

Nepal Budget Statement

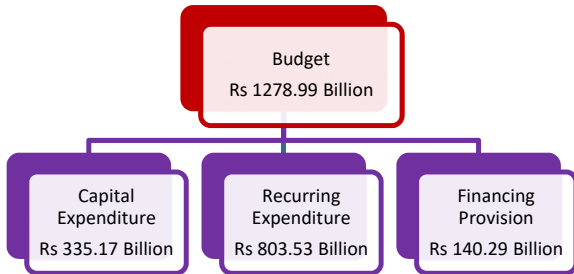
Fiscal Year 2074/75 (2017/18)

Highlights

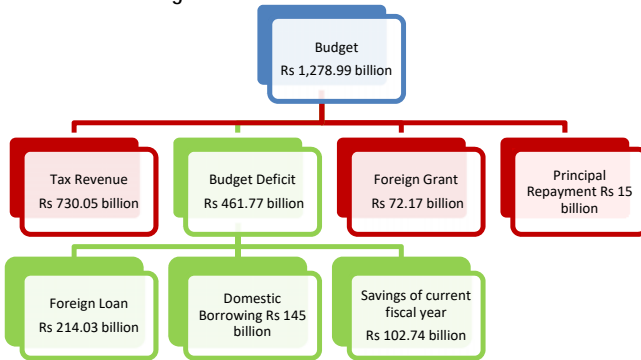
On Sunday, 29 May 2017, Honorable Deputy Prime Minister and Finance Minister, Mr Krishna Bahadur Mahara presented the full budget for the fiscal year 2074/75.

Budget and Source of Financing

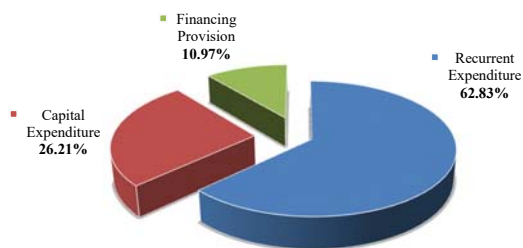
Allocation of Budget



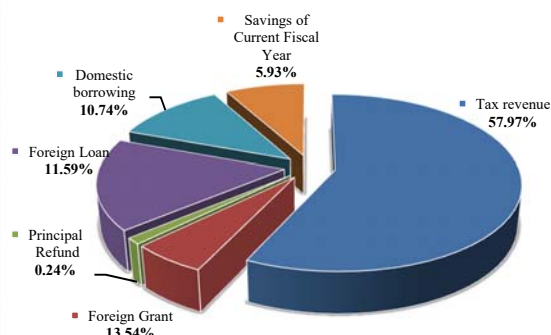
Source of Financing



Budget Outlay FY 2017-18



Source of Financing FY 2017-18



Objectives of Budget

- To support execution of the constitution.
- To attain sustainable, inclusive & high economic growth.
- To maintain macroeconomic stability.
- To enhance access of general public to the service provided by the state.

Budget Priority

- Execution of Federalism,
- Reconstruction of infrastructures damaged by the earthquake,
- Increase employment opportunities,
- Increase in production and productivity,
- Speedy implementation of national pride projects,
- Agriculture modernization, commercialization, mechanization,
- Hydroelectric production, transmission and distribution,
- Construction and improvement of road, railway and international airport,
- Development and promotion of tourism infrastructure,
- Investment on education, health, drinking water and sanitation,
- Smooth operations and regulations of bank and financial institution,
- Enhance supply, storage and distribution of necessary consumable goods, and
- Improvement of public administration and service delivery.

Revenue policy and program for FY 2074/75

The main priority of the federal revenue policy will be to develop and modernize the revenue system for the development of strong federal fiscal system so as to make the national resources prosperous as envisioned by the Constitution of Nepal. In order to develop and broaden the tax base, additional reform will be made in the revenue system by bringing all kinds of economic activities into the tax net to ensure sustainable revenue mobilization.

Following will be the objectives of the revenue policy;

- To make the revenue right and its distribution systematic among the Government of Nepal, State Government and at the Local Level in line with the Constitution of Nepal.
- To maximize resource mobilization by bringing all kinds of economic activities into the tax net based on cooperation, coordination and partnering among Federal, State and Local Level and to protect national tax base through revenue leakage control.
- To reform revenue system through achieving sustainable revenue growth so as to strengthen federal fiscal system
- To support minimizing increased trade deficit through trade promotion by expanding national production and productivity.
- To make the revenue system equitable and investment friendly by adopting clean and transparent tax system.
- To make the existing non tax rates cost effective by identifying additional sources of non-tax revenue.

Following strategies and programs has been proposed:

Federal Fiscal Strengthening

- ❑ Federal revenue policy to be formulated for the development of prosperous economy by making federal fiscal structure strong and capable
- ❑ To make the State and Local Level able to independently allocate certain portion of the financial resources by developing revenue base and enabling to fix tax rates themselves.
- ❑ The organizational structure of the revenue administration to be made compatible to the federal structure by expanding economic activities.
- ❑ For the structural reform of revenue administration, a bill related to the formation of Central Revenue Board will be submitted to the Legislature Parliament.
- ❑ Geographic neutrality to be maintained in the resource mobilization of the State and Local Level without affecting inter-state and international trade.

Broadening tax base

- ❑ Tax base will be broadened by giving priority to the expansion of tax net instead of increasing the tax rate.
- ❑ The task of allotting Permanent Account Number will be continued to all income earners including doctors, engineers, lawyers, advisors, artists, players and individuals involved in teaching profession in various teaching institutions, and additional taxpayers will be brought into the tax net.

Procedural reform

- ❑ New business code number to be brought into effect from this Fiscal Year revising the existing business code used for the tax purpose so as to match with goods classification code based on the harmonized customs system.
- ❑ E-payment system to be made effective in order to facilitate taxpayers to pay their taxes from any branch of the banks that are involved in revenue collection.
- ❑ For the procedural simplification of tax system, reforms in maintaining uniformity and clarity in administrative, legal and technical subjects.
- ❑ As a member state of the World Customs Organization, Goods Classification and Codification 2017 developed and promoted by the organization to be implemented from this fiscal year.
- ❑ Custom Automation System to be gradually made web-based.
- ❑ An arrangement to be made in a way that the importer and exporter will be allowed to import and export for business purpose, only after getting import export code effective from 16 July 2017.

Taxpayers education

- ❑ Taxpayers Education Programs to be continued as informative and awareness raising activities for the taxpayers and general public. Such programs related to education, information and awareness will be conducted in the participation of and coordination with private, non-government, user groups and professional agencies as well.
- ❑ Necessary coordination to be made to include tax system of Nepal in the curricula of secondary level school to provide tax information.

Efficiency and System Development

- ❑ Revenue mobilization to be enhanced through capacity development of tax administration and the system reform. For this purpose, arrangement will be made to have effective exchange of information by developing integrated information network within the Ministry of Finance and its departments.
- ❑ The system of revenue administration and its efficiency to be developed as per the federal structure so as to facilitate the formation of revenue structure and capacity development at the State and Local Level.

- ❑ Revenue Administration Training Centre will be developed as an academic institution to offer capacity development and subject matter efficiency. This Centre will be developed as Document Archiving Centre and preserving important revenue related records

Revenue Leakage Control

- ❑ For the purpose of protecting national tax base, risk indicators to be revised through identifying revenue risk zones and controlling high tax planning and evasion.
- ❑ Information exchange to be managed between Federal, State and Local Level of revenue administration in order to control revenue leakage.
- ❑ Trade distortion to be controlled by the use of electronic system in internal movement of goods making efficient internal monitoring and surveillance. Patrolling to be mobilized in order to control illegal import.
- ❑ An arrangement of payment only through banking system to be made in case of trade transaction over certain amount with India and Tibet of China.
- ❑ Customs valuation system to be made realistic and transaction value based by enforcing realistic customs declaration and right classification of goods.
- ❑ Special strategy to be adopted to prevent under invoicing, illegal import/export and illegal trade.

Policy level and System Reform

- ❑ International trade to be facilitated through appropriate reform in the customs laws as per the revised Kyoto protocol. Fifth phase of customs reform and modernization action plan and the second five year strategic plan of the Inland revenue Department will be implemented.
- ❑ Revenue Leakage control act and procedure to be revised within this fiscal year. In order to regulate and facilitate electronic trade, necessary procedure to be developed and brought into implementation.
- ❑ Revenue exemption will be managed through expenditure system by gradually reducing the system of revenue exemption.
- ❑ The process of double taxation avoidance agreement to be expedited with those countries having much more transactions and having potentials of investment and technology export with Nepal.
- ❑ Sales, distribution, regulation and management of liquor and cigarettes to be made further effective.
- ❑ In the process of money laundering, effective law to be formulated and implement to control foreign exchange embezzlement through hundee, electronic currency and bit coins.

Economic Situation

- ❑ Economic growth rate is forecasted to be 7.2 percent in FY 2074/75.
- ❑ Inflation rate forecasted to be lower than 6 percent in this fiscal year.
- ❑ Balance of payment surplus was Rs 50.64 billion as of Chaitra 2073.
- ❑ Revised total revenue collection of the current Fiscal Year 2073/74 is estimated to be 103 percent or Rs 580.98 billion against the targeted total revenue collection of Rs 564 billion.

Nepal Budget Statement

Fiscal Year 2074/75 (2017/18)

Highlights

Executive Summary

Corporate Tax

- No changes in the existing tax rate payable by domestic companies for the fiscal year 2074/75. The existing general tax rates are as follows:

Companies	Rate (%)
Banks and financial institutions	30
General Insurance Business	30
Cigarettes, Bidi, Cigar, Chewing Tobacco, Khaini, Liquor, Beer	30
Petroleum companies	30
Special industries*	20
Export industries	20
Power generation, transmission, distribution, infrastructure projects etc.	20
Other entities not covered above	25

*Special industry shall also include agro, forestry and mining industries as well as per the new Finance Act.

Customs Duty

- Items which are restricted for import and export through private courier are as below:

Restriction on import through courier

- More than 70kg weight in one packet.
- Animal and their body parts.
- Plant and their parts.
- Any type of gold, silver and jewelries.
- Precious and valuable stone.
- Any other goods restricted to import by prevailing law.

Restriction on export through courier

- Goods attracting export duty.
- Export made by entity availing bonded warehouse and passbook facility.
- Any other goods restricted to export by prevailing law.

Excise Duty

- Increment in the excise duty in alcohol based and tobacco based goods affecting general health
- Rate of Excise duty on molasses is increased to Rs.55/Qtl from previously Rs.50/Qtl.
- Rate of Excise duty on beer made up by the barley is increased to Rs.115/Ltr. from previously Rs.106/Ltr.
- Beer without alcohol is new added and Rate of Excise duty is Rs.7/Ltr.
- Rate of Excise duty on pan masala without tobacco is increased to Rs.462/Kg. from previously Rs.420/Kg.
- Rate of Excise duty on cigarette without filter is increased to Rs.374/M. from previously Rs.346/M.

Value Added Taxes

- In case of receipt of service from the person outside the Nepal, reverse VAT should be deposited by recipient at the time of receipt of service or payment whichever is earlier.

Infrastructure Tax

- Infrastructure tax of Rs 5 per litre is levied on petrol, diesel and airplane fuel at the custom point.

Casino Royalty

- Generally, casino royalty of Rs 30 million per annum shall be charged for operation of casino. However, in case the game at casino played through modern machine and equipment then casino royalty of Rs 7.5 million per annum shall be charged.

Income Tax Act

- Transaction-based Tax

Particulars	Income Tax Rate (%)
a) Natural person doing business of gas and cigarette with 3% commission or margin	0.25% of Transaction
b) Natural person doing business other than mentioned in above A.	0.75% of Transaction
c) Natural person engaged in Service sector Business	2% of Transaction

Note: If income tax calculated is below Rs 5,000 then above person shall pay Rs 5,000 instead of tax at above rate.

- Personal Tax Rates

The taxable income is taxed as follows:

Tax Rate (%)	Individual	Couple
	Rs	Rs
1	350,000	400,000
15	350,000 to 450,000	400,000 to 500,000
25	450,001 to 2,500,000	500,001 to 2,500,000
25	Above 2,500,000	Above 2,500,000
40	Additional tax on tax computed as per (d) above where taxable income of an individual exceeds Rs 2.5 million	

OTHER TAX PROVISIONS

- Road Construction and rehabilitation duty

The duty will be collected as follows:

Types of Vehicles	Duty	
Car, Jeep, Van, Microbus, truck, tipper, truck mixture, minibus, mini truck and mini tipper	7% of the value inclusive of all other taxes and duties	
Motor cycle per piece:	<u>FY 2074/75</u>	<u>FY 2073/74</u>
Up to 125 cc	Rs 10,000	Rs 10,000
126 cc to 250 cc	Rs 12,000	Rs 12,000
251 cc to 400 cc	Rs 15,000	Rs 15,000
401cc and above	Rs 20,000	Rs 20,000

Not applicable to ambulances, fire brigade, vehicles carrying dead bodies (hearse), diplomatic missions and individuals having diplomatic immunity.

Above duty would not be applicable for cooperative societies and companies importing more than 5 buses having 40 or more seat capacity for use in public transportation business.

Contact for Further Consultation

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