



Nepal Budget- F.Y. 2078-79 Summary from Tax Perspective

PREFACE

Having dissolved the parliament by the Honorable President of Nepal and the economy waiting for interim elections, the caretaker government of Nepal under Honorable Prime Minister Khadga Prasad Oli, has brought up the budget for FY 2078-79 which needs further analysis and understanding.

At this juncture coming to almost the end of the financial year, the Government of Nepal has worrying concerns about uplifting the economy to its estimated and projected scenario equally faced with the effective management and adequate control measures of COVID 19 in order to protect its citizen from this fatal health crisis. Having already witnessed a stressed economy, it therefore becomes a connected fact, its citizen expect that the Government of Nepal brings budget which is aimed at the salvaging of the economy from this unprecedented crisis encompassing the principles of overall inclusiveness of each and every component of contributors to GDP rather than bringing a populist and roaring budget convenient to develop but difficult to implement.

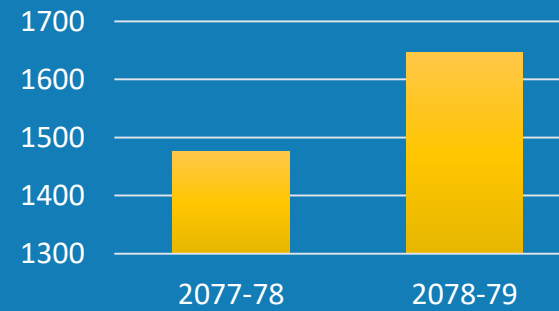
Hon. Finance Minister Bishnu Prasad Paudel presented the full budget for the fiscal year 2078-79 on Jestha 15, 2078. A quick look into allocation and sources of budgets, objectives, and priorities and major changes in tax laws made by the budget announcement are discussed in this document.

BUDGET HIGHLIGHTS FY 2078-79

Budget Size

Fiscal Year	Amount in NPR
2077-78	1475 Billion
2078-79	1647 Billion

Size Comparison



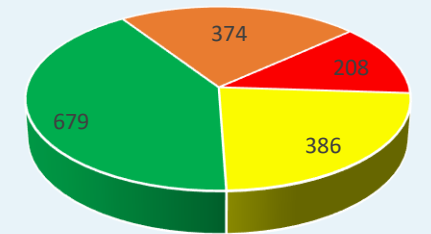
Source of Fund

Revenue	1,025 Billion
Foreign Grant	63 Billion
Foreign Loan	309 Billion
Internal Loan	250 Billion

Budget Allocation

Current Expenditures	679 Billion
Capital Expenditures	374 Billion
Financing Provision	208 Billion
Financial Provision in Province and Local level	386 Billion

Budget Allocation



■ Curr- ex ■ Cap-ex ■ FP ■ FP - P and L

OBJECTIVES OF BUDGET 2078-79

- ❖ Saving the lives of the citizens from COVID 19.
- ❖ Accelerating the economic activities and the programs of development for speedy revival of the economy.
- ❖ Strengthen the role of government in public welfare, providing social security and protection and gain prosperity through social justice.
- ❖ Circulation of resources available in areas of public, private and cooperatives into productive sectors to develop an uplifted economy.



BUDGET PRIORITIES

- ❖ Extension of testing for the prevention, control and treatment of COVID-19, facilities of treatment, smooth supply of health equipment and materials, certainty of vaccinations, development of health infrastructures and effective circulation of Doctors and health workers.
- ❖ Expansion of economic activities by providing relief to the families affected by COVID 19, encouraging private sectors through concessions and mediums of revival.
- ❖ Entering the labor market and providing work and employment to the ones having lost their employment.
- ❖ Social security and protection to all Nepalese citizens based on lifecycle.
- ❖ Increase in agricultural production and productivity along with provision of food security.
- ❖ Investing in infrastructures for skilled education.
- ❖ Development of infrastructures with strategic importance having quick yield and rapid industrialization.
- ❖ Balanced development through coordination and cooperation of central, province and local governance.
- ❖ Ending all forms of discrimination and imbalance, outreach of equitable justice and justified results of development.
- ❖ Provision of responsible governance, provision of peace and security, corruption control and effectiveness in provision of services.



Major Changes in Taxation System



Particulars	Actions Encouraged	Amnesty/Waivers
Taxpayer resenting to the Tax Assessment Under Income Tax Act 2058, VAT Act 2052 and Excise Act 2058 having filed an appeal for administrative review or under litigation (Except for False and Duplicate Bills)	<ul style="list-style-type: none"> - Withdraw Such appeal or review or litigation - Deposit assessed tax liability and 50% of the amount assessed within Mangsir End 2078 	Waiver of Remaining interest, additional charges and any penalties thereon.
Tax assessed under Excise Act 2015, Income Tax Act 2031, Hotel Tax, Entertainment Tax, Contract Tax and Sales introduced in VAT Act 2052 and other tax under sales tax not paid so far.	Deposit 75% of the Excise or Tax assessed within the end of Poush 2078	Waiver of Remaining Penalty, Fees, Interest and remaining excise duty or any tax thereon.
Travel and trekking agency filing their taxable transaction under VAT as Texempted Sales in the earlier years.	<ul style="list-style-type: none"> - Self declare taxable transactions upto Jyestha 14 2078 - Deposit the tax thereon within end of Poush 2078 	Waiver of additional Charges, interest and penalties thereon.
Assessment of such sales by IRO	<ul style="list-style-type: none"> - Pay the assessed within Poush 2078 	Waiver of additional charges, interest and penalty thereon.

Major Changes in Taxation System



Particulars	Actions Encouraged	Amnesty/Waivers
Entity issuing Certificate of Origin for the purpose of Export not depositing the VAT due on 14 th Jyestha 2078 or any amount assessed by IRO	- No actions encouraged	Waiver of VAT or amount assessed along with interest, fees, additional fees and penalty thereon.
Non-profit community hospital or health organization, Operator of Transport facility through e-commerce platform	- Make an application within Poushe End 2078 for amounts not disputed and under litigation	Waiver of amount of tax along with fines, interest and penalties assessed or revised including fines, interest and penalties thereon before Jyestha 15 2078
VAT paid on purchases of taxable goods or services by Health Service providers in excess of amount availed as input credit against taxable sales which could not further be set-off due to cancellation of VAT on health services	- Pay the amount remaining after debit adjustment within the end of Ashar 2079-	Additional charges and interest shall be waived.
Tax Due upto Ashar end 2076 and interest imposed thereon under Income Tax Act 2058, VAT Act 2052 and Excise Act 2058	- Deposit within the end of Poush 2078	Waiver of Remaining fees, penalties and additional charges thereon.

Corona Relief in Tax Administration

For businesses paying taxes on presumptive income, the following rebates have been introduced.

Amount in Rs.

Particulars	Figures	Tax Rebate	Tax Return
Less than 20 lakh	2 lakh	90%	D-01
More than 20 and less than 50 lakh	NA	75%	D-02
More than 50 and less than 1 crore	NA	50%	D-03



Business of Hotel, Travel, Trekking, Film Business (production, distribution & show), Party Palace, Media House, Transportation & Air Service having turnover more than 1 Crore.

The maximum carryforward of loss incurred in the year 2076-77 and 2077-78 has been extended to 10 years for such business.

D-01

Applies to Proprietorship firm not registered in VAT

Business Area	Located	Normal Tax	Applicable Tax for 2077/78
Metropolitan & Sub Metropolitan Municipality		7,500	750
Others		4,000	400
		2,500	250

D-02

Applies to Proprietorship firm not registered in VAT

Nature of Business	Normal Tax	Applicable Tax for 2077/78
Gas/Cigarette	0.25% of Turnover	0.000625%
Other Business	0.75% of Turnover	0.0018875%
Services	2% of Turnover	0.5%

Widening the scope of Presumptive Taxation

Turnover and income threshold for Presumptive Taxpayers have been increased in the following manner for the FY 2078-79

Turnover	Annual Income	Tax Return
Upto 30 lakh	Upto 3 lakhs	D-01
More than 30 lakhs Less than 1 crore	Upto 10 lakhs	D-02



Increment in Tax Rates in case of D-02 for the FY 2078-79



Nature of Business	Turnover	Revised Rate	Old Rates
Gas/Cigarette	30 to 50 Lakhs	0.25% of Turnover	0.25%
	50 Lakhs to 1 Crore	0.30% of Turnover	
Other Goods	30 to 50 Lakhs	1% of Turnover	0.75%
	50 Lakhs to 1 Crore	0.8% of Turnover	
Services	30 Lakhs to 1 Crore	2 % of Turnover	2%

Further Relief

Particular	Relief
Donation to Corona Relief Fund in 2077-78	Any amount of contribution made by any entity to the COVID-19 Prevention, Control and Treatment Fund set up by Nepal Government , Provincial Government and Local Levels shall be a deductible contribution for tax purpose for the FY 2077-78..
CSR Expenses on Hospital and Health Equipment	Any amount allotted under the CSR of any entity and spent for building specialized hospitals designated by Ministry of Health or providing health equipment's and materials in relation to COVID treatment to prescribed health organizations shall be a deductive expenses for tax purpose.
Renewal of Firms or Private Company	Any Private Firm of Company not submitting return till F.Y. 2075/76 can submit return within the end of Ashwin 2078 and pay only 10% of total fee and penalty for renewal.
Providing Seed Capital to Startups	Any private sector providing seed capital upto Rs. 1 lakh per business to 5 such startup businesses shall be eligible for tax deduction.
Waiver of VAT, Custom and Excise	Custom, Excise & VAT waived in import of health-related goods and medicine related to COVID including Oxygen & Remdesiver
Amount of Deposit for Filing appeals in Revenue Tribunal	The amount to be deposited includes the amount of undisputed tax assessed and 50% of the disputed tax amount along with the interest thereon. Alternatively the bank guarantee could be provided for the same amount as well.

Exemptions and Concessions in Income Tax

FULL EXEMPTIONS

Particular	Exemptions
Educational Institutions	Income earned in accordance with their objective of not making profit or not distributing their income operated under the agreement of entities of Nepal Government shall be fully exempt from income tax.
Mutual Fund	Income earned by Mutual Fund approved by Securities Board of Nepal shall be fully exempt from income tax.
Startups	The startup businesses with an annual turnover not exceeding NPR 10 million shall be provided with 100% tax exemption for 5 years from the date of commencement of business.
Industrial Relocation	Any relocation of special industry outside the Kathmandu valley will be provided with 100% tax exemption for the first three years followed by 50% tax exemption for the next two years.



Exemptions and Concessions in Income Tax

PARTIAL EXEMPTIONS

Particular	Exemptions
Agriculture Business	50% rebate on tax imposed on firms or entities engaged in agriculture business.
Export Oriented Units	Any production oriented entity earning income through export of its product shall be taxed at the rate of 10.40% brought down from 12% last year.
Special Industries	50% rebate on tax imposed on special industries established or transferred within any industrial estate or industrial gram for 3 years from the date of commencement of production followed by 25% tax rebate for next five years.
Sale of domestic raw materials	Income earned from sale of locally manufactured raw materials or ancillary raw materials to Special Industry to be provided with 20% rebate.





Amendments in Income Tax Law



TDS Rates

Particulars	Rate	Previous Year
Payment of Registration fees, tuition fees and exam fees to Foreign Schools or University	5%	15%
Payment of Interest by the banks on deposits of Life Insurance Companies	5%	15%
Payment or receipt of Interest on Inter-Unit borrowings among cooperatives	Nil	15%
Sale of shares (NBCA)		
- Holding period less than 365 days	7.5%	5% (Both cases- No distinction)
- Holding period more than 365 days or more	5%	
Transportation/ Freight or Hire of Means of Transportation (Need for VAT registration – scrapped)	Withdrawn (Existing provision of 2.5% applicable in all cases)	1.5%
Any payment received on convertible foreign currency by any person exporting any software or any other e-services (Banks are required to deduct TDS before remitting the same amount)	1%	-
Interest and Dividend Paid to a Mutual Fund	-	15%



INCOME TAX

Amendments in Income Tax Law

Other Provisions

Particulars	New Provision
Payment of Insurance Premium to resident or non resident companies on personal building shall be allowed as deduction	Rs. 5,000 or Amount of premium whichever is lower
Individuals earning Pension	25% Additional Deduction of Standard Threshold
Education Service tax (previously no penalty on delayed deposit by banks)	15% Interest on such delay.
Transport companies taking vehicle on rent from individuals with PAN invoice	Applicable TDS can be deducted and deposited for claiming as deductible expense for F.Y. 2076/77.
Renewal Fee of GSM Mobile Licences paid in Installments	Instalments deductible in relevant year of instalments.
Transfer of retirement fund from Approved Retirement Fund to Social Security Fund (required TDS to be made)	Any such transfer made within Chaitra End 2078 is not subject to Withholding Tax.



K. J. & ASSOCIATES

Chartered Accountants

Changes in Value Added Tax Law

Particulars	Existing Provision	New Provision
Compulsory Registration – 10(2)	Based on the Nature of Business irrespective of Turnover	<ul style="list-style-type: none"> - Compulsory Registration based on nature of business scrapped. - Turnover based registration introduced
Biometric Update of Registration information of Person Registered in VAT (10C)	Updated within Prescribed Timeline	Update Immediately upon Registration under VAT
Certification of Sales and Purchase Book Section 16(3)	Certified by concerned tax Officer	<ul style="list-style-type: none"> - No Further certification By Tax officer - Self Certified Sales and purchase book to be maintained. - Subject to inspection by Tax officer at any time
Sales and Purchase book by an unregistered Person in VAT but dealing in Taxable Goods – Section 16 (3A)	Mandatory Self Certification subject to Inspection by Tax Office	Removed. Now covered by Section 16 (3)
Tax Credit in case of Loss of Goods – 16 (B)	No provision for Loss on account of Expiry of date of Usage	Tax Credit can be claimed on the goods lost on account of expiry of date of usage by following prescribed procedures.
Tax Assessment – Amended Assessment by Tax Officer – 20(4B)	No such provision	Any VAT liability amended or reduced by Revenue Tribunal or court of law cannot be reassessed by Tax Officer again until and unless the court orders for the same to TO.




EXEMPT

Changes in Value Added Tax Law

VAT exempted Goods and Services – Amendment to Annexure 1 of VAT Act, 2052

- Issuance of Certificate of Origin
- Agriculture Warehousing facility and Silo
- Deposit and Credit Guarantee
- Trekking and Tour Package
- Hire Purchase Transaction
- Money Exchange
- Swift Services
- Rent on Vehicles used for freight, cargo, Transport Service other than for supply.
- Service fee on e-library
- Raw material imported by industry producing Ayurvedic medicines.
- Air Transport, Public Passenger transport (Exclude Car)

Changes in Excise Law

Particulars	Existing Provision	New Provision
Business involved in the business of alcohol are under an obligation to do the business of alcohol and tobacco only.	Exception: <ul style="list-style-type: none"> - Hotel - Restaurants 	Exception <ul style="list-style-type: none"> - Hotels and Restaurants - Party Palaces (New)
Renewal of Excise License – Section 9 (6B)	Penalty on failure to Renew 50% of renewal fees for first three months from expiry of renewal period and 100% for next three months	<ul style="list-style-type: none"> - Penalty Scrapped - Automatic Cancellation of Excise License on failure to renew within prescribed time.
Control over production of goods belonging to other brands or with no brands	No such provision neither penalty	Penalty <ul style="list-style-type: none"> - 200% of Duty amount or Rs. 1 lakh whichever is higher - 1 year of imprisonment - Or Both
Some Exemptions Introduced: <ul style="list-style-type: none"> • Import of Electric Vehicles • Refrigerator, Grinders, Rice cooker, Fan • Other Electrical Equipments 		Increase in excise duty on significant variety liquor, beer, wine, cigarette, tobacco and tobacco related products has been made.

CHANGES IN CUSTOMS LAW



Particulars	Existing Provision	New Provision
Customs Declaration Form – Details Section 18(7)	No Such provision	Disclose in Custom Declaration Form (Pragyapan Patra) - Details of Brand, Model, Shape, Length, Unit, Manufacturing Company and any identification of goods when importing
EXIM Code	EXIM code to be obtained for import and export of goods	- Export or import not allowed without EXIM Code except for Specified Exporters/Importers.
Validity of EXIM Code on Renewal	1 year	5 year



COVID-19 Prevention, Control and Treatment

With the unprecedented circumstances prevailing in the national economy for more than a year now, the prevention and control of the subsisting pandemic is undoubtedly a priority and the budget has addressed the following issues considering the components and reasons for health crisis observed during the period under observation.

- a. Total budget allocated – Rs. 37 billion 53 crore.
- b. Free testing and treatment of patients infected with Covid-19 in all government labs and hospitals respectively.
- c. Hospitals operating with more than 100 beds will be required to install their own oxygen plant.
- d. Full Exemptions on VAT and Customs duty for importing equipment required for establishing oxygen plant.
- e. Capital subsidy to be provided to the community and private hospitals installing oxygen plant to the extent of 50% of the cost of installation. Electricity tariff to apply 50% to hospitals producing oxygen.
- f. Budget of 4 billions NPR allotted for purchasing equipment required for ICU, HDU, Ventilator and test kits.



Relief, Concessions and Economic Resurgence

- a. Automatic renewal of businesses affected by COVID 19 including permission and renewal fees.
- b. Government to provide financial incentives to hotels if operated as isolation center for COVID 19 control.
- c. SSF contributions due for the month of Jyestha and Ashar 2078 on the part of employees and employers shall be deposited by the government in the Social security fund.
- d. Continuance of refinance loan to the COVID affected business at the rate of 5% interest.
- e. Tourism leave duty shall be provided to employees at government services and public enterprises.
- f. Seed capital loan to be provided to the start up entrepreneurs at the rate of 1% on the collateral of the project itself.
- g. Concessional loan facility to the tune of NPR. 2.5 million on the security of the academic degrees of Graduation or above at the rate of 5% to be provided. The modality is yet to be designed.
- h. Poverty alleviation fund is repealed. The communities under it shall be converted into cooperative with the amount of 19 billion involved to be introduced as seed capital of cooperatives for poverty alleviation.
- i. Salary of employees of government services and undertakings increased by Rs. 2000 per month. Dearness allowance remains intact.
- j. Foreign investors exporting 100% of their production in Nepal to be provided with additional tax incentives.





K.J. & Associates,
Chartered Accountants

Pulchowk, Lalitpur
www.kjassociates.com.np
info@cajsr.com