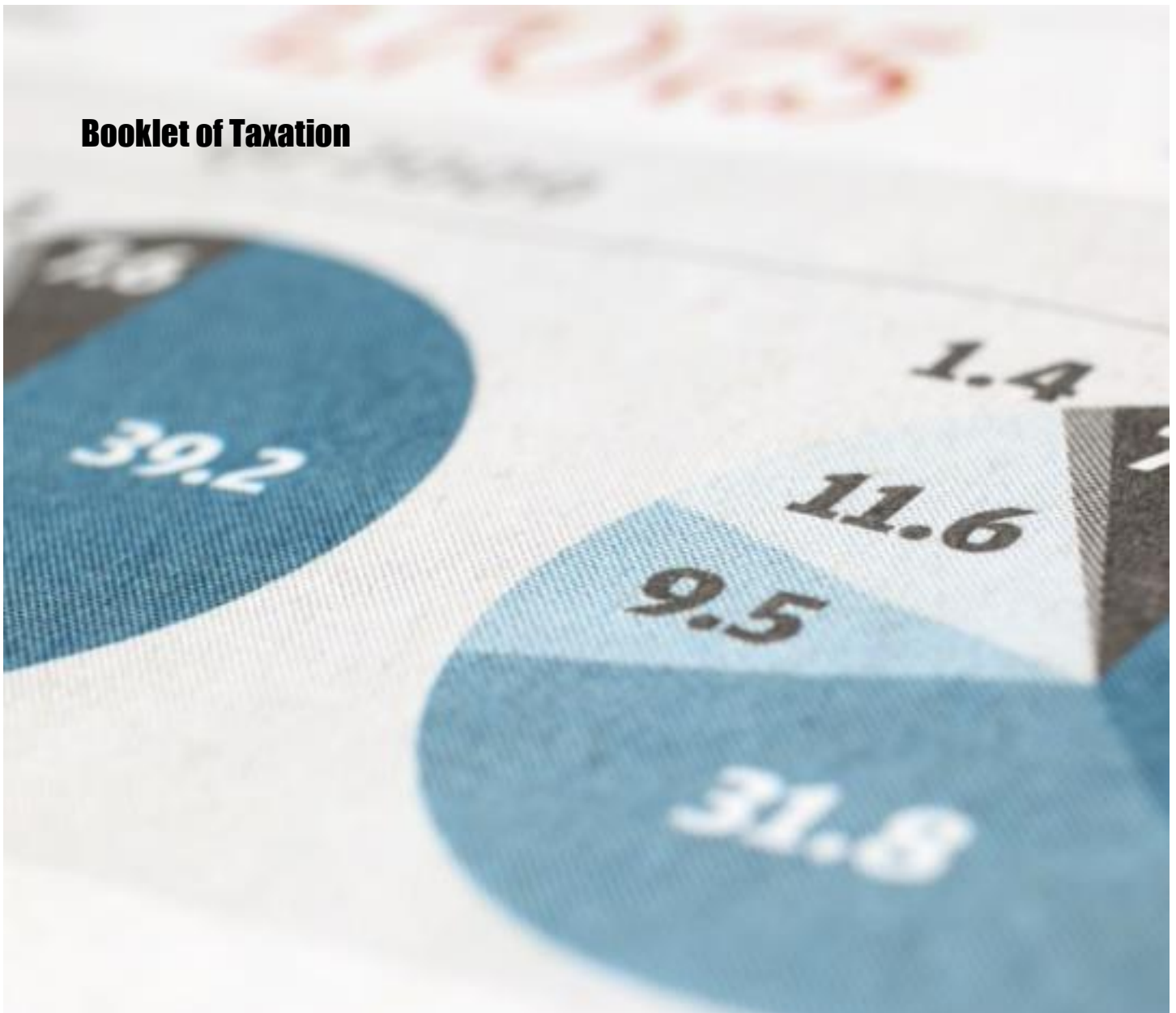


Booklet of Taxation



Tax Attentions

2019-20

**P. Madhav & Associates,
Chartered Accountants**

With Major Changes by
Finance Bill 2016

Tax Attentions 2019

THIS BOOKLET IS PREPARED TO PROVIDE BRIEF AND QUICK INFORMATION RELEVANT TO OUR CLIENT BASE ON SELECTIVE BASIS. IT DOES NOT INCLUDE THE DETAILS AND ALL THE CLAUSES OF THE TAX LAWS. WE HAVE ATTEMPTED TO COLLECT IMPORTANT CHANGES MADE BY THE FINANCE BILL 2076 RELAVANT TO OUR CLIENT FOR QUICK REFERENCE.

DISCLAIMER: INFORMATION CONTAINED IN THIS DOCUMENT IS ONLY FOR GENERAL INFORMATION PURPOSE AND SHALL NOT BE CONSIDERED TO BE LEGAL OPINION.

P. Madhav & Associates, Chartered Accountants
Buddhanager 10, New Baneshwor, Kathmandu
Phone: 01- 4781048, 9851186087
Email: info@pmassociates.com, pmadhav.associates@gmail.com
Website: www.pmassociates.com.np

July 17, 2019
Buddhanagar

A. Major Considerations in accordance with Finance Bill - 2076

1. Requirement of PAN for Workers/Employees:

The salary and wages paid to the employees/casual labors who do not have PAN is not allowed for deduction for tax purpose. Mere deduction and payment of applicable TDS on wages/salary will not be sufficient to claim such expenses. It becomes mandatory to ask for PAN when an entity hires/engage staffs/workers and even a casual labor. It also implies that while submitting e-TDS you have to disclose the PAN.

2. Requirement of PAN Bill/Invoices

Expenses of value more than Rs. 1,000/- (NRs. One Thousands only) must be supported by the PAN (or VAT) invoice.

3. Taking of Invoice

Every person is required to take invoice on the purchase of goods or services.

If the person does not take the invoice, the person shall be subject to fine of NRs. 1,000.00 for each instance.

4. Supply of Fake Invoices

If a seller issue invoice without transferring goods or services, fine equivalent to 50 Percent of the value of the invoice so issued or imprisonment for 6 month or both may be charged.

5. Service from VAT Registered Person

Government entity, public institution or registered person, while awarding annual contract or acquiring annual consultancy service for more than 5 lakhs rupees shall award the contract to or receive such services only from VAT registered person.

6. Vat withholding on Contract Payment

Every time when government entity, public Institution or registered person makes payment to contractor or supplier of goods or services:

- 50% of VAT amount to be paid to the contractor (supplier) should be withhold and deposit to the Tax Office. The remaining of 50% of VAT shall be paid to the Contractor (supplier)

The concerned contractor or supplier can offset the amount thus deposited in his name against tax to be deposited by him.

7. Cash Back – Electronic Payment

In case a consumer pays to the vendor through electronic medium, 10% of VAT paid on such purchase would be returned directly to the consumer's bank account (Cash Back Facility) as per the procedure defined by the IRD (Sec. 25 (1Kha) of Value Added Tax Act, 2052).

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8. No withholding Tax on 10% cash back – Electronic Payment

10% cash back amount entitled as per sec 25 (1Kha) of VAT Act 2052 is not subjected to the withholding tax.

9. Revision on Gain on Security Disposal:

The rate of advance tax collection on the Gain on disposal of listed securities of resident natural person has been reduced to 5%. Last year, the rate was 7.5%.

The method of computation shall be Weighted Average Method.

10. Amendment on Income Tax Return Possible:

Where a person who has submitted income return within the due date requires amendment in such return, such returns may be amended with thirty days of filing return as per the procedures prescribed by IRD.

11. Revision of Fee for Failure to submit Estimated Tax returns

The fees for failure to submit estimated tax return shall be higher of following:

- i. Rs 5,000, or
- ii. 0.01% of Assessable Income as specified in Income Return

However,

Any person whose sum of total three installments is less than Rs. 7,500 is relieved from submission of estimated tax return (Sec. 94 (2), Income Tax Act 2058)

12. Addition to the list of business requiring Compulsory VAT Registration

Additions:

a. Alcohol business	f. Motor Parts
b. Wine Business	g. Electronic Software
c. Health Club	h. Custom Agents
d. Disco Theque	i. Toy Shops
e. Massage Therapy	j. Scrap Business

Existing: Brick Production, Trekking, Rafting, Ultra light Flight, Paragliding, Tourism Transport, Crusher, Sand Mine, Slate, Stone business

13. Addition to the list of business requiring VAT registration which is operating in Metropolitan, Sub-Metropolitan, Urban Municipality & areas prescribed by IRD:

Additions:

Motor parts,

Accounting services,

Legal consultancy,

Auditing services

Existing:

Hardware Business, Sanitary, Furniture, Fixture, Furnishing Business, Parking, drycleaners using machines, restaurant with bar, automobiles, electronics, marble, Ice Cream industry, color lab,

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Botique, Educational Consultancy, Catering, Party Palace, Beauty Parlor, Parking, Tailoring with shirting and suiting materials, Uniform suppliers at Education or Health Institutions.

14. VAT Credit Not allowed:

There shall be no VAT credit (otherwise than where the main business is supply of the items listed below) on following:

- Beverages, Alcohol, or beverages containing alcohol, e.g. alcohol, beer
- Petrol, diesel and Light Petroleum (LP) Gases
- Entertainment Expenses

15. Every registered person shall inform the tax officer within 15 days (As per Sub section 7 of section 10) of any changes in the information pertaining to the application for registration as required under section 1&2 of section 10: **On infringement of it, Rs. 10,000 for each time of offence.**

16. Transport Service is removed from VAT Exemption List.

Note: VAT Exempt Transport - Air Transport, Service from mechanical bridge, public passenger transport, (except cable car) and cargo service for the purpose of export.

17. Taxes Regulated by Finance Bill

Particulars	Criteria	Rate
Health Risk Tax	On Import and domestic production of Cigarette, bidi and Cigar	25 paise per piece
	On Import or domestic production of chewing tobacco, khaini, Paan Masala, Gutkha	Rs. 25 per kg
Education Service Tax	Applicable on students pursuing education in foreign country (Collectible by Banks and Financial Institutions at the time of providing exchange facilities)	2% of Tuition Fee being exchanged/transferred
Infrastructure Development Tax	On Aviation Fuel, Petrol and Diesel	Rs. 5 per liter
Road Repair and Improvement Tax	- On petrol	Rs. 4/ltr
	- On diesel	Rs. 2/ltr
Pollution Control Tax	Levied on Petrol and diesel	Rs. 1.50 per liter
Telephone Ownership Tax	Installation of telephone	Rs. 500
	In case of prepaid phone, at every sim card and recharge card	2% of value
Telephone Service Fee	Levied to customers of telephone, internet, mobile (Collectible by Internet service provider or Telecom service provider)	13% of Telephone fee

18. If it is proved that person receiving benefits from business is other than the person(s) under whose name business is registered, then the person receiving the benefits from the business shall be liable to pay the tax of such business (section 110Ga).

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B. Income of Natural Person

1. For Resident Taxpayers, the revised income slabs and tax rates are as follow;

Taxable Income Slab	Tax Rate	Single	Couple
Basic Exemption	1%	4 lakhs	4.5 lakhs
Next 1 lakh max	10%	1 Lakh max	1 lakh max
Next 2 lakhs max	20%	2 lakhs max	2 lakhs max
Next 13 lakhs max	30%	13 lakhs max	12.5 lakhs max
Rest above 20 Lakhs	36%	Rest	Rest

Note:

- Social Security Tax (SST) on exemption limit is exempt for proprietorship firm, on pension income, & income of natural person contributing to contribution based social security fund.
- Husband and wife should elect to be treated as couple and the option is not automatic. A declaration from the non-earning spouse is must for election.
- The rates may changes because of business concessions and facilities as applicable.
- Special Tax rates for Natural Persons

Particulars	Applicable Tax Rates
Income earned from operating special industries	20% where 30% Tax rate applies
Income earned from export business	15% where 20% or 30% Tax rate applies

2. Rebate on Tax Liability for Resident Female

A rebate of 10% on the tax liability is available to a female resident natural person having employment income in Nepal and the facility is not available if the female opts Couple Assessment (As per Income Tax Manual 2066)

3. Deduction and Facilities for Resident Persons

a. Life Insurance Premium

LIP paid by a resident natural person can be deducted while calculating the taxable income upto the maximum limit of Rs. 25,000 (Rs. twenty five thousands). The insurance premium paid separately by the husband and wife can be clubbed if they opt as couple however the clubbed amount should not exceed NRs. 25,000.

b. Health Insurance Premium

The health insurance paid by a natural person can be deducted for tax purpose to the maximum limit of NRs. 20,000. (Actual or Rs. 20,000 whichever is lower)

c. Remote area benefits

Remote area benefits are available to the natural persons working in remote areas (proportionately calculated for period of stay). The minimum exemption limit shall be increased by the amount depending on remote area category, as follows:

NRs.

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SN	Remote Areas	Amount
1	Category A	Rs. 50,000
2	Category B	Rs. 40,000
3	Category C	Rs. 30,000
4	Category D	Rs. 20,000
5	Category E	Rs. 10,000

d. Pension Income

If income of 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 tax liability is calculated on balance income.

e. Employees working in Diplomatic Agencies

If an employee is employed at diplomatic agencies of Nepal situated at foreign countries, 75% of foreign allowance is deducted from taxable income while calculating income tax liability.

f. Incapacitated natural persons

For incapacitated natural persons, the minimum exemption limit is increased by additional 50%.

4. Tax credits for resident persons

a. Medical Tax Credit

Medical tax credit is available to resident natural persons as deduction from tax liabilities for approved medical expenses (does not include cost incurred for cosmetic surgery and reimbursement from insurance)

The limit is lower of,

- Rs. 750 or
- 15% of approved medical expenses

Any unutilized medical expenses can be carried forward to next year without limitation.

b. Foreign Tax Credit

- i. Foreign tax credit is available for tax paid in foreign country in respect of foreign income which is included in taxable income of a resident person.
- ii. The foreign income tax paid can either be deducted as expenses or tax liability in Nepal can be reduced by such tax paid up to average rate of tax applicable in Nepal at the option of tax payer.
- iii. The calculation should be done separately for each source of income and tax not eligible as credit in a year can be carried forward to claim as foreign tax credit in future year from the same source country.

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5. Tax rate for Non Resident Natural Person

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

C. Withholding Tax (WHT): TDS

1. WHT on Employment Income

The resident employer shall withhold tax while making employment income payment with source in Nepal. The monthly tax to be deducted is calculated by dividing the annual tax calculated on employment income (schedule 1) by 12.

An employee is exempt for submitting returns provided s/he has Nepal sourced employment income and one employer at a time. However, if the taxable income of such employee exceeds Rs. 40 lakhs, filing of tax returns is mandatory.

2. Withholding Tax as per section 88

Particulars	Rates
House Rent Payment to Natural Person (However, the tax on such rental to natural person is governed by the local government. So the tax (tds) shall be as per the tax laws of the local government where such property is located.)	No TDS
Rent Payment to Entity Rent payment to an entity may also require withholding tax as per the tax laws of concerned local authority. If it is required, then there is dual payment of withholding tax, one to tax office and the other to Local government.	10%
Payment of Rental of vehicles to Vehicles Service Provider registered in VAT	1.5%
Other rental payment	10%
Transport Rent	2.5%
Royalty	15%
Service fee to a VAT Registered Service Provider	1.5%
Service fee to a Residential Entity exempt from VAT	1.5%
Commission to a VAT registered service provider	1.5%
Other commission	15%
Payment of sales bonus	15%
Retirement payments from Non-contributory funds	15%
Dividend by resident company or partnership (First Distribution)	5%

WHT not required

- i. Payment made by natural persons other than conducting business.
- ii. Payment of remuneration to the writer of the articles published in Newspaper & Magazines.
- iii. Payment of Interest to a resident bank or other resident financial institution.
- iv. Payment that is exempt from Tax.
- v. Payment of dividend or interest to Mutual Fund.

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3. TDS as per Section 88 KA

25% of the windfall gain shall be deducted as the windfall gain tax except for the payment of national and international prizes/awards up to Rs. 500,000 in case of awards achieved in recognition of contribution towards literature, art, culture, sports, journalism, science, technology and public administration

4. TDS as per Section 89

1.5 % TDS on contract payment: On contract payments exceeding Rs. 50,000

Note:

- a. 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.
- b. The limit of Rs. 50,000 is calculated by adding contract payments of last 10 days to the same person on the same contract.

5. Advance Tax Collection as per Sec.95 Ka

On gain from disposal of interest held in a resident entity

Particulars	Listed	Not Listed
Received by a resident natural person	5%	10%
Received by resident entity	10%	15%
Others (Non-residents)	25%	25%