

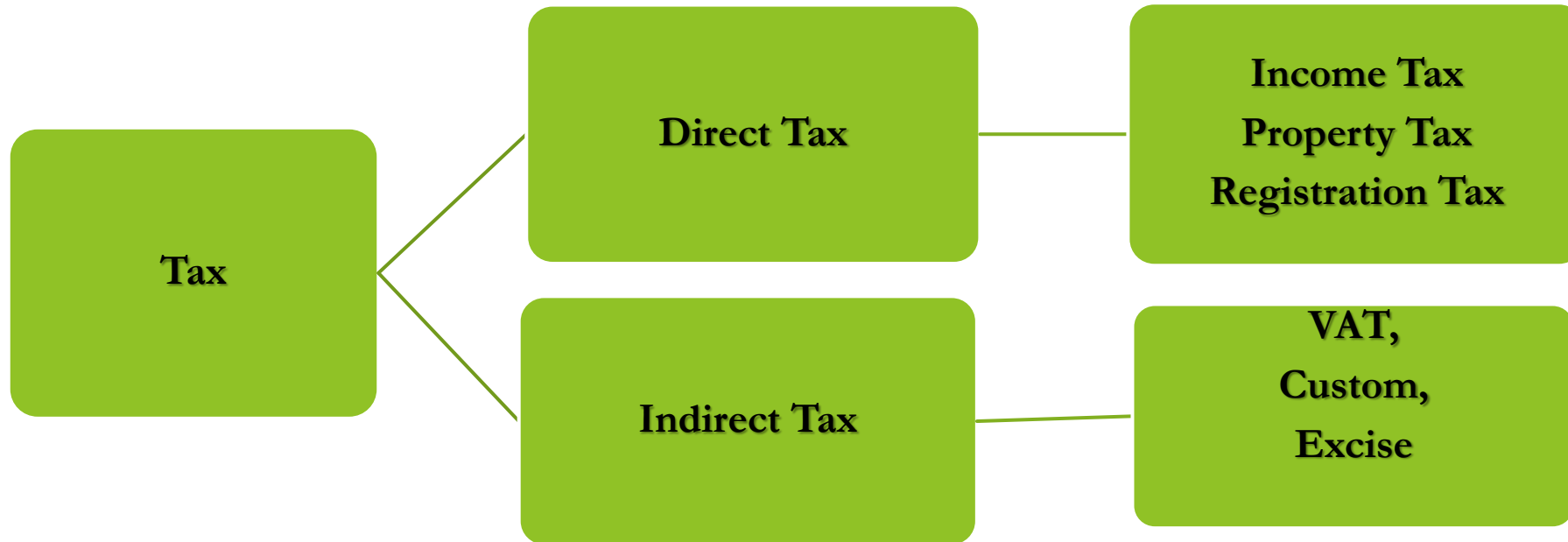
Business Registrations & Taxation Issues

“Talk Program”

**Nepal Engineer’s Association
Engineer Bhawan, Pulchowk, Kathmandu**

2018-07-06

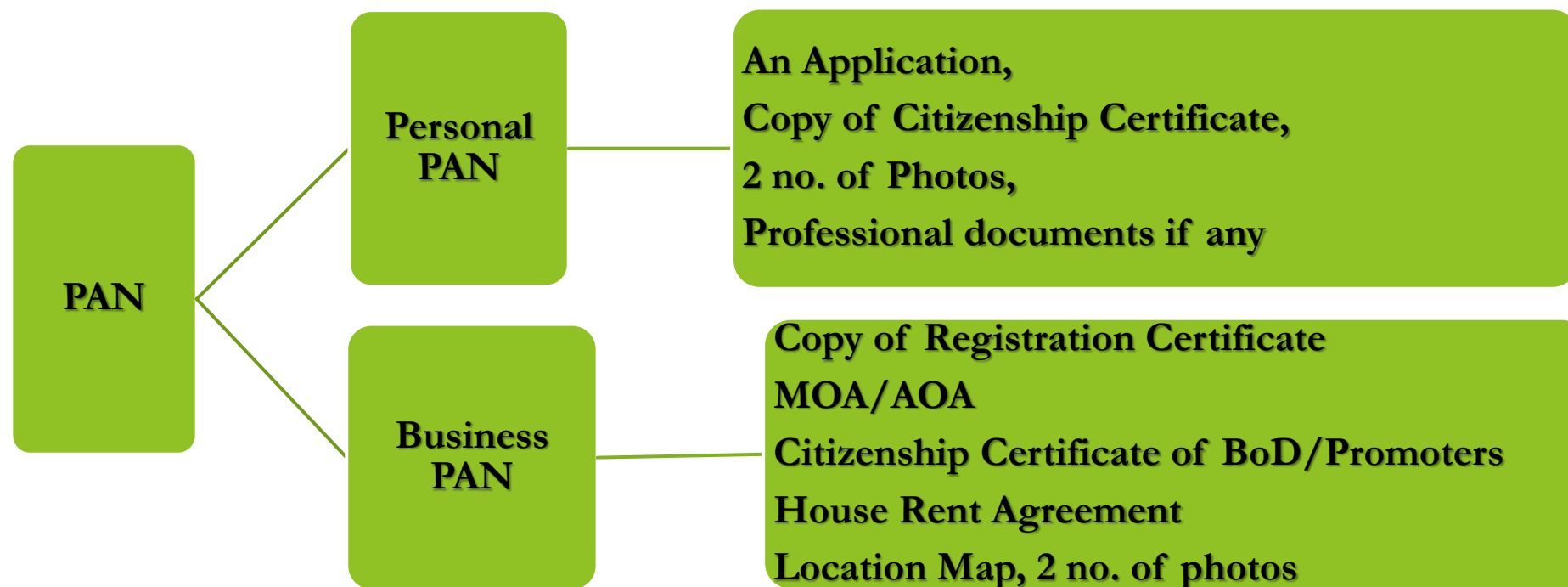
Tax & its Types



Income Tax

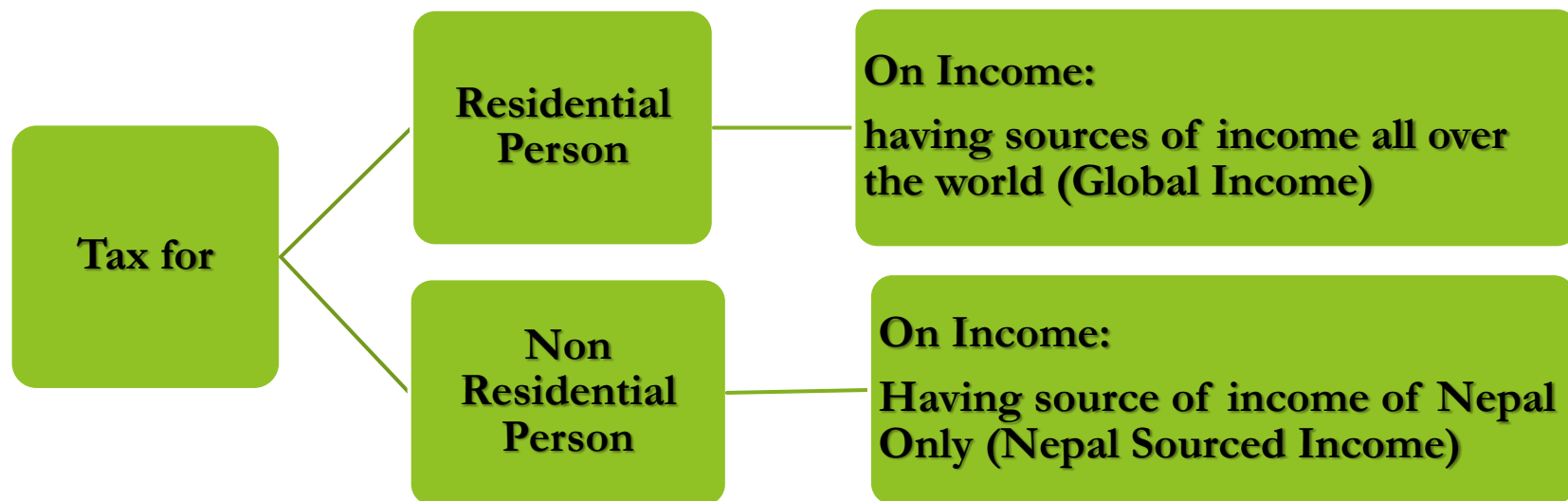
- ▶ Concept of Income Year: Shrawan 1 to Ashadh End (1 year Cycle)
- ▶ PAN - Permanent Account Number / TPIN (Tax Payer Identification Number)

Any person willing to engage in income generating activities shall be registered in respective department of government and apply for PAN -



Income Tax...

► Who Should Pay the Tax?



Residential Status:

- An individual-
 - (A) whose normal place of abode is in Nepal;
 - (B) who is present in Nepal for 183 days or more in the 365 consecutive days, or
 - (C) who is an employee or an official of Nepal Government posted abroad at any time during the income year;
- any partnership
- A company that- (A) is incorporated or formed under the laws of Nepal; or (B) has its effective management in Nepal during the income year;
- a foreign permanent establishment of a non-resident person situated in Nepal.

Income Tax...

► Tax Rates:

Income Tax is made up of

1. Normal Corporate Tax - @ 25%

(Certain Sectors like Hydropower (Special Industries) are taxed at Concessional rate of 20% and other sectors like Banking are taxed @ 30%)

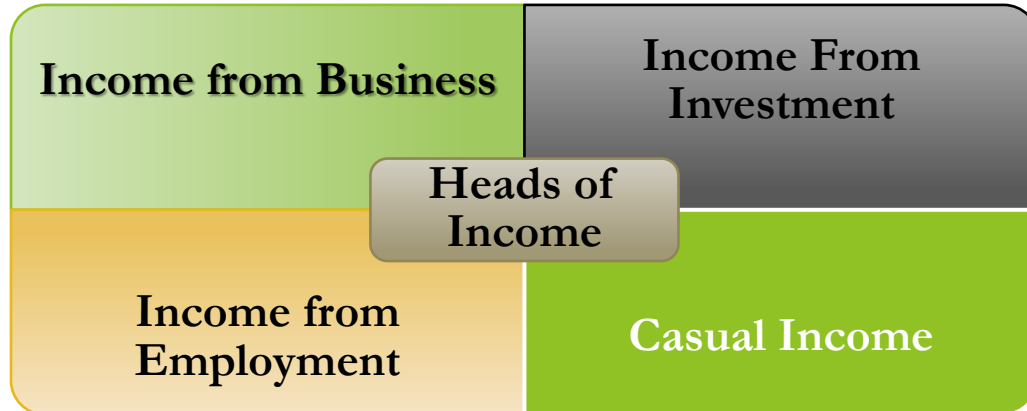
2. Dividend Tax - @ 5%

3. Capital Gain Tax/ (Advance Tax Collection)

- On gain from disposal of share of listed resident entity - resident natural person (7.5%), resident entity (10%), others (25%)
- On gain from disposal of share of not listed resident entity - resident natural person (10%), resident entity (15%), others (25%)
- Disposal of land and building - if it is owned for period less than 5 years (5%), if the if it is owned for period more than 5 years (2.5%), if it is owned by entity (10%)

Income Tax...

Heads of Income:



- In general, a tax payer's taxable income is determined by aggregating the income from all of the heads. The computation of business income is normally based on the profits shown in the financial statements, after adjusting for exempt income, final withholding payments, nondeductible expenditure, unabsorbed losses and depreciation
- Expenditures are allowed for deduction for income from business and investment. But any deductions and expenditure incurred for earning final withholding payments and exempt incomes are not allowed as deduction.
- Resident Natural persons are eligible for special deductions such as contribution to approved retirement fund, life insurance premiums, remote area benefits, payment of health insurance premium, etc. There is no expenditure deduction for income from employment.

Income Tax...

- Tax on windfall gains is collected through WHT (25%) in case payments are made by resident persons.
- Resident tax payers are required to pay tax on windfall gains earned outside Nepal.

Self Assessment

Nepal follows a self assessment system and tax paid is not questioned unless the tax calculation is not in accordance with the law. If tax officer does not revise your assessment within four years, the tax return submitted and tax paid is considered final.

The self assessment of tax liability and submission of final annual tax return and tax payment should be done within 3 months from the end of an income year. An extension for return submission is granted on request, for a maximum period of 3 months, but there is no extension for tax payment deadline.

Companies and certain tax payers are also required to submit estimated tax return and pay estimated tax on three installments

Income Tax...

Taxation of Individual:

Tax rate on salary income

Single	Rate	Couple	Rate
upto 350,000	1%	upto 400,000	1%
350,000 to 450,000	10%	400,000 to 500,000	10%
450,000 to 650,000	20%	500,000 to 700,000	20%
650,000 to 20,00,000	30%	700,000 to 20,00,000	30%
Above 20,00,000	36%	Above 20,00,000	36%

Mr. Pokharel has total income from employment of Rs. 5 million per annum. He has contributed Rs. 0.3 million to approved retirement fund. Assuming individual, tax will be calculated as follows.

$$\begin{aligned} & \text{(1st 350,000 @ 1\%)} \text{ Rs. 3,500} + \text{(Next 100,000 @ 10\%)} \text{ Rs. 10,000} + \text{(Next 200,000 @ 20\%)} \\ & \text{Rs. 40,000} + \text{(Next 1350,000 @ 30\%)} \text{ Rs. 405,000} + \text{(Next 2,700,000 @ 36\%)} \text{ Rs. 972,000} = \\ & \text{Total Rs. 1.430,500} \end{aligned}$$

Income Tax...

Deductions & Facilities:

LIP: Max 25,000

Remote Area Allowances: Ranges from Rs. 10,000 (Area E) to 50,000 (Area A)

Health Insurance Premium: lower of 20,000 or actual

Pension Income: If income of a resident natural person includes pension income, the taxable income is first reduced by additional 25% or pension amount included in income whichever is lower and tax liability is calculated on balance income

Incapacitated natural persons: In case of incapacitated natural persons, the minimum exemption limit (Rs. 350,000 for individual and Rs. 400,000 for couples) is increased by additional 50%.

Tax Credits

Female tax credit:

A female resident natural person deriving income only from employment in Nepal – 10 % rebate on tax liability. (In above case – tax would be 90% of tax calculated i.e. 1,287,450)

Medical Tax Credit :

Rs.750 or 15% of Approved medical expense or actual approved medical expense incurred whichever is lower. Any unutilized expenses can be carried forward to next year.

Foreign Tax Credit:

If foreign income is included in taxable income of a resident person, foreign tax credit for tax paid in foreign country in respect of that income. The foreign tax paid can either be deducted as expense or tax liability in Nepal can be reduced by such tax paid up to average rate of tax applicable in Nepal, depending on the option of tax payer. The calculation should be done for each sourced income separately and tax not eligible as credit in a year can be carried forward to claim as foreign tax credit in future year from the same source country.

Income Tax...

Income Tax for Small Tax Payers:

Resident Natural Persons who derives income only from business having source in Nepal with annual business turnover up to Rs. 20,00,000 and net income below Rs. 2,00,000 and not registered for VAT purpose may chose to pay tax as below.

- ✓ Operating business in Metropolitan and SubMetropolitan areas - Rs 5,000
- ✓ Operating business in Municipality areas – Rs. 2,500
- ✓ Operating business in other areas – Rs. 1,500

Withholding Taxes: Advance & Final Withholding / TDS

Income from Employment:

- ▶ Monthly WHT = Annual Tax calculated on annual employment income divided by 12.

TDS as per Sec.88

- ▶ On Interest, Royalty, Service Charge, Commission, Sales Bonus, Natural Resource Payment, Retirement Payment having source in Nepal – 15%
- ▶ Payment made to resident person on Service Fee invoiced in VAT bill – 1.5%

TDS as per Sec.88 Ka

On windfall gains- except national and international level prizes as prescribed by Nepal Government: 25%

Withholding Tax Returns of each month to be submitted within 25th of next month.

Income Tax...

Tax Returns:

Advance tax

Advance Tax: (in installment) is to be paid by every person having or likely to have assessable income from business or assessable income from investment in an income year (more than Ra. 5,000).

Due Dates

Poush end (Mid January)

Chaitra end (Mid April)

Ashad end (Mid July)

Amount to be deposited

40% of estimated tax liability

70% of estimated tax liability

100% of estimated tax liability

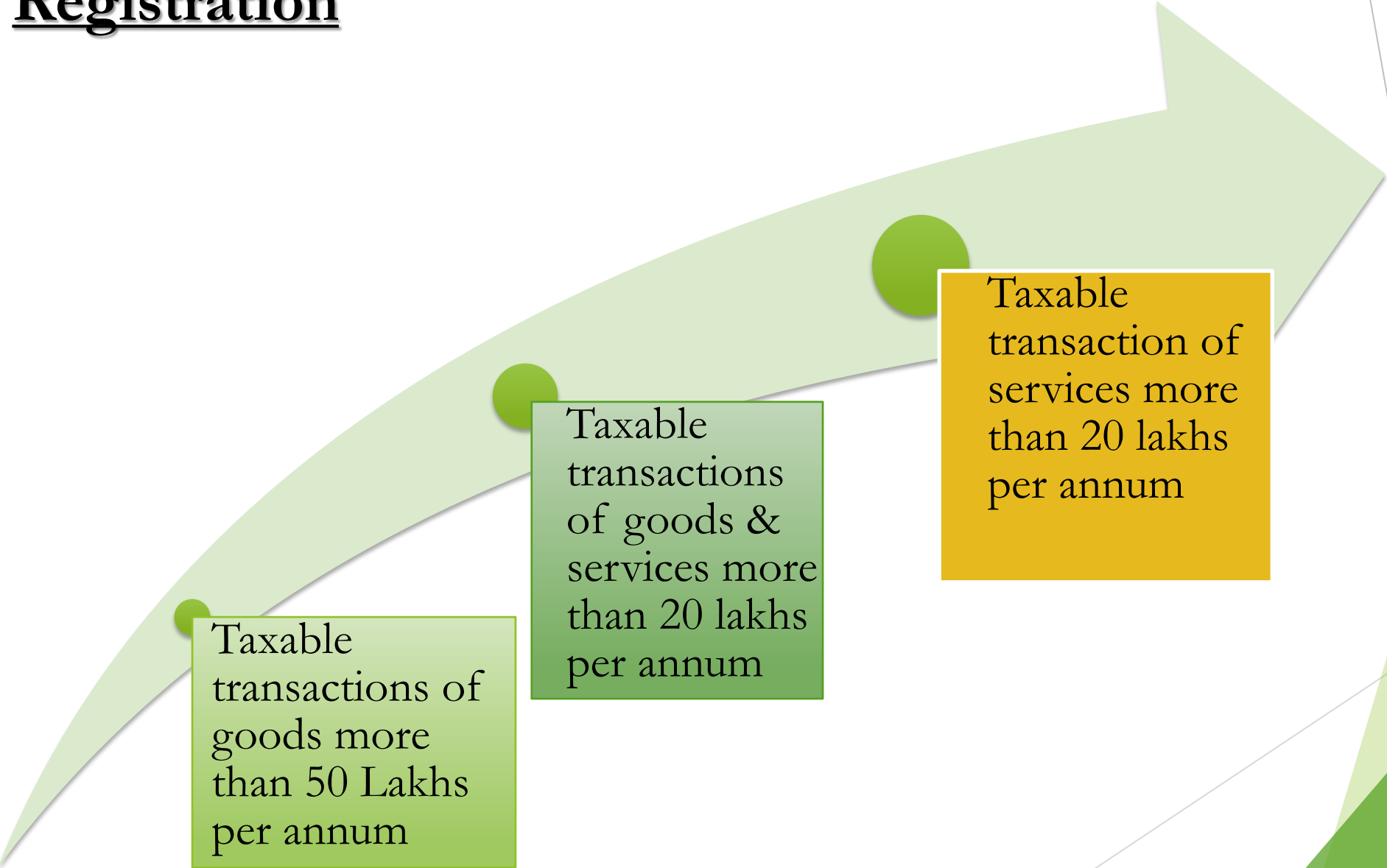
Annual Tax Returns

Annual tax return should generally be filed within 3 months from the end of an income year.

Income Tax...

Particulars	Fines & Interest
For failure to submit estimated income statement	Rs 2,000 for each of such statements
For delay in filing annual tax return	For Small Tax Payers Rs 100 per month For Others Fee at the rate of 0.1% on gross assessable income* or Rs 100 per month, whichever is higher.
For non submission of TDS return	2.5% of TDS to be deposited per annum
For under estimation of advance tax installments	Interest at 15% per annum on shortfall amount. The difference amount shall be calculated as 100% of installment, had the estimation been correct and the actual amount deposited; only if the deposited amount is lower than 90% of actual tax liability
For failure to pay tax	Interest at 15% per annum for the period of failure to pay tax

Value Added Tax: Registration



Taxable transactions of goods more than 50 Lakhs per annum

Taxable transactions of goods & services more than 20 lakhs per annum

Taxable transaction of services more than 20 lakhs per annum

Value Added Tax...

VAT Registration Number Plate:

Green

- For Registered Person

Yellow

- For Unregistered Person

White

- For VAT Exempted Goods & Services

Size of Tax registration number Plate:

30cm Length * 10 cm width.

Value Added Tax...

Input VAT and Output VAT: VAT on sales can be adjusted with VAT on Purchases

VAT Credits: within 1 years of Purchase Invoice

VAT Returns to be submitted: within 25th of next month

Value Added Tax: Fines

Conditions	Applicable Penalty
Non Registration within prescribed time	Rs.10,000/- for each tax period
1-Display of certificate of registration 2- Use of Registration Number 3- Information to IRO in case of changes in any particulars	Rs. 1,000/- for each time
Unregistered person Issuing tax invoice showing collection of tax	100% of tax Collected
In case accounts are not up to date	Rs. 10,000/- for each time
Accounts not making available for Inspection by Tax officer	Rs. 20,000/- for each time
Use of purchase & Sales Register without certification	Rs. 10,000/-
Return not submitted in time	0.05% per day of tax payable or Rs. 1,000/- per tax period whichever is higher.

Value Added Tax: Fines

Conditions	Applicable Penalty
Use of software data of which can be erased or amended	Rs. 5,00,000/-
1- Preparing false accounts, Invoices or other documents 2-Committing fraud for evasion of tax 3-If an unregistered person acts as a registered person 4- Transaction during suspension period	Fine equal to amount of tax or imprisonment up to six month or both
Person assisting in tax evasion	50% of amount of tax short paid.

Opportunities – Fiscal Act 2075

Waiver of Fees and Interest:

This provision is applicable to Natural Person who has not submitted income return

- ✓ These persons shall obtain permanent account number and file income return of F.Y. 2071/72, 2072/73 and 2073/74 along with income tax applicable in such income until 2075 Poush end
- ✓ The natural person is not required to file income return pertaining to years preceding F.Y. 2071/72 and the tax, fees and interest applicable until such period shall also be waived

Special Provision to VAT non-filers

- ❑ Penalty, interest and additional fees applicable to non-filers who did not submit return of VAT until 2074 Ashad end, shall be waived in case these persons file VAT return along with deposit of VAT liability within 2075 Poush end.
- ❑ In case such non-filers does not abide by the filing formality within 2075 Poush end, the registration of such non-filers who did not submit VAT return since 2071 Ashad end or prior to that date shall be cancelled and the penalty for failure to file return shall also be waived.

THANK YOU

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