

Income Tax Rates 2081-2082 (2024-2025 A.D.)

Introduction

The Finance Act 2081 (2024 A.D.) ("Finance Act") has been ratified by the Parliament and received Presidential authentication on July 16, 2024. The Finance Act shall be enforceable for the fiscal year 2081-2082 (2024-2025 A.D.) with effect from July 16, 2024 (*Srawan* 1, 2081 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: Minimum threshold turnover amount for applicability of Digital Service Tax ("DST") has been increased from NPR 2 Million to NPR 3 Million. Previously, DST was exempt if the annual turnover amount from Nepal did not exceed NPR 2 Million.
- Exemption of VAT for International Air Transport Service Providers ("IATSP"): Valued Added Tax ("VAT"), along with any fines, additional charges and interest, shall be waived if:
 - An IATSP, whether registered under VAT or not, has not collected VAT or filed VAT returns on air transportation services from *Jestha* 15, 2080 to the end of *Asoj* 2080 (May 15, 2023 to October 17, 2023 A.D.); or
 - An offline IATSP obtains VAT registration by the end of *Asar* 2081 (July 15, 204 A.D.) and deposits VAT collected from *Jestha* 15, 2080 (May 29, 2023A.D.)
- VAT Registration of Non-Resident Persons: Non-resident Digital Service Providers and offline IATSP who carry out taxable business transaction of more than NPR 3 Million must obtain VAT registration in Nepal. The process to obtain VAT registration and to de-register, shall be prescribed.
- Import on the Basis of Bank Guarantee: Hydro-power projects which have obtained in-principle consent for capacity increment and design change, may import equipment, machinery, construction equipment and spare parts by submitting a bank guarantee for the customs duty and VAT levied on the same and may get the bank guarantee released after paying 1 percent of the customs duty and VAT. This is applicable to contractors and promoters of such hydro-power projects as well.
- Permanent Establishment: The definition of Permanent Establishment has been expanded to include 'the place outside Nepal from which digital presence in Nepal is notified; or the location of a server outside Nepal from which data or service business in operated in Nepal for a minimum of 90 days in the past 12 months period'.
- Inclusion of Information Technology ("IT") Industries for Tax Concessions: IT Industries (technology, IT and bio-tech parks, software development, data processing, digital mapping, BPOs, data mining, cloud computing) are now eligible for some of the tax concessions previously available to Tourism and Special Industries.

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 which prescribes income tax rates for natural persons, has not been amended and remains same as was prescribed in Fiscal Year 2080/2081:

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 entities:

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 (not applicable to a natural person lessor)	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 paid against loans obtained from a foreign bank or financial institution by a resident bank or financial institution to invest in areas prescribed by Nepal Rastra Bank	5%
Interest paid against the loans obtained from a foreign bank and financial institution by storage or semi-storage-based hydropower projects (above 200 MW) attaining financial closure by <i>Chaitra</i> 2082 (April 13, 2026 A.D.)	5%
Interests paid by a resident bank or financial institution to life insurance companies for deposits	5%
Dividends with source in Nepal	5%
Proceeds from investment insurance	5%
Proceeds from unapproved retirement funds	5%
Interest or equivalent payment, with source in Nepal and not related to operation of business, for deposits, bonds, debentures or government bonds	6%
Windfall gains	25%
Amount exceeding NPR 50,000 as consideration 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
Gains from commodity future market	10%
Gains 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%
Gains from disposal of interest in an entity listed with SEBON by a resident natural person (ownership for less than 365 days)	7.5%
Gains from disposal of interest in an entity listed with SEBON by a resident person other than a 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 a resident person other than a natural person	15%
Gains from disposal of interest in a non-listed entity by others	25%
Capital gains from disposal of immovable property by a natural person when the immovable property has been owned for 5 years or more	5%
Capital gains from disposal of immovable property by a natural person when the immovable property has been owned for less than 5 years	7.5%
Capital gains 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%
Payments made by e-commerce platform operator to enrolled sellers of goods and/or services on the e-commerce platform	1%
Import of live animals, meat, fishes, flowers, edible plants and parts thereof and fruits (falling under Parts 1, 2, 3, 6, 7 and 8 of Customs Duty Schedule, respectively) for business purposes	10%
Import of milk products, eggs, honey, cereals (except seeds), flour, medicinal plants and sugarcane and flora (falling under Parts 10, 11, 12 and 14 of Customs Duty Schedule, respectively) for business purposes	2.5%

5. Tax Exemptions and Concessions

Section 11 of ITA provides tax exemptions and concessions. The following are some of the major tax exemptions and concessions:

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.
- Interest income generated from deposits in 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) and Tax Concessions:

Type of Industry	Tax Exemption Conditions	Duration	Tax Concession Conditions	Exemption and Duration
• Agricultural Sector			Income of a firm, company, partnership firm, and other body corporate carrying on business of agriculture, dehydrating vegetables, and cold store.	50%
• Special Industry	Established in hilly districts of Far West Province and Karnali Province and directly employing 100 or more Nepalese citizens	15 years from the date of operation	Natural Persons - If income falls under 30% tax bracket	One third of income tax
			Entities	20%
• Information Technology ("IT") Industry			Tax levied on income generated from the export of IT based services including BPOs, software development, cloud computing, etc.	50% Up to fiscal year 2084-2085 (2027-2028 A.D.)

Type of Industry	Tax Exemption Conditions	Duration	Tax Concession Conditions	Exemption and Duration
<ul style="list-style-type: none"> Special Industry IT Industry 			Nepalese citizens employed directly annually: <ul style="list-style-type: none"> ➤ 100 or more; ➤ 300 or more; ➤ 500 or more; and ➤ 1000 or more. 	<ul style="list-style-type: none"> ➤ 10%; ➤ 20%; ➤ 25%; and ➤ 30%.
			If 33% of the workforce includes women, scheduled castes or disabled individuals and 100 or more Nepali citizens are employed annually	Additional 10%
<ul style="list-style-type: none"> Special Industry Tourism Industry 	Established with investment of more than NPR 1 Billion and directly employing 500 or more Nepalese citizens annually	5 years from the date of operation		
	Capacity increment by 25%; capital increment to NPR 2 Billion; and providing employment to 300 or more people annually	5 years from the date of fulfilling conditions		
Industry in Special Economic Zone	Industries established in Himalayan and hilly districts as specified by GON	10 years from the date of commercial operation (including tax on dividend distribution)		50% for the next 3 years following the tax holiday period
	Industries in other districts apart from the above specified	5 years from the date of commercial operation (including		50% for the next 3 years following the tax holiday period

Type of Industry	Tax Exemption Conditions	Duration	Tax Concession Conditions	Exemption and Duration
		tax on dividend distribution)		
			Taxes on royalties and management fees earned by foreign investors	50%
<ul style="list-style-type: none"> • Mining • Petroleum Products • Natural Gas • Fuels 	Commencement of commercial operation by <i>Chaitra</i> 2080 (April 12, 2024 A.D.)	7 years from the date of commercial operation		50% for the following 3 years after the tax holiday period
Electricity based Industries	Persons licensed to commence production, transmission or distribution from hydropower, solar, wind and organic matter by <i>Chaitra</i> 2084 (April 12, 2028 A.D.)	10 years from the date of commercial operation		50% for the following 5 years
	Storage or semi-storage type hydropower projects of 40 MW or above and lower hydropower projects in tandem operations with the above-mentioned projects which compete financial closure by <i>Chaitra</i> 2085 (April 13, 2029 A.D.)	15 years from the date of commencement		50% for the following 6 years
<ul style="list-style-type: none"> • Tourism Industry • Aviation Industry (International) 	Capital Investment of: <ul style="list-style-type: none"> ➤ more than NPR 5 Billion; ➤ more than NPR 3 Billion; and ➤ more than NPR 1 Billion 	<ul style="list-style-type: none"> ➤ 15 years; ➤ 10 years; and ➤ 5 years, from the date of operation 		<ul style="list-style-type: none"> ➤ N/A ➤ 50% for 5 years; and ➤ 50% for 3 years, Following the tax holiday period.

Type of Industry	Tax Exemption Conditions	Duration	Tax Concession Conditions	Exemption and Duration
Manufacturing			Brandy, Cider and Wine manufacturing established in highly underdeveloped or underdeveloped area	40% and 50% respectively for 10 years from the date of commencement
			Tea (production and processing), dairy and fabric production	50%
			Recycling/ Up cycling - Using used materials that affect the environment directly as raw materials to manufacture new goods	50% for 3 years after commencement; and 25% for 2 years thereafter
	Vaccine, Oxygen and sanitary pads manufacturing	5 years from the date of commencement		50% for 2 years thereafter
	Electric vehicle manufacturing and assembling		Established within Asar 2082 (July 15, 2025 A.D.)	50% for five years from the date of commencement
	Farming equipment manufacturing Established within <i>Asar</i> 2082 (July 15, 2025 A.D.)	5 years from the date of commencement		
Any Industry			Royalty from export of intellectual property	25%
			Income from sale of intellectual property	50%
			Private Limited company with NPR 500 Million capital converts to PLC	10% for 3 years from the date of conversion

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