

Income Tax Rates 2077-78 (2020-21)

Introduction

Finance Act 2077-78 (2020-21) (“Finance Act”) was passed by the Parliament and received Presidential assent on June 29, 2020. Finance Act came into effect from the beginning of fiscal year 2077-78 (2020-21) i.e., *Shrawan* 1, 2076 (July 16, 2020). A Finance Bill is introduced by the GON annually at the Parliament and encompasses all amendments required in various tax legislations.

With respect to income tax, the Income Tax Act 2058 (2002) (“ITA”) forms the framework law. This Briefing highlights major aspects of ITA as amended by Finance Act.

Major Highlights

- Tax relief for COVID-19 affected person: Finance Act which came in the backdrop of the coronavirus (“COVID-19”) pandemic and resultant economic slowdown, has proposed several income tax reliefs to the affected persons, namely:
 - 20 percent exemption in income tax for hotels, transportation and trekking businesses with an annual turnover of more than NPR 10 million
 - 75 percent exemption in income tax for resident individuals with income not exceeding NPR 100,000 or business turnover not exceeding NPR 2 million
 - 50 percent exemption in income tax with annual turnover exceeding NPR 2 million but not more than NPR 5 million
 - 25 percent exemption in income tax with annual turnover exceeding NPR 5 million but not more than NPR 10 million
- Tax amnesty to regularize tax compliances: Tax amnesty scheme purposed under the Finance Act states that a taxpayer shall get a complete

waiver of applicable fees, penalties and charges in the event such taxpayer withdraws an appeal filed prior to *Ashad* 2075 (July 16, 2018) at the Inland Revenue Department (“Department”), the Revenue Tribunal or in courts and pays disputed tax amount along with the interest by *Falgun*, 2077 (March 13, 2021). However, this scheme shall not be applicable in cases of fake invoice.

Tax payer who have not paid their tax by registering the Permanent Account Number (“PAN”), register PAN and submits all applicable taxes for fiscal year 2074-75 (2018-19) and 2075-76 (2019-20), then interest or penalty to be paid for such fiscal year including earlier tax, charges and penalty shall be waived. Further, in case PAN registered tax payer who had failed to pay applicable tax, submits tax for fiscal year 2073-74 (2017-18), 2074-75 and 2075-76 by the end of *Falgun*, 2077 along with interest of 25 percent, then any additional charges, fees and penalty for these fiscal years along with taxes, penalty and charges of earlier years shall be waived.

- Tax rate remains unchanged: Finance Act has made no changes to the existing tax slab and applicable tax rate on personal and commercial income.
- Deduction on contribution to COVID-19 fund: Contribution made to the COVID-19 fund established by the federal, province or local government shall be construed as deductible expense during the computation of income tax.

The following tables provide rates of income taxes, withholding taxes, advance taxes, and details of tax exemptions and tax concessions.

1. Personal Income Tax

Schedule 1(1) of ITA as amended by the Finance Act prescribes progressive income tax rates which are applied on the income falling within each tax bracket:

Unmarried Individual		
Annual Income (NPR)	Tax Rate	Tax Amount (NPR)
1 to 400,000	1%	4,000
400,001 to 500,000	4,000 plus 10% of amount exceeding 400,000	14,000
500,001 to 700,000	14,000 plus 20% on amount exceeding 500,000	54,000
700,001 to 2,000,000	54,000 plus 30% on amount exceeding 700,000	444,000
2,000,001 and above	444,000 plus additional 20% to the rate charged under 4th tax bracket	†

Married Couples (who choose to be assessed jointly):		
Annual Income (NPR)	Tax Rate	Tax Amount (NPR)
1 to 450,000	1%	4,500
450,001 to 550,000	4,500 plus 10% of amount exceeding 400,000	14,500
550,001 to 750,000	14,500 plus 20% on amount exceeding 500,000	54,500
750,001 to 2,000,000	54,500 plus 30% on amount exceeding 700,000	429,500
2,000,001 and above	429,500 plus Additional 20% to the rate charged under 4th tax bracket	†

Notes:

“†”: Tax rates for Income bracket ‘2,000,001 and above’ is applied differently in practice.

Example: If annual income of an unmarried individual is 2,500,000, tax amount up to 2,000,000 is 444,000. Additional income of 500,000 is first taxed at 30% = 150,000. Thereafter, additional 20% is applied to 150,000 = 30,000. Hence, the total tax on the additional 500,000 is (150,000 + 30,000) = 180,000 (36 percent in actual basis).

- Income tax on salary shall be collected as withholding taxes under Section 87 of the ITA.
- Income tax levied in the 1st tax bracket shall be deposited in the Social Security Fund.

2. Corporate Income Tax

Schedule 1(2) of ITA as amended by the Finance Act prescribes following rates of tax on income of corporate bodies:

Businesses/ Entities	Tax Rate
Corporations in general	25%
Special Industries - All manufacturing (except liquor and tobacco related); Agro-forestry; Mining industries	20%
Construction Related Industries - Bridges; Tunnels; Rope-ways; Railways; Flyover bridges; Road	
Operation of public infrastructures	
Power plants and generation and transmission of electricity	
Operators of trolley bus and tram	
Cooperative Societies engaged in taxable activities	
Banking and financial institutions	
Insurance companies	
Telecommunication and internet services	
Money Transfer	
Securities business, merchant banking, commodity future market, securities and commodities broker business.	
Tobacco and tobacco products	
Petroleum	
Water travel, air transport or telecommunication services by a non-resident person where services extend beyond the border of Nepal	5%
Water travel, air transport or telecommunication services by a non-resident person where services do not extend beyond the border of Nepal	2%
Repatriation of income by a foreign permanent establishment of a non-resident person	5%

3. Withholding Taxes

Chapter 17 of ITA as amended by the Finance Act prescribes withholding taxes on various types of income in the following manner:

Income	Tax Rate
Interest, natural resource, royalty, service fee, commission, sales bonus, retirement fund unless specified in other provisions	15%
Retirements benefits receivable from the Government of Nepal or government approved contribution based retirement fund	5%
Commission to non-resident person by a resident employer company	5%
Payment against Aircraft lease	10%
Service fee made to a VAT registered entity or VAT exempt entity	1.5%
Rent with source in Nepal	10%
Rent for vehicle to a VAT registered service provider	1.5%
Returns from Mutual Funds distributed to natural person	5%
Payments made by resident person for usage of satellite, bandwidth, optical fiber, telecommunications related equipment or electricity transmission line	10%
Rent for transportation service	2.5%
Dividends with source in Nepal	5%
Proceeds from investment insurance	5%
Proceeds from unapproved retirement funds	5%
Interest or equivalent amount (sourced in Nepal and not related to operation of business) for deposit, bonds, debentures or government bonds	5%
Windfall gains	25%
Amount exceeding NPR50,000 in return for contractual work	1.5%
Fee for Aircraft maintenance and other contracts	5%

Exemptions from Withholding Tax:

- Payment of house rent by a natural person (this item is separately collected by the local authority by a prior notification dated April 23, 2018 (*Baisakh* 10, 2075 B.S.) published in the Nepal Gazette.
- Payment by natural person for non-business related activities.
- Interest paid to resident banking and financial institution.

4. Advance Taxes

As per Section 95A of ITA, taxes are collected in advance for the following transactions:

Income	Tax Rate
Gains from commodity future market	10%
Gains from disposal of interest in an entity listed with the Securities Exchange Board of Nepal by resident natural person	5%
Gains from disposal of interest in an entity listed with the Securities Exchange Board of Nepal by any resident person other than natural person	10%
Gains from disposal of interest in an entity listed with the Securities Exchange Board of Nepal by others	25%
Gains from disposal of interest in a non-listed entity by a resident natural person	10%
Gains from disposal of interest in a non-listed entity by any resident person other than natural person	15%
Gains from disposal of interest in a non-listed entity by others	25%
Capital Gains from disposal of immovable property by natural person when the immovable property has been owned for 5 or more years	2.5%
Capital Gains from disposal of immovable property by natural person when the immovable property has been owned for Less than 5 years	5%
Capital Gains from disposal of immovable property by any person other than a natural person	1.5%

5. Tax Exemptions

As per Section 11 of ITA as amended by the Finance Act following tax exemptions have been provided:

General Exemptions:

- Income generated by natural person through agriculture from land within ownership ceiling.
- Income generated and dividends distributed by cooperatives engaging in agro-forestry industry.
- Income generated and dividends distributed by cooperative operating in rural municipalities providing loan and savings services.

Special Exemptions (Tax Holiday):

Type of Industry	Condition	Duration
Special Industry operating throughout the year	<ul style="list-style-type: none"> • Established with investment of NPR 1 billion or more • Providing employment to 500 or more people throughout the year 	5 years from the date of increment of capital
	<ul style="list-style-type: none"> • Increased investment up to NPR 2 billion after establishment • Providing employment to 300 or more people throughout the Year • increment amounts to minimum 25% of installed capacity 	5 years from the date of increment of capital
Mining Petroleum and Natural Gas		7 years from the date of commercial operation
Energy Based industry	Commencement of commercial operation by April 12, 2024	10 years from the date of commercial operation
Tourism related industry	Established with investment of more than NPR 2 billion	5 years from the date of operation
Aviation Company	<ul style="list-style-type: none"> • Established with investment of more than NPR 2 billion • Conducting international flights 	5 years from the date of operation

6. Tax Concessions

As per Section 11 of ITA as amended by the Finance Act following tax concessions have been provided:

Type of Industry	Condition/Activity	Tax Concession	Duration
<ul style="list-style-type: none"> • Special Industry • Information Technology Industries 	Direct employment to more 100 or more Nepalese citizens throughout the year	10%	
	Direct employment to 300 or more Nepalese citizens throughout the year	20%	
	Direct employment to 500 or more Nepalese citizens throughout the year	25%	
	Direct employment to 1000 or more Nepalese citizens throughout the year	30%	
	<ul style="list-style-type: none"> • Direct employment to 100 or more Nepalese citizens through the year • 33% jobs allocated for women, scheduled castes and physically disabled people 	Additional 10% discount on top of above-mentioned concessions	
Special Industries and Tourism Industry (except casino) operating throughout year	<ul style="list-style-type: none"> • Investment of NPR 1 billion or more • provides employment to 500 or more people 	50%	3 years following the tax holiday period
<ul style="list-style-type: none"> • Petroleum Products • Natural Gas • Fuels 	Commencement of commercial operation by April 12, 2024	50%	3 years following the tax holiday period
Energy based	Commencement of commercial operation by April 12, 2024	50%	5 years following the tax holiday period
Manufacturing	Export of products manufactured by it	25%	
Construction	Construction and operation of ropeway, cable car and flyover	40%	
	Construction and operation of road, bridge, tunnel, railway and airport.	50%	
<ul style="list-style-type: none"> • Manufacturing • Tourism • Hydroelectricity 	Listed in the Stock Exchange	15%	

Any company	Export of intellectual property	25%	
	Transfer of intellectual property via sale	50%	
Tourism	Established with investment of NPR 2 billion or more	50%	3 years following the tax holiday period
Aviation Company	<ul style="list-style-type: none"> Established with investment of more than NPR 2 billion Conducting international flights 	50%	3 years following the tax holiday period

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