

# NEPAL TAX GUIDE 2016

Including Amendments brought by  
Finance Bill 2016

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# 1. CORPORATE INCOME TAX

<b>Applicable Fiscal year</b>	<b>Mid July 2016 to Mid July 2017 (From Shrawan first to Ashad End, Nepalese Calendar)</b>
<b>Resident Entities</b>	
<b>Taxable Income</b>	Global income i.e. Income having source in Nepal and Foreign country.
<b>General Tax rate</b>	General Tax Rate of 25%
<b>Higher Income Tax Rate of 30%</b>	Higher Income Tax Rate of 30 percent is applicable to the following Entities: <ul style="list-style-type: none"> <li>– For entities operating Banking and General Insurance Business.</li> <li>– For entities dealing with Petroleum products.</li> <li>– For entities producing cigarettes, cigars, liquors and other related products.</li> </ul> However, life Insurance business is subject to 25% tax bracket.
<b>Lower Income Tax Rate of 20%</b>	Lower Income Tax Rate of 20 percent is applicable to the following Entities: <ul style="list-style-type: none"> <li>– Special Industries (Manufacturing Industries specified in Industrial Enterprise Act).</li> <li>– Co-Operatives other than fully exempted from tax.</li> <li>– Entities operating Trolley Bus, tram.</li> <li>– Entities involved in construction of Electricity, Powerhouse, Transmission Lines.</li> <li>– Entities constructing Public infrastructures on BOOT/BOT model (Build-Own- Operate-Transfer).</li> <li>– Income from Export</li> </ul>
<b>Residential Criteria</b>	A company is considered to be resident in Nepal if, <ul style="list-style-type: none"> <li>– It is Incorporated/Formed under the law of Nepal.</li> <li>– It's effective management in Nepal during the year.</li> </ul>
<b>Compliance Requirements</b>	Assessment system is based on self assessment;  However an assessment under self assessment scheme may be subject to Tax Audit and Amendment. Filing due date: Within 3 month of completion of Fiscal Year (Extension can be taken for further 3 months)
<b>Tax Assessment</b>	<ul style="list-style-type: none"> <li>– Self Assessment</li> <li>– Jeopardy Assessment (Special circumstances i.e. within same income year.)</li> <li>– Amended Assessment(Within 4 years from the date of return submission )</li> </ul>

<b>Compliance Requirement</b>	<p><b>Income Tax Return</b></p> <p>Within 3 months of completion of Fiscal year. If Application is made to Tax office for extension, IRD may extend such limit for maximum 3 month.</p> <p><b>Advance Tax and Return</b></p> <p>Based on estimated tax liability:          Within Poush end, of fiscal year (first Installment): 40% of Tax Liability.          Within Chaitra end, of Fiscal year (second installment): 70% of Tax Liability.          Within Ashad end, of Fiscal Year (third installment) : 100% of Tax Liability.</p>
<b>Dividend Distribution Tax</b>	<p>5 percent Dividend Distribution Tax is applicable on Dividend and Bonus Share Distribution</p>
<b>Carryforward of Losses</b>	<ul style="list-style-type: none"> <li>– Normal Loss of Business/Investment: Up to next 7 years.</li> <li>– For specific industries: 12 years (industries dealing with petroleum products, BOOT projects, Electricity/power generation, transmission and others).</li> <li>– Loss can be carried back only on the case of long term contract obtained from the international bidding.</li> </ul>
<b>Audit Requirement</b>	<p>Compulsory Audit Requirement for Companies Registered under Companies Act</p>
<b>Transfer of Shares</b>	<p>Withholding Tax on Capital Gain on Sale of Shares is as follows: :</p> <p><b>In case of sale by resident Natural Person :</b>          Listed company : 5%          Unlisted company : 10%</p> <p><b>In case of other Persons:</b>          Listed company : 10%          Unlisted company : 15%</p> <p>However, Normal Tax Rate will be applicable to the person other than Natural Person and withholding tax paid will be allowed to setoff from the final tax liability..</p>
<b>Transfer of Land &amp; Building</b>	<p><b>Individual:</b>          Tax withholding on capital gain for natural person on transaction exceeding Rs. 3 million (to be made by land revenue office at the time of registration)</p> <ul style="list-style-type: none"> <li>– disposal of land or land &amp; building owned for more than 5 years up to 10 years 2.5%</li> <li>– disposal of land or land &amp; building owned for less than 5 years 5%</li> </ul> <p><b>Others:</b></p> <ul style="list-style-type: none"> <li>– As per normal tax rate applicable</li> </ul>

<p><b>General Anti-avoidance rule</b></p>	<p>Tax authority posses the power of re-characterization of business arrangements to represent the true substance of business agreements and arrangements. And power to ignore the arrangements with no substantial effect, considered as tax avoidance scheme.</p>
<p><b>Advance ruling</b></p>	<p>Public circulars and industry specific notice for desiring industries are provided as per need.</p>
<p><b>Donation paid to Tax Exempt Entities</b></p>	<p>Allowable expenses shall be minimum of following:</p> <ul style="list-style-type: none"> <li>- Actual,</li> <li>- 5% of adjusted taxable income</li> <li>- Rs. 100,000</li> </ul> <p>However incase of donation paid with the prior approval of IRD to the tax exempt entity, shall be minimum of following:</p> <ul style="list-style-type: none"> <li>- Actual</li> <li>- 10 % of adjusted taxable income</li> <li>- Rs. 10,00,000</li> </ul> <p><b><u>Donation paid to Prime Minister Relief Fund (PMRF) as notification published by GON in Nepal gazette is fully allowable.</u></b></p>
<p><b>Treatment of Research and Development Expenses</b></p>	<p>Research &amp; Development expense is allowed up to the limit of 50% of adjusted taxable income; remaining portion (if any) is allowed to be capitalized in block 'D'.</p>
<p><b>Depreciation</b></p>	<p>Pool wise depreciation at the rate prescribed by tax authority are allowed.</p> <ul style="list-style-type: none"> <li>➤ Buildings, Leasehold assets and other permanent structure (Block A) : 5%</li> <li>➤ Office Equipment's (Block B): 25%</li> <li>➤ Vehicles (Block C): 20%</li> <li>➤ Plant, Machinery, equipment used for construction and other assets not included in A, B &amp; C Block (Block D) : 15%</li> <li>➤ Intangible assets (Block E) : as per the life span of asset</li> </ul> <p>Accelerated depreciation of 1/3 of applicable rate is also available in case of following entities.</p> <ul style="list-style-type: none"> <li>➤ Special Industries</li> <li>➤ Hydro Power and power generation.</li> <li>➤ Operation trams and trolley.</li> <li>➤ Export oriented industries.</li> <li>➤ Entities engaged in infrastructure development under BOOT/BOT scheme.</li> <li>➤ Co-operatives registered under co-operative Act 2048 (only for tax exempt).</li> </ul>
<p><b>Method of Accounting</b></p>	<p>In case of</p> <ul style="list-style-type: none"> <li>➤ Company: Accrual basis of accounting.</li> <li>➤ Other entities: Cash or Accrual basis of accounting (option).</li> </ul> <p>The method selected once can be changed only with the prior approval of IRD.</p>

## 2. INDIRECT TAX – VAT/EXCISE/CUSTOM DUTY

VAT	
<b>Standard Rate</b>	Single rate of 13% on all taxable goods and services imported and transacted inside Nepal. (Except, Exempted Goods and services ) but 0% on Export (Allowing Input VAT credit for export ).
<b>VAT Credit</b>	Allowed for Raw materials and expenses for production of finished goods and services which are not vat exempted
<b>Partial VAT credit</b>	For Automobiles (40% credit available)
<b>Time limit for VAT credit</b>	Within 1 year of purchase
<b>Threshold for VAT registration</b>	Turnover more than 5 million in case of taxable goods and more than 2 million for services only or goods and services both.
<b>Additional facility</b>	Bank Guarantee for VAT payable on purchase of raw materials and services for those industries exporting more than 40% of its total production during previous 12 months
<b>Refund of Tax (Cases)</b>	<ul style="list-style-type: none"> <li>• Figure of Input tax credit continuously for more than 6 months and,</li> <li>• Portion of export more than 40% of total sales during a month</li> </ul> Claim for refund should be made within 3 years of becoming due. Refund within 60 days in case of 6 month continuous credit figure and within 30 days in case of export portion exceeds 40%.
<b>Returns submit period</b>	Normal : Monthly(within 25 of next month of transaction) Industries can choose different return submission period as follows : Quarterly: publishing houses and bricks industries. Other (as approved by IRD): if tax payer uses a computerized system which provides transaction report of different period.

EXCISE DUTY	
<b>Applicability</b>	Specified Goods & Services
<b>Act applicable</b>	Excise Act, 2058 and amendment made by the financial ordinance from time to time.
<b>Rate</b>	Specific to each item.
<b>Input tax credit</b>	Allowed for Raw material and auxiliary raw materials ( not allowed for packaging material ).
<b>Valuation</b>	On production : FOB price On import : Value for custom value + Custom duty
<b>Management System</b>	Physical control system: for Alcohol, spirits, cigarettes etc. and Self removal system for other goods
<b>Facilities</b>	Full Exempt on Export, Full Exempt On industries producing goods using local scrap more than 90%
<b>Payment time</b>	Physical control system: at the time of discharge of goods from establishment. Self removal system : Monthly (within 25 <sup>th</sup> of next month of transaction ) Import of goods: custom point Import of services : as prescribed by Department.
<b>Licensing and concession on license fee:</b>	Required to obtained excise license for all excisable items (Manufacture, import, sell and store) except for, selling or store products under self removal system. Concession on license fee: 25% concession in license fee to brick and crosser industries outside Kathmandu value. 75% concession in license fee to wine and liquor industry, located in rural areas based on fruits. **License fee for bricks and crosser industries is exempt if the total VAT paid amount is in excess of such license fee.
<b>Deadline for renewal of Excise license</b>	Shall be renewed up to Shrawan end on next fiscal year.
<b>Bank Guarantee facility</b>	On import of goods by bonded warehouse
<b>Reporting</b>	Monthly

**CUSTOM DUTY**

<b>Nature</b>	<b>Indirect Tax (also called ,Border Tax)</b>
<b>Act applicable</b>	<b>Custom Act, 2064 (A.D.2007) and amendment made by yearly finance ordinance.</b>
<b>Applicable</b>	On all import and export of goods and services
<b>Rate</b>	Specific to each item (as prescribed in tariff as per H.S. code)
<b>Additional Facilities</b>	Bank guarantee for Bonded Warehouse of exporting industries and Duty free Shops
	Custom exemption for industries established in Special economic zone(SEZ)

**OTHER TAX**

<b>Telecommunication Service Tax</b>	Telecommunication Service Fee has increased to 11% from 10%.
<b>Health Service Tax</b>	5% of Health Service Tax is levied on Health Services invoices of all entities providing health services, except for those provided by Government of Nepal and Community Hospitals
<b>Education service fee</b>	1% on monthly Fee and Admission Fee [For private sector schools within Kathmandu valley , Sub-metropolitan city ,municipality and district headquarters , and other areas prescribed by IRD.]
<b>Infrastructure tax</b>	Rs.5/ltr on import of import of petrol, diesel and aviation fuel.
<b>Road repair &amp; improvement fees</b>	Rs. 4/ltr in petrol and Rs.2/Ltr in diesel at the point of import.
<b>Pollution control Tax</b>	Rs.0.50/Ltr. In petrol and diesel
<b>Royalty to Casino Business</b>	<ul style="list-style-type: none"> <li>– Annual License Fee for casino : 30 million</li> <li>– Annual License Fee for casino using only Modern Equipment and Machines : 7.5 million</li> </ul>



### 3. PERSONAL TAX

<b>Income Source</b>	<b>Business, Investment , Employment and Windfall gain</b>
<b>Social Security tax ( To the extent of employment income only)</b>	1% up to 350,000 for single person, 400,000 for couple
<b>Next 100,000</b>	15 Percent
<b>Next Up to 2.5 Millions</b>	25 Percent
<b>More than 2.5 Millions</b>	35 Percent
<b>Windfall Gain</b>	25% (Final withholding)
<b>Disposal of Non Business Chargeable Asset (Capital Gain)</b>	<p><b>Land</b></p> <p>Owned more than 10 years : no tax  Owned more than 5 years : 2.5%  Owned less than 5 years : 5%</p> <p><b>In case of sale by resident Natural Person :</b>  Listed company : 5%  Unlisted company : 10%</p> <p><b>In case of other Persons:</b>  Listed company : 10%  Unlisted company : 15%</p> <p>However, Normal Tax Rate will be applicable to the person other than Natural Person and withholding tax paid will be allowed to setoff from the final tax liability..</p>
<b>Interest income</b>	If received from Bank & FI 5% (Final withholding), Others 15% Withholding
<b>Dividend</b>	5% (Final withholding)
<b>Other Non business chargeable asset</b>	Capital gain 10%
<b>Return of Income submission</b>	Person with income during the year more than 4 million.
<b>Annual Tax for owner of vehicle registered as public vehicle</b>	<ul style="list-style-type: none"> <li>➤ Bus, truck, minibus, mini truck: Rs 3000 p.a.</li> <li>➤ Car, jeep, van, micro: Rs. 2400 p.a.</li> <li>➤ Three wheelers, auto rickshaw &amp; tempo: Rs. 1550 p.a.</li> <li>➤ Tractor and Power Trillers: Rs. 1000 p.a.</li> </ul>

**\*Rebate of 10% of total tax liability is available in case of female employee.**

**PERSONAL TAXATION (BUSINESS INCOME OF NATURAL PERSON & SOLE PROPRIETOR)**

**PRESUMPTIVE TAXATION**

<b>Criteria</b>	<ul style="list-style-type: none"> <li>• Turnover up to 5 million and profit up to 0.2 million</li> <li>• Non VAT registered</li> <li>• Medical tax credit and advance tax credit not claimed</li> <li>• Choose to apply this provision</li> </ul>		
<b>Resident Natural person and sole proprietorship firm with turnover and profit up to the specified limit are allowed to pay tax as follows for a F.Y. 2073/74</b>			
	Metropolitan, Sub Metropolitan		5000
	Municipality		2500
	VDC, DDC		1500
<b>Criteria</b>	<ul style="list-style-type: none"> <li>• (Turnover more than 2 million but, less than 5 million)</li> <li>• Non vat registered</li> <li>• Not claiming advance tax and medical tax credit</li> <li>• Non VAT registered</li> <li>• Business persons other than professional consultants and persons providing other specialized services (doctors, engineers, lawyers, chartered accountants, professional players )</li> </ul>		
<b>Person dealing with Gas and Cigarette with value addition up to 3% commission</b>	0.25% of turnover		
<b>Any other person</b>	0.75% of turnover		
<b>Service providing Person</b>	2%		

## 4. TAX AUTHORITY

<b>Tax Authority</b>	<b>Inland Revenue Department</b>
<b>Tax audit activity</b>	Returns may be selected for tax audit by IRD on random basis or on analytical review of returns
<b>Tax audit activity</b>	The tax authority's approach to tax audit is largely a manual approach including detailed consideration of key documents. A typical tax audit commences with a letter

Appeals	Appellate Forum	Appeal If	Time of Appeal	Decision of Appeal	Disposal of Appeal
Administrative Review	Department of Tax	Any person dissatisfied with orders or assessment by IRD may apply	Within 30 days of decision made by IRD	Fully or partially accept or reject the matters in application; and provide a written notice about the decision taken on the application	If decision not made within 60 days of application.
	Revenue Tribunal	Any person not satisfied by the decision of department	35 days of decision by department, notice same should be forward to IRD within 15 days.	To uphold, or reverse or partially reverse judgement made by Department	
	Supreme Court	If supreme court allows to make appeal because it thinks revenue tribunal made decision on clear wrong ground.	No time limit mentioned	Uphold, reverse or partially reverse or require additional evidence	



*For Further Correspondence:*



**NBSM & Associates | Chartered Accountants**  
*(Independent Member of GGI-Geneva Group International)*

**Head Office :**

**6<sup>th</sup> Floor, Block A, Four Square Complex,  
Narayan Chaur, Naxal, Kathmandu, Nepal**

Phone: 977-1-4433069, 4415242  
Mobile: 977-9851112614

E-mail : [nil.saru@nbsm.com.np](mailto:nil.saru@nbsm.com.np),  
Website : [www.nbsm.com.np](http://www.nbsm.com.np)

**Branch Office :**

**NBSM Consulting Pvt. Ltd,  
Butwal, Rupandehi, Nepal**

Phone : 977-71-5451643  
Mobile : 977-9851070442

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