



Nepal Budget- F.Y. 2077-78

~Summary from Tax Perspective

Preface

The world having witnessed the fatal effects of the COVID -19 pandemic resulting in unprecedented consequences on account of widespread infection has now led to the society go into some form of artificial hibernation. While people are locked inside their houses as a primary measure to ensure the spread of the virus is minimal, on the flipside, the economy has witnessed a dip in the productivity and each national economy has faced the challenge of dealing with the impacts of the pandemic in the forms of business losses, closures, sectoral collapses, job cuts and layoff, stock obsolescence having the ultimate bearing on the national economic indicators ranging from the per capita income to the overall growth rate of the economy. Nepalese economy has experienced an economic stagnation of more than 2 months now and the spillover effects of the pandemic has taken the form of visible consequences.

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. Having already witnessed a stressed economy, it becomes a germane fact, its citizen expect that the Government of Nepal brings budget which is aimed at the salvaging the economy from this unprecedented crisis rather than bringing a populist and loudmouthed budget.

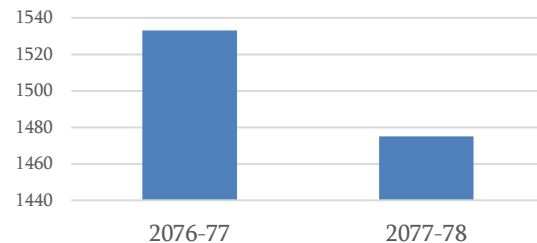
Budget Highlights of FY 2077-78

Hon. Finance Minister Dr. Yuba Raj Khatiwada presented the full budget for the fiscal year 2077-78 on Jestha 15, 2077. A quick look into allocation and sources of budgets, objectives, and priorities and major changes in tax laws made by the budge announcement are discussed in this document.

1. Budget Size

<i>Fiscal Year</i>	<i>Amount in NPR</i>
2076-77	1533 Billion
2077-78	1475 Billion

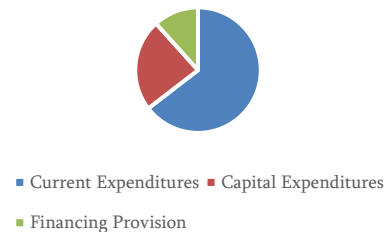
Size Comparison



2. Budget Allocation

	<i>Amount in NPR</i>
Current Expenditures	949 Billion
Capital Expenditures	353 Billion
Financing Provision	173 Billion

Allocation of Budget



3. Sources of Fund

	<i>Amount in NPR</i>
Revenue	890 Billion
Foreign Grant	61 Billion
Foreign Loan	300 Billion
Internal Loan	225 Billion

4. Objective of Budget

✚ Ensure safe and smooth lifestyle of citizens by protecting them from all types of diseases outbreaks and disasters.

✚ Continue the speed of development by rapid financial resurrection through optimum utilization

of available resources and equipment, opportunities and capabilities.

✚ Enhance state's role in public welfare by fulfilling requirements that are considered fundamental rights and basic necessities of the citizen.

✚ Develop uplifted, advanced, independent, prosperous and socialism-oriented economy by developing social financial and physical infrastructure.

5. Budget Priorities

✚ Extension of health services, construction and upgradation of health infrastructure, development of health manpower for qualitative and accessible health services and to protect the citizens from corona virus and other health risks.

✚ Recovery of agriculture, tourism, industry, construction and other affected business whose production and supplies are affected from the steps taken (lockdown and other measures) for the prevention and control of corona virus transmission.

✚ Development of work and employment opportunities, food security, protected housing, social security and protection of the citizen

✚ Completion of the projects having immediate benefit and other ongoing projects within the next year

✚ Establishment of qualitative and practical education system, expansion of information technology, development of infrastructure related to basic drinking water and construction of social, physical & economic infrastructure

✚ Implementation of federalism, development of qualitative and accessible public services with accountable & transparent governance.

6. Major Changes in Taxation System

6.1 Amnesty

✚ Where the taxpayer withdraws the appeals made to various levels on account of disputed taxes up to Ashad 2075 (Administrative Review, Revenue Tribunal or in the Courts) and pays the applicable taxes and interest assessed by the tax officer as per the final assessment order, the applicable fee, additional charges and penalty shall be waived for all such cases filed under the Income Tax Act, 2058, Value Added Tax Act, 2052 and Excise Act 2058

✚ If any taxpayer registers and obtains PAN and submits the tax returns for FY 2074-75 & 2075-76 and deposits the applicable tax by end of Falgun 2077 – the interest and penalty for the above period and the taxes and interest and penalty for earlier years will be waived.

✚ If a natural person, with turnover up to Rs 5 million is already registered in PAN but has not submitted tax returns submits the tax returns for FY 2073-74, 2074-75 & 2075-76 and deposits the applicable taxes and 25% of the interest by end of Falgun 2077 – the additional charges, fees and penalty for the above period and the taxes, interest and penalty for earlier years will be waived. Where a natural person or entity with turnover of more than Rs 5 million has obtained PAN but not submitted the returns for FY 2073-74 and earlier submits the tax returns and pays the taxes and 25% of the interest by the end of Falgun 2077 - the fees and the balance interest shall be waived.

✚ Where a registered person, who has not filed and paid taxes of Ashad end 2075 files the returns and pays the applicable taxes and 50% of the interest by end of Falgun 2077, the additional charges, fees, penalty and balance of interest will be waived. Those taxpayers who have not filed their tax returns till Ashad 2073 will be automatically deregistered. Charges applicable for late filing of the returns shall be waived however, the remaining due taxes, interest and fees shall be recovered

✚ The outstanding taxes, fees and interest up to FY 2076-77 of the drinking water and sanitation consumers group has been waived

✚ Rs 50,000 per record has been waived on tax due for assessment made up to Ashad 2060 on the following: Taxes assessed as per Income Tax Act 2031 but not yet recovered • Taxes assessed under the extant sales tax, entertainment tax, contract tax, hotel tax which were replaced by the VAT Act 2052.

6.2 Corona Relief in Income Tax

✚ Person required to file D-1 Income Tax Return (Presumptive Taxpayers) are given 75% rebate on Income tax Rate applicable for FY 2076-77. Consequently, Income Tax Rate for such taxpayer is NPR 1875, 1000 and 625 in Metropolitan & Sub-Metropolitan City, Municipality Rural Municipality respectively.

✚ Person required to file D-2 Income Tax Return (Transaction Based Tax) are given 50% rebate on Income tax Rate applicable for FY 2076-77. Effective Income Tax Rate for FY 2076-77 is 0.125% or 0.375% as the case be.

✚ 25% rebate is provided to all firm or company not falling in above category which has turnover not more than NPR 10 million.

✚ For Tourism and Transport industry which are worst hit by the pandemic are offered 25% rebate on Income Tax for FY 2076-77 irrespective of turnover limit NPR 10 million.

✚ The deduction is allowed on any sum of amount contributed to corona infection, prevention, control, and treatment fund established at all three levels of government.

6.3 Exemptions and Concessions in Income Tax

✚ 25% Concession on Income Tax is introduced on industry manufacturing fruit-based brandy, cider and wine that are operating in “Undeveloped” area. Earlier 40% concession was available for similar industry operating in “Highly Undeveloped” area only.

✚ Tax Concession of 25% for first five years of start of operation to special industry established in industrial area or industrial village is introduced.

✚ Starting Period of Tax Holiday for Special Industry operating in “Highly Undeveloped”, “Undeveloped” and “Less Developed” area is changed to *date of commercial production/operation*.

✚ Tourism Industry (except casino) is included alongside special industry for eligibility of 5 Years 100% Exemption and next 3 years 50% exemptions provided capital investment is more than 1 billion and employee more than 500.

✚ Earlier requirement of additional investment 1 billion and providing direct employment to 500 individuals for claiming exemptions on income generated from enhanced capacity by special

industry in operation is changed to additional investment of 2 billion and direct employment to 300 individuals. Tourism Industry is added to eligibility list along with Special Industry.

✚ 100% Concession on Income Tax for first ten years from the *date of commercial production* and 50% concession on next five years is available to hydropower company

✚ Concession on Income Tax for business operating trolley or tram, ropeway, cable car is increased from 20% to 40%, for railway, tunnel, increased from 20% to 40%, for construction and operation of airport increased from 40% to 50%, and for construction and operation of roadway, bridge and tunnelway reduced to 50% from 52%.

✚ 100% exemptions being provided to Micro Industries for first 5 years of commencement of business has been extended to 7 years. Similarly additional 2 years tax holidays if such micro industries are operated by female is extended to 3 years.

✚ Income earned by drinking water and sanitation consumer committee as per its objectives shall be exempted.

✚ Concession available for currently operating industry who increases its capacity by minimum 25% and investment to 2 billion are withdrawn. Such concession for new industry are unchanged.

6.4 Changes in Income Tax Rate of Co-Operative Entity.

✚ Income earned by agro and forest-based co-operative- 0%

✚ Co-Operatives operating in Rural Municipality- 0%

✚ Co-Operatives operating in Municipality Area- 5%

✚ Co-Operatives operating in Sub-Metropolitan Area-7.5%

✚ Co-Operatives operating in Sub-Metropolitan Area-10%

6.5 Other major changes in Income Tax Law

✚ Waiver on requirement of Permanent Account Number for allowability of Wages of casual nature up to NPR 3000 per instances has been introduced. Other expenses related to remuneration and wages are still required to be supported by PAN of beneficiary to be eligible for deduction. This provision has been made effective from 2076.04.01

✚ Purchase of agricultural, animal-related, and other domestic product made from natural person not doing business are not required have mandatory PAN to be eligible for deduction. This provision has been made effective from 2076.04.01

✚ The limit of NPR 1000 has been increased to NPR 2000 for eligibility of deduction of expenses without Tax Invoice.

✚ Clarity has been brought on withholding tax rate on payment of transportation service fee. 1.5% tax is to be withheld during payment of transportation service fee to VAT registered entity and 2.5% to other.

✚ All the payment made to Non-Resident against contract or agreement are subject to 5% Withholding Tax.

✚ Final withholding tax on interest payment to foreign banks and financial institute by resident banks and financial institute on account of foreign currency loan obtained is reduced from 15% to 10%.

✚ Rewards or Cash Back received by consumer due to use of digital wallet, mobile banking or electronic payment are removed from the purview of TDS.

6.6 Major Changes in Excise Law

✚ Restriction for Enterprise dealing in liquor and tobacco related products to run discount/price campaign or offer rebate to sale products are extended to VAT Registered Entity.

✚ Enterprise dealing with tobacco related products are required to renew their license despite being under Self Removal System.

✚ Punishment by seizure of liquor and fine in case of production of liquor of 70 U.P. using spirits other than rectified spirit (2207.10.20) is removed.

✚ A new provision is inserted to impose maximum excise duty applicable to liquor, if use of ethanol and spirits are used against the approval given by Acts or Rules.

✚ Existing provision of granting remission of the shortage up to 1.5% (in Stock of Beer) in case of shortage of stock shown by bottle counter than that measured by flow meter is removed.

✚ License holder are required to seek pre-approval from department for reprocessing of

liquor which are returned after sales or became obsolete in godown.

✚ Excise Duty on following Items has been removed.

i. Parts & Accessories of Motor Vehicles

ii. Printing machinery

✚ Excise Duty on following Items has been newly imposed.

i. Almonds (fresh/dried/shelled/peeled)

ii. Leaves to roll beedis

iii. Wire of Iron or Non-Alloy Steel

iv. Motor Cars and other motor vehicles with only electric motor for propulsion:

v. Pre-fabricated Buildings

vi. Furnitures (Wooden/Metal/Plastic/Others)

vii. Ice cream and other edible ice, whether or not containing cocoa

viii. Festive, carnival or other entertainment articles, including conjuring tricks and novelty jokes.

✚ Excise Duty on following Items has been increased.

Items	Old Rate	New Rate
Pan Masala without Tobacco	Rs. 610 per KG	Rs. 650 per KG
Jarda, Khaini, Snuff, Ghutka and similar preparations.	Rs. 610 per KG	Rs. 650 per KG
Cider Produced inside Nepal	Rs 180 per Litre	Rs. 430 per Litre
Hair Oil/Colour/Cream/Conditioner	5%	10%
Smart Watch	5%	15%
Personal deodorants and antiperspirants	5%	10%
Electric Cigarettes	5%	30%
Sausages and similar products	5%	10%
Extracts and juices of meat, fish or other aquatic invertebrates	5%	10%

6.7 Major Changes in Custom Law

✚ Custom Duty Exemption on Import of the items required for prevention, control and treatment of COVID-19 by any entity or by individual in the name Health Ministry or Prescribed Medical Institution or others on the condition that these items will be handed over as donation.

✚ Custom duty is increased on Primary Agriculture Produce.

✚ Rebate on custom duty on UPVC window, door, partition producing industry on import of its raw materials has been withdrawn.

✚ 50% custom duty rebate is provided on machinery imported by Micro, Cottage, Small industries.

✚ 50% custom duty rebate on Vehicles having only electric stroke engines.

✚ 50% custom duty rebate on machinery for making face mask imported by industry producing face mask.

✚ Exemption being given on Custom Duty during import of Construction plant, machinery, tools and related parts has been extended to Transmission and Distribution of electricity. Whereas exemption given to Hydroelectric Project on Raw material (Steel Sheets) required for construction of Plant, Equipment's is withdrawn.

✚ 50% rebate on Custom Duty for fertilized eggs imported by Poultry Industry for production of Chicks.

6.8 Major Changes in Value Added Tax Law

✚ Scrap Business has been removed from the purview of compulsory registration and now needs registration only on threshold basis.

✚ Legal Consultancy business and Tailoring Business with Shirting Suiting which otherwise needed to be compulsory registered if operating in the area of metropolitan city, sub-metropolitan city and municipality are removed from such category and now need to be registered on threshold basis only.

✚ The requirement of businesses mentioned in 10(2)(Kha) for compulsory registration if operating in area of metropolitan city, sub-metropolitan city and municipality are restricted to metropolitan city and sub-metropolitan city only.

✚ Clarity in terms of credit availability of VAT withheld by government owned organization against contract fee has been introduced. After amendment, 50% of VAT withheld by such entity are eligible for credit claim and are also eligible for refund if continuously unsettled for 4 consecutive months.

✚ New Provision for refund of VAT paid on Raw Materials, Auxiliary Raw Materials and Packing Materials purchased from domestic industry by industry manufacturing medicine in trimester basis has been introduced to offer more clarity in provision related to refund.

✚ Penalty for non-registration in VAT has been increased from NPR 10,000 per instances to NPR 20,000 per instances.

✚ Soybean Maseura is reintroduced as Exempted Goods.

✚ Penalty of 50% of Bigo is introduced for taxpayer conducting transaction without registration in VAT which was otherwise required to be registered.

✚ Penal provision of full recoverability of VAT is introduced in case any community education institute having claimed VAT amnesty on import of school bus sells or transfer rights of such bus before lapse of 10 years lock-in period.

✚ Earlier applicable VAT on Machinery used in production of bag of paper, clothes, jute was exempted for industry manufacturing plastic bags if they chose to discontinue their production of plastic bags. Now, this provision has been removed.

✚ VAT rate on Deep-Cycle Lead Acid Battery (8507.20.00) is increased from 0% to 13%.

✚ Face Mask Making Machine, Cremation Machine is notified as exempted goods.

✚ Micro Insurance Business is exempted from Value Added Tax.

✚ Import of Medicine, PPE, Viral Transplant Media, Test Kit, Reagent and extraction kit, Surgical gloves, Face Mask, Autoclave Machine, Thermal Gun, Ventilator Portable PCR, Machine & Protective Goggles is added in list of Exempted Goods and Service.

✚ Raw material, support Raw Material and chemical used in production of Medicine and Intra Ocular Lens imported by medicine industry themselves and included in Part 28,29 & 38 of

Rate of Custom are also added in list of Exempted Goods and Services.

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