

Nepal Budget Statement 2022-23

Highlights



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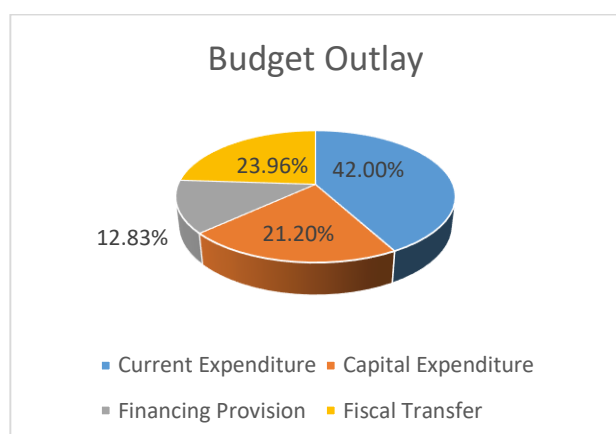
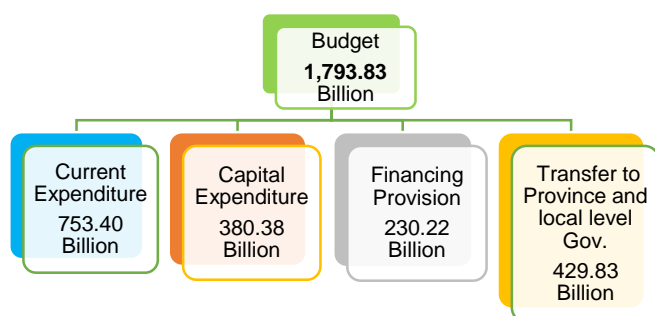
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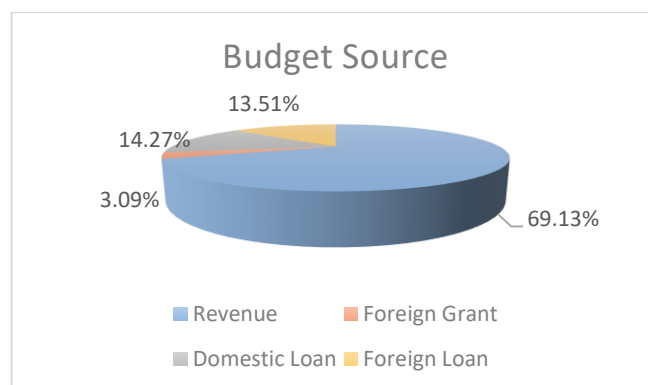
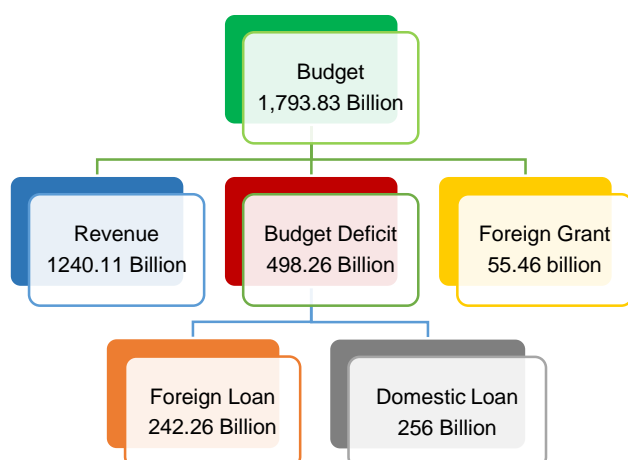
On Sunday, 29 May 2022, Honorable Finance Minister, Mr Janardhan Sharma (Prabhakar) presented the full budget for the fiscal year 2079-80 (2022-23). The allocation of resources, priorities and significant policy statement of the budget is highlighted in this document.

1. Source and allocation of budget

Allocation of Budget



Source of Financing



2. Background of budget

- The Budget for 2079-80 is considered as transit from import towards production, towards collective financial stability from risks and towards inclusion from taboo.
- The budget aims to meet the necessity to build the foundation for a socialist-oriented economy that has been directed by the constitution of Nepal.
- Addressing the aspirations of all the citizens including people below the poverty line, deprived/discriminated class of people for the development and prosperity.
- Performing financial and development activities for immediate economic resurrection and work for socio-economic development of Nepali citizens through the revival of the constitutional process.

3. Objectives of budget

- To achieve higher and sustainable financial growth through the development of production based economy.
- Employment creation and poverty alleviation through integrated mobilization of available resources, manpower, capital and technology.
- To achieve the goal of overall financial stability through maintenance of financial discipline and inflation within the limit.
- To establish federalism as a conductor of prosperity by transferring resources at the state and local levels.
- To build the foundation of a balanced, inclusive, self-reliant and socialist-oriented economy through economic and social transformation.

4. Budget Priorities

- Transformation in the agricultural sector.
- Enhancement of production and productivity, create employment and alleviate poverty in collaboration with government, private and cooperative sectors.
- Local economic development based on innovations.
- Human resource development.
- Capital formation and infrastructural development.
- Hydropower generation, transmission line expansion and rural electrification.
- Industrial development, investment promotion and revitalization of the tourism sector.

- Environmental protection, disaster management and risk mitigation of climate change.
- Effective public service & promotion of good governance and periodic elections.
- Scientific Research and Development.

5. Budget allocation to provincial and local governments

- Based on a method determined by the National Natural Resources and Fiscal Commission, equitable grant of Rs 61.43 billion and Rs 100.23 billion is allocated to provincial and local governments, respectively.
- Conditional grants of Rs 57.17 billion and Rs 183.72 billion are to be provided to provincial and local governments, respectively.
- For the implementation of infrastructural projects, supplementary grants of Rs 6.30 billion and Rs 7.27 billion are to be provided to provincial and local governments, respectively. Accordingly, a special grant of Rs 4.56 billion and a parallel grant of Rs 9.14 billion are allocated to provincial and local governments, respectively.
- Rs 163.03 billion is estimated to be transferred to provincial and local governments for revenue distribution.

6. Objectives of revenue policy and program for FY 2022-23

The objectives of the revenue policy and program are to be achieved by formulation of policy to increase the share of internal revenue and expansion of the scope of revenue by gradually changing the structure of import based revenue sources.

Revenue shall be mobilized in a manner to meet the requirement of the fulfillment of the demand of increasing public expense and develop a reliable & appropriate tax system and achieve the below mentioned objectives:

- Development of a progressive, self-sufficient and strong economy through stable and effective revenue mobilization.
- Encouragement to the domestic industries.
- Expansion of the scope of tax while protecting the tax and minimization of revenue leakage.
- Improvisation in the revenue system by making it progressive, simple, transparent and predictable.
- Encouragement of participation in taxation through the development of entrepreneurial, healthy and taxpayer friendly tax administrations.
- Development of IT friendly revenue administration system.

7. Relief package for COVID-19 impact

Relief measures brought by the government as a result of the COVID-19 impact are mentioned hereunder:

- Tax rebates on applicable tax rates/presumptive tax amount based on the annual turnover of small taxpayers for FY 2021-22 considering the impact of COVID-19 on business are tabulated below:

Annual Turnover	Tax Rebates on applicable tax
a. Up to Rs 3 million (natural person taxpayers having annual turnover up to Rs. 3 million and Taxable Income up to Rs. 0.3 million covered u/s 4(4))	75%
b. Rs 3 million - 10 million (natural person taxpayers whom turnover based tax is applicable u/s 4(4Ka))	50%

- 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 Rs 10 million.

8. Tax incentives for the establishment of Vaccine and Liquid Oxygen Industries

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

9. Major changes and improvements in the tax system

Income Tax

- Revision in the slab for the calculation of tax on remuneration income of a resident natural person. Applicable tax rates on the income of a resident individual in any income year shall be as tabulated below:

Taxable Income (in Rs)		Applicable Tax Rates
Single	Couple	
Up to 500,000	Up to 600,000	1%*
Next 200,000	Next 200,000	10%
Next 300,000	Next 300,000	20%
Next 1,000,000	Next 900,000	30%
Above 2,000,000	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, taxpayer registered as a sole proprietorship or on pension income or on 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

- Applicable tax rates on the gain on disposal of Non-Business Chargeable assets (Land And Building) have been amended as follows:

Period of Ownership	Applicable Tax Rate	
	Existing	Amended (FY 2022-23)
Less than 5 years	5%	7.5%
5 years or more	2.5%	5%

- Limit for deductible Insurance Premium in respect of investment insurance for resident individuals has been increased from Rs 25,000 to Rs 40,000.
- Resident natural person having only income as per subsection 6(Kha), 6(Ga), 6(Gha) of section 95 (ka) shall not be required to file an income tax return.
- 1% tax is to be levied on the income earned by resident individual in foreign currency by providing services based on software programming, cloud computing, electronic services, business process outsourcing or similar information technology related services outside Nepal. A new section 1 (4(Ka)) has been inserted in Schedule 1 of Income Tax Act to cover the above provision.
- When considering a change in control as per section 57, the word “shareholder” has been replaced with the word “shareholder or partner.
- “Cash payment” under section 21 shall further exclude payment made through a digital wallet approved by NRB.
- Revision in the applicable tax rate on transactions, except exempt transactions of Co-operatives registered under Co-operatives Act, 2074 as follows:

Operational Area	Applicable Tax Rates	
	Existing	From FY 2022-23
Municipality Level	5%	7.5%
Sub-Metropolitan Level	7%	10%
Metropolitan Level	10%	15%

- Withholding tax (TDS) @ 1.5% shall be applicable in case of royalty payment to a resident person for a literary article or composition.

Concessions on business income

Industries	Concession
Special Industry as defined in section 11 of the Income Tax Act	
Income derived from agriculture business, vegetable dehydration business and cold store business by registered firm, company, partnerships and organized institutions.	100% rebate on the applicable tax rate.
Income derived by special industries established in Karnali province and hilly areas	100% tax exemption for the first 15 years from the date of

of the far western region providing direct employment to more than 100 Nepali citizens.	commencement of commercial production or transaction.
Income derived by a person licensed for production, transmission or distribution of electricity produced from hydropower, solar, wind and biological substances within Mid April 2027 (Chaitra of 2083).	100% tax exemption for the first 10 years from the date of commencement of commercial production or transaction and 50% exemption for the next 5 years.
Income derived by a reservoir or semi reservoir-based hydropower projects generating above 40 MW of energy and managing financial closure by mid-April 2029 (Chaitra end 2085)	100% tax exemption for the first 15 years from the date of commencement of commercial production or transaction and 50% for the next 6 years.
Income from export of goods manufactured by manufacturing based industry having source in Nepal during any income year.	Additional 50% rebate on the applicable tax rate. (In the previous year, the additional rebate was 35%)
Income derived by industry engaged in the production of vaccines, oxygen gas or sanitary pads.	100% tax exemption for the first 5 years from the date of commencement of production and 50% for the next 2 years. (Previously 100%
Income derived by industry established within mid-July 2025 (Asadh 2082) for the purpose of manufacturing or assembling four-wheel electric vehicles	40% rebate on the applicable rate for the first 5 years from the date of commencement of the commercial
Income derived by industry established within mid – July 2025 (Asadh 2082) for the purpose of manufacturing agricultural tools.	100% tax exemption for the first 5 years from the date of commencement of production.

Previously, a provision was introduced whereby the income source of investments made in infrastructure development projects of national importance up to mid-April 2023 (Chaitra 2080) would not be sought. The provision has been removed by the current budget.

Customs Duty

- 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.
- 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.

- 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.
- 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.
- 1% customs duty will be applicable on the import of raw materials and parts required by the electric rickshaw, motorcycle, or scooter manufacturing industry.
- 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.
- 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.
- 75% exemption of applicable customs duty on import of a maximum of 2 school buses will be provided to public or community schools.
- 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.
- Waiver of custom duty on import of urine bag used by the disabled person.
- 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.
- A penalty of Rs 50,000 to Rs 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.
- 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.

Major changes in Customs Duty rates

- Customs duty on the motorcycles with cylinders' capacity exceeding 200 cc has increased ranging from 10% to 50%.
- Increase in the customs duty on cigars, cheroots, and cigarillos, containing tobacco and other similar items from Rs 4500 to Rs 9000 per thousand sticks.

- Customs duty on electric vehicles with pickup power greater than 100 KW has been increased by 15% to 20%.
- Customs duty on energy drinks has increased from Rs 75 per ltr to 100 per ltr.

Excise Duty

- 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.
- 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.
- 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 Rs 100,000 shall be imposed.
- 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.
- 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.

Major changes in Excise Duty rates

- The rate of excise duty on edible nuts, peel of citrus fruits or melons has been increased from 5% to 15%.
- Increase in excise duty of fish and crustaceans, mollusks and other aquatic invertebrates from 5% to 10%.
- Excise duty on scented nutshell without tobacco has been increased from Rs 281 to 350 per kg.
- Excise duty on Paan masala without tobacco has been increased from Rs 812 to 821 per kg.
- Excise duty on Beer made from malt has been increased from Rs 198 to 228 per ltr.
- Excise duty on cigars, cheroots and cigarillos, containing tobacco has been increased from 21 per stick to 30 per stick
- Excise duty on cigarettes containing tobacco without a filter has increased from Rs 618 per mtr to Rs 710 per mtr and cigarettes with filter have increased from Rs 200 per mtr to Rs 500 per mtr.
- Excise duty on unmanufactured tobacco; tobacco refuse has been increased from Rs118 per kg to Rs 130 per kg.

- Excise duty on un-denatured ethyl alcohol of an alcoholic strength by volume of 80% vol. or higher has increased by Rs10 per ltr.
- Excise duty on all kinds of alcoholic fluids including spirits used as a raw material of wine or brandy is increased from Rs 198 per ltr to Rs 228 per ltr.
- Excise duty on non-alcoholic beer has increased from Rs 20 per ltr to Rs 30 per ltr.
- Excise duty on energy drinks has increased from Rs 36 per ltr to Rs 50 per ltr.
- Excise duty on playing cards and toys has increased by 5%.
- 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%.
- 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%
- 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

Value Added Tax

- There have been no changes in the VAT rate of 13%.
- Electronic service includes 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.
- 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.
- Non-resident person whose turnover from electronic service in Nepal is over Rs 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.

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

Expansion of scope of tax

- System shall be implemented for the issuance of personal PAN at the time of obtaining citizenship and national identity card.
- Submission of personal PAN and tax clearance certificate shall be mandated for the foreign employees during the time of visa renewal and work permit renewal for bringing into the ambit of remuneration tax and other applicable taxes.
- Arrangements shall be made for the mandatory submission of the PAN and tax clearance certificate during the renewal of professional certificate by the professionals. PAN submission shall be mandated while purchasing four wheelers.

Economic Situation

- Economic growth rate for the FY 2022-23 is estimated to be 5.8% whereas the inflation rate for 9 months of the current fiscal year is at 7.3%.
- During the current fiscal year, per capita income has reached USD 1,381.
- Government expenses are expected to be Rs 1,447.51 billion whereas revenue collection is expected to be Rs 1,152.42 billion during the current fiscal year, which is 18% increment as compared to the previous year.
- Government expenses are expected to be utilized as follows:

Area	Rs in Billion	% utilization
Current Expenditure	971.86	91.2
Capital Expenditure	309	79.4
Financial Management	175.56	92.7

Major Amnesty announced in Finance Act 2079

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 FY 2075-76, 2076-77 and 2077-78 within 14 January 2023 (Poush end 2079).

Further, the tax, fees and interest for FYs prior to FY 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 (FY 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 (FY 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% of such differential turnover till 13 April 2023 (Chaitra end 2079).

Other changes in taxes and fees

- If any person buys more than one house or apartment, 100% additional registration fees for registration of each additional house shall be charged.
- 50% discount to be given on fees or charges for renewal of passport, consular service and renewal of labor permit to Nepalese citizens in foreign employment who are sending remittances through formal channels.
- New provision in relation to digital service tax:
 - Digital service tax of 2% on transaction value shall be collected on digital services provided by non-residents to Nepalese customers. However, such tax shall not be applicable in cases when the annual transaction is up to Rs 2 million.
 - 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.
- Telecommunication service charge shall be collected from consumers of telephone, mobile, and internet service by the telecommunication service providers at 10%.
- Revised provision in relation to casino royalty:
 - Individuals and institutions licensed to operate a casino in Nepal shall pay annual royalty of Rs 50 million for their operation and Rs 15 million for gaming through modern machines and equipment only.
 - 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
 - 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.

Major changes in Financial Sector

- Subsidized credit provided to businesses run in underdeveloped areas by people of the lower class, oppressed and people living in underdeveloped areas shall be provided a further 1% subsidy in interest rates.
- Marginalized and Dalit Upliftment Fund shall be established for increasing the financial access of such people and banks shall contribute a minimum of 50% of the amount set aside for CSR to this fund.

- Each branch of a commercial bank shall provide a minimum of five loans to industries related to agricultural produce and processing.
- 10% reservation in initial public offerings shall be done to the persons going into foreign employment.
- Arrangement shall be made for Companies having a capital of Rs 1 billion or more, turnover of Rs 5 billion or more, companies mobilizing natural resources and public companies receiving subsidies, waivers, and exemptions from the government requiring public offering of their securities and enlisting themselves in the stock exchange.
- Limit of deposit insurance shall be increased to Rs 500,000 from Rs 300,000.

Threshold of Foreign Direct Investment and related provisions

- The minimum threshold of investment by foreign investors in Nepal has been proposed to be reduced to Rs 20 million from the existing threshold of Rs 50 million.
- Arrangements to be made for the approval of foreign direct investment up to Rs 100 million through an automated system.
- System to be formulated for the initial approval of the application for foreign direct investment within 7 days for preparatory works in cases the direct application through electronic means are lodged by the large investors.
- Arrangements to be made for the approval of investment and operation within 6 months of application.

right people
right size
right solutions