

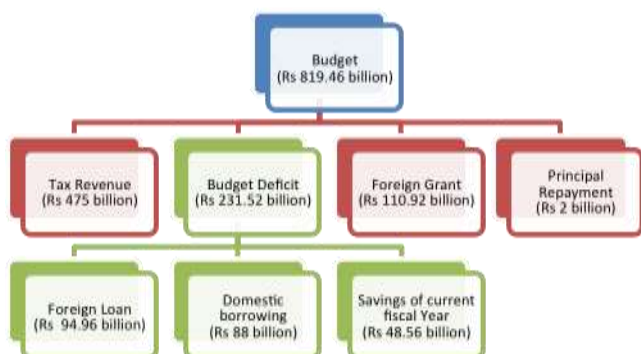
Nepal Budget Statement

Fiscal Year 2015-16

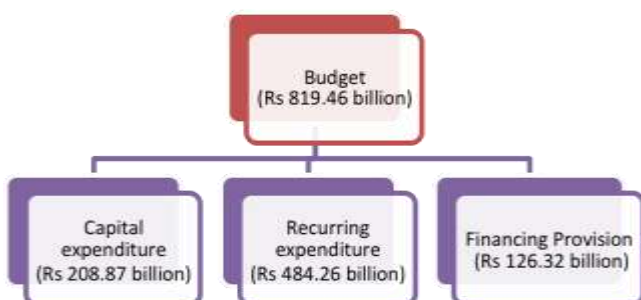
Highlights

On Tuesday, 14 July 2015, Honorable Finance Minister, Mr Ram Sharan Mahat presented the full budget for the fiscal year 2015 – 16.

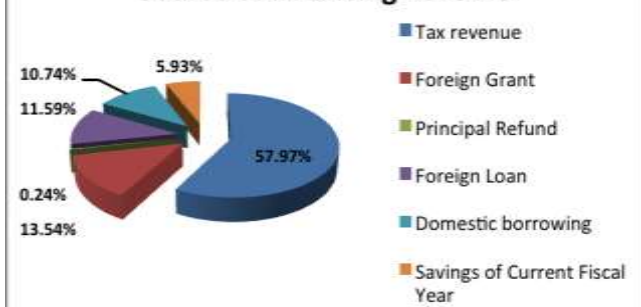
Budget and Source of Financing



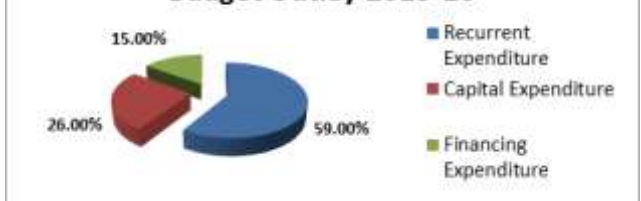
Allocation of Budget



Source of Financing 2015-16



Budget Outlay 2015-16



Economic Challenges

- ❑ To create employment and income generation opportunities for the population that may fall into poverty
- ❑ To stimulate the economy in rapid speed by improving the sluggishness of major economic activities
- ❑ To mobilize the major fraction of public expenditure to productive sector and capital formation
- ❑ To make the supply system just and unproblematic in order to reduce the pressure in price level
- ❑ To increase the absorptive capacity of the Government mechanism and the efficiency of private sector construction entrepreneurs
- ❑ To maintain coordination between inter-organizations and inter-hierarchies
- ❑ To determine the management and operation methods of State Owned Enterprises (SOEs) with weak performance
- ❑ To improve quality of financial sector regulatory authorities
- ❑ To increase the agricultural production and restore the service sector
- ❑ To establish a political system by overcoming the vacuum of local bodies

Objectives of Budget

- ❑ To achieve higher economic growth by revitalizing the economy
- ❑ To concentrate national resources on rehabilitation and reconstruction
- ❑ To improve qualitatively the livelihood of general people and to construct the physical infrastructure as national campaign.
- ❑ To reform governance for effective budget implementation and service delivery together with capacity enhancement of the Government's mechanism
- ❑ To achieve balanced development and reduce poverty by ensuring the social security

Budget Priority

- ❑ The budget for FY 2015-16 has highly prioritized the reconstruction of infrastructure damaged due to earthquake disaster, relief/rehabilitation to earthquake victims along with development of agriculture, tourism and industry sectors that remain the country's mainstay of economic progress.
- ❑ Continuity to ongoing and new high yielding projects and programs in the coming Fiscal Year.

Revenue policy and program for FY 2015 - 16

With a view to mobilize resources for rehabilitation and reconstruction after the devastating earthquake, making active and spontaneous participation of private sector as well as self compliance of tax laws and further stimulate the investment and economic growth, the following revenue mobilization policies have been proposed:

- ❑ Increase the economic activities through making investment friendly environment
- ❑ Restore the economy and business affected by earthquake
- ❑ Promote the voluntary tax compliance
- ❑ Promote export and substitute import
- ❑ Control the illegal trade and prevent the embezzlement of FX
- ❑ Prevent money laundering

Nepal Budget Statement

Fiscal Year 2015-16

Highlights

Following strategies and programs has been proposed:

Tax system reform and broadening of tax base

- ❑ Single Tax Code will be formulated through consolidating the provisions of various laws and regulations related to tax.
- ❑ Recommendations of High Level Tax System Review Commission will be implemented.
- ❑ Revised threshold for the registration of VAT for supply of goods from Rs 2 million to Rs 5 million and levy of transaction-based tax for the taxpayers below this threshold level.
- ❑ Introduction of mandatory requirement to submit income returns for the natural person with yearly income exceeding Rs 4 million.
- ❑ A study to be undertaken for formation of dispute settlement mechanism with permanent nature to manage the tax arrears.
- ❑ Tax collection and compliance cost to be reduced through introduction of collection through electronic means. Likewise, financial crime and tax leakage to be controlled through the development of sectorial indicators of revenue risk.
- ❑ Self-removal system will be implemented in tobacco production.
- ❑ Slight increment in the rate of excise duty in excisable goods including cigarette, beer and alcohol.
- ❑ Necessary arrangement will be made for the declaration of goods, its valuation and custom clearance electronically.
- ❑ Reform in the custom related laws to be introduced in order to make custom control system effective including trade facilitation, harmonization, and coordination.
- ❑ A separate procedure to be developed and implemented for the simplification of custom clearance process in the time of disaster management.
- ❑ Necessary amendment will be made in the laws related to revenue leakage control.
- ❑ National laws related to money laundering prevention will be effectively implemented.

Exemption, concession and promotion of private sector

- ❑ Dividend tax to be exempted in case the special industries and industries related to tourism capitalize their profit from their accumulated profit for the expansion of its capacity.
- ❑ Exemption of income tax, excise, license fee and house rent tax for those taxpayers who are eligible to submit presumptive tax return on the basis of certification of complete loss of business by the District Disaster Relief Committee.
- ❑ Exemption of additional thirty percent income tax for those special and tourism industries providing employment for more than 100 Nepalese citizens.
- ❑ Refund of VAT on purchase for exports to export house and special economic zone.
- ❑ Concession in custom duties for the construction material and the raw material on bricks, zinc sheets, pre-fabricated home and its raw materials required for reconstruction.
- ❑ Customs duty of only 5 percent and exemption on excise and road maintenance fees on import of vehicles having capacity of 40 seat by Cooperatives and the companies registered with the objective of operating public transport service.
- ❑ 50 percent exemption on customs duty on import of oxygen plant inbuilt transport vehicle to transport fishery and fish fries to farmers who own pond of more than 1 hectare for aquaculture.
- ❑ Only 1 percent customs duty on the import of hybrid fruit plants

and animals for improved breeding.

- ❑ Exemption on custom duties on import of tray used for paddy germination and plantation and value added tax to agro, horticulture and floriculture firms on import of irrigation equipment and green houses.
- ❑ Exemption of VAT on premium paid on insurance of crops and cattle.
- ❑ Withdrawal of the existing provision of tax deduction on claim payment against by life insurance company as compensation to family of deceased person.
- ❑ Concession in the import of offset printers in order to increase the effectiveness of mass media.
- ❑ Exemption of social security tax for payments of pension from the government treasury.
- ❑ **Amount deposited in the National Reconstruction Fund established by the government and Prime Minister Disaster Relief Fund to be allowed as deduction while calculating taxable income.**

Revenue Administration Reform

- ❑ Law to be drafted for establishment of the Central Revenue Board and its organizational study will be carried out.
- ❑ In order to prepare the skilled manpower for revenue administration and financial management, Revenue Administration Training Centre to be restructured.
- ❑ Taxpayers to be classified on the basis of turnover and Inland Revenue Offices and Taxpayer Service Offices will be upgraded and expanded on the basis of expansion in economic activities.
- ❑ Customs administration to be developed as a modern, technologically sound and comparable to international standards.
- ❑ The structure of Revenue Investigation Department to be reformed for its smooth functioning and make it more effective on investigation of revenue leakage and evasion.
- ❑ Revenue Management Information System currently being implemented in the Kathmandu valley to be expanded to other districts outside the valley including the Nepalese mission abroad.

Economic Situation

- ❑ Economic indicators of FY 2014-15 are negatively affected due to the earthquake.
- ❑ Economic growth rate is forecasted to be 6 percent in FY 2015/16 as compared to growth rate of 3.04 percent in FY 2014/15.
- ❑ Inflation was 7.4 percent as of Jestha 2072.
- ❑ Trade deficit reached was Rs 612.87 billion in the 11 months period in 2071-72 and Balance of payment surplus was Rs 127.20 billion in the same period.
- ❑ NEPSE index, an indicator of capital market is above 900 even after the earthquake.
- ❑ Revenue to gross domestic product ratio is above 18.0 percent in current Fiscal Year despite the shortfall in revenue collection.
- ❑ Revised total revenue collection of the current Fiscal Year 2014-15 is estimated to be 93 percent or Rs 393.50 billion against the targeted total revenue collection of Rs 422.90 billion.

Nepal Budget Statement

Fiscal Year 2015-16

Highlights

Executive Summary

Waiver on Tax

- All fees and interest shall be waived to doctors, artist, journalist, player, engineer, lawyer, auditor, consultant or service provider, retired, existing or official at public service, professor, teacher, employee provided income tax return and tax on IY 2068/69, 2069/70, 2070/71 submitted within Poush end 2072.
- Exemption of income tax, excise license fee and house rent tax for those taxpayers who are eligible to submit presumptive tax return on the basis of certification of complete loss of business by the District Disaster Relief Committee.
- License fee, delayed fees, penalties and interest shall be waived to the crusher industry which did not renewed license or obtain license due to inability of operation after getting industry registered provided operation started obtaining excise license within Ashoj end 2072.
- 1% of social security tax exempted on pension income.

Corporate Tax

- No changes in the existing tax rate payable by domestic companies for the fiscal year 2015/16. The existing general tax rates are as follows:

Companies	Rate (%)
Banks and financial institutions	30
General Insurance Business	30
Cigarettes, Bidi, Cigar, Chewing Tobacco, Khaini, Liquor, Beer	30
Petroleum companies	30
Special industries	20
Export industries	20
Power generation, transmission, distribution, infrastructure projects etc.	20
Other entities not covered above	25

- Income tax shall be fully exempted for hydropower project beginning commercial production, transmission or distribution within Chaitra 2080 B.S for first 10 years and 50% exemption on applicable tax rate thereafter for next 5 years.**

General Interest rate

This has been maintained at 15%.

Personal Tax

- No changes in threshold of personal taxation for individuals and couples from FY 2014-15.
- Tax for salaried employees drawing remuneration in excess of Rs 25 lakhs continued to be taxed at the rate of 35% of excess amount.
- Life Insurance threshold for deduction against taxable income remain same as Rs 20,000
- Additional deduction against taxable income is allowed in respect of medical insurance premium up to Rs 20,000.

Customs Duty

- Concession in custom duties for the construction material and the raw material on bricks, zinc sheets, pre-fabricated home and its raw materials required for reconstruction.
- Customs duty @ 5 percent only shall be levied and exemption on excise and road maintenance fees to be provided on import of vehicles having capacity of 40 seats by Cooperatives and the companies registered with the objective of operating public transport service.
- 50 percent exemption on customs duty on import of transport vehicle with oxygen plant inbuilt to transport fishery and fish fries to farmers who own pond of more than 1 hectare for aquaculture.
- Exemption on custom duties on import of tray used for paddy germination and plantation and value added tax to agro, horticulture and floriculture firms on import of irrigation equipment and green houses.
- Under section 11 of schedule 2 of custom act, facility of importing raw material, auxiliary raw material and packing material not produced in Nepal on deposit is discontinued for Alcoholic, cigarette and tobacco industries.

Excise Duty

- Self-removal system will be implemented in tobacco production.
- Increment in the rate of excise duty in excisable goods including cigarette, beer and alcohol from 8% to 12%.

Value Added Taxes

- No changes in the existing rate of 13 percent for the fiscal year 2015/16.
- Existing threshold limit for compulsory registration under VAT Act has been changed from annual turnover of Rs 2 million to Rs 5 million over last 12 months.**
- Tax officer may order to cancel VAT registration to those person registered with VAT having annual turnover less than Rs 2 million (at time of commencement of Finance Act 2072/73) if turnover in next 12 months period does not reaches up to Rs 5 million. Above clause shall not be applied to person registered voluntarily and willing to continue and submit application within Ashad End 2073 to remain as VAT registered person.

Tax withholding at source

The major changes made in the Income Tax Act, 2058 by the Finance Bill 2072/73 and other rates continued from previous years are as follows:

Deposit of withholding tax (TDS)

Tax withheld during the month shall be deposited into IRO within 25 days of next Nepali month. If withholder does not deposit the tax within the time limit, the withholders shall have to deposit such withholding tax within 25 days of expiry of time limit.

House rent tax

TDS on house rent is 10%. TDS on vehicle hire payment to vehicle service provider registered in VAT shall be at 1.5%.

Rental TDS by the natural person shall be deposited within Ashadh end.

Rental TDS deducted by person to whom turnover basis taxation is applicable shall deposit TDS on Poush and Ashadh end.

Nepal Budget Statement

Fiscal Year 2015-16

Highlights

❑ Tax exemption on interest income

Tax exemption has been increased for annual interest income of Rs 25,000 from an amount of Rs 10,000 in the amount deposited to the microcredit institutions, rural development banks, postal saving bank, and cooperatives in the rural area.

❑ Tax exemption to special industries

Special industry with capital of Rs 1 billion and providing direct employment to more than 500 persons are granted 100% exemption for first five years from the date of operation of business and 50% concession for next 3 years.

For those Entities in operation, if capital is increased to Rs 1 billion, Installed capacity is increased by 25% and provided employment is more than 500 persons than exemption of 100% concession for 5 years and 50% concession for next 3 years is provided on income generated due to increased capacity.

❑ Tax exemption to tourism and travel industries

Tax exemption of 100% for 5 years from commencement of business and 50% concession for next 3 years if an Industry related to tourism industry or international flight operation is established with capital investment of more than Rs 2 billion.

For those entity in operation, if capital is increased to Rs 2 billion and installed capacity is increased by 25%, exemption of 100% for next 5 years and 50% concession for next 3 years on income generated due to increased capacity.

❑ Tax exemption to hydropower project

In case of Hydropower Project which commercial production, transmission or distribution commenced by **2080 Chaitra end, 100% exempt up to ten years and 50% rebate on subsequent 5 years.

Note: For the person holding license and has already started generation of electricity, provision as mentioned at the time of obtaining license shall be applicable.

❑ Tax on dividend income

Tax at the rate of 5% shall be charged on the dividend paid by the resident entity to resident or non-resident person.

No dividend tax on capitalization of accumulated profit through bonus share by Special Industry, Agro-based industry or industry related with tourism for expansion of capacity of industry

❑ Tax on windfall gain

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

❑ TDS on the insurance premium paid to Resident insurance companies

TDS @ 1.5% is levied on premium paid to non-resident insurance companies.

❑ TDS on contract amount paid to Non-resident person by resident person

- In case of service contract 15% tax (TDS) shall be withheld (general clause attracted)
- In repair of aero plane & other contracts @5%

❑ TDS on capital gains

Capital Gain Tax on the income from the sales of house and land has been maintained as per previous provisions. Likewise, the capital gain tax on the sale and purchase of shares of entities registered with Securities Board has been maintained at 10

percent in the case of entities and 5 percent in the case of individuals. However, disposal of shares by mutual fund does not attract this provision.

❑ TDS on payment to resident entity dealing in VAT exempt transactions

During payment made to resident entities dealing in VAT exempt transactions, TDS at the rate 1.5% only shall be deducted

❑ Tax exemption to special industries

10% percent income tax exemption on income to be earned from information and communication technology industries, which provide direct employment to 300 Nepali throughout the year, is continued.

Special industry, agro-based industry or industry related with tourism sector providing direct employment to 100 Nepalese Citizens shall be taxed at 70% of Normal rate.

❑ Presumptive tax

Presumptive taxation for small taxpayers has been maintained as follows: (Note: Small tax-payer means natural person whose annual turnover is less than Rs 2,000,000 and income not exceeding Rs 200,000 and not registered under VAT.

Particulars	FY 2015/16
Metropolitan, Sub-Metropolitan	Rs 5,000
Municipal Areas	Rs 2,500
Other than municipal areas	Rs 1,500

❑ Presumptive Tax on Vehicle

Amount in Rs '000

Particulars	FY2015/16	FY2014/15
Minibus, Mini Truck, Truck and Bus	3,000	1,500
Car, Jeep, Van, Micro Bus	2,400	1,200
Three Wheeler, Auto Rickshaw, Tempo	1,550	850
Tractor and Power Tiller	1,000	750

❑ Transaction-based Tax

Particulars	Income Tax Rate (%)
a) Natural person doing business of gas and cigarette with 3% commission or margin	0.5% of Transaction
b) Natural person doing business other than mentioned in above A.	1.5% of Transaction
c) Natural person engaged in Service sector Business	2% of Transaction

Note: If income tax calculated is below Rs 5,000 then above person shall pay Rs 5,000 instead of tax at above rate.

Income tax applicable to transaction based taxpayer shall deposit tax in two installments as below:

- First installment within Poush End based on tax calculated on transaction up to 20 Poush.

Nepal Budget Statement

Fiscal Year 2015-16

Highlights

- Second installment within Ashad End on estimated transaction amount at Ashad End based on actual transaction up to Ashad 20.

Criteria for applicability of Transaction based income tax are as follows:

- Taxable income of natural person should be only from business having source in Nepal.
- Medical tax credit under section 51 not claimed as deduction.
- Advance income tax under section 93 not claimed.
- Annual turnover of business shall be above Rs 2 million but not exceeding Rs 5 million.
- Business shall not be VAT registered.
- Income shall not be from professional services like service provided from Doctor, Engineer, Auditor, Lawyer, sports player, actor, consultant

The major changes made in the Income Tax Act, 2058 by the Finance Act in the previous years and continuity given by Finance Bill 2072 are as follows:

❑ Tax Exemption to Industries in SEZ

100 percent tax exemption will be granted to industries established in SEZ of Himalayan and prescribed hilly region for the first 10 years from the date of operation and thereafter 50% rebate will be granted on the applicable tax rates for subsequent years continued. Further, industries established in SEZ of regions other than mentioned above shall be granted 100 percent exemption for the first 10 years from the date of operation and thereafter 50% rebate.

❑ Tax Exemption for Industries in IT Parks

IT industries established in the specified IT Park shall be granted a 50 percent tax rebate on applicable tax rate.

❑ Carry Forward of Losses

Loss from investment or business of any persons during the year in which such income were fully exempted is not allowed to be carried forward and set off against such income of subsequent years. {Section 20(8)}

PERSONAL TAX

The provisions of the Income Tax Act 2058, which came into effect from 19 Chaitra 2058, will be the basis of computation of personal taxes for the fiscal year 2015-16.

❑ Tax rates

The existing tax rates for personal income taxes are as follows:

- Salary, Allowances and Perquisites are taxable certain exceptions are granted).
- Deductions continued for donations paid (up to 5% of Adjusted Taxable Income or Rs 100,000 whichever is lower) and contribution to retirement benefits (actual contribution not exceeding Rs 300,000 or one third of assessable income whichever is lower).
- Tax on income of nonresidents continued at 25 percent.
- The taxable income is taxed as follows:

Tax Rate (%)	Individual	Couple
	Rs	Rs
1	250,000	300,000
15	250,000 to 350,000	300,000 to 400,000
25	350,001 to 2,500,000	400,001 to 2,500,000
25	Above 2,500,000	Above 2,500,000
40	Additional tax on tax computed as per (d) above where taxable income of an individual exceeds Rs 2.5 million	

Major changes in Personal Tax

- Deduction allowed from taxable income for full amount of donation made towards National Reconstruction Fund established by Nepal government and donation to Prime Minister Disaster Relief Fund.
- Natural person having income of Rs 4 million shall file income tax return under section 96.
- 1% of social security tax exempted on pension income.
- Medical insurance premium paid to resident insurance company is allowable as deduction up to Rs 20,000 in addition to previous allowable deduction up to Rs 20,000 against investment/life insurance premium.

❑ Remote Area benefit

Natural person working at remote areas are entitled to get maximum deduction of Rs 50,000 from taxable income has been continued.

❑ Individual having Income from export

In case of resident person having income from export, tax rate of 15% is applicable for income slab subjected to 25%.

❑ Rebate to Individual Women

10 percent tax rebate in income tax from remunerations to the women being resident natural person having no other income except Income from Employment is continued. This exemption is only provided to individual women who have not opted as couple during income year.

❑ Charging of fines and penalties

If tax-exempt entities are unable to submit their financials details within the stipulated time limit, fine of 0.1% per annum on income shall be levied.

❑ Taxable Income of Person employed in Nepalese Diplomatic Mission

There has been no changes in the existing provision of an amount equal to 75% of the amount earned as foreign allowance by an employee working in Nepalese Diplomatic Missions stated in foreign country shall be deducted and tax shall be calculated on the balance amount.

❑ Exemption to handicapped and Pension Holder

Income tax exemption limit for the blind and handicapped people continues to be 50 percent in addition to the normal exemption limit. Income tax exemption limit for pension holder continues to be 25 percent in addition to normal exemption limit.

1% of social security tax is exempted on pension income.

Nepal Budget Statement

Fiscal Year 2015-16

Highlights

OTHER TAX PROVISIONS

The provisions of other applicable taxes are as follows:

Depreciation

Provision for production industry purchasing energy generating capital as set for its industrial requirement can claim depreciation at the rate of 50% in the first year is maintained.

Provision for any person purchasing printer and cash machine for the purpose of printing and issuing invoices can claim depreciation at the rate of 100% in the same year is maintained. (Annexure 2 section 3 (4)).

Custom Service Charge

Custom service fee levied on export of goods per custom declaration form have been maintained at Rs 100 and Rs 500 for import.

Agriculture Reform Fees

Agriculture reform fee has been maintained at 5% of import value for items mentioned clause 16 of Annex1. However, this fee will not be levied in cases where customs duty is applicable on import of such products including exemption-Ostrich.

Health Service Fees

Health services provided by private institutions attract health service fee of 5 percent on the invoice value of the services provided. The collected amount and details of so should be deposited in IRD within completion of 25 days of the trimester (four monthly) period. Health service providers can register in VAT voluntarily and collect VAT instead of health service fees. On getting registered under VAT Act, 2052, only VAT, for 5 years, should be collected. Evasion of Health Service Tax by health service provider would lead to demand of tax as determined by tax officer including 25% penalty on tax.

Vehicle Tax

The vehicle tax rates are as per the details provided in the schedule 3 of Finance Act 2015. An arrangement to exempt the vehicle tax and road construction and maintenance fee on the scooters up to 150CC designed for disabled persons have been maintained. Likewise, a provision of 50 percent exemption in the road construction and maintenance fee being imposed on electric, solar and battery vehicles has been maintained.

Major changes relating to Vehicle tax are summarized below:

- Deduction of Rs 50,000 or 4 years vehicle tax whichever is lower in case of transferring used old truck (older than 10 years) into closed container truck to be operated in Nepal.
- Increment of vehicle tax amount on car/Jeep/Van/Micro bus from Rs 30,000 to Rs 35,000 in case of 2501 cc to 2900 cc and from Rs 48,000 to Rs 50,000 in case of above 2900 cc
- Increment of vehicle tax amount on motorcycle from Rs 6,000 to Rs 10,000 in case of above 400 cc

Road Construction and rehabilitation duty

The duty will be collected as follows:

Types of Vehicles	Duty
Car, Jeep, Van, Microbus, truck, tipper, truck mixture, minibus, mini truck and mini tipper	5% of the value inclusive of all other taxes and duties

Motor cycle per piece:

▪ Up to 125 cc	▪ 7,000
▪ 126 cc to 250 cc	▪ 8,000
▪ 251 cc to 400 cc	▪ 10,000
▪ 400cc and above	▪ 15,000

Not applicable to ambulances, fire brigade, vehicles carrying dead bodies (hearse), diplomatic missions and individuals having diplomatic immunity.

Above duty would not be applicable for cooperative societies and companies importing more than 5 buses having 40 or more seat capacity for use in public transportation business.

Road Maintenance and Improvement duty

Road maintenance and improvement duty is levied on petrol Rs 4 (PY Rs 4) per liter and in diesel Rs 2 (PY Rs 2) per liter at the custom point.

Registration Fees, Service duty

In financial year 2072/73, registration fee and service fee and property lien fee shall be levied according to annexure-4 of Finance Bill 2072.

Film Development Fees

15% fees on the entrance fees on all classes for screening foreign films. 20% fees on the entrance fees for operation of cabin on screening foreign films have been maintained.

Pollution Control Fees

To be collected by NOC at the rate of Rs 0.50 per liter of petrol and diesel sold within Nepal and deposited within 25 of next month, continued from previous years.

Telephone Ownership Fees

No changes with that of previous year. Telephone ownership fees will be collected at the rate of Rs1,000. This fee will be collected at the time of transfer of ownership also. The fees levied on prepaid sim card and recharge card will be 2 percent of the cost of the sim card and recharge card. Collected telephone ownership fees shall be deposited within 25 of next month.

Telecommunications Service Charge

The Telephone service charge has been changed from 10% to 11% from previous year. No such charge is applicable for ISP, pager providers and on interconnection charges except for VOIP operators.

Casino Royalty

- The royalty payable by casinos is Rs 30 million per annum. Casino can be operated only at one place after obtaining a license.
- Nonetheless, Rs 20 million will be charged instead of Rs 30 million if the game is played through modern machine and equipment only. Casino with modern machine and equipment can be operated at maximum of 4 places on obtaining a license.
- Royalty amount has to be paid within 2 months from the commencement of fiscal year to Sanskriti, Paryatan Tatha Udyaan Mantralaya.
- Individual, entity who have formally closed their Casino by giving written application to the concerned department till Ashoj 2070, who are required to pay their royalty annually can pay 25% of the royalty due, interest penalty on royalty due and 50% of additional penalty on royalty by the end of Poush 2072, shall get remission of balance royalty, penalty and additional penalty.

Nepal Budget Statement

Fiscal Year 2015-16

Highlights

- Casinos which are officially closed from Baisakh 2071 on the notice of Sanskriti, Paryatan tatha Nagarik Udyayan Mantralaya can pay 75% of the royalty due, interest penalty on royalty due and 50% of additional penalty by the end of Poush 2072, shall get remission of balance royalty, penalty and additional penalty.

❑ Special Provision regarding License to Crusher Industry

License fee, delayed fees, penalties and interest shall be waived to the crusher industry which did not renew license or obtain license due to inability of operation after getting industry registered provided operation started obtaining excise license within Ashoj end 2072.

❑ VAT Refund provision for Small Hydropower Project

- Small hydropower which are built and operated by community based user group as non-profit organization (Including project implementation by contract), who were to get zero tax rate benefit, but who didn't claim zero VAT benefit, rather they have paid VAT. After getting endorsement from IRD, such tax shall be refunded in prescribed manner.
- Notwithstanding anything written in VAT Act regarding provision for VAT Refund, refund shall be given if such claim comes by Poush 2072 in prescribed manner as said above.

❑ Windfall Gain Tax

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

❑ Forest Product Fee

The amount to be deposited in the government treasury as forest product fee out of the receipt from sale of timbers of Sal and Khayar disposed as per work plan prescribed in the regulation and sold beyond consumer group for commercial purpose from community forest has been maintained at 15 percent.

❑ Tax exemption on mergers of FIs and Insurance

In order to encourage the merger of banks, finance and insurance companies, changes in the provision of taxing assets and liabilities as disposal after merger has been continued in this ordinance to make it non-taxable.

Payment to employees under mass retirement scheme (except regular retirement payment or payment under employment terms) after such merger (as per Section 47A) will obtain 50% concession on with holding rate of regular retirement payment.

❑ Mutual Fund

Return made to the natural person by the Mutual fund is subjected to final TDS@ 5%.

❑ Income tax return by tax exempted entities

Tax exempt entities are required to submit their financials within the stated time limits, otherwise, fine of 0.1 %/annum from income shall be levied.

❑ Arrangement of reward and expenses to informer

- The reward shall be proportioned among informers if more than one informers.
- Expenses for information retrieval by informer up to Rs 10,000 shall be granted to the informer on the basis of the

authenticity of the information provided on revenue leakage.

- Identity of the informer shall be kept secret.
- Disposal of shares by Mutual fund does not attract the provision of capital gain tax.
- Interest and dividend provided to the Mutual fund is exempted from tax.

VALUE ADDED TAXES

The Finance Act can only make changes to the provisions of the VAT Act 2052; no other Acts can supersede the provisions of VAT Act 2052.

❑ VAT deposit refund for re-exports

In cases relating to re-exports, the provision of refund of deposit paid during import will be made directly from the custom point.

❑ Tax Rate

There are no changes in the existing rate of 13% and 0%.

❑ Threshold

Existing threshold limit for compulsory registration under VAT Act has been changed from annual turnover of Rs 2,000,000 to Rs 5,000,000 that is a turnover of Rs 5,000,000 over last 12 months must be registered for goods and Rs 1,000,000 for services.

Provided that Persons dealing with manufacturing of brick, alcohol distributor, wine shop, software, trekking, rafting, ultralight flight, paragliding, tourist transportation, crusher, slate and stone business must register under VAT within 30 days from the date of transaction.

Persons dealing in hardware, sanitary, furniture & fixture, furnishing, automobiles, motor parts electronics & marble, color lab educational consultancy, discotheque, health club, catering service, party palace business, parking facility business, boutique, tailoring business along with suiting and shirting, educational institution, health institution and ice-cream related business within Metropolitan City, Sub-metropolitan City or Municipality areas must register under VAT within 30 days from the date of transaction.

❑ Temporary Registration of Joint Venture Entity

Any two or more entities operating as Joint venture for certain period shall register with VAT temporarily up to project agreement period.

❑ Import of raw material on Bank Guarantee facility

Industry exporting more than 40% (previously 60%) of its finished goods shall be entitled to import of raw material required for finished goods on bank guarantee facility.

Provided that 10% value addition should be made during export of such goods.

❑ VAT on Apartment or Shopping Complex

VAT is to be collected from the owner of the building of the apartment or shopping complex exceeding Rs 5 million and constructed for business purpose, even though it has been constructed from the unregistered person.

Nepal Budget Statement

Fiscal Year 2015-16

Highlights

❑ Refund of claim

Industry exporting more than 40% of its total production shall be entitled to refund of VAT credit amount subject to application for refund.

The claim of refund has to be made within 3 years from the end of tax period otherwise will not be entertained.

❑ Refund of VAT

Provision relating to refund of 60% of VAT paid on import of raw material or finished goods for cellular mobile by the local manufacturer and importer is maintained.

❑ Advance Ruling

Provision of issuing advance ruling to avoid ambiguity in VAT is continued.

❑ Filing of VAT return

VAT return filing is to be made monthly, bi-monthly, trimester and quarterly basis according to the nature of the business.

❑ Refund of VAT to diplomats

Refund of VAT paid by the diplomats on the purchases of goods or services less than Rs 5,000 is not made.

❑ Refund of VAT to tourist

Arrangement is made for refund of VAT paid by foreigners on the purchases exceeding Rs 25,000 made in Nepal at the time of the departure. However, 3 percent of amount refundable shall be collected as service fee.

❑ VAT Refund on Damaged Goods

VAT Refund can be claimed on goods damaged by fire, theft, accident, wear and tear as prescribed.

❑ Purchase of Under Valued Goods

The IRD may purchase goods at the undervalued rate if it considers that the goods have been undervalued.

❑ VAT Refund on Purchase of Capital Goods under Loan or Mortgage

VAT refund can be claimed on the capital goods purchased under hire purchase loan or mortgaged in the name of financial institutions.

❑ Major changes in Schedule 1 of VAT Act

Following are major items included in Schedule 1 of VAT Act by Finance Act 2072:

- Soyabadi Maseora
- Green house imported by agriculture, forestry and floriculture firm.
- Tray used for germinating seeds.
- Medical and surgical machinery/equipments/tools imported by government, government granted and public hospitals.

❑ VAT Square off

- 70% VAT refund (previously 50%) shall be given as per prescribed policy of IRD on **VAT collected** by selling locally produced fiber by local cloth manufacturer.
- 100% VAT refund shall be given as per prescribed policy of IRD on **net VAT payable** to 100% cotton cloth local manufacturer.
- 50 % VAT refund (previously 60%) shall be given as per prescribed policy of IRD on **VAT paid** on purchase of raw material for manufacture of cellular mobile phone set by local manufacturer or import of finished goods (cellular

mobile phone set) by local importers provided that sale shall be made to VAT registered party.

- 90 % VAT refund (previously 70%) shall be given as per prescribed policy of IRD on **VAT collected** from selling product by locally sugar manufacturer to VAT registered party.

❑ Penalty relating to VAT

- **In case of physical quantity of stock found more than as per stock register during inspection, excess stock will be valued at fair market value and treated as income 50% penalty shall be levied on such excess amount.**
- In case of nonpayment of interest and any other amount which is to be submitted as per VAT act 2052 within the specified time period, interest is imposed on the remaining amount to be paid from the date of expiry of time period. Such interest is also to be considered for the application submitted for the purpose of administrative review as per section 31(ka) and appeal to revenue tribunal as per section 32.
- If tax plate is not put in a proper place or the place specified as per this act, penalty is Rs 2,000 each time.
- Penalty of Rs 20,000 at a time is imposed if updated records of business are not kept as per section 16 and obstruction on review of such records.
- Penalty of Rs 500,000 if taxpayer having permission or not to use computer billing software uses software to edit or delete the data.

❑ Public circular

To bring uniformity in the application of the act and to provide direction to the officers of the department, the tax department may issue written public notice explaining the matters relating to the act in Website of IRD or national newspaper. The department shall penalize in accordance with the public circular issued until and unless the related public circular has been cancelled.

❑ Prizes and inspection expenses

If the number of person entitled to prizes is more than one, then amount of prize is to be distributed proportionately.

In case of leakage of tax, the person providing the information about the leakage of tax should be awarded with a cash prize of Rs 10,000 as prescribed on the basis of the truthfulness of the information.

CUSTOMS DUTY

The customs duty for import of goods and materials into Nepal will be levied in accordance with the rates provided in Annexure 1 of the Finance Act 2072/73.

Provisions being changed in current Ordinance are mentioned below:

- ❑ Concession in custom duties for the construction material and the raw material on bricks, zinc sheets, pre-fabricated home and its raw materials required for reconstruction.
- ❑ Customs duty of only 5 percent and exemption on excise and road maintenance fees on import of vehicles having capacity of 40 seat by Cooperatives and the companies registered with the objective of operating public transport service.
- ❑ 50 percent exemption on customs duty on import of oxygen plant inbuilt transport vehicle to transport fishery and fish fries to farmers who own pond of more than 1 hectare for aquaculture.

Nepal Budget Statement

Fiscal Year 2015-16

Highlights

- Exemption on custom duties on import of tray used for paddy germination and plantation and value added tax to agro, horticulture and floriculture firms on import of irrigation equipment and green houses.
- Under section 11 of schedule 2 of custom act, facility of importing raw material, auxiliary raw material and packing material not produced in Nepal on deposit is discontinued for Alcoholic, cigarette and tobacco industries.
- Additional Items as specified in Schedule-1

Harmonic Code	Item	Current Rate
4911.99.10	Printed letters from Computer Software	5%
4911.99.20	Printed Recharge Cards	20%
8471.50.10	Computer and Network Server	Free
8523.80.10	Software	Free
8703.90.11	Three wheelers operated through electrics for transport of person other than mentioned in heading 87.02	30%

- Changes in Various custom rates are as follows:

Harmonic code	Items	Previous rate (Rs)	Current rate(Rs)
2208.20.90 2208.30.90 2208.40.90	Others under (undenatured ethyl alcohol having strength less than 80% vol; spirits, liqueurs and other spirituous beverages)	1000/ltr	1200/ltr
4401.10.00 4401.21.00 4401.22.00 4401.31.00	Fuel wood, in logs, in billets, in twigs, in faggots; wood in chips or particles, sawdust and wood waste	15%	5%
8546.90.00	Others under electrical insulator	15%	30%
9406.00.00	Prefabricated Buildings	15%	30%
9007.20.00	Projectors	5%	10%
7210.41.00	Corrugated	30%	15%

- Items Added in 1 percent Custom Duty Charge are as follows:

- Machinery and spare parts relating to Aircraft like A.P.U, Propeller, Blade, Hub, Acuter, Rotor, Landing gear, Wheel and break, wind shield, piston tube, full control unit, bing, steering selector valve, vibration isolator and other spare parts as per heading 88.03.
- On the import of hybrid fruit plants and animals for improved breeding.
- Tray used for germination of seeds.
- Liquid Nitrogen and container used for storing liquid nitrogen used in agricultural industries.

EXCISE DUTY

- Excise duty paid for secondary raw material and packing material is not allowable for deduction.
- Increment in the rate of excise duty in excisable goods including cigarette, beer and alcohol from 8% to 12%.
- Self-removal system implemented in tobacco production.
- Excise duty paid is allowable for deduction on import or local purchase of raw materials used in production of excisable finished goods which are exported. In case of excise duty deductible amount is more than excise payable on sale then taxpayer can apply for refund of excess amount.
Provided that value addition shall be done at least 15% on sale of tobacco, panmasala and alcoholic products to avail above provision of deduction.
- Business other than hotel and restaurant selling alcoholic and tobacco products in Metropolitan, Sub-Metropolitan, Municipal areas and other highway areas as prescribed by department are not allowed to sell any other products.
Provided that departmental store selling various products can sell alcoholic products if alcoholic products are arranged and sold separate depot/ room.
- Major changes in Excise duty rates are as follows:

Items	Previous rate (Rs)	Current rate(Rs)
Imported Sakhar, Gund, Veli and Gudgatta	80/qtl	90/qtl
Sugarcane Juice and Molasses	45/qtl	50/qtl
Orange Juice	3.50/ltr	4.50/ltr
Grapefruit including Pomelo Juice	3.50/ltr	4.50/ltr
Pineapple Juice	3.50/ltr	4.50/ltr
Apple, grape and other Juice	3.50/ltr	4.50/ltr
Tobacco free Guthka	325/kg	375/kg
Tobacco free nuts	120/kg	138/kg
Beer made from Barley	92/ltr	98/ltr
Imported Sparkling Wine (up to 17% alcohol)	230/ltr	250/ltr
(Above 17% alcohol)	260/ltr	290/ltr

Penalty relating to Excise duty:

In case of claim of excise duty by non compliance of subsection 3 of section 3ka, penalty of 100% is chargeable.

In case of non-compliance of subsection 2 of section 4gha, penalty of Rs 10,000 in first instance and Rs 20,000 for instances thereafter is chargeable.

Contact for Further Consultation

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