

A photograph of a lush green rice field. In the middle ground, three women wearing colorful, traditional headscarves (one pink, one purple, one red) are bent over, working in the water. The field is filled with young rice seedlings. The background shows a dirt path and some trees. The image is split diagonally from the top-left to the bottom-right, with a white triangle on the top-left and a dark blue triangle on the bottom-right.

NBSM *Expressions.*

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GLIMPSE OF VAT IN NEPAL

Tax is collected by government to meet the need of budget. Among the various types of tax, the sales tax is one of the major sources of Government Income. Value Added Tax (VAT) is the most scientific system of sales tax. In the early days, the tax from the consumption and production was collected as sales tax. But now a days, it is almost completely replaced by VAT. The concept of VAT was introduced in 1919 by Dr. Wilhelm Von Siemens in Germany. In late 1960s, VAT started to become popular. Later, countries like Denmark and Brazil adopted this system of tax collection in 1967. France, the first implementer of VAT, extended it to the retail level for the first time. In SAARC region Pakistan was the first adaptor of VAT. It implemented VAT in 1990.



In Nepal, VAT Act was enacted by 1995 and was implemented only at 16 November 1997. It repelled four different Tax Act such as Sales Tax Act, Hotel Tax Act, Contract Tax Act and Entertainment Tax Act. It replaced the old Sales Tax, Contract Tax, Hotel Tax and Entertainment Tax. It is firmly believed that proper implementation of VAT helps to generate customs duties and income tax. This Act classifies goods and services under three broad categories, which are :

1. Taxable goods and services, for which VAT is levied,
2. VAT Exempted goods and services ,
3. Zero-rated goods and services

Nepal has adopted a consumption type VAT system. Under this system, tax is levied on value added at each stage in the process of production and distribution. However, value added is never calculated directly, but indirectly through the input tax credit mechanism, i.e. VAT is levied on output and a credit is allowed for the full amount of the tax paid on the business input, including capital goods, at previous stages. The end result is that each and every VAT registrant pays VAT on its value added only. The VAT act consists of Schedule 1 and Schedule 2 where Schedule 1 talks about the VAT Exempt goods and services and Schedule 2 talks about Zero-rated goods and services.

REVERSE CHARGING OF VAT

Besides, there is also the provision of **reverse charging in VAT** where buyer requires paying VAT to the revenue itself. There are different places for reverse charging.

First includes service receiver from foreigners which says any person (registered or not) in Nepal receiving service from person outside Nepal need to pay VAT for that service.

The other, is related to Housing Developers which says any person(registered or not) in Nepal engaged in constructing commercial buildings, apartments, shopping malls or similar having value **more than Rs. 5 millions** need to pay VAT on the construction cost if not paid to a registered person. And, the final is related to Importation, which says if any person imports goods from abroad, VAT need to pay at custom point as destination basis tax.



MAJOR CHANGES IN VAT 2015/16

1. The threshold limit of **Rs 20 Lakhs** has been increased to **Rs 50 Lakhs** for the registration purpose however; the same is to be incorporated while updating VAT Regulation.
2. Further, the tax officer shall order the cancellation of registration of such persons who are registered at the time of implementation of above rule and the turnover of which does not **exceed 50 Lakhs** within 12 months of the implementation of the above rule.
3. Provided that the person desirous of registering voluntarily as per Sec. 9 of the Act may continue to be a registered person by making an application as prescribed within Ashad End 2073.
4. The threshold of bank guarantee provision has been reduced to **40%** of the export sales from **60%** of the export sales made in last 12 months to import raw materials attributable to production of goods to be exported equivalent to the VAT applicable on such import.
5. For temporary registration, according to sec 10 (Kha) two or more persons working together in joint venture for specific period and prescribed work shall have temporary registration which shall be cancelled after the expiry of the term prescribed.

Written By :Rojina Gyawali

TAX FACT – WITHHOLDING TAX

The major changes made in the Income Tax Act, 2058 by the Finance Bill 2072/73 are as follows:

1. Deposit of withholding tax (TDS)

Tax withheld during the month shall be deposited into IRO within 25 days of next Nepali month. If withholder does not deposit the tax within the time limit, the withholdee shall have to deposit such withholding tax within 25 days of expiry of time limit.

2. House rent tax

TDS on house rent is 10 %. TDS on vehicle hire payment to vehicle service provider registered in VAT shall be at 1.5%. Rental TDS by the natural person shall be deposited within Ashadh end. Rental TDS deducted by person to whom turnover basis taxation is applicable shall deposit TDS on Poush and Ashadh end.

TDS WITHHOLDING IN OTHER PAYMENTS

SN	Nature of transaction	FY 2071/72	FY 2072/73
A.	Interest income from deposit up to Rs 10000 under 'Micro Finance Program', 'Rural Development Bank', 'Postal Saving Bank' & Co-Operative (u/s-11(2) in rural areas)	Exempt from tax	Exempt from tax
B.	Wind fall gains	25%	25%
	Wind fall gains from Literature, Arts, Culture, Sports, Journalism, Science & Technology and Public Administration amount received up to 5 lacs	Nil	Nil

SN	Nature of transaction	FY 2071/72	FY 2072/73
C.	Payment of rent by resident person having source in Nepal	10%	10%
D.	Payment of Rent by Resident person having source in Nepal if the Bill raised is VAT bill	10%	1.5%
E.	Profit and Gain from Transaction of commodity future market	10%	10%
F.	Profit and Gain from Disposal of Shares:		
	<u>In case of Individual</u>		
	- Listed Shares	5%	5%
	- Non Listed Shares	10%	10%
	<u>Others</u>		
	- Listed Shares	10%	10%
	- Non Listed Shares	15%	15%
G.	On dividend paid by the resident entity.	5% for both	5% for both
	- To Resident Person - To Non Resident Person		
H	On payment of gain in investment insurance	5%	5%
I.	On payment of gain from unapproved retirement fund	5%	5%
J.	On payment of interest or similar type having source in Nepal to natural person [not involved in any business activity] by Resident Bank, financial institutions or debenture issuing entity, or listed company	5%	5%

SN	Nature of transaction	FY 2071/72	FY 2072/73
K.	Payment made by natural person relating to business or other payments relating to house rental except house rent	No TDS	No TDS
L.	Payment for articles published in newspaper, question setting, answer evaluation	No TDS	No TDS
M.	Interest payment to Resident bank, other financial institutions	No TDS	No TDS
N.	Interregional interchange fee paid to credit card issuing bank	No TDS	No TDS
O.	Interest or fees paid by Government of Nepal under bilateral agreement	No TDS	No TDS
P.	On payment of general insurance premium to resident insurance company	No TDS	No TDS
Q.	On payment of premium to non-resident insurance company	1.5%	1.5%
R.	Contract payment exceeding Rs 50000 for a single contract with in 10 days.	1.5%	1.5%
S.	Interest & Dividend paid to Mutual Fund	No TDS	No TDS
T.	Payment of consultancy fee: <ul style="list-style-type: none"> - to resident person against VAT invoice - to resident person against non VAT invoice 	1.5% 15%	1.5% 15%

SN	Nature of transaction	FY 2071/72	FY 2072/73
U.	Payment on contract to Non Resident Person		
	<ul style="list-style-type: none"> - On service contract - On repair of aircraft & other contract - In cases other than above as directed by IRD. 	15%	15%
V.	Gain on disposal of Interest in any resident entity (both listed or unlisted) exchange (Taxable amount is calculated under section 37)		
	<ul style="list-style-type: none"> - To resident natural person - To others including non resident 	10% 15%	10% 15%
W.	TDS deducted on payment of dividend made by Mutual fund to natural Person is final withholding Tax.	5%	5%
X.	Withholding Tax on capital gain for natural person on transaction exceeding Rs 3 million (to be made by land revenue office at the time of registration)		
	<ul style="list-style-type: none"> - disposal of land or land & building owned for more than 5 years up to 10 years - disposal of land or land & building owned for less than 5 years 	2.5% 5%	2.5% 5%

Compiled By : Rojina Gyawali

QUICK LOOK : PROCEDURES FOR FOREIGN INVESTMENT IN NEPAL

In the previous volume of our Newsletter we had talked about the investment climate of Nepal. Now, in this volume we are enlightening you with the Procedures of Foreign Investment in Nepal.

Government of Nepal (GoN) has adopted an open and liberal policy to pave the way for the accelerated economic and social development of the country for which foreign direct investment plays a vital role. Foreign investment in Nepal is regulated and administered by the Foreign Investment and Technology Transfer Act, 1992 (FITTA) and Industrial Enterprises Act, 1992 (IEA). The Department of Industries (DOI) is the sole agency for administration and implementation of the Foreign Investment and Technology Transfer Act in Nepal. According to FITTA, 1992, "Foreign Investment" means following investment made by a foreign investor in any industry through Investment in shares (equity); Reinvestment of the earnings derived from equity; Investment made in the form of loans or loan facilities; and Investment in kinds, e.g. machineries and equipment.

Repatriation is also possible where foreign national, working in any industry with prior approval of the Department of Labor and who is from a country where convertible foreign currency is in circulation, may repatriate his/her salaries, allowances, emoluments etc. in convertible foreign currency in an amount not exceeding seventy five percent of such salaries, allowances and emoluments.

The Present FDI Approval process of Nepal includes following steps:

1. The application with required documentation at the registration unit goes to the Director General who then forwards it to the FDI Director.
2. Documents are assessed by the officers and staff at the FDI section.
3. Application is presented in the FDI approval committee.
4. Copies of the project reports must be sent to the License Director and Technical Director prior to the meeting.
5. The members of the committee study the documents, discuss it objectively, and express their concerns, if any.
6. Once these conditions are fulfilled, the application is sent to the Director General for final approval. It takes 10-15 days for FDI approval, from the application date



Documents Required for getting FDI Approval in Nepal

A. Foreign Equity Investment in a New Industry C. Foreign Investment in an Existing Industry by Share Transfer

	Document	No. of Copies
1	Project Report	3
2	Joint Venture Agreement (JVA), in case of more than one investor	3
3	Citizenship certificate of local party or Certificate of Incorporation, including Memorandum of Association and Articles of Association if the local party is a company	1
4	Copy of passport of foreign party or Certificate of Incorporation, including Memorandum of Association and Articles of Association if the party is a company	1
5	Bio-data / Company profile of the foreign party	1
6	Financial Credibility Certificate (FCC) of the Foreign Investor provided by a home country bank or domiciled country bank	1
7	Authority letter from the concerned companies or individuals to carry out any necessary work on their behalf, if applicable	

SN	Document	No. of Copies
1	Request from the share transferor	
2	Request from the share transferee	
3	Share Transfer Agreement	3
4	Copy of minutes of the Board meeting of Nepalese company regarding inclusion of foreign investor into the company	1
5	Copy of minutes of Board meeting, Certificate of Incorporation and company profile of the foreign party if the party is a company	1
6	Copy of passport and Bio-data of foreign party, if party is an individual	1
7	Financial Credibility Certificate of the Foreign Investor provided by a bank	1
8	Current Share Holders' List as certified by the Company Registrar's Office	1
9	Auditor's Report	1
10	Tax clearance certificate	1
11	Authority letter(s) from the companies concerned to sign on behalf of the companies	

B. Technology Transfer

SN	Document	No. of Copies
1	Technology Transfer Agreement (TTA)	3
2	Citizenship certificate of local party or Certificate of Incorporation, including Memorandum of Association and Articles of Association, if local party is a company	1
3	Copy of passport of foreign party/or Certificate of Incorporation, including Memorandum of Association and Articles of Association, if the party is a company	1
4	Bio-data / Company profile of the foreign party	1
5	Industry Registration Certificate	1
6	Copy of the minutes of the Board of the recipient company	1
7	Authority letter from the concerned companies or individuals to carry out any necessary work on their behalf, if applicable	

(Amount in Nepalese Rupees)

Range of Fixed Asset	Deposit
Fixed assets = 2,500,000	4,000
2,500,000 < Fixed assets ≤ 5,000,000	7,000
5,000,000 < Fixed assets ≤ 10,000,000	10,000
10,000,00 < Fixed assets	20,000

Note: The amount shall be deposited at the Nepal Rastra Bank Account number SA.A. 13J232

Furthermore, for the Visa Arrangement there are three types of Visa provided by Department of Industry(DOI) which are **Non-tourist Visa for Carrying out the Feasibility Study, Non-tourist visa for Expatriates** which means expatriate personnel working in the industries will be granted a non- tourist visa for duration of one year at a time on recommendation of DOI and Department of Labor, **Residential Visa** where Foreign investor making an investment equivalent to more than one hundred thousand United States Dollar, at one time and in convertible foreign currency, will be granted a residential visa on recommendation of DOI and the **Business Visa** for Foreign investors or his/her authorized representative and their dependents will be granted a business visa for up to a period of five years at a time on recommendation of DOI.

Compiled By : Consulting Division

QUICK FACT :UPCOMING BUDGET FOR FISCAL YEAR 2073/074 (2016-17)

- 1.The upcoming budget is expected to be promulgated in mid July by Government of Nepal .
- 2.National Planning Commission (NPC) the apex body that frames the country's development plans and policies, has proposed capping next fiscal's public expenditure at Rs 908 billion (i.e.) up by 10.80% than in the current fiscal year by focusing on cost effectiveness while formulating budgetary Programmes.
- 3.The Recurrent Expenditure, Current Expenditure and Financial Provisions is recommended to be Rs.555 billion ,Rs.222 billion and Rs.131 billion respectively.
- 4.According to Minister of Finance(MOF), achieving high growth rate and economic prosperity will be the main thrust of the upcoming budget
- 5.Budget for meetings, seminars and workshops in the next fiscal year are thought to be reduced by 25 % than in the current fiscal year.
- 6.More practical and scientific Revenue Policy is thought to be prepared
- 7.The first budget after the new constitution is considered to address all the needs of Earthquake Victim and more spending will be on activities like civil works and infrastructure like purchase of land, building, plants and machinery required for the country's development.

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