfall gains	25%*	25%*

## 8. Fines and Penalties

Section	Circumstance	Fines
117(1)(Ka)	Estimated Income Tax Return under Section 95(1) not filed by taxpayer	Rs 2, 000 per return
117(1)(Kha)	Advance Withholding Tax Return under Section 95Ka(5) not filed by advance tax withholding agent	1.5% p.a. on the amount of tax to be withheld
117(1)(Ga)	Income Tax Return under Section 96(1) not filed by  <i>If the ITR is filed within the period of extension the fine under Section 117(Ga) is not attracted, otherwise fine is attracted from the due date for filing the ITR irrespective to the extension</i>	Person under Section 4(4): Rs 100 p.m.  Others: Higher of: Rs 100 p.m.; or 0.1% p.a. on the amount of inclusions
117(1)(Gha)	Financial Statement is not submitted within prescribed time by entities under Section 2(Dha) ( <i>Exempt Entity</i> )	0.1% p.a. on the amount of receipts
117(2)	Fails to maintain proper documentation for an income year as required by Section 81	For the year during which the documentation is not maintained, calculated as: Higher of: Rs. 1000; or 0.1% of the amount of inclusions
117(3)	Withholding Tax Return under Section 90(1) not filed by tax withholding agent	<b>2.5% p.a.</b> on the amount of tax to be withheld
118(1)(Ka)	Instalment tax to be deposited under Section 94 is not made as prescribed	15% p.a. <i>on outstanding amount</i>
119(1)	Failure to Pay Tax on or before the date on which the tax is payable  <i>Section 119(2): For the purposes of calculating interest payable under Section 119(1), any extension granted under Section 98 is ignored.</i>	15% p.a. on the outstanding amount
119(4)	In case tax has not paid within the date allowed under Section 110A <i>Payment of the outstanding tax in installments</i>	Additional 5% p.a. is levied on the arrears
119Ka	Except as otherwise provided in this Act, a person who fails to comply with this Act or the Rules framed hereunder	Rs. 5,000 to Rs. 25,000
120(Ka)	Makes a false or misleading statement or omits from a statement made to the Department any matter or thing without which the statement is false or misleading in a material particular, knowingly or recklessly to the Department	100% of the underpayment of tax
120(Kha)	Makes a false or misleading statement or omits from a statement made to the Department any matter or thing without which the statement is false or misleading in a material particular, but not knowingly or recklessly to the Department	50% of the underpayment of tax
121	A person who knowingly or recklessly aids or abets another person to commit an offence under Chapter 23 ( <i>Section 123 to Section 130</i> ), or counsels or induces another person to commit such an offence	100% of the underpayment of tax

### Note:

The rate in above schedule is applied in highest integer month basis i.e. part of a month is counted as a month

## 9. Other significant changes introduced by Finance Ordinance 2018/19

- Section 11Kha: Extension of time from 13 April 2019 to 12 April 2020 where no source of income shall be sought on the investments made in projects of national importance.
- Section 21 (1) (Kha): Taxes paid to provincial and local government is deductible from taxable income.
- Provisions relating to combination of bank and financial institutions**

Section 47Ka (6): Extension of time for submission of the intent of business combination as per Section 47Ka(1) to IRD till Ashad end 2076.

Section 47Ka(7): Extension of time for submission of the intent as per Section 47Ka(6) by the entity with respect to conclusion of business combination till Ashad end 2077.

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right size  
right solutions

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