

# Procedures for Digital Service Tax 2081(2024)

## Highlights



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## 1. Introduction

IRD has introduced a new procedure, titled "Procedure for Digital Service Tax, 2081 (2024)" to regulate the taxes on Digital services provided by non-resident persons to Nepalese customers. This procedure became effective from 1<sup>st</sup> Shrawan 2081.

## 2. What is meant by 'Digital Services provided to consumers of Nepal' under this procedure?

'Digital services provided to consumers of Nepal' means an electronic service provided to a consumer resident in Nepal by a non-resident person, if any of the following conditions are fulfilled:

- If service is received within Nepal
- If the invoice is issued to an address located in Nepal
- If the payment is made from the banks or authorized payment service providers of Nepal.
- If the payment is made using debit, credit, or similar cards issued by banks or authorized payment service providers in Nepal.
- If the service is received using an IP address within Nepal
- If service is received using Nepali coded SIM card or Nepali landline telephone.

## 3. How are 'Digital Services' defined under this procedure?

'Digital services' means the following services that use information technology to deliver automated services to consumers via the Internet with minimum human intervention:

- Advertising services.
- Cinema, television, music, OTT and other similar subscription-based services
- Services relating to data collection
- Cloud services
- Gaming services
- Mobile application services
- Online marketplace services and services are provided through it.
- Supply and update software
- Download service of statistics, images, etc.
- Consultancy, skill development and training services
- Services of e-books, e-libraries and e-journal
- Other services of similar nature

## 4. Who are 'consumers' under this procedure?

"Consumers" refers to individuals residing in Nepal who use/consume digital services except for business purposes.

## 5. At what rate and in what manner should DST be levied and collected?

The digital services tax (similar to income tax/direct tax) should be levied and collected by following the procedure mentioned below:

- Digital service tax will be levied @2% on the transaction value (excluding the indirect taxes like VAT, excise duty and customs duty attracted in Nepal) of the digital service provided to the consumers of Nepal by Non-Resident Person.
- Annual transactions up to **NPR 3 million** shall not be taxed, However, if the amount exceeds **NPR 3 million** in a FY, the entire transaction amount shall be taxed.
- Since the nature of DST is a direct tax, it should not be added to the invoice amount and recovered from the consumer.
- Income Tax as per the Income Tax Act, 2002 shall not be applicable on the transaction on which DST is applicable. However, if service is provided to a person other than a consumer as defined in this procedure, tax as per the Income Tax Act, 2002 shall be applicable.

## 6. Who will administer the DST?

DST shall be administered by the Large Taxpayer Office.

## 7. What provisions are mentioned for the registration of Non-Resident Persons providing digital services in Nepal?

The following procedures are to be followed for registration by non-residents:

- Person liable to pay DST shall compulsorily register in Nepal and obtain a PAN. Non-registration will not provide an exemption from the responsibility to pay DST.
- Registration for PAN shall be done within 30 days from which transaction amount exceeding the threshold of **NPR 3 million**. Voluntary registration for PAN is permitted even if the transaction amount does not exceed the threshold limit.
- Entities that have already registered for VAT need not obtain a separate PAN.
- Application for PAN shall be submitted via online medium along with the following documents:

- A notarized copy of the company's registration and tax registration certificates in English from its country of residence is required.
- If any person has been authorized for tax purposes, a letter of authorization and a notarized English copy of their passport is required.
- If a service provider appoints an authorized person, a photo and a copy of the authorized person's signature are required.

#### **8. What steps should taxpayers follow for recording transaction details in their books and submitting these details to the tax office?**

The taxpayers are required to follow the following steps for recording the transaction and submitting the details to the tax office:

- The transactions shall be recorded in Nepalese currency.
- The accounting shall be done on an accrual basis.
- The accounting shall be done based on Nepali FY (i.e., 1<sup>st</sup> Shrawan to 31<sup>st</sup> Ashadh)

- The format of return shall be as specified in Annexure – 3 of the procedures.
- The return shall be submitted within 3 months from the end of each income year via online medium. [For FY 2023-24, the deadline would be within mid-October 2024.]
- A fine shall be imposed @ 0.1% per annum on the amount of annual transactions if the return is not filed on time.

#### **9. What specific steps should taxpayers follow when depositing the collected digital service tax with the tax office?**

- Payment shall be made electronically under the defined revenue head within 3 months from the end of each income year. [For FY 2023-24, the deadline would be within mid-October 2024.]
- Interest at the rate of 15% per annum shall be levied and recovered on non-payment of tax within the stipulated time period.

#### **10. What are the provisions for de-registration of the taxpayer?**

If the service provider ceases to provide the digital services as defined under this procedure, an application as specified in Annexure – 4 of this procedure shall be submitted to the tax office for de-registration.

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**PKF T R Upadhy & Co.**

124, Lal Colony Marg, Lal Durbar, Kathmandu, Nepal

Telephone: + 977 1 4410927, +977 1 4420026

Email: [trunco@ntc.net.np](mailto:trunco@ntc.net.np)