

Nepal Budget Statement Highlights

and

Tax Rates

for

FY 2076-77 (2019-20)

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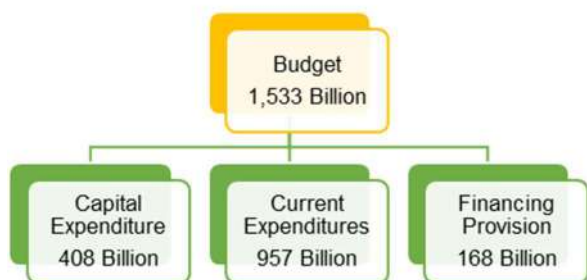
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Nepal Budget Statement FY 2019-20 Highlights

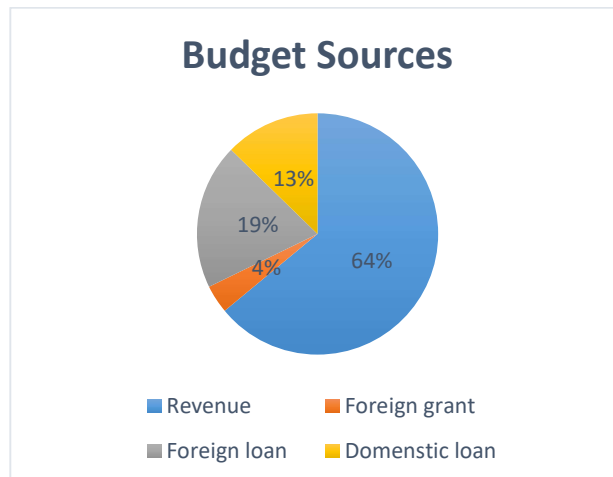
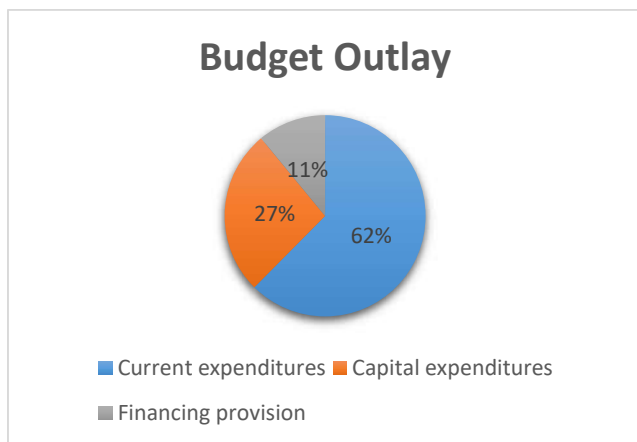
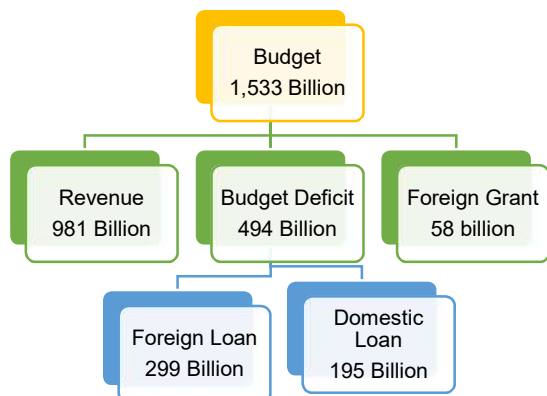
On Tuesday, 29 May 2019, Honorable Finance Minister, Dr. Yuba Raj Khatriwada presented the full budget for the fiscal year 2076-77 (2019-20). The allocation of resources, priorities and significant policy statement of the budget is highlighted in this document.

1. Source and allocation of budget

Allocation of Budget



Source of Financing



2. Objectives of budget

- Attain qualitative improvement in living standard of the citizens by immediate fulfillment of their fundamental rights and basic needs.
- Attain the rapid economic development with social justice by maximum mobilization and judical distribution of available resources, opportunities and capacities.
- Develop the foundations for fair and prosperous socialism oriented economy by upgrading to middle income country within 2030 AD through the economic, physical and social infrastructure developments.

3. Budget priorities

- Development of social welfare state including the expansion of social security by eradication of extreme poverty and uplifting of backward area, class and society.
- Development of national capital, employment creation and increment of income by enhancement of production capacity, transformation of production system with the cooperation of public, private and cooperative sectors.
- Development of architecture and construction of strategically important infrastructure project of the country and completion of ongoing project including the development of social and economic sectors such as quality education, health sector, drinking water, agriculture, industry and tourism.
- Promotion of good governance through rule of law, effective public service, accountability and participation of public in development.
- Cooperation between government entities at federal, province and local governments level and private sector for maximum mobilization of resources, opportunities and responsibilities.

4. Budget allocation to province and local level

- ⊗ Based on population, area, human development index and other development indicator, revenue of Rs 130.89 billion (13.34% of total estimated revenue) is allocated to provincial and local governments.
- ⊗ Based on level of expenditure necessity, human development indicator, revenue capacity including economic, social and other differences, equalization grant of Rs 55.30 billion and Rs 89.95 billion is allocated to provincial and local government, respectively.
- ⊗ Conditional grant of Rs 44.55 billion and Rs 123.87 billion to be provided to provincial and local governments, respectively.
- ⊗ To execute the projects identified by the local and provincial government, complementary grant of Rs 10 billion is allocated.

5. Objectives of revenue policy and program for FY 2019-20

The objectives of the revenue policy and program is to transform the taxation system by increasing the share of tax on internal economic activities to bring long term changes in the taxation system by:

- ⊗ Extending security to industries and promotion of manufacturing industries by creating investment friendly environment through the development of scientific, predictable and transparent revenue system.
- ⊗ Bringing all economic activities within the ambit of taxation and broaden the revenue base.
- ⊗ Discouraging imports of goods which are unnecessary, injurious to human health and degrade the environment.
- ⊗ Enhancing the participation of taxpayers by development of skilled, professional, healthy, strong and tax friendly tax administration and simplified procedures and use of information technology.
- ⊗ Making taxation system more progressive and equitable through timely improvement in tax structure and rates.

6. Major changes and improvements in tax system:

Custom Duty

- ⊗ Removal of duty on the export of goods other than alcohol and tobacco, raw materials consumed in Nepal and basic agriculture produce.
- ⊗ Bonded warehouse facility to be provided for import of raw materials to business entities exporting 20% or more of its total production.
- ⊗ 50% concession on custom duty on import of vehicle used in transportation of goods by cooperatives operating in agriculture industry.
- ⊗ On the recommendation of Ministry of Health and Population, only 1% custom duty shall be chargeable on ambulances imported by the rural municipalities (up to 2 ambulances), municipality (up to 3 ambulances), sub-metropolitan city (up to 4 ambulances) and metropolitan

city (up to 4 ambulances).

- ⊗ Only 1% custom duty chargeable on the import of mill machineries, machinery parts and chemicals to be self-consumed/self-utilized by garment/textiles industries.
- ⊗ Reduction on the custom duty applicable on the import of industrial machinery and equipment for industries involving on textiles, yarn, tea, basic medicines, sanitary pad and feed supplement for females.
- ⊗ Reduction of import duty to 5% (previously 15%) on import of all types of water transport vehicles.
- ⊗ Nepalese individual returning from abroad will be allowed to bring up to 100 grams of gold and 250 grams of gold ornaments after payment of applicable duties.
- ⊗ To promote and protect local manufacturing of agriculture and industrial products, custom duty is increased on the import of tea, coffee, dairy products, ghee, chicken meat, peas, peanut, potato chips, biscuits, noodles, ice-creams, juice, mineral water, sugar chocolate, chewing gum, pasta, iron plate, shoes, slippers, yarn and tents.
- ⊗ Increase in the custom and excise duties applicable on alcohol, cigarette, other tobacco products and products injurious to health.

Value Added Tax

- ⊗ Eligible period (continuous VAT credit month) to claim VAT refund is reduced from 6 months to 4 months.
- ⊗ Exemption on the returns, tax, penalties, fine, fees and interest applicable up to fiscal year 2075-76, if the startups using innovative ideas, skills, entrepreneurship, and technology come under tax bracket within Poush end 2076.
- ⊗ Accidental and medical insurance are included in the VAT exempt items.

Income Tax

- ⊗ In case of personal tax, increase in the exempted income tax first slab by Rs 50,000 i.e. Rs 400,000 for individual and Rs 450,000 for couples.
- ⊗ For effective implementation of policy relating to one person one permanent account number (PAN), arrangement made for obtaining PAN from any Inland Revenue Office.
- ⊗ Introduction of weighted average method for calculation of capital gain tax on the disposal of shares and reduction of applicable tax rate from 7.5% to 5% on capital gain on disposal of shares by natural person
- ⊗ Reduction on the advance capital gain tax on gain on disposal of land and building by entities from 10% to 1.5%.
- ⊗ Income tax rate applicable to Cooperatives engaged in financial transactions reduced to 5% in case of such cooperatives operating in municipality and 10% in case of operating in sub metropolitan and metropolitan area.
- ⊗ 100% tax exemption on income of Social Security Fund established under the Contribution Based Social Security

Act 2074.

- ⊗ Extension of deadline for tax concession and benefits relating to merger of financial institutions and merger of insurance companies by further one year to Ashad end 2078.
- ⊗ Introduction of provision submitting of amended income tax return within 30 days from the date of submission for correction of errors, if any.

Tax Administration

- ⊗ Introduction of registration of taxpayers in bio-metric system from the next fiscal year.
- ⊗ Introduction of system of submitting all types of documents in electronic form to custom office for efficient custom clearance mechanism.
- ⊗ Reduction of amount to be deposited while applying for administrative review from 33% to 25% of disputed amount.
- ⊗ Introduction of provision of 10% of VAT amount refund directly in consumer's bank account, if the VAT is paid using electronic payment system. TDS would not be applicable on such refund amount.
- ⊗ Control in the import of goods where no disclosures are made on the quality, low quality and harmful to the human health. Provision for compulsory labeling of information relating to importer and market distributors on imported goods package.
- ⊗ Introduction of online payment of tax from next fiscal year. Provision for issuing invoices through electronic system and connecting to Central Billing Monitoring System of Inland Revenue Department to be implemented.
- ⊗ Introduction of self/auto tax clearance certificate generation from the system of Inland Revenue Department, for those taxpayers with no tax outstanding.

- ⊗ Introduction of tracking system from production, transportation and sales of goods to control tax evasion and smuggling.
- ⊗ Formation of Revenue Board to conduct study and research relating to revenue and substitute the work currently being conducted by the Revenue Advisory Committee.

Economic Situation

- ⊗ Economic growth rate is expected to be 7 percent during FY 2018-19 and growth rate of all the provinces is estimated to be more than 6%.
- ⊗ Economic growth rate for the FY 2019-20 is estimated to be 8.5%.
- ⊗ Inflation rate for FY 2018-19 is estimated to remain at 4.5% and inflation for the FY 2019-20 is estimated to be 6%.
- ⊗ Gross domestic saving for FY 2018-19 (as of 13 April 2019) has increased to 20.5% of Gross Domestic Product from 15.01% of FY 2017-18.
- ⊗ Per capita income has increased by 5.7% to USD 1,364 as at 13 April 2019.
- ⊗ Decline of 39% in the number of workers going abroad. However, inflow of remittance increased by 21% during the FY 2018-19 (as of 13 April 2019).
- ⊗ Per capita loan has increased to Rs 33,174 (approx. USD 288.47) for FY 2018-19 from Rs 31,493 (approx. USD 273.85) of FY 2017-18.
- ⊗ Government staff salary for Gazetted Officers and Non-gazetted officers increased by 20% and 18%, respectively and all other incentives and facilities are kept unchanged.

Executive Summary

Personal Tax Rates

The taxable income is taxed as follows:

Rate	Individuals	Couple
1%	First 400,000	First 450,000
10%	Next 100,000	Next 100,000
20%	Next 200,000	Next 200,000
30%	Next 1,300,000	Next 1,250,000
36%	Remaining	Remaining

Corporate Tax

Companies	Tax (%)
Banks and financial institutions (Commercial Banks, Development Banks and Finance Companies)	30
Entity carrying General insurance business (Non-life Insurance)	30
Entity engaged in petroleum business under Nepal Petroleum Act, 2040	30
Entity engaged in business of cigarette, tobacco, cigar, chewing tobacco, pan masala, alcohol and beer	30
Entity engaged in Telecommunication and Internet service	30
Entity engaged in Money transfer	30
Entity engaged in Capital market business, Securities business, Merchant banking, Commodity future market, Securities and Commodity broker	30
On transactions of cooperatives (other than tax exempted transactions) registered under Cooperative Act, 2074)	20
For other entities	25

Please note that eligible entities may be entitled to tax concessions under section 11 of the Income Tax Act 2058 which has been discussed in Point 2.2 of this highlight.

Concessions on business income

Special industry or Information technology industry providing direct employment throughout the year to	Tax Concession
100 or more Nepalese citizens	10% of AR
300 or more Nepalese citizens	20% of AR
500 or more Nepalese citizens	25% of AR
1000 or more Nepalese citizens	30% of AR
Additional 10% concession is provided if direct employment is provided to 100 or more Nepalese citizens including at least 33% of women, oppressed or handicapped person.	

*AR stands for applicable rate

Industries	Tax concession
Private company with paid up capital of Rs 500 million or more that conducts its operation by converting into public company.	10% concession on AR for 3 years from date of conversion
Domestic tea production and processing industry, dairy industry and garments industry	50% concession on AR
Health institution operated by community based organization.	20% concession on AR
Microenterprises	100% concession on AR for 5 years from the date of operation Additional 2 years, if it is under entrepreneurship of woman.

Withholding Tax Rates

Payments	Rate
Payment for question setting, answer evaluation	15%
Payment of commission on reinsurance premium from non-resident insurance company	1.5%
Payment exceeding 50 lakhs made towards the works done through consumer committee	1.5%
Gain on disposal of listed interests in any resident entity:	
- To resident natural person	5%
- To resident entity	10%
- Others	25%
Gain on disposal of unlisted interests in any resident entity:	
- To resident natural person	10%
- To resident entity	15%
- Others	25%

Presumptive taxation on vehicles

Vehicles	Tax Amount
Minibus, Mini Truck, Water Tanker	Rs 6,000
Mini Tripper	Rs 7,000
Truck and Bus	Rs 8,000
Dozer, Excavator, Roller, Loader, Crane and similar machineries	Rs 12,000
Oil tanker, Gas bullet, Tipper	Rs 12,000
Car, Jeep, Van, Micro Bus	
(a) 0 to 1300 cc	Rs 4000
(b) 1301 to 2000 cc	Rs 4,500
(c) 2001 to 2900 cc	Rs 5,000
(d) 2901 to 4000 cc	Rs 6,000
(e) 4001cc and above	Rs 7,000
Three Wheeler, Auto Rickshaw, Tempo	Rs 2,000
Tractor	Rs 2,000
Power Tiller	Rs 1,500

Excise Duty

Goods	New Rate (Rs)	Previous (Rs)
Cigars, cheroots and cigarillos containing tobacco	17/kg	15/kg
Processed tobacco	No change	9/m
Pipe tobacco	1335/kg	1,210/kg
Refined tobacco for cigarette and bidi	275/kg	250/kg
Pan masala including tobacco	610/kg	554/kg
Junk foods (Kirkure, Kurmure, Cheese balls, Lays and similar products)	17/kg	15/kg
Flavored areca (supari) with tobacco	275/kg	250/kg
Beer	17/l	15/l
Beer produced from barley	165/l	150/l
Liquors using wine, brandy, whisky and spirit in raw form	165/l	150/l
Champagne, cherry, mid, perry, (local)	180/l	160/l
Champagne, cherry, mid, perry, (import)	430/l	390/l
Hydraulic Cement	220/m.	200/m.
Shakkhar	125/quinta	115/quint
Molasses	80/quintal	70/quinta
Country beer	35/l	30/l

Other significant increments in Excise Duty

- Reduction of disputed tax amount required to deposit in case of applying for administrative review from 33% to 25%.
- Introduction of 5% excise duty on import of coconut.
- Excise has been increased in sakkhar, kattha, molasses, pasta, potato chips.
- Introduction of 10% excise duty on Cucumber, tomato, egarikas, mushroom, potato, pea, bodi, simi, kurilo, jaitun, sweet corn, bamboo sprout etc.

Customs Duty

- Bank guarantee facility for import of raw materials and subsidiary raw material for manufacturing goods and export or import such goods for sale through duty free shop in case of liquor, cigarette or tobacco related products is now available. Previously, these industries were restricted from using bank guarantee facility under section 11(2).
- Industries situated in SEZs can import one vehicle for carrying its staff and 2 vehicles for carrying goods by paying 1% custom duty, on the recommendation of SEZ Authority.
- Custom duty on dairy products increased from 30% to 40%
- Introduction of 30% custom duty on import of chicken meat.
- Introduction of 15% custom duty on import of koshe vegetables, coconut, brajilnut, kaaju.
- Introduction of 40% custom duty on import of coffee, caffeine, tea.
- Increase in customs duty on import of sugar, sakkhar, gud from 30% to 40%.
- Introduction of custom duty on import of noodles, biscuits,

cakes, pastry at the rate of 40%.

- Nepali residents returning from foreign country can bring gold up to 100 gms after payment of Rs 6,200 per 10 gms up to 50 gms and Rs 7,200 per 10 gms for next 50 gms. Gold in excess of 100 gms shall be seized by the customs office.
- Nepali residents returning from foreign country can bring gold ornaments up to 200 gms without paying any duty upto 50 gms and after payment of Rs 7,200 per 10 gms next 50 gms and Rs 9,000 per 10 gms for another 100 gms. Gold in excess of 200 gms shall be seized by the customs office.

Value Added Taxes

The rate of VAT levied at 13% on goods and services remains unchanged from previous year. Major changes in VAT laws are:

- Mandatory registration for person involved in the business of alcohol, wine, health club, discotheque, massage therapy, motor parts, electronic software, custom agent, toy, scrap.
- Mandatory registration for person involved in the business of education and legal consultancy, accounting and auditing in municipality or metropolitan or sub-metropolitan city or any area specified by the IRD.
- Biometric registration of all taxpayers.
- Compulsory payment of tax amount more than Rs 1,000,000 through cheque, draft or electronic medium.
- Facility of VAT refund for the VAT paid in Nepal is available to Foreign Diplomatic Institution on the recommendation of Ministry of Foreign Affairs, Nepal.
- Increment of minimum transaction amount required from Rs 5,000 to Rs 10,000 for the diplomatic delegates or institutions to get VAT refund.
- Introduction of fine of Rs 10,000 for not intimating of any changes in information submitted to the Tax Officer at the time of registration for each offence.
- Introduction of fine of Rs 10,000 in case registered person fails to issue tax invoice and Rs 1,000 in case the customer fails to take the invoice.
- A fine of 50% of the tax amount or a jail term of up to 6 month or both imposed in case invoice is issued without delivery of goods.
- Reduction of disputed tax amount required to deposit in case of applying for administrative review from 33% to 25%.

Major additions in Schedule 1 (VAT Exemption)

- Transportation service by the schools for self-use.
- Machineries for garbage processing to reuse, garbage compactor and medicine production machines (Group 11).
- Electric generating sets and rotary converters (Group 11).
- Accessories and parts for wind mill used to generate electricity, electric transformer static converts (Group 11).
- Solar panel and module, solar charge controller, solar inverter with capacity more than 80% (Group 11).
- Accidental insurance and medical insurance (Group 11).

Major deletions in Schedule 1 (VAT Exemption)

- Aatta, Soyabody Maseura, Tempo, and Transportation services removed therefore VAT shall be attracted.

Income Tax Rates FY 2019-20

1. Personal Income Tax

1.1 For Residents: Natural Person

Tax Banding	Tax Rates			
	FY 2019-20		FY 2018-19	
Individual				
(a) Band 1	First 400,000	1%*	First 350,000	1%*
(b) Band 2	Next 100,000	10%	Next 100,000	10%
(c) Band 3	Next 200,000	20%	Next 200,000	20%
(d) Band 4	Next 1,300,000	30%	Next 1,350,000	30%
(e) Additional Tax	Remaining above 2,000,000	36%**	Remaining above 2,000,000	36%**
Couple/Married				
(a) Band 1	First 450,000	1%*	First 400,000	1%*
(b) Band 2	Next 100,000	10%	Next 100,000	10%
(c) Band 3	Next 200,000	20%	Next 200,000	20%
(d) Band 4	Next 1,250,000	30%	Next 1,300,000	30%
(e) Additional Tax	Remaining above 2,000,000	36%**	Remaining above 2,000,000	36%**

*This is the Social Security Tax to be deposited in a separate revenue account (1121) provided for this purpose. However, tax payer registered as sole proprietorship or on pension income or on income from contribution based pension fund shall not attract social security tax i.e. 1%.

Note:

A. Deductions on Income	Remarks
Natural person working in remote areas entitled for Remote Area Allowance	Additional deduction from taxable amount up to Rs 50,000. (A-50,000, B-40,000, C-30,000, D-20,000, E-10,000).
Natural person with pension income included in the taxable income	Additional deduction from taxable amount equal to 25% of amount prescribed under first tax band or actual pension receipts whichever is lower.
Incapacitated natural person	Additional deduction from taxable amount equal to 50% of amount prescribed under first tax band or actual income whichever is lower..
B. Reduction on Income	
Life Insurance Premium	A natural person who has procured life insurance and paid premium amount thereon shall be entitled to a reduction of actual annual insurance premium or Rs 25,000 whichever is lower from taxable income.
Medical Insurance	A natural person who has insured with resident insurer/insurance company for health insurance shall be entitled to a reduction of actual premium paid or Rs 20,000 whichever is lower.
Contribution to Retirement Fund	1/3rd of taxable income or Rs 300,000 or Actual contribution whichever is lower.
C. Rebate on Tax Rates	
In case of resident individual women having only remuneration income	Rebate of 10% on the tax liability calculated as other natural person. i.e. not applicable for women with couple status.
Retirement payment resulting from Merger	In case of decision of the organization to provide group retirement to its employees (in the event of merger or acquisition) except to the payment made as per the employment term or the payment made by retirement fund, a rebate of 50% on withholding tax.

D. Foreign Allowances	
In case of the employee employed at the foreign diplomatic mission of Nepal	Only 25% of the foreign allowances are to be included in the income from employment.
E. Tax Exemption	
Compensation received against deceased natural person	Compensation received against the deceased of natural person is not required to be included in income.
F. Rebated on tax liability	
Foreign tax credit	If any resident person has paid tax on income outside Nepal, such person can claim foreign tax credit and while claiming such credit each country has to be considered separately. Amount of credit shall be lower of i. Total foreign income included in assessable income in Nepal as multiplied by the average rate of tax on total income or ii. Actual tax paid in foreign country.
Medical Tax Credit	Resident Natural Person is entitled to Medical Tax Credit at least of following amounts i. Rs 750 or ii. 15% of Medical Expenses along with any carried forward from previous year or iii. Actual tax liability
G. Compulsory Filing	
<ul style="list-style-type: none"> - A natural person with only gains from disposal of Non Business Chargeable Assets (NBCA), may opt not to file the income tax return under Section 96. - Natural person other than sole proprietor with income solely from income from vehicle on hire not required to file the income tax return. - However, a natural person having taxable income exceeding Rs 4 million during an Income Year shall submit income return under Section 96. 	

** 36 % is computed as 30% plus additional 20% on such tax rate applicable to taxable income above Rs 2,000,000.

1.2 For Non Residents

#	Nature of Transaction	FY 2019-20	FY 2018-19
a.	Income earned from normal transactions	No change	25% flat rate
b.	Income earned providing shipping, air or telecom services, postage, satellite and optical fiber project	No change	5%
c.	Income earned providing shipping, air or telecom services through the territory of Nepal	No change	2%
d.	Repatriation of profit by Foreign Permanent Establishment	No change	5%

1.3 Special provisions for Resident Natural Person

#	Particulars	FY 2019-20	FY 2018-19
a.	Income earned by natural person engaged on special industry under Section 11 for whole year	No change	Tax @ 20% on taxable income for which tax rate of 30% is applicable.
b.	Income earned from export by natural person	No change	Tax @ 15% on taxable income for which tax rates of 20% and 30% applicable.
c.	Taxable income of a trust: <ul style="list-style-type: none"> - acquiring an estate of a deceased resident individual; or - of an incapacitated resident individual for an income year. 	No change	Tax rate as applicable to Natural Person.

1.4 Special Provision for resident natural person having income exceeding Rs 2 Million but less than Rs 5 Million

For fiscal year 2019-20, while computing tax on transaction, tax up to Rs 2 million shall be computed as per section 4(4) (See point 6.1 or Note 2 below) and on remaining transaction amount, tax shall be calculated on the basis of rates mentioned below. However, in previous year, for turnover up to Rs 2 million, tax based on turnover as specified below were applicable.

#	Natural person engaged in	FY 2019-20	FY 2018-19
a.	Gas, cigarette business doing transaction with 3% margin or commission	No change	0.25% of transaction amount
b.	Other person except those involved in business as above (a)	No change	0.75% of transaction amount
c.	Person engaged in service business except doctor, engineer, auditor, player, actor or consultants.	No change	2% of transaction amount

Note 1: Conditions for turnover taxation:

- Person having income from business only.
- Having turnover of business more than Rs 2 million but less than Rs 5 million.
- Person not registered with VAT.

Natural person not having income from consultancy or specialized services such as those provided by doctor, engineer, auditor, lawyer, player, actor or consultants.

Note 2: For turnover up to Rs 2 million

Particulars	FY 2019-20	FY 2018-19
Metropolitan, Sub-Metropolitan	Rs 7,500	Rs 5,000
Municipal areas	Rs 4,000	Rs 2,500
Other than municipal areas	Rs 2,500	Rs 1,500

2. Corporate Income Tax

2.1 Tax rates for Entity- Company/Firm/Industry

#	Particulars	FY 2019-20			FY 2018-19
		Normal Rate	Concession	Applicable Rate*	Applicable Rate*
1	Normal business	25%	-	25%	25%
2	Entity operating as Special Industry under section 11 for whole year	25%	20%	20%	20%
3	Other entities involved in business of operating (after construction) of ropeway, cable car, railway, tunnel or sky bridge	25%	20%	20%	20%
4	Entity investing and operating trolley bus or trams	25%	52%	12%	20%
5	Entity involved in construction and operation of airport	25%	40%	15%	25%
6	Entity operating trolley bus or trams	25%	20%	20%	20%
7	On transactions of cooperatives (other than tax exempted transactions) registered under Cooperative Act, 2074) (sub-metropolitan/metropolitan cities, respectively)	20%	50%	10%	20%
8	On transactions of cooperatives (other than tax exempted transactions) registered under Cooperative Act, 2074) (municipality)	20%	75%	5%	20%
9	Taxable income of Export of entity having income source from Nepal	25%	20%	20%	20%

#	Particulars	FY 2019-20			FY 2018-19
		Normal Rate	Concession	Applicable Rate*	Applicable Rate*
10	Entity those involved in construction or operation of public infrastructure and to be transferred to Nepal Government or involved in construction of hydropower house and its generation and transmission.	25%	20%	20%	20%
11	Entity involved in the construction and operation of road, bridge or tunnel-way	25%	52%	12%	20%
12	Banks and financial institutions (Commercial Banks, Development Banks and Finance Companies)	30%	-	30%	30%
13	Entity carrying General insurance business (Non-life Insurance)	30%	-	30%	30%
14	Entity engaged in petroleum business under Nepal Petroleum Act, 2040	30%	-	30%	30%
15	Entity engaged in business of cigarette, tobacco, cigar, chewing tobacco, pan masala, alcohol and beer	30%	-	30%	30%
16	Entity engaged in Telecommunication and Internet service	30%	-	30%	30%
17	Entity engaged in Money transfer	30%	-	30%	30%
18	Entity engaged in Capital market business, Securities business, Merchant banking, Commodity future market, Securities and Commodity broker	30%	-	30%	30%

By Finance Act 2019-20, tax rates of special industry, entities involved in the operation business of road, bridge, tunnel, ropeway, railway, or sky bridge; operation of trolleybus and tram; export business, construction of infrastructures and construction, production, and distribution of electricity has been removed from the Schedule -1 of the Income Tax Act, 2058. Normal tax rate applicable to the above entities is 25%. However, these entities can avail various concessions given under Section 11 of the Act.

*Above industry-wise applicable tax rate is presented after considering concession available under section 11 of Income Tax Act (ITA) except entities falling under tax holiday period. However, in case of special industry and industry other than presented above, entity can choose any one tax concession available under section 11 of ITA (summarized in point 2.2 below).

2.2 Tax Concessions and Rebate on Business Income

In the given section, AR stands for Applicable Rate which should be used in the context of Special Industry as the rate after 20% concession given under Section 11(2Kha) and NR stands for Normal Rate in the context of Industry / business other than Special Industry

#	Particulars	FY 2019-20	FY 2018-19
1.	Concessions based on employment provided		
	Special industries and information technology industries providing direct employment to 100 or more Nepalese citizens throughout the year	No change	*10 % of AR / NR
	Special industries and information technology industries providing direct employment to 300 or more Nepalese citizens throughout the year	No change	*20% of AR / NR
	Special industries and information technology industries providing direct employment to 500 or more Nepalese citizens throughout the year	No change	*25% of AR / NR
	Special industries and information technology industries providing direct employment to 1000 or more Nepalese citizens throughout the year	No change	*30% of AR / NR
* Additional 10% concession is provided if direct employment is provided to 100 or more Nepalese citizens including at least 33% of women, oppressed or handicapped person.			

#	Particulars	FY 2019-20	FY 2018-19
2.	Concessions to Special industries based on locations		
	- Special industries established in very undeveloped areas	No change	90% of the AR (for 10 yrs from the year of establishment)
	- Special industries established in undeveloped areas	No change	80% of the AR (for 10 yrs from the year of establishment)
	- Special industries established in under developed areas	No change	70% of the AR (for 10 yrs from the year of establishment)
3.	Concessions to Special industries based on investment amount		
	- Special industry with capital of Rs 1 billion or more and providing direct employment to more than 500 persons throughout the year	No change	100% exemption for first five years from the date of operation of business and 50% concession for next 3 years
	- For special industry existing at the advent of this Section, if capital is increased to Rs 1 billion, installed capacity is increased by 25% and provided direct employment to more than 500 persons throughout the year	No change	100% concession for first 5 years and 50% concession for next 3 years on income generated due to increased capacity
	- Industry related to tourism industry or international flight operation established with capital investment of more than Rs 2 billion	No change	100% concession for 5 years from commencement of business and 50% concession for next 3 years
	- For industry related to tourism industry or international flight operation existing at the advent of this Section, if capital is increased to Rs 2 billion and installed capacity is increased by 25% at minimum	No change	100% concession for 5 years and 50% concession for next 3 years on income generated due to increased
4.	Concessions to industry established in SEZ		
	- Industry established in 'Special Economic Zone' in mountain areas or hill areas by the GON	No change	100% exempt up to 10 yrs from date of operation of business and 50% rebate in subsequent years
	- Industry established in 'Special Economic Zone' other than above locations	No change	100% exempt up to first 5 yrs from date of operation and 50% rebate in subsequent years
	- Dividend distributed by the industry established in special economic zone	No change	100% exempt for first 5 years and 50% rebate in subsequent 3 yrs
	- Income derived by the foreign investors from investment in 'Special Economic Zone' (Source of income-use of foreign technology, management service fee and royalty)	No change	50% of NR

5.	Concessions based on establishment in special area		
	- Entity established in Technology park, Bio tech park and IT Park engaged in Software development or, data processing or, Cyber Café or, Digital Mapping	No change	50% on NR
6.	Concession related to hydropower project		
	- Person or entity having license to generate, transmit or distribute electricity shall be provided concession if the commercial operation commences before BS 2080 Chaitra End. (Provisions shall be applicable for electricity generated from solar, wind or organic material)	No change	100% exempt up to 10 years and 50% rebate in subsequent 5 years
7.	Concession to Petroleum Industry		
	- If person involved in exploration and extraction of petroleum, natural gas and starts commercial operation by BS 2080 Chaitra end.	No change	100% exempt up to 7 years and 50% rebate in subsequent 3 years
8.	Other Specific concessions		
	- On capitalization of accumulated profit through bonus share by Special Industry or industry related with tourism for expansion of capacity of industry	No change	No tax on dividend distribution
	- Income from export of manufactured goods by Manufacturing Industries	Additional Concession of 25% on rate derived after normal concession	25%
	- Income of Manufacturing Industry, tourism service industry and hydropower generation, distribution and transmission industry listed in capital market and entities mentioned in section 11 (3 Ga)	15% on AR/NR	15% on NR
	- Private company with capital of Rs 50 crore or more which conducts its operation by converting into public company	10% on AR / NR for 3 years from the date of conversion	10% on NR for 3 years from the date of conversion
	- Domestic tea production and processing industry, Dairy industry, Garments industry	No change	50% on AR
	- Health institution operated by community based organization	No change	20% on NR
	- Micro entrepreneurial industry <i>if it is under entrepreneurship of woman concession of 100% on NR for 7 years from the date of operation</i>	No change	100% on NR for 5 years from the date of operation
	- Industry established in least developed areas producing brandy, wine, cider from fruits	No change	40% on NR for 10 years
	- Royalty from export of intellectual asset by a person	No change	25% on NR
	- Income from sale of intellectual asset by a person through transfer	No change	50% on NR

Note:

1. If any entity is entitled to more than one benefit under section 11 of the Income Tax Act, 2058 only one benefit shall be availed. However, in case of Special Industries, apart from the concessions of 20% given in section 11(2Kha), any one of other benefits available in section 11 can also be availed.
2. Special industry" refers to all the manufacturing industries as classified in section 3 of the Industrial Enterprises Act, 2073 except the industry related to the manufacturing of cigarette, bidi, cigar, chewing tobacco, tobacco, gutkha, pan masala other products having main ingredient as tobacco, alcohol, beer and other such related products but includes agriculture, forestry and mineral industries
3. Up to FY 2018-19, cooperatives carrying out transactions other than exempted transaction were liable to tax @20% and this included financial transactions as well. However, from FY 2019-20, only for financials

transaction, tax concessions have been granted.

4. In FY 2018-19, the normal rate applicable for income from special industries operating for a whole year and income from export was 20% as per Schedule 1, however, in FY 2019-20, the normal rate is 25% with 20% concession, that will result in applicable tax rate of 20%.

3. Special Provisions

#	Particulars	Remarks
a.	Waiver from audit to small and medium tax payer with proprietorship income.	Small and medium tax payer, having annual turnover not exceeding Rs 10 Million, are waived from audit and they can self-attest their Income tax return.

4. Allowable Deductions

#.	Particulars	FY 2019-20	FY 2018-19
a.	Donation to tax exempt organization	No change	Up to Rs 100,000 or 5% of adjusted taxable income whichever is lower.
b.	For conservation or promotion of historical, religious or cultural heritage, or for construction of public sports infrastructure	No change	a. On prior approval of department b. Actual up to Rs 1 million or 10% of assessable income whichever is lower.
c.	Contribution to Prime Minister Relief Fund or National Reconstruction Fund established by Nepal Government	No change	Actual amount of contribution

5. Tax Payment

5.1 Advance Tax to Normal taxpayer

#	Particulars	Installment Amount
a.	Up to Poush end	40% of estimated tax
b.	Up to Chaitra end	70% of estimated tax
c.	By Ashad End	100% of estimated tax*

* Amount to be paid under each instalment is 90% of the amount of estimate or revised estimate payable as the instalment of tax for each instalment period for the year reduced by the amount of each instalment paid by the person for an income year.

Note: It is not required to pay advance tax if tax payable is less than Rs 7,500. In FY 2018-19 it was Rs 5,000.

5.2 Advance Tax to taxpayer based on turnover

#	Particulars	Installment Amount
a.	Up to Poush end	Tax at the rate specified on actual transaction up to 20 th of Poush
b.	Up to Ashad end	Remaining Amount of Tax calculated at the rate specified on estimated transaction amount at Ashad end based on actual transaction up to 20 th of Ashad.

5.3 Rental tax payment

Rental Tax by Natural Person	Remarks
Tax applicable on house rent income of a natural person	The amount obtained by natural person towards the house rental has been excluded from the definition of "Rent". Hence, 10% withholding rate on rental payment doesn't apply to the house rental payment to natural person. <i>The 10% tax (in case of Lalitpur and Kathmandu municipal authority) on house rental payment to natural person should be deposited in respective office.</i>

6. Taxation to Small Taxpayer

6.1 Presumptive Taxation

Particulars	FY 2019-20	FY 2018-19
Vehicle Tax*		
Minibus, Mini Truck, Water Tanker	No change	Rs 6,000
Mini Tripper	No change	Rs 7,000
Truck and Bus	No change	Rs 8,000
Dozer, Excavator, Roller, Loader, Crane and similar machineries	No change	Rs 12,000
Oil tanker, Gas bullet, Tipper	No change	Rs 12,000
Car, Jeep, Van, Micro Bus		
(a) 0 to 1300 cc	No change	Rs 4,000
(b) 1301 to 2000 cc	No change	Rs 4,500
(c) 2001 to 2900 cc	No change	Rs 5,000
(d) 2901 to 4000 cc	No change	Rs 6,000
(e) 4001cc and above	No change	Rs 7,000
Three Wheeler, Auto Rickshaw, Tempo	No change	Rs 2,000
Tractor	No change	Rs 2,000
Power Tiller	No change	Rs 1,500
For natural persons (Small Tax Payer) having turnover from business not exceeding Rs 2 Million and taxable income not exceeding Rs 200,000 (Refer criteria below at Note # below)		
Metropolitan, Sub-Metropolitan	Rs 7,500	Rs 5,000
Municipal Areas	Rs 4,000	Rs 2,500
Other than municipal areas	Rs 2,500	Rs 1,500

Note:

*Schedule 1(1) (13): If the owner of the vehicle is a natural person (other than registered individual firm), the tax so paid shall be final.

Criteria for small vendors

This includes the resident natural person meeting the following criteria:

- Annual transaction not more than Rs 2 million and annual profit up to Rs 200,000.
- Not registered in VAT.
- Only Nepal source income from business in that fiscal year.
- Medical credit not claimed under section 51.
- Advance tax not claimed under Section 93.

7. Tax Withholdings

7.1 Tax withholding Rates (TDS)

#	Nature of Transaction	FY 2019-20	FY 2018-19
i.	Interest income from deposit under 'Micro Finance Program', 'Rural Development Bank', 'Postal Saving Bank & Co- operative (u/s-11(2)) in rural areas is exempted from tax	No change	Up to Rs 25,000
ii.	Windfall gains	No change	25%*
iii.	Payment of rent except house rent to natural person and except provided in serial number (iv) & (v) below, made by resident person**	No change	10%
iv.	Payment for vehicle hire to VAT registered person	No change	1.5%
v.	Payment for freight relating to carriage of goods	No change	2.5%
vi.	Profit and gain from transaction of commodity future market	No change	10%
vii.	On returns to be distributed by Mutual Fund: - Natural person - Other than Natural Person	No change	5% 15%
viii.	On Dividend paid by the resident company and partnership firm - To Resident person - To Non-resident Person	No change	5% for both
ix.	On payment of gain from investment insurance	No change	5%
x.	On payment of gain from unapproved retirement fund	No change	5%
xi.	On payment of interest or similar type having source in Nepal by Resident Bank, Cooperatives, financial institutions or debenture issuing entity, or listed company - In case of payment made to natural person [not involved in any business activity] - In case of payment made to entities	No change	5% 15%
xii.	- On payment of premium to non- resident insurance company On payment of commission relating to reinsurance premium to non- resident insurance company	No change	1.5%
xiii.	On payment exceeding Rs 5 million made towards the works done through the consumer committee	No change	1.5%
xiv.	Contract payments exceeding Rs 50,000	No change	1.5%
xv.	Payment of consultancy fee/ for procurement of services: - by resident person against VAT invoice - by resident person against Non-VAT invoice	No change	1.5% 15%
xvi.	Payment of contract to Non-Resident person for repair of aircraft & other contract	No change	5%
xvii.	On payment for use of Satellite, Bandwidth, Optical fiber, telecommunication equipment or electricity transmission by resident person irrespective of its location	No change	10%

7.2 Rates of Advance Taxes

#	Nature of Transaction	FY 2019-20	FY 2018-19
xviii.	Gain on disposal of Interest in any resident entity (listed) - To resident natural person - To resident entity - Others (including non-resident person)	5% --do-- 25%	7.5% 10% 25%
	Gain on disposal of Interests in any resident entity (unlisted) - To resident natural person	No change	10%

#	Nature of Transaction	FY 2019-20	FY 2018-19
	- To resident entity - Others (including non-resident person)	No change No change	15% 25%
xix.	On import of items under - Custom Banding Category 1 (Live Animals), - Custom Banding Category 3 (Live, Fresh and Iced Fishes) - Custom Banding Category 6 (fresh flowers), - Custom Banding Category 7 (Fresh vegetables, potato, onions, dry vegetables, garlic, baby-corn), - Custom Banding Category 8 (Fresh Fruits)	No change	5%
xx.	On import of items under - Custom Banding Category 2 (Meat), - Custom Banding Category 4 (Dairy products, egg, honey), - Custom Banding Category 10 (kodo, phappar, junelo rice and kanika) - Custom Banding Category 11 (Maida, aatta and pitho) - Custom Banding Category 12 (medical herbs and sugarcane) - Custom Banding Category 14 (plant produces)	2.5%	-
xxi.	Gain on Disposal of land or land & building: - Owned by individual for over 5 years - Owned by individual for up to 5 years - Owned by person other than individual * The land or land and building or building disposed at proceeds less than Rs 1,000,000 doesn't fall under the category of non-business chargeable assets (NBCA). These taxes are withheld by the Land Revenue office on sale amount.	No change No change 1.5%	2.5% 5% 10%

*Windfall gain tax of 25% will be exempted for the reward up to Rs 500,000 received on behalf of contribution in the field of literature, art, culture, sports, journalism, science and technology and general administration

** In case of house rent other than payment to natural person, additional municipality tax to be included and deposited with the local ward/municipal office (2% in case of Kathmandu and Lalitpur Municipal Authorities)

7.3 Applicability of TDS

#	Nature of transaction	FY 2019-20	FY 2018-19
i.	Payment for question setting, answer evaluation	No change	15%
ii.	Payment made by natural person relating to activities other than business activities	No change	No TDS
iii.	Payment for articles published in Newspaper	No change	No TDS
iv.	Interest payment to resident bank and other financial institutions	No change	No TDS
v.	Interregional interchange fee paid to credit card issuing bank	No change	No TDS
vi.	Interest or fees paid by GON under bilateral agreement	No change	No TDS
vii.	Tax Exempt payment or TDS deductible u/s 87	No change	No TDS
viii.	Dividend or interest paid to Mutual Fund/ Collective Investment	No change	No TDS
ix.	Incentive on payment made using electronic means against purchase of goods or services under section 25(1kha) of VAT Act	No TDS	-

7.4 Final Withholding Payments

#	Nature of transaction	FY 2019-20	FY 2018-19
i.	On Dividend paid by the resident company and Partnership firm - To Resident person - To Non- resident Person	No change	5% for both
ii.	Payment of vehicle rent and freight made to resident natural person other than sole proprietor	No change	10%
iii.	On payment of gain in investment insurance by resident natural Person	No change	5%
iv.	On payment of gain from unapproved retirement fund	No change	5%
v.	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	No change	5%
vi.	Windfall gains	No change	25%*

8. Fines and Penalties

Section	Circumstance	FY 2019-20	FY 2018-19
117(1)(Ka)	Estimated Income Tax Return under Section 95(1) not filed by taxpayer	Rs 5,000 or 0.01% of the assessable income whichever is higher	2,000 per return
117(1)(Kha)	Advance Withholding Tax Return under Section 95Ka(5) not filed by advance tax withholding agent	No change	1.5% p.a. on the amount of tax to be withheld
117(1)(Ga)	Income Tax Return under Section 96(1) not filed by <i>If the ITR is filed within the period of extension the fine under Section 117(Ga) is not attracted, otherwise fine is attracted from the due date for filing the ITR irrespective of the extension obtained.</i>	No change	Person under Section 4(4): Rs 100 p.m. Others: Higher of: Rs 100 p.m.; or 0.1% p.a. on the amount of inclusions
117(1)(Gha)	Financial Statement is not submitted within prescribed time by entities under Section 2(Dha)	No change	0.1% p.a. on the amount of receipts
117(2)	Fails to maintain proper documentation for an income year as required by Section 81	No change	For the year during which the documentation is not maintained, calculated as: Higher of: Rs. 1000; or 0.1% of the amount of inclusions
117(3)	Withholding Tax Return under Section 90(1) not filed by tax withholding agent	No change	2.5% p.a. on the amount of tax to be withheld
118(1)(Ka)	Instalment tax to be deposited under Section 94 is not made as prescribed	No change	15% p.a. <i>on outstanding amount</i>
119(1)	Failure to Pay Tax on or before the date on which the tax is payable. <i>Section 119(2): For the purposes of calculating interest payable under Section 119(1), any extension granted under Section 98 is ignored.</i>	No change	15% p.a. on the outstanding amount

Section	Circumstance	FY 2019-20	FY 2018-19
119(4)	In case tax has not paid within the date allowed under Section 110A <i>Payment of the outstanding tax in installments</i>	No change	Additional 5% p.a. is levied on the arrears
119Ka	Except as otherwise provided in this Act, a person who fails to comply with this Act or the Rules	No change	Rs. 5,000 to Rs. 25,000
120(Ka)	Makes a false or misleading statement or omits from a statement made to the Department any matter or thing without which the statement is false or misleading in a material particular, knowingly or recklessly to the Department	No change	100% of the amount of tax short paid
120(Kha)	Makes a false or misleading statement or omits from a statement made to the Department any matter or thing without which the statement is false or misleading in a material particular, but not knowingly or recklessly to the Department	No change	50% of the amount of tax short paid
121	A person who knowingly or recklessly aids or abets another person to commit an offence under Chapter 23 (<i>Section 123 to Section 130</i>), or counsels or induces another person to commit such an offence	No change	100% of the underpayment of tax

Note: The rate in above schedule is applied in highest integer month basis i.e. part of a month is counted as a month

9. Other significant changes introduced by Finance Ordinance 2019-20

- a) In section 21 (1) (gha1) of the Income Tax Act 2058, salary and wages paid to the employees or worker without Permanent Account Number (PAN) is not deductible in computation of taxable income.
- b) In section 21 (1) (gha1) of the Income Tax Act 2058, expense of more than Rs 1,000 without PAN is not deductible in computation of taxable income.
- c) **Concept of revised return under the Income Tax Act 2058(Section 96(6)):** If there is any discrepancy in the income tax return submitted by a person within due date, such return can be revised within 30 days from the date of filing of return.
- d) **Provisions relating to merger of bank and financial institutions in Section 47 Ka of the Income Tax Act 2058,**
- e) **Extension of deadline for submission of intent (Section 47 ka (6)):** Entities desirous of merger pursuant to section 47 (Ka) shall submit the intent of merger to Inland Revenue Department till Ashad end 2077. The deadline has been extended from earlier deadline Ashad end 2076.
- f) **Extension of deadline to complete merger (Section 47 ka (7)):** Entities who have submitted the intent of merger to IRD by Ashad end 2077, should complete the merger by Ashad end 2078. The deadline has accordingly been extended by 1 year from Ashad end 2077.
- g) Value Added Tax Act 2052, Section 10: Educational and Legal Consultancy, accounting and audit services are included for compulsory registration in VAT.
- h) Value Added Tax Act 2052, Section 19: Payment of VAT more than Rs 10 lacs should be made using cheque, draft or electronic means.
- i) Value Added Tax Rule 2053, Rule 6(Ka): Government entity, public institution, or association or registered person while awarding contract or receiving consultancy services in excess of Rs. 5 lacs per annum should award to or receive only from a VAT registered person.
- j) Value Added Tax Rule 2053, Rule 6(Ga): Government entity, public institution or association or registered person while making payment for contract, services or goods procured, shall deposit 50% of the VAT amount directly to the IRD on behalf of the supplier and remaining VAT amount shall be paid to the supplier.
- k) Value Added Tax Rule 2053, rule 41(1): VAT paid on purchase of petrol, diesel and LPG are not eligible input credit.

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