

## DIRECT TAX

### CORPORATE TAX RATES:

Industry / Nature of Business	Tax Rate
Corporate tax rate 25%	25%
Banks & Financial Institutions	30%
Entities Carrying out the Financial Transactions (Bittiya Karobar)	
General Insurance Business	
Merchant Banks, Telecommunication and Internet Services Industry, Money Transfer Capital Market, Commodity Future Market, Securities Brokers and Companies involved in securities business	
Entities producing/transacting in cigarettes, cigars, liquors and other related products	
Entities engaged in Petroleum Business under Petroleum Act, 2040	
Entities engaged in telecommunication and internet related services	
Dividend Distribution Tax rate	5%
Non-resident carrying on air and water transport and Telecommunication services in Nepal :	
a.) If the goods and Passengers embarking from Nepal	a) 5%
b.) If a person books a ticket from Nepal but the departure is from any foreign country	b) 2%
Repatriation by Foreign Permanent Establishment (FPE) of a Non-resident	5%

### BUSINESS INCOME

Income from business or profession is computed in accordance with the method of accounting regularly followed and subject to the adjustments/deductions as prescribed in the Ordinance. The income is subject to tax at the rates as mentioned above.

Co-Operatives	Tax Rate for FY 2082/83
Exempt Co-operatives covered under Section 11	Nil
Saving & Credit Co-operatives operated in Metropolitan City	20%
Saving & Credit Co-operatives operated in Sub-Metropolitan City	15%
Saving & Credit Co-operatives operated in Sub-Metropolitan City	10%
Other than Exempt/Saving & Credit Co-operatives operated in Metropolitan City	10%
Other than Exempt/Saving & Credit Co-operatives operated in Sub-Metropolitan City	7%
Other than Exempt/Saving & Credit Co-operatives operated in Sub-Metropolitan City	5%

### FOR NON-RESIDENT PERSON

Nature of transaction	FY 2082/83
Income earned from normal transactions.	25%
Income earned from providing shipping, air transport or telecommunication services, postage, satellite, optical fiber project	5%
Income earned providing shipping, air transport of telecommunication services through the territory of Nepal.	2%
Repatriation by Foreign Permanent Establishment.	5%

### FOR RESIDENT PERSON

Assessed As Individual			
Income Level (NPR)	Tax Rate 2082.83	Income Level (NPR)	Tax Rate 2081.82
Up to -5,00,000	1%	Up to -5,00,000	1%
Next -2,00,000	10%	Next -2,00,000	10%
Next -3,00,000	20%	Next -3,00,000	20%

Next -10,00,000	30%	Next -10,00,000	30%
Next -30,00,000	36%	Next -30,00,000	36%
Above -50,00,000	39%	Above -50,00,000	39%

Assessed As Couple			
Income Level (NPR)	Tax Rate 2082.83	Income Level (NPR)	Tax Rate 2082.83
Up to -6,00,000	1%	Up to - 6,00,000	1%
Next -2,00,000	10%	Next -2,00,000	10%
Next -3,00,000	20%	Next -3,00,000	20%
Next -10,00,000	30%	Next -10,00,000	30%
Next -30,00,000	36%	Next -30,00,000	36%
Above -50,00,000	39%	Above -50,00,000	39%

## OTHER KEY PROVISIONS FOR RESIDENT NATURAL PERSONS

1. **Remote Area Incentive:** A resident natural person working in a designated remote area is entitled to a tax deduction of up to **NPR 50,000** from their taxable income.
2. **Exemption from Social Security Tax:** Social Security Tax shall **not apply** to the following:
  - Natural persons with **pension income**
  - Individuals contributing to the **Social Security Fund (SSF)**
  - Proprietors of **proprietorship firms**
3. **Incapacitated Persons' Relief:** Incapacitated resident natural persons shall receive an **additional deduction of 50%** of the amount under the first income tax slab.
4. **Life Insurance Deduction:** A resident natural person who has procured a life insurance policy and paid premiums is entitled to a deduction from gross taxable income of the **actual premium paid or NPR 40,000, whichever is lower.**
5. **Health Insurance Deduction:** A deduction of the **actual health insurance premium paid or NPR 20,000, whichever is lower,** shall be allowed from the gross taxable income of a resident natural person.
6. **House Insurance Deduction:** Resident individuals paying premiums for house insurance may deduct the **actual premium paid or NPR 5,000, whichever is lower,** from their gross taxable income.
7. **Foreign Mission Allowance Inclusion:** Employees of foreign diplomatic missions in Nepal shall include **only 25% of their foreign allowance** in their salary income for tax purposes.
8. **Overseas Allowance Rebate:** Employees posted outside Nepal shall receive a **75% tax rebate** on foreign allowance received during their posting period.
9. **Tax Rebate for Female Employees:** A **10% rebate on total tax liability** is granted to female employees whose **entire taxable income is from employment.**
10. **Pension Income Deduction:** Resident natural persons with pension income are entitled to an **additional deduction equivalent to 25% of the first tax slab** from their taxable income.
11. **Capital Gains on Listed Securities:** Gains from disposal of listed securities by resident individuals shall be taxed at:
  - **5%** of the gain if the holding period exceeds **365 days**
  - **7.5%** if the holding period is **365 days or less**
12. **Capital Gains on Non-Business Chargeable Assets (Land & Building):** Tax shall apply as follows:
  - **5%** of the gain if the asset is held for **5 years or more**

- 7.5% if held for **less than 5 years**
- 13. **Foreign Income from Electronic Services:** A **flat 5% tax** shall be levied on resident individuals **not operating a business** but receiving foreign currency income for providing **software or electronic services** outside Nepal.
- 14. **Foreign Income from Consultancy Services:** Resident natural persons earning in foreign currency through **consultancy services provided abroad** (outside of a formal business structure) shall be taxed at **5%**.
- 15. **Foreign Income from Social Media Content:** Resident natural persons **not operating a registered business** but receiving foreign income through uploading **audio-visual content** on social media shall be subject to **5% tax** on such income

## ADVANCE INCOME TAX PAYMENT OBLIGATION

All taxable entities are **mandatorily required** to pay income tax in **three advance installments** within each income year. The advance tax payments must be based on the entity's **estimated annual profit**, calculated using the **applicable income tax rates** prescribed under the law.

The **advance income tax** shall be deposited within the following deadlines:

- **First Installment – 40% of Estimated Tax** : On or before **14 January (Poush End)**
- **Second Installment – 30% of Estimated Tax** : On or before **13 April (Chaitra End)**
- **Third Installment – 30% of Estimated Tax** : On or before **15 July (Ashad End)**

*Note: Any repatriation of income by a Foreign Permanent Establishment (PE) to its parent entity abroad shall be subject to a tax at the rate of 5% on the repatriated amount.*

Failure to comply with these deadlines may result in penalties and interest as per prevailing tax laws. All entities must ensure timely and accurate calculation and deposit of advance tax to remain in compliance with statutory requirements

## WITHOLDING TAXES

S.N.	Nature of Transaction	FY 2082/83	FY 2081/82
A	Interest income from deposits up to Rs.10,000 under Microfinance, Rural Dev. Bank, Postal Saving Bank, & Co-operatives (u/s-11(2ka)) in Village Municipality areas	<b>Exempt from Tax</b>	<b>Exempt from Tax</b>
B	Windfall gains from Literature, Arts, Culture, Sports, Journalism, Science & Technology, and Public Administration (up to Rs. 5 Lakhs)	25% / Nil	25% / Nil
C	Payment of rent by resident person (no TDS if paid to natural person)	10%	10%
D	Dividend paid by resident entity:		
	– To Resident Person	5% /	5% /
	– To Non-Resident Person	5%	5%
E	Gain on investment insurance	5%	5%
F	Gain from unapproved retirement fund	5%	5%
G	Interest or similar payments to natural person (not involved in business) by bank, debenture issuer, or listed company	6%	6%

H	Payment for articles published in newspapers	No TDS	No TDS
I	Interest payments to resident banks or financial institutions	No TDS	No TDS
J	Interregional interchange fee paid to credit card issuing bank	No TDS	No TDS
K	Interest/fees paid by GoN under bilateral agreements	No TDS	No TDS
L	General insurance premium payment to resident insurer	No TDS	No TDS
M	Premium paid to non-resident insurance company	1.50%	1.50%
N	Contract payment exceeding Rs. 50,000 per contract (within 10 days)	1.50%	1.50%
O	Interest & Dividend paid to Mutual Fund	No TDS	No TDS
P	Payment of consultancy fee:	1.5% / 15%	1.5% / 15%
	– Against VAT invoice		
	– Against non-VAT invoice		
Q	Contract payments to Non-Resident Person:	5% / 5%	5% / 5%
	– Repair of aircraft & similar		
	– Others		
R	Dividend distributed by Mutual Fund to natural person (TDS)	5%	5%
S	TDS on payments by resident persons for services related to Satellite, Bandwidth, Optical Fiber, telecom/electric transmission equipment	10%	10%
T	Dividend paid by partnership firm to its partners	5%	5%
U	Freight or vehicle rental payment (if service provider is <b>not</b> VAT registered)	2.50%	2.50%
V	Same as above – freight/vehicle rental to non-VAT registered provider	2.50%	2.50%
W	Freight or vehicle rental payment (if service provider <b>is</b> VAT registered)	1.50%	1.50%
X	Renting of passenger vehicle:	1.5% / 10%	1.5% / 10%
	– VAT Registered		
	– Not VAT Registered		
Y	Payment for question setting, answer evaluation, etc.	15%	15%
Z	Commission paid to non-resident company for reinsurance	1.50%	1.50%
AA	Payment to consumer committee	1.50%	1.50%
AB	Interest paid by resident bank/FI to foreign bank/FI	5%	5%
AC	Incentives/discounts to consumers for using digital payment (e.g. wallet, card, mobile banking)	No TDS	No TDS
AD	Interest on deposit of life insurance companies	5%	5%
AE	Royalty to resident person for literary articles or write-ups	1.50%	1.50%
AF	Interest on loan paid to foreign banks/FIs by reservoir or semi-reservoir based hydropower projects (capacity above 200 MW)	5%	5%

## TAX COLLECTION ON SERVICES (TCS)

S.N.	Nature of Transaction	FY 2082/83	FY 2081/82
A	Profit and gain from transaction of commodity future market	10%	10%
B	Payment made against question setting, answer evaluation	15%	15%
C	Commission paid to non-resident company for reinsurance	1.50%	1.50%

D	Payment made to consumer committee	1.50%	1.50%
E	Commercial import of buffalo, goat, sheep, fresh & frozen fish, fruits	5% of Custom Value	5% of Custom Value
F	Import of meat, milk products, egg, honey, millet, buckwheat, junelo, rice, wheat flour, meslin flour, other flours, herbs, sugarcane, herbal products	2.50%	2.50%
G	Foreign currency exchange service by resident banks for students (language exams/standardized tests)	15%	15%
H	Interest paid by resident bank/FI to foreign bank/FI	10%	10%
I	Incentive to consumers using digital payment (card, wallet, mobile banking)	No TDS	No TDS
J	Payment received in foreign currency for providing software/electronic services outside Nepal	1% (Collected by Bank/FI/Money T/F)	1% (Collected by Bank/FI/Money T/F)
K	Interest on deposits of life insurance companies	5%	5%
L	Royalty to resident person for literary articles or write-ups	1.50%	1.50%
M	Interest on loan paid to foreign bank/FIs by Dam/PROR-based hydropower (with conditions)	5%	5%
N	Payments made by resident e-commerce operators for sales through their platform	1% (Collected by e-commerce operator)	1% (Collected by e-commerce operator)
O	Profit and Gain from Disposal of Shares:		
	<b>Resident Natural Person:</b>		
	– Listed shares held > 365 days	5%	5%
	– Listed shares held ≤ 365 days	7.50%	7.50%
	– Non-listed shares	10%	10%
	<b>Resident Entity:</b>		
	– Listed shares	10%	10%
	– Non-listed shares	15%	15%
	<b>Others:</b>		
	– Listed shares	25%	25%
– Non-listed shares	25%	25%	

## INDIRECT TAX

### VALUE ADDED TAX (VAT) IN NEPAL – KEY PROVISIONS

1. **Standard VAT Rate:** A uniform VAT rate of 13% is applicable on the supply of both goods and services across Nepal.
2. **Zero-Rated and Exempted Items:**
  - Certain specified goods and services are taxed at 0% (zero-rated).
  - Others are fully exempt from VAT.
  - The list of zero-rated items is prescribed in Schedule 1 and exempted items in Schedule 2 of the VAT Act.

3. **Applicability:**  
VAT is levied at every stage of the **value chain** — including **import, manufacturing, trading, and supply** of goods and services.
4. **Input Tax Credit (ITC):**  
Input tax credit is available on **purchases and expenses** related to taxable supplies (both at **13% and 0%** rates), allowing businesses to claim credit for VAT paid on inputs.
5. **Reverse Charge Mechanism (RCM):**  
In the case of **import of services**, the **recipient** of the service is **liable to pay VAT** under the **reverse charge mechanism**, irrespective of the supplier's location.
6. **Mandatory VAT Registration:**
  - A person supplying **goods** exceeding **NPR 5 million** in annual turnover, or
  - Supplying **services or a combination of goods and services** exceeding **NPR 3 million**,  
**must register under VAT.**
  - Additionally, certain **specified categories of businesses** are **required to register compulsorily**, regardless of the transaction threshold.
7. **VAT Payment and Return Filing:**
  - VAT must be **paid and filed** on a **monthly or trimester basis** (as applicable).
  - The **due date** for both **VAT payment and return filing** is the **25th day of the following month or trimester.**
  - **Online filing** of VAT returns is available via the **IRD's official portal.**

## **EXCISE DUTY – LEGAL PROVISIONS AND COMPLIANCE REQUIREMENTS**

### **• Scope of Excise Duty:**

Excise Duty is **mandatorily applicable** on the **local manufacture of movable goods** and the **import of specified goods**, as outlined under the **Excise Act, 2002** and the **Excise Regulation, 2003.**

### **• Government Supervision:**

Excise-duty-liable goods and services are placed under **strict control and supervision** by the **Government of Nepal (GoN)** — from **production** to **final sale**. Compliance with monitoring protocols is compulsory.

### **• License Requirement – Manufacture, Import, Storage, Sale:**

- No individual, firm, or institution is **legally permitted** to **manufacture, import, sell, store, or deliver excisable goods or services** without obtaining a **valid Excise License.**
- This restriction also applies to the **import of excisable services** — a license is mandatory.

### **• License Application:**

Any person, firm, or entity intending to engage in such activities must **submit an application** in the **prescribed format** to the relevant **Excise Officer** at the **concerned Inland Revenue Department (IRD) office.**

### **• Mandatory Return Filing:**

Every person registered under Excise must **file an Excise Duty return** by the **25th day of the**

**following month, irrespective of whether any transaction has occurred** during the period.  
**Non-filing constitutes a violation** of the Excise law

## **CUSTOMS DUTY – REGULATORY FRAMEWORK AND KEY PROVISIONS**

### **• Scope of Levy:**

Customs Duty is **compulsorily levied** on the **import and export of goods** across Nepal's borders. All goods entering or leaving the country are subject to this duty, unless specifically exempted by law.

### **• Legal Basis and Classification:**

The applicable rate of Customs Duty on any product is determined based on its classification under **Schedule 1 and Schedule 2 of the Finance Act, 2081**.

Nepal's customs classification system is fully **harmonized with the internationally adopted Harmonized System (HSN)** established by the **World Customs Organization (WCO)**.

### **•Valuation and Duty Assessment:**

Customs Duty is assessed at the **Nepal border** based on the **transaction value** of imported goods. The valuation system strictly adheres to the principles of the **WTO/GATT Valuation Agreement**.

- For **commonly imported goods**, duty is calculated on an **ad valorem basis** (i.e., percentage of the transaction value).
- In specific cases, duty may be levied based on **quantity (volume or weight)**.

### **•Customs Service Fee:**

- A **Customs Service Fee of NPR 500** is charged **per customs declaration form** at the time of **import**.
- A **reduced fee of NPR 100** per declaration applies at the time of **export**.

### **•Annual Revision and Range:**

Customs Duty rates are **revised annually** through the **Finance Act**. The current duty rates range from **0% to 80%** of the transaction value, depending on the nature and classification of the goods

## **ANTI-TAX AVOIDANCE ARRANGEMENTS**

### **BILATERAL DOUBLE TAXATION AVOIDANCE AGREEMENTS (DTAA)**

To mitigate the risk of double taxation and to foster a favorable investment climate, the **Government of Nepal (GoN)** is legally empowered to **negotiate and enter into Bilateral Double Taxation Avoidance Agreements (DTAAs)** with foreign nations. These agreements are a key mechanism for **promoting Foreign Direct Investment (FDI)** by ensuring that income is **not taxed twice** in both the source and residence countries.

A DTAA clearly **allocates taxing rights** between the two contracting states concerning **cross-border income**, and typically provides for **tax credits, exemptions, or reduced rates** to eliminate or reduce the burden of double taxation.

In addition to preventing double taxation, DTAA's also serve as powerful tools in the **global fight against tax evasion**, allowing for the **exchange of information** between the signatory countries under internationally recognized standards.

As of now, Nepal has **successfully concluded and signed DTAA's with 11 countries**, namely:

- **Austria**
- **Bangladesh**
- **China**
- **India**
- **Republic of Korea**
- **Mauritius**
- **Norway**
- **Pakistan**
- **Qatar**
- **Sri Lanka**
- **Thailand**

These treaties play a **critical role in ensuring tax transparency, legal certainty, and the protection of taxpayer rights** in cross-border transactions involving Nepal.

## **FOREIGN TAX CREDIT PROVISION**

A **resident taxpayer of Nepal** who earns **taxable income from foreign sources** and has paid **income tax in the foreign jurisdiction** is entitled to claim a **foreign tax credit** against the **Nepalese income tax liability** on such foreign-sourced income.

However, the amount of **foreign tax credit allowed** shall **not exceed** the amount of **Nepal income tax** that would have been payable on the same foreign income under Nepalese tax law. In other words, the credit is **limited to the lower of the foreign tax paid or the Nepal tax payable** on that foreign income.

Alternatively, if the taxpayer chooses, a **deduction of foreign tax paid** from the **gross foreign income** may be permitted, subject to prescribed rules.

This mechanism ensures **relief from double taxation**, while maintaining **compliance with Nepal's Income Tax Act**.