

Income Tax Rates 2075-76 (2018-19)

Introduction

On May 29, 2018 (*Jestha* 15, 2075 B.S.), the Government of Nepal (“GON”) published an Order (“Order”) under the Periodic Tax Collection Act 2012 (1955) (“Act”) in the Nepal Gazette which imposes various forms of taxes, tariffs, duties, fees and other revenue mechanisms. Under the Act, the GON is empowered to collect taxes, tariffs, duties etc. through an Order for a specific period. The Order makes amendments to various tax related laws. The Order states that unless otherwise enacted by the Parliament through legislation, certain provisions of the Order shall be valid until the end of the next fiscal year, i.e., July 16, 2019 (*Ashadh* 31, 2076 B.S.). Pursuant to Section 4(c) of the Act, an Order issued under the Act shall not be effective after 6 months of its publication in the Nepal Gazette. The Order was published in the Nepal Gazette on May 29, 2018 (*Jestha* 14, 2075 B.S.) and 6 months from the date of publication would be November 30, 2018 (*Mansir* 14, 2075). In light of the authority granted by the Act to the GON, it is questionable whether the GON can issue the Order for more than 6 months.

On the same day, the GON tabled the Finance Bill 2075 (2018) (“Finance Bill”) at the Parliament for the fiscal year 2075-76 (2018-19). A Finance Bill is introduced by the GON annually at the Parliament to collect various types of taxes, tariffs, duties, etc. Once the Finance Bill is passed by the Parliament and ratified by the President, the Finance Bill shall form as the Finance Act 2075 which shall be enforceable for the fiscal year 2075-76 (2018-19). Upon its enactment, the Finance Act 2075 shall supersede the Order.

Certain provisions of the Order concerning customs, tariff, excise duties etc. have become effective immediately from the date of publication whereas other provisions including those governing income tax shall become effective from the beginning of fiscal year 2075-76 (2018-19), i.e., July 17, 2018 (*Shrawan* 1, 2075 B.S.).

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

Major Highlights

- **Changes in Tax Slab for Personal Income Tax:** The Order introduced new income tax slabs of 1, 10, 20, 30 and additional 20 percent instead of 1, 15, 25 and additional 15 percent which were applicable for a long period. The new tax slabs are more favorable for people who earn less than NPR 650,000. However, people who earn more than NPR 650,000 and up to NPR 2 Million are exposed to higher tax liability of 30 percent instead of 25 percent. Similarly, people who earn more than NPR 2 Million are exposed to a slight higher tax liability of 36 percent.
- **Higher Slab for Certain Companies:** Telecommunications operators, Internet service providers, companies engaged in money transfer, capital market, securities, commodities future market, securities and commodities brokerage are exposed to higher corporate tax slab of 30 percent instead of 25 percent.
- **Lowered the Threshold of Capital Gain Tax:** The Order lowered the threshold of Capital Gain Tax to NPR 1 Million on the disposal of interest of real estate. Previously, the threshold of Capital Gain Tax was NPR 3 Million.
- **Discontinuation of Education Service Fee and Health Service Tax:** Unlike previous Finance Act, the Order discontinued the practice of collecting education service fee for schools and health service tax for hospitals.
- **Discontinuation of VAT on Health Service:** Unlike previous Finance Act, the Order discontinued the practice of collecting VAT on health service provided by private hospitals.
- **Increase on the Excise Duty on Tobacco Products:** The Order increased excise duty on tobacco products between 20 to 30 percent.
- **Exemption from Withholding of House Rent Tax:** The Order exempts the withholding of house rent tax by the GON. By a prior notification dated April 23, 2018 (*Baisak* 10, 2075) published in the Nepal Gazette, the GON allocated the collection of the withholding of house rent tax to the local government under the Constitution of Nepal and Inter-Governmental Fiscal Management Act 2074 (2017).

The following tables explain in further detail the various types of income taxes, withholdings, advance taxes, and tax exemptions and tax concessions.

1. Personal Income Tax

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

Marital Status	Tax Bracket	Annual Income (NPR)	Tax Rate	Actual Tax Amount (NPR)
Unmarried Person	1	1-350,000	1%	3,500
	2	350,001-450,000	10%	3,500 + 10,000 = 13,500
	3	450,001-650,000	20%	13,500 + 40,000 = 53,500
	4	650,001-2,000,000	30%	53,500 + 405,000 = 458,500
	5	2,000,001 and above	Additional 20% to the rate charged under 4 th tax bracket 36% (on actual basis)	<u>Example:</u> If annual income is 2,500,000 Tax amount up to 2,000,000 = 458,500 Additional income of 500,000 = Tax under 4 th bracket of 30% = 150,000 + Additional 20% on 150,000 = 30,000 Total tax on 500,000 = 180,000 (36%)
Married Couples (who have chosen to be assessed jointly)	1	1-400,000	1%	4,000
	2	400,001- 500,000	10%	4,000 + 10,000 = 14,000
	3	500,001-700,000	20%	14,000 + 40,000 = 54,000
	4	700,001-2,000,000	30%	54,000 + 390,000 = 444,000
	5	2,000,001 and above	Additional 20% to the rate charged under 4 th tax bracket 36% (on actual basis)	<u>Example:</u> If annual income is 2,500,000 Tax amount up to 2,000,000 = 444,000 Additional income of 500,000 = Tax under 4 th bracket of 30% = 150,000 + Additional 20% on 150,000 = 30,000 Total tax on 500,000 = 180,000 (36%)

Note:

- Personal income tax 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 the ITA as amended by the Order prescribes following rates of tax on income of corporate bodies:

Businesses/ Entities	Tax Rate
Corporations in general	25%
<u>Special Industries:</u> <ul style="list-style-type: none"> • All manufacturing (except liquor and tobacco related) • Agro-forestry • Mining industries 	20%
<u>Construction Related Industries:</u> <ul style="list-style-type: none"> • 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 service providers	
<u>Money Transfer, Securities, Commodities and Capital Markets:</u> <ul style="list-style-type: none"> • Money transfer • Merchant banking • Capital market • Securities • Commodity future market • Securities and commodity brokerage 	
Tobacco, liquor and 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 the ITA as amended by the Order 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% (standard rate)
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	
Proceeds from unapproved retirement funds	
Interest or equivalent amount (sourced in Nepal and not related to operation of business) for deposit, bonds, debentures or government bonds	
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 the ITA as added by Order, taxes are collected in advance for the following transactions:

Income	Tax Amount	Agency Responsible for Collection
Gains from commodity future market	10%	Service Provider
Gains from disposal of interest in an entity listed with the Securities Exchange Board of Nepal by resident natural person	7.5%	Stock Exchange
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%	Concerned Non-listed Entity
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%	Land Revenue Office
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	10%	

5. Tax Exemptions

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

1. 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.

2. Special Exemptions (Tax Holiday)

Type of Industry	Condition	Duration of Tax Holiday
Special Industry	<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 establishment
	<ul style="list-style-type: none"> • Increased investment up to NPR 1 billion after establishment • Providing employment to 500 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	Commencement of commercial operation by April 12, 2024	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 date of commercial operation
Aviation company	<ul style="list-style-type: none"> • Established with investment of more than NPR 2 billion • Conducting international flights 	5 years from date of commercial operation

6. Tax Concessions

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

Type of Industry	Condition/Activity	Tax Concession	Duration
<ul style="list-style-type: none"> • Special Industries • Information Technology Industries 	Direct employment to 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	<ul style="list-style-type: none"> • Investment of NPR1 billion or more (at the time of establishment or after increasing capacity) • Providing employment to 500 or more people throughout the year 	50%	3 years following the tax holiday period
<ul style="list-style-type: none"> • Mining • Petroleum • Natural Gas 	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 road, bridge, airport and tunnel way	40%	
<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 NPR 2 billion or more • Conducting international flights 		
Any company	<ul style="list-style-type: none"> • NPR500 million or more paid up capital • Converted into Public Company 	10%	

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