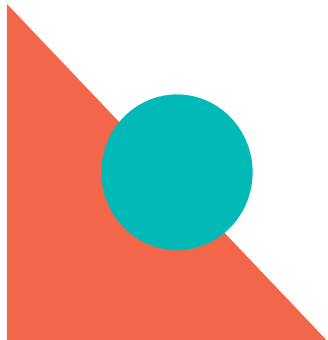




Nepal Budget Highlights

Amendments Made by Finance Bill 2077

31 May 2020



Content

- Objectives of Budget
- Glimpse of Nepal Budget
- Revised Provisions on Taxation

Objectives of Budget FY 2077/78

- To make the life of the citizens calm and safe by protecting the lives of the residents from all kinds of diseases and disasters including contagiousness
- To give stimulus to the pace of economic development by mobilizing the available resources, opportunities and capacity at the maximum level
- To increase the welfare oriented role of government by fulfilling the fundamental and basic rights of the citizens and
- To build uplifting, prosperous, independent, and socialism oriented economy through social, economic and infrastructure development

Budget Priorities FY 2077/78

- Expansion of health services, construction and upgradation of health infrastructure and development of health manpower to retain the citizens safe from all kinds of health risks including coronavirus pandemic and to make quality health services collectively accessible
- Rehabilitation of exaggerated areas like agriculture, industry, tourism, construction by reestablishing the supply chain fragmented as a result of steps taken for the prevention of coronavirus infection
- Job and employment opportunities, safe housing, long lasting social security and protection for the citizens

Budget Priorities FY 2077/78 Contd...

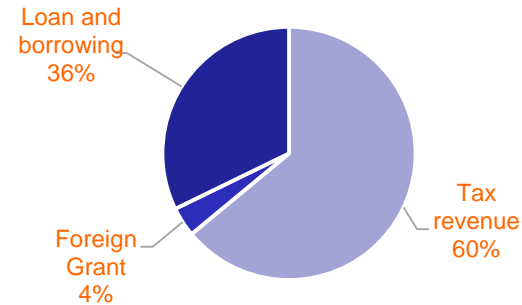
- Implementation and completion of incomplete and quick return oriented projects to be completed in the coming year
- Development and building of social, economic and physical infrastructure including quality and life useful or occupational education, expansion of information technology and basic drinking water
- Implementation of federalism, quality and accessible social services and consolidation of the accountable and transparent governance system

Glimpse of Nepal Budget

Sources of Budget

Source of Budget	Amount (In B NPR)	%
Tax revenue	889.62	60%
Foreign Grant	60.52	4%
Loan and borrowing	524.5	36%
Total	1,474.64	100%

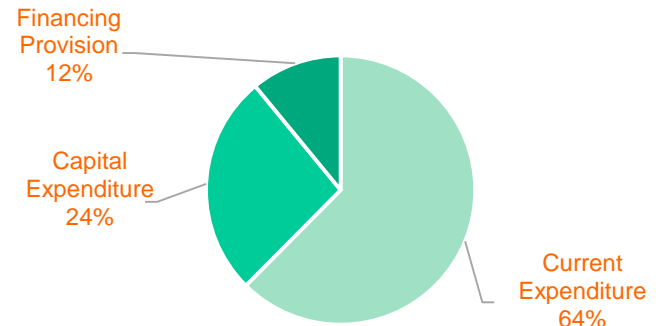
Source of Budget



Budget Allocation

Head of Allocation	Amount (In B NPR)	%
Current Expenditure	948.94	64%
Capital Expenditure	352.91	24%
Financing Provision	172.79	12%
Total	1,474.64	100%

Budget Allocation



Key Indicators	2076.77 (Projected)	2076.77 (Actual)	2077.78 (Projected)
Growth Rate	8.5%	2.27%	7%
Inflation	6%	6.5%	7%
Per Capita Income (USD)		1,085	

Glimpse of Nepal Budget

Key Highlights

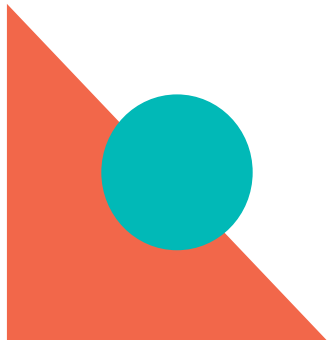
- 90% reach of drinking water & Electricity
- BFIs increased branches by 1,000
- Penetration of Insurance from 5.6M to 7 M
- FDI 1,435 BNPR Commitment, 155BNPR Approved, 29.82BNPR Approved from DoI

- 6BNPR to Corona Epidemic Control
- 300 Beds Hospital in KTM
- 50BNPR Fund to be established and loan will be available at 5% interest to Tourism
- Agriculture, SME, Tourism, Hotel, Manufacturing Industries can avail Refinancing facility of upto 100B at 5% interest
- BFIs to provide subsidized loan A Class -10, B Class - 5 per branch
- Electricity rebate- Monthly Upto 10 Unit – Free, 150 Units – 25%, 250 Units – 15% to Public, 50% Rebate on Demand Charges to Manufacturing Industry

- Rebate to Airlines Industry on parking charges, renewal, Infrastructure tax on fuel
- Credit Rating within 6 months
- Hedging, Alternative channel for investment to be established to promote Investment
- Day Lunch program to all schools
- NEA to reform segregating Generation, Transmission and Distribution
- Removal of VAT to Micro Insurance
- Airlines, Hotel, Tourism Industry allowed to Income Tax Rebate of 20%



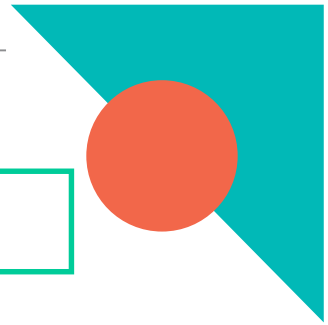
TAX AMENDMENTS



Amendments in Income Tax

Income tax waiver

Particular	Criteria	Waiver
Natural person: Not obtained PAN	If registered under PAN and submit return/pay tax of F/Y 2074/75 and 75/76 upto Falgun end 2077	Interest, penalty and earlier year tax
Natural person: Obtained PAN and Turnover upto NPR 5 Million	Submit return and pay tax and 25% of interest upto Falgun end 2077 of F/Y 2073/74, 74/75 and 75/76	Remaining Interest, penalty and earlier year tax
All other natural person and entity who fail to file a return for F/Y on or before 2073/74	Submit return and pay tax and 25% of interest	Additional fine and penalty
Water and Sanitation Consumer Society		All income tax-related dues

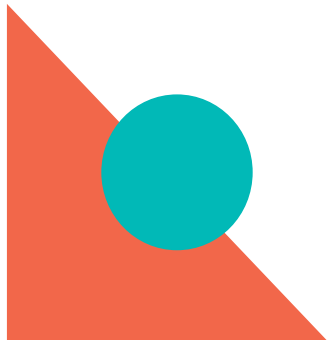


Amendments in Income Tax

Applicable from 2076/77

Income tax Rebates

Particular	Existing Rate	New Rate
Presumptive taxpayer Section 4(4)	NPR 7,500/4,000/2,500	NPR 1,875/1,000/625
Turnover based tax Section 4(4ka)	0.25%/0.75%	0.125%/0.375%
Turnover up to NPR 10 Million (Firm or Company)	Special Ind. - 20% Trading - 25% High Profit - 30%	Special Ind. - 15% Trading - 18.75% High Profit - 22.5%
Tourism or Transport above NPR 10 Million	25%	20%



Amendments in Income Tax

- The deduction allowed on Contribution to corona infection, prevention, control, and treatment fund established at all three levels of government
- The deduction allowed on payment to casual labor upto NPR 3,000 even without PAN applicable
- The deduction allowed on payment related to forest, agriculture, animal, and other domestic Goods to a natural person not engaged in business even without PAN
- PAN bill requirement for making expense admissible is increased from NPR 1,000 to NPR 2,000
- Additional depreciation of 1/3rd will be allowed for special industries, Entities involved in building and operation of the road, bridge, tunnel, ropeway, railway or overhead bridge, trolley bus or tram
- Where a person opts couple status makes a contribution to Contribution-based Social Security Fund, 1% tax on basic exemption limit (NPR 450,000) is not applicable

Above provisions are Applicable from 2076/77

Amendments in Income Tax

Tax on Cooperative

Particulars	Rate
Incomes earned by agro and forest-based cooperative involved in activities as prescribed in 11(2)	Zero
Cooperative societies operated in Rural Municipality established pursuant to Cooperatives Act, 2074 11(2)	Zero
Co-operative operated in the municipality Schedule 1 2(3)	5%
Co-operative operated in the sub-metropolitan Schedule 1 2(3)	7%
Co-operative operated in the metropolitan Schedule 1 2(3)	10%

Amendments in Income Tax

Tax Deducted at Source (TDS)

Particulars	Rate
For Transport Service provider or renting out Transport Vehicle	If registered in VAT 1.5% If not registered in VAT 2.5%
Bank and Financial Institution making payment of Interest on loan obtained in Foreign Currency from Foreign Bank for making Investment as prescribed by NRB	10%
Reward/rebate awarded to consumer making payment through electronic payment medium including payment card, digital wallet, mobile banking on purchase of goods or services	No TDS
Bank should deduct TDS on remitting the payment for foreign language exam and tuition fee	15%

Fine under Section 120 shall be levied if person has not deducted TDS on which TDS should be deducted

Amendments in Income Tax

Others

- If beneficiary of an approved retirement fund transfers the amount deposited in Approved Retirement Fund to Social Security Fund within 2077 Chaitra end, TDS applicable u/s 88 of Income Tax Act, 2058 shall be waived.
- U/s 11(3) (Kha) ten income years including first year of operation is replaced by ten years from the date of commercial operation
- U/s 11(3) (Ga) Tourism industry (except casino) is added, capital investment is increased to NPR 2 billion from 1 billion and number of direct employment is decreased to 300 from 500
- U/s 11 (3Kha) Fuel is added after natural gases
- U/s 11 (3Gha) Production, Transmission and Distribution is removed

Amendments in Income Tax

- U/s 11 (3Cha)
 - a. Operation of Trolley or Tram Bus: 40% (Previous 20%)
 - b. Building and operation of ropeway, cable car, or overhead bridge: 40% (Previous 20%)
 - c. Building and operation of road, bridge or tunnel way: 50% (Previous 52%)
- U/s 11 (2Ja) 25% tax exemption for industry operated in undeveloped area is added
- U/s 11 (3Ta) Provision related to existing industry is removed
- U/s 11 (3ta) Exemption period is extended from 5 to 7 years for normal micro industries and if additional period of 2 to 3 years if owned by Women
- Section 11 (3Da) (New Provision) Special industry is established in industrial area or industrial village, there shall be 25% tax exemption for a period of 5 years from the date of commencement of commercial operation

Amendments in Income Tax

- U/s 47Ka (6) The period is extended from 2077 Ashadh to 2078 Ashadh and under 47Ka (7) 2077 to 2079 Ashadh
- U/s 78 Ka new provision for suspension of PAN is added
- U/s 79 (1) (Kha) for servicing of documents: representative or his employee and any representative or employee designated by the manager is added
- If taxpayer withdraws lawsuit filed against tax assessment made by tax authority until 2075 Ashadh end under Income Tax Act, 2058, Value Added Tax Act, 2052 and Excise Act, 2058 by paying the assessed tax along with applicable interest. The Fees, additional fees and penalty shall be waived.

Amendments in Value Added Tax

- Registered person who failed to file Value Added Tax Return until 2075 Ashadh; if files return pertaining to such periods along with payment of payable VAT and 50% of interest applicable on such payable VAT within 2077 Falgun end. The fees, additional fees and remaining interest shall be waived
- The registration of registered person who has not submitted return until 2073 Ashadh end shall be cancelled automatically with waiver of penalty applicable for failure to file VAT return
- Compulsory registration of waste management, legal service, Tailoring with shirting suiting and motor parts under section 10 (2) (Ka) and (Kha) is removed
- Amount of VAT paid by United Nations Organization, its member organization and specialized agencies on purchase of goods and service shall be refunded u/s 25 (1) (Ka2)

Amendments in Value Added Tax

- **Refund of excess VAT under Contract with government entity**
 - a. The registered person has to make application for refund of VAT after continuous credit of 4 month.
 - b. The Tax Officer shall refund such VAT within 60 days from date of application
 - c. The registered person shall not carry forward such VAT after making application for refund
- **Refund of VAT on purchase of Raw Materials by Pharmaceuticals Industry**
 - a. The person shall make application for refund of VAT on tri-semester basis for VAT paid on purchase of raw materials and packing materials from domestic Industry.
 - b. The Tax Officer shall make refund of VAT within 60 days of application

Amendments in Value Added Tax

- Penalty of NPR 10,000 is increased to NPR 20,000 for breaching the order of registration of tax officer under Section 5B or sub-sec (1) or (2) of Section 10 or fails to get registered under Section 10 (1) or Section 10Kha (1)
- The tax Officer may levy a penalty upto 50% of tax amount who fails to register and conduct business

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Reference

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