

# Procedure for Luxury Tax 2081 (2024)

## Highlights



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## 1. Introduction

IRD has issued a new procedure called the '**Procedure for Luxury Tax, 2081**' to ensure the effective administration of luxury taxes that are applicable on the services provided by five-star and high-rated hotels, luxury resorts and on import of liquor, and on the sale of gold jewelry or gold jewelry featuring diamonds, pearls, or gemstones valued at over NPR 1 million per transaction. This procedure became effective from **1 Shrawan 2081**.

## 2. At what rate and in what manner should luxury taxes be levied and collected?

The luxury taxes should be collected from the customers by following the procedure mentioned below:

- Five-star hotels, higher-rated hotels, or luxury resorts must collect tax @2% on the pre-VAT amount when providing services to their customers.
- The Customs office will collect tax @2% on the pre-VAT amount for imported liquor at the customs point from the importer.
- Jewelers will collect tax @2% on sale price when selling gold jewelry or gold jewelry adorned with diamonds, pearls or gemstones if the value exceeds NPR 1 million per transaction.

## 3. Who will administer the luxury tax?

The luxury tax is administered by the Taxpayer Service Office, IRD, Medium Taxpayer Office, Large Taxpayer Office, and Customs Office (for liquor imports).

## 4. Is re-registration required for a person already having PAN solely for collecting and depositing luxury taxes?

Persons already holding a PAN do not need separate registration to collect and deposit luxury taxes with the tax office.

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

Taxpayers should follow the procedure outlined below when recording transaction details in their books and submitting these details to the tax office:

- Transactions should be recorded on an accrual basis.
- Monthly transaction details must be submitted to the tax office by the 25<sup>th</sup> of the following month, using the format specified in Schedule 1 of the '**Procedure for Luxury Tax,2081**'.

- An additional fine @2.5% per annum will be imposed for the period of delay if taxpayers do not submit or file the details on time.

*However, for imported liquor, these procedures do not need to be followed, as the luxury tax is already collected by the customs office at the customs point.*

## 6. What specific steps should taxpayers follow when depositing the collected luxury taxes with the tax office?

When taxpayers deposit the collected luxury taxes to the tax office, the following procedures must be followed:

- The collected taxes should be deposited by the 25<sup>th</sup> of the following month.
- While depositing the tax amount, the tax office's code and revenue code should also be mentioned.
- If the collected taxes are not deposited within the designated timeframe (i.e., by the 25<sup>th</sup> of the following month), interest @15% per annum will be imposed and collected.

*However, for imported liquor, these procedures do not need to be followed, as the luxury tax is already collected by the customs office at the customs point.*

## 7. What are the arrangements for the tax office to review taxpayers' transactions and assess tax liability?

The tax office will review taxpayers' transactions and assess tax liability by following the arrangements outlined below:

- The tax office can determine the tax liability after examining the business of the service provider or seller.
- During the examination of the transactions/business by the tax office, if the service provider or seller is found to have not collected the tax from the customer or if the sales transaction is fragmented (i.e. recorded under a different heading to minimize tax liability) or if it is found that the transaction amount shown is lower than the actual transaction amount, an additional fine @25% will be imposed and recovered from the taxpayer.
- If the tax office receives information and evidence from any third party regarding the reduction of tax liability by the taxpayer by showing a lower transaction amount or by not collecting taxes from customers or by fragmenting the transaction (i.e. recording transactions under a different heading for minimizing tax liability) or by concealing the transaction, the tax officer will give a written notice of the initial tax assessment based on such information and evidence.

- The tax assessment notice will be considered as served to the taxpayer if it is delivered to an employee or representative of the service provider or seller, sent to the service provider's or seller's address via fax, email, or other electronic means, or published in a national newspaper.
- In case the taxpayers are not satisfied with the tax liability determined by the assessment done by the tax office, a period of 15 days will be allowed for the taxpayer to present evidence of innocence.
- The tax officer will issue a final tax assessment taking into account the evidence of innocence submitted by the service provider or seller.

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