

Income Tax Rates for Fiscal Year 2015/16

This article gives an overview of Nepalese Income Tax Tariff based on the finance bill 2015. The information is compiled from the Income Tax Act 2000 and Finance Bill 2015 and is intended to provide users as a quick reference of Nepalese Income tax rates.

1. For Natural Persons

1.1. Tax Rates

Tax Slab	Rate
<i>Individual</i>	
a) Up to Rs 250,000	1%*
b)250,001 to Rs 350,000	15%
c)350,001 to Rs 2,500,000	25%
d)Above Rs 2,500,000	Surcharge of 40% of tax rate as per clause (c) above on so exceeded amount.
<i>Couple</i>	
a) Up to Rs 300,000	1%*
b)300,001 to Rs 400,000	15%
c)400,001 to Rs 2,500,000	25%
d)Above Rs 2,500,000	Surcharge of 40% of tax rate as per clause (c) above on so exceeded amount.

* Tax under clause (a) in case of both individual and couple is not levied for sole-proprietorship firm. This is the social security tax to be deposited in the separate revenue account of Nepal government.

1.2. Allowable Deductions for a Natural Person:

Deduction from Taxable Income	
a)Life Insurance Premium	Actual premium paid during the year or Rs 20,000 whichever is lower.
a)Medical Insurance Premium	Actual premium paid during the year or Rs 20,000 whichever

	is lower.
b)Contributions to an approved retirement fund	1/3 rd of the assessable income or Rs 300,000 whichever is lower.
c)Diplomat of Nepal Government posted in a foreign country	75% of the foreign allowance will be exempted from income tax.
d)Remote Area Allowance	Additional deduction up to Rs 50,000 from the taxable income. Group A-50,000, Group B- 40,000, Group C-30,000, Group D-20,000 and Group E-10,000. This facility is proportionately calculated for period of stay.
e)For Pension Holders	For any natural person having pension income, tax exempted limit will be increased by 25% of the basic limit.
f)For Incapacitated Individual	In case a tax payer is an incapacitated natural person, tax exempted limit will be increased by 50% of the basic limit.
Tax Credits	
a)Female having remuneration income only	Rebate of 10% on the total tax liability. However one should have opted as a single status to avail the rebate.
b)Medical expenses	Tax credit will be available at 15% of the approved medical expenses incurred during the year plus any unabsorbed tax credit carried over from the previous year. The maximum limit available for tax credit during the year is Rs 750.
c)Income tax paid in a foreign country	Tax credit will be available to a resident natural person up-to the amount of income tax paid in the foreign country in the foreign source income.*

** The maximum amount of tax credit allowed for the year shall not exceed the average rate of Nepal income tax for the person for the year applied to the person's assessable income from each foreign country.*

The formula for calculating average rate of tax applicable in Nepal:

*Total tax calculated before tax credit for foreign income tax paid/taxable income of the person including assessable foreign income*100*

Unabsorbed portion can be carried forward for set off from the income during subsequent years from the same country.

1.3. Tax Rate for Non Business Chargeable Assets

Gain from disposal of Non Business Chargeable Assets of a resident natural person is taxed at 10% after taking into consideration exemption limit subject to the following:

- In case of land and buildings, if the disposed land & buildings has been owned for more than 5 years tax rate of 2.5% shall apply.
- In case the disposed land & buildings has been owned for less than 5 years, tax rate of 5% shall apply.
- In case of gain from disposal of shares of listed entities, 5% tax rate shall apply for resident natural person

1.4. Special provision for a resident natural person having turnover from business not less than rupees twenty lakhs and not more than rupees fifty lakhs;

A resident natural person who has met all the following conditions including above condition shall be taxed at the following rate:

- Income of the income year consist exclusively from Business having source in Nepal;
- Has not claimed medical tax credit u/s 51 and withholding tax adjustment u/s 93;
- The turnover not registered in Value Added Tax;
- Has not earned income from providing consultancy and expert services as a professional such as those provided by doctors, engineers, auditors, lawyers, players and actors.

Tax Rates

<i>Conditions</i>	<i>Tax Rate</i>
a)Person transacting goods such as gas, cigarettes by adding by adding commission or margin up to 3%	0.5% of the transaction amount
b)Person dealing in goods except than those mentioned in the clause (a) above	1% of the transaction amount
c)Person engaged in service business	2% of the transaction amount.

Note: if the tax computed as per clauses (a), (b) and (c) above is less than Rs 5,000, tax shall be levied at Rs 5,000.

1.5. Presumptive Taxation

<u>Vehicle Types**</u>	<u>Tax Amount (Rs)</u>
Minibus, Mini-truck, Truck and Bus	3,000
Car, Jeep, Van, Micro-bus	2,400
Three- wheeler, Auto-rickshaw, Tempo	1,550
Tractor and Power tiller	1,000

Notes:

** Tax paid as above shall be final in case the vehicle owner is the natural person.

1.6. Income Tax for Small Tax Payers

Resident Natural Persons who only have business incomes with annual business turnover of Rs. 2,000,000 and net income below Rs 200,000 may chose to pay tax as below. In such case, the person cannot claim medical tax credit or advance tax for TDS deposited.

Location	Tax amount (Rs)
a) Metropolitan or Sub-Metropolitan City	5,000
b) Municipality Area	2,500
c)Any Other Area	1,500

2. For Entities

2.1. Corporate Tax Rate- 25%. However in case of the following entities tax shall be imposed at the rate mentioned underneath:

30% Tax rate in case of the following entity:
i)Bank and Financial Institution
ii)General Insurance Business

iii)Business for cigarette, bidi, cigar, chewing tobacco, khaini, liquor and beer
iv)Petroleum operations under Nepal Petroleum Act 2040

20% Tax rate in case of the following entity:
i)Special industry mentioned in section 11 of the Act
ii)Entity which builds and operates any road, bridge, tunnel, ropeway or overhead bridge
iii)Entity which operates any trolley bus or tram
iv)Transactions other than tax-exempt by a Cooperative society registered under Cooperative Act, 2048
v)Export income from Nepal sourced business
vi)Entity relating to the Built, Own, Operate and Transfer (BOOT) public infrastructures to the GoN or those relating to the construction of power houses and generation and transmission of electricity

2.2. Tax rate for Non-resident person

Repatriated income to abroad in an income year by a Nepal-based foreign permanent establishment of a non-resident person	5% on the repatriated income
Non-resident providing water or air transport or telecommunication services in Nepal	5% on taxable income
Non-resident providing water or air transport or telecommunication services which does not so depart from Nepal	2% on taxable income

2.3. Estate of a deceased resident individual or trust of an incapacitated resident individual shall be taxed at the rate mentioned above for the natural person as though the estate or trust was a resident individual.

2.4. Business Concessions

Industries	Rates as Percentage of Applicable rate
•Special Industries and Information Technology Industries providing direct employment to 300 or more Nepalese citizens during a period.	90%

• Special Industries providing direct employment to 1200 or more Nepalese citizens during a period.	80%
• Special Industries providing direct employment to more than 100 Nepalese citizens during a period including at least 33% of women, incapacitated and dalits.	80%
• Special Industries and industries related with agriculture and tourism, providing employment during the year only to the Nepalese citizens. Employment should be provided to at least 100 such citizens.	70%
• Special Industries operating in remote area for first ten years	10%
• Special Industries operating in undeveloped area for first ten years	20%
• Special Industries operating in underdeveloped area for first ten years	30%
• Industry with capital investment of more than Rs. 1 Billion and employing 500 individuals during the whole year.	0% for first five years of operation & 50% of applicable rate thereafter for next three years
• Existing Industries increasing installed capacity by 25% and increasing the capital to Rs. 1 Billion.	No tax on incremental profit & 50% of applicable rate for next three years thereafter
• Industries established in Special Economic Zone of hilly district as specified by the government and mountain district.	0% for 10 years, 50% thereafter
• Industries established in Special Economic Zone of other areas.	0% for 5 years & 50% of rate thereafter
Dividend distributed by the industries established in Special Economic Zone	0% for 5 years & 50% of rate thereafter
• Income from foreign technology, management fee and royalty earned by foreign investor from industries established in special economic zone	50%
If the Special Industries, Agro-based or Tourism Industries has capitalized their retained earnings into share capital for expansion of capacity of such industries	100% rebate on such capitalization amount assuming as distributed as a dividend.
• Person transacting on exploration of petroleum and natural gases, if business	0% for 7 years & 50%

operation starts within 2075 Chaitra end	for next 3 years
• Industry operating in Technology Park, Biotech Park, and IT park and involved in software development, statistical processing, cyber café, digital Mapping	50% rebate
• Entity involved in generation, transmission and distribution of electricity, if starts commercial activities related to generation, generation and transmission., generation and distribution, or generation and transmission and distribution within Chaitra end of 2075	0% for 7 years and 50% for next 3 yrs of applicable rate
•Entity involved in generation, transmission and distribution of electricity, if starts commercial activities related to generation, generation and transmission., generation and distribution, or generation and transmission and distribution within Chaitra end of 2075 and the construction if started within 2071 Bhadra 7	0% for 10 yrs and 50% for next 5 years
• Profit on export income of an industry	25% Rebate on applicable rate
•In case of dividend of industries in Special Economic Zones	Dividend tax exempt for first five years of operation and 50% concession is provided for dividend tax in next three years
•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
• Manufacturing, tourism, hydroelectric generation, distribution and transmission entities and Industry operating in Technology Park, Biotech Park, and IT park and involved in software development, statistical processing, cyber café, digital Mapping; if listed in Stock Exchange	10% rebate on applicable rate
•Industry producing brandy, cider and wine based on fruits and established in remote area (for first ten years of operation)	40% rebate on applicable rate
• Royalty income from export of intellectual property	25% rebate on applicable rate
• Income from sale of intellectual property	50% rebate on applicable rate
• Industry related to Tourism Sector or aviation company for international flights with capital investment of more than Rs. 2 Billion	No tax for first five years and 50% of

	applicable rate for next three years
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2.5 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.

3. Tax Deducted at Source (TDS)

Sections 87,88 and 89 of the Act has imposed a statutory liability of a resident person to deduct tax at source at a specified rate while making a payment of specified incomes having source in Nepal.

TDS Applicable Rates

Particulars	Tax Rate	Remarks
Interest, Royalty, Service Charge, Retirement Payment having source in Nepal, except mentioned otherwise	15%	Advance tax
Payment made to resident person on Service Charge invoiced in VAT bill	1.5%	Advance tax
On Nepal sourced Interest by Banks and financial institutions and/or listed companies to a natural person, except made in connection with business.	5%	Final withholding
On payment made by a resident person for rent having source in Nepal. No TDS is required on vehicle rent paid to owners of public vehicles who pay presumptive tax each year.	10%	Final withholding
On payment of gain from Investment Insurance	5%	Final withholding
On payment of gain from unapproved retirement fund	5%	Final withholding
On payment of commission by resident employer company	5%	Advance tax

to a non resident person		
On payment of lease rental of aircraft	10%	Advance tax
On payment of returns to natural person by mutual fund	5%	Advance tax
On windfall gains	25%*	Final withholding
On contract payments exceeding Rs 50,000.	1.5%	Advance tax
On contract payments made by resident person to non-resident persons: On repair of aircrafts and other contract 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 the rate prescribed in the notice.	Advance tax
On gain from disposal of interest held in a resident entity listed in stock exchange - received by a resident natural person - received by others	5% 10%	Advance tax
On gain from disposal of interest held in a resident entity not listed in stock exchange - received by a resident natural person - received by others	10% 15%	Advance tax
On gain from transaction on commodity future market	10%	Advance tax
On dividend paid by resident entity and partnership firm	5%	Final withholding
On dividend paid by other entities	No TDS	

* there shall be no windfall gain tax on national and international prizes/awards up to Rs. 500,000 in case the awards are achieved due to contribution towards literature, art, culture, sports, journalism, science & technology and public administration.

3.2 Exceptions- WHT not required

- Payments made by natural persons other than conducting business.
- 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).
- Payment of interest to a resident bank or other resident financial institution
- Payments that are exempt from tax
- Payment of dividend or interest to Mutual Fund

4. Tax Returns

Payment of Advance Tax & Estimated Tax Return

Every person liable to pay installment tax is required to file an estimated tax return within Poush end.

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.

Due Dates	Amount Payable
By the end of Poush	40% of the estimated tax liability
By the end of Chaitra	70% of the estimated tax liability
By the end of Ashad	100% of the estimated tax liability

Annual Tax Returns

Annual tax return should generally be filed within 3 months from the end of an income year.

However, a taxpayer may have this due date extended for a maximum period of 3 months i.e. up to Poush end in case he files an application in the IRD with bonafide reasons for such extension. This extension only applies to tax return submission and not for payment of tax.

Hope you find the article useful. Thank you for reading-KB Chitracar & Co, Chartered Accountants