



# COVID-19

## Suggested Tax Policy Responses

May 2020

**KBC**

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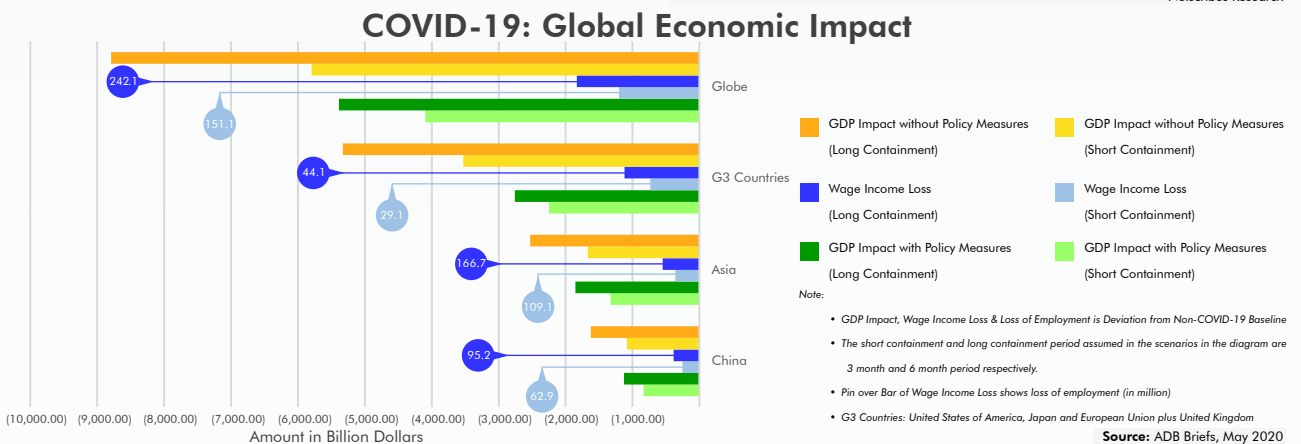
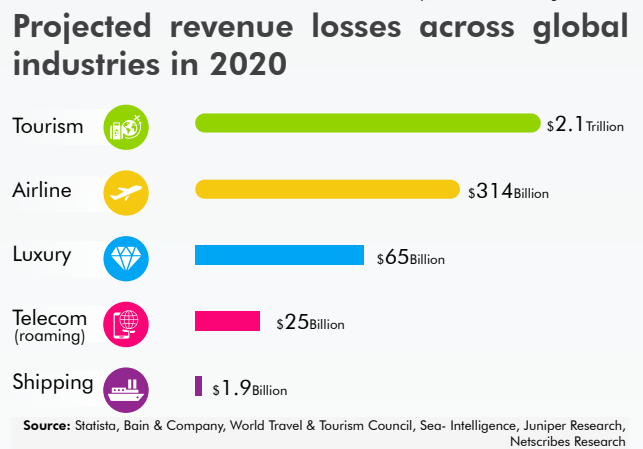
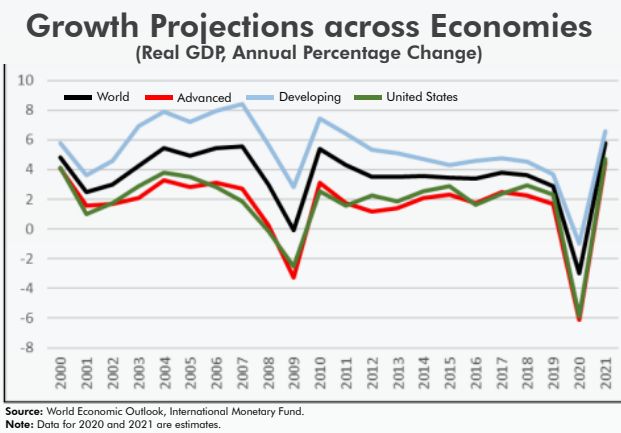
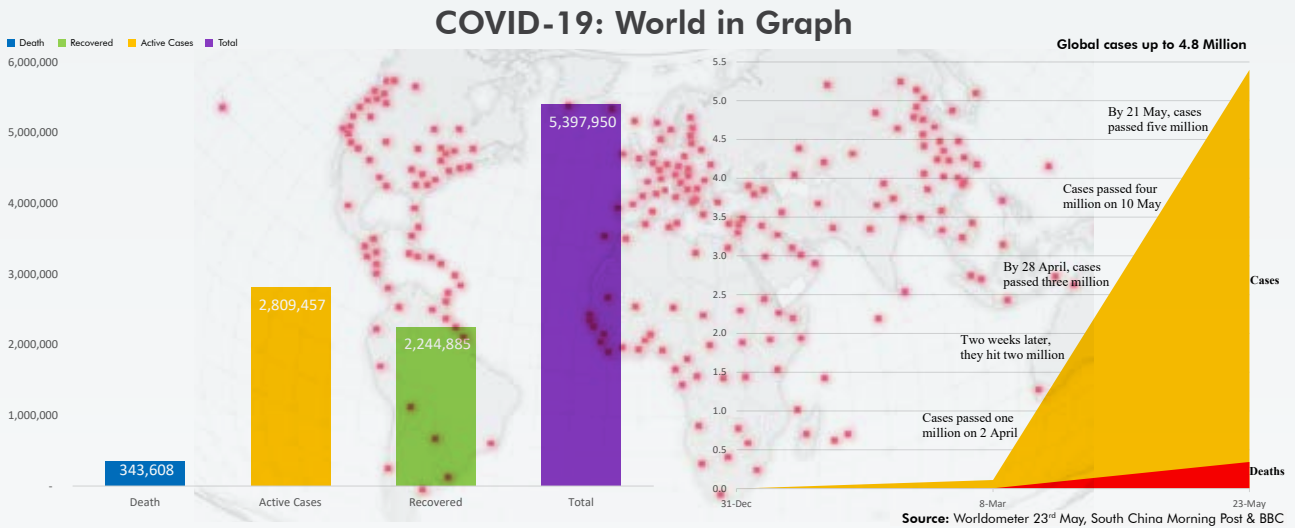
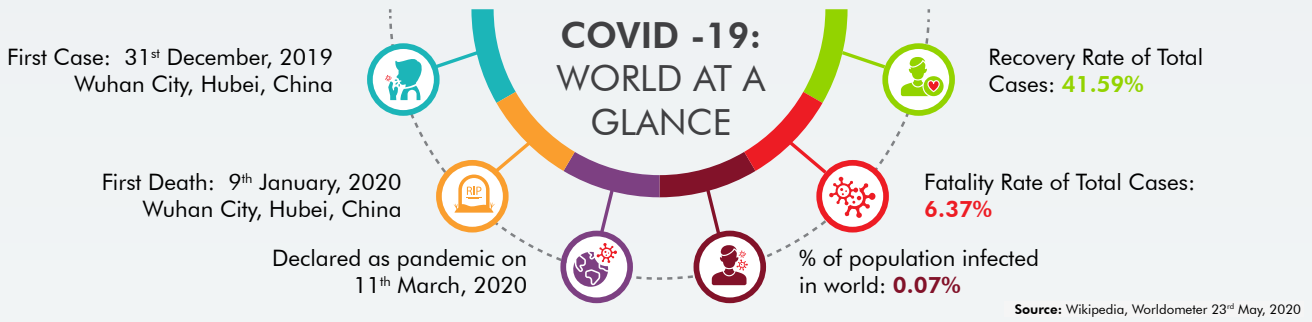
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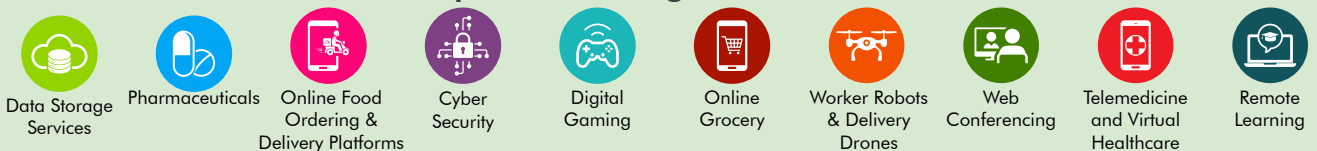
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Source of Additional Revenue to fund expenditure to fight economic crisis after COVID-19 10

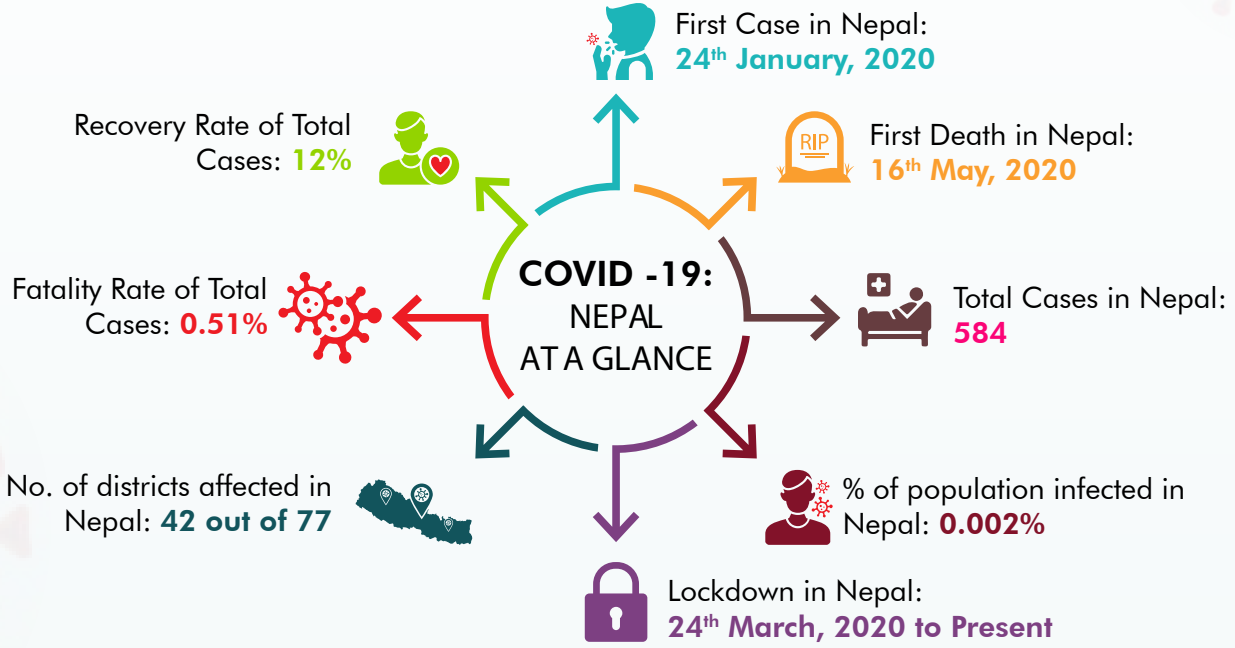
# COVID-19 & Containment: Impact around the World



### Sectors expected to see growth amid COVID-19



# COVID-19 & Containment: Impact in Nepal



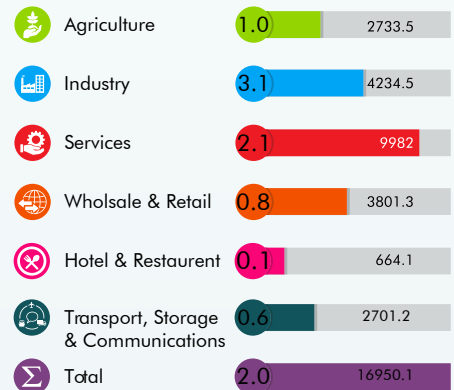
Source: Wikipedia, Worldometer 23<sup>rd</sup> May & 2020

## Current Macroeconomic Situation of Nepal (Based on Nine Months' Data of 2019/20)



Source: Central Bureau of Statistics, Nepal Ratra Bank

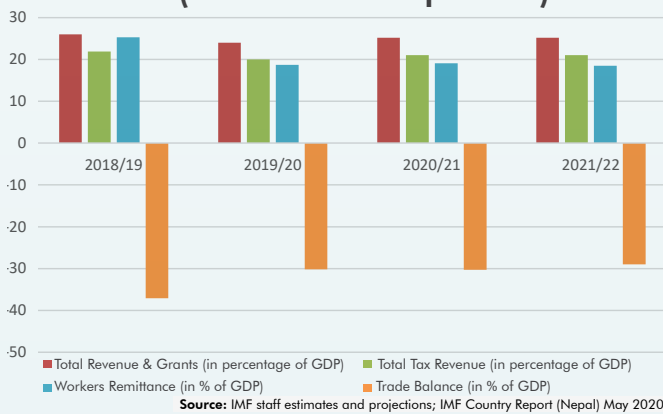
## Expected Sector-wise Loss (in Constant Prices) due to COVID-19 & Containment of 2 months (NRs. Millions)



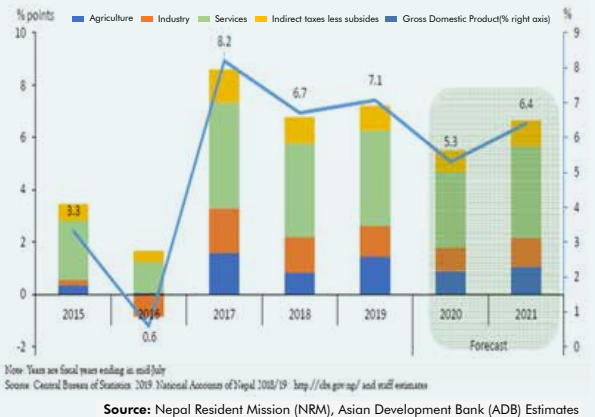
Note: Data in a circle against each bar represents loss as a percentage of sector-wise GDP

Source: Nepal Resident Mission (NRM), Asian Development Bank (ADB) Estimates

## Key Indicators of Nepalese Economy (Estimates & Projections)



## Nepal GDP Growth Projections & Sector-wise Contribution: Year 2020 and 2021



## Sectors expected to suffer amid COVID-19 in Nepal



# Business Continuity Considerations & Taxpayer Support: Responses around the Globe

Governments across the globe have dramatically overhauled policies and invested in public health, economic stimulus, and social safety to help countries recover faster from the COVID-19 pandemic. The policy response to crises; economic & pandemic have been rapid at most of the jurisdictions.

Measures in the form of fiscal stimulus that support taxpayer on preventing hardship and reducing burdens and support businesses to alleviate cash flow problems are floated in the short term, midterm (transition) or long term. Considerations are given, ranging from providing immediate cash support to businesses to promoting health sector investments. Individuals are also provided with support towards their debt settlement, cash transfers to household and many more.

**Tax Administration Responses to COVID-19 around the Globe**



Carry Backward of Losses	Enhanced Tax Refunds	Wages Subsidies to Employers	Reduction in VAT/GST Rates	No Bank guarantee/Cash advance for Appeal	Increase Threshold and Scope of Deduction and Exemption	Accelerated or Enhanced Tax Depreciation Provisions	Tax Filing Extension and Deferral of Tax Payments	Flexible Tax Debt Repayment	Tax Waivers and Exemption	Reduction in Corporate & Personal Income Tax Rates
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- Other Support Measures**
- Temporary Reduction in Social Security Contribution
  - Allowed for Temporary use of Employee Contribution Reserves
  - Subsidies for self-employed and unemployed individuals
  - Loan or Guarantee Scheme
  - Cash Transfer to Household

Source: Source: Organisation for Economic Co-operation and Development (OECD)

**Instruction to read the map:** Bandwidth of colors at the bottom represent tax administration responses to COVID-19. Pinpoints in map are designed with these colors to show various tax administration responses to COVID-19 observed in each continent. Numeric values in pinpoints represent the number of countries in the continent observing such tax administration responses to COVID-19

## **Fighting with COVID-19 and aftermath: Principles & Priorities of Appropriation Bill, 2077/78**

Ministry of Finance, Government of Nepal published the principles and priorities of the Appropriation Bill, 2077/78 and reforms strategy during and after COVID-19 has occupied a predominant place in the plans of Government of Nepal. Through the Appropriation Bill, Government of Nepal concentrates on following areas of major expenditure during FY 2077/78:



Expenditure towards ensuring affordable health service for every Nepalese.



Investment in Health Service sectors to ensure abundance of infrastructure to fight COVID-19 and possible forthcoming epidemics in collaboration among Federal, Provincial & Local Government.



Reform measures to ensure economic redevelopment after COVID-19 by support to private sectors and development of employment opportunities.



Support to taxpayers in the form of tax concessions to bail out & redevelop private sectors from the hazards of lockdown imposed to fight against COVID-19.



Expansion of scope of taxation, minimization of leakages in revenue and ensuring efficient tax administration for fulfilling responsibilities of taxpayers towards national revenue.





## Suggested Tax Policy Measures for Government of Nepal in response to economic crisis due to COVID-19

Mitigation Measures	Objective of Measures	Target Beneficiary	Application of Measures	Period for Application of Mitigation Measures
Multi Rate for VAT	To support consumption	Household Consumers	Minimize the rate of VAT on basic daily consumables from existing 13%.	Transition Post-Pandemic
Medical Tax Credit	To enhance household cash flow for prevention & treatment measure	Every individual including couple opted Taxpayers	Allowing medical tax credit up to a prescribed limit towards medical costs borne for COVID-19 prevention measures by individuals and; Increasing the existing limit of medical tax credit to accommodate medical costs incurred on treatment of COVID-19 by individuals	Transition Post-Pandemic
Set Off of Loss on Investment and Business against Employment income of an Individual taxpayer	To enhance household cash flow for basic consumptions.	Every individual including couple opted taxpayers	Allowing for set off of loss on disposal of investment and on business from taxable employment income by prescribing maximum threshold of for set off.	Transition
Accelerated VAT Refund	To enhance business cash flow	All Business	Relaxation on time to claim for a refund from existing 4 months to immediately after filing VAT return. Facilitating to complete administrative procedure for VAT refund in few numbers of days in comparison to current 60 days process.	Transition Post-Pandemic
Accelerated Tax Refund	To enhance business cash flow	All Business	Facilitating to complete administrative procedure for Income Tax refund through filling annual tax return for an amount up to a prescribed limit.	Transition Post-Pandemic

Temporary Carry Backward of Business Losses	To enhance business cash flow	The most suffering business sectors	Refunding the tax paid in earlier years to the extent of tax benefit for the losses suffered by the business. Refund should be enabled by filling annual tax returns.	Transition Post-Pandemic
Waiver of Installment Taxes	To enhance business cash flow.	The most suffering business sectors	Relief from payment of tax in installment throughout the transition period.	Transition
Tax Payment Deferral & Return Filing Extension	To enhance business cash flow	All Businesses and Taxpayers	Deferring revised filing & payment deadline of Installment Tax until the period of lockdown or any number of days beyond lifting of lockdown. Deferring filing & payment of VAT under and tax withheld at source, until the period of lockdown or any additional number of days beyond lifting of lockdown, as practiced currently. Suspension of fees, penalty and interest for deferred payment/shortfall payment of VAT, tax withheld at source and installment tax for that period.	Containment
Accelerated Depreciation	To support investment	Health Care, Pharmaceutical, Laboratories etc.	100% capital allowance on the year of Investment.	Transition Post-Pandemic
Enhanced release of deposits, award of incentives and duty drawbacks	To enhance business cash flow	Export oriented businesses	Immediate release of custom deposits and drawback of taxes, duties and quick award of incentives.	Transition
Temporary Duty and VAT exemption	To enhance business cash flow	Importers, Pharmaceuticals, Hospitals, Chemical Processors	Applying temporary duty and VAT exemption on imports or purchase of medicines, its raw material, medical devices, equipment and their parts, reagents, fever detectors and alcohols for sanitizer.	Containment Transition

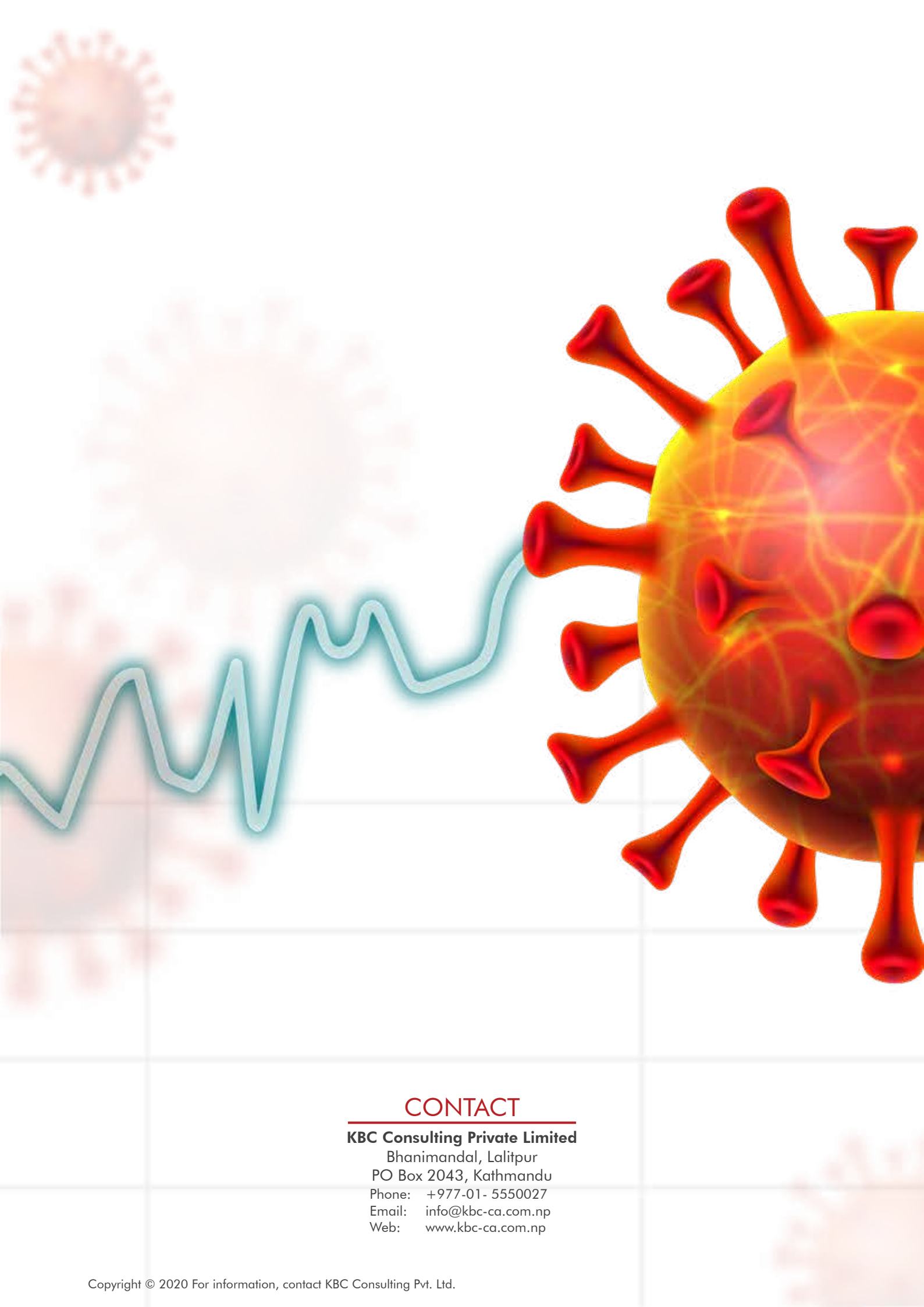


Wages Subsidy	To enhance business cash flow	MSMEs and SMEs having turnover not exceeding a prescribed limit.	Allowing a business to claim a prescribed weighted deduction on salary payments for prescribed months starting from Chaitra 2076	Containment Transition
Restructuring Support	To enhance business cash flow	All Businesses	Suspension of taxation and other restrictions if beneficial owner holding 50% or more interest in a firm changes under any restructuring plan either through sale/disposal or merger and acquisition of a business.	Transition
Other Deductions	To encourage donation to Public Support Fund	Every taxpayers	Allowing for a full deduction of amount donated into Corona Relief Fund or similar fund operated by Federal, Province or Local Government before and after the beginning of new fiscal year.	Containment Transition
Relief for Exceptional Circumstances	To avoid taxing global income in Nepal due to exceptional circumstances arose after COVID-19	All Individuals with global income from employment who may have technically become residents in Nepal due to COVID-19 travel restrictions	Suspending inclusion of days spent in Nepal due to COVID-19 travel restrictions while calculating total days of stay in Nepal that trigger residential status of individuals for taxation	Containment
		All nonresident entities who would technically have Permanent Establishment in Nepal only as result of COVID-19 exceptional circumstances beyond control of such entities and their employees/agents	Relaxation from compliance of all tax law requirements to such nonresident entities.	



## Source of Additional Revenue to fund expenditure to fight economic crisis after COVID-19

Revenue Funding Measures	Target Taxpayer	Application of Measures
Tax on Super Profit	Business having returns greater than prescribed normalized Return on Equity or normalized Earnings Per Share	Levying additional tax at prescribed rate for an amount in excess of a prescribed Return on Equity or Earnings per Share
COVID-19 Cess	Individuals	Levying a progressive cess up to 10% on taxable income of an individual in line with progressive tax slab.
Tax on Dividend Income received by a High Net Worth Individuals and distributed by a resident company	High Net worth Individual	Levying additional tax on dividend at a prescribed rate in excess of a prescribed annual threshold. Say; taxpayer with annual dividend income in excess of NRs 5,000,000 can be taxed at additional 10%.
Tax on Dividend received by an entity and distributed by a resident company	All Entity	The final withholding rate can be increased up to 15%.
COVID-19 Tax Saving Investment Scheme	All Taxpayers	Deduction of lower of a prescribed proportion of taxable profit or an amount prescribed from taxable income that are invested on specified assets like bond or saving scheme of Government of Nepal
COVID-19 Tax Free Bonds and Saving Scheme	All Taxpayers	Exempting or reducing tax on income earned from such deposits/investments to all taxpayers.



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