Capital Gain Tax

Meaning

Capital gains are the profits that an investor realizes when he or she sells the capital asset for a price that is higher than the purchase price. Capital gains taxes are only triggered when an asset is realized, not while it is held by an investor. An investor can own shares that appreciate every year, but the investor does not incur a capital gains tax on the shares until they are sold.

A capital gain is the difference between the purchase price (the basis) and the sale price of an asset.

The formula for capital gain is:
Sale Price - Purchase Price = Capital Gain
Note that this formula assumes the sale price is higher than the purchase price. If an investor sells an asset for less than he or she paid, this is called a capital loss, and no tax is owed.

Capital Gain Tax Rate in Nepal

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%
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%
Capital Gain tax on disposal of land and building classified as Non Business Chargeable Assets, TDS to be deducted by concerned government office - if the land and building is owned for period less than 5 years - if the if the land and building is owned for period more than 5 years (If the building is owned and resided for a period more than 10yrs., it does not fall in the definition of Non Business Chargeable Assets and so is not taxable.)	 5% 2.5%
On gain from transaction on commodity future market	10%

Examples

1. **Disposal Of Interest Held In A Resident Entity Listed In Stock Exchange By A Resident Natural Person**

   Suppose Mr. Ram had 500 ordinary shares of Rs 100 par value of Nabil Bank Ltd listed in the stock exchange. He had requested stock broker to sell those shares. Mr. Ram had purchased those shares at Rs 1,000 each and paid broker commission Rs 4,000. Stock broker sold those shares at Rs 7,000 each and received commission of Rs 17,500.

   The capital gain and capital gain tax in the above case will be calculated as per below:

Particulars	**Amount (Rs)**
Incomings (sale of shares)- 500*7000 (A)	3,500,000
Outgoings:	
Cost of shares- 500*1000	500,000
Add: Stock broker's commission Purchase Sales	 4,000 17,500
Total Outgoings (B)	521,500
Gain on sale of shares (A-B)	**2,978,500**
Nepal stock exchange ltd (NEPSE) should deduct 5% tax on the gain on sale of shares amounting Rs 148,925 through the related stock broker and refund the balance amount of Rs 3,333, 575 to Mr. Ram.	
Incomings	3,500,000
Less: commission on sales Capital gain tax	17,500 148,925
Net Payable	3,333,575
But if shares were held by the entity instead of resident natural person, capital gain tax at the rate of 10% should have been deducted.	

2. **Disposal Of Interest Held In A Resident Entity Not Listed In Stock Exchange Received By Other Than Resident Natural Person**

Suppose, Nepal Bank Ltd sold 200,000 no. of shares held in Gramin Bikash Bank Ltd to ABC company ltd @ Rs 114 each. In this situation, advance tax as follows should be computed while making payment to Nepal Bank Ltd:

Particulars	**Amount (Rs)**
Incomings (Sale of shares)-114*200,000	22,800,000
Less: Outgoings- 100*200,000	20,000,000
Capital Gain	2,800,000
Gramin Bikash Bank Ltd should deduct advance tax @ 15% on the gain amounting Rs 420,000.	

3. **Capital Gain Tax On Disposal Of Land And Building Classified As Non Business Chargeable Assets, If The Land And Building Is Owned For Period Less Than 5 Years**

Suppose, Mr. Shyam had purchased a house for Rs forty lakhs on 2068/7/10. He sold the same house on 2070/8/10 for Rs sixty lakhs. Capital gain tax on such house shall be calculated as per below:

Particulars	**Amount (Rs)**
Sales value	6,000,000
Less: Purchase cost	4,000,000
Capital gain	2,000,000
Since the house was owned for less than five years, capital gain tax @ of 5% on such gain amounting Rs 100,000 should be deducted by land registration office. This is the advance tax and Mr. Shyam should adjust this with the total tax liability by submitting the income tax return.	

Note: if the house was owned by Mr. shyam for more than 10 years and stayed in there for continuously or intermittently, then it would not be categorized as a non-business chargeable assets and capital gain tax would not be levied**.**

If the house was owned for more than 5 years and came under the definition of non-business chargeable assets then capital gain tax would have been levied at the rate of 2.5%.

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