

As per the provision of Income Tax Act 2058, the resident person shall deduct tax at source on payment of;

- Salaries
- Interest, Rent, Royalty, Service Fees, Commission, Payment of Retirement Benefits, Payment of Natural Resources, Sales incentive/Bonus, any other benefits.
- Dividend,
- Gain from Unapproved Retirement Fund
- Gain on Investment Insurance
- Windfall Gain
- Payment under Contract Agreement
- Contract Payment to Non-Resident
- Gain from Transaction in Commodity Future Market
- Gain on Transaction of Security
- Gain on Disposal of Land and Building

TDS on SALARIES: (Referencing section 87 of Income Tax Act 2058)

Conditions To Be Satisfied For Withholding Tax Under Section 87:

All the following conditions shall be satisfied to withhold tax (TDS) on payment by employer:

1. The employer shall be resident.
2. The payment shall be received by employee or laborer
3. The payment shall have source in Nepal.

Every resident employer shall withhold tax (TDS) while making payment to the employee.

Income tax under employment income shall be calculated using slab rate of income tax and those tax liabilities shall be collected as TDS at the point of payment.

Slab rate:

IN CASE OF INDIVIDUAL		IN CASE OF COUPLE	
Upto Rs. 500,000	1%	Upto Rs. 600,000	1%*
More than Rs. 500,000 upto 700,000	10%	More than Rs. 600,000 upto 800,000	10%
More than Rs. 700,000 upto 1,000,000	20%	More than Rs. 800,000 upto 1,100,000	20%
More than Rs. 1,000,000 upto 2,000,000	30%	More than Rs. 1,100,000 upto 2,000,000	30%
In excess of Rs. 2,000,000	36%	In excess of Rs. 2,000,000	36%
Less: Allowable Deduction	XXX	Less: Allowable Deduction	XXX
Less: Female tax credit	XXX	Less: Female tax credit	XXX
Total Tax Liabilities	XXX	Total Tax Liabilities	XXX

Note: One percent up to basic shall not be applicable if an employee is registered and contributing under SSF

Note: Following are the allowable Allowable deduction as per income Tax Act 2058;

Investment insurance:- 40,000 House Insurance :- 5,000

Medical insurance :- 20,000

In Case of SSF	In Other Case
Actual	Actual
1/3 of Assessable Income	1/3 of Assessable Income
500,000	300,000
Which ever is lower	

INTEREST, RENT, ROYALTY, SERVICE FEES, COMMISSION, PAYMENT OF RETIREMENT BENEFITS, PAYMENT OF NATURAL RESOURCES, SALES INCENTIVE/BONUS, ANY OTHER BENEFITS: (Referencing section 88 of Income Tax Act 2058)

Conditions To Be Satisfied For Withholding Tax Under Section 88

Both the following condition shall be satisfied to withhold tax under section 88:

1. The person making the payment shall be resident.
2. The payment that is being made by the withholding agent shall have source in Nepal.

As per section 88(1) of the income Tax Act 2058, Tax shall be deduct (**TDS**) at **15%** on the following payment; Interest

- Payment for natural resources
- Rent
- Royalty
- Service fee
- Commission and sales bonus
- Retirement payment
- Any other benefits.

However, tax shall be deduct at specific rate on payment of following specific transaction;

Payment	Rate
Gain on retirement payment by Government of Nepal or Approved Retirement Fund	5%
Payment of commission to nonresident by resident employment agency	5%
Lease of aircraft	10%
Payment of service fees to VAT registered party: -	1.5%
Payment of rent to VAT registered vehicle service provider	1.5%
All other rent	10%
Distribution of bonus from mutual funds to natural person	5%
Use of Satellite, Radio, Optical Fiber, Telecommunication equipment's, or Electricity Transmission line	10%
Transportation Service	2.5%
Payment of interest	5%
While providing registration fee, education fee and exam fee to foreign schools and foreign universities;	5%
On payment of interest against deposit to life insurance companies by domestic banks or other financial institutions	5%
Resident bank and financials institution making payment of interest on loan availed in foreign currency from foreign bank or other financials institution in order to invest in a areas specified by NRB.	10%

Note: Amount paid to transport companies after deducting TDS u/s 88 will be eligible for deduction as expenses even if there is no invoice.

Note: As per section 88(4) of the Income Tax Act 2058, No TDS shall be deducted on interest Payment of Cooperatives and National Cooperative Banks on Inter-Institutional Borrowings.

DIVIDEND, GAIN FROM UNAPPROVED RETIREMENT FUND AND GAIN ON INVESTMENT

INSURANCE: : (Referencing section 88 (2) of Income Tax Act 2058)

➤ PAYMENT OF DIVIDEND

Tax shall be deducted at 5% on distribution of dividend by the company or partnership firm. However, no dividend tax (TDS) on distribution of dividend by the following entities;

- Dividend distribution of cooperatives listed in section 11(2) of the act
- Issuance of bonus share for the purpose of capacity enhancement by special industry and tourism industry

➤ PAYMENT OF GAIN ON INVESTMENT INSURANCE:

Tax shall be deducted at 5% on gain on insurance investment. Gain on Insurance Investment shall be calculated as follows;

Particulars	Amount (Rs.)
Payment received from Insurer(A)	XXXX
Total amount paid to Insurer by Insured(B)	XXXX
Gain(A-B)	XXXX

➤ GAIN ON PAYMENT OF UNAPPROVED RETIREMENT FUND:

Tax shall be deducted at 5% on gain on payment of un-approved retirement fund. Gain from un-approved retirement fund shall be calculated as follows;

Particulars	Amount
Payment from Unapproved Retirement fund(A)	XXXX
Accrued benefits until 2058 Chaitra 18(B)	XXXX
Accrued after the Implementation of the Act (A-B)	XXXX
Total amount paid to URF by contributor	XXXX
Gain (C-D)	XXXX

ROYALTY: (Referencing section 88 (1)(13) of Income Tax Act 2058)

Person shall deduct tax at source at 1.5% on Payment of Royalty to natural resident person for writing of literature and article.

In the following case there is **no requirement** to withholding tax as per section 88:

- Payment by natural person, except where such payment is related to operation of business
- Payment for publishing articles in newspaper
- Interest paid to a resident Bank and Financial Institution.
- Payment of amount that has been exempted from tax under various provisions of Income Tax Act and payments attracting WHT u/s 87 of the act
- Interregional interchange fee paid to bank issuing credit card
- Dividend or Interest paid to a mutual fund
- Payment of house rent to a natural person

WINDFALL GAIN: (Referencing section 88A of Income Tax Act 2058)

The person shall deduct tax at 25% on payment of windfall gain. However, if all the following conditions are satisfied then there is no windfall gain tax;

- The windfall gain shall be related to prize.
- The value of prize shall not exceed Rs. 5 lakhs
- The prize shall be national level and international level prize
- The prize shall be awarded in the recognition of the person's contribution to specified fields
- The contribution shall be in the field of literature, arts, culture, sports, journalism, science, technology and public administration.

CONTRACT PAYMENT: (Referencing section 89 of Income Tax Act 2058)

Resident person shall deduct tax at source at rate of 1.5% in case the contract payment exceeds Rs 50,000.

Contract for the purpose of section 89 includes following contracts:

- Contract related to supply of goods or human resources, or
- Contract related to the construction, installation, or establishment of tangible assets or structure.
- Other works as prescribed as contract by department, and

Note: - If the contract related to construction, installation, or establishment of tangible assets or structure includes the service element, the payment related to such service element shall also be considered as part of Contract Payment

CONTRACT PAYMENT TO NON-RESIDENT

The following shall be the withholding rate in case of payment related to contract to nonresident:

Payment	Rate
Repair or other contract or Agreement of Aircraft	5%
Insurance Premium paid to Nonresident Insurance Company	1.5%
In other cases, except for above two, in case the department prescribes	As prescribed by IRD
In case of payment exceeding Rs. 5 Million to Customer Groups	1.5%

FINAL WITHHOLDING PAYMENTS: (Referencing section 92 of Income Tax Act 2058)

Final withholding payment means payment which are not consider in calculation of Taxable income for the financial year. It means those payment which are not part of assessable income for the year. As per the provision of Income Tax Act 2058; following are the final withholding payments;

- Dividend paid by resident company or resident partnership
- Payment of rent, in case all the following conditions are satisfied:
 - a) The payment shall be related to Natural Person other than those operating a business, &
 - b) The rental payment shall be related to the leasing or land or equipment's or apparatus attached to such land
- Payment of Gain on Investment Insurance from a resident person
- Payment of Gain from Unapproved Retirement Fund from a resident person
- Payment of interest by a resident bank, financial institution, cooperatives, any other institution issuing debenture, company listed under prevailing law against deposit, bond, debenture or governmental bond to
 - a) Natural person, not in relation to his/her operation of business
 - b) An exempt organization.
- Withholding Payments made to nonresident under 87, 88, 89 of the acts.
- All types of Retirement Payments including that made by Government of Nepal and Approved Retirement Fund
- Meeting fee the extent of Rs 20,000 per meeting, Occasional Lecture Fee, Payment against setting question paper and checking answer sheet.
- Windfall gain
- Consideration/benefits paid by Mutual Fund to a natural person
- Payment of transportation rent or vehicle rent to a natural person other than that received by private firm

ADVANCE TAX TO BE COLLECTED BY AGENT: (Referencing section 95A of Income Tax Act 2058)

Section	Transactions	Rate
95(KA)	Banks or other financial institutions providing foreign exchange facility for payment to foreign institutions for conducting language and Standardized examination of student going to study abroad.	2% (Earlier 15%)
95(KA)(6KHA)	In-case any person provides software or any kind of online service to foreign and on receiving foreign currency against that service, bank or financial institution or money transfer firm shall collect advance tax on received amount.	1% (New Provision)
95(KA)(2)(KA)	Tax on capital Gain of listed securities (Held for Less than 365 days) (Short Term)	7.5%
95(KA)(2)(KA)	Tax on capital Gain of listed securities (Held for more than 365 days) (Long Term)	5%
95 (KA) (5)	Disposal of non-business chargeable assets (Land & Building& Land)-ownership of more than 5 years	5%
95 (KA) (5)	Disposal of non-business chargeable assets (Land & Building& Land)-ownership of less than 5 years	7.5%

GAIN ON DISPOSAL OF UNLISTED SECURITY:

Particulars	Rate
Security owned by resident natural person	10%
Security owned by resident natural person	15%
Security owned by nonresident person	25%

DIGITAL SERVICE TAX:

- Digital service tax of 2% on transaction value shall be collected on digital services provided by non-residents to Nepalese customers. However, such tax shall not be applicable in cases when the annual transaction is up to Rs 2 million.
- Such service providers shall file the return and deposit tax amount in each fiscal year.
- Income on which digital service tax has been deposited shall not be taxable under the Income Tax Act, 2058.
- The administration of digital service tax shall be done by Inland Revenue Department.

ORA
Consultancy

SUMMARY OF TDS RATES IN NEPAL FOR FY 2079-80

S.N.	Payment	Rate
1.	Interest income from deposit under 'Micro Finance Program', 'Rural Development Bank', 'Postal Saving Bank & Co- operative (u/s-11(2)) in rural areas is exempted from tax	Up to Rs. 25000
2.	Windfall gains	25%
3.	Payment of rent except house rent to natural person and except provided in serial number (4) & (5) below, made by resident person**	10%
4.	Payment for vehicle hire to VAT registered person	1.5%
5.	Payment for freight or rental payment against lease of carriage vehicle relating carriage of goods.	2.5%
6.	Profit and gain from transaction of commodity future market	10%
7.	On returns to be distributed by Mutual Fund: - Natural person - Other than Natural Person	5% 10%
8.	On Dividend paid by the resident company and partnership firm - To Resident person - To Non-resident Person	5% for both
9.	On payment of gain from investment insurance	5%
10.	On payment of gain from unapproved retirement fund	5%
11.	On payment of interest or similar type having source in Nepal by Resident Bank, Cooperatives, financial institutions or debenture issuing entity, or listed company - In case of payment made to natural person [not involved in any business activity] - In case of payment made to entities	5% 15%
12.	On payment of premium to non- resident insurance company - On payment of commission relating to reinsurance premium to non- resident insurance company	1.5%
13.	Payment against contract or agreement to Non-Resident person.	5%
14.	On payment exceeding Rs 5 million made towards the works done through the consumer committee	1.5%
15.	Contract payments exceeding Rs 50,000	1.5%
16.	Payment of consultancy fee/ for procurement of services: - by resident person against VAT invoice - by resident person against Non-VAT invoice	1.5% 15%
17.	On payment for use of Satellite, Bandwidth, Optical fiber, telecommunication equipment or electricity transmission by resident person irrespective of its location	10%
18.	On payment of commission	15%
19.	On payment of interest by resident BFIs on loans availed in foreign currency from foreign banks or other financial institutions to invest in the areas as specified by NRB.	10%
20.	Payment of registration fee, educational fee, or exam fee to foreign college and universities.	5%
21.	On payment of interest on deposit to life insurance company by resident banks and financial institutions.	5%
22.	Payment of Royalty to natural resident person for writing of literature and article	1.5%
23.	Payment for question setting, answer evaluation	15%

SUMMARY OF RATES OF ADVANCE TAX

S.N.	Transactions	Rates
1.	i) Gain on disposal of Interest in any resident entity (listed in stock exchange) <ul style="list-style-type: none"> ➤ To resident natural person <ul style="list-style-type: none"> • Listed Shares held for more than 365 days • Listed Shares held for less than 365 days ➤ To resident entity ➤ Others (including non-resident person) ii) Gain on disposal of Interests in any resident entity (unlisted) <ul style="list-style-type: none"> ➤ To resident natural person ➤ To resident entity ➤ Others (including non-resident person) 	 5% 7.5% 10% 25% 10% 15% 25%
2.	Banks and financial institutions providing foreign exchange facility for payment to foreign institutions for conducting language and Standardized examination of student going to study abroad.	15%
3.	If any person receives payment in foreign currency for providing software and similar other electronic facilities outside Nepal, BFI and Money Transfer shall deduct advance tax.	1%
4.	Gain on Disposal of land or land & building: <ul style="list-style-type: none"> ➤ Owned by individual for over 5 years ➤ Owned by individual for up to 5 years ➤ Owned by person other than individual <p>* The land or land and building or building disposed at proceeds less than Rs 1,000,000 does not fall under the category of non-business chargeable assets (NBCA). These taxes are withheld by the Land Revenue office on sale amount.</p>	 5% 7.5% 1.5%

SUMMARY OF NO TDS ON PAYMENT

S.N.	Payment	Rates
1.	Payment made by natural person relating to activities other than business activities	No TDS
2.	Payment for articles published in Newspaper	No TDS
3.	Interest payment to resident bank and other financial institutions	No TDS
4.	Interregional interchange fee paid to credit card issuing bank	No TDS
5.	Interest or fees paid by GON under bilateral agreement	No TDS
6.	Tax Exempt payment or TDS deductible u/s 87	No TDS
7.	Incentive paid to consumer for making payment against purchase of goods or services through electronic wallet such as e-money, Mobile banking	No TDS
8.	Payment of interest on loan between cooperative bank and cooperative institutions.	No TDS

SUMMARY OF FINAL WITHHOLDING PAYMENT

S.N.	Transactions	Rates
1.	On Dividend paid by the resident company and Partnership firm <ul style="list-style-type: none"> ➤ To Resident person ➤ To Non- resident Person 	5% for both
2.	Payment of freight for transportation of goods or vehicle rental payment made to resident natural person other than sole proprietor <ul style="list-style-type: none"> ➤ Vehicle Rent ➤ Vehicle Freighth 	10% 2.5%
3.	On payment of gain in investment insurance by resident natural Person	5%
4.	On payment of gain from unapproved retirement fund	5%
5.	On payment of interest or similar type having source in Nepal to natural person [not involved in any business activity] by Resident Bank, financial institutions or debenture issuing entity, or listed company	5%
6.	Windfall gains	25%