

# Highlights of Amendments Made by Finance Bill 2076

June 2019



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## Objectives of Budget FY 2076/77

- Qualitative improvement/reform in living standard of the citizens by immediate fulfillment of their fundamental rights and basic needs.
- Rapid economic development with social justice by maximum mobilization and judicious distribution of available resources, opportunities and capacities.
- Develop the foundations for fair and prosperous socialism oriented economy by upgrading to middle income country within 2030 AD through the economic, physical and social infrastructure developments.

## Budget Priorities FY 2076/77

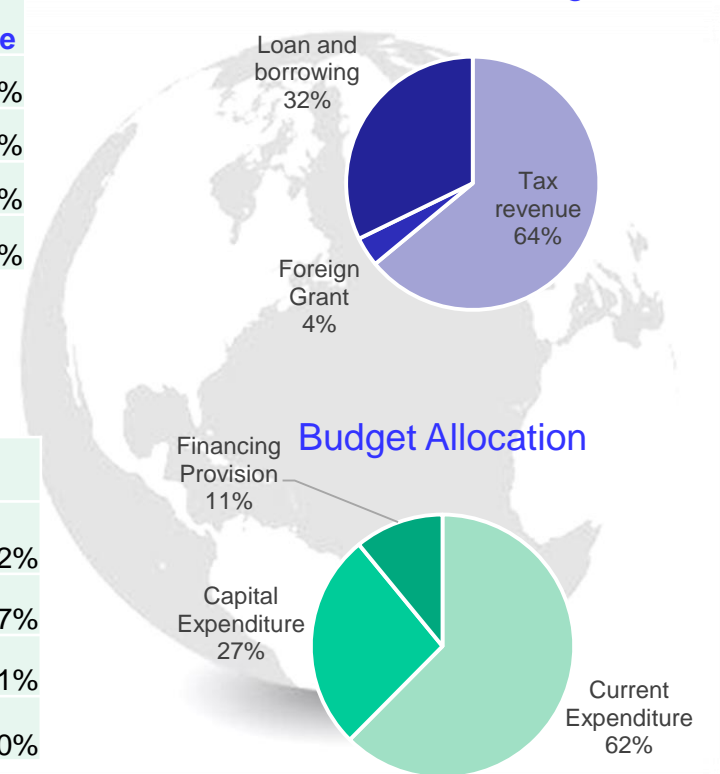
- Development of social welfare state including the expansion of social security by eradication of extreme poverty and uplifting of backward area, class and society.
- Development of national capital, employment creation and increment of income by enhancement of production capacity, transformation of production system with the cooperation of public, private and cooperative sectors.
- Development of architecture and construction of strategically important infrastructure projects of the country and completion of ongoing projects including the development of social and economic sectors such as quality education, health sector, drinking water, agriculture, industry and tourism.
- Promotion of good governance through rule of law, effective public service, accountability and participation of public in development.
- Cooperation between government entities at federal, province and local governments level and private sector for maximum mobilization of resources, opportunities and responsibilities.

# Glimpse of Budget FY 2076/77

## Source of Budget

Source of Budget	Amount ( In B NPR)	Percentage
Tax revenue	981.14	64%
Foreign Grant	58.00	4%
Loan and borrowing	493.83	32%
<b>Total</b>	<b>1,532.96</b>	<b>100%</b>

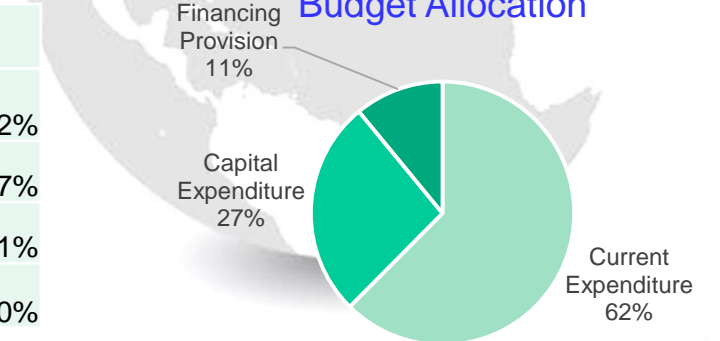
Source of Budget



## Budget Allocation

Head of Allocation	Amount (In B NPR)	Percentage
Current Expenditure	957.10	62%
Capital Expenditure	408.01	27%
Financing Provision	167.85	11%
<b>Total</b>	<b>1,532.96</b>	<b>100%</b>

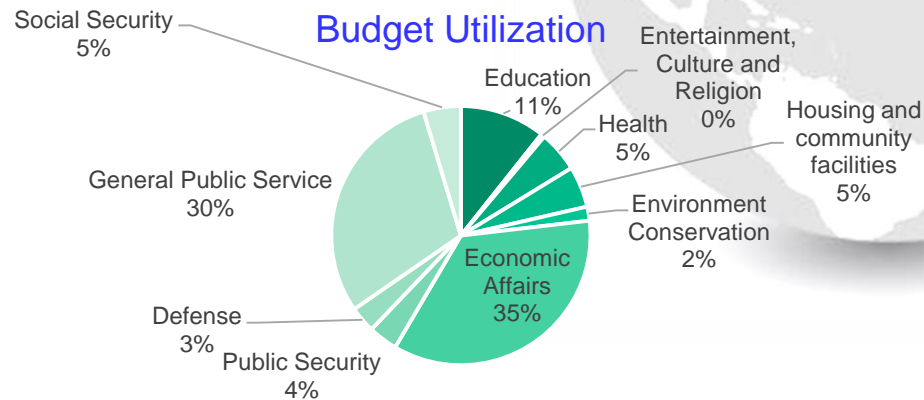
Budget Allocation



# Glimpse of Budget FY 2076/77

## Source Allocation – Head Wise Allocation

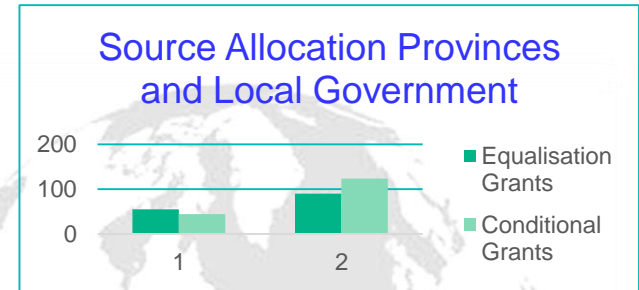
Head	Amount (In B NPR)	Percentage
Education	163.75	10.68%
Entertainment, Culture and Religion	7.23	0.47%
Health	78.4	5.11%
Housing and community facilities	78.75	5.14%
Environment Conservation	26.79	1.75%
Economic Affairs	541.37	35.32%
Public Security	56.12	3.66%
Defence	50.11	3.27%
General Public Service	459.05	29.95%
Social Security	71.39	4.66%
<b>Total</b>	<b>1532.96</b>	<b>100.00</b>



# Glimpse of Budget FY 2076/77

## Source Allocation - Provinces and Local government

Particulars	Provinces (Amount (In B NPR)	Local (Amount in Billion)
Equalisation Grants	55.3	89.95
Conditional Grants	44.55	123.87



- Total size of Budget NPR 1.532 Trillion
- Growth Rate projected 8.5% (FY 2075-76 actual 7%)
- Inflation will be controlled within 6 % (FY 2075-76 actual 4.5%)
- Per capita income has increased by 5.7% to USD 1,364 as at 13 April 2019.
- 2257 new branches of BFIs opened this year
- 39% decline in workers going abroad
- 21% increase in remittance

# Glimpse of Budget FY 2076/77

# TAX



AMENDMENTS



# Amendments Made by Finance Bill 2076

## Amendments in Income Tax

### **Special Provision to waive Fines and Penalties**

Any person or institution involved in the business with innovative thinking, skill, entrepreneurship and technology who have not come under the purview of tax, if registered to VAT after obtaining PAN within Poush End 2076, then all the tax, fine, additional amount, fee and interest prior to FY 2075-76 shall be waived. [Section 20 of Finance Bill 2076]

### **Key Issues**

- Registration on PAN and VAT till Poush 2076
- Usual Tax applicable for 2075/76
- Tax wavier –Income Tax and VAT for Earlier Years
- Existing PAN Holder not covered by this scheme

# Amendments Made by Finance Bill 2076

## Amendments in Income Tax

### Provisions Relating to Social Security Fund

In case of single natural person whose Annual Income is up to NPR 400,000 Social Security Tax 1% i.e. NPR 4,000 is applicable ( Previous Year NPR 3,500)

#### In case of couple

In case of natural person opted as couple, whose Annual Income is up to NPR 450,000 Social Security Tax 1% i.e. NPR 4,500 is applicable ( Previous Year NPR 4,000) [Section 21 of Finance Bill 2076]

#### Not applicable for

- Person having Pension Income
- Natural Person who contributes to contribution based pension fund

# Amendments Made by Finance Bill 2076

## Amendments in Income Tax

### Taxation on Co-operatives

Particulars	FY 2076/77	FY 2075/76
Cooperatives operating in Agriculture and Forest based industry and Rural area	Exempt	Exempt
Cooperatives operating in municipal areas	5%	NA
Cooperatives operating in metropolitan and sub-metropolitan areas	10%	NA
Co-operatives involved in Financial Transactions operating anywhere	20%	20%

[Section 11(2) & Schedule 1]

# Amendments Made by Finance Bill 2076

## Amendments in Income Tax: Business Exemption and Concessions

### Business Exemption and Concessions

Special industry operating during whole year of Financial year, Tax concession from income of such special industry is as below;

- **Resident natural person falling under tax slab of 30% :** 1/3rd concession on applicable tax
- **In case of entity:** 20% concession on applicable tax

Note: Above person can also avail any other tax concession under section 11, if any. **New Provision of Finance Bill, 2076.** [Section 11(2) (kha)]

### Export of Goods by Production Oriented Industry

Resident Natural person - Tax Slab 20%: **25%** concession on applicable tax

Resident Natural person -Tax Slab 30%: **50%** concession on applicable tax

In case of Entity: 20% concession on tax

**Export of Goods by Production oriented Industry:** 25% additional tax concession on income generated from export of goods after availing above tax concession. **Previous Year: Flat 25% Tax Concession**

[Section 11 (3) (Nga)]

# Amendments Made by Finance Bill 2076

## Amendments in Income Tax: Business Exemption and Concessions

### Business Exemption and Concessions

Particular	FY 2076/77	FY 2075/76
Operation of Tram and Trolley Bus	20 %	40%
Construction & operation of ropeway, cable car, railway, tunnel, overhead bridge	20 %	
Construction & operation of airport	40%	
Construction & operation of road, bridge, & tunnel road	52%	
Investment & operation of tram & trolley bus	52%	NA

[Section 11 (3) (cha)]

# Amendments Made by Finance Bill 2076

## Amendments in Income Tax: Business Exemption and Concessions

### **Business Exemption and Concessions**

Any entity generating income from construction, operation and handover of public physical infrastructure project and construction of power house, production and transmission of electricity: **20% Tax Concession on Taxable Income** [section 11(3)(Tha)]

### **Non-deductible Expenses**

- The remuneration and wages paid to the employees and workers not having Permanent Account Number (PAN): **Not Allowed for Income Tax Purpose**
- The expense bill without PAN exceeding NPR 1,000 shall be disallowed for Tax purpose

**New Provision added by Finance Bill 2076** [Section 21(1) Gha 1&2]

## Amendments Made by Finance Bill 2076

### Amendments in Income Tax: Business Exemption and Concessions

#### **Special Provision relating to disposal owing to merger and acquisition**

- The letter of intent for the merger shall be submitted to Inland Revenue Department until 2077 Ashadh end and shall be completed by 2078 Ashadh End.

**Finance bill 2076 extend period for 1 year as compared to Finance Act 2075. [Section 47(ka)]**

#### **Biometric Registration Compulsory**

- Person doing the transactions by taking PAN shall mandatorily update the information regarding their registration under biometric system within Ashadh 2077. This provision is also applicable to VAT as well.

**New Provision added by Finance Act 2076 [Section 78 (4 ka), Rule 7 kha]**

# Amendments Made by Finance Bill 2076

## Amendments in Income Tax

### Payment of Installment Tax

- If the amount of instalment tax is less than NPR 7,500, no need to pay instalment as per section 94 (2). Earlier period limit was NPR 5,000 [Section 94(2)]

### Collection of Advance Tax- Listed Securities Capital Gain Tax

Particulars	FY 2076/77	FY 2075/76
Resident Individual	5%	7.5%
Entity	10%	10%
Others	25%	25%

***Calculation of capital gain method shall be weighted average cost.***  
[Section 95 ka 2]



# Amendments Made by Finance Bill 2076

Example: Company Real Ltd.

Date	Qty.	Cost per kitta	Cost of sales (outgoings)	Total Qty.	Total cost	Cost per kitta
Date 1: Purchase	100	100.00		100	10,000.00	100.00
Date 2: Purchase	200	150.00		300	40,000.00	133.33
Date 3: Purchase	250	224.00		550	96,000.00	174.55
Date 4: Right	550	100.00		1,100	1,51,000.00	137.27
Date 5: Sale	(200)	137.27	(27,454.55)	900	1,23,545.45	137.27
Date 6: Bonus	90	100.00		990	1,32,545.45	133.88
Date 7: Sales	(350)	133.88	(46,859.50)	640	85,685.95	133.88

# Amendments Made by Finance Bill 2076

## Amendments in Income Tax

### Collection of Advance Tax

Disposal of land and building other than NBCA of a natural person, Advance Tax 1.5% of proceeds shall be collected in advance (FY 2075-76 Rate-10% on gain) [Section 95(ka 7)]

### Revised Income Tax Return

Income Tax Return can be revised within 30 days from the date of filling of income tax return. This is applicable only to Income Tax Return and not applicable to VAT and Excise.

**New Provision inserted by Finance Bill 2076** [Section 96(6)]

### Ultimate Tax Payer

Liability of Payment of Tax shall be on beneficial owner if it has been proved that beneficial owner is other than business registered person. This is applicable only to Income Tax Return and not applicable to VAT and Excise.

**New Provision inserted by Finance Bill 2076** [Section 110(Ga)]

# Amendments Made by Finance Bill 2076

## Amendments in Income Tax

### Tax Collection at source at the point of Import based custom valuation

Particulars	FY 2076/77	FY 2075/76
<ul style="list-style-type: none"> <li>• He buffalo, buffalo, he goat, sheep, chyangra falling under part 1 of HCS</li> <li>• Love, frozen or fresh fish under part 3 of HCS.</li> <li>• Fresh flowers under part 6 of HCS.</li> <li>• Fresh Vegetables, potato, onion, <b>dried vegetables, garlic, and baby corn</b> under part 7 of HCS.</li> <li>• Fresh fruits under part 8 of HCS.</li> </ul> <p><i>(Italic and bold items added by Finance Bill 2076)</i></p>	5%	5%
<ul style="list-style-type: none"> <li>• Meat under part 2 of HCS.</li> <li>• Milk products, egg, honey under part 4 of HCS.</li> <li>• Millet, buckwheat, junelo rice, broken rice under part 10 of HCS.</li> <li>• While Flour, Flour (Aata), Pitho under part 11 of HCS.</li> <li>• Herbs , sugarcane under part 12 of HCS</li> <li>• Vegetation related production under part 14 of HCS.</li> </ul>	2.5%	NA

[Section 95 ka 7]

# Amendments Made by Finance Bill 2076

## Amendments in Income Tax

### **Application May be Filed for Administrative Review**

Any person making an application for administrative review has to pay the full amount undisputed tax and  $1/4^{\text{th}}$  of the disputed tax. (FY 2075/66  $1/3^{\text{rd}}$ )

**This provision applicable for Income Tax, VAT and Excise**

[Section 115(6)]

### **Estimated Return of Income**

Non filing of estimated return u/s 95(1) is liable to pay fees of NPR 5,000, ( FY 2075/76 NPR 2,000) per return. [Section 117(1) (ka)]

# Amendments Made by Finance Bill 2076

## Amendments in Income Tax

### Presumptive Tax Rate for Natural Person

(Amount in NPR)

Particulars	FY 2076/77	FY 2075/76
Doing business in Metropolitan City & Sub Metropolitan city	7,500	5,000
Doing business in Municipality	4,000	2,500
Doing business in other areas	2,500	1,500

[Section 4(4) and schedule 1 section 1(7) of schedule ]

### Mode of Payment of Tax

Tax payment exceeding NPR 1 Million shall have to be paid through Cheque, draft or Electronic transfer only. [Rule 29]

# Amendments Made by Finance Bill 2076

## Amendments in Income Tax

### Transactions based business Tax for Natural Person

(Amount in NPR)

Particulars	FY 2076/77	FY 2075/76
Dealing in cigarette, gas, etc. in which the person makes sales by adding 3% commission or profit	0.25% of transactions amount	0.25% of transactions amount.
Dealing goods besides that specified above:	0.75 % of transactions amount.	0.75 % of transactions amount.
Persons dealing in service business	2% of transactions amount.	2% of transactions amount.
Special Condition	<b>NA</b>	But if Tax calculated above is less than NPR 5,000, NPR 5,000 is to be paid

[Section 4 (4ka) and schedule 1 Section 1(17) of schedule]

# Amendments Made by Finance Bill 2076

## Amendments in Value Added Tax

### VAT Registration

**a. New Service added by Finance Bill 2076 for Compulsory VAT registration anywhere**

- Custom Agent
- Toys Shop
- Used Goods shop

**b. Compulsory VAT registration in inside Metropolitan City, Sub-Metropolitan City, Municipality or areas prescribed by department**

- Educational and legal consultancy
- Account and Audit Service

**c. Exclude from Compulsory Registration Service**

- Beauty Parlor

[Section 10 (2) ka and kha]

# Amendments Made by Finance Bill 2076

## Amendments in Value Added Tax

### **Treatment of Deduction exceeding Tax Liability**

A registered person may file a claim to a tax officer for a lump sum refund, as prescribed, of the amount of the remaining excess after offsetting for a continuous period of **four months ( Earlier: Six Month)** under this section

[Section 24 (3)]

### **Tax May be refunded**

Tax amount paid by the diplomat of a foreign country on purchase of taxable Goods or Services in Nepal under the recommendation of Ministry of Foreign affairs, Nepal Government shall refund [Section 25 1 ka (1)]

VAT refund Claim Limit for foreign diplomats : NPR **10,000 ( Earlier NPR 5,000)** [Section 25 (1ka )]



# Amendments Made by Finance Bill 2076

## Amendments in Value Added Tax

### **Tax May be refunded**

10 % of VAT will be refunded to consumer's bank account on payment through electronic means.

Withholding tax shall not be deducted in such refund but considered as income

**New Provision added by Finance Bill 2076** [Section 25 (1) kha]

### **Penalties**

The person not submitting the changes in registration details within 15 days to the Tax Officer shall be fined with the amount of **NPR 10,000** for each instances.

**New Provision added by Finance Bill 2076** [Section 29(1) kha (2)]

# Amendments Made by Finance Bill 2076

## Amendments in Value Added Tax

### Penalties

Person not issuing tax invoice, fine of NPR 10,000 (**earlier NPR 5,000**) for each instance and ***for person not taking invoice fine of NPR 1,000 for each instance***

**Italic and bold added by Finance Bill 2076.** [Section 29 (1) Ga]

### Penalties

Person not carrying the tax invoice while transporting the goods exceeding value NPR 10,000, fine of NPR 10,000 for each instance. *Earlier such fine was NPR 5,000 [section 29 (1) Ga (1)]*

### Penalties

Sale of Invoice only- 50% of fine of Invoice amount ***or Imprisonment up to 6 Months***. *Earlier only fine was applicable. [Section 29 (1) Ga (1)]*

# Amendments Made by Finance Bill 2076

## Amendments in Value Added Tax

### VAT Exempt goods and Services

**The following goods and services are excluded from the schedule 1 by Finance Bill 2076**

- Wheat and Meslin Flour (H . Code 1103 .11 .00 )
  - Soyabean
  - Transportation of goods ( Temo and Transport service)
- [Schedule 1]



# Amendments Made by Finance Bill 2076

## Amendments of Value Added Tax Rules

### **Provision relating to Contract**

Government entity, Public institution, or association or registered person while receiving contract or Consultancy services in excess of NPR 500,000 per annum shall receive from a registered person only

### **FY 2075/76:**

Government entity, Public institution, or association or registered person while providing contract in excess of NPR 500,000 per annum or while receiving ***consultancy services in excess of NPR 100,000*** per annum shall give or receive to/ from a registered person only  
[Rule 6 (ka) 2]

# Amendments Made by Finance Bill 2076

## Amendments of Value Added Tax Rules

### Provision relating to Payment to Contract

Government entity, or entity having full or partial ownership of Nepal Government, while making the payment for contract agreement or contract or **supply of goods or services or both**, out of the tax payable to the party, **50% of the tax amount shall have to be deposited directly to the related revenue head in the name of party** and only remaining **50% to be paid to the party**. However, the concerned contractor or supplier can set off such amount against the tax payable. [Rule 6 Ga]

### Tax Deduction Allowed

If a registered person exports more than **Forty percent (Earlier Fifty Percent)** of his/her total monthly sale carried out in any month, he has to make an application accompanied by necessary documents related with the export, to the Tax Officer in the format as referred to in Schedule-10 to get refund of the deductible tax which has become excess for that month. [Rule 39(5)]

# Amendments Made by Finance Bill 2076

## Amendments of Excise Duty

### License Renewal Provision

If the License holders engaged in production and import, who do not renew their license within the time prescribed as per section 9(5), then fine shall be 50% of renewal fees for the first 3 months and for the next three months, fine shall be 100% of renewal fees.

However, license holders engaged in production and import who do not renew their license within the time prescribed as per section 9(5) but want to renew their license can do so by paying the renewal fees for each year along with fine of 100% of renewal fees by the end of Poush 2076. [Section 9(6) ka]

# Amendments Made by Finance Bill 2076

## Amendments of Income Tax Slab

Particulars	Rate	Amount in NPR (FY 2076-77)	Amount in NPR (FY 2075-76)
<b>Individual</b>			
Basic Exemption	1%	400,000	350,000
Frist	10%	100,000	100,000
Next	20%	200,000	200,000
Next	30%	1,300,000	1,350,000
Balance Exceeding	36%	2,000,000	2,000,000
<b>Couple</b>			
Basic Exemption	1%	450,000	400,000
Frist	10%	100,000	100,000
Next	20%	200,000	200,000
Next	30%	1,250,000	1,300,000
Balance Exceeding	36%	2,000,000	2,000,000

# Some Critical Taxation Issues





## Some Critical Taxation Issues

### Bonus payment and Reversal of unpaid bonus

Discussion on [Public Circular](#) dated: 2072 Falgun 28

#### Impact:

- Bonus is [more than](#) 10%.
- Double taxation, if distributed to staff and taxed them.
- Most of current practices became obsolescent (and tax with interest and fees).
- Potential dispute with trade-unions.
- In case distribution fails (due to cash-shortfall, labor court, disasters...)- legal complexity

Supreme court decision of deductible bonus expense is 10% of profit before bonus and tax.

## Some Critical Taxation Issues

### Industrial tax relief – Supreme court decision

**Additional tax concession of rate, according to Supreme court is allowed as additional relief.**

#### **Impact:**

1. Special industry tax rate disputed for 16% or for 20%.
2. Now, the tax rate for special industry is 25% instead of 20%. Therefore, concession of 20% is 5% on non-double basis.



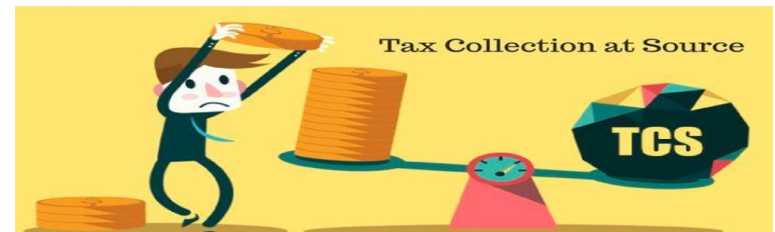
## Some Critical Taxation Issues

TCS on Housing business – effect of circular nullified by amendment

Housing company need to pay TCS at 10% of gain, after notional cost prescribed by department of housing

### Impact:

1. Matter of dispute among housing business
2. Now, TCS is based on turnover – 1.5% of gross turnover



# Some Critical Taxation Issues

## Impact of NFRS compliance

Prepare Deferred tax schedule with each detail for statement of affairs.

Banking tax account Customarily, accepted for interest income only

In all cases of fair value recognition under NFRS-prepare separate and detail list of income and expense for tax-accounting.

Always keep a separate schedule in financial statement showing tax-reconciliation sheet at heading-level.



# Some Critical Taxation Issues

## Merger/conversion of companies

**Merger u/s 47 is for own asset or liability, not for corporate merger**

- Bank and insurance: if complied with process of Sec. 47A.
- Public or private company merger – tax as similar to sale of assets
- Public or private company conversion - No tax impact except in case of change in control

Proprietorship firm converted into company

- Sale and purchase of assets at market price
- No VAT on conversion
- According to circular dated 2055.09.05 cost is deemed as market price, if other price could not be ascertained.

## Some Critical Taxation Issues

### Redistribution from dividend income

**No further tax- corporate tax as well as dividend tax**

- Dividend income, if distributed by entity is not subject to further tax
- Entity having dividend income requires to prepare a separate sheet of dividend imputation

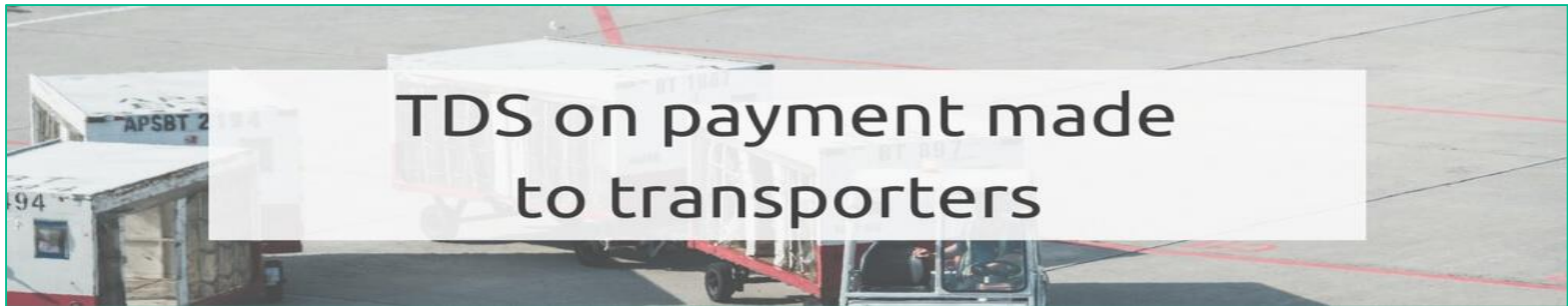
Particulars	Dividend	Own Earning	Retained Earning
Opening			
This year			
<b>Distribution</b>	<i>No TDS</i>	<i>5 % TDS</i>	
Closing			

# Some Critical Taxation Issues

## WHT on transportation

### VAT on transportation – Since 2076/77

- Rent basis – 10%
- Rent-basis with VAT – 1.5%
- Use-basis
  - With VAT invoice – 1.5%
  - Without VAT invoice – 2.5%



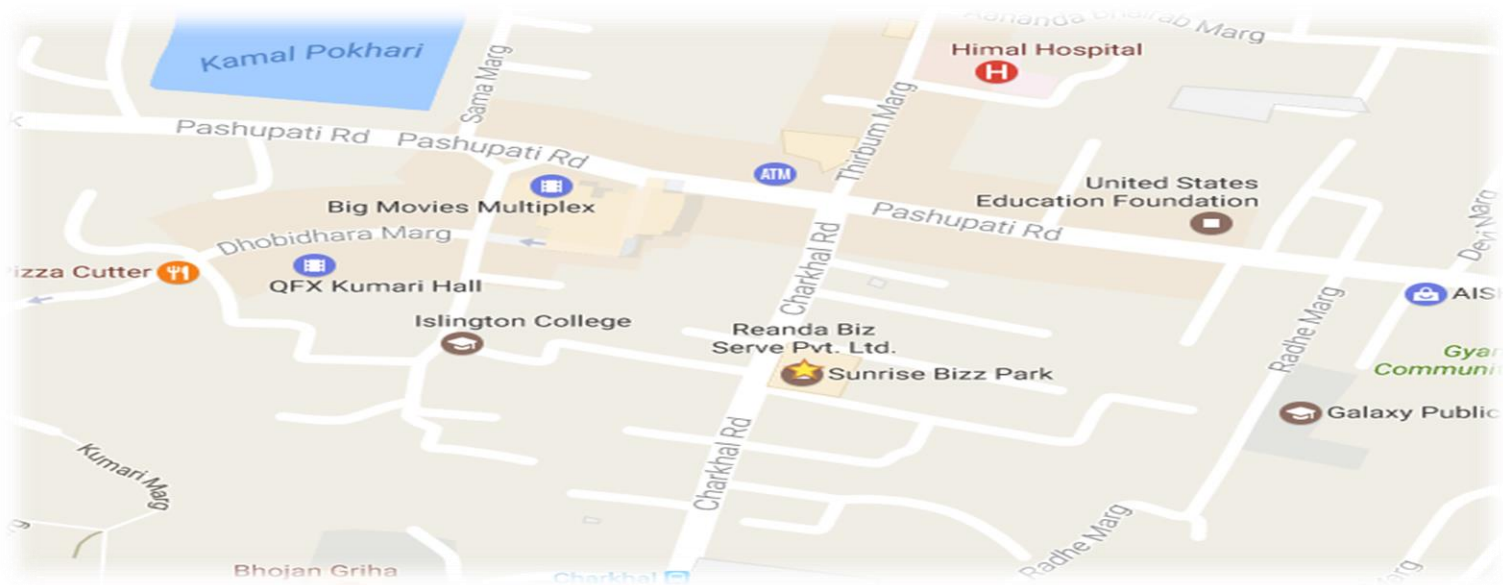
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