

## Income Tax Rates 2079-80 (2022-23 A.D.)

### Introduction

The Finance Act 2079 (2022 A.D.) (“Finance Act”) has been passed by the Parliament of Nepal and received Presidential assent on July 15, 2022. The Finance Bill 2079 had been tabled at the Parliament by the Government of Nepal (“GON”) on May 29, 2022 and encompasses all amendments required in various tax legislations and other measures regarding revenue collection. The Finance Act shall be enforceable for the fiscal year 2079-80 (2022-23 A.D.) with effective from July 17, 2022.

With respect to income tax, the Income Tax Act 2058 (2002 A.D.) (“ITA”) forms the framework law. This Briefing highlights major aspects of ITA as amended by Finance Act.

### Major Highlights

- Digital Service Tax: Two percent digital service tax shall be levied on the transaction price of digital services provided by a non-resident person to customers in Nepal.
- Incentives for Information Technology Based Businesses: One percent income tax shall be levied on earnings in foreign currency by a resident person on the basis of information technology-based business, such as, business process outsourcing, software programming, cloud computing, etc.
- Tax Relief for COVID-19 Affected Businesses: In continuation of measures since the fiscal year 2077-78 (2020-21 A.D.), the current Finance Act prescribes several income tax reliefs to the

affected businesses, namely:

- 75 percent exemption in income tax for the tax payer with annual turnover up to NPR 3 million for the fiscal year 2078-79 (2021-22 A.D.).
- 50 percent exemption in income tax for the tax payer with annual turnover exceeding NPR 3 million and up to NPR 10 million for the fiscal year 2078-79 (2021-22 A.D.).
- 50 percent exemption in income tax for the resident person having hotel, travels, trekking, cinema business (production, distribution and exhibition), party palace, media house, or transport services with annual turnover exceeding NPR 10 million for the fiscal year 2078-79 (2021-22 A.D.).
- Tax Amnesty to Regularize Tax Compliances: In the event a taxpayer, who has not paid taxes for fiscal years 2075-76 (2018-19 A.D.), 2076-77 (2019-20 A.D.), and 2077-78 (2020-21 A.D.), obtains Permanent Account Number and pays the dues by January 13, 2023, then the incurred charges and interests shall be waived.

The following tables provide rate of personal and corporate income tax, withholding tax, advance tax, and details of tax exemption and concession:

## 1. Personal Income Tax

Schedule 1(1) of ITA as amended by Finance Act prescribes progressive income tax rates which are applied on the income falling within each tax bracket:

Unmarried Individual		
Annual Income (NPR)	Tax Rate	Maximum Tax Amount (NPR)
1 to 500,000	1%*	5,000
500,001 to 700,000	NPR 5,000 plus 10% on the amount exceeding NPR 500,000	25,000
700,001 to 1,000,000	NPR 25,000 plus 20% on the amount exceeding NPR 700,000	85,000
1,000,001 to 2,000,000	NPR 85,000 plus 30% on the amount exceeding NPR 1,000,000	385,000
2,000,001 and above	NPR 385,000 plus additional 20% to the rate charged under 4 <sup>th</sup> tax bracket (i.e., 36% on amount exceeding NPR 2,000,000)	◆

Married Couples (who choose to be assessed jointly)		
Annual Income (NPR)	Tax Rate	Maximum Tax Amount (NPR)
1 to 600,000	1%*	6,000
600,001 to 800,000	NPR 6,000 plus 10% on the amount exceeding NPR 600,000	26,000
800,001 to 1,100,000	NPR 26,000 plus 20% on the amount exceeding NPR 800,000	86,000
1,100,001 to 2,000,000	NPR 86,000 plus 30% on the amount exceeding NPR 1,100,001	356,000
2,000,001 and above	NPR 356,000 plus additional 20% to the rate charged under 4 <sup>th</sup> tax bracket (i.e., 36% on amount exceeding NPR 2,000,000)	◆

### Notes:

\* Not applicable in case of a taxpayer having registered as a private firm, income from pension, income of natural person contributing to pension fund and contribution-based social security fund.

◆ Tax rates for income bracket of 'NPR 2,000,001 and above' is applied differently in practice. For example, if annual income of an unmarried individual is NPR 2,500,000, the tax amount up to NPR 2,000,000 is NPR 385,000. Additional income of NPR 500,000 is first taxed at 30% = NPR 150,000. Thereafter, additional 20% is applied to NPR 150,000 = NPR 30,000. Hence, the total tax on the additional NPR 500,000 is (NPR 150,000 + NPR 30,000) = NPR 180,000 (36 percent in actual basis).

- Income tax on salary shall be collected as withholding taxes under Section 87 of ITA.
- Income tax levied in the 1<sup>st</sup> tax bracket shall be deposited in the Social Security Fund.

## 2. Corporate Income Tax

Schedule 1(2) of ITA as prescribes following rates of tax on income of corporate bodies:

Businesses/ Entities	Tax Rate
Corporations in general	25%
Banking and financial institutions	30%
Insurance companies	
Telecommunication and internet services	
Money transfer	
Securities business, merchant banking, commodity future market, securities and commodities broker business.	
Tobacco and tobacco products	
Petroleum	
Water travel, air transport or telecommunication services by a non-resident person where services extend beyond the border of Nepal	5%
Water travel, air transport or telecommunication services by a non-resident person where services do not extend beyond the border of Nepal	2%
Repatriation of income by a foreign permanent establishment of a non-resident person	5%

## 3. Withholding Tax

Chapter 17 of ITA prescribes withholding taxes on various types of income in the following manner:

Income	Tax Rate
Interest, natural resource, royalty, service fee, commission, sales bonus, retirement fund unless specified in other provisions	15%
Retirements benefits receivable from GON or government approved contribution-based retirement fund	5%
Commission to non-resident person by a resident employer company	5%
Payment against aircraft lease	10%
Service fee made to a VAT registered entity or VAT exempt entity	1.5%
Rent with source in Nepal	10%
Rent for vehicle to a VAT registered service provider	1.5%
Returns from mutual funds distributed to natural person	5%
Payments made by a resident person for usage of satellite, bandwidth, optical fiber, telecommunications related equipment or electricity transmission line	10%

Rent for transportation service	2.5%
Interest remitted against the loan taken from foreign bank and financial institution by a resident bank and financial institution to invest in areas listed by Nepal Rastra Bank	10%
Amount paid to foreign school and university as registration fees, education fees and exam fees	5%
Interests paid by resident bank and financial institution to life insurance companies for deposits	5%
Royalty paid to resident person for literary article and composition	1.5%
Dividends with source in Nepal	5%
Proceeds from investment insurance	5%
Proceeds from unapproved retirement funds	5%
Interest or equivalent amount (sourced in Nepal and not related to operation of business) for deposit, bonds, debentures or government bonds	5%
Windfall gains	25%
Amount exceeding NPR 50,000 in return for contractual work	1.5%

*Exemptions from Withholding Tax:*

- Payments made by a natural person except in relation to operation of business.
- Payment concerning literary creation published in newspaper, magazines.
- Interest paid to resident banks and financial institutions.
- Tax exempt payments and withholding tax under Section 87 of ITA.
- Inter-regional interchange fees paid to banks issuing credit cards.
- Incentive amounts paid to consumers using electronic payment mechanism such as payment card, e-money, mobile banking in purchase of goods and services in accordance with prevailing law.

#### **4. Advance Tax**

As per Section 95A of ITA, taxes are collected in advance for the following transactions:

<b>Income</b>	<b>Tax Rate</b>
Gains from commodity future market	10%
Gains from disposal of interest in an entity listed with the Securities Exchange Board of Nepal (“SEBON”) by resident natural person (interest under ownership for more than 365 days)	5%
Gains from disposal of interest in an entity listed with SEBON by resident natural person (interest under ownership for less than 365 days)	7.5%
Gains from disposal of interest in an entity listed with SEBON by any resident person other than natural person	10%

Gains from disposal of interest in an entity listed with SEBON by others	25%
Gains from disposal of interest in a non-listed entity by a resident natural person	10%
Gains from disposal of interest in a non-listed entity by any resident person other than natural person	15%
Gains from disposal of interest in a non-listed entity by others	25%
Capital gains from disposal of immovable property by natural person when the immovable property has been owned for 5 or more years	5%
Capital gains from disposal of immovable property by natural person when the immovable property has been owned for Less than 5 years	7.5%
Capital gains from disposal of immovable property by any person other than a natural person	1.5%
Examination fee paid for language or proficiency examination by student applying to foreign educational institutions	15%
Payment received in return for software or IT related services provided by resident natural person (not engaged in business operation) to foreign resident	1%
Payment received in return for consultancy services provided by resident natural person (not engaged in business operation) to foreign resident	1%

## 5. Tax Exemption

As per Section 11 of ITA following tax exemptions have been provided:

### *General Exemptions:*

- Income generated by natural person through agriculture from land within ownership ceiling.
- Income generated and dividends distributed by cooperatives engaging in agro-forestry industry.
- Income generated in interest derived from deposits made into micro-finance, rural development banks, postal savings banks and cooperatives engaged in agro-forestry not exceeding NPR 25,000 per year.

### *Special Exemptions (Tax Holiday):*

Type of Industry	Condition	Duration
Agricultural Sector	<ul style="list-style-type: none"> <li>• Income of a person other than a firm, company, partnership firm or legal entity based on agricultural land within land holding ceiling</li> <li>• Income of a firm, company, partnership firm, and other corporate body carrying on business of agriculture,</li> </ul>	

	dehydrating vegetables, and cold store.	
<ul style="list-style-type: none"> <li>• Special Industry</li> <li>• Tourism Industry</li> </ul>	<ul style="list-style-type: none"> <li>• Established with investment of more than NPR 1 billion</li> <li>• Providing employment to 500 or more people throughout the year</li> </ul>	5 years from the date of operation
<ul style="list-style-type: none"> <li>• Special Industry</li> <li>• Information Technology</li> </ul>	<ul style="list-style-type: none"> <li>• Increased 25% installed capacity</li> <li>• Increased capital up to NPR 2 billion</li> <li>• Providing employment to 300 or more people throughout the year</li> </ul>	5 years from the date of increment of capital
<ul style="list-style-type: none"> <li>• Special Industry</li> <li>• Information Technology</li> </ul>	<ul style="list-style-type: none"> <li>• Special industries established in Karnali Province and hilly districts of Far Western Province</li> <li>• Direct employment to more than 100 Nepalese citizens</li> </ul>	15 years from the date of commercial operation
Industry in Special Economic Zone	Industries in the districts of Himalayan region and the districts of Hilly region specified by GON	10 years from the date of commercial operation
	Industries in the districts except specified above	5 years from the date of commercial operation
<ul style="list-style-type: none"> <li>• Mining</li> <li>• Petroleum Products</li> <li>• Natural Gas</li> <li>• Fuels</li> </ul>	Commencement of commercial operation within April 12, 2024	7 years from the date of commercial operation
Energy Based Industry	Commencement of commercial operation by April 13, 2027	10 years from the date of commercial operation
Aviation Industry	<ul style="list-style-type: none"> <li>• Established with investment of more than NPR 5 billion</li> <li>• Conducting international flights</li> </ul>	15 years from the date of operation
	<ul style="list-style-type: none"> <li>• Established with investment of more than NPR 3 billion</li> <li>• Conducting international flights</li> </ul>	10 years from the date of commercial operation
	<ul style="list-style-type: none"> <li>• Established with investment of more than NPR 1 billion</li> <li>• Conducting international flights</li> </ul>	5 years from the date of operation

## 6. Tax Concession

As per Section 11 of ITA following tax concessions have been provided:

Type of Industry	Condition/Activity	Tax Concession	Duration
• Special Industry	If income of individual falls under 30% tax bracket	One third of income tax	
	Tax levied on income tax of an entity operating special industry throughout a year	20%	
• Special Industry • Information Technology Industry	Direct employment to more 100 or more Nepalese citizens throughout the year	10%	
	Direct employment to 300 or more Nepalese citizens throughout the year	20%	
	Direct employment to 500 or more Nepalese citizens throughout the year	25%	
	Direct employment to 1000 or more Nepalese citizens throughout the year	30%	
	<ul style="list-style-type: none"> <li>Direct employment to 100 or more Nepalese citizens through the year</li> <li>At least 33% jobs allocated for women, scheduled castes and physically disabled people</li> </ul>	Additional 10% discount on top of above-mentioned concessions	
Industry established in Special Economic Zone	<ul style="list-style-type: none"> <li>Industries in the districts of Himalayan region and the districts of hilly region specified by GON</li> </ul>	50%	Following the tax holiday period
	<ul style="list-style-type: none"> <li>Industries in the districts except specified above</li> </ul>	50%	Following the tax holiday period
• Special Industry • Tourism Industry (except casino)	<ul style="list-style-type: none"> <li>Investment of NPR 1 billion or more</li> <li>Providing employment to 500 or more people</li> </ul>	50%	3 years following the tax holiday period
	<ul style="list-style-type: none"> <li>Increased investment up to NPR 2 billion after establishment</li> <li>Providing employment to 300 or more people throughout the year</li> <li>Increment amounts to minimum 25% of</li> </ul>	50%	3 years following the tax holiday period

	installed capacity		
<ul style="list-style-type: none"> <li>• Mining</li> <li>• Petroleum Products</li> <li>• Natural Gas</li> <li>• Fuels</li> </ul>	Commencement of commercial operation by April 12, 2024	50%	3 years following the tax holiday period
Energy based	Commencement of commercial operation by April 13, 2027	50%	5 years following the tax holiday period
Manufacturing	Export of products	Additional 50% to other specified concessions	
Construction	Construction and operation of ropeway, cable car and flyover	40%	10 years from the date of commercial operation
	Construction and operation of road, bridge, tunnel, railway and airport.	50%	10 years from the date of commercial operation
<ul style="list-style-type: none"> <li>• Manufacturing</li> <li>• Tourism Service</li> <li>• Hydroelectricity</li> </ul>	Listed in the stock exchange	15%	
Any Industry	Income in royalty from export of intellectual property	25%	
	Income from transfer intellectual property via sale	50%	
Aviation Industry	<ul style="list-style-type: none"> <li>• Established with investment of more than NPR 1 billion</li> <li>• Conducting international flights</li> </ul>	50%	3 years following the tax holiday period
	<ul style="list-style-type: none"> <li>• Established with investment of more than NPR 3 billion</li> <li>• Conducting international flights</li> </ul>	50%	5 years following the tax holiday period
Manufacturing Industry	Manufacture and assemble electronic vehicle by July 15, 2025	40%	5 years from the date of operation



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