

# Taxation Highlights of Budget (2077-78) 2020-21



## 1. Income Tax

- ⊗ Tax concession for Micro, Cottage & Small Industries has been provided based on their annual turnover.

Annual Turnover	Tax Rebates
0-2Million	75%
2Million- 5 Million	50%
5 Million- 10 Million	25%

- ⊗ Period of tax exemption for Micro Enterprises has been increased by 2 years, from 5 Years to 7 Years, and further increased by 3 years in case of Micro Enterprises operated by woman i.e., 10 Years.
- ⊗ 20% Tax concession on tax payable for FY 2076/77 to be provided to COVID- 19 affected Hotel, Transport, Travel and Trekking and Aircraft businesses
- ⊗ Reduction in Service fee of 2% of the transaction amount to 1% in case of Radio and Television Broadcasting Institutions producing and airing their own programs.
- ⊗ Increase in Health Risk Tax on Cigarette, Cigar, Gutka and Pan Masala.
- ⊗ 25% discount on income tax to be provided for the first five years of operation to Special Industries established in Industrial Area or Village.
- ⊗ Deduction of amount contributed to corona relief fund.
- ⊗ Income tax waived on tax assessed up to FY 2075/76 and income tax is exempted for coming years for “Drinking Water and Sanitation Consumer Group” operating as per their objective.
- ⊗ Income tax exemption to cooperatives operating in rural municipalities.
- ⊗ Income tax to be levied at 5%, 7% and 10% to cooperatives operating in Municipality, Sub-metropolitan and metropolitan respectively.
- ⊗ Waiver in tax applicable on retirement payment if approved retirement fund operated in different institutions handed over to Social Security Fund by Chaitra end 2077. Such fund to be gradually phased out.
- ⊗ Other significant Changes made by Finance Ordinance 2020-21:
  - Concession of 20% on Income Tax Liability will be provided to the business affected by COVID 19 such as airlines, transportation service, hotels, travels and trekking’s.
  - Expenses exceeding Rs 2000 without PAN Invoice shall not be deductible as per section 21 of Income Tax Act 2058.
  - If assessee withdraws the pending cases as per provisions of Income Tax Act, 2058; Value Added Tax Act, 2052 and Excise Act 2058 as at Ashad end (except relating to fraudulent bills) and pays tax and interest within Falgun end, then fees, additional fees and penalty shall be waived off.
  - The payment of remuneration made to employee not having PAN shall not be allowed for deduction except for payment of wages up to Rs. 3000 for recurring nature.
  - 1.5% TDS to be deducted while making payment of freight to VAT registered persons.
  - 5% TDS on contract payments made by resident to non-resident (Aircraft repair removed). Hence TDS on payment of aircraft repair made to non-resident by resident shall attract 1.5% TDS.

- 10% TDS on payment of interest on loan taken from foreign banks on foreign currency for the investment as specified by NRB by resident banks and financial institutions.
- No TDS is applicable on cash back received by consumers on payment for purchase of goods or services through electronic wallet such as e-money, mobile banking etc.

## 2. Tax Administration

- ⊗ Introduction to submission of income tax returns and payment of income tax through mobile app, other electronic media, or submission of return via bank while making payment of income tax.
- ⊗ Introduction of self / auto tax clearance certificate generation from the system of Inland Revenue Department, for those taxpayers with no tax outstanding.
- ⊗ Abatement of fines and penalties if disputed tax amount along with applicable interest deposited by the taxpayer, after taking back the pending cases in respect of unsatisfactory tax assessments made as on Ashad end 2075. Deposit to be made within Falgun end 2077.
- ⊗ Integration of Tax Information System by enhancing and integrating Central Billing System, ASYCUDA, VCTS and other tax administration related systems.
- ⊗ Control of tax evasion by making tax assessment, investigation, after custom clearance assessments more effective.
- ⊗ Expansion of non-tax revenue scope and revision of tax rates.

## 3. Excise Duty

- ⊗ Exemption on Excise Duty on internal production of Ethanol (to be used as raw material for production of Sanitizers) and PPE.
- ⊗ Excise Duty applicable on items over a dozen removed.
- ⊗ Excise Duty imposed on import of all furniture goods as an initiative to conservation of national furniture industry. Forest yield charge of 15% on sale of wood from Saal & Khair tree to buyer outside Consumer Committee of Community Forest is now cancelled.
- ⊗ Industries manufacturing liquors or tobacco products, and importer or seller of such products cannot conduct any gifts program nor can they provide discount to dealers of such products. Any such act done is considered to be violation of terms mentioned in license.
- ⊗ Industries, in which self-removal system is implemented, is not required to not renew their license obtained to manufacture products except for products related to tobacco.
- ⊗ In case of production, bottle seal, and sales of alcohol contrary to the Act, Regulation formed under the act or conditions set by department, such person shall be punished with imprisonment for a term not exceeding one year or with a fine in a sum equivalent to the amount in controversy or with both punishments for such offence.
- ⊗ In case of use of spirit or ethanol in excess to the quantity authorized as per the Act or the Regulations under the act, fine of highest rate of excise duty on production of alcohol from such spirit and ethanol shall be levied.

## 4. Value Added Tax (VAT)

- ⊗ Exemption of Value Added Tax imposed on Micro Enterprise Insurance.
- ⊗ Quarterly submission of VAT returns and payment of VAT allowed to Tourism, Transportation and Movie theatres.
- ⊗ VAT exempted on Import of raw material by pharmaceutical industries and VAT refund to be provided if the raw materials are procured locally.
- ⊗ The rate of VAT levied at 13% on goods and services remains unchanged from previous year. Major changes in VAT laws are:
- ⊗ Removal of compulsory registration for waste management, municipality, motor parts and tailoring.
- ⊗ The Vat amount paid by United Nations Organization and specialized agencies on purchase of goods and services for staying in Nepal for their objectives shall be refunded.
- ⊗ Section 25(Ga 2), The tax paid by pharmaceutical industry on purchases will be refunded
  - a. The Pharmaceutical industry can apply for refund of tax on quarterly basis if raw material, auxiliary raw material and packing material are locally procured.
  - b. The tax officer should refund such tax within 60 days of application.
- ⊗ In case a person does not register for vat purpose even when the condition for compulsory registration u/s 10(1) and 10(2) arises, penalty of Rs 20,000 per tax period shall be levied
- ⊗ In case a person requiring vat registration, operates without registering in VAT, the person may be penalized with 50% of payable tax amount.
- ⊗ Section 25(Ga 1), excess tax refund on contract payment
  - a. Regarding Pubic Procurement Act, any public entities or an association with full or partial ownership of Government of Nepal, imports goods or services or goods and services both under contractual agreement, while making payment to the contractor or supplier can set off his own tax with the tax payable by such contractor or suppliers.
  - b. In case when excess tax cannot be set off, as mentioned in subsection (1) up to next 4 months, such excess amount can be refunded to such contractor or suppliers, submitting application to the tax officer.
  - c. The tax officer should refund such tax within 60 days of application.

If such credit is applied for refund, it cannot be carried forward for next month.

## 5. Customs Duty

- ⊗ Reduction of applicable custom duty on import of machineries and raw material by Micro, Cottage & Small Industries, Animal Husbandries, Veterinarians and Industries producing masks.
- ⊗ Reduction of applicable custom duty on import of equipment imported by Agricultural Firms as well as Paddy, Corn, Wheat and Vegetable Seeds.
- ⊗ Increase in applicable custom duty on Import of Primary Agricultural Produce.
- ⊗ Reduction of applicable custom duty on import of raw material for Ayurvedic Medicines.
- ⊗ Increase in applicable custom duty on import of petroleum products (except Airline Fuel and LP Gas), Gold and Gold ornaments. Increase in custom duty on import of Petroleum products from Rs. 15200 Per KL to Rs. 25200 Per KL.
- ⊗ Increase in custom duty on import of Gold (including gold plated with platinum) unwrought or in semi-manufactured forms, or in powder form from Rs. 5000 Per 10 grams to Rs. 8500 Per 10 grams.
- ⊗ Increase in custom duty on import of Spirits obtained by distilling grape wine or grape marc from Rs 1200 Per Liter to Rs 1500 Per Liter.
- ⊗ Reduction in custom duty on import of separator used in Agriculture factory from 5% to 1%. Reduction in custom duty on import of Balances of a sensitivity of 50 mg or better, with or without weights by Medical industry from 5% to 1%.
- ⊗ 50% concession on custom duty to Micro, cottage and small industries importing machineries as mentioned in Part 84 of custom tariff.
- ⊗ 25% concession on custom duty to industries importing Petroleum bulk and petroleum bitumen for their own consumption.

## ORA Consultancy Service Pvt. Ltd.

**Geetanjali Chowk, Nayabazar Khushibun, Kathmandu (44611),**

+977-9848759897

[info@oraconsultancy.com.np](mailto:info@oraconsultancy.com.np)

[www.oraconsultancy.com.np](http://www.oraconsultancy.com.np)

**Branch Office: Butwal-11 Devinagar Rupandehi**