



Nepal Tax Facts
2010/11



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NEPAL

This **Nepal Tax Facts 2010/11** booklet aims at providing a brief overview of the Nepalese Taxation system based on Finance Ordinance 2067.

The information contained in this booklet is intended as a quick reference guide, specifically designed for our clients. Details of the relevant legislation have not been included. Specific professional advice should be obtained before taking any action.

An electronic version of this publication can be downloaded from our website www.bakertillynepal.com

This booklet does not cover:

- Amendments in Indirect Taxes, like VAT, Excise, Customs etc.
- Minor amendments in Income Tax Act
- Amendments in Income Tax Rules not available at the time of publication. This booklet shall be updated for changes in Income Tax Rules, if necessary.

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1. Major Amendments in Income Tax Act 2058

Area/ Section	Provision applicable in F.Y.2009/10	Provision applicable for F.Y.2010/11
1. Definition of Non Business Chargeable Assets	Amount threshold Rs.50 lakhs and 10 years ownership and living in the building.	Amount threshold reduced to Rs.30 lakhs in case of land, land & building and personal house. Personal house means house and land occupied by house or one ropani land whichever is lower.
2. Standard Interest Rate	10%	15%
3. Cost Accounting of Stock	FIFO or Simple Average	FIFO or Weighted Average
4. Merger of Banks & Financial Institutions and between insurance companies	No specific provision. Mergers attracted tax and Changes in Control provision affected mergers as previous losses etc. were not allowed to be carried forward.	<p>Change in control provision of Sec. 57 will not apply.</p> <p>50% reduction in applicable tax rate to employees in case of group retirement of employees due to merger</p> <p>No capital gain till two years on disposal of shares by shareholders of merged entity.</p> <p>No tax on dividend till two years which is paid to shareholders of the time of merger</p> <p>Notification to IRD should be</p>

		done within 2068 Kartik and merger should be done within 2070 kartik
5. TDS on payment to Non Resident Persons on Service contracts	10%	Removed from Sec. 89. However, service payment attracts TDS at 15% as per Sec.88 in cases where there is no VAT bill.
6. TDS on disposal of shares & TDS on NBCA	Covered by Sec.89Ka & Sec.89Kha	Sec.89Ka & Sec.89Kha removed and new section 95(Ka) introduced with similar provisions. Provision of penal interest inserted in Sec.117(1)(Kha)
7. TDS Payment	Within 15 th of end of Nepali month in which TDS is made	Within 25 th of end of Nepali month in which TDS is made
8. 1% tax on minimum exemption limit for employees	1% was part of income tax.	The tax need to be deposited in separate revenue account as Social Security Cost.
9. Additional Tax for natural persons having taxable income exceeding Rs 25 lakhs	No provision.	40% of normal tax liability as additional tax need to be paid if taxable income exceeds Rs.25 lakhs.
10. Remote Area Benefit	Maximum Rs.30,000	Maximum Rs.50,000
11. Installment tax for businesses	Interest charged on shortfall if estimated installment paid is lower than 80% of installment as per final tax liability.	Interest charged on shortfall if estimated installment paid is lower than 90% of installment as per final tax liability.

2. Tax Calculation of Natural Persons

A. Tax Rates for Natural Persons & Proprietorship Firms

1. For Resident Taxpayers

Taxable Income Slab	Individual		Taxable Income Slab	Family	
	Remuneration	Proprietorship Firm		Remuneration	Proprietorship Firm
First Rs.160,000	1%	-	First Rs.200,000	1%	0
Next Rs. 100,000	15%	15%	Next Rs. 100,000	15%	15%
Balance	25%	25%	Balance	25%	25%

The 1% tax on employment should be deposited in separate revenue account in IRD.

2. Additional tax of 40% for taxable income exceeding Rs.25 lakhs

If the natural person has taxable income of Rs.25 lakhs & above, income tax will be levied at 35%.

3. Tax Rate for Non Resident Natural Person

Taxable income of a non resident natural person shall be taxed at 25%.

4. Rebate on Tax Liability for Resident Female with only employment income

A female resident natural person having only remuneration income from employment shall be provided with a rebate of 10% on the tax liability.

5. Tax Rate for Non Business Chargeable Assets

Gain from disposal of Non Business Chargeable Assets are taxed at 10% after taking into consideration exemption limit (i.e Rs.1,60,000 for individual and Rs.2,00,000 for couples). In case of land and buildings, if the disposed land & buildings has been owned for more than 5 years, tax rate of 5% shall apply.

Gain from Non Business Chargeable Assets includes

- gain from sale of shares of companies,
- gain from sale of land and building owned and resided for less than 10 years and disposed for more than Rs.30 lakhs.

6. Special Tax Rates for Natural Persons

Particulars	Applicable Tax Rates
For incomes earned from operating special industries	20% where 25% tax rate applies
For incomes earned from export business	15% where 25% tax rate applies

B. Deductions and Facilities for Resident Persons

1. Life Insurance Premium

While calculating taxable income, life Insurance premium paid by a resident natural person is deductible up to the limit of Rs 20,000.

2. Employees working in Diplomatic Agencies

75% of foreign allowance is deducted from taxable income in case of an employee employed at diplomatic agencies of Nepal situated at foreign countries.

3. Incapacitated natural persons

In case of incapacitated natural persons, the minimum exemption limit (Rs.1,60,000 for individual and Rs.2,00,000 for couples) is increased by additional 50%.

4. Remote Area Benefit

In case of resident natural persons working in remote areas, minimum exemption limit shall be increased by Rs 50,000 depending on remote area category.

5. Additional limit for pension income

If income of a resident natural person includes pension income, the taxable income is first reduced by additional 25% or pension amount included in income whichever is lower and then tax liability is calculated on balance income.

C. Tax Credits for Resident Persons

1. Medical Tax Credit

In case of approved medical expenses, medical tax credit is available to resident natural persons as deduction from tax liabilities. The limit prescribed is Rs.750 or 15% of Approved medical expense or actual approved medical expense incurred whichever is lower. Any unutilized expenses can be carried forward to next year.

2. Foreign Tax Credit

If foreign income is included in taxable income of a resident person, foreign tax credit for tax paid in foreign country in respect of that income. The foreign tax paid can either be deducted as expense or tax liability in Nepal can be reduced by such tax paid up to average rate of tax applicable in Nepal, depending on the option of tax payer.

3. Tax Calculation of Entities

A. Normal Tax Rates

<i>Entities</i>	<i>Applicable tax rate</i>
1. General companies/firms/industries	25%
2. Special Industries	20%
3. Banks and Financial Institutions	30%
4. General Insurance Companies	30%
5. Entities engaged in the business of petroleum products	30%
6. Industries producing products with tobacco as basic raw material and industries producing liquors, beers and similar other products	30%
7. Entities involved in operation of roads, bridges, tunnels (including cable-car), rope-way, sky bridge, after construction	20%
8. Entities involve in operation of trolley bus & tram	20%
9. Cooperative Societies registered as per Cooperative Act 2048 and engaged in business other than tax exempt	20%
10. Export Income of an entity with source in Nepal	20%
11. Trust of dead or incapacitated person will be taxed as natural person	

B. Reduced Rates- Concessions for F.Y.2067/68

<i>Corporate Groups</i>	<i>Applicable tax rate</i>
1. Special Industries and Information Technology Industries providing direct employment to 300 or more Nepalese citizens during a period	90% of applicable rate
2. Special Industries providing direct employment to 1200 or more Nepalese citizens during a period	80% of applicable rate

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| 3. Special Industries providing direct employment to more than 100 Nepalese citizens during a period 33% of which are women, incapacitated and dalits | 80% of applicable rate |
| 4. Special Industries operating in very undeveloped area | 10% of applicable rate |
| 5. Special Industries operating in undeveloped area | 20% of applicable rate |
| 6. Special Industries operating in underdeveloped area | 30% of applicable rate |
| 7. Industries established in Special Economic Zone of mountain district as specified by the government and hilly district | 0% for 10 years & 50% thereafter |
| 8. Industries established in Special Economic Zone of other areas | 0% for 5 years & 50% thereafter |
| 9. In case of dividend of industries in Special Economic Zones, dividend tax is exempt for first five years of operation and 50% concession is provided for dividend tax in next three years | |
| 10. Income from foreign technology, management fee and royalty earned by foreign investor from industries established in special economic zone | 50% of applicable rate |
| 11. Profit on export income of an industry | 25% Rebate on applicable rate |
| 12. Income from construction and operation of roads, bridges, tunnels (including cable-car), rope-way, sky bridge or investment and operation of tram, trolley bus | 40% rebate on applicable rate |
| 13. Royalty income from export of intellectual property | 25% rebate on applicable rate |
| 14. Income from sale of intellectual property | 50% rebate on applicable rate |
| 15. Information Technology based industries like cyber cafe, software development, data analysis, digital mapping etc. established at prescribed Information Technology park | 50% of Normal Rate |
| 16. Licensed Industries engaged in production and distribution of electricity, if the production and distribution is completed by the end of Chaitra 2075. | 100% exemption for first 7 years, 50% for next 3 years. |

The facility is available also for solar, biogas and wind energy.

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| 17. Listed entities that are productive industries, tourism service, hydropower production, distribution and transmission | 10% rebate on applicable rate |
| 18. Industries manufacturing brandy, wine, syder from fruits in very undeveloped area | 40% rebate on applicable rate till ten years of operation |

C. Tax Rates for Non Residents

Particulars	Applicable Tax Rates
For incomes earned from operation of water transport, charter service or air transport or by operating a cable, radio, optical fiber or earth-satellite communication business from the transmission of news or information through the equipments installed in Nepal.	5%
For incomes earned from providing air transport, water transport or telecommunication services within the territory of Nepal	2%
On repatriation of income by Foreign Permanent Establishment	5%

4. Presumptive Taxation

A. Income Tax on Owners of public vehicles

Type of Vehicle	Tax
Minibus, Minitruck, Truck and Bus (per vehicle per annum)	Rs 1,500
Car, Jeep, Van, Micro bus (per vehicle per annum)	Rs 1,200
Three Wheeler, Auto Rikshaw and Tempo (per vehicle per annum)	Rs 850
Tractor and Power Tiller (per vehicle per annum)	Rs 750

B. Income Tax for Small Tax Payers

Natural Persons who only have business incomes with annual business turnover of Rs. 20,00,000 and net income below Rs 2,00,000 may chose to pay tax as below subject to that the person cannot claim medical tax credit or advance tax for TDS deposited.

<i>Location of business</i>	<i>Tax</i>
For resident natural persons operating business in Metropolitan and Sub-Metropolitan areas (per annum)	Rs 3,500
For resident natural persons operating business in Municipality areas (per annum)	Rs 2,000
For resident natural persons operating business in other areas	Rs 1,250

5. Tax Deduction at Source (TDS) rates

A. Income from Employment

Resident employer should withhold tax while making employment income payment with sources in Nepal to an employer as follows.

Monthly TDS = Annual Tax calculated as per schedule 1 on annual employment income divided by 12

B. TDS as per Sec.88

Particulars	Rates in %
On Interest, Royalty, Service Charge, Retirement Payment having source in Nepal, except mentioned otherwise	15%
Payment made to resident person on Service Charge invoiced in VAT bill	1.5%
On Nepal sourced Interest by Banks and financial institutions and/or listed companies to a natural person. Such payment should not be made in connection with operation of any business.	5%
On payment made by a resident person for rent having source in Nepal	10%
On payment of gain from Investment Insurance	5%
On payment of gain from retirement fund	5%
On payment of commission by resident employer company to a non resident person	5%
On payment of lease rental of aircraft	10%
On payment of premium to non-resident insurance companies	1.5%

C. TDS as per Sec.88 Ka

On windfall gains- except national and international level prizes as prescribed by Nepal Government	25%
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D. TDS as per Sec.89

On contract payments exceeding Rs 50,000 Contract refers to agreement entered into for supply of goods or labor or construction/erection/establishment of tangible assets or structure or any work prescribed as contract by the Inland Revenue Department. The limit of Rs.50,000 is calculated by adding contract payments of last 10 days to the same person on same contract.	1.5%
On contract payments made by resident person to non-resident persons: <ul style="list-style-type: none"> - On repair of aircrafts and other contracts - Premium paid to non-resident insurance company - In other cases, if written notice is issued to the payer resident person 	5% 1.5% As per rate prescribed in notice

E. TDS as per Sec.95 Ka

On gain from disposal of interest held in a resident entity (either listed in stock exchange or not listed) <ul style="list-style-type: none"> - received by a natural person - received by others 	10% 15%
Capital Gain tax on disposal of land and building classified as Non Business Chargeable Assets, TDS to be deducted by	

concerned government office	
- if the land and building is owned for period less than 5 years	10%
- if the if the land and building is owned for period more than 5 years	5%
(If the building is owned and resided for a period more than 10yrs., it does not fall in the definition of Non Business Chargeable Assets and so is not taxable.)	
On gain from transaction on commodity future market	10%

F. TDS as per Sec. 54

On dividend paid by resident entity	5%
On dividend paid by other entities	No TDS

G. TDS not required

- Payments made by natural persons other than conducting business. However, TDS is required on payment of house rent.
- Payment of remuneration to the writer of the articles published in Newspaper & magazines.
- Payment of remuneration for preparation of question paper or checking of answer sheet
- Interregional interchange charges paid to a bank issuing Credit Cards.
- Interest or fee paid by Nepal Govt., under an agreement, to Foreign Govt. or an international organization (to which Nepal is a party).

- Interest upto Rs. 10,000.00 earned on deposit kept in Rural Development Bank, Postal Saving Bank, rural community based micro credit institutions & cooperatives as per sec 11(2) of the Act.
- Payment of interest to a resident bank or other resident financial institution
- Payments that are exempt from tax
- General insurance premium.

H. Payment of TDS

- Even if the payer fails to deduct TDS, it is regarded as TDS has been deducted by the payer.
- The existing provision that TDS should be deposited within 15 days of end of Nepali month in which TDS has been made has been revised to 25 days of end of Nepali month.

6. Due Dates for Payment of Tax and Filing of Tax Return

A. For payment of Advance Tax

<i>Due Dates</i>	<i>Amount to be deposited*</i>
Poush end 2067 (Mid January 2011)	40% of estimated tax liability
Chaitra end 2067 (Mid April 2011)	70% of estimated tax liability
Ashad end 2068 (Mid July 2012)	100% of estimated tax liability

Notes

- Advance tax (in installment) is to be paid by every person having or likely to have assessable income from business or assessable income from investment in an income year. However, in case a person's total estimated tax liability is below Rs 5,000 advance tax in installments need not be paid.
- Amount to be deposited denotes cumulative minimum amount to be paid within the due dates.

B. For filing annual tax returns

Annual tax return should generally be filed within 3 months from the end of an income year. So, the due date of filing annual tax returns for the income year 2067/68 (2010/11) is Asoj end 2068 (Mid October, 2011). However, a taxpayer may have this due date extended for a maximum period of 3 months i.e. up to poush end 2068 (mid January, 2012) in case he files an application in the IRD with bonafide reasons for such extension.

7. Fees and Interest

A. Sec. 117, Sec. 118 and Sec.119 of Income Tax Act

Particulars	Fees and Interest
For failure to submit estimated income statement	Rs 2,000 for each of such statements.
For delay in filing annual tax return	For <u>Small Tax Payers</u> Rs 100 per month For <u>Others</u> Fee at the rate of 0.1% on <i>gross assessable income</i> * or Rs 100 per month, whichever is higher.
For failure to keep documents as required by Act	Fee at the rate of 0.1% on <i>gross assessable income</i> * or Rs 1000, whichever is higher.
For under estimation of advance tax installments	Interest at 15% per annum on shortfall amount. The limit of 80% has been revised to 90% while calculating estimation difference.
For non submission of TDS return	1.5% of TDS to be deposited per annum
For failure to pay tax	Interest at 15% per annum for the period of failure to pay tax, considering part of a month as a complete month.

- *Gross Assessable income of a person for a period means assessable income of the person for the period calculated by including all the items of taxable income and ignoring all allowable expenses, for the period.*

B. Additional Deductions for businesses

- Manufacturing entities may deduct 50% of capital amount for power generating assets in the year of acquisition as additional depreciation
- Capital expenditure incurred for purchasing fiscal printer and cash machine can be claimed as depreciation in the year of purchase.

CAN WE HELP?

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