

Income Tax Rates 2080-2081 (2023-2024 A.D.)

Introduction

The Finance Act 2080 (2023 A.D.) (“Finance Act”) has been ratified by the Parliament and received Presidential authentication on July 16, 2023. The Finance Act shall be enforceable for the fiscal year 2080-2081 (2023-2024 A.D.) with effect from July 17, 2023 (*Srawan 1, 2080 B.S.*). A Finance Bill is tabled at the Parliament by the Government of Nepal (“GON”) annually in order to amend various tax legislations.

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 the Finance Act.

Major Highlights

- **Digital Service Tax:** The Digital Service Tax at the rate of two percent shall be imposed on the transaction value of digital services provided by a non-resident person (foreign entity) to customers in Nepal.

The GON has introduced Digital Service Tax with an aim to cover all types of foreign entities, who are engaged in providing services through electronic means, especially social media platforms, e-commerce, etc. within the ambit of tax. Nonetheless, a non-resident person, who has transaction not more than NPR two million in a year, is exempt from this tax.

- **Luxury Fee:** The Luxury Fee at the rate of two percent shall be imposed on the service fees charged by hotels and luxury resorts having rated five stars or higher, as well as on the purchase price of imported liquor valued above NPR one million.
- **Foreign Tourism Fee:** The Foreign Tourism Fee at the rate of five percent shall be imposed on the service fees paid by Nepali

nationals who travel foreign countries as tourists.

- **Further Public Offering:** In the event an entity, which has not included dividend income derived from shares issued at a premium through further public offering for the distribution of bonus shares in its income up to fiscal year 2078-2079 (2021-2022 A.D.), pays the outstanding taxes by December 16, 2023, then the incurred charges and interest shall be waived.

There has been a widespread criticism to this new tax heading from the corporate sector especially from financial institutions as this tax head is contrary to the principles of taxation and being an ex post facto law.

- **Merger and Acquisition:** In the event an entity, which has not paid applicable tax on the gain from bargain purchase as a result of merger or acquisition up to fiscal year 2078-2079 (2021-2022 A.D.), pays the outstanding taxes by December 16, 2023, then the incurred charges and interests shall be waived.

The rates of personal and corporate income tax, withholding tax, advance tax, and details of tax exemption and concession are provided in respective tables hereto.

1. Personal Income Tax

Schedule 1.1 of ITA as amended by the Finance Act prescribes income tax rates which are applied to income falling within each tax bracket:

Unmarried Individual			
Tax Bracket	Annual Income (NPR)	Tax Rate	Maximum Tax Amount (NPR)
1	1 to 500,000	1 percent*	5,000
2	500,001 to 700,000	NPR 5,000 plus 10 percent on the amount exceeding NPR 500,000	25,000
3	700,001 to 1,000,000	NPR 25,000 plus 20 percent on the amount exceeding NPR 700,000	85,000
4	1,000,001 to 2,000,000	NPR 85,000 plus 30 percent on the amount exceeding NPR 1,000,000	385,000
5	2,000,001 to 5,000,000	385,000 plus additional 20 percent to the rate charged under 4 th tax bracket (i.e., 36 percent on amount exceeding 2,000,000) ♦	1,465,000
6	5,000,001 and above	1,465,000 plus additional 30 percent to the rate charged under 4 th tax bracket (i.e., 39 percent on amount exceeding 5,000,000) ♦	

Married Couples (who choose to be assessed jointly)			
Tax Bracket	Annual Income (NPR)	Tax Rate	Maximum Tax Amount (NPR)
1	1 to 600,000	1 percent*	6,000
2	600,001 to 800,000	NPR 6,000 plus 10 percent on the amount exceeding NPR 600,000	26,000
3	800,001 to 1,100,000	NPR 26,000 plus 20 percent on the amount exceeding NPR 800,000	86,000
4	1,100,001 to 2,000,000	NPR 86,000 plus 30 percent on the amount exceeding NPR 1,100,001	356,000
5	2,000,001 and 5,000,000	356,000 plus additional 20 percent to the rate charged under 4 th tax bracket (i.e., 36 percent on amount exceeding 2,000,000) ♦	1,436,000
6	5,000,001 and above	1,436,000 plus additional 30 percent to the rate charged under 4 th tax bracket (i.e., 39 percent on amount exceeding 5,000,000) ♦	

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 tax brackets 5 and 6 are computed differently in practice. For example, if the annual income of an unmarried individual is NPR 5,500,000, the tax amount up to NPR 2,000,000 would be NPR 385,000 as shown in the table. With regard to additional income of NPR 3,500,000, which falls under the two tax brackets, i.e., NPR 3,000,000 (Tax Bracket 5) and NPR 500,000 (Tax Bracket 6), tax is calculated differently.

For Tax Bracket 5:

With regard to additional income of NPR 3,500,000, the first NPR 3,000,000 (Tax Bracket 5) is taxed at the rate of 30 percent = NPR 900,000. Thereafter, additional 20 percent is applied to NPR 900,000 = NPR 180,000. Hence, the total tax on NPR 3,000,000 is (NPR 900,000 + NPR 180,000) = NPR 1,080,000 (36 percent in actual basis).

For Tax Bracket 6:

With regard to additional income beyond NPR 5,000,000, the excess amount of NPR 500,000 is taxed at 30 percent = NPR 150,000. Thereafter, additional 30 percent is applied to NPR 150,000 = NPR 45,000. Hence, the total tax on the additional NPR 500,000 is (NPR 150,000 + NPR 45,000) = NPR 195,000 (39 percent in actual basis).

Hence, the total tax imposed on an unmarried individual with an annual income of NPR 5,500,000 is (NPR 385,000 + NPR 1,080,000 + NPR 195,000) = NPR 1,631,000.

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

2. Corporate Income Tax

Schedule 1.2 of ITA 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	
Entity engaged in financial transactions	
Telecommunication and internet services	
Money transfer	
Securities business, merchant banking, commodity future market, securities and commodities broker business	
Tobacco and tobacco products	
Entity engaged in petroleum business	
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 a non-resident person by a resident employer company	5%
Payment against aircraft lease	10%
Service fee made to a VAT registered entity or a 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 a natural person	5%
Payments made by a resident person for usage of satellite, bandwidth, optical fiber, telecommunications related equipment or electricity transmission line	10%
Transportation service and rent for transportation service	2.5%
Transportation service and rent for transportation service to an entity registered under VAT	1.5%
Interest remitted against the loan obtained from a foreign bank or financial institution by a resident bank or financial institution to invest in areas prescribed by Nepal Rastra Bank	10%
Interest paid against the loan taken from a foreign bank and financial institution by storage or semi-storage-based hydropower projects (above 200 MW) attaining financial closure by April 13, 2026	5%
Interests paid by a resident bank or financial institution to life insurance companies for deposits	5%
Dividend having source in Nepal	5%
Proceeds from investment insurance	5%
Proceeds from unapproved retirement funds	5%
Interest or equivalent amount having source in Nepal and not related to operation of business) for deposit, bonds, debentures or government bonds	6%
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 for the purchase of goods and services.

4. Advance Tax

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

Income	Tax Rate
Gain from commodity future market	10%
Gain from disposal of interest in an entity listed with the Securities Exchange Board of Nepal ("SEBON") by a resident natural person (ownership for more than 365 days)	5%
Gain from disposal of interest in an entity listed with SEBON by a resident natural person (ownership for less than 365 days)	7.5%
Gain from disposal of interest in an entity listed with SEBON by a resident person other than a natural person	10%
Gain from disposal of interest in an entity listed with SEBON by others	25%
Gain from disposal of interest in a non-listed entity by a resident natural person	10%
Gain from disposal of interest in a non-listed entity by a resident person other than a natural person	15%
Gain from disposal of interest in a non-listed entity by others	25%
Capital gain from disposal of immovable property by a natural person when the immovable property has been owned for 5 years or more	5%
Capital gain from disposal of immovable property by a natural person when the immovable property has been owned for less than 5 years	7.5%
Capital gain from disposal of immovable property by a person other than a natural person	1.5%
Payment received in return for software or IT related services provided by a resident natural person (not engaged in business operation) to a foreign resident	5%
Payment received in return for consultancy services provided by a resident natural person (not engaged in business operation) to a foreign resident	5%
Payment received in foreign currency for uploading audio-visual content on social media by a resident natural person (not engaged in business operation)	5%
Payment made to a seller of goods and/or services on a platform operated by an e-commerce operator	1%

5. Tax Exemption

As per Section 11 of ITA following tax exemptions are provided:

General Exemptions:

- Income generated by a 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-finances, 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
<ul style="list-style-type: none"> • Special Industry • Tourism Industry 	<ul style="list-style-type: none"> • Established with investment of more than NPR 1 billion • Providing employment to 500 or more people throughout the year 	5 years from the date of operation
	<ul style="list-style-type: none"> • Increased 25% installed capacity • Increased capital up to NPR 2 billion • Providing employment to 300 or more people throughout the year 	5 years from the date of increment of capital
<ul style="list-style-type: none"> • Special Industry • Information Technology 	<ul style="list-style-type: none"> • Special industries established in Karnali Province and hilly districts of Far Western Province • Direct employment to more than 100 Nepalese citizens 	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"> • Mining • Petroleum Products • Natural Gas • Fuels 	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 12, 2028	10 years from the date of commercial operation
Aviation Industry	<ul style="list-style-type: none"> • Established with investment of more than NPR 5 billion • Conducting international flights 	15 years from the date of operation
	<ul style="list-style-type: none"> • Established with investment of more than NPR 3 billion • Conducting international flights 	10 years from the date of commercial operation
	<ul style="list-style-type: none"> • Established with investment of more than NPR 1 billion • Conducting international flights 	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
Agricultural Sector	Income of a firm, company, partnership firm, and other corporate body carrying on business of agriculture, dehydrating vegetables, and cold store.	50%	
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%	
Information Technology Industry	Tax levied on income generated from the export of information technology based services including business process outsourcing, software programming, cloud computing, etc.	50%	Up to fiscal year 2084-2085 (2027-2028 A.D.)
<ul style="list-style-type: none"> • 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"> • Direct employment to 100 or more Nepalese citizens through the year • At least 33% jobs allocated for women, scheduled castes and physically disabled people 	Additional 10% discount on top of above-mentioned concessions	
Industry established in Special Economic Zone	<ul style="list-style-type: none"> • Industries in the districts of Himalayan region and the districts of hilly region specified by GON 	50%	Following the tax holiday period
	<ul style="list-style-type: none"> • Industries in the districts except specified above 	50%	Following the tax holiday period

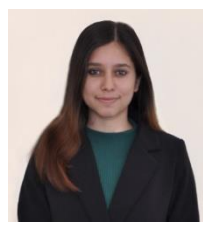
<ul style="list-style-type: none"> • Special Industry • Tourism Industry (except casino) 	<ul style="list-style-type: none"> • Investment of NPR 1 billion or more • Providing employment to 500 or more people 	50%	3 years following the tax holiday period
	<ul style="list-style-type: none"> • Increased investment up to NPR 2 billion after establishment • Providing employment to 300 or more people throughout the year • Increment amounts to minimum 25% of installed capacity 	50%	3 years following the tax holiday period
<ul style="list-style-type: none"> • Mining • Petroleum Products • Natural Gas • Fuels 	Commencement of commercial operation by April 12, 2024	50%	3 years following the tax holiday period
Energy based	Commencement of commercial operation by April 12, 2028	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"> • Manufacturing • Tourism Service • Hydroelectricity 	Listed in the stock exchange	15%	

Any Industry	Income in royalty from export of intellectual property	25%	
	Income from transfer of intellectual property via sale	50%	
Aviation Industry	<ul style="list-style-type: none"> Established with investment of more than NPR 1 billion Conducting international flights 	50%	3 years following the tax holiday period
	<ul style="list-style-type: none"> Established with investment of more than NPR 3 billion Conducting international flights 	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

This Briefing is authored by:



Devendra P.N. Pradhan
Managing Partner



Sadikshya Acharya
Associate

For further information about the subjects covered in this Briefing, please contact:

Sadikshya Acharya
Associate
Tel: +977 1 545 1900 (Ext. 108)
Email: sacharya@pradhanlaw.com

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For further information about the subjects covered in this Briefing, please contact:



Pradhan & Associates Pvt. Ltd.

559, Bakhundole Marg (Maitri Marg), Bakhundole – 3
Lalitpur 44770, Nepal
Tel: +977 1 545 1900 | Fax: +977 1 543 3344
Email: info@pradhanlaw.com
Web: www.pradhanlaw.com