

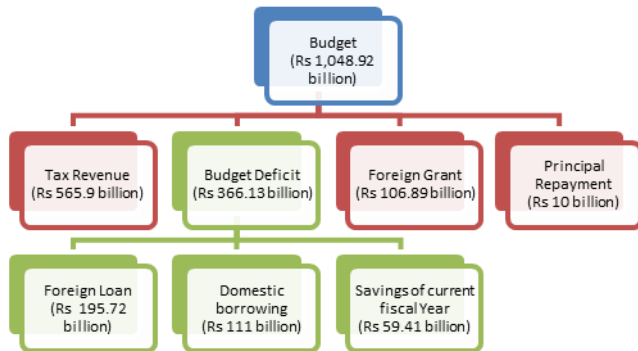
Nepal Budget Statement

Fiscal Year 2073/74 (2016/17)

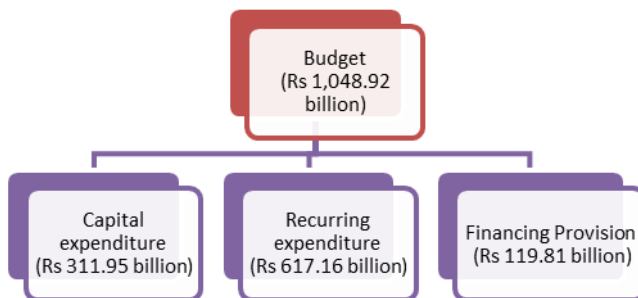
Highlights

On Saturday, 15 Jestha 2073, Honorable Finance Minister, Mr Bishnu Prasad Paudel presented the full budget for the fiscal year 2073/74.

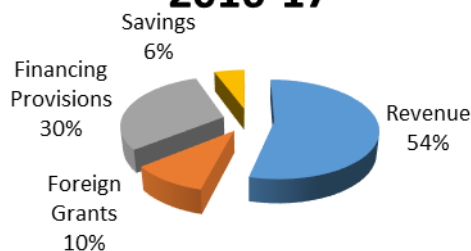
Budget and Source of Financing



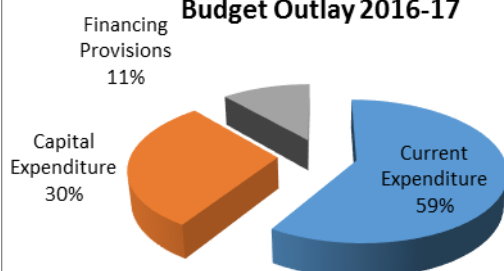
Allocation of Budget



Sources of Financing 2016-17



Budget Outlay 2016-17



Objectives of Budget

- ❑ To implement the Constitution.
- ❑ To revive the economy affected by earthquake and disruptions to supply systems.
- ❑ To attain economic growth through increase of productivity and production.
- ❑ To encourage domestic and foreign investment.
- ❑ To extend economic activities, increase income and employment and reduce poverty.
- ❑ To create opportunities, increase capabilities and carry out social security.
- ❑ To make available social services to all Nepalese citizens.

Budget Priority

- ❑ The budget for FY 2073/74 has highly prioritized the reconstruction, rehabilitation and new construction in the aftermaths of earthquake.
- ❑ Hydroelectricity production, extension of transmission line and distribution; Road, airport and irrigation; Agriculture, industry, tourism and forest; Urban and local infrastructure; Education, health, drinking water and sanitation; Social security.
- ❑ Service delivery, control on corruption and improvement in governance.

Revenue policy and program for FY 2073/74

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:

- ❑ Set the foundation for economic prosperity through investment friendly tax system.
- ❑ Policy of financial motivation to revive the business affected by earthquake and supply disruption.
- ❑ Promote export and substitute import.
- ❑ Promote the voluntary tax compliance.
- ❑ Increase the contribution of non-tax revenue under revenue mobilization.
- ❑ Focus on conservation of tax base and financial transparency to strengthen federal finance.

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.
- ❑ Federal Finance Management Ordinance and State and Local Level Model Tax Act to be presented to parliament for the implementation of federalism.
- ❑ Taxpayers to be classified under good, general and risky class
- ❑ E-commerce to be brought under tax net.
- ❑ Information bank to be created in respect of tax payer earning in excess of Rs 4 million.
- ❑ Small and medium tax payers earning annual income of up to Rs 10 million not required to get audited and such tax payer can self-attest their tax return.
- ❑ Initiation of import and export identification number system.

Nepal Budget Statement

Fiscal Year 2073/74 (2016/17)

Highlights

- Tripartite agreement between manufacturer, authorized seller of manufacturer and authorized buyer shall be considered for custom valuation in respect of import of vehicles.
- Technology based track and trace system to be implemented in respect of excise sticker put on alcoholic and tobacco products.

Revenue Administration Reform

- Unified information technology to be developed such that revenue related information are interlinked.
- Infrastructure to be developed so that tax payment can be made through electronic medium by 2075 BS. From coming year, arrangement shall be made so that income tax, VAT and excise duty can be paid by electronic medium.
- Infrastructure for Nepal National One Door System to be developed and implemented by 2077 BS so as to facilitate international trade by coordinating the activities of all government entities involved in import and export.
- While disbursing loans from banks and financial institutions, financial statements and tax payment amount should be considered.
- Central Revenue Board to be formed for the improvement of revenue administration.

Economic Situation

- Economic growth rate is forecasted to be 0.8 percent in FY 2072/73.
- Inflation was 10 percent as of Jestha 2073.
- Balance of payment surplus was Rs 163.81 billion as of Chaitra 2073.
- Revised total revenue collection of the current Fiscal Year 2072/73 is estimated to be 96.8 percent or Rs 460 billion against the targeted total revenue collection of Rs 475 billion.

Executive Summary

Waiver introduced by Finance Act 2073

- Waiver of fine, interest and penalty has been provided if tax payment and their return is made within 2073 Asoj in connection to following defaults resulting caused by uneasy situation arising from disruption of supply:
 - Default in income tax return filing & tax payment for FY 2071/72;
 - Default in estimated tax return filing & first installment payment for FY 2072/73;
 - Default in tax payment and return filing from 2072 Shrawan to 2072 Falgun for TDS, VAT, Excise Duty, Health Tax, Education Tax, Chalchitra tax.
- The tax on the income of Saving and credit co-operatives that were formed in FY 2071/72 and operating in municipality have been waived for that fiscal year only. If taxes have already been paid, it can be set off with tax payable for FY 2072/73.
- Small and medium tax payer, having annual turnover not exceeding Rs 10 Million, are waived from audit and they can self-attest their Income tax return.
- In case of import examined by Custom from the period 2072 Bhadra to 2072 Falgun but not cleared timely, the demurrage, detention charge and parking expense paid in foreign land shall

be excluded in custom valuation and such costs shall be allowed as deductible expense in tax calculation of FY 2072/73 on basis of evidence of incurred expense.

Corporate Tax

- No changes in the existing tax rate payable by domestic companies for the fiscal year 2073/74. 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

*Special industry shall also include agro, forestry and mining industries as well as per the new Finance Act.

Customs Duty

- Only 1% custom duty shall be levied on import of equipment and machinery needed for agriculture, irrigation and animal husbandry.
- Only 1% custom duty shall be levied on import of vehicles used in transportation of meat and on import of tanker used in transportation of milk. 2/3rd of custom duty applicable on LP gas bullet shall be exempted.
- Only 1% custom duty to be levied on import of large electrical vehicles that are to be used in public transportation. Likewise in case of import of electric vehicles for private purpose, only 10% custom duty shall be levied.
- Only 1% custom duty shall be levied on import of machinery by industry involved in re-processing of old batteries.
- Only 1% custom duty shall be levied on import of equipment essential for diagnosis and treatment of cancer, heart and kidney by laboratories and health institutions approved by Nepal Government.

Excise Duty

- Excise duty fully exempted on import of electric vehicles whether for public or private use.
- Excise duty sticker currently put only on cartoon shall have to be put on each bottle in case of beer.

Value Added Taxes

- VAT exempted on insurance premium for birds, fish, fruits and bee keeping business.
- Press and electronic publication houses can submit VAT returns on trimester basis.
- Revised threshold for the registration of VAT for supply of services or mix of goods and service from Rs 1 million to Rs 2 million.

Nepal Budget Statement

Fiscal Year 2073/74 (2016/17)

Highlights

- Waiver of fine, interest and penalties on default of filing return and their payments if it is made within 2073 Asoj end in respect of period 2072 Shrawan to 2072 Falgun where default has been caused by uneasy situation arising from disruption of supply.
- Selling price of goods should be displayed inclusive of VAT at exhibition place of industrial enterprises, shops, hotel and restaurant and other places of sale.
- Departmental stores and all tax payer under business structure shall compulsorily issue invoices by electronic means.
- VAT shall be exempted on import of equipment essential for diagnosis and treatment of cancer, heart and kidney by laboratories and health institutions approved by Nepal Government.

Income Tax Act

Transaction-based Tax

Particulars	Income Tax Rate (%)
a) Natural person doing business of gas and cigarette with 3% commission or margin	0.25% of Transaction (Previous Year 0.50%)
b) Natural person doing business other than mentioned in above A.	0.75% of Transaction (Previous Year 1.5%)
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.

Personal Tax Rates

The taxable income is taxed as follows:

Tax Rate (%)	Individual	Couple
	Rs	Rs
1	350,000	400,000
15	350,000 to 450,000	400,000 to 500,000
25	450,001 to 2,500,000	500,001 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	

- TDS at the rate of 10% shall be made on payment of use of satellite, bandwidth, optical fiber, telecommunication equipment or electricity transmission
- In case of manufacturing industry, tourism service industry and hydropower generation, distribution and transmission industry listed in capital market and entities mentioned in Section 11(3Ga), 85% (previously 90%) of the applicable tax rate shall be charged on income.
- Under Section 11Kha relating to exemption from Income Source Declaration, the definition of productive industries has been updated to exclude industries relating to bidi, cosmetic, chewing tobacco, khaini, guthkaa, paan masala as well. Previously only

cigarette, alcohol and beer were excluded.

- In case of dividend paid by resident company or partnership firm, TDS shall be withheld as final tax at the rate of 5%.
- Section 95Ka (3): Shareholder register shall be updated by Company Registrar Office only after submission of evidence for advance tax paid on gain on disposal of shares.
- Section 119Ka has prescribed the charges of Rs 5,000 to Rs 25,000 to person non-complying with provisions of Income Tax Act and Rules unless otherwise specified. Previously, on such non-compliance charges at the rates as per Section 128 was applicable.

OTHER TAX PROVISIONS

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	7% of the value inclusive of all other taxes and duties	
Motor cycle per piece:	FY 2073/74	FY 2072/73
Up to 125 cc	Rs 10,000	Rs 7,000
126 cc to 250 cc	Rs 12,000	Rs 8,000
251 cc to 400 cc	Rs 15,000	Rs 10,000
400cc and above	Rs 20,000	Rs 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.

Infrastructure Tax

Infrastructure tax of Rs 5 per litre is levied on petrol, diesel and airplane fuel at the custom point from FY 2073/74.

Casino Royalty

- Rs 7.5 million (previously Rs 20 million) will be charged instead if the game is played by casinos through modern machine and equipment. The number of places at which Casino can be operated under this license has been reduced to 1 place from 4 places previously.

Contact for Further Consultation

T R Upadhy & Co.
Chartered Accountants

124 Lal Colony Marg,
Lal Durbar
Kathmandu, Nepal

Phone: +977 1 4410927
Fax: +977 1 4413307
www.trunco.com.np

Shashi Satyal
Managing Partner
+977 9851027150
ssatyal@trunco.com.np

Sanjeev Mishra
Partner
+977 9851039880
smishra@runco.com.np