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Client Briefing
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Income Tax Rates 2083-84 (2026-27 A.D.)

Introduction

The Finance Act 2083 (2026 A.D.) ("Finance Act") was passed by the Federal Parliament and was authenticated by the President on July 14, 2026. The Finance Act is applicable to Fiscal Year 2083/84 (2026/27 A.D.), commencing from July 17, 2026.

This Briefing highlights major provisions with respect to income tax and other taxes as proposed by the Finance Act.

Major Highlights

- <u>Domestic Production Protection and Promotion Fee</u>**:** A domestic production protection and promotion fee shall be levied and collected at the customs point on goods imported into Nepal.

- <u>Clean Infrastructure Investment Fee:</u> A clean infrastructure investment fee shall be levied and collected, at the rate of 2.5% to 10% on electric vehicles and other means of transport imported into or manufactured within Nepal. The clean infrastructure investment fee shall be collected either by the Customs Office upon importation or by the registering authority at the time of registration, as applicable.

- <u>Luxury Fee</u>: Two percent luxury fee shall be levied on the service fee charged by hotels and luxury resorts having a rating of five stars or higher as well as on import value of ready-made alcoholic beverages, inclusive of customs duty and excise duty.

- <u>Skill Promotion Fee:</u> A Skill Promotion Fee shall be levied at the rate of 0.5%, on the sale of gold, silver, and their jewelry and products to consumers in Nepal.

- <u>Education Equity Fee</u>: Three percent education equity fee shall be levied on all types of fees charged by private educational institutions to students. The proceeds of such fees shall be utilized to promote access to quality education and for the development of educational infrastructure.

- <u>Health Equity Fee</u>**:** Three percent health equity fee shall be levied on all service charges collected from patients by private-sector healthcare service providers. The proceeds of such fee shall be utilized to enhance access to quality healthcare services and for the development of healthcare infrastructure.

- <u>Special Relief Measures for Businesses Affected During the Gen-Z Movement:</u> Uninsured inventory losses caused by the Gen-Z movement may be recognized based on a supported valuation and timely reporting to the Inland Revenue Office. For FY 2082/83 (2025/26 A.D.), such losses are deductible for income tax purposes, and related input VAT may be claimed.

  Industries, businesses, and commercial establishments affected during the Gen-Z movement may receive a 50% exemption on customs duties and excise duties for the import of goods required for reconstruction and resumption of operations, based on verified insurance survey reports.

- Withdrawal of Pending Tax Disputes:
  Taxpayers with pending disputes over VAT, income tax, or excise duty assessments may withdraw their cases and, by paying the assessed tax amount plus an additional 1% by mid-January 2027 (end of Poush 2083), obtain a waiver of all related fees, penalties, interest, and late charges. Similarly, if the Government has filed or is permitted to file an appeal or review before the Supreme Court, it may withdraw the case upon the taxpayer's payment of the disputed tax plus 1% and submission of an application within the prescribed period.

- Waiver of Outstanding Dues for Companies:
  Any company registered but failing to submit returns, renew registration, or pay applicable taxes, fees, interest, or penalties within the time frame prescribed under the Companies Act, 2063 (2006 A.D.) may continue its operations or seek deregistration if it submits the required filings and pays applicable taxes and fees due for FY 2082/83 (2025/26 A.D.) by the mid October 2026 (end of Ashoj 2083) and shall obtain a full waiver of all past dues.

The tables in the succeeding pages provide the rates of personal and corporate income tax, withholding tax, advance tax, and details of tax exemption and concessions applicable for FY 2080/83 (2026/27 A.D.).

1. Personal Income Tax

Schedule 1(1) of Income Tax Act 2058 (2002 A.D.) ("ITA") as amended by the Finance Act prescribes progressive income tax rates which are applied on the income falling within each tax bracket:

Annual Income (NPR)	Tax Rate	Maximum Tax Amount (NPR)
1 to 1,000,000	1%*	10,000
1,000,001 to 1,500,000	NPR 10,000 plus 10% on the amount exceeding NPR 1,000,000	60,000
1,500,001 to 2,500,000	NPR 60,000 plus 20% on the amount exceeding NPR 1,500,000	260,000
2,500,001 to 4,000,000	NPR 260,000 plus 27% on the amount exceeding NPR 2,500,000	665,000
4,000,001 and above	665,000 plus additional 2% point to the rate charged under 4th tax bracket	♦

Notes:

* Not applicable in case of a taxpayer registered as a private firm, income from pension, income of natural person contributing to pension fund and contribution-based social security fund.

♦ For example, if annual income of an individual is NPR 4,500,000, the tax amount up to NPR 4,000,000 is NPR 665,000. Additional income of NPR 500,000 is taxed at (27% + 2% = 29%) = NPR 145,000. Hence, the total tax on the annual income of NPR 4,500,000 is NPR 810,000 (NPR 665,000 + NPR 145,000).

- Income tax on salary shall be collected as withholding taxes under Section 87 of 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 prescribes following rates of tax on income of corporate bodies:

<table>
<tr><th>Businesses/ Entities</th><th>Tax Rate</th></tr>
<tr><td>Corporations in general</td><td>25%</td></tr>
<tr><td>Banking and financial institutions</td><td rowspan="9">30%</td></tr>
<tr><td>Insurance companies</td></tr>
<tr><td>Financial Business Entity/Body</td></tr>
<tr><td>Telecommunication and internet services</td></tr>
<tr><td>Money transfer</td></tr>
<tr><td>Securities business, merchant banking, commodity future market, securities and commodities broker business.</td></tr>
<tr><td>Tobacco, tobacco products, alcohol and beer</td></tr>
<tr><td>Petroleum</td></tr>
<tr><td>Water travel, air transport or telecommunication services by a non-resident person where services extend beyond the border of Nepal</td></tr>
<tr><td>Water travel, air transport or telecommunication services by a non-resident person where services do not extend beyond the border of Nepal</td><td>2%</td></tr>
<tr><td>Repatriation of income by a foreign permanent establishment of a non-resident person</td><td>5%</td></tr>
</table>

3. Withholding Tax

Chapter 17 of ITA 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	15%
Retirement benefits receivable from GON or government approved contribution-based retirement fund	5%
Commission to a 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 a resident person for usage of satellite, bandwidth, optical fiber, telecommunications related equipment or electricity transmission line	10%
Transportation service and rent for transportation service	2.5%
Transportation service and rent for transportation service registered under VAT	1.5%
Interest remitted against the loan taken in foreign currency from a foreign bank and financial institution by a resident bank and financial institution to invest in areas listed by Nepal Rastra Bank	5%
Interest paid against the loans obtained from a foreign bank and financial institution by storage or semi-storage-based hydropower projects (above 200 MW) attaining financial closure by Chaitra 2082 (April 13, 2026 A.D.)	5%
Amount paid to foreign school and university as registration fees, education fees and exam fees	5%
Interests paid by resident bank and financial institution to life insurance companies for deposits	5%
Royalty paid to resident person for literary article and composition	1.5%
Service fee or commission paid to a resident individual insurance agent	20%
Dividends with source in Nepal	5%
Proceeds from investment insurance	5%
Proceeds from unapproved retirement funds	5%
Interest or equivalent amount with source in Nepal and not related to operation of business, for deposit, bonds, debentures or government bonds	6%
Windfall gains	25%
Amount exceeding NPR 50,000 as consideration for contractual work	1.5%

Exemptions from Withholding Tax:

- Incentive amounts paid to consumers using electronic payment mechanism such as payment card, e-money, mobile banking in purchase of goods and services.
- Payments made by a natural person except in relation to operation of business.
- Payment concerning literary creation published in newspaper, magazines.
- Interest paid to resident banks and financial institutions.
- Tax-exempt payments and withholding tax under Section 87 of ITA.
- Inter-regional interchange fees paid to banks issuing credit cards.
- Dividends and interest paid to a Collective Investment Fund (Mutual Fund)
- National or international awards of up to NPR 500,000 received in recognition of contributions to literature, art, culture, sports, journalism, science, technology, or public administration.

4. Advance Tax

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 ("SEBON") by a resident natural person (ownership for more than 365 days)	7.5%
Gains from disposal of interest in an entity listed with SEBON by resident natural person (ownership for less than 365 days)	10%
Gains from disposal of interest in an entity listed with SEBON by any resident person other than natural person	10%
Gains from disposal of interest in an entity listed with SEBON 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 a natural person when the immovable property has been owned for 5 or more years	7.5%
Capital gains from disposal of immovable property by natural person when the immovable property has been owned for less than 5 years	10%
Capital gains from disposal of immovable property by any person other than a natural person	1.5%
Examination fee paid for language or proficiency examination by student applying to foreign educational institutions	15%
Payment received in return for software or IT related services provided by resident natural person (not engaged in business operation) to foreign resident	5%
Payment received in return for consultancy services provided by resident natural person (not engaged in business operation) to foreign resident	5%
Payment received in foreign currency for uploading audio-visual content on social media by a resident natural person (not engaged in business operation)	5%
Payments made by e-commerce platform operator to enrolled sellers of goods and/or services on the e-commerce platform	1%
Payments received by a natural person for the service provided through a resident ride-sharing operator's platform.	1%

5. Tax Exemptions and Concessions

Section 11 of ITA provides tax exemptions and concessions. The following are some of the major tax exemptions and concessions:

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.
- Interest income up to NPR 25,000 per year earned from deposits made into micro-finance, rural development banks, postal savings banks and cooperatives operating within rural municipality areas.
- Dividend tax of special industries, information technology industries, and tourism-related industries where retained earnings are capitalized into shares for the purpose of expanding the capacity of the same industry.

Special Exemptions (Tax Holiday) and Tax Concessions:

Type of Industry	Tax Exemption Condition	Duration	Tax Concession Conditions	Exemption and Duration
Agricultural Sector			Income of a firm, company, partnership firm, and other body corporate carrying on business of agriculture, dehydrating vegetables, and cold store.	50%
• Special Industry • Hotel, Resort • Information Technology Industry ("IT Industry")			Natural Person – If income falls under 30 % tax bracket	1/3rd
			Entities	20%
			Nepalese citizens employed directly annually: ➢ 100 or more; ➢ 300 or more; ➢ 500 or more; and ➢ 1000 or more.	➢ 10%; ➢ 20%; ➢ 25%; and ➢ 30%.
			If 33% of the workforce includes women, scheduled castes or disabled individuals and 100 or more Nepali citizens are employed annually	Additional 10%

Special Industry	Established in hilly districts of Far West Province and Karnali Province and directly employing 100 or more Nepalese citizens	15 years from the date of operation	Operating in: ➢ least developed areas ➢ undeveloped areas ➢ underdeveloped areas	➢ 90% ➢ 80% ➢ 70% 10 years from the date of operation
			Established or relocated to an industrial area or industrial village	50% for 3 years from the date of commencement and 25% for following 5 years
	Relocated from Kathmandu Valley to locations outside the Valley	3 years from the date of operation after relocation	Relocated from Kathmandu Valley to locations outside the Valley	50% for the following 2 years
• Special Industry • Tourism Industry (Except Casino)	Established with investment of more than NPR 1 Billion and directly employing 500 or more Nepalese citizens annually	5 years from the date of operation		50% for the following 3 years
	Capacity increment by 25%; capital increment to NPR 2 Billion; and providing employment to 300 or more people annually	5 years from the date of increment of capital		50% for the following 3 years
Industry in Special Economic Zone	Industries in the districts of Himalayan region and the districts of Hilly region specified by GON	10 years from the date of commercial operation		50% following the tax holiday period
	Industries in other districts apart from the above specified	5 years from the date of operation		50% following the tax holiday period
	Dividends distributed			50% for the following 3 years
			Taxes on royalties and management fees earned by foreign investors	50%
• Mining • Petroleum Products • Natural Gas	Commencement of commercial operation within April 12, 2024 (end of Chaitra 2080)	7 years from the date of commercial operation		50% for the following 3 years

• Fuels				
• Software Development, • Data Processing, • Cyber Café, and • Digital Mapping industries			Established in zoological, geological, biotechnology, technology, and information technology parks designated by the GON through a notification in the Nepal Gazette	75%
			Listed on the securities market	15%
Electricity Based Industries	Persons licensed to commence production, transmission or distribution from hydropower, solar, wind and organic matter by Chaitra 2084 (April 12, 2028 A.D.)	10 years from the date of commercial operation		50% for the following 5 years
	Storage or semi-storage type hydropower projects of 40 MW or above and lower hydropower projects in tandem operations with the above mentioned projects which compete financial closure by Chaitra 2085 (April 13, 2029 A.D.)	15 years from the date of commencement		50% for the following 6 years
			Hydroelectricity-producing industry listed on the securities market	15%
Export			Export income of: ➢ Resident natural persons taxable at 20% ➢ Resident natural persons taxable at 30% ➢ Income of an entity ➢ IT service exporters (including BPO, software programming, and cloud computing)	➢ 25% ➢ 50% ➢ 20% ➢ 50% upto FY 2084/85 (2027/28 A.D.)

Infrastructure Development			➢ Tram or trolley bus operations ➢ Construction and operation of ropeways, cable cars, or sky bridges ➢ Construction and operation of roads, bridges, tunnels, railways, and airports	➢ 40% ➢ 40% ➢ 50% 10 years from the date of commercial operation
			Construction and operation of public infrastructure under transfer-to-government model, or power generation and transmission projects	20%
• Aviation Industry (International) • Tourism Industry	Capital Investment of: ➢ more than NPR 5 Billion; ➢ more than NPR 3 Billion; and ➢ more than NPR 1 Billion	➢ 15 years; ➢ 10 years; and ➢ 5 years, from the date of operation		➢ N/A ➢ 50% for 5 years; ➢ 50% for 3 years, Following the tax holiday period.
Tourism Industry			Listed on the securities market	15%
Production-based Industries			Listed on the securities market	15%
			Brandy, Cider and Wine manufacturing established in least developed or undeveloped area	40% and 25% respectively for 10 years from the date of commencement
			Domestic tea (production and processing), dairy and fabric production	50%
			Recycling/ Up cycling - Using used materials that affect the environment directly as raw materials to manufacture new goods	50% for 3 years after commencement; and 25% for 2 years thereafter
	Vaccine, Oxygen and sanitary pads manufacturing	5 years from the date of commencement		50% for 2 years thereafter

			Manufacture and assemble electronic vehicle established within July 15, 2025 (Ashadh 2082)	40% for 5 years from the date of commencement
	Farming equipment manufacturing established within Asar 2082 (July 15, 2025 A.D.)	5 years from the date of commencement		
	Industry engaged in production of green hydrogen	5 years from the date of operation		
	Industry engaged in manufacturing or assembly of EV charging equipment	5 years from the date of operation		
			Listed on the securities market	
Health Institutions			Operated by a community institution	20%
Micro Enterprises	Qualifying micro enterprise	7 years from the date of operation		
	Operated by a woman entrepreneur	10 years from the date of operation		
Start-up Businesses	Department-designated start-up with annual turnover not exceeding NPR 100 million	5 years from the date of operation		
Suppliers of Domestic Raw Materials			Suppliers of domestic raw materials to special industries	20%
Industrial Area / Industrial Village Developers	Construction, establishment, and operation of an industrial area or industrial village	10 years from the date of operation		50% for 5 years thereafter
Any Industry			Royalty from export of intellectual property	25%
			Income from sale of intellectual property	50%
			Private Limited company with NPR 500 Million capital converts to Public Limited Company	10% for 3 years from the date of conversion

6. VAT Rates

The Finance Bill has introduced a multi-rate Value Added Tax (VAT) regime, departing from the previously uniform VAT rate of 13%. In addition to the standard 13% VAT rate, the following reduced VAT rates have been introduced:

- 5% VAT on transportation and freight services provided through ride-sharing platforms
- 5% VAT on electricity consumption beyond 50 units

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