Nepal Taxation
2020 Edition
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About PKF Nepal
1. DIRECT TAXES

1.1 General

The main objective of the tax system is to enhance revenue mobilization through effective revenue collection procedure for the economic development of the nation. Income is taxed in accordance with the provisions of 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a. Various concessions and incentives allowed under different Acts have been repealed and provided under the single ITA;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 are 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 the tax administration and payment procedures are provided.

The tax is levied on income accrued or received from business, investment, employment and windfall gains. Both individual 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 assessment 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 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 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 company 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

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 ruling¹ and amendments in the law, non-residents are taxed also on gains which does not have 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 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 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 exempt organization.

c. The Income earned by Drinking Water and Sanitation Consumer Committee as per its objectives, registered as per Water Resources Act, 2049.

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 next income year. This limitation does not apply to the aviation industry;

d. Pollution control expenses;

e. Research & Development expenses;

f. Depreciation;

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 for Remote Area additional deduction from taxable amount up to NRs 50,000

¹ Ruling by the Supreme Court in case of Capital Gains tax on disposal of shares by TeliaSonera outside of Nepal
i. Incapacitated natural person Additional deduction from taxable amount equal to 50% of 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; and

m. The contributions made to the Corona Fund established by the Federal, Provincial and Local Governments shall be deductible for computation of taxable income for the FY 2019-20 as mentioned in Finance Act 2020.

However, disclaimers, write-offs or the forgiveness of debt which 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 includes cost incurred on detailed feasibility report exploration and development cost of natural resources;

g. Salary and wage payment to employee or worker who have not obtained/registered PAN from Inland Revenue Office except in case of payment of wage up to NRs 3,000 at a time to 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 conducing commercial transactions

1.2.8 Reduction

a. A natural person who has procured life insurance and paid premium amount thereon shall be entitled to a reduction of actual annual insurance premium or NRs 25,000 whichever is lower from taxable income

b. A natural person who has insured with resident insurer/insurance company for health insurance shall be entitled to a reduction of actual premium paid or NRs 20,000 whichever is lower

c. In respect of contribution to retirement fund, 1/3rd of taxable income or NRs 300,000 (NRs 500,000 if 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
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 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 year 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 last three years) is not allowed to be carried forward to period after 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:

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

Each depreciable asset at the time it is first owned or so used, are 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 aggregation of all assets with the same depreciation rate into a common block for 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 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 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:

<table>
<thead>
<tr>
<th>#</th>
<th>Particulars</th>
<th>FY 2020-21</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Normal Rate</td>
</tr>
<tr>
<td>1</td>
<td>Normal business</td>
<td>25%</td>
</tr>
<tr>
<td>2</td>
<td>Entities operating as Special Industry under section 11 for whole year</td>
<td>25%</td>
</tr>
<tr>
<td>3</td>
<td>Entities constructing and operating ropeway, cable car or sky bridge</td>
<td>25%</td>
</tr>
<tr>
<td>4</td>
<td>Entities constructing and operating roads, bridges, tunnel, railway and airports</td>
<td>25%</td>
</tr>
<tr>
<td>5</td>
<td>Entities operating trolley bus or trams</td>
<td>25%</td>
</tr>
<tr>
<td>6</td>
<td>Entities with export income from source in Nepal</td>
<td>25%</td>
</tr>
<tr>
<td>7</td>
<td>Entities involved in construction or operation of public infrastructure and to be transferred to GoN or involved in construction of hydropower house and its generation and transmission.</td>
<td>25%</td>
</tr>
<tr>
<td>#</td>
<td>Particulars</td>
<td>FY 2020-21</td>
</tr>
<tr>
<td>----</td>
<td>-----------------------------------------------------------------------------</td>
<td>------------</td>
</tr>
<tr>
<td>8</td>
<td>Banks and financial institutions (Commercial Banks, Development Banks and Finance Companies)</td>
<td>Normal Rate</td>
</tr>
<tr>
<td></td>
<td></td>
<td>30%</td>
</tr>
<tr>
<td>9</td>
<td>Entity carrying General insurance business (Non-life Insurance)</td>
<td>30%</td>
</tr>
<tr>
<td>10</td>
<td>Entity engaged in petroleum business under Nepal Petroleum Act, 2040</td>
<td>30%</td>
</tr>
<tr>
<td>11</td>
<td>Entity engaged in business of cigarette, tobacco, cigar, chewing tobacco, pan masala, alcohol and beer</td>
<td>30%</td>
</tr>
<tr>
<td>12</td>
<td>Entity engaged in Telecommunication and Internet service</td>
<td>30%</td>
</tr>
<tr>
<td>13</td>
<td>Entity engaged in Money transfer</td>
<td>30%</td>
</tr>
<tr>
<td>14</td>
<td>Entity engaged in Capital market business, Securities business, Merchant banking, Commodity future market, Securities and Commodity broker</td>
<td>30%</td>
</tr>
</tbody>
</table>

*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 case of special industry and industry other than presented above, entity can choose any one tax concession available under section 11 of ITA.

**Rebate and concessional tax rates applicable only up to 10 years from 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 do not originate in Nepal) the tax rate is 2%.

### 1.2.14 Annual Tax Returns

All assesses are required to adopt 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 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 tax payer, 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 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 January 14, April 14 and July 15 computed at the applicable rates on the estimated profits of the entity for the entire year. Advance tax to be deposited is as follows:

<table>
<thead>
<tr>
<th>Installment /due date</th>
<th>Advance Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st i.e., January 14</td>
<td>40% of the total estimated tax liability for the year</td>
</tr>
<tr>
<td>2nd i.e., April 14</td>
<td>70% of the total estimated tax liability for the year</td>
</tr>
<tr>
<td>Final i.e., July 15</td>
<td>100% of the total estimated tax liability for the year</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Installment /due date</th>
<th>Advance Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st i.e., January 14</td>
<td>Tax at the rate specified on actual transaction up to 4th of January</td>
</tr>
<tr>
<td>Final i.e., July 15</td>
<td>Remaining of tax calculated at the rate specified on estimated transaction amount at July 15 based on actual transaction up to July 4</td>
</tr>
</tbody>
</table>

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 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.

**Special Provision under Finance Act 2020**

Where the taxpayer withdraws the appeals made to various levels on account of disputed taxes up to up to 16 July 2018 (except cases relating to false and fake invoices) (Administrative Review, Revenue Tribunal or in the Courts) and pays the applicable taxes and interest assessed by the tax officer as per the final assessment order, the applicable fee, additional charges and penalty shall be waived for all such cases filed under the Income Tax Act, 2002, Value Added Tax Act, 1996 and Excise Act 2002.
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 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 are considered residents of Nepal. Dual residence is not recognized for the purpose of 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 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 natural person. House rental tax of 10% on payment to natural person should be deposited in respective Municipality ward office;

b. Income from bank deposits of resident natural person (not earned as result of doing business) is taxed separately at source at a flat rate of 5%;

c. Gain in investment insurance of a resident natural persons 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 is taxed at a rate of 5%;

f. Meeting fees 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 under 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 disposal of shares listed in stock exchange is subject to tax at the rates of 7.5%, 10% and 25% for resident natural person, resident entity and others respectively, and whereas in case of unlisted shares, tax at the rate of 10%, 15% and 25% is applicable for resident natural persons, resident entity and others, respectively.

Net gain derived from the disposal of land and building is subject to tax at the rate of 2.5% if owned for more than 5 years and 5% if owned up to 5 years for natural person. Net gain on disposal of land and building is subject to 10% for person other than natural person irrespective of 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 individual.

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 are deductible from taxable income. No deduction is allowed if contributed to an unapproved retirement fund. In case of 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 are 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 is 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 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 450,000 for a couple and NRs 400,000 for an individual. The exemption limit for the 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 Individual of Nepal shall be as follows:

<table>
<thead>
<tr>
<th>Tax Banding</th>
<th>Tax Rates for the NFY 2020-21</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Resident</td>
</tr>
<tr>
<td>(a) First Slab</td>
<td></td>
</tr>
<tr>
<td>(b) Second Slab</td>
<td></td>
</tr>
<tr>
<td>(c) Third Slab</td>
<td></td>
</tr>
<tr>
<td>(c) Fourth Slab</td>
<td></td>
</tr>
<tr>
<td>(d) Balance Exceeding NRs 2,000,000</td>
<td>&gt; 2,000,000</td>
</tr>
</tbody>
</table>

*1% is the social security tax to be deposited in a separate revenue account (11211). However, taxpayer registered as sole proprietorship or on pension income or on income from contribution based pension fund or social security fund (SSF) shall not attract social security tax.

Non-resident person 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 on mid-July and ending on 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, natural person who only have income from employment are 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.

1.3.11 Tax Administration Highlights

a. Introduction of filing of income tax returns and payment of income tax through mobile app, other electronic media, or filing of return via bank while making payment of income tax.

b. Introduction of self / auto tax clearance certificate generation from the system of IRD, for those taxpayers with no tax outstanding.

c. TDS no to be withheld on incentive paid to consumer for making payment against purchase of goods or services through electronic wallet such as e-money and mobile banking.

d. Integration of Tax Information System by enhancing and integrating Central Billing System, ASYCUDA, VCTS and other tax administration related systems.
e. Control of tax evasion by making tax assessment, investigation, after custom clearance assessments more effective.

f. Expansion of non-tax revenue scope and revision of tax rates.

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 to 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 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 as below:

<table>
<thead>
<tr>
<th>Countries</th>
<th>Dividend</th>
<th>Interest</th>
<th>Royalty</th>
<th>Service fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-treaty countries</td>
<td>5%</td>
<td>5/15% (NOTE 5)</td>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td>Treaty countries:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Austria</td>
<td>5*/10**/15%</td>
<td>At most 15/10% (NOTE 1)</td>
<td>At most 15%</td>
<td>15%</td>
</tr>
<tr>
<td>China</td>
<td>At most 10%</td>
<td>At most 10%</td>
<td>At most 15%</td>
<td>15%</td>
</tr>
<tr>
<td>India</td>
<td>5***/10%</td>
<td>At most 10%</td>
<td>At most 15%</td>
<td>15%</td>
</tr>
<tr>
<td>Korea</td>
<td>5*/10**/15%</td>
<td>At most 10%</td>
<td>At most 15%</td>
<td>15%</td>
</tr>
<tr>
<td>Mauritius</td>
<td>5****/10**/15%</td>
<td>At most 10/15% (NOTE 2)</td>
<td>At most 15%</td>
<td>15%</td>
</tr>
<tr>
<td>Norway</td>
<td>5*/10**/15%</td>
<td>At most 15/10% (NOTE 1)</td>
<td>At most 15%</td>
<td>15%</td>
</tr>
<tr>
<td>Pakistan</td>
<td>10**/15%</td>
<td>At most 10/15% (NOTE 2)</td>
<td>At most 15%</td>
<td>15%</td>
</tr>
<tr>
<td>Qatar</td>
<td>At most 10%</td>
<td>At most 10%</td>
<td>At most 15%</td>
<td>15%</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>At most 15%</td>
<td>At most 15/10% (NOTE 1)</td>
<td>At most 15%</td>
<td>15%</td>
</tr>
<tr>
<td>Thailand</td>
<td>At most 15% (NOTE 3)</td>
<td>At most 10/15% (NOTE 4)</td>
<td>At most 15%</td>
<td>15%</td>
</tr>
<tr>
<td>Bangladesh</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
5% if beneficial owner of shares is a company and it holds at least 25% of shares of the company paying the dividends.

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

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

5% if 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 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.

<table>
<thead>
<tr>
<th>#</th>
<th>Nature of Transaction</th>
<th>TDS rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>i.</td>
<td>Interest income from deposit under 'Micro Finance Program', 'Rural Development Bank', 'Postal Saving Bank &amp; Co-operative (u/s-11(2)) in rural areas is exempted from tax</td>
<td>Up to NRs 25,000</td>
</tr>
<tr>
<td>ii.</td>
<td>Windfall gains</td>
<td>25%</td>
</tr>
<tr>
<td>iii.</td>
<td>Payment of rent except house rent to natural person and except provided in serial number (iv) &amp; (v) below, made by resident person**</td>
<td>10%</td>
</tr>
<tr>
<td>iv.</td>
<td>Payment for vehicle hire to VAT registered person</td>
<td>1.5%</td>
</tr>
<tr>
<td>v.</td>
<td>Payment for freight or rental payment against lease of carriage vehicle relating carriage of goods</td>
<td></td>
</tr>
<tr>
<td></td>
<td>i. Against non VAT invoice</td>
<td>2.5%</td>
</tr>
<tr>
<td></td>
<td>ii. Against VAT Invoice</td>
<td>1.5%</td>
</tr>
<tr>
<td>vi.</td>
<td>Profit and gain from transaction of commodity future market</td>
<td>10%</td>
</tr>
<tr>
<td>vii.</td>
<td>On returns to be distributed by Mutual Fund:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Natural person</td>
<td>5%</td>
</tr>
<tr>
<td></td>
<td>- Other than Natural Person</td>
<td>15%</td>
</tr>
<tr>
<td>#</td>
<td>Nature of Transaction</td>
<td>TDS rates</td>
</tr>
<tr>
<td>----</td>
<td>----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------</td>
</tr>
</tbody>
</table>
| viii. | On Dividend paid by the resident company and partnership firm  
- To Resident person  
- To Non-resident Person                                                                                                                                  | 5% for both                                                              |
| ix.  | On payment of gain from investment insurance                                                                                                                                                                             | 5%                                                                        |
| x.   | On payment of gain from 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  
- In case of payment made to natural person [not involved in any business activity]  
- In case of payment made to entities                                                                                                                               | 5%                                                                        |
| xii. | - On payment of premium to non-resident insurance company  
- On payment of commission relating to reinsurance premium to non-resident insurance company                                                                 | 1.5%                                                                     |
| xiii. | Payment against contract or agreement to Non-Resident person.                                                                                                                                                           | 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:  
- by resident person against VAT invoice  
- by resident person against Non-VAT invoice                                                                                                                  | 1.5%                                                                     |
| xvii. | On payment for use of Satellite, Bandwidth, Optical fiber, telecommunication equipment or electricity transmission by resident person irrespective of its location                                                                 | 10%                                                                      |
| xviii. | On payment of interest on loan taken from foreign banks in foreign currency for the investment as specified by Nepal Rastra Bank by resident banks and financial institutions. On payment of interest on loan taken from foreign banks for the investment as specified by Nepal Rastra Bank by banks and financial institutions. | 10%                                                                      |
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 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:

<table>
<thead>
<tr>
<th>#</th>
<th>Industry</th>
<th>Tax rates and Incentive²</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Concessions based on employment provided</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Special industries and information technology industries providing direct employment to 100 or more Nepalese citizens throughout the year</td>
<td>*10 % of AR / NR</td>
</tr>
<tr>
<td></td>
<td>Special industries and information technology industries providing direct employment to 300 or more Nepalese citizens throughout the year</td>
<td>*20% of AR / NR</td>
</tr>
<tr>
<td></td>
<td>Special industries and information technology industries providing direct employment to 500 or more Nepalese citizens throughout the year</td>
<td>*25% of AR / NR</td>
</tr>
</tbody>
</table>

² 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.
### Industry and Taxation

#### Tax rates and Incentives

<table>
<thead>
<tr>
<th>#</th>
<th>Industry</th>
<th>Tax rates and Incentives</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Special industries and information technology industries providing direct employment to 1000 or more Nepalese citizens throughout the year</td>
<td>*30% of AR / NR</td>
</tr>
<tr>
<td></td>
<td>*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.</td>
<td></td>
</tr>
</tbody>
</table>

#### 2 Concessions to Special industries based on geographical locations

| 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) |

#### 3 Concessions to Special industries based on investment amount

| Special industry and tourism industry (except casino) with capital investment of NRs 2 billion or more and providing direct employment to more than 300 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 the existing special and tourism industry (except casinos) that increases its installed capacity 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 first 5 years and 50% concession for next 3 years on income generated due to increased capacity |
| Industry related to tourism industry or international flight operation established with capital investment of more than NRs 2 billion | 100% concession for 5 years from commencement of business and 50% concession for next 3 years |

#### 4 Concessions to industry established in SEZ

| Industry established in 'Special Economic Zone' 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 SEZs                               | 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 |

---

*NR: Nepalese Rupee*
<table>
<thead>
<tr>
<th>#</th>
<th>Industry</th>
<th>Tax rates and Incentive</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Special industries established and operated in industrial districts and industrial villages.</td>
<td>25% exempt for first 5 years from date of operation.</td>
</tr>
<tr>
<td>5</td>
<td><strong>Concessions based on establishment in special area</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Entity established in zoological, geological, Bio tech park and IT Park engaged in Software development or, data processing or, Cyber Café or, Digital Mapping</td>
<td>50% on NR</td>
</tr>
<tr>
<td>6</td>
<td><strong>Concession related to hydropower project</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Person or entity having license to generate, transmit or distribute electricity shall be provided concession if the commercial operation commences before BS 2080 Chaitra end. (Provisions shall be applicable for electricity generated from solar, wind or organic material)</td>
<td>100% exempt up to 10 years and 50% rebate in subsequent 5 years from the date of commercial production</td>
</tr>
<tr>
<td>7</td>
<td><strong>Concession to Petroleum Industry</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>If person involved in exploration and extraction of minerals, petroleum products, natural gas and fuel and starts commercial operation by BS 2080 Chaitra end.</td>
<td>100% exempt up to 7 years and 50% rebate in subsequent 3 years</td>
</tr>
<tr>
<td>8</td>
<td><strong>Other Specific concessions</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>On capitalization of accumulated profit through bonus share by Special Industry or industry related with tourism for expansion of capacity of industry</td>
<td>No tax on dividend distribution</td>
</tr>
<tr>
<td></td>
<td>Income from export of manufactured goods by Manufacturing Industries</td>
<td>Additional concession of 25% on rate derived after normal concession</td>
</tr>
<tr>
<td></td>
<td>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)</td>
<td>15% on AR/NR</td>
</tr>
<tr>
<td></td>
<td>Private company with capital of NRs 50 crore or more which conducts its operation by converting into public company</td>
<td>10% on AR / NR for 3 years from the date of conversion</td>
</tr>
<tr>
<td></td>
<td>Domestic tea production and processing industry, Dairy industry, Garments industry</td>
<td>50% on AR</td>
</tr>
<tr>
<td></td>
<td>Health institution operated by community based organization</td>
<td>20% on NR</td>
</tr>
<tr>
<td></td>
<td>Micro entrepreneurial industry</td>
<td>100% on NR for 7 years from the date of operation.</td>
</tr>
<tr>
<td></td>
<td>Micro entrepreneurial industry if it is under entrepreneurship of woman</td>
<td>100% on NR for 10 years from the date of operation</td>
</tr>
<tr>
<td></td>
<td>Industry established in very undeveloped and undeveloped areas producing brandy, wine, cider from fruits</td>
<td>40% and 25% on NR for 10 years from the date of commercial production.</td>
</tr>
<tr>
<td>#</td>
<td>Industry</td>
<td>Tax rates and Incentive</td>
</tr>
<tr>
<td>----</td>
<td>--------------------------------------------------------------------------</td>
<td>-----------------------------------</td>
</tr>
<tr>
<td>1</td>
<td>Royalty from export of intellectual asset by a person</td>
<td>25% on NR</td>
</tr>
<tr>
<td>2</td>
<td>Income from sale of intellectual asset by a person through transfer</td>
<td>50% on NR</td>
</tr>
<tr>
<td>3</td>
<td>Cooperatives operating in village municipality</td>
<td>100% tax exemption</td>
</tr>
</tbody>
</table>

### 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 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 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 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 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 of exportable products is deducted from the quantity entered in the passbook upon export of 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 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.

Special Provisions

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax rebates for micro, small and medium enterprises</td>
<td>For the year 2019-20, the annual transaction up to NRs 2 million, NRs 2 to 5 million and NRs 5 to 10 million, a rebate of 75%, 50% and 25% on the income tax will provided, respectively.</td>
</tr>
<tr>
<td>Tax rate for cooperatives</td>
<td>The cooperative operating in Rural Municipality is exempt from Income Tax and tax to be levied at 5%, 7% and 10% for cooperative operating in Municipality, sub-metropolitan and metropolitan, respectively.</td>
</tr>
<tr>
<td>Approved Retirement Funds</td>
<td>If all the approved retirement fund transfers to Social Security Fund till mid-April 2021 (Chaitra 2077), no such tax shall be levied on such retirement payment.</td>
</tr>
</tbody>
</table>

- The hotel, travel, trekking, transport and airline industry with annual turnover in excess of NRs 10 million shall be entitled to a rebate of 20% bringing down the tax rate to 20%.
- The contributions made to the Corona Fund established by the Federal, Provincial and Local Governments shall be deductible for computation of taxable income for the FY 2019-20.
- 25% discount on income tax to be provided for the first five years of operation to special industries established in industrial areas or industrial villages.
- Waiver in tax applicable on retirement payment if approved retirement fund operated in different institutions transferred to Social Security Fund by mid-April 2021 (Chaitra 2077). Other retirement funds shall be gradually phased out.

2.5 Major Amnesty Announced in Finance Act 2020

a) Waiver of Fees and Penalty

If any taxpayer registers and obtains PAN and submits the tax returns for FY 2018-19 & 2019-20 and deposits the applicable tax by end of mid-March 2021 (Falgun 2077), the interest and penalty for the above period and the taxes, interest and penalty for earlier years will be waived.
b) Waiver of Additional Charges, Fees, Interest and Penalty

If a natural person, with turnover up to NRs 5 million is already registered in PAN but has not submitted tax returns submits the tax returns for FY 2017-18, 2018-19 & 2019-20 and deposits the applicable taxes and 25% of the interest by end of mid-March 2020 (Falgun 2077), the additional charges, fees and penalty for the above period and the taxes, interest and penalty for earlier years will be waived.

Where a natural person or entity with turnover of more than NRs 5 million has obtained PAN but not submitted the returns for FY 2017-18 and earlier submits the tax returns and pays the taxes and 25% of the interest by the end of mid-March 2020 (Falgun 2077), the fees and the balance interest shall be waived.

c) Waiver of Additional Charges, Fees, Interest and Penalty and balance interest for VAT Registered Persons

Where a registered person, who has not filed and paid taxes of mid-July 2019 (Ashad end 2075) files the returns and pays the applicable taxes and 50% of the interest by end of mid-July 2020 (Falgun 2077), the additional charges, fees, penalty and balance of interest will be waived.

Those taxpayers who have not filed their tax returns till mid-July 2016 (Ashad 2073) will be automatically deregistered. Charges applicable for late filing of the returns shall be waived however, the remaining due taxes, interest and fees shall be recovered.

d) Waiver of Tax, Fees and Interest

NRs 50,000 per record have been waived on tax due for assessment made up to Ashad 2060 on the following:

- Taxes assessed as per Income Tax Act 2031 but not yet recovered
- Taxes assessed under the extant sales tax, entertainment tax, contract tax, hotel tax which were replaced by the VAT Act 2052.
3. INDIRECT TAXES

3.1 Value Added Tax

3.1.1 Introduction

Value Added Tax (VAT) is a 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

Threshold for compulsory registration under VAT Act is a turnover exceeding NRs 5 million over the last 12 months in case of goods, and NRs 2 million for services or both services and goods. Exemptions apply inter alia, to salaried employment, banking and financial services, education and health services, agriculture produce and certain non-profit making activities.

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 25th day of the following month
b. Provide their customers with a tax invoice
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, 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 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. Withdrawal of mandatory VAT registration for waste management, municipality, motor parts, tailoring business and legal service.

b. VAT exempted on import of raw material by pharmaceutical industries and VAT refund to be provided if the raw materials are procured locally.

c. Provision of filing of returns and payment of taxes on a trimester basis for transportation, tourism and movie theater sectors has been introduced.

d. Exemption of VAT imposed on micro enterprise insurance.

e. If any public entities or an association with full or partial ownership of GoN, imports goods or services or goods and services both under contractual agreement under the Public Procurement Act, while making payment to the contractor or supplier can set off its tax with the tax payable by such contractor or suppliers.

f. Penalty of NRs 20,000 (previously NRs 10,000) per tax period and 50% penalty on applicable tax, fees and interest introduced for non-registration under VAT.

g. Introduction of provision of refund of VAT amount paid by United Nations Organization and specialized agencies on purchase of goods and services for staying in Nepal for their objectives.

h. The exemption of Soyabadi Masaura has been reinstated.

i. Exemption of Vat has been extended on import of construction plant, machinery, tools and related parts to Hydroelectric Transmission and Distribution.

j. Vat exemption given to hydroelectric project on raw material (Steel Sheets) required for construction of Plant, Equipment's is withdrawn.


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 decision. Tax payer can approach to Revenue Tribunal if he is not satisfied with the IRD’s decision.

3.2 Custom Duty

3.2.1 Introduction

Customs duty is calculated on transaction value which includes cost, insurance & freight up to Nepal border on the import of goods. In case there is under invoicing, the custom 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. Increase in custom duty on import of Petroleum products from NRs 15,200 per KL to NRs 25,200 per KL.

b. Increase in customs duty on electric vehicles.

c. Increase in custom duty on import of Gold (including gold plated with platinum) unwrought or in semi-manufactured forms, or in powder form from NRs 5,000 Per 10 grams to NRs 8,500 per 10 grams.

d. Reduction in custom duty on import of separator used in Agriculture factory from 5% to 1%.

e. 25% concession on custom duty to industries importing Petroleum bulk and petroleum bitumen for their own consumption.

f. Reduction of applicable custom duty on import of machineries and raw material by micro, cottage & small industries, animal husbandries, veterinarians and industries producing masks.

g. Industry Producing Surgical Mask will be levied 5% custom duty on import of unweave textile under, elastic ropes, rustproof metal strips under.

h. Reduction of applicable custom duty on import of equipment imported by agricultural firms as well as paddy, corn, wheat and vegetable seeds.

i. Increase in applicable custom duty on import of primary agricultural produce.

j. 50% rebate on custom duty for fertilized eggs under tariff imported by Poultry Industry for production of chicks.

k. Reduction of applicable custom duty on import of raw material for ayurvedic medicines.

l. 50% custom duty rebate is provided on machinery imported by Micro, Cottage, Small industries.

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. Exemption on Excise Duty on internal production of ethanol (to be used as raw material for production of sanitizers) and PPE.

b. Excise Duty imposed on import of all furniture goods as an initiative to conservation of national furniture industry.

c. Withdrawal of exemption on local production of marble, local production of lead battery.

d. Increment in the excise rate in case of pan masala, flavored areca with tobacco, Tobacco and manufactured tobacco substitutes.

e. Discount of 35% and 40% on excise duty provided on local production of wine and cider respectively.

f. Introduction of punishment with imprisonment for a term not exceeding one year or with a fine equivalent to the amount in controversy or both in case of production, bottle seal, and sales of alcohol contrary to the regulation formed under the act or conditions set by department.

g. Discount of 50% and 25% on Import of Unassembled vehicle under Heading 87.02, 87.03 and 87.11 for produced Vehicle thereof. The Discount Provision is applicable on Import of unassembled Vehicle and ED on Sale of Such Vehicle after assembly.

h. In case of use of spirit or ethanol more than quantity the quantity authorized as per the law, penalty at the highest rate of excise duty on production of alcohol from such spirit and ethanol to be levied.

i. Liquor, beer & tobacco related industry, importers and sellers of such item are prohibited to operate of any kind of gift schemes or discount to distributors whether or not such dealer is registered in VAT.

j. Introduction of NRs 1,650 per metric ton excise duty in case wire of iron or non-alloy steel.

k. License to be renewed by the industries dealing with the tobacco item which are operating under self-removal system.

3.3.5 Administrative Review

Provision is made for an administrative review at IRD if the decision made by excise officer is not acceptable to the taxpayer. In such case, taxpayer has to submit and appeal to DG of IRD within 30 days from the date of receipt of the decision made by excise officer. The taxpayer has to deposit 100% of undisputed tax and one third of the disputed tax while submitting application for administrative review. Taxpayer can approach to Revenue Tribunal if he is not satisfied with the IRD decision.
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right people
right size
right solution

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