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Note:

In this booklet, the sentences or words in strikethrough are no more applicable.
The words or sentences in red font colour are recent amendment.
The words or sentences in green font colour is edit of last year's mistake

Changes in book affected by Finance Bill, 2077

1. Pg. 37 [Chart for income calculation of resident natural person]

Assessable Income from Business	XXX
Assessable Income from Employment	XXX
Assessable Income from Investment	XXX
Assessable Income from Windfall Gain	XXX
TOTAL ASSESSABLE INCOME	XXX
Less: Allowable Reductions	
1. Contribution to Approved Retirement Fund (in case of Natural Person)	XXX
2. Contribution to PM Relief Fund &/or National Reconstruction Fund u/s 12B	XXX
3. Donation u/s 12	XXX
a. Donation prescribed by Nepal Government in Nepal Gazette	XX
b. Donation u/s 12 (1) and (2)- Donation to Exempt Organization	XX
TAXABLE INCOME	XXX
Less: Allowable Deductions	
1. Benefit for residing in Remote Area	XXX
2. Employee of Government of Nepal deriving "Foreign Allowance" due to deputation in foreign diplomatic missions of Nepal	XXX
3. Reduction in case the natural person derives "Pension Income"	XXX
4. Reduction, if the resident natural person is Incapacitated	XXX
5. Reduction of Investment Insurance premium paid during any Income Year	XXX
6. Reduction as a result of payment of Health Insurance Premium to Resident Insurance company during the Income Year	XXX
Balance Taxable Income	XXX
Statement of Tax Liability	
<i>In case of Couple Assessment</i>	<i>In case of an Individual Assessment</i>
First Rs. 400,000 1% or 0%	First Rs. 350,000 1% or 0%
Next Rs. 100,000 10%	Next Rs. 100,000 10%
Next Rs. 200,000 20%	Next Rs. 200,000 20%
Next Rs. 1,300,000 30%	Next Rs. 1,350,000 30%
Balance 36%	Balance 36%
Less: Tax Credits	
1. Female Tax credit	XX
2. Foreign Tax Credit	XX
3. Medical tax Credit	XX
Less: Advance Taxes paid (either directly or through Withholding Agents) during the year	XX
Payable Tax Liability	XXX

2. Pg. 50: Exempt amounts

At the end of page 51, add as follows:

- 7. Income of Drinking Water and Sanitation Consumer Group [Sec. 10 (Ta)]**
Income derived as per its objective by Drinking Water and Sanitation Consumer Group established as per Water Resources Act, 2049 is exempt from tax.

3. Pg. 58: Point 8

8. Withholding tax on Transportation Service [Proviso 8]

8.1. The withholding tax rate shall be 2.5% in the following cases:

- (a) Payment in relation to transport service,
- (b) Payment in relation to lease of vehicles for transport purpose

8.2. The withholding tax rate shall be 1.5% on payment in relation to transport service and lease of vehicles for transport purpose where the service provider is registered for Value Added Tax purpose

4. Pg. 58: Point 9

Point 9 to be replaced as follows

9. Withholding tax on Interest payment [Proviso Clause (9) to Sec. 88 (1) and Sec. 88 (3)]

9.1. The withholding tax rate shall be 10% [Proviso Clause (9) to Sec. 88 (1)] if all the following conditions are satisfied:

- (a) Payment shall be made by resident banks or financial institutions,
- (b) Payment shall be made in respect of interest to foreign banks,
- (c) The loan from foreign bank shall have been obtained for the purpose of investment in the sectors as prescribed by NRB

9.2. The withholding tax rate shall be 5% on payment of interest [Sec. 88 (3)], if all the following conditions are satisfied:

- (a) Interest shall be paid to a natural person,
- (b) The interest shall be paid by resident banks, financial institutions, cooperatives, any other entities that issue bonds, or company listed under prevailing law,
- (c) The interest shall be paid in respect of deposits, bonds, debentures or government bonds, and
- (d) The interest shall not be earned as a result of purpose of earning income shall not be in relation to operation on relation to transport service and lease of vehicles for transport purpose where the service provider is registered for Value Added Tax purpose

5. Pg. 59: Withholding of tax not required under Sec. 88

Point (i) to be replaced as follows:

i. If all the following conditions are satisfied, there shall be no withholding of taxes [Proviso (10) to Sec. 88 (1)]

- a) Payment shall be incentive amount to promote electronic payments, and
- b) Such incentive amount shall be paid to consumer who buys goods or services and makes payment for such goods or services using electronic payment equipment including payment card, e-money (wallet), mobile banking as per prevailing law

6. Pg. 62: Withholding Tax Rate while making payment to Non-resident person [Sec. 88 (2) (3)]

Point (a) to be replaced as follows:

(a) ~~Repair and Other~~ Contract or agreement ~~of aircraft~~ - 5%

(Note: It means, payment in respect of contract or agreement to a non-resident person attracts withholding tax @5% of payment)

7. Pg. 70: Point 4

4. Collection of advance tax at customs frontier [Sec. 95Ka (7)]

4.1. Advance tax to be collected @5%

Advance tax shall be collected by customs frontier @5% on value determined for the purpose of customs duty at the time of import of following goods for commercial purpose:

Part under Harmonic Code System Nomenclature	Goods
Part 1	He-buffalo, buffalo, he-goat, sheep, chyangra
Part 3	Live, frozen or fresh fish
Part 6	Fresh flowers

Part 7	Fresh vegetables, potato, onion, dry vegetables, garlic, baby corn
Part 8	Fresh fruits

4.2. Advance tax to be collected @2.5%

Advance tax shall be collected by customs frontier @2.5% on value determined for the purpose of customs duty at the time of import of following goods for commercial purpose:

Part under Harmonic Code System Nomenclature	Goods
Part 2	Meat
Part 4	Dairy products, egg, honey
Part 10	Millet, fapar, Junelo, rice, kanika
Part 11	Maida, wheat flour and pitho
Part 12	Herbs, sugarcane
Part 14	Products related to plants

8. Pg. 70: Point 5 to be added after Point 4

5. Collection of Advance tax in respect of exchange facility [Sec. 95Ka (6Ka)]

- i. Tax collection agent:
Banks or financial institutions
- ii. Timing to collect advance tax:
when exchange facility is provided
- iii. Rate of advance tax:
15% of payment
- iv. Payments attracting advances taxes:
Language fee or standardized examination fee paid by students for the purpose of abroad studies

9. Pg. 77: Point 1.4.3

Deduction in case of pension income- whole provision to be removed, as such deduction is not available for IY 2077/78

10. Pg. 79: Point 2

2. Tax rate of 20%, 10%, 7% and 5% [Sec. 2 (3) and (3Kha) of Schedule 1]

- 2.1. Cooperatives that are not involved in tax exempt transactions and operated in municipality area- 5%
- 2.2. Cooperatives that are not involved in tax exempt transactions and operated in sub-metropolitan area- 7%
- 2.3. Cooperatives that are not involved in tax exempt transactions and operated in metropolitan area- 10%
- 2.4. Income of schools and high-schools operated under public Guthi- 20%

11. Pg. 85: Point 2.2

Exemption on the basis of location of cooperative society [Sec. 11 (2)]

The income of cooperatives registered under Cooperatives Act, 2074 and operated in Rural Municipality is exempt from tax.

Dividend distributed by such cooperative society is also exempt from tax.

The interest up to Rs. 25,000 paid on deposit during an Income Year by such cooperative society is also exempt from tax.

12. Pg. 86: Definition of special industry

"Special Industry" means the following industries as specified in Sec. 17 of Industrial Enterprises Act, 2076:

13. Pg. 86: Definition of Micro industry

The classification of industries is given in Sec. 17 of Industrial Enterprises Act, 2076. As such, the definition of micro industry is given in Sec. 17 (1) (ka) of Industrial Enterprises Act, 2076.

The industries that satisfy all the following conditions shall be treated as Micro industries, unless the industry requires government permission for set up pursuant to Sec. 8:

- i. Fixed capital shall not exceed Rs. 20,00,000 excluding land and building,
- ii. Industrialist is involved in operation and management of the industry,
- iii. The maximum number of employee or laborer is nine including the industrialist,
- iv. Annual transaction shall not exceed Rs. 1 Crore,
- v. Where engine, equipment or machinery is used, the total energy, fuel or other oil engine capacity consumed by such engine, equipment or machinery shall not exceed 20 KW.

14. Pg. 87: Point 4.2.: On the basis of location of special industry [Sec. 11 (3) (kha)]

4.2.1 Operation of Special Industry at Highly undeveloped/remote areas

In case any special industry is operated in remote area, the effective tax rate for the income generated by such industry shall be 10% of reduced tax rate for 10 years from the date of commercial operation of such industry.

4.2.2 Operation of Special Industry at undeveloped areas

In case any special industry is operated in undeveloped area, the effective tax rate for the income generated by such industry shall be 20% of reduced tax rate for 10 years from the date of commercial operation of such industry.

4.2.3 Operation of Special Industry at less developed area

In case any special industry is operated in less developed area, the effective tax rate for the income generated by such industry shall be 30% of reduced tax rate for 10 years from the date of commercial operation of such industry.

15. Pg. 87: Point 4.3.: On the basis of direct employment and capital investment [Sec. 11 (3) (Ga)]

4.3.1 New industry

If all the following conditions are satisfied, there shall be exemption of income tax for a period of five years from the date of commercial operation and 50% of income tax for next three years:

- (a) The industry is a newly established special industry,
- (b) The capital investment in such industry shall exceed Rs. 1 billion, and
- (c) The industry provides direct employment to more than 500 individuals (either Nepali or non-Nepali national) throughout the year

Loan capital shall not be considered while determining capital investment [Pg. 5, Chapter 10 of Income Tax Directives, 2066 (Updated 2077)]

4.3.2 Existing industry

If all the following conditions are satisfied, there shall be exemption of income tax on income generated from enhanced capacity for a period of five years from the date of commercial operation of enhanced capacity and 50% on income generated from enhanced capacity of income tax for next three years:

- (a) The industry is an existing special industry,
- (b) The capital investment [Loan capital shall not be considered while determining capital investment [Pg. 5, Chapter 10 of Income Tax Directives, 2066 (Updated 2077)]] in such industry is increased to **Rs. 2 billion**,
- (c) The capacity shall be enhanced by at least 25%, and
- (d) The industry provides direct employment to **300 individuals** (either Nepali or non-Nepali national) throughout the year

16. Pg. 88: 4.7 to be added after 4.6

4.7 On the basis of establishment in Industrial area or industrial village [Sec. 11 (3da)]

Where new special industry is established in Industrial area or industrial village, the effective tax rate for five years from the date of commencement of commercial operation shall be 75% of reduced tax rate.

17. Pg. 88: point 5: Concessions to Information Technology industry

5.2. On the basis of area of establishment [Sec. 113Ga]

The effective tax rate shall be 50% of applicable tax rate in respect of income of following IT related industries:

- i. Income from operation of zoological, geological and biotech park as prescribed by Government of Nepal through a notification in Nepal Gazette, or
- ii. Income from operation of industries related to software development, data processing, cybercafé, digital mapping after being established in technology park or information technology park as prescribed by Government of Nepal through a notification in Nepal Gazette

18. Pg. 89: Point 7: Concessions to Tourism industries

7.3. On the basis of capital investment and direct employment [Sec. 11 (3) (ga)]

7.3.1. New industry

If all the following conditions are satisfied, there shall be exemption of income tax for a period of five years from the date of commercial operation and 50% of income tax for next three years:

- (a) The industry is a newly established tourism industry other than casino,
- (b) The capital investment in such industry shall exceed Rs. 1 billion, and
- (c) The industry provides direct employment to more than 500 individuals (either Nepali or non-Nepali national) throughout the year

Loan capital shall not be considered while determining capital investment [Pg. 5, Chapter 10 of Income Tax Directives, 2066 (Updated 2077)]

7.3.2 Existing industry

If all the following conditions are satisfied, there shall be exemption of income tax on income generated from enhanced capacity for a period of five years from the date of commercial operation of enhanced capacity and 50% on income generated from enhanced capacity of income tax for next three years:

- (a) The industry is an existing tourism industry other than casino,
- (b) The capital investment [Loan capital shall not be considered while determining capital investment [Pg. 5, Chapter 10 of Income Tax Directives, 2066 (Updated 2077)]] in such industry is increased to **Rs. 2 billion**,
- (c) The capacity shall be enhanced by at least 25%, and
- (d) The industry provides direct employment to **300 individuals** (either Nepali or non-Nepali national) throughout the year

19. Pg. 89: Point 7: Concessions to Airlines operating International Flight [Sec. 11 (3Tha)]

8.2 shall be removed, as there is no facility in capacity enhancement by existing airlines operating international flight

20. Pg. 90: Point 9.3- Industries producing Brandy, cider, wine [Sec. 11 (3Ja)]

The effective tax rate from operation of industries producing brandy, cider and wine using fruits as raw material shall be as follows for 10 years from the commencement of commercial operation:

- i. Where the industry is located at highly undeveloped area: 60% of applicable tax rate
- ii. Where the industry is located at undeveloped area: 75% of applicable tax rate

21. Pg. 90: Point 10.2: Concessions to persons involved in electricity production, transmission or distribution

10.2.2 On the basis of commencement of commercial operation

In case of person who obtained license for production, transmission or distribution of hydroelectricity commences its commercial operation in respect of production, transmission or distribution within 2080 Chaitra end, such person shall be entitled to:

- (a) 100% of exemption on income tax for first ten years from the date of commercial production of hydroelectricity, and
- (b) 50% exemption on income tax for next five years thereafter

The exemptions and concessions as explained above shall also be applicable to electricity produced to solar, bio or wind energy.

22. Pg. 91: Point 10.7: Concessions to Micro industry [Sec. 11 (3ta)]

i. Operated by Male:

100% tax exemption for first seven years from the commencement of commercial operation.

ii. Operated by female:

100% tax exemption for first ten years from the commencement of commercial operation.

23. Pg. 91: Point 10.8: Concessions in respect of building, operation or building and operation of public infrastructure projects

10.8.1 In case of income generated from following transactions by an entity, the concessions shall be as follows for 10 years from the date of commercial operation [Sec. 11 (3Cha)]:

- i. Operation of trolley or tram bus- 40% [i.e. effective tax rate is 60% of applicable tax rate]
- ii. Building and operation of ropeway, cable car, overhead bridge- 40% [i.e. effective tax rate is 60% of applicable tax rate]
- iii. Building and operation of road, bridge, tunnel, railway, subway, airport- 50% [i.e. effective tax rate is 50% of applicable tax rate]

10.8.2 Tax rate for public infrastructure projects [Sec. 11 (3tha)]

The effective tax rate from building and operation of public infrastructure projects that are ultimately handed over to GON of shall be 20% [i.e. 80% of applicable tax rate].

24. Pg. 107: Point 5: Not an appropriate supporting [Sec. 21 (1) (Gha1) and (Gha2)]

i. Payment not supported by PAN of employee or laborer [Sec. 21 (1) (Gha1)]

Except when not exceeding Rs. 3,000 is paid in respect of casual laborer, where salary or wage is paid to employee or laborer not having permanent account number, such payment is not eligible for deduction.

ii. Payment not supported by PAN invoice [Sec. 21 (1) (Gha2)]

Except in the following circumstances, if any expenditure exceeding Rs. 2,000 is not supported by an invoice bearing permanent account number, such payment is not eligible for deduction:

- i. Direct purchase of agricultural, forest related, animal related and other domestic goods from a natural person who is not involved in business activity

25. Pg. 125: Method of Depreciation- Point 2: Entities entitled to accelerated depreciation

Point to be added as follows:

d. Special industries as mentioned in Sec. 11 (2Kha) shall compute depreciate using accelerated rate.

e. Entities involved in following industry [Sec. 11 (3Cha)] shall compute depreciate using accelerated rate:

- i. Operation of trolley or tram bus
- ii. Building and operation of ropeway, cable car, overhead bridge

iii. Building and operation of road, bridge, tunnel, railway, subway, airport

26. Pg. 177: Merger of BFIs and Insurance companies [Sec. 47Ka]

Point b: the entities shall register memorandum of understanding for merger in Inland Revenue Department within 2078 Ashad,

Point c: the entities shall complete merger process with Ashad 2079

27. Pg. 193: Effect of failure to submit estimated tax return [Sec. 117 (1)]

If a person who is required to file estimated tax return fails to file such return, the fee shall be applicable that is higher of following:

- (a) Rs. 5,000, or
- (b) 0.01% of assessable income

28. Pg. 289: Permanent Account number

Addition before "Summon of notice"

Suspension of Permanent Account Number [Sec. 78Ka]

Inland Revenue Department may suspend PAN of a person in any of the following circumstances:

- (a) If the person ceases to conduct transaction
- (b) In case of any entity, if the entity is closed, sold or transferred or otherwise ceases to exist,
- (c) In case of a private firm, if the concerned natural person dies, or
- (d) In respect of registration in error.

Process of suspension of PAN [Rule 23Ka]

A person shall make an application with IRD within 35 days of happening of the following events along with income return and payment of taxes:

- (a) Cessation of conducting transaction,
- (b) Closure of entity,
- (c) Sales of entity,
- (d) Transfer of entity,
- (e) Cessation of existence of entity,
- (f) Death of natural person, or
- (g) Knowledge of registration of error

IRD shall examine the application, it shall do as follows within 30 days of application:

- (a) Suspend the PAN, if the reason is genuine, or
- (b) Inform the applicant regarding inability to suspend PAN

29. Pg. 289: Summon of Notice [Point (b)]

b. In case of a natural person, when the document is handed over to him or his representative or his employee; and in case of an entity, when the document is handed over to manager of the entity or any representative or employee deputed by such manager

30. Pg. 391: Sec. 20- Proviso of Sec. 20 (1)

The word "relieved" which was a typo shall be replaced by the word "unrelieved"

Provided that, any unrelieved.....