

TRU Flash Alert

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Registration of business, rental tax and business tax

Background

Kathmandu Metropolitan City (KMC), pursuant to the Section 230 of the Constitution of Nepal has enacted its own Finance Act, 2074 in order to manage collection of local tax, rates, fees, penalties etc. Various taxes such as Wealth tax, Land tax, Rental tax, Business tax, Entertainment tax etc. are within the purview of local government.

Similarly, Lalitpur Metropolitan City, has issued its Finance Act 2075 to manage collection of local tax.

Such taxes are collected by local bodies in order to meet its own requirement of resources. Such taxes are eventually utilized to meet administrative costs, construction and maintenance of infrastructure.

Some of the key provision pertaining to Business tax, Wealth tax, Rental tax and registration of business have been outlined below.

Business tax

What is business tax?

Business tax is local tax to be paid to respective local government for operating business activities within the area of such local government. All of the registered or license industry, business, profession, service or person involved in business transactions of similar nature shall be liable to pay business tax in Kathmandu and Lalitpur.

Applicable tax

The applicable business tax is as per respective rules of local government, which is generally prescribed in Annexure 4 of their respective Finance Act. The business shall be liable to pay business tax irrespective whether the business is in profit or loss. Such business tax may range from mere Rs 1,000 to Rs 150,000 depending upon the nature of business.

In case of the bank and financial institutions and supermarkets, as per the nature of business, each business place is to be considered as a separate unit for the purpose of business tax.

Business tax paid to metropolitan office can be claimed as general deduction under section 13 of Income tax act 2058.

To some respite, business tax before the FY 2072/73 has been waived by Kathmandu Metropolitan City.

Registration

1. All of the registered or licensed industry, business, profession, service or person involved in business transactions of similar nature have to get registered with local government.
2. For registration, one should submit prescribed registration form to nearest ward office along with following documents:
 - a) Photo of director or owner – 2 copies,
 - b) A copy of Citizenship,
 - c) Company registration certificate,
 - d) MOA and AOA of the company,

- e) PAN certificate,
 - f) Official stamp,
 - g) License obtained from regulatory authority (if any),
 - h) Rent agreement,
 - i) Copy of previous year audit report,
 - j) Copy of slip of house tax paid to ward office.
3. For renewal:
- a) Copy of municipality registration certificate,
 - b) Application letter for renewal in official letter head,
 - c) Copy of previous year audit report.

Rental tax

- A) From FY 2075-76 tax applicable on rent shall be as follow:
- In case of rental income by Natural Person, tax at the rate of 10% to be paid to local bodies
 - In case of rental income by other than Natural Person, tax at the rate of 10% to be paid to IRD in case of Kathmandu and Lalitpur Metropolitan City.
- B) In Kathmandu Metropolitan City, taxpayer having rental income less than Rs 100,000 and no other source of income, shall be exempt from rental tax.

Process to deposit rental tax applicable from F/Y 2074-75:

1. The rental tax will be finalized as per the self-declared rent amount by tax payer or as per the rent agreement as per the procedures prescribed by local government.
2. One can deposit cash or cheque drawn in the name of respective ward office.
3. Tax paid receipts to municipality shall be submitted to tax office to claim deduction of rental expenses. (photocopy of the receipts must be submitted while taking tax clearance certificate)
4. Local government shall certify income of such tax payer.

Wealth tax

- a) From F/Y 2075-76, wealth tax shall be computed at the rate of 0.01% for assets value up to Rs 10 million viz. Rs 100 per million. For the F/Y 2074/2075 minimum wealth tax payable was Rs 900.
- b) Cancellation of the system of collecting tax on the basis of registration fees.

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