

Tax incentives in Nepal: an Overview

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Outline

- ▶ Tax incentives policy
- ▶ Existing tax incentives
- ▶ Assessment of tax incentives
- ▶ Focus for future tax incentives

Tax incentives policy in Nepal

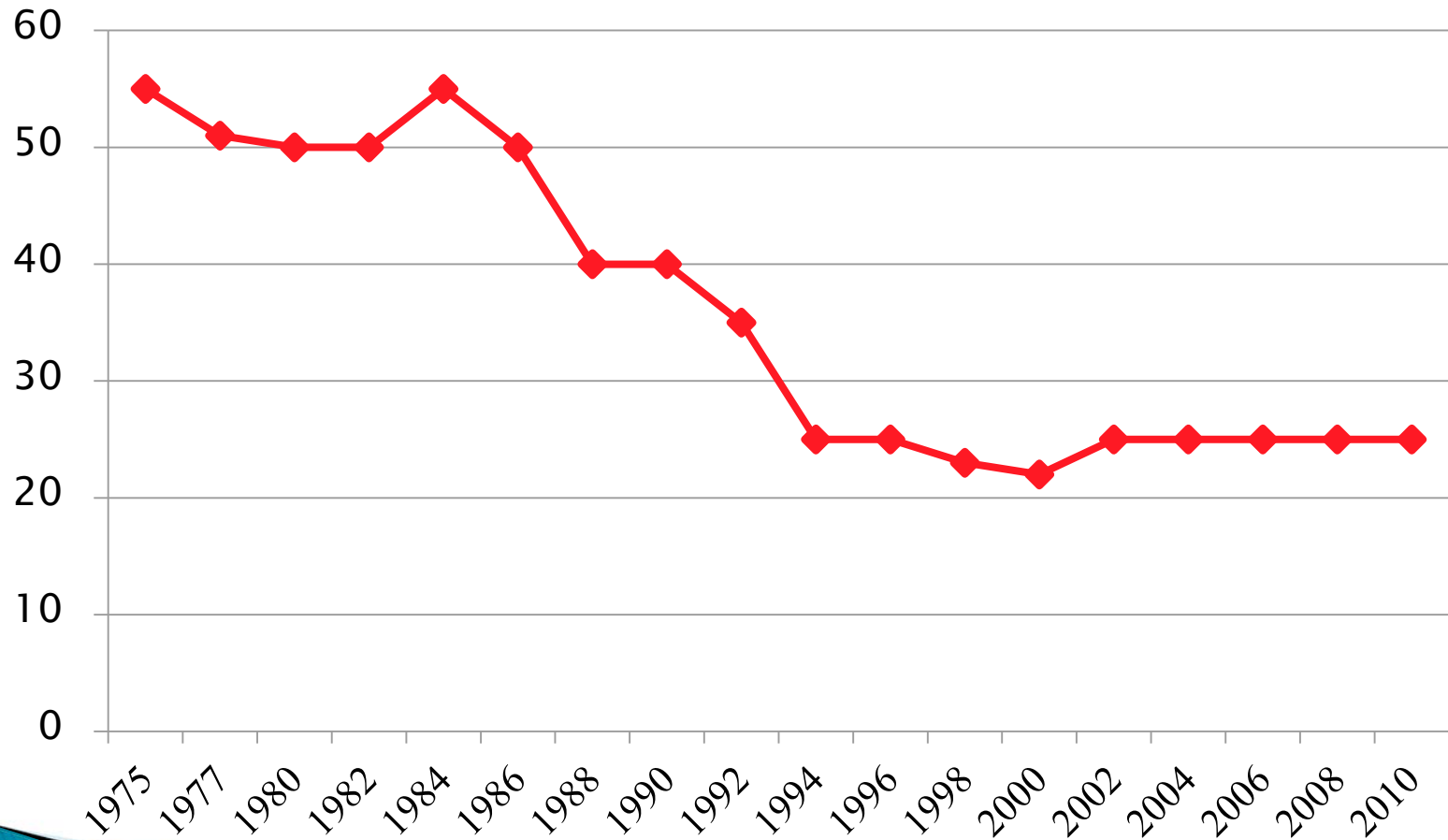
- ▶ Establishment of investment friendly tax system
- ▶ Make tax system more growth friendly.
- ▶ Export promotion through tax policy

Tax incentives for "INCENTIVES"

- ▶ I= Infrastructure Development
- ▶ N= Net worth
- ▶ C= Capitalization/ Compensation
- ▶ E= Empowerment
- ▶ N=Nation Building
- ▶ T= Transformation/ Technology transfer
- ▶ I= Investment/ Innovation
- ▶ V= Village Development
- ▶ E= Equity & Equality
- ▶ S= Synergy/ Social welfare

Existing tax incentives in Nepal

Standard CIT rate deduction



Existing tax incentives....cont.

Comparison of standard CIT rate with neighboring countries

Country	CIT rate (%)
Bangladesh	27.5
China	25
India	25
Nepal	25
Pakistan	34
Sri Lanka	28

Existing tax incentives....cont.

Loss carry forward:

- ▶ Losses can be carried forward for 7 years.
- ▶ Losses can be carried forward for 12 years on construction of powerhouse, generation and transmission of electricity.

Tax Exemption:

- ▶ Farm income except registered farm business or companies related to organized farming.
- ▶ Agro based co-operatives, saving and credit organization located in rural areas.
- ▶ Dividends distributed by savings and credit organizations.

Existing tax incentives.....cont.

Tax rebate/ holidays:

Types of Industries	Establishment Location	Conditions	Tax rebate/ holiday
Special manufacturing industries	All over the country	Direct employment to 300 and more Nepali citizens throughout the year	10%
Special manufacturing industries	All over the country	Direct employment to 1200 and more Nepali citizens throughout the year	20%
Industries	SEZ		CIT, dividend tax exemption for 5 years from the commencement of the business and 50% tax rebate thereafter for next 3 years.

Existing tax incentives.....cont.

Tax rebate/ holidays:

Types of Industries	Establishment Location	Conditions	Tax rebate/ holiday
Industries (Foreign Investors)	SEZ	Technology transfer or management services	50% income tax concession (Service charge and royalty)
Software development, data processing, cyber café, digital mapping	technology parks or biotech parks		tax rebate of 50% is allowed on income
Special manufacturing industries	Far underdeveloped, underdeveloped and least developed areas		90%, 80% and 70% rebate on income tax for 10 years from the date of production.

Existing tax incentives.....cont.

Tax rebate/ holidays:

Types of Industries	Establishment Location	Conditions	Tax rebate/ holiday
Special manufacturing industries	All over the country	More than 1 billion capital investment and providing direct employment to more than 500 people throughout the year	Full income tax holiday for first 5 years and 50% tax rebate for next years from the date of commencing business
Tourism related industry or an airline company operating international flights	All over the country	more than 2 million capital investment	Full income tax holiday for first 5 years and 50% tax rebate for next 3 years from the date of commencing business.
Intellectual property right			25% tax rebate on royalty income from the export of intellectual property right.

Existing tax incentives.....cont.

Tax rebate/ holidays on energy project:

Types of Projects	Tax rebate/ holiday
Beginning commercial production of hydropower, production and transmission, production by mid April ,2009	7 years of full income tax holiday and 50% rebate for the next 3 years.
Beginning construction by 23 August, 2014 and starting commercial production by mid April 2009	10 years of full income tax holiday and 50% rebate for the next 5 years.

Existing tax incentives.....cont.

Depreciation allowance:

- ▶ Accelerated depreciation is granted on manufacturing industries and infrastructure and utility projects.
- ▶ Production oriented industry shall be entitled to claim 50% depreciation in the same income year on the capital amount that has been capitalized as an asset to generate power required for its own use.

Income repatriation by foreign PE: 5% income tax is levied

Existing tax incentives.....cont.

Reduced rate:

- ▶ Reduced rate on dividends
- ▶ 20 % income tax rate for special industries (manufacturing industries except tobacco and liquor related industries
- ▶ 20% income tax limit is set for road, bridge, tunnel, ropeway and sky bridge projects. The same rate applies for trolleybus and tram development.
- ▶ 20% income tax limit is applicable for power development and transmission
- ▶ 20% tax rate is applicable for export income

Existing tax incentives.....cont.

Value Added Tax

Exemption

- ▶ VAT exemption is applicable for machinery imports
- ▶ VAT threshold has been set at NPR.2 million
- ▶ VAT refund on input tax to the regular exporter
- ▶ Zero rate facility for hydropower projects.

Customs Duty

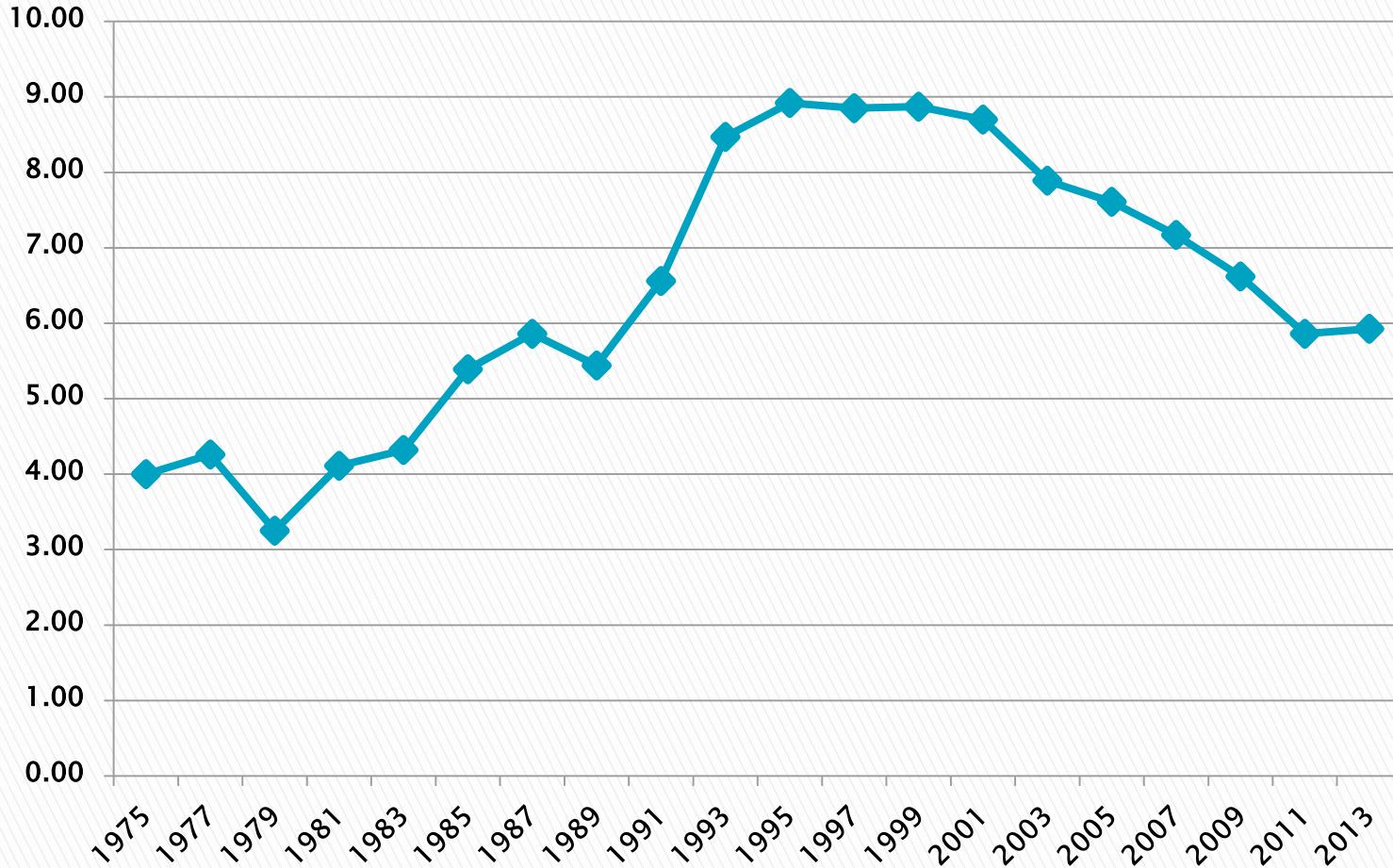
Reduced rate

- ▶ 1% customs duty is capped on to Technology and Machinery imports.

Duty draw back facility for importing raw materials and ancillary goods

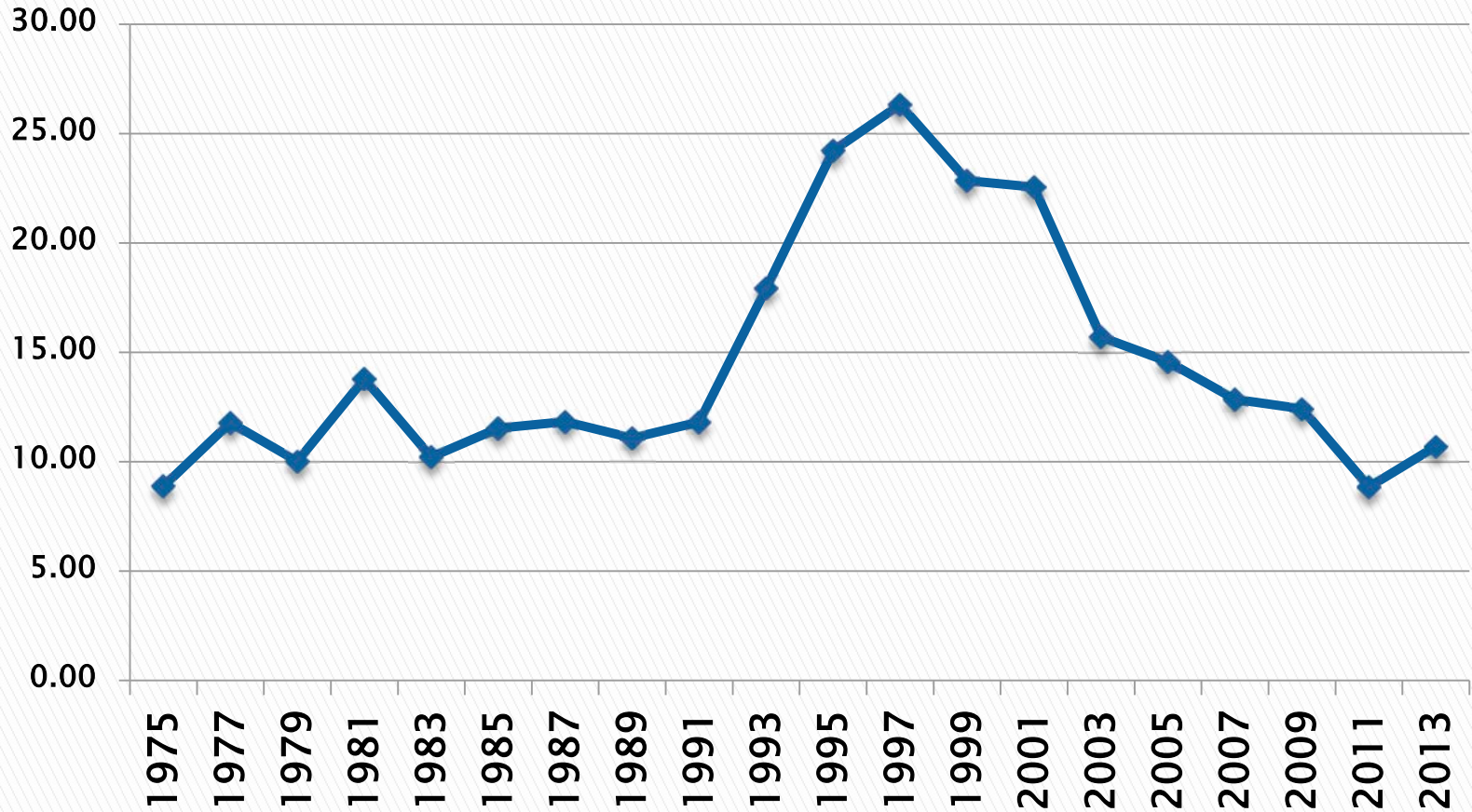
Assessment of tax incentives

Share of manufacturing sector in GDP



Assessment of tax incentives

Export/GDP ratio



Assessment of tax incentives

- ▶ Manufacturing sector and export sector are not being incentivized through tax incentives.
- ▶ In order to make tax policy stable and to ensure the incentive schemes to the private sector, conventional tax incentives system has been continued.
- ▶ Tax incentives on infrastructure sectors have been recently introduced, too early to assess the impact.
- ▶ No tax expenditure budget has been made so far. Very rough estimation of revenue foregone is approximately 5% of GDP.

Our focus for future tax incentives

- Investment linked incentives: accelerated depreciation or investment credits (Pro capital)
- No extension may be given to tax holidays.



**Thank you very much for
your attention**

Arigatogozaimasu