

# Nepal Taxation

## 2022 Edition



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## Acronyms

|       |  |
|-------|--|
| BFI   | Banks and Financial Institutions         |
| DG    | Director General                         |
| DOI   | Department of Industries                 |
| GoN   | Government of Nepal                      |
| IRD   | Inland Revenue Department                |
| IRO   | Inland Revenue Office                    |
| ITA   | Income Tax Act,2058                      |
| MW    | Megawatts                                |
| NFY   | Nepal Financial Year                     |
| NRs   | Nepali Rupees                            |
| NRB   | Nepal Rastra Bank                        |
| PAN   | Permanent Account Number                 |
| SEBON | Securities Board of Nepal                |
| SEZ   | Special Economic Zone                    |
| SSF   | Social Security Fund                     |
| TDS   | Tax Deducted at Source                   |
| TRU   | T R Upadhya & Co., Chartered Accountants |
| VAT   | Value Added Tax                          |

## 1. DIRECT TAXES

### 1.1 General

The main objective of the tax system is to enhance revenue mobilization through effective revenue collection procedures for the economic development of the nation. Income is taxed in accordance with the provisions of the Income Tax Act 2002 (ITA). The salient features of the ITA are:

- a. Various concessions and incentives allowed under different Acts have been repealed and provided under the single ITA;
- b. The tax liability of residents and non-residents is clearly defined;
- c. Worldwide income of a resident, whether individual or company is made taxable in Nepal;
- d. Income with source in Nepal is taxable in Nepal irrespective of the place of payment;
- e. Specific provision for taxing capital gains is introduced;
- f. Procedures for granting credit for international tax are prescribed;
- g. General provision for anti-avoidance and income splitting rules introduced; and
- h. Clearly defined tax administration and payment procedures are provided.

The tax is levied on income accrued or received from the business, investment, employment and windfall gains. Both individuals and companies are required to follow a uniform income year that runs from July 16 to the following July 15 corresponding to the Nepali Fiscal Year (NFY). All persons with assessable income are required to register with the Inland Revenue Office (IRO) and obtain a Permanent Account Number (PAN) and to file a tax return annually.

Returns are filed under a self-assessment system under which the IRO considers returns final unless they are subject to a detailed audit of the taxpayer's affairs. In practice, Assessing Officers make tax audit assessments and adjustments in the majority of the cases.

Income tax payments are made in the year in which the income is earned in the form of withholding tax and advance tax. Companies are subject to a flat rate of tax, whereas individuals are taxed at progressive rates. The Director General (DG) of the Inland Revenue Department (IRD) has responsibility for the general administration of the ITA.

### 1.2 Taxation of Companies

#### 1.2.1 Introduction

Tax is levied under the provision of the Income Tax Act 2002, which provides for the imposition and collection of tax on the income of companies. Resident companies are subject to tax on their worldwide income. Non-residents are required to pay tax on their net income acquired or earned in Nepal or income with a source in Nepal. Tax is levied on the net income after making deductions for certain expenses/allowances as specified in the ITA.

“Company” means a body corporate or a company formed under the Companies Act of Nepal and includes foreign companies and other institutions such as Unit Trust, Co-operatives Society, or group of persons other than a partnership having less than 20 partners and proprietorship firm.

### 1.2.2 Residence

A resident company is a company formed or established in Nepal or is effectively managed in Nepal during the income year. A resident company is taxed on worldwide income. Dual residence is not recognized for the purposes of Nepalese tax.

### 1.2.3 Taxable Income

Income tax is levied on the net income earned or received from each of the following:

- a. Business income;
- b. Employment income;
- c. Investment income; and
- d. Windfall gains.

The income in relation to a business consists of the profit or gain derived from conducting the business, including:

- a. Service fee;
- b. Amounts derived from the disposal of trading stock;
- c. Net gains from the disposal of business assets or liabilities;
- d. Gain on the disposal of all depreciable assets in a pool of assets;
- e. Gifts received in respect of the business;
- f. Amounts derived as consideration for accepting a restriction on the capacity to conduct business; and
- g. Amounts derived that are effectively connected with the business and that would otherwise be included in income from an investment.

In computing the income from business or investment, all actual costs are deductible to the extent they are incurred during the year by the entity in the generation of income from the business. The following methodology is available for the valuation of inventory:

- a. Prime cost or absorption cost method in case of cash accounting system;
- b. Absorption cost method in case of accrual accounting system; or
- c. Choice between first-in-first-out method and average cost method.

### 1.2.4 Capital Gains Tax

Net gains from the disposal of business assets or liabilities of a business are taxable as business income. Generally, gains are calculated as proceeds from the capital transaction less the tax basis in the relevant property. In the language of the ITA, the gain from the disposal of an asset or liability is calculated as the amount by which the sum of the incomings of the asset or liability exceeds the outgoings of the asset or liability at the time of disposal and is reduced by the following losses:

- a. The total of all losses suffered from the disposal of business assets or liabilities;
- b. Any unrelieved net loss out of any other business losses; and
- c. Any unrelieved net loss for a previous income year out of losses of any business.

Loss on the disposal of an asset or liability with a foreign source can be claimed against the above gain only to the extent that the amount includes gains on the disposal of assets

or liabilities with a foreign source. A non-resident is taxed only on gains from the disposal of assets or liabilities sourced in Nepal, however, based on a recent court ruling<sup>1</sup> and amendments in the law, non-residents are taxed also on gains which do not have a source in Nepal.

### 1.2.5 Dividend

Dividend distributed by a resident company and partnership firms is subject to a final withholding tax at the rate of 5% to the resident and the non-resident person. These dividends are not taxed at the hand of the recipient and no withholding is applicable on the distribution of dividends from dividend income. Dividends of a non-resident entity, which are distributed to a resident beneficiary, are taxed by inclusion in calculating the income of the beneficiary. Distributions of dividends, which are derived after the final withholding tax, are exempted from tax.

### 1.2.6 Exempt Income

The following categories of income are exempt from tax:

- a. Agricultural income derived from sources in Nepal by a person other than the income from an agriculture business derived by a firm, company, or partnership; and
- b. The income of a social, religious, educational, or charitable organization of a public character registered without having a profit motive and similar other organizations approved by the Inland Revenue Department as an exempt organization.
- c. The Income earned by the Drinking Water and Sanitation Consumer Committee as per its objectives, registered as per Water Resources Act, 2049.
- d. Income of approved mutual fund derived in line with its objective
- e. Income of non-profit motive educational institution established based on letter of understanding with GON or related body.

All expenses incurred in earning exempt income are not tax deductible.

### 1.2.7 Deductions

All actual expenses incurred in acquiring or earning income are allowable deductions for tax purposes if it has been incurred in that NFY by the entity, including the following:

- a. Interest;
- b. Cost of trading stock;
- c. Repair and improvement costs - amounts exceeding 7% of the value of depreciable assets in any income year are not deductible and are instead added to the depreciation basis of the relevant asset pool at the beginning of the next income year. This limitation does not apply to the aviation industry;
- d. Pollution control expenses;
- e. Research & Development expenses;
- f. Depreciation;

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<sup>1</sup> Ruling by the Supreme Court in case of Capital Gains tax on disposal of shares by TeliaSonera outside of Nepal

- g. Banking companies and financial institutions are allowed a deduction for impairment of non-performing assets (loan loss provision) subject to 5% of the total loan outstanding;
- h. Natural person working in remote areas entitled to Remote Area additional deduction from taxable amount up to NRs 50,000
- i. Incapacitated natural person Additional deduction from the taxable amount equal to 50% of the amount prescribed under first tax band or actual income whichever is lower;
- j. Donation up to NRs 100,000 or 5% of adjusted taxable income whichever is lower to tax exempt organization;
- k. Spending on conservation or promotion of historical, religious or cultural heritage, or for construction of public sports infrastructure on prior approval of department actual up to NRs 1 million or 10% of assessable income whichever is lower;
- l. Contribution to Prime Minister Relief Fund or National Reconstruction Fund established by GoN;
- m. Seed capital up to NRs 100,000 each contributed for up to 5 startups not related to the contributor shall be allowed as a deductible expense and

However, disclaimers, write-offs or the forgiveness of debt that is written off are not tax deductible. The ITA specifically provides that certain expenses are not deductible, such as:

- a. Domestic and personal expenses;
- b. Income tax paid in Nepal and fines and penalties paid to GoN except tax payments to local and provincial governments;
- c. Expenses incurred in deriving exempt income or final withholding payments;
- d. Distributions of profits;
- e. A cash payment in excess of NRs 50,000 by entities whose annual turnover exceeds NRs 2 million unless explicitly permitted;
- f. Expenses of capital nature which include cost incurred on detailed feasibility report exploration and development cost of natural resources;
- g. Salary and wage payment to employee or worker who has not obtained/registered PAN from Inland Revenue Office except in case of payment of wage up to NRs 3,000 at a time to the worker; and
- h. Expenses against invoice of more than NRs 2,000 wherein PAN number is not mentioned except in case of payment made for procurement agro-based, forestry based, animal husbandry based or other household goods from a natural person not conducting commercial transactions

### 1.2.8 Reduction

- a. A natural person who has procured life insurance and paid the premium amount thereon shall be entitled to a deduction from the taxable income the lower of the actual annual insurance premium or NRs 40,000.
- b. A natural person who has insured with a resident insurer/insurance company for health insurance shall be entitled to a deduction from the taxable income the lower of the actual premium paid or NRs 20,000.

- c. A resident natural person who has insured a private building in his/her ownership with a resident insurer/insurance company shall be entitled to a deduction from the taxable income the lower of the actual annual premium paid or NRs 5,000.
- d. In respect of contribution to an approved retirement fund, 1/3rd of taxable income or NRs 300,000 (NRs 500,000 if the contribution is done in SSF) or actual contribution whichever is lower.

### 1.2.9 Losses

Tax losses can be carried forward for a period of 7 years and in the case of public infrastructure projects to be built, operated and transferred to GoN, projects relating to the construction of power houses and generation and transmission of electricity and petroleum exploration and extradition companies, any unrelieved loss of the past 12 years can be deducted. However, tax losses can be carried back for set-off against the taxable income of an earlier period in case of long-term contracts under international competitive bidding subject to prior approval from IRD.

Entities which has availed full or partial tax exemption in any of the years on investment or business income are not entitled to carry forward losses incurred in these exempt years.

As per section 57 of ITA, accumulated tax losses till the date of change in ownership (more than 50% change over the last three years) is not allowed to be carried forward to the period after the change in ownership.

Capital losses from the disposal of business assets or liabilities of a business are an allowable deduction and can be claimed as a normal business expense. However, a loss on the disposal of fixed assets can only be claimed if after being credited against the outstanding balance of the pool, the value of the pool becomes zero or negative.

### 1.2.10 Tax Depreciation /Capital Allowances

Depreciation is allowed on the acquisition cost of the following assets where such assets are used for income producing purposes:

| Pool     | Assets Included   | Depreciation Rate (%)                         |
|----------|---|---|
| <b>A</b> | Buildings, structures and similar works of a permanent nature                                   | 5   |
| <b>B</b> | Computers, fixtures, office furniture and office equipment                                      | 25  |
| <b>C</b> | Automobiles, buses and minibuses  | 20  |
| <b>D</b> | Construction and earth-moving equipment and any depreciable asset not included in another class | 15  |
| <b>E</b> | Intangible assets other than depreciable assets included in class D.                            | During the estimated useful life of the asset |

Each depreciable asset at the time it is first owned or so used, is placed in a pool referred to as pools of depreciable assets. Depreciation is calculated on the reducing balance method and is based on the pool of assets.

The pool of assets concept suggests the aggregation of all assets with the same depreciation rate into a common block for the computation of depreciation. Depreciation is computed at varying rates as prescribed. In the year of purchase, depreciation is



available for the full year, if an asset is added to the pool for more than six months period during NFY. In other cases, depreciation is allowed at either two thirds or one third of the normal rate, if the addition is made for less than six or three months period, respectively. Amounts derived from the disposal of an asset or assets are reduced from the written down value of the relevant pool.

Manufacturing industries can claim additional depreciation at one third of the normal rate. Additional depreciation is considered to be additional facilities to the manufacturing company (special industries) under the ITA.

### 1.2.11 Amortization of Expenditure

Costs incurred in respect of natural resource prospecting, exploration and developments are treated as if they were incurred in securing the acquisition of an asset that is used in that production and depreciated.

Expenditure incurred on R&D and pollution control related to the taxpayer's business is deductible up to 50% of the adjusted taxable income in the income year it is incurred. Any excess cost, for which deduction is not allowed as a result of the said limitation, is capitalized and depreciated. Intangible assets are amortized over the useful life of the asset.

### 1.2.12 Interest

Interest means the following payments or gains:

- a. A payment made or incurred under a debt obligation except for repayment of principal portion;
- b. Any gain realized by way of a discount, premium, swap payment, or similar payment; and
- c. The portion that is treated as an interest in the payment made under an annuity or for acquiring an asset under an installment sale or the use of an asset under a finance lease.

The interest incurred under a debt obligation is deductible to the extent, either that the obligation was required to be incurred in the generation of income or the debt was used to purchase an asset that is used in the business.

### 1.2.13 Tax Rates

The current corporate tax rate varies depending on the nature of the taxable income as follows:

| # | Particulars   | FY 2022-23  |        |                  |
|---|---|-------------|--------|------------------|
|   |   | Normal Rate | Rebate | Applicable Rate* |
| 1 | Normal business   | 25%         | -      | 25%              |
| 2 | Entities operating as Special Industry under section 11 for whole year              | 25%         | 20%    | 20%              |
| 3 | Entities constructing and operating ropeway, cable car or sky bridge                | 25%         | 40%**  | 15%**            |
| 4 | Entities constructing and operating roads, bridges, tunnels, railways, and airports | 25%         | 50%**  | 12.5%**          |

| #  | Particulars   | FY 2022-23  |        |                  |
|----|---|-------------|--------|------------------|
|    |   | Normal Rate | Rebate | Applicable Rate* |
| 5  | Entities operating trolley bus or trams   | 25%         | 40%**  | 15%**            |
| 6  | Entities with export income from source in Nepal  | 25%         | 20%    | 20%              |
| 7  | Entities involved in construction or operation of public infrastructure and to be transferred to the GoN or involved in the construction of hydropower house and its generation and transmission. | 25%         | 20%    | 20%              |
| 8  | Banks and financial institutions (Commercial Banks, Development Banks and Finance Companies)  | 30%         | -      | 30%              |
| 9  | Entity carrying General insurance business (Non-life Insurance)   | 30%         | -      | 30%              |
| 10 | Entity engaged in petroleum business under Nepal Petroleum Act, 2040  | 30%         | -      | 30%              |
| 11 | Entity engaged in the business of cigarette, tobacco, cigar, chewing tobacco, pan masala, alcohol and beer  | 30%         | -      | 30%              |
| 12 | Entity engaged in Telecommunication and Internet service  | 30%         | -      | 30%              |
| 13 | Entity engaged in Money transfer  | 30%         | -      | 30%              |
| 14 | Entity engaged in Capital market business, Securities business, Merchant banking, Commodity futures market, Securities and Commodity broker   | 30%         | -      | 30%              |

\*Above industry-wise applicable tax rate is presented after considering concession available under section 11 of Income Tax Act (ITA) except entities falling under tax holiday period. However, in the case of the special industries and industries other than those presented above, the entity can choose any one tax concession available under section 11 of ITA.

\*\*Above rebate and applicable tax rates with respect to entities constructing and operating ropeway, cable car, Sky Bridge, roads, bridges, tunnel, railway, and airports, trolley buses, and trams are applicable only up to 10 years from the date of commercial operation.

Non-residents are taxed at 25% except the income from transporting passengers, mail or cargo by sea or air that is embarked in Nepal (online) is taxed at 5%, whereas for offline services (i.e., services that do not originate in Nepal) the tax rate is 2%.

#### 1.2.14 Annual Tax Returns

All assesses are required to adopt a uniform income year ending mid-July each year and submit tax returns within three months thereof. i.e. by mid-October of each year although an extension of 3 months may be requested and generally granted. The accounts are to be audited by an auditor qualified under the laws of Nepal. Tax returns also need to be certified by the auditor and submitted along with the audited accounts within the stipulated time. However, small and medium taxpayers, having annual turnover not exceeding NRs 10 Million, are waived from audit and they can self-attest their tax return.

If there is any discrepancy/error in the income tax return submitted by a person within the due date, such return can be revised within 30 days from the date of filing of return.

### 1.2.15 Advance Tax

Income tax is to be paid in advance in 3 installments by all entities during an income year by Poush end (mid-January), Chaitra end (mid-April), and Ashad end (mid-July) computed at the applicable rates on the estimated profits of the entity for the entire year. Advance tax to be deposited is as follows:

| Installment /due date              | Advance Tax  |
|------------------------------------|--|
| 1 <sup>st</sup> i.e., Mid- January | 40% of the total estimated tax liability for the year  |
| 2 <sup>nd</sup> i.e., Mid-April    | 70% of the total estimated tax liability for the year  |
| Final i.e., Mid- July              | 100% of the total estimated tax liability for the year |

Provided that, taxpayers based on turnover taxation shall pay advance tax as follows:

| Installment /due date              | Advance Tax  |
|------------------------------------|--|
| 1 <sup>st</sup> i.e., Mid- January | Tax at the rate specified on actual transaction up to 20 <sup>th</sup> of Poush (4 <sup>th</sup> of January)   |
| Final i.e., Mid- July              | Remaining tax is calculated at the rate specified on the estimated transaction amount at Ashad end (Mid- July) based on actual transaction up to Ashad 20 (July 5) |

### 1.2.16 Tax Payment / Refunds

Income-tax payments are made in the year in which the income is earned in the form of withholding tax and advance tax. The taxpayer is required to estimate taxable income and make advance payments in three installments spread over the year. Income from services including contract payment is subject to tax withholdings that may be adjusted for the purpose of calculating advance tax.

Arrangements have been made by IRO to refund within 60 days the excess money deposited by taxpayers (in practice may take longer and too much hassle).

### 1.2.17 Fines and Penalties

Failure to maintain records, non-submission of returns or late submission, non-payment or short payment of tax will attract late fee/ interest at prescribed rates. Submission of false or misleading returns shall attract a penalty ranging from 50 to 100% of tax loss. Fines including imprisonment for a term ranging from one month to two years are prescribed for not paying or evading tax. Interest is applied at the rate of 15% per annum.

### 1.2.18 Review and Appeals

Application for Administrative Review may be submitted at IRD against a revised assessment or an assessment of fees, interest and penalty within 30 days from the date of receipt of notice about the decision. While filing an application for administrative review it is mandatory to deposit 100% of the undisputed tax and one fourth of the disputed tax.

Taxpayers shall deposit the total undisputed tax amount and 50% of the disputed amount including fees and penalty as a security deposit or arrange an equivalent bank guarantee for filing an appeal to the Revenue Tribunal. On the calculation of such deposit or

equivalent bank guarantee amount, 25% of the disputed amount deposited at the time of Administrative Review shall also be included

## **1.3 Taxation of Individuals**

### **1.3.1 Introduction**

Resident individuals are subject to tax on their worldwide income derived from employment, business or investment. Non-residents are subject to tax on their net income earned having a source in Nepal.

### **1.3.2 Residence**

A person who has resided in Nepal for a period of 183 days or more in a duration of consecutive 365 days or whose normal place of abode is Nepal is considered resident of Nepal. Dual residence is not recognized for the purpose of the Nepalese tax.

There is no separate provision for taxing the income of short-term visitors. Depending on the length of stay, they will be classified as resident or non-resident and the Nepal sourced income shall be taxed accordingly.

### **1.3.3 Taxation of Income**

Tax is levied on the total income earned or received by an individual less deductions, relief and incentives. Certain categories of income are not included in the total income of an individual but are taxed separately under special regimes, including:

- a. The amount obtained by a natural person towards the house rental has been excluded from the definition of "Rent". Hence, 10% withholding rate on rental payment does not apply to the house rental payment to a natural person. House rental tax of 10% on payment to a natural person should be deposited in the respective Municipality ward office;
- b. Income from bank deposits of resident natural person (not earned as a result of doing business) is taxed separately at source at a flat rate of 5%;
- c. Gain in investment insurance of a resident natural person and from unapproved retirement fund is taxed at a flat rate of 5%;
- d. Windfall gains tax is taxed at a rate of 25%;
- e. Returns distributed by a mutual fund to a natural person are taxed at a rate of 5%;
- f. Meeting fee is taxed at a rate of 15%;
- g. Amount paid to a non-resident person after withholding applicable taxes under remuneration, fees, commission, royalty, interest and contractual payments are final withholdings; and
- h. Dividend received from a resident company and partnership firm is taxed as final tax withholding at a rate of 5% to the resident and non-resident person both.

### **1.3.4 Capital Gains Tax**

Net gain derived in respect of the disposal of shares listed on the stock exchange is subject to tax at the rates of 7.5% on short term capital gain (for shares held up to 365 days) and at the rate of 5% on long term capital gain (for shares held more than 365 days) in case of resident natural persons and 10% and 25% for resident natural persons, resident entity and others, respectively, and whereas in case of unlisted shares, tax at the rate

of 10%, 15% and 25% are applicable for resident natural persons, resident entities and others, respectively.

Net gain derived from the disposal of land and building is subject to tax at the rate of 5% if owned for more than 5 years and 7.5% if owned for up to 5 years by a natural person. Net gain on disposal of land and building is subject to 1.5% for a person other than a natural person irrespective of the period of holding.

### 1.3.5 Dividend

Dividends received from resident companies and partnership firms are taxed at source as a final withholding and therefore tax exempt for both resident and non-resident individuals.

### 1.3.6 Employment Income / Employee Benefits

#### General

Remuneration earned or received from the exercise of employment is taxed as income from employment. Employment income is defined to include:

- a. Wages, salary, leave pay, overtime pay, fees, commission, prizes, gifts, bonuses and other facilities;
- b. Personal allowances including cost of living, subsistence, rent, entertainment and transport allowance;
- c. Reimbursement of costs;
- d. Payment for the agreement to any conditions of employment;
- e. Retirement contributions; and
- f. Other payments made in respect of the employment.

#### Treatment of Retirement Benefits

The actual contribution, one third of the employment income or NRs 300,000 whichever is lower, contributed to the approved retirement fund is deductible from taxable income. No deduction is allowed if contributed to an unapproved retirement fund. In the case of a contribution made under SSF, the actual contribution, one third of the employment income or NRs 500,000 whichever is lower, contributed to the approved retirement fund is deductible from taxable income.

Contribution based retirement payments exceeding, 50% of the total sum or NRs 500,000 whichever is higher, received from an approved retirement fund at the time of separation are taxed at 5%.

In case of retirement payments from an unapproved retirement fund, the gain is taxed at 15%.

The tax law provides for taxation of all non-cash benefits to be valued at the market rate however accommodation and vehicle facilities provided to employees are valued at 2% and 0.5%, respectively of basic remuneration.

### 1.3.7 Deductions

Self-employed individuals can claim all reasonable expenses incurred in acquiring or earning income. Salaried employees are entitled to claim only specified deductions and relief.

### 1.3.8 Personal Allowances and Rebates of Tax

The basic exemption is NRs 600,000 for a couple and NRs 500,000 for an individual. The exemption limit for handicapped people is 50% in addition to the aforementioned limit. A rebate of 10% of the tax liability is provided to women (having only remuneration income and not opted for couple status) on their income from employment.

### 1.3.9 Tax Rates

The applicable tax rates for the resident individuals of Nepal shall be as follows:

| Tax Banding        |                           | Tax Rates for the FY 2022-23 |                           |     |
|--------------------|---------------------------|------------------------------|---------------------------|-----|
| Resident           | Individual                |                              | Couple                    |     |
| (a) Band 1         | First 500,000             | 1%*                          | First 600,000             | 1%* |
| (b) Band 2         | Next 200,000              | 10%                          | Next 200,000              | 10% |
| (c) Band 3         | Next 300,000              | 20%                          | Next 300,000              | 20% |
| (d) Band 4         | Next 1,000,000            | 30%                          | Next 9,00,000             | 30% |
| (e) Additional Tax | Remaining above 2,000,000 | 36%                          | Remaining above 2,000,000 | 36% |

*\*This is the Social Security Tax to be deposited in a separate revenue account (11211) provided for this purpose. However, taxpayers registered as sole proprietors or on pension income or income from contribution based pension fund shall not attract social security tax i.e. 1%. And if the taxpayer is depositing the amount in the Social Security Fund (SSF) then for those taxpayers Social Security Tax is not applicable.*

Non-resident persons shall be taxed at a flat rate of 25% on the remuneration earned from source in Nepal.

### 1.3.10 Tax Administration

The tax period is the financial year of the government, which is the 12 months period commencing in mid-July and ending in mid-July of the following year (corresponding to NFY which commences from Shrawan and ends in Ashad).

In general, every resident and non-resident natural person must file a personal income tax return within 3 months from the end of the NFY of the following year. However, a natural person who only has income from employment is not required to file tax returns subject to the condition that the annual remuneration income does not exceed NRs 4 million. An employer must submit annual tax returns for each employee showing total remuneration due or paid permissible deductions and the amount of tax due, deducted and deposited with the IRO.

An employer is obliged to deduct tax at the time of payment of salary and forward the amount withheld to the tax authorities within 25 days from the end of the Nepali calendar month of withholding.

## 1.4 International Tax

### 1.4.1 Double Tax Relief

Nepal provides relief against international double taxation to residents by granting foreign tax credits. This is restricted to an amount calculated by multiplying the Nepal income tax rate by the income subject to foreign tax. Excess credits can be carried forward and adjusted only against the assessable foreign income.

In addition, double tax relief can be claimed under the provisions of existing DTAs, which Nepal has negotiated with other tax jurisdictions.

An unrelieved foreign source loss can be set off only against foreign source income on a standalone basis per country.

#### 1.4.2 Treaty and Non-Treaty Withholding Tax Rates

Nepal has entered into double taxation avoidance agreements with 11 countries including India in order to provide relief from the double taxation of income of foreign investors. The tax rates applicable as per the double tax avoidance agreement are a below:

| Countries                   | Dividend                | Interest                   | Royalty     | Service fee |
|-----------------------------|-------------------------|----------------------------|-------------|-------------|
| <b>Non-treaty countries</b> | 5%                      | 5/15%<br>(NOTE 5)          | 15%         | 15%         |
| <b>Treaty countries:</b>    |                         |                            |             |             |
| <b>Austria</b>              | 5*/10**/15%             | At most 15/10%<br>(NOTE 1) | At most 15% | 15%         |
| <b>China</b>                | At most 10%             | At most 10%                | At most 15% | 15%         |
| <b>India</b>                | 5***/10%                | At most 10%                | At most 15% | 15%         |
| <b>Korea</b>                | 5*/10**/15%             | At most 10%                | At most 15% | 15%         |
| <b>Mauritius</b>            | 5****/10**/15%          | At most 10/15%<br>(NOTE 2) | At most 15% | 15%         |
| <b>Norway</b>               | 5*/10**/15%             | At most 15/10%<br>(NOTE 1) | At most 15% | 15%         |
| <b>Pakistan</b>             | 10**/15%                | At most 10/15%<br>(NOTE 2) | At most 15% | 15%         |
| <b>Qatar</b>                | At most 10%             | At most 10%                | At most 15% | 15%         |
| <b>Srilanka</b>             | At most 15%             | At most 15/10%<br>(NOTE 1) | At most 15% | 15%         |
| <b>Thailand</b>             | At most 15%<br>(NOTE 3) | At most 10/15%<br>(NOTE 4) | At most 15% | 15%         |
| <b>Bangladesh</b>           | 10**/15%                | At most 10/15%<br>(NOTE 1) | At most 15% | 15%         |

\* 5% if the beneficial owner of shares is a company and it holds at least 25% of shares of the company paying the dividends.

\*\* 10% if the beneficial owner of shares is a company and it holds at least 10% of shares of the company paying the dividends.

\*\*\* 5% if the beneficial owner of shares is a company and it holds at least 10% of shares of the company paying the dividends.

\*\*\*\* 5% if the beneficial owner of shares is a company and it holds at least 15% of shares of the company paying the dividends.

NOTE 1. Interest shall not exceed 10% if interest is paid to a bank, which is a resident of the other Contacting State and is the beneficial owner of the interest.

- NOTE 2. Interest shall not exceed 10% if the beneficial owner is a financial institution, an insurance company or an investment company receiving income from financial investments.
- NOTE 3. If the beneficial owner of shares is a company and it holds at least 15% of shares of the company paying the dividends.
- NOTE 4. 15% of the gross amount of interest if it is received by a financial institution (including insurance companies)
- NOTE 5. 5% if paid to a natural person, not related to business, by financial institutions, listed company or entity issuing debentures, on deposit, loans, bonds, or debentures. 15% in all other cases.

## 1.5 Withholding Taxes

Payments are subject to withholding tax as follows:

A non-resident company carrying on business in Nepal is subject to tax in the same way as a resident company i.e., on income from a source within or deemed to be within Nepal.

| #     | Nature of Transaction   | TDS Rates        |
|-------|---|------------------|
| i.    | Interest income from the deposit under 'Micro Finance Program', 'Rural Development Bank', 'Postal Saving Bank & Cooperative (u/s-11(2)) in rural areas is exempted from tax   | Up to NRs 25,000 |
| ii.   | Windfall gains  | 25%*             |
| iii.  | Payment of rent except for house rent to a natural person and except provided in the serial number (iv) & (v) below, made by  | 10%              |
| iv.   | Payment for vehicle hire to VAT registered person   | 1.5%             |
| v.    | Payment for freight or rental payment against the lease of carriage vehicle relating to the carriage of goods.  | 2.5%             |
| vi.   | Profit and gain from the transaction of commodity future market   | 10%              |
| vii.  | On returns to be distributed by Mutual Fund:<br>- Natural person<br>- Other than Natural Person   | 5%<br>15%        |
| viii. | On Dividend paid by the resident company and partnership firm<br>- To Resident person<br>- To Non-resident Person   | 5% for both      |
| ix.   | On payment of gain from investment insurance  | 5%               |
| x.    | On payment of gain from an unapproved retirement fund   | 5%               |
| xi.   | On payment of interest or similar type having source in Nepal by Resident Bank, Cooperatives, financial institutions or debenture issuing entity, or listed company<br>- In case of payment made to natural person [not involved in any business activity]<br>- In case of payment made to entities | 5%<br>15%        |
| xii.  | - On payment of premium to the non-resident insurance company<br>- On payment of commission relating to reinsurance premium to the non-resident insurance company   | 1.5%             |



| #      | Nature of Transaction   | TDS Rates                                 |
|--------|---|---|
| xiii.  | Payment against-contract or agreement to the non-   | 5%  |
| xiv.   | On payment exceeding NRs 5 million made towards the works done through the consumer committee   | 1.5%                                      |
| xv.    | Contract payments exceeding NRs 50,000  | 1.5%                                      |
| xvi.   | Payment of consultancy fee/ for procurement of services:<br>- by a resident person against VAT invoice<br>- by a resident person against Non-VAT invoice  | 1.5%<br>15%                               |
| xvii.  | On payment for use of Satellite, Bandwidth, Optical fiber, telecommunication equipment or electricity transmission by a resident person irrespective of its location  | 10%                                       |
| xviii. | On payment of commission  | 15%                                       |
| xix.   | On payment of interest by resident BFIs on loans availed in foreign currency from foreign banks or other financial institutions to invest in the areas as specified by NRB.   | 10%                                       |
| xx.    | Payment of registration fee, educational fee, or exam fee to foreign colleges and universities.   | 5%  |
| xxi.   | On payment of interest on deposit to a life insurance company by resident banks and financial institutions.   | 5%  |
| xxii.  | On payment for the purchase of weapons, bullets and communication equipment for self-use by the Nepal Army, Nepal Police and Armed Police Force.  | No TDS<br>Proviso clause to section 89(3) |
| xxiii. | On payment of interest on loans availed in foreign currency from foreign banks or other foreign financial institutions by the reservoir or semi reservoir-based hydropower projects producing above 200 MW of energy and managing financial closure by mid-April 2026 (Chaitra end 2082). | No TDS                                    |
| xxiv.  | On payment of royalty to resident person for literary article or composition.<br>Section 88 (1) (13)  | 1.5%<br><b>[New provision]</b>            |

## 1.6 Digital Service Tax

- Digital service tax of 2% on transaction value shall be collected on digital services provided by non-residents to Nepalese individual customers. However, such tax shall not be applicable in cases when the annual transaction is up to NRs 2 million.
- The non resident service providers have to register with the Inland Revenue Department and will have to file annual tax returns on the income and taxes to be paid.
- Such service providers shall file the return and deposit tax amount in each fiscal year.
- Income on which digital service tax has been deposited shall not be taxable under the Income Tax Act, 2058.
- The administration of digital service tax shall be done by Inland Revenue Department.

## 1.7 Telecommunication Service Charge

Telecommunication service charge shall be collected from consumers of telephone, mobile, and internet service by the telecommunication service providers at 10% for FY 2022-23

## 1.8 Casino Royalty

- a. Individuals and institutions licensed to operate a casino in Nepal shall pay annual royalty of NRs 50 million for their operation and NRs 15 million for gaming through modern machines and equipment only.
- b. The payment shall be made to the Ministry of Culture, Tourism and Civil Aviation by the licensed institutions in the prescribed manner :

| Period                          | % payment        |
|---------------------------------|------------------|
| Mid-January (Within Poush end)  | 40%              |
| Mid- April (Within Chaitra end) | 70%              |
| Mid –July (Within Ashad end)    | Remaining amount |

- c. Additional fees @ 15% of the royalty amount up to three months from each due date and @30% annually on the remaining royalty payment after 3 months shall be charged on failure to deposit the royalty amount.

## 2. TAX INCENTIVES

### 2.1 Special Economic Zone

The GoN aims at attracting native and foreign investment by establishing Special Economic Zone (SEZ) in potential places for exportable industries. GoN can prescribe any export processing area, special business area, tourism or entertainment area or any other area of Nepal as a SEZ.

Certain privileges are provided in the SEZ laws, in terms of exemptions, facilities, tax benefits, etc., to industries in SEZ some of which are:

- a. Special treatment for goods or services produced in SEZ;
- b. No nationalization shall be made;
- c. Discount on the lease or rent of land or building;
- d. Exemption from income taxes, value added taxes, excise duty, customs duty and local taxes;
- e. Selling of raw materials or products to any industries in SEZ by any other industries will be deemed as an export and such industries can enjoy facilities available for export
- f. The foreign investment may be repatriated;
- g. Relaxation in visa provisions;
- h. Use of bonded warehouse; and
- i. Sub-contracting within industries and accelerated rate of depreciation shall be available, along with such other facilities as may be specified by the GoN from time to time.

### 2.2 Incentives in Income Tax Rates

The tax laws provide various incentives to stimulate industrial growth and development. Following are the key tax incentives, inter alia, designed to attract inward investment:

| #         | Particulars   | Tax rates and Incentive <sup>2</sup> |
|-----------|---|--------------------------------------|
| <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 | *10 % of AR / NR                     |
|           | Special industries and information technology industries providing direct employment to 300 or more Nepalese citizens throughout the year | *20% of AR / NR                      |
|           | Special industries and information technology industries providing direct employment to 500 or more Nepalese citizens throughout the year | *25% of AR / NR                      |

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<sup>2</sup> In the given section, AR stands for Applicable Rate which should be used in the context of Special Industry as the rate after 20% concession given under Section 11(2Kha) and NR stands for Normal Rate in the context of Industry / business other than Special Industry.

| #         | Particulars   | Tax rates and Incentive <sup>2</sup>  |
|-----------|---|---|
|           | Special industries and information technology industries providing direct employment to 1000 or more Nepalese citizens throughout the year  | *30% of AR / NR   |
|           | * Additional 10% concession is provided if direct employment is provided to 100 or more Nepalese citizens including at least 33% of whom are women  |   |
| <b>2.</b> | <b>Concessions to Special industries based on geographical locations</b>  |   |
|           | - Special industries established in very undeveloped areas  | 90% of the AR (for 10 yrs from the date of commercial production)   |
|           | - Special industries established in undeveloped areas   | 80% of the AR (for 10 yrs from the date of commercial production)   |
|           | - Special industries established in less developed areas  | 70% of the AR (for 10 yrs from the date of commercial production)   |
|           | - Income derived by special industries established in Karnali province and hilly districts of the far western province providing direct employment to more than 100 Nepalese citizens   | 100% tax exemption for the first 15 years from the date of commencement of commercial production or transaction             |
| <b>3.</b> | <b>Concessions to Special industries based on investment amount</b>   |   |
|           | - Special industry and tourism industry (except casino) established with a capital investment of NRs 1 billion or more and providing direct employment to more than 500 persons throughout the year                                     | 100% exemption for the first five years from the date of operation of the business and 50% concession for the next 3 years  |
|           | - For the existing special and tourism industry (except casinos) that increases its installed capacity at least by 25% to reach a capital of NRs 2 billion, and provides direct employment to more than 300 persons throughout the year | 100% concession for the first 5 years and 50% concession for the next 3 years on income generated due to increased capacity |
|           | - Industry related to tourism industry or international flight operation established with a capital investment of more than NRs 1 billion   | 100% concession for 5 years from the commencement of business and 50% concession for the next 3 years                       |
|           | - Industry related to tourism industry or international flight operation established with a capital investment of more than NRs 3 billion   | 100% concession for 10 years from the commencement of business and 50% concession for the next 5 years                      |

| #         | Particulars   | Tax rates and Incentive2  |
|-----------|---|---|
|           | - Industry related to tourism industry or international flight operation established with a capital investment of more than NRs 5 billion   | 100% concession for 15 years from the commencement of business  |
| <b>4.</b> | <b>Concessions to industry established in SEZ</b>   |   |
|           | - Industry established in 'Special Economic Zone' in mountain areas or hill areas by the GON  | 100% exempt up to 10 years from the date of operation of the business and 50% rebate in subsequent years                              |
|           | - Industry established in 'Special Economic Zone' other than the above locations  | 100% exempt up to the first 5 yrs from the date of operation and 50% rebate in subsequent years                                       |
|           | - Dividends distributed by the industry established in special economic zone  | 100% exempt for the first 5 years and 50% rebate in subsequent 3 years  |
|           | - Income derived by the foreign investors from investing in 'Special Economic Zone' (Source of income-use of foreign technology, management service fee and royalty)  | 50% of NR   |
|           | - Special industries in operation after establishment in or <b>relocation</b> to Industrial area and industrial gram  | 50% rebate on AR for the first 3 years from the production date after establishment or relocation and 25% rebate for the next 5 years |
| <b>5.</b> | <b>Concessions based on establishment in special area</b>   |   |
|           | - Entity established in zoological, geological, Biotech park and IT Park engaged in Software development, or data processing, or Cyber Café, or Digital Mapping   | 50% on NR   |
|           | - Special industries in operation after relocation from Kathmandu valley to outside valley  | 100% exemption shall be provided for 3 years and 50% rebate for the next 2 years from the date of such relocation and operation       |
| <b>6.</b> | <b>Concession related to hydropower project</b>   |   |
|           | - Person or entity having a license to generate, transmit or distribute electricity shall be provided concession if the commercial operation commences before mid-April 2027 (Chaitra end 2083)<br>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 from the date of commercial production                                |

| #         | Particulars   | Tax rates and Incentive <sup>2</sup>  |
|-----------|---|---|
|           | - Reservoir or semi reservoir-based hydropower projects generating above 40 MW of energy and managing financial closure by mid-April 2029   | 100% exempt for the first 15 years from the date of commencement of commercial transactions and a 50% rebate for the next 6 years |
| <b>7.</b> | <b>Concession to Petroleum Industry</b>   |   |
|           | - If a person is involved in the exploration and extraction of minerals, petroleum products, natural gas, and fuel and starts commercial operation by BS 2080 Chaitra end                               | 100% exempt up to 7 years and 50% rebate in subsequent 3 years  |
| <b>8.</b> | <b>Other Specific concessions</b>   |   |
|           | - On capitalization of accumulated profit through bonus share by Special Industry or industry related with tourism for expansion of capacity of industry  | No tax on dividend distribution   |
|           | - Income from export of goods manufactured by manufacturing-based industry having source in Nepal during any income year  | Additional 50% rebate on AR   |
|           | - Income of Manufacturing Industry, tourism service industry and hydropower generation, distribution and transmission industry listed in the capital market and entities mentioned in section 11 (3 Ga) | 15% on AR/NR  |
|           | - Private company with a capital of NRs 50 crore or more which conducts its operation by converting into a public company   | 10% on AR / NR for 3 years from the date of conversion  |
|           | - Domestic tea production and processing industry, Dairy industry, Garments industry  | 50% on AR   |
|           | - Health institutions operated by a community-based organization  | 20% on NR   |
|           | - Micro entrepreneurial industry  | 100% on NR for 7 years from the date of operation   |
|           | - Micro entrepreneurial industry under the entrepreneurship of woman  | 100% on NR for 10 years from the date of operation  |
|           | - Industry established in very undeveloped and undeveloped areas producing brandy, wine, cider from fruits  | 40% and 25% in case of very underdeveloped and underdeveloped areas respectively on NR for 10 years from the date of operation    |
|           | - Royalty from the export of intellectual asset by a  | 25% on NR   |
|           | - Income from the sale of the intellectual asset by a person through transfer   | 50% on NR   |
|           | - Income derived by the agriculture and forest based cooperatives registered under Cooperatives Act 2074 and the cooperatives operating in a rural municipality   | 100% tax exemption as well as no tax on dividend distribution   |

| # | Particulars   | Tax rates and Incentive <sup>2</sup>  |
|---|---|---|
|   | - Income generated from agriculture business, vegetable dehydration business and cold store business by registered firms, companies, partnerships, and organized institutions | 100% rebate on AR.  |
|   | - Income earned from the sale of raw materials or subsidiary raw materials manufactured in Nepal to special industries in Nepal   | 20% rebate on AR  |
|   | - Income derived by startup business as prescribed by IRD having annual turnover up to NRs 10 million based on innovative knowledge, skills, technology and methods           | 100% tax exemption for the first 5 years from the date of commencement of the transaction                                     |
|   | - Industry engaged in the manufacture of new products by using only used materials that have a direct impact on the environment as its raw materials                          | 50% rebate on AR for the first 3 years from the date of commencement of transactions and 25% for the next 2 years             |
|   | - Industry engaged in the manufacture of medical vaccines, oxygen gas and sanitary pad  | 100% tax exemption for the <b>first 5 years</b> from the date of start of the production and 50% rebate for the next 2 years  |
|   | - Income generated by industry established within mid-July 2025 (Ashad 2082) for manufacturing or assembling electric vehicles  | 40% tax exemption for the first 5 years from the date of commencement of the commercial transaction<br><b>[New Provision]</b> |
|   | - Income generated by industry established within mid – July 2025 (Ashad 2082) to manufacture agricultural tools  | 100% tax exemption for the first 5 years from the date of commencement of the production                                      |

### 2.3 Other Tax Incentives

- a. Traditional cottage industries are not subject to income tax and VAT.
- b. Dividends received from resident companies are taxed at 5% to resident and non-resident persons, as final tax.
- c. Expenditure incurred on R&D and the installation of pollution control equipment or processes is immediately deductible up to 50% of adjusted taxable income from taxable income. The balance is available for deduction through tax depreciation (if qualifying).
- d. Persons are allowed a deduction for donation to approved institutions (i.e. educational, religious and social organizations) up to a limit of 5% of their adjusted taxable income not exceeding NRs 100,000.
- e. No income tax shall be levied on the income of certain cooperatives incorporated under the Cooperative ITA 2048 conducting agricultural, forestry and other agriculture based activities. Similarly, savings and credit cooperatives operating in the rural municipality will be exempt from income taxes.

- f. Dividend distributed by industry in SEZ will be exempt from tax for 5 years from the date of commercial transaction and will be taxed at 50% rebate for 3 years thereafter.
- g. Resident Natural Person is entitled to Medical Tax Credit at least of NRs.750 or 15% of medical expenses along with any carried forward from previous year or actual tax liability.

## 2.4 Other Incentives

- a. Industries in SEZ will get full exemption from VAT while importing machinery, equipment, spare parts, and raw materials and up to 3 vehicles. Besides, these industries can avail certain other benefits under VAT and ITA.
- b. No excise duty shall be levied on the goods to be produced by industries in SEZ.
- c. Any duties or taxes levied on the raw materials, auxiliary raw materials, etc. used for producing goods for export/deemed export are entitled to get a refund of such duties and taxes based on the quantity of export. The application for this must be submitted within a year of the date of export for a duty refund.
- d. Export-oriented industries may obtain the bonded warehouse facility. The raw materials for the products of such nature can be imported without paying any customs duty or sales tax by just entering the details of such transactions in a passbook made available by the Department of Customs. The quantity of such raw materials used for manufacturing exportable products is deducted from the quantity entered in the passbook upon export of the finished product. However, the industry must also submit a bank guarantee sufficient to cover the duties. The finished product must be exported within 10 months from the date of import of raw materials. The industry intending to avail of such a facility must apply to the Department of Customs.
- e. Sub-contracting within industries and accelerated rate of depreciation shall be available, along with such other facilities as may be specified by the GoN from time to time.

## 2.5 Foreign Tax Relief

A resident person may claim a foreign tax credit for an income-year for any foreign income tax paid by the person to the extent to which it is paid with respect to the person's assessable foreign income for the year.

A person may elect to relinquish a foreign tax credit for the year and claim a deduction for foreign income tax for which the credit is available.



## 2.6 Special Provisions

| #  | Particulars   | Remarks  |                 |                               |  |     |  |     |
|--|---|--|-----------------|-------------------------------|--|-----|--|-----|
| a.   | Tax rebates for micro, small and medium enterprises.                      | <p>For the FY 2021-22, tax rebates ranging from 50% to 75% on the applicable tax provided to small taxpayers based on annual business turnover.</p> <table border="1"> <thead> <tr> <th>Annual Turnover</th> <th>Tax Rebates on applicable tax</th> </tr> </thead> <tbody> <tr> <td>a. Up to NRs 3 million<br/>(natural person taxpayers having annual turnover up to NRs 3 million and Taxable Income up to NRs. 0.3 million covered u/s 4(4))</td> <td>75%</td> </tr> <tr> <td>b. NRs 3 million - 10 million<br/>(natural person taxpayers whom turnover based tax is applicable u/s 4(4Ka))</td> <td>50%</td> </tr> </tbody> </table> | Annual Turnover | Tax Rebates on applicable tax | a. Up to NRs 3 million<br>(natural person taxpayers having annual turnover up to NRs 3 million and Taxable Income up to NRs. 0.3 million covered u/s 4(4)) | 75% | b. NRs 3 million - 10 million<br>(natural person taxpayers whom turnover based tax is applicable u/s 4(4Ka)) | 50% |
| Annual Turnover  | Tax Rebates on applicable tax   |  |                 |                               |  |     |  |     |
| a. Up to NRs 3 million<br>(natural person taxpayers having annual turnover up to NRs 3 million and Taxable Income up to NRs. 0.3 million covered u/s 4(4)) | 75%   |  |                 |                               |  |     |  |     |
| b. NRs 3 million - 10 million<br>(natural person taxpayers whom turnover based tax is applicable u/s 4(4Ka))   | 50%   |  |                 |                               |  |     |  |     |
| b.   | Tax rebate and facility to specific businesses affected by COVID pandemic | 50 % rebate on applicable tax for FY 2021-22 shall be provided to residents for the income derived from the business related to hotel, travel, trekking, film industry, party palace, media house or transportation and having turnover more than NRs 10 million.  |                 |                               |  |     |  |     |
| c.   | Tax rate for cooperatives   | The cooperative operating in Rural Municipality is exempt from Income Tax. Taxes to be levied at 7.5%, 10% and 15% (Previous FY 2021-22: 5%, 7% and 10%, respectively) for cooperatives operating in Municipality, sub-metropolitan and metropolitan, respectively.  |                 |                               |  |     |  |     |
| d.   | Tax exemption to mutual fund  | Income of mutual fund approved by Securities Board of Nepal (SEBON) derived in line with its objective shall be exempted from tax.   |                 |                               |  |     |  |     |
| e.   | Tax exemption to Not for profit educational institute                     | Income of a non-profit motive educational institution established based on the letter of understanding with GON or related body shall be exempted from tax.  |                 |                               |  |     |  |     |

## 2.7 Major Amnesty announced in Finance Act 2022

### a) Waiver of tax, fees and interest

Fees and interest shall be waived if a person having taxable income in past obtain PAN, pays the tax, and files returns for NFY 2075-76, 2076-77 and 2077-78 within 14 January 2023 (Poush end 2079).

Further, the tax, fees and interest for NFYs prior to NFY 2075-76 shall also be waived after the above compliance.

The tax, fees and interest shall be charged without any concession on failure to deposit the tax and file the return within the time limit as prescribed above.

#### **b) Waiver of interest, penalty and additional charges to Joint Venture**

Fees, additional charges and penalties shall be waived in case the Joint Ventures registered under VAT Act 2052 but have not submitted the returns or paid the applicable VAT up to 13 April 2022 (Chaitra end 2078 ) if furnishes the VAT return and pays outstanding VAT & 50% of applicable interest within 14 January 2023 (Poush end 2079).

This waiver facility shall also be available to the Joint Ventures who have furnished returns up to 13 April 2022 (Chaitra end 2078) without a deposit of the applicable VAT amount.

#### **c) Waiver of fees and penalty**

Private firms and companies that are registered under Private Firm Registration Act, 2014 and Companies Act, 2063 and have not submitted their annual returns up to 2019-20 (NFY 2076-77) and failing to renew their business can submit such returns and deposit 5% of applicable fees and penalties by 14 January 2023 (Poush end 2079) to be eligible for the waiver of the remaining fees and penalty.

#### **d) Waiver of penalty and fees under the Excise Act**

Penalty and the remaining delay charges shall be waived in case of the licensee under Excise Act, 2058 who had failed to furnish excise returns and pay excise duty till 13 April 2022 (Chaitra end 2078) files excise returns and pays outstanding excise duty and 50% of delay fees within 14 January 2023 (Poush end 2079).

This waiver facility is also available to the licensees who have furnished returns up to 13 April 2022 Chaitra end 2078 without deposit of the applicable excise amount.

#### **e) Special provision for removal of stock record**

In the case of industries whose stock record removal is already recommended by Inland Revenue Department through physical inspection and report but the same is pending decision and being outstanding for more than 15 years shall now be eligible to claim removal of stock record for such stock by filing an application with the respective Inland Revenue Office within 14 January 2023 (Poush end 2079).

#### **f) Special provision for presumptive taxpayers and turnover based taxpayers**

If the turnover amount declared by presumptive taxpayer u/s 4(4) and turnover based taxpayer u/s 4(4ka) has any deviations with actual turnover till the FY 2020-21 (NFY 2077-78), then such taxpayer can declare the actual turnover for each year and pay 1.5% tax on differential turnover within 13 April 2023 (Chaitra end 2079). The revised turnover to the extent as declared and tax of such taxpayer shall be deemed to be final.

Tax, fees, additional charges and penalties shall be waived in case of the presumptive taxpayer and turnover based taxpayer facing assessment under VAT Act and reassessment under Income Tax Act till 28 May 2022 (14 Jestha 2079) for the difference in turnover declared and actual turnover withdraws the appeals made to various levels (Administrative Review, Revenue Tribunal, or in the Courts) and deposits 1.5% tax of such differential turnover till 13 April 2023 (Chaitra end 2079).

### **3. INDIRECT TAXES**

#### **3.1 Value Added Tax**

##### **3.1.1 Introduction**

Value Added Tax (VAT) is tax based on goods and services. This tax is levied on the sale, exchange, transfer, import etc. of all goods and services apart from those specified by the law as tax-exempt. This means that this tax encompasses all types of goods and services produced in or imported into the country apart from those listed as tax-exempt by the law. VAT is considered as an improvised form of sales tax. This tax is imposed on different levels of value addition in the production and distribution process of goods and services. In short, the difference between the purchase price and the sales price of any firm is the value added.

In practice, the tax-payer does not have to calculate his value addition for the purpose of VAT. But s/he has to collect VAT on the sales price at the rate specified by the VAT Act and after deducting the VAT paid on purchases from the amount thus collected and s/he has to pay the balance amount as VAT. Under VAT each registered manufacturer and distributor must collect tax on the sales of their goods and services.

##### **3.1.2 Rate**

VAT is levied at a flat rate of 13%, which is applied to the invoice value. Certain specified goods are outside the scope or exempt from VAT. Exports of both goods and services are taxed at zero%.

##### **3.1.3 Threshold**

VAT shall only be collected by a person who is registered for VAT purposes. Section 10 of the Act has prescribed the conditions for compulsory registration for VAT purposes:

1. Compulsory registration due to exceeding the turnover threshold:

The condition requiring compulsory registration arises only when the turnover of the person exceeds the limit as follows:

- For a person dealing only in goods: NRs 5 million during last 12-month period
- For a person dealing only in services: NRs 2 million during last 12-month period
- For a person dealing only in goods and services: NRs 2 million during last 12-month period.

Exemptions apply inter alia, to salaried employment, banking and financial services, education and health services, agriculture produce and certain non-profit making activities.

2. Where the transaction of goods or services of a person becomes taxable the person shall make an application in the prescribed format for the purpose of registration with the tax officer within 30 days of transaction being taxable.

##### **3.1.4 Tax Credit**

To avoid double taxation, a credit is given for VAT paid on goods and services used for the purpose of making any taxable supply (Input VAT). A credit is also given for VAT paid in respect of certain exempt supplies, e.g. exports. The principal mechanism for collecting the tax requires the taxable supplier to charge VAT on the goods or services supplied

(Output VAT) to take credit for VAT paid on business expenditure (Input VAT), and to pay the net tax over to the authorities.

### 3.1.5 Requirements

VAT registrants are required to:

- a. Submit VAT return and pay tax within the 25<sup>th</sup> day of the following month
- b. Provide their customers with a tax invoice
- c. Maintain purchase book, sales book, VAT account
- d. Keep their VAT records for a period of 6 years
- e. Inform the IRO of changes to the business including new address, telephone number or a reorganization of a partnership within 15 days.

### 3.1.6 Offences

Fines will be imposed if the taxpayer fails to file returns within the specified time. The VAT Act imposes fines for failing to register. Similarly, if a registrant fails to use the registration number or clearly display the registration certificate in the business premises, a fine may be imposed. Other penalties may be imposed if, for example, a registrant fails to file a return, issue invoices, keep an up-to-date account of transactions, obstructs visits by a tax officer in the investigation, prepares false accounts and invoices or attempts to evade tax. Similarly, IRO/IRD may purchase or cause to purchase under invoiced goods.

### 3.1.7 Highlights

- a. Electronic service shall include the following services of self-operative nature, provided to consumers through the internet, which require the use of Information technology and require minimum human intervention:
  - Advertisement Services
  - Cinema, Television, Music, Over The Top (OTT), and other similar membership-based services
  - Services related to data collection
  - Cloud Services
  - Gaming Service
  - Services related to Mobile Application
  - Services related to Online Market Place, and other services availed from such platform.
  - Software supply and update
  - Data and image download services
  - Consultancy, Skill Development and Training Services
  - Other Services of similar nature.
- b. Non-resident person means a person residing outside Nepal who does not have either a permanent business address, a business representative or a legally recognized representative in Nepal.
- c. Non-resident person whose turnover from electronic service in Nepal is over NRs 2 million in the last 12 months is required to register themselves under VAT as per the procedures prescribed by the Inland Revenue Department. Likewise, in case of cessation of business activities or closure of business by such person, the deregistration process of such person shall be as prescribed by the Department.

- d. Fine of NRs 20,000 for each time shall be imposed to such non-resident person for non-registration of electronic service business operated.

### **3.1.8 Administrative Review**

A taxpayer who is not satisfied with the tax assessment by tax office can submit an application to the DG of IRD for administrative review within 30 days from the time of receiving such a decision. Taxpayer can approach to Revenue Tribunal if he is not satisfied with the IRD's decision.

### **3.1.9 Appeal to Revenue Tribunal**

While filing an appeal to the Revenue Tribunal, the applicant is required to present a bank voucher in the name of a related tax office maintained under the deposit account with Financial Comptroller General Office or the applicant shall present an equivalent bank guarantee along with the application

## **3.2 Customs Duty**

### **3.2.1 Introduction**

Customs duty is calculated on transaction value which includes cost, insurance & freight up to the Nepal border on the import of goods. In case there is under invoicing, the customs official can revalue the goods based on current market value and collect customs duty on such amount or purchase the goods at the under invoiced value as it so considers.

Customs Service Fee (CSF) of NRs 500 per declaration form will be charged at the time of import of goods into Nepal. Similarly, CSF of NRs 100 per declaration form will be charged at the time of export of goods from Nepal.

### **3.2.2 Rate**

Custom duty ranges from 0-80% on the transaction value.

### **3.2.3 Highlights**

- a. Definition of Import has been rephrased under which Import means the act of bringing goods into Nepal from a foreign country. It also includes the act of clearance of containers by the customs office which was impossible to be physically brought in the customs office and such container was purchased from a foreign country by a Nepali Shipping Company operating container service.
- b. Decrease in the customs duty of raw materials required by manufacturing industries by at least one level as compared to customs duty on import of corresponding finished goods.
- c. Increment in the applicable customs duty and excise duty on import of luxury goods like cigarettes and tobacco-related products, automobiles except for ambulances and hearses, motorcycles above 250 cc, and alcoholic beverages.
- d. On the recommendation of the Department of Industries, the exemption will be provided at the rate of 25% on custom duty and 50% on excise duty for the import of raw material and parts required by 4 wheeler vehicle manufacturing or assembling industry.
- e. 1% customs duty will be applicable on the import of raw materials and parts required by the electric rickshaw, motorcycle, or scooter manufacturing industry.
- f. Exemption of 90% customs duty on import of sanitary pads. 1% customs duty will be

applicable on the import of raw materials required by the manufacturing industries producing sanitary pads in Nepal.

- g. Exemption of 100% customs duty will be provided to the local level for the import of one unit of agro-ambulance or agro-product transport vehicle. Similarly, a 50% exemption on customs duty will be provided to agro-based cooperatives on the import of one unit of vehicle for transportation of its product.
- h. 75% exemption of applicable customs duty on import of a maximum of 2 school buses will be provided to public or community schools.
- i. On the recommendation of the Department of Industries, a waiver of customs duty will be provided on the import of raw material used for the production of assistive equipment used by the disabled person.
- j. Waiver of custom duty on import of urine bag used by the disabled person.
- k. In case GPS installed lock or serialized sealed lock of a container used in internal transit is found in tampered condition, an additional fine of 300% of the value of goods will be charged and then the goods will be released, or such goods will be confiscated and 200% of the value of goods will be charged as fine.
- l. A penalty of NRs 50,000 to NRs 100,000 may be imposed if the prescribed route for internal transit is not used or if it fails to reach the concerned customs office within the prescribed time.
- m. Customs duty on the motorcycles with cylinders' capacity exceeding 200 cc has increased ranging from 10% to 50%.
- n. Increase in the customs duty on cigars, cheroots, and cigarillos, containing tobacco and other similar items from NRs 4500 to NRs 9000 per thousand sticks.
- o. Customs duty on electric vehicles with pickup power greater than 100 KW has been increased by 15% to 20%.
- p. Customs duty on energy drinks has increased from NRs 75 per ltr to NRs 100 per ltr.

#### **3.2.4 Appeal to Revenue Tribunal**

While filing an appeal to the Revenue Tribunal, 100% of undisputed customs duty should be paid and for disputed customs and fines, 100% of deposit or bank guarantee should be presented. Likewise, the applicant is required to present a bank voucher in name of a related tax office made in the deposit account of the Financial Comptroller General Office or the applicant shall present an equivalent bank guarantee along with the application.

### **3.3 Excise Duty**

#### **3.3.1 Introduction**

Excise duty is payable on the manufacture of movable goods and also on import of certain goods. The excise duty is governed and regulated by the Excise Act 2058 and Excise Regulation 2059. As provisioned in the law, the excise commodities subject to physical control system are closely controlled and supervised by the GoN from their production to selling stage.

#### **3.3.2 License Required**

No one is allowed to manufacture, import, sell and store excisable goods without obtaining license. Likewise, the law prohibits import of excisable services without having license. Person, firm or institutions who need such license may submit a prescribed application form before excise officer at the concerned IROs.

### 3.3.3 Rate

The rate of excise duty ranges from 0-100%. Exports are exempt from excise duty.

### 3.3.4 Highlights

- a. Excise Duty Officer can reassess excise duty if the inventory balance of excise tickets as per the record of the excise duty ticket register differs from its physical inventory balance.
- b. Punishment under section 16(2) (B) of a fine of two hundred percent of the disputed amount or one hundred thousand rupees, whichever is higher, with confiscation of the goods subject to controversy, or imprisonment for a term not exceeding one year or both will also be charged in case of production, release, sell, distribute, store or import liquor, cigarette and tobacco products by without using excise duty ticket.
- c. A fine of 100% on applicable excise duty will be imposed if a shortage of excise tickets is observed during its inspection. While, if excess tickets are found, the surplus ticket amount should be recognized in income, and a fine of NRs 100,000 shall be imposed.
- d. Reassessment of excise duty under Section 10(Gha) and punishment under Section 16(1) (kha) shall also be charged in case services subject to excise duty are provided without obtaining the license.
- e. The rate of excise duty on edible nuts, peel of citrus fruits or melons has been increased from 5% to 15%.
- f. Increase in excise duty of fish and crustaceans, mollusks and other aquatic invertebrates from 5% to 10%.
- g. Excise duty on scented nutshell without tobacco has been increased from NRs 281 to 350 per kg.
- h. Excise duty on Paan masala without tobacco has been increased from NRs 812 to 821 per kg.
- i. Excise duty on Beer made from malt has been increased from NRs 198 to 228 per ltr.
- j. Excise duty on cigars, cheroots and cigarillos, containing tobacco has been increased from 21 per stick to 30 per stick
- k. Excise duty on cigarettes containing tobacco without a filter has increased from NRs 618 per mtr to NRs 710 per mtr and cigarettes with filter have increased from NRs 200 per mtr to NRs 500 per mtr.
- l. Excise duty on unmanufactured tobacco; tobacco refuse has been increased from NRs 118 per kg to NRs 130 per kg.
- m. Excise duty on un-denatured ethyl alcohol of an alcoholic strength by volume of 80% vol. or higher has increased by NRs 10 per ltr.
- n. Excise duty on all kinds of alcoholic fluids including spirits used as a raw material of wine or brandy is increased from NRs 198 per ltr to NRs 228 per ltr.
- o. Excise duty on non-alcoholic beer has increased from NRs 20 per ltr to NRs 30 per ltr.
- p. Excise duty on energy drinks has increased from NRs 36 per ltr to NRs 50 per ltr.
- q. Excise duty on playing cards and toys has increased by 5%.
- r. Excise duty on import of beauty or make-up preparations and preparations for the care of the skin (other than medicaments), including sunscreen or sun tan preparations; manicure or pedicure preparations have increased by around 5% to 10%.

- s. Excise duty on motorbikes with reciprocating internal combustion piston engine of a cylinder capacity exceeding 250 cc but not exceeding 500 cc has increased by 10%
- t. Excise duty on electric vehicles (car, jeep, van) with pickup power greater than 100 KW shall be charged as below:

| Pick up Power (KW) | Excise Duty (%) |
|--------------------|-----------------|
| 100-200            | 30              |
| 201-300            | 45              |
| Greater than 300   | 60              |

### 3.3.5 Appeal to Revenue Tribunal

While filing an appeal to the Revenue Tribunal, the applicant is required to present a bank voucher with the name of a related tax office made in the deposit account of the Financial Comptroller General Office or the applicant shall present an equivalent bank guarantee along with the application.

### 3.4 Tax incentives for the establishment of Vaccine and Liquid Oxygen Industries

- a. The Customs, Excise and VAT for the FY 2022-23 ( NFY 2079/80) shall be exempted on the import of machinery equipment required for the establishment of Vaccine Industry under an approved scheme.
- b. The Customs, Excise and VAT for the FY 2022-23 ( NFY 2079/80) shall be exempted on the import of machinery equipment under HS code 8421.39.10 required for the establishment of the Liquid Oxygen Industry.



## PKF in Nepal

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With extensive and specialized experience of dedicated resources, we provide audit, tax, business, and financial advisory services in Nepal. The firm's approach to service delivery helps us respond efficiently and comprehensively to any client's complex business challenges. Our clients include a large number of local, regional and international clients.

PKF TRU provides its clients with full access to the resources and the infrastructure of a major firm and our team is uniquely positioned to integrate in-depth expertise in international accounting and business practices with local know how.

Our objective is to provide services of the highest possible standard to companies in Nepal and also bring an international perspective to the management of their business.

**right people**

**right size**

**right solution**

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