

INCENTIVES, FACILITIES AND TAXES ON INVESTMENT AND FOREIGN TRADE

CONCESSION AND FACILITIES FOR INDUSTRIAL SECTOR :

1. If a business installs technology, which controls pollution and minimizes the environment effects it is deductible from taxable income.
2. If any business incurred research & Development cost it is deductible from taxable income .
3. Manufacturing industry providing employment to 600 or more than 600 Nepali citizens in whole year get additional facilities of income tax rebate at the rate of 10%.
4. Industries established in certain underdeveloped, remote and semi-developed areas are given rebates on income tax. The rebate may range from 20 - 30% of the applicable tax depending on the level of development of the district.
5. Industries established in Special Economic Zone (SPZ) or Export Processing Zone (EPZ) are granted on income tax rebate at the rate of 50 percent.
6. No income tax is levied on income of any cottage industries except carpet, Pashmina, Woolen readymade garment & Dying industries .
7. Any information technology industries established in Information Technology Park are granted on income tax rebate at the rate of 50 percent
8. VAT paid on inputs can be adjusted while collecting the VAT on finished products.
9. The customs duties, value added tax and excise duty on the production of materials to be utilised for the production of exportable goods are reimbursed to the concerned on the basis of the quantity of export.
10. Duty drawback scheme available for the refund of import duty paid on imported raw materials and intermediate goods required for production of exportable products .
11. After an industry comes into operation, 10 percent of the gross profit shall be allowed as a deduction against taxable income on account of expenses related with technology, product development and efficiency improvement
12. If an industry sells its product within the Kingdom in any foreign currency, the excise duty and custom duty on such product and customs duty, excise duty levied on the raw materials and auxiliary raw materials, etc. utilized in such product can be reimbursed

13. Depreciation

- Depreciation of depreciable assets owned and used by the person during the year in the production of the person's income (business or Investment) is deductible from taxable income .
- Depreciation can be charged only in Diminishing Balance Method value of pool of assets basis .
- One third additional rate of depreciation can be charged for manufacturing industry .

CLASSIFICATION , POOLING AND RATES OF DEPRECIABLE ASSETS

Classes	Assets	Rates
A.	Building structure & Similar work of permanent Nature	5 percent
B.	Computer data handling equipment, Fixture, office furniture & Office equipment	25 percent
C.	Automobile, Minibus & Buses	20 percent
D.	Construction & Earth moving equipment and depreciable assets not included in other class	15 percent
E.	Intangible assets others than class D depreciable assets	Divided on useful life

14. Loss Recovery

- Business loss can be carried forward upto 4 succeeding years from any sources of income .
- In addition to above facilities ,banking & General Insurance business loss can be carried back upto 5 preceding years .
- In case of long term contract, loss can be carried back as per the notice of the internal revenue Department .

A) DIRECT TAX

1. Income Tax :

- Nepalese income tax system is closer to global tax system.
- Resident person (Individual or entities) are taxed on worldwide income while Non resident person is taxed only on their Nepalese source of income .
- Income tax is levied on current year basis .

1.1 Tax Rates For individual & couple

Annual Basic Exemption amount

For Individual Rs. 100,000

For Family/Couple Rs. 125,000

On taxable income

On income of upto Rs. 75,000 beyond the exemption amount 15%

On all further incomes beyond taxable income of Rs. 75,000 25%

1.2 For registered private and public limited company and others organization income tax is levied at a flat rate of

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| a. For Banking, Financial Institution, General Insurance Business and Petroleum Business | 30% |
| b. For others (including Partnership Firms) | 25% |
| c. For Non-Resident Person | 25% |
| d. For All industrial establishments accepted as manufacturing industry by Industrial Enterprise Act (except alcohol & tobacco based units) | 20% |
| e. For Units which construct and operate road, bridge, tunnel, ropeway, flying bridge, trolley bus, tram | 20% |
| f. For entities engaged in building and operating public infrastructure to be transferred it to HMG | 20% |
| g. For entities wholly engaged in power generation, transmission or distribution for an income year | 20% |
| h. For Export business | 75 Percent on Prevalling Rate |
| i. Dividend Tax | 5 % |
| j. Capital Gain Tax | |
| – For Entities | Normal Rate |
| – For Natural person | 10 % |

1.2 Income derived from shipping, air transport or telecommunication by non-resident person - 5%.

1.3 The repatriated income of a foreign permanent establishment of a non-resident person - 10%.

1.4 For the purpose of Income Tax, 1.5% Additional income tax is levied on all income attracting 15% or more tax rate of entities and 25 percent of Natural person.

B) INDIRECT TAX

A) Value Added Tax (VAT):

1. VAT is levied at a single rate of 13 percent. In certain cases, the rate may be zero and certain goods and services are exempted from VAT.
2. Value Added Tax is collected at every (manufacturing, distribution, wholesale and retail) stage of selling goods and services.
3. Exports of taxable goods are zero rated.
4. A firm whose annual turnover of goods and services is less than Rs.2 million need not to be registered with the VAT office and collect VAT on sales. But they can register voluntarily .
5. All firms conducting business in municipalities related to Hardware, stationary, furniture ,fixture furnishing ,Electric ,electronic and marble should be compulsory registered with VAT Office .
6. But those firms which import taxable goods valued more than Rs. 10 thousand at a time need to be registered with the VAT Office.
7. A firm registered with the VAT Office may claim credit on tax paid on inputs / purchases.
8. Industries that export more than 90 percent of total sales in past twelve months and which has a minimum of twenty percent of value addition can import raw materials on the basis of bank guarantee
9. Certain products such as primary food stuffs, primary agricultural products, industrial machineries are exempt from VAT.
10. VAT Exempted Goods and Services
 - a. Basic Agricultural Products
 - b. Basic needs Goods
 - c. Live animals, animal product ,animals feed and feed supplements
 - d. Agricultural inputs
 - e. Education services from non-profit organization
 - f. Passenger transport service except cable car
 - g. Health Services from government –owned health service provider
 - h. Raw materials for pharmaceutical factories
 - i. Books ,Newspapers and Publications

- j. Industrial machinery
 - k. Cultural and Artistic goods and Services
 - l. Specified personal & Professional Services
 - m. Others goods and services such as postal service ,financial & Insurance service, buying & selling of real estate .
11. Zero Rated goods and services
- a. Goods expoted or services provided abroad
 - b. Goods & Services imported by accredited diplomats
 - c. Goods & services purchased or imported by members of Royal family
 - d. Pharmaceutical manufacturer may option for zero rating .

B) EXCISE DUTY

- Excise duty is levied on certain goods (tobacco, alcohol, plastic, cement, vehicles) produced in and imported to the Kingdom of Nepal. The rates may be advalorem as well as specific.

EXCISE DUTY RATES

(As per finance ordinance 2005)

S.N.	Description	Quantity	Rate
1.	Molasses	Per quintal	NRs. 35
2.	Beer	Litre	NRs 45
3.	Alcoholic beverages		
	– Less than 40 degree UP	Per LP litre	NRs 340
	– Between 40- 65 degree Up	Per LP litre	NRs 200
	– Above 65 degree UP	Per Lp litre	NRs 75
4	Cigarette		
	Up to 70 mm		
	– Non – filter	Per M	NRs 160
	– Filter	Per M	NRs 340
	Between 70- 75 mm with filter	Per M	NRs 440
	Between 75-85 mm with filter	Per M	NRs 575
	85mm Or above	Per M	NRs 770
5	Vehicles	Ad valorem	
	– Car , Geep, Van, Microbus		32 percent
	– Three wheeler , Pick up and Delivery van		15 percent
	– Minibus, moter cycle		4 percent
6	Polyethene bags	Kg	NRs 15

C) PROVISION & FACILITIES ON FOREIGN TRADE

a) IMPORT

1. The customs value is calculated on CIF basis (Cost Insurance and Freight) on import.
2. Nepal has adopted General Agreement on Tariff and Trade (GATT) valuation system
3. Foreign currency required for import will be made available by the commercial bank at the market rate .
4. Principle of imposing lower rate of customs duty on the import of raw materials compared to finished goods has been undertaken.
5. Prevailing custom duty rates are 80%, 40%, 35%, 25%, 15%, 10% , 5%.and 0 % .
6. Goods imported from India into the Kingdom of Nepal are granted a rebate in the chargeable ad valorem (except specific) rate of customs duty by 5% for up to the tariff rate of 25%, and by 7%, on rates above that.
7. Goods produced in China and imported from Tibet are granted a rebate in the chargeable ad valorem (except specific) rate of customs duty by 4%.
8. For the automation of the customs, the ASYCUDA system has been established at major seven custom points.
9. No licence required and no quantitative restriction on imports of raw materials (except stipulated) otherwise required for the export oriented and import substituting industries .

b) EXPORT

1. Export custom duty is levied on the basis of FOB price determined by calculating the cost incurred to be met in transporting the goods up to custom point when exporting the goods.
2. Some industrial items such as vegetable ghee and plastic goods are liable to pay export duty. Export duty rates range from 0.5 to 8%.
3. No licences required for exports of any product other than banned or quantitatively restricted items
4. Generalised system of preferences (GSP) available to Nepal's export as a Least Developed Country

c) FEES ON IMPORT

1. A Special fee 5% is levied on the vehicles above the tariff rate of 25% on goods of import value at the custom points.
2. There is no special fee levied on the goods below the tariff rate of 25%.
3. One and half percent local development fee is levied on import at custom point
4. Agriculture Development fee of 8% is levied on import value on imported agricultural goods.
5. NRs 500 customs service fee is charged per custom declaration form at custom point on export and NRs 50 is on that import.