INCOME TAX ACT, 2058 (2002)

[Consolidated incorporating amendments up to the Financial Act, 2083 (2026)]

Note: Text highlighted in green represents amendments made by the Finance Act, 2083 (2026), applicable for Fiscal Year 2083/84 (2026/27).

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Chapter-1 Preliminary

1. Short title, extent and commencement:

(1) This Act may be cited as the "Income Tax Act, 2058 (2002)."

(2) This Act shall come into force throughout Nepal and shall also apply to residents residing wherever outside Nepal.

(3) This Act shall come into force immediately.

2. Definitions:

Unless the subject or the context otherwise requires in this Act,-

(a) "Person withholding advance tax" means a person with a duty to withhold advance tax pursuant to Chapter-17 in making payments for employment, investment return, service charge and contract or agreement, as well.

(b) "Officer" means the Director General, Deputy Director General, Chief Tax Administrator, Director, Chief Tax Officer, Tax Officer and other Officers in the Department, as referred to in Section 72.

(b1) "International Transaction" means any transaction relating to goods, services, finance, or intangible assets conducted by any person with at least one non-resident person. The term also includes any other transaction that affects income, expenditure, assets, or liabilities.

(c) "Payment from which tax is withheld finally" means any dividend, rent, profit, interest and payment from which tax has to be withheld made to the non-resident person, as referred to in Section 92.

(d) "Retirement fund" means an entity established with the sole objective to accept retirement contribution fund for making retirement payments from the fund to the entity's beneficiary individuals or their dependents, and invest such funds.

(e) "Retirement payment" means any payment made to the following person:-

(1) Payment made to an individual where such person has got retirement, or

(2) Payment to the dependent of an individual where such person has died.

(f) "Retirement contribution fund" means any payment made to a retirement fund for provisions of retirement payment or for future provisions thereof.

(g) "Incapacitated person" means a person who is not capable of making his or her dealings because of physical or mental illness.

(h) "Income" means an income earned by any person from employment, business, investment or windfall gain and the term also includes the total amount of that income calculated in accordance with this Act.

(h1) "Windfall gain" means a gain obtained by means of lottery, gift, prize, tips, share of earning in a game (Jitauri) or any other gain acquired incidentally.

(i) "Income year" means a period from the first day of Shrawan (15 July) of any year to the last day of Ashad (14 July) of the next year.

(j) "Gift" means any payment made without any consideration or in the case of any payment with consideration, where the market value of payment exceeds the market value of consideration, payment to the extent of such excess.

(k) "Debt liability" means the liability equivalent to the debt claim.

(l) "Debt claim" means the right of any person to receive payment from another person, and the term also includes the right of any person to have repaid a loan lent by such person to another person, the right to receive deposits made in a bank and financial institution, to receive sums to which such person is entitled and to receive moneys from the sale of debentures, bills of exchange, bonds, rights under annuities, financial lease and installments.

(m) "Company" means any company incorporated under the prevailing company law, and for the purpose of tax the following institutions shall also be treated as if they were companies:-

(1) Any corporate body established under the laws in force;

(2) Any unincorporated union, board, association or society or sole proprietorship whether incorporated or not and any group of persons or trust except a partnership;

(3) Any partnership firm, retirement fund, cooperative institution, unit trust, joint venture, consisting of twenty or more partners whether registered or not under the law in force;

(4) Any foreign company;

(5) Any other foreign institution as specified by the Director General.

(n) "Tax" means the tax chargeable under this Act, and this term includes the following payments:-

(1) The expenditures referred to in clause (a) of sub-section (8) of Section 104 as incurred by the Department for any claim in respect of, and auction sale of, the property in which the tax is due and outstanding,

(2) The amount payable by the person withholding advance tax or the person subject to tax withholding under Section 90 or the amount payable by the person making payment in installment under Section 94 or the amount payable by the person withholding advance tax under Section 95A. or the amount payable after the tax assessment under Sections 99, 100 and 101,

(3) The amount payable to the Department in respect of tax liability of the third party under sub-section (2) of Section 107, sub-section (3) or (4) of Section 108, sub-section (1) of Section 109, sub-section (1) of Section 110,

(4) The amount referred to in Chapter-22 payable for a fee and interest, and

(5) The amount of fine referred to in Section 129 required to be paid as per the order of the Department.

(o) "Person subject to tax withholding" means any person who receives payment or has the right to receive payment by withholding tax under Chapter-17 in making payment for employment, investment return, service charge or contract or agreement.

(p) "Tax assessment" means the assessment of tax to be made under this Act and this term includes the assessment of a fee and interest under Section 122.

Provided that this term does not mean the previous tax assessment substituted by the amended tax assessment under Section 101.

(p1) "Transaction" means a transaction equal to the total amount included pursuant to Section 7, 8 or 9 for the purpose of calculation of income of employment, business or investment in any income year.

(q) "Non-resident person" means any person save the resident person.

(r) "Non-business taxable assets" means any land, building and interest or security in any entity except the following properties:-

(1) Business assets, depreciable assets or stocks-in-trade,

(2) A private building owned by an individual in the following situation:-

(a) Being under ownership for a continuous period of ten years or more, and

(b) Where that person has resided for a total period of ten years or more continuously or at several times,

Explanation: For the purpose of this clause, "private building" means building, land occupied by the building and additional land of equal area occupied by the building or one Ropani of land whichever is lesser.

(3) Any interest of any beneficiary in retirement fund,

(4) A land, land with building and private building belonging to and disposed of by any individual for a value less than ten lakh rupees, or

(5) Any asset disposed of by way of transfer in any manner other than the purchase and sale within three generations.

(s) "Organization entitled to enjoy exemption" means the following entity:-

(1) The following entities registered in the Department as organizations entitled to enjoy exemption:-

(a) A social, religious, educational or benevolent organization of public nature established with non-profit motive,

(b) An amateur sports organization so formed with a view to promoting social or sports related facilities that the organization or its members does not derive profits,

(2) A political party registered in the Election Commission,

Provided that if any person has derived any benefit from the property of that organization and the monies obtained from that organization except in making payment for the property or the service provided by any person to that organization or in discharging functions in consonance with the objective of the organization entitled to exemption, tax exemption shall not be granted.

(t) "Trust" means an arrangement whereby a trustee holds any property.

Provided that this term does not include a partnership, corporate body or organization referred to in sub-clause (3) of clause (m).

(u) "Trustee" means an individual, trust (Guthi) or other body corporate who, individually or jointly with other individual, trust (Guthi) or corporate body, holds a property in trust, and the term also includes the following person:-

(1) The operator or administrator of the assets of a deceased,

(2) A liquidator, recipient or trustee,

(3) Any person who protects, directs, controls or manages the assets of an incapacitated person in personal or official capacity,

(4) Any person who manages the assets under a private enterprise or similar other enterprise, and

(5) Any other person in a position similar to that of the person as referred to in clauses (1), (2), (3) and (4).

(v) "Long-term contract" means a contract referred to in Section 26 of which validity period is more than twelve months.

(w) "Relative" means an individual's husband, wife, son, daughter (adopted son, daughter as well), father, mother, grand-father, grand-mother, elder brother, younger brother, sister-in-law, daughter-in-law, elder sister, younger sister, father-in-law, mother-in-law, brother-in-law, elder brother-in-law, wife's sister, uncle, aunt, nephew, niece, grand-son and grand-daughter.

(x) "Entity" means the following organization or body:-

(1) A partnership, trust or company,

(2) Rural Municipality, Municipality or District Coordination Committee,

(3) Government of Nepal, Provincial Government or Local Level,

(4) Any foreign government or provincial or local government under that government or a public international organization established by any treaty, or

(5) A permanent establishment of the organization or body referred to in clauses (1), (2), (3) and (4), which is not situated in a country of which it is a resident.

(y) "Interest in entity" means and includes the contingent right to receive income or capital of any entity.

(z) "Disposal" means a disposal inclusive of the sale or transfer of any property or liability as mentioned in Section 40.

(aa) "Vested ownership" means the following ownership:-

(1) In the case of any entity, ownership created on the basis of the interest which any individual or any entity in which an individual has no interest has in that entity directly or indirectly through one or more interposed entities, or

(2) In the case of the assets owned by any entity, ownership of the assets as determined in proportion to the ownership of the persons who have vested ownership in that entity.

(ab) "Lease" means the provisional right of any person to enjoy or use any property except movable property belonging to another person, and the term also includes a license, rent agreement, trenches, royalty agreement or right of a lessee/tenant.

(ac) "Individual" means an individual, and, for the purposes of this Act this term also includes a sole proprietorship owned by an individual, whether registered or not, and a spouse so selected under Section 50 as to be considered as the single individual.

(ad) "Payment for natural resources" means an amount of any of the following payments:-

(1) Amounts received for having right to extract water, minerals or other living and non-living resources from the earth, or

(2) Amounts calculated on the basis of the quantity or value of living or non-living resources of the natural resources and minerals extracted from the earth, in full or in part.

(ae) "Market value" means ordinary transaction value of any property or service in the ordinary course of trade between unrelated persons in respect of such property or service.

(af) "Rent" means a premium/sum received for the house rent as well as for the lease of a tangible property and all payments including premium made under the lease.

Provided that this term does not include any payment made for natural resources or amount received by the individual as a rent of house except for private/sole firm.

(ag) "Payment" means the following activities:-

(1) If the money or property owned by any one person is transferred to another person and the liability of any other person is transferred to that person,

(2) If the ownership over any property created by any person devolves on another person after the creation of that property or if any person bears the onus of liability of another person,

(3) If any person delivers service to another person,

(4) If any person uses any property owned by another person or such property is available for such use.

(ah) "Distribution of profit" means the distribution of profits of any entity made pursuant to Section 53, including the capitalization of profits.

(ai) "Unit trust" means a trust to be divided on the basis fixed with the number of the units holding the right of the persons entitled to participate in income or capital, with a provision that the trustee holds property for the benefits of at least twenty persons.

(ai1) "Contribution-based retirement payment" means a payment consisting of the amount deposited in an approved retirement fund as included in the income of an individual and the amount grown from such amount.

(aj) "Employment" means any kind of past, present or future employment.

(ak) "Royalty" means any payment made under the lease of any intangible property, and the term also includes any payment made for the following purpose:-

(1) To use or have the right to use a copyright, patent, design, model, plan, secret formula or process or trademark,

(2) To render technical know-how,

(3) To provide the right to use any motion picture film, video tape, sound recording or similar other means and to use or render industrial, business or scientific experience,

(4) To render any assistance in a manner to be ancillary to the matters referred to in clauses (1), (2), or (3), or

(5) To have full or partial restrictions on the matters referred to in (1), (2), (3) or (4).

Provided that the term does not mean any payment made for natural resources.

(al) "Investment" means the act of holding one or more properties or investing such properties, except the following:-

(1) Holding any property used by the owner in personal use, or

(2) Employment or occupation.

Provided that the act of holding any non-business taxable assets is considered as investment.

(am) "Investment insurance" means any of the following insurance:-

(1) An insurance against the death of the insured or of the associated person of the insured,

(2) An insurance against personal injuries of the insured or his associated person or against any event leading to incapacity in any particular manner,

Provided that the validity period of the insurance contract shall be at least five years or the contract shall be without any validity period and the contract is so made that it cannot be terminated by the insurer prior to expiration of a period of five years except in exceptional circumstances.

(3) An insurance so made that any money or series of moneys are paid to the insured in the future,

(4) Reinsurance of the insurance referred to in clause (1), (2) or (3), or

(5) Reinsurance of the reinsurance referred to in clause (4).

(an) "Dividend" means the distribution to be made by an entity.

(ao) "Resident person" means the following person in respect of any income year:-

(1) In respect of an individual,-

(a) Whose normal abode is in Nepal,

(b) Who has resided in Nepal for 183 days or more during a continuous period of 365 days, or

(c) Who is deputed by the Government of Nepal to a foreign country in any time of the income year.

(2) A partnership firm,

(3) In respect of a trust, such trust,-

(a) Which is established in Nepal,

(b) The trustee of which is a resident person in an income year, or

(c) Which is controlled by a resident person or by a group of persons comprising such a person, directly or through one or more interposed entities,

(4) In respect of a company, such company,-

(a) Which is incorporated under the law of Nepal, or

(b) Management of which is effective in Nepal in any income year.

(4a) Government of Nepal or Provincial Government,

(5) Rural Municipality, Municipality, or District Coordination Committee,

(6) In respect of an entity of any foreign government or provincial or local government under that government, such entity,-

(a) Which is established under the laws of Nepal, or

(b) Management of which is effective in Nepal in any income year.

(7) An organization or entity established under any treaty or agreement, and

(8) A foreign permanent establishment of a non-resident person situated in Nepal.

(ap) "Person" means an individual or entity.

(aq) "Manager" means any person involved in making managerial decisions of any entity, and the term also includes a trustee of any trust and a person having ownership in a foreign permanent establishment.

(ar) "Occupation" means any kind of industry, business, profession or business transactions of similar other nature, and the term also includes past, present or future occupations of similar type.

Provided that this term does not include employment.

(as) "Interest" means the following payment or profit:-

(1) Payment under debt liability except the principal,

(2) Profit made from concession, concession under credit liability, premium, alteration payment or from similar payment, and

(3) The amounts referred to in Section 32 receivable as an interest out of the payment to be made by a person who acquires any property under annuities or installment sale or of the payment made to any person for the use of any property under a financial lease.

(at) "Stock-in-trade" means the property owned by any person and to be sold in the course of regular business carried on by such person, the property in work-in-progress and the inventory of materials to be incorporated in the property.

Provided that this term does not include a property held in foreign currency.

(au) "Business asset" means any property used in any occupation.

Provided that this term does not mean stock-in-trade or depreciable assets of the occupation.

(av) "Distribution" means a distribution to be made by any entity as referred to in Section 53.

(av1) "Electronic means" means computer, fax, email, internet, electronic cash machine and fiscal printer, and this term also includes other approved means as specified by the Department.

(aw) "Income sent abroad" means an income required to be sent abroad by a foreign permanent establishment of a non-resident person situated in Nepal as referred to in Section 68, which has been sent abroad through a bank or paid in any other manner.

(ax) "Foreign income tax" means a foreign income tax referred to in sub-section (8) of Section 69 levied by any foreign country, and the term also includes any finally withheld tax levied by any foreign country.

(ay) "Foreign permanent establishment" means an entity referred to in sub-clause (5) of clause (x).

(az) "Department" means the Inland Revenue Department.

(aaa) "Property held in foreign currency" means any property held in a foreign currency other than Nepalese rupees.

(aab) "Permanent establishment" means a place where any person carries on a business fully or partly, and the term includes the following place:-

(1) A place where any person carries on a business fully or partly, through any agent except a general agent who acts independently in the ordinary course of carrying on business,

(2) A place where any person's main equipment or main machinery is situated or used or installed,

(3) One or more than one place in any country where any person has delivered technical, professional or consultancy service through an employee or in any other manner for more than ninety days at one or several times in a period of any twelve months, or

(4) A place where any person is involved in a construction, installation or establishment project and has carried out supervisory works of that project for a period of ninety days or more.

(aac) "Property" means a tangible or intangible property of any kind, and the term also includes currency, good-will, technological knowledge, assets, any person's ownership or interest in a foreign branch, a right to make income or acquire income in the future and any part of such property.

(aad) "Associated person" means any one or more than one person or group of persons who act as per the intention of each other, and the term also includes the following persons:-

(1) An individual and relative of that person or any person or a partner of that person,

(2) A foreign permanent establishment and a person having ownership in that establishment, and

(3) Any entity which by itself or jointly with any other person related with it or with an assisting entity or any other person or entity related with such assisting entity controls fifty percent or more of the income, capital or voting right of any entity or derives benefits therefrom.

Provided that the following person shall not be an associated person:-

(1) An employee,

(2) A person specified by the Department as a non-associated person.

(4) For the purposes of Sections 33, 33A and 33B:

(a) An entity that, either by itself or together with its related persons, associated entities, or other persons/entities related to such associated entities, controls 30 percent or more of the income, capital, or voting rights of another entity, or derives benefit therefrom;

(b) An entity that receives a loan amount equal to 50 percent or more of its total assets from any person providing the loan;

(c) An entity whose income-generating activities are substantially or wholly dependent on the intellectual property rights, technical knowledge, or commercial rights of another person;

(d) An entity that supplies 90 percent or more of the raw materials or consumable goods required by another person.

(aad1) "Adjusted taxable income" means the taxable income of any person for any income year calculated without reducing any amount under Sections 12, 12A, 12B, 12C and 12D or without any deduction under sub-section (2) of Section 14, Section 17 or 18.

(aae) "Partnership" means a firm consisting of less than twenty partners, whether registered under the law in force or not.

Provided that this term does not include a sole proprietorship or joint venture, whether registered or not.

(aaf) "General insurance" means an insurance other than investment insurance.

(aag) "General interest rate" means the rate of interest of fifteen percent per annum.

(aah) "Approved retirement fund" means a retirement fund having obtained approval from the Department pursuant to sub-section (1) of Section 63.

(aah1) "Safe Harbour Rule" means the conditions specified in Section 33A under which the transfer price shall be accepted as the arm's length market value.

(aai) "Service charge" means any charge paid to any person, according to the market value, for the service rendered by such a person, and the term also includes any meeting allowance, management fee or technical service charge.

(aaj) "Shareholder" means a beneficiary of any company.

(aak) "Depreciable property" means a property, which is used in any business or investment for earning income, and declines in value because of wear and tear, being old or passage of time.

Provided that the term does not mean stock-in-trade.

(aal) "Beneficiary" means a person who has an interest referred to in clause (y) in any entity.

(aam) "Prescribed" or "as prescribed" means prescribed or as prescribed in the Rules framed under this Act.

Chapter-2 Tax Bases

3. Tax to be levied:

Tax shall be levied on each of the following persons in each income year and be collected pursuant to this Act:-

(a) A person who has taxable income in any income year,

(b) A non-resident person's foreign permanent establishment situated in Nepal, which sends income of any income year abroad pursuant to sub-sections (3) and (4) of Section 68, and

(c) A person who receives payment liable to final tax withholding in any income year.

4. Computation and rate of tax:

(1) The amount of tax required to be paid by any person referred to in Section 3 for any income year shall be equal to the total amount of tax required to be paid by such person in the capacity of any one person or more than one person mentioned in clauses (a), (b) and (c) of that Section.

(2) In computing the tax required to be paid by any person referred to in clause (a) of Section 3, it shall be computed by applying the related rates mentioned in Schedule-1 to the taxable income of that person for that income year. In so computing the tax, it shall be computed by deducting the amount that is adjustable in tax, and claimed by that person pursuant to Section 51 or 71 or both.

(3) Notwithstanding anything contained in sub-section (2), the tax payable by a resident individual referred to in clause (a) of Section 3, who has fulfilled all of the following requirements, shall be equal to the total amount of tax deducted pursuant to Section 87 from the payments made by the employer to such resident individual in that income year:-

(a) Only the income of any employment having source in Nepal is included in the income of that income year,

(b) All employers have been resident persons in that income year and there is only one employer at one time, and

(c) The employer has made a claim for the adjustment of tax for medical expenses paid by the employer and for the retirement contribution paid by the employer itself, and has not made a claim to deduct expenses for donation pursuant to Section 12.

(4) Notwithstanding anything contained in sub-section (2), the tax payable in any income year by a resident individual referred to in clause (a) of Section 3, who has fulfilled all of the following requirements, shall be equal to the amount mentioned in sub-section (7) of Section 1 of Schedule-1:-

(a) That person has only income earned from business having source in Nepal in that income year,

(a1) Has not claimed for tax adjustment for medical expenses under Section 51 and for advance tax deduction under Section 93,

(b) The taxable income earned from the business does not exceed three lakh rupees and the turnover of the business does not exceed thirty lakh rupees,

(c) ......,

(d) ......

(4a) Notwithstanding anything contained in sub-section (2), the tax to be paid on the basis of turnover in any income year by a resident individual referred to in clause (a) of Section 3, who has met the following conditions, shall be equal to the amount calculated according to the rate prescribed in sub-section (17) of Section 1 of Schedule-1:-

(a) That person has only income earned from business having source in Nepal in that income year,

(b) The taxable income earned from the business is up to ten lakh rupees and the turnover of the business is more than thirty lakh rupees and up to one crore rupees,

(c) ......,

(d) Income is not from consultancy and expertise services provided by doctors, engineers, auditors, legal professionals, sportspersons, artists, consultants and the like individuals.

(4b) Notwithstanding anything contained in sub-sections (4) and (4a), such person shall have opted for the applicability of this provision in that income year.

(5) In computing the tax required to be paid by any foreign permanent establishment referred to in clause (b) of Section 3, it shall be computed by applying the rates mentioned in sub-section (6) of Section 2 of Schedule-1 to the income sent abroad by such establishment in that income year.

(6) The amount of tax required to be paid by the person referred to in clause (c) of Section 3 shall be equal to the total amount computed by applying the rates mentioned in Sections 87, 88, 88A. and 89 to the amount of each payment liable to final tax withholding received by that person in that income year.

5. Taxable income and classification of income headings:

The taxable income of any person in any income year shall be equal to the amount computed by subtracting the amount, if any, claimed pursuant to Sections 12, 12A., 12B., 12C., 63 or all these Sections from the grand total amount of assessable income of each of the following income headings in that income year:-

(a) Business,

(b) Employment,

(c) Investment, and

(d) Windfall gain.

6. Assessable income:

Subject to this Act, the following incomes earned by any person for any employment, business, investment or windfall gain in any income year shall be considered assessable income:-

(a) Income earned by a resident person from his employment, business, investment or windfall gain in that income year irrespective of the place of source of his income, and

(b) Income earned in that income year by a non-resident person from employment, business, investment or windfall gain having income source in Nepal.

Provided that the assessable income shall not include any income exempted from tax pursuant to Section 11 or 64 or both.

Chapter-3 Computation of Income

7. Computation of income from business:

(1) The profits and benefits made by any person in any year from any business shall be the income of that business of that person in that income year.

(2) In computing the profits and benefits earned by any person from the business in any income year, it shall be computed so as to include the following amounts received by that person within that year:-

(a) Service charge,

(b) Amount obtained from the disposal of stock-in-trade,

(c) Net profit derived from the disposal of business assets or business liability of any person, computed pursuant to Chapter-8,

(d) Amount considered to have been derived pursuant to clause (a) of sub-section (2) of Section 4 of Schedule-2 from the disposal of depreciable property of the business,

(e) Gift received from any person in respect of the business,

(f) Amount received for having accepted any restriction in connection with the operation of the business,

(g) Notwithstanding that the amount received by any person is of such nature that it is included in income from investment, the amount received by such a person being directly related with his business, and

(h) Other amounts required to be included pursuant to Chapter-6 or 7 or Section 56 or 60.

(3) Notwithstanding anything contained in sub-section (2), the amounts deductible under Sections 10, 54 and 69 and payments from which tax is withheld finally shall not be included in computing the profits and benefits derived from the operation of business.

8. Computation of income earned from employment:

(1) The remuneration derived by any individual from employment in any income year shall be computed as the income earned from employment by that person in that year.

(2) The following payments made by an employer to an individual in any income year shall be included in computing the remuneration earned by such individual from employment in that income year:-

(a) Amount for wages, salary, leave, amount for overtime work, fee, commission, prize, gift, bonus, and payment for other facilities,

(b) Payment for any personal allowance including amount for cost of living allowance, subsistence allowance, rent, entertainment or transport allowance,

(c) Payment received for settlement of or reimbursement of expenses incurred by him or his associated person for personal purpose,

(d) Payments made for having given consent to any terms of employment,

(e) Payments made for termination, loss of employment or for compulsory retirement,

(f) Retirement payment and retirement contribution including the amount deposited by the employer for that employee in the retirement fund,

(g) Other payments made in respect of employment, and

(h) Other amounts required to be included pursuant to Chapter-6 or 7.

(3) Notwithstanding anything contained in sub-section (2), the following matters need not be included in computing the remuneration earned by any individual from employment:-

(a) The amounts deductible under Section 10 and payments from which tax is withheld finally,

(b) Food and tiffin provided by the employer to the employee at the work site in a manner that it is available to all employees on the same terms,

(c) The settlement or reimbursement of the following expenditure incurred by any employee:-

(1) The expenditure fulfils the business purpose of the employer, or

(2) The expenditure exempted or to be exempted in the computation of income from the individual's business or investment.

(d) Payment of such petty amounts of which accounts are impracticable or administratively difficult to maintain as prescribed.

Explanation: For the purposes of this Section, "payment" means the following payment:-

(a) Made by the employer,

(b) Made by the associated person of the employer, and

(c) Made by any third person as referred to in the agreement made with the employer or his associated person.

(e) The amount equivalent to sweat equity shares received as remuneration for employment in the information technology industry.

9. Computation of income earned from investment:

(1) The profits and benefits derived by any person from investment in any income year shall be the income earned by that person from that investment in that year.

(2) The following amounts received by any person in any income year shall be included in computing the profits and benefits derived by that person from investment in that income year:-

(a) Dividend, interest derived from that investment, payment for natural resources, rent, royalty, profit from investment insurance, profit from interest in a retirement fund which has not got approval pursuant to sub-section (1) of Section 63, or retirement payment made from an approved retirement fund,

(b) Net profits derived from the disposal of non-business taxable assets of the investment of that person, computed pursuant to Chapter-8,

(c) If, in disposing the depreciable property of the investment made by that person, the incomings to be received exceed the remaining value comprising the outgoings made for the property of the group of depreciable property pursuant to clause (a) of sub-section (2) of Section 4 of Schedule-2, the excess amount,

(d) Gift received by that person in respect of investment,

(e) Retirement payment made in respect of that investment and retirement contribution including the amount deposited in the retirement fund for that person,

(f) Amounts received for having accepted any restriction in connection with investment, and

(g) Other amounts required to be included pursuant to Chapter-6 or 7 or Section 56.

(3) Notwithstanding anything contained in sub-section (2), the following matters shall not be included in computing profits and benefits derived by any person from investment:-

(a) The amounts deductible under Sections 10, 54 and 69 and payments from which tax is withheld finally, and

(b) The amounts to be included in computing income earned by that person from employment or business.

Chapter-4 Exemptible Amounts and Other Exemptions

10. Exemptible amounts:

The following amounts shall be exempted from tax:-

(a) Amount exempted from tax granted to any person entitled to tax exemption facility as provided for in a bilateral or multilateral treaty or agreement concluded between the Government of Nepal and any foreign country or international organization,

(b) Amount received by any individual for doing employment in the governmental service of a foreign country,

Provided that

(1) The person has to be a resident or non-resident person only because of doing employment, and

(2) Such amounts have to be paid from the governmental fund of that country.

(c) Amount received by an individual referred to in clause (b) who is not a citizen of Nepal or by his nearest family member from the governmental fund of a foreign country,

(d) Amount received by a non-Nepalese citizen appointed in the service of the Government of Nepal under the condition of tax exemption,

(e) All kinds of allowances provided by the Government of Nepal, Provincial Government or Local Level as social security,

(f) Amounts received as gift, inheritance, scholarship or stipend except the amounts required to be included in computing income pursuant to Section 7, 8 or 9,

(g) Amounts received by an organization entitled to exemption for the following:-

(1) Donation, gift,

(2) Other contributions directly related with the work of an organization entitled to exemption as referred to in clause (s) of Section 2 without having consideration or without hoping for consideration, or

(3) ......,

(h) Amount received for pension by a Nepalese citizen having retired from the military or police service of a foreign country from the governmental fund of that country,

(i) Any type of income of the Government of Nepal, Provincial Government or Local Level,

(i1) Income received from the transfer, free of charge, of land or a private building owned by a natural person to the Government of Nepal, a Provincial Government, or a Local Level.

(i2) Interest income earned from lending in Nepal by a financial institution established with full ownership of a foreign government and operating on a non-profit basis.

(i3) Amount earned by a Drinking Water and Sanitation Consumer Organization registered under the Water Resources Act, 2049, in accordance with its objectives.

(j) Amounts earned by Nepal Rastra Bank in pursuance of its objective,

(k) ......,

(l) Amounts earned by a mutual fund having obtained approval from Nepal Securities Board in pursuance of its objective, (l1) Amount earned by a university established and operating in Nepal in accordance with its objectives.

(m) Amounts earned by an educational institution operating on the basis of a memorandum of understanding with the Government of Nepal with the objective of not making profit or not distributing profit, in pursuance of its objective.

11. Professional exemptions and facilities:

(1) No tax shall be levied on an income earned by carrying on an agricultural business by any person other than registered as a firm, company, partnership or corporate body and on agricultural income other than that earned from an agricultural business in land as referred to in clauses (d) and (e) of Section 12 of the Act Relating to Land, 2021 (1964).

Provided that fifty percent tax shall be exempted in the income earned from agricultural business, vegetable dehydration business or cold storage business by any firm, company, partnership or corporate body so registered.

(2) No tax shall be levied on the income of a cooperative organization and union operated and registered under the Cooperatives Act, 2074 (2018) that carries on agricultural or forest-based industrial business such as sericulture and silk production, fruit farming, production and fruit processing, animal husbandry, dairy industry, poultry farming, fishery, tea gardening and processing, coffee farming and processing, herbiculture and herb processing, vegetable seed production, bee keeping, honey production, rubber farming, leasehold forestry, agro-forestry and other professional forest-related businesses, cold storage established for the storage of vegetables, agro-seeds, animal feed, pesticides, fertilizers and agricultural tools (except those operated with mechanical power), and cooperative organization or union operated in the area of a Rural Municipality. No tax shall also be levied on the dividends distributed by such organization or union.

(2a) No tax shall be levied on interest income of up to twenty-five thousand rupees per annum earned from deposits in a micro-financial institution, rural development bank, postal saving bank and cooperative referred to in sub-section (2) operating in the area of a Rural Municipality.

Provided that where the amount of interest exceeds NPR 25,000, tax shall be levied on the amount of interest exceeding NPR 25,000.

(2b) Exemption from the tax leviable on income earned by a special industry, hotel, resort and information technology industry in full operation throughout the year in any income year shall be as follows:-

(a) By one-third of the tax if tax is levied at the rate of thirty percent on the income of a resident individual,

(b) By twenty percent on tax leviable on the income of an entity,

(c) ......

(3) Tax shall be levied as follows on the income earned by any person from a special industry, hotel, resort and information technology industry in any income year:-

(a) If the person gives direct employment to one hundred or more Nepali citizens throughout the year, ninety percent of the tax leviable on the income of that year; if the person gives direct employment to three hundred or more Nepali citizens throughout the year, eighty percent of the tax leviable on the income of that year; if the person gives direct employment to five hundred or more Nepali citizens throughout the year, seventy-five percent of the tax leviable on the income of that year; if the person gives direct employment to one thousand or more Nepali citizens throughout the year, seventy percent of the tax leviable on the income of that year,

Provided that additional ten percent exemption shall be provided in the amount of tax payable if the person gives direct employment to more than one hundred Nepali citizens throughout the year including at least thirty-three percent from among women, Dalits or persons with disability,

(b) If a special industry has been operated in least developed, undeveloped and underdeveloped areas, respectively ten, twenty and thirty percent of the tax leviable on the income of the years for up to ten years from the date of commencement of the commercial production or transaction by that industry,

Provided that the special industry established in Karnali Province and hilly districts of Sudurpashchim Province providing direct employment to more than one hundred Nepali citizens shall be exempt from income tax for a period of fifteen years from the date of commencement of its transaction,

(c) If a special industry and tourism industry (except casino) established with capital investment of more than one arb rupees providing direct employment to more than five hundred throughout the year shall be provided with full income tax exemption for five years from the date of commencement of its transaction and fifty percent of the tax leviable for three years afterwards,

Provided that if an industry in operation at present increases its installed capacity at least by twenty-five percent making its capital two arb rupees and provides direct employment to more than three hundred throughout the year, full income tax exemption shall be provided in the income earned from such capacity enhancement for five years and fifty percent of the tax leviable shall be exempted for three years afterwards.

(3a) Exemption from the income tax leviable on income of an industry established in a special economic zone and tax on dividends distributed by such industry shall be as follows:-

(a) The industry established in a special economic zone in a mountainous district and hilly district as specified by the Government of Nepal shall be provided with hundred percent income tax exemption for ten years from the date of commencement of its transaction and fifty percent for the income years afterwards,

(b) The industry established in a special economic zone in an area other than the area referred to in clause (a) shall be provided with hundred percent income tax exemption for five years from the date of commencement of its transaction and fifty percent for the income years afterwards,

(c) On dividends distributed by an industry established in a special economic zone, hundred percent tax exemption for five years from the date of commencement of its transaction and fifty percent for three years afterwards,

(d) Fifty percent of the income tax leviable on income earned by foreign investors from foreign technology or management service charge and royalty in an industry established in a special economic zone.

(3b) A person carrying on the business of exploration and excavation of minerals, petroleum substances, natural gas and fuel who commenced commercial operation by Chaitra of 2080 (mid-April 2024) shall be provided with full income tax exemption for the first seven years from the date of commencement of the transaction and fifty percent income tax exemption for three years afterwards.

(3c) Seventy-five percent exemption shall be provided from the income tax leviable on income of the industry related to software development, data processing, cyber cafe, digital mapping established within the operation of the zoological, geological, biotech related park, technology park and information technology park as specified by the Government of Nepal by a notification in the Nepal Gazette.

(3d) The person having commercial transaction of electricity shall be provided with tax exemption as follows:-

(a) A licensed person commencing commercial production, transmission or distribution of hydropower, electricity produced from solar, wind and biological substance by Chaitra of 2084 (mid-April 2028) shall be provided with full income tax exemption for the first ten years and fifty percent exemption for five years afterwards.

Provided that in the case of hydropower projects above forty megawatts capacity with reservoir and semi-reservoir for which financial closure (Financial Closure) is completed by Chaitra of 2085 (mid-April 2029), and lower riparian hydropower projects operated in tandem operation (Tandem Operation) with such projects, full income tax exemption shall be provided for the first fifteen years and fifty percent exemption for six years afterwards.

(b) Notwithstanding anything contained in clause (a), the provision prevailing at the time of issuance of the licence shall apply for any licensed person that has already commenced commercial production at the time of commencement of this sub-section.

(3e) Tax exemption on income earned from export in any income year from a source in Nepal shall be as follows:-

(a) If tax is chargeable at the rate of twenty percent on the income of a resident individual, twenty-five percent of that tax; and if tax is chargeable at the rate of thirty percent, fifty percent of that tax,

(b) Twenty percent of tax leviable on the income of an entity,

(c) Fifty percent of the tax leviable on income earned up to the extent of income received in foreign currency by such person for exporting information technology-based services including business process outsourcing, software programming, cloud computing and the like and earning foreign currency therefrom, up to fiscal year 2084/85.

(3f) In the case of income earned by any entity from any of the following activities, there shall be exemption from the tax leviable on income for up to ten years from the date of commencement of the commercial transaction as follows:-

(a) Forty percent, in the case of operation of a tram or trolley bus,

(b) Forty percent, in the case of construction and operation of a ropeway, cable car or sky bridge,

(c) Fifty percent, in the case of construction and operation of a road, bridge, underground route, tunnel, railway or airport.

(3g) The production-based, tourism service, hydropower generation, distribution and transmission entities listed in the securities market and entities mentioned in sub-section (3c) of Section 11 shall have fifteen percent exemption from the tax leviable.

(3h) The industry established in the least developed area and undeveloped area producing brandy, cider and wine based on fruits shall have respectively forty and twenty-five percent exemption from income tax for ten years from the date of commencement of the transaction.

(3i) Any person receiving royalty income from the export of intellectual property shall have twenty-five percent exemption at the rate of income tax leviable on such income.

(3j) Any person receiving income from the sale through transfer of intellectual property shall have fifty percent exemption at the rate of income tax leviable on such income.

(3k) The industry related to tourism or the airlines company operating international flight shall be provided with tax exemption as follows:

(a) An industry established with capital investment of more than one arb rupees shall have full exemption for five years from the date of commencement of the transaction and fifty percent exemption at the rate of leviable income tax for three years afterwards.

(b) An industry established with capital investment of more than three arb rupees shall have full exemption for ten years from the date of commencement of the transaction and fifty percent exemption at the rate of leviable income tax for five years afterwards.

(c) An industry established with capital investment of more than five arb rupees shall have full exemption for fifteen years from the date of commencement of the transaction.

(3l) If a special industry, information technology industry or an industry related to the tourism sector capitalizes its accumulated profit into shares for the purpose of increasing the capacity of the same industry, there shall be hundred percent exemption from the dividend tax leviable in the form of dividend distribution from such capitalization.

(3m) If any company having paid-up capital of fifty crore rupees or more operating as a private company converts into a public company and commences transaction, it shall have ten percent exemption from the leviable tax for three years from the date of its conversion into a public company.

Provided that a company required to be incorporated as a public company under Section 12 of the Company Act, 2063 (2006) shall not be entitled to the facility referred to in this sub-section.

(3n) A domestic tea producing and processing industry, dairy industry carrying on the business of milk products or textile production industry shall have fifty percent exemption at the rate of income tax leviable on income earned from the sale of its products.

(3o) A health institution operated by a community organization shall have twenty percent exemption from the tax leviable on its taxable income.

(3p) A micro-enterprise shall have full exemption from the leviable income tax for seven years from the date of commencement of its business or transaction. If such a micro-enterprise is operated by a woman entrepreneur, it shall have full exemption from the leviable income tax for an additional three years.

(3q) If any entity in any income year constructs and operates a public infrastructure to be transferred to the Government of Nepal or constructs, generates and transmits electricity, such entity shall have twenty percent tax exemption from the tax leviable on its taxable income.

(3r) A special industry established and operated in an industrial area or industrial village shall have fifty percent tax exemption for three years from the date of commencement of production and twenty-five percent tax exemption for five years afterwards.

(3s) Twenty percent tax exemption shall be provided in the income earned from the sale of raw material or associated raw material produced domestically to a special industry.

(3t) A start-up business as specified by the Department that uses innovative knowledge, ideas, skills, technology, practices and methods and has annual turnover of up to ten crore rupees shall be provided with hundred percent tax exemption for five years from the date of commencement of its transaction.

(3u) If any special industry operating in the Kathmandu valley relocates and operates outside the Kathmandu valley, hundred percent tax exemption shall be provided for three years from the date of such relocation and operation and fifty percent tax exemption for two years afterwards.

(3v) The industry using only previously used goods having direct impact on the environment as raw material to produce new goods shall be provided with fifty percent tax exemption for the first three years from the date of commencement of its transaction and twenty-five percent for two years afterwards.

(3w) The industry producing health vaccine, oxygen gas and sanitary pad shall be provided with hundred percent tax exemption for five years from the date of commencement of its production and fifty percent for two years afterwards.

(3x) The industry established by Ashad of 2082 (mid-July 2025) with the objective of producing and assembling electric vehicles shall have forty percent tax exemption for five years from the date of commencement of its transaction.

(3y) The industry established by Ashad of 2082 (mid-July 2025) with the objective of producing agricultural tools shall have hundred percent tax exemption for five years from the date of commencement of its transaction.

(3z) The industry producing green hydrogen shall have full income tax exemption for five years from the date of commencement of its transaction.

(3aa) The industry producing and assembling electric vehicle charging machines operated by electric energy shall have income tax exemption for five years from the date of commencement of its transaction.

(3ab) A person constructing, establishing and operating an industrial area or industrial village shall have full income tax exemption for the first ten years from the date of commencement of the transaction and fifty percent income tax exemption for five years thereafter.

(4) If any person carries on transactions qualifying for different tax exemption facilities pursuant to this Section, income shall be computed to obtain such facility as if that income were derived by separate persons.

(5) A person who is in a position to have more than one exemption in respect of the same income pursuant to this Section shall enjoy only one exemption of his choice in addition to the facility referred to in sub-section (2b).

(6) Notwithstanding anything contained in sub-section (3), if any other person has previously used the properties used to operate the industry referred to in clause (b) of that sub-section for the

operation of the industry of the same type, the period during which they have been so used shall also be reckoned while reckoning the time-limit referred to in that sub-section.

(7) Notwithstanding anything contained in sub-sections (3a) and (3c), if the property used in operating the industry or business mentioned in those sub-sections is an old property previously used by another person for the operation of an industry or business of the same or other kind, the facilities referred to in those sub-sections shall not be available.

Explanation: For the purposes of this Section,-

(a) "Agricultural Business" means a business involving the cultivation of grains and crops, fruit farming, animal and poultry farming, fish farming, and beekeeping.

(b) "Least developed", "undeveloped" and "underdeveloped area" means the areas referred to in Schedule-10 of the Industrial Enterprises Act, 2076 (2019).

(c) "Special industry" means a production-based industry, industry based on agriculture and forest products and mineral industry as classified in sub-section (2) of Section 17 of the Industrial Enterprises Act, 2076 (2019), other than any industry producing cigarette, Bidi, Sigar, chewing tobacco, Khaini, Gutkha, Pan Masala, other products of similar nature involving tobacco as the principal raw material, liquors, beer and products of similar kind.

(d) "Micro-enterprise" means any micro-enterprise classified in clause (a) of sub-section (1) of Section 17 of the Industrial Enterprises Act, 2076 (2019).

(e) "Information technology industry" means an industry related to technology park, information technology park, biotech park, software development, data processing, digital mapping, business process outsourcing, data mining and cloud computing.

11A. Tax chargeable on construction and operation of infrastructure

If any agreement is concluded between the Government of Nepal and any person for the construction and operation of any infrastructure, the person constructing and operating such infrastructure shall enjoy the tax facilities provided by the Act in force at the time of conclusion of the agreement for the whole period of the agreement.

12. Donation and gift given to organizations entitled to tax exemption

(1) In computing his taxable income in any income year, any person may make a claim to subtract the amount of donation and gift given to an organization entitled to tax exemption approved by the Department for the purpose of this Section.

(2) Notwithstanding anything contained in sub-section (1), the expenditure deductible in any income year pursuant to that sub-section shall not exceed three lakh rupees or five percent of the adjusted taxable income of such person for that year, whichever is the lesser.

(3) Notwithstanding anything contained in sub-sections (1) and (2), in any special situation the Government of Nepal may, by a notification in the Nepal Gazette, specify that any amount spent or donated by any person for any work specified in that notification may be deducted fully or partly for expenditure in determining the income of that person.

12A. Expenses on heritage protection and sports development

In computing its taxable income in any income year, any company may make a claim to subtract, upon prior approval of the Department, an amount which is the lesser of ten lakh rupees or an amount equivalent to ten percent of the assessable income, out of the expenditure made by it in that year in the protection and preservation of historical, religious and cultural heritages in Nepal or in the construction of public physical infrastructure of sports.

12B. Expenses contributed to Prime Minister Natural Calamities Relief Fund and reconstruction fund established by the Government of Nepal

Any person contributing any amount in any income year to the Prime Minister Natural Calamities Relief Fund and reconstruction fund established by the Government of Nepal may deduct such amount in computing the taxable income for that year.

12C. Seed capital provided to start-up businesses

Any person making available seed capital of up to one lakh rupees per business as a grant to up to five start-up businesses other than to an associated person may deduct such amount as expenses in computing taxable income.

12D. Deduction for Corporate Social Responsibility (CSR) Expenditure

A person may deduct, while calculating taxable income for an income year, the amount spent during that year for the purpose of discharging Corporate Social Responsibility (CSR) in accordance with the prevailing law.

> *Provided that, such deductible amount shall not exceed one percent (1%) of the total taxable income of that income year.*

Chapter-5 Deductible Amounts

13. General deduction:

Any person may, for the purpose of computing his income from any business or investment in any income year, deduct the following expenditures related with the transactions, subject to this Act:-

(a) Made in that income year,

(b) Made by that person, and

(c) Made in earning income from the business or investment.

14. Interest deduction:

(1) Any person may, for the purpose of computing his income from any business or investment in any income year, deduct all interests chargeable in that year under the following debt liabilities of that person created for the act of generating income from business or investment:-

(a) If the debt liability has been created for having borrowed any amount, and that amount has been used in that year or used to purchase any property used in that year, or

(b) That debt liability has been created in any other circumstance.

(c) ......

(2) Notwithstanding anything contained in sub-section (1), if a resident entity controlled by an organization entitled to tax exemption pays interest to the controlling person or associated person pursuant to sub-section (1) in any income year, the interest amount deductible pursuant to that sub-section shall not exceed the total of the following amounts:-

(a) All interest amounts received in that year to be included in the computation of the taxable income of that entity, and

(b) Fifty percent of the adjusted taxable income of that entity in that year, computed excluding any interest derived by that entity or without deducting any interest paid by that entity.

(3) Any interest not allowed to be deducted or not deducted pursuant to sub-section (2) may be carried forward or credited in the forthcoming income year.

Explanation: For the purposes of this Section, "a resident entity controlled by an organization entitled to tax exemption" means an entity which, being a resident entity in that year, is subject to a vested ownership or control of twenty-five percent or more of the following persons or organizations in any time of that year:-

(a) An organization entitled to tax exemption and a person associated with that organization,

(b) A person entitled to tax exemption pursuant to Section 11 in that year or a person associated with that person,

(c) A non-resident person or a person associated with the non-resident person, or

(d) Any combination of the persons referred to in clauses (a), (b) and (c).

15. Allowances for cost of stock-in-trade:

(1) For the purpose of computing the income earned by any person from any business in any income year, no allowances other than the allowances for the cost computed pursuant to sub-section (2) shall be allowed in respect of the disposal of the stock-in-trade of the business of that person in that year.

(2) The allowances for the cost referred to in sub-section (1) shall be computed as follows by deducting the amount referred to in clause (b) from the amount referred to in clause (a):-

(a) The amount to be set by adding the cost of the stock-in-trade derived from any business in any income year to the initial value of the stock-in-trade of that business in that year,

(b) The amount of the final value of the stock-in-trade of any business in the income year referred to in clause (a).

(3) The initial value of the stock-in-trade of any business in any income year shall be the final value of the stock-in-trade of that business at the end of the last income year.

(4) Whichever is lesser out of the following amounts shall be considered the final value of the stock-in-trade of that business for that income year:-

(a) The cost of the stock-in-trade of that business at the end of that income year, or

(b) The market value of the stock-in-trade of that business at the end of that income year.

(5) In computing the cost of the stock-in-trade of a business, a person shall do as follows, subject to Section 45 and sub-section (6):-

(a) In computing the income of a business, in the case of a person maintaining accounts on the cash basis, by using the method of cost price or consumption cost, and

(b) In computing the income of a business, in the case of a person maintaining accounts on the accrual basis, by using the method of consumption cost.

(6) If the stock-in-trade of the business of any person cannot be determined, that person may choose either the first-in-first-out method or the weighted average cost method to compute the cost of stock-in-trade.

(7) When computing the cost of stock-in-trade pursuant to sub-section (5), it shall be computed by the following method:-

(a) When computing as per the consumption cost method, to so compute the cost of the stock-in-trade under the widely recognized accounting principle that it is equal to the sum total of direct material cost, direct labor cost and overhead cost of factory.

(b) When computing as per the cost price method, to so compute the cost of the stock-in-trade under the widely recognized accounting principle that it is equal to the sum total of direct material cost, direct labor cost and alterable overhead cost of factory.

(8) When computing the cost of stock-in-trade pursuant to sub-section (6), it shall be computed by the following method:-

(a) When computing as per the weighted average cost method, to compute all the stock-in-trade of the same type in the business under the widely recognized accounting principle as per the weighted average cost method.

(b) When computing as per the first-in-first-out method, to compute on the basis that the stock-in-trade received first is also disposed first, under the widely recognized accounting principle.

(9) ......

(10) ......

Explanation: For the purposes of this Section,-

(a) "Direct labor cost" means the labor cost directly related with the production of the stock-in-trade.

(b) "Direct material cost" means the cost of materials which are or will be an integral part of the stock-in-trade.

(c) "Overhead cost of factory" means the total cost incurred in producing stock-in-trade except the direct labor cost and direct material cost.

Provided that no amount for repair and maintenance and depreciation deduction shall be included in the overhead cost of the factory.

(d) "Alterable overhead cost of factory" means the overhead cost of factory that alters directly with a change in the produced quantity of stock-in-trade.

Provided that no amount for repair and maintenance and depreciation deduction shall be included in the alterable overhead cost of the factory.

16. Repair and maintenance expenses:

(1) When computing the income of any business or investment in any income year, a person may deduct all expenses incurred in the repair and maintenance of the depreciable property owned and used in that year to earn income from that business or investment.

(2) Notwithstanding anything contained in sub-section (1), in deducting the expenses allowable under that sub-section, such expenses shall not exceed seven percent of the depreciation base amount of the group of property remaining at the end of that income year.

Provided that no such limit shall be applicable to repair and maintenance expenses incurred in the testing of an airplane pursuant to the standards determined by the Civil Aviation Authority of Nepal by the person providing air transport service.

(3) Any excess expense or part thereof on repair and maintenance which is not deductible because of the limit referred to in sub-section (2) may be added to the depreciation base amount of the group of the concerned property in the beginning of the upcoming income year.

17. Pollution control expenses:

(1) For the purposes of computing the income earned by any person from any business in any income year, such person may deduct the pollution control expenses to the extent incurred in the operation of that business in that year.

(2) Notwithstanding anything contained in sub-section (1), in computing the limit of expenses deductible under that sub-section in any income year, it shall not exceed fifty percent of the adjustable taxable income of all businesses operated by such person.

(3) Any excess expense or part thereof which is not deductible in excess of the limit referred to in sub-section (2) may be capitalized and depreciated pursuant to Schedule-2 in the beginning of the upcoming income year.

Explanation: For the purposes of this Section, "pollution control expenses" means the expenses incurred by any person related with any process for the purpose of controlling pollution or protecting or conserving the environment in any other manner.

18. Research and development expenses:

(1) For the purposes of computing the income earned by any person from any business in any income year, such person may deduct the research and development expenses to the extent incurred in the operation of that business in that year.

(2) Notwithstanding anything contained in sub-section (1), in computing the limit of expenses deductible under that sub-section in any income year, it shall not exceed fifty percent of the adjustable taxable income of all businesses operated by such person.

(3) Any excess expense or part thereof which is not deductible in excess of the limit referred to in sub-section (2) may be capitalized and depreciated pursuant to Schedule-2 in the beginning of the upcoming income year.

Explanation: For the purposes of this Section, "research and development expenses" means the expenses incurred by any person for the purpose of developing his business and improving commercial production or process.

Provided that such expenses shall not include the cost incurred in acquiring any property referred to in sub-section (3) of Section 1 of Schedule-2.

19. Depreciation deduction expenses:

(1) For the purposes of computing the income earned by any person from any business or investment in any income year, such person shall deduct depreciation pursuant to Schedule-2 in lieu of depreciation of the depreciable properties owned and used by that person in that year in earning income from that business or investment.

(2) Notwithstanding anything contained in sub-section (1), the following provisions shall apply in respect of the depreciation deduction of the devices, equipment and other machineries installed by any entity in the projects involving construction and operation of public infrastructure to be transferred to the Government of Nepal and in the projects on construction of powerhouses and generation and transmission of electricity:-

(a) If the devices, equipment and other machineries installed previously become obsolete because of being old or worn out and new devices, equipment and other machineries have to be installed in lieu thereof, the value which remains by subtracting the depreciation deduction up to the income year from the cost of the obsolete property that was installed previously in the income year in which such new installation was made may be deducted as expenses.

(b) In respect of properties other than the old properties replaced pursuant to clause (a), if any value remains by subtracting the depreciation deduction up to the income year when transfer takes place from the cost of those properties at the time when the entity transfers such a project to the Government of Nepal, that entity may deduct such remaining value as expenses.

20. Loss from business or investment:

(1) For the purposes of computing the income earned by any person from any business or investment in any income year, such person may deduct the following loss:-

(a) Loss suffered by that person from any other business and not deducted in that year, and

(b) Loss suffered by that person from any business and not deducted in the past seven income years.

Provided that in the case of a project of building and operation of any public infrastructure to be transferred to the Government of Nepal, a project on construction of a powerhouse and generation and transmission of electricity, and an entity conducting petroleum work pursuant to the Nepal Petroleum Act, 2040 (1983), loss not deducted in the last twelve income years.

(2) For the purposes of computing the income earned by any person from any investment in any income year, such person may deduct the loss suffered by that person from any other investment and not deducted in that year and the loss incurred by that person from such investment or any other investment which could not be deducted in the past seven income years.

(3) Subject to sub-sections (1) and (2), and for the purposes of those sub-sections, any loss suffered by any person in respect of foreign source and not deducted may be deducted only in computing the income earned by that person from his foreign source, and the loss suffered in earning any non-taxable income and not deducted may be deducted only in computing the non-taxable income of that person.

(4) Subject to sub-sections (1) and (2), if any person suffers a loss in an income year when a long-term contract obtained by carrying on the business at the international level in competition was completed or disposed of in any other manner, or where a loss not deducted which the liability whereof is allowed to be carried forward to the coming year pursuant to clause (b) of sub-section (1) is related with a long-term contract, the Department may, by a notice in writing, give permission to deal with that loss as follows:-

(a) The loss may be carried backward to the last income year or years, and

(b) The loss not deducted may be treated only to the extent of the excess where, in computing the income of the business related with that long-term contract, the amounts to be included in the incomings exceed the amounts to be included in the outgoings.

(5) The following loss suffered by any person in any income year shall be allocated as if it were related with a long-term contract or contracts of that person:-

(a) The loss resulted from a long-term contract or contracts related with the business, and

(b) The loss on excess of the expenses to be deductible in computing the income earned from that business in the year related with the contract for each such contract over the amounts to be included.

(6) If, when computing the income earned by any person from more than one business or investment in any income year, that person is allowed to deduct the loss not deducted from more than one business or investment, that person may on his own determine the priority of the business or investment from which the portion of loss is deducted.

(7) If, when computing the loss suffered by any person from any business or investment in any income year, this Section is not applied and the deductible amounts exceed the amounts includable in computing the income from the business or investment of that person, such excess amounts shall be computed.

(8) If any person has received full tax exemption in respect of income of business or investment in any income year, the loss incurred in that income year shall not be carried forward to the upcoming income year.

21. Expenses not allowed for deduction:

(1) Notwithstanding anything contained elsewhere in this Act, for the purpose of computing the income earned by any person from any business, employment or investment in any income year, the following expenses or amounts shall not be deducted:-

(a) Expenses of domestic or personal nature,

(b) Tax payable under this Act and a fine or similar other fee paid to the government of any country or any local body thereof for a violation of any law or regulation or byelaw framed thereunder,

Provided that the tax paid to the Provincial Government and Local Level shall be deducted as expenses.

(c) Expenses to the extent of those spent by any person to obtain the amounts enjoying exemption pursuant to Section 10 or expenses made to obtain the amounts from which tax has been finally deducted,

(d) Expenses for the payments referred to in sub-section (2),

(d1) Remuneration and wages expenses distributed to employees and workers having no Permanent Account Number except for wages of a periodic nature paid up to three thousand rupees,

(d2) Expenses against invoices of more than two thousand rupees wherein the Permanent Account Number is not mentioned,

Provided that the purchase expenses shall be valid if the seller does not have a Permanent Account Number, in the case of a natural person directly buying agricultural, forest, animal or other household goods without carrying on commercial business transactions.

(e) Distribution of profits by any entity,

(e1) Remuneration of more than twenty-five thousand rupees per person per month not paid through a banking channel,

(f) Similar other amounts notwithstanding that they are not so mentioned in clauses (a), (b), (c), (d), (d1), (d2), (e) and (e1) as not to be deductible, except those allowable under this Chapter or Chapter-6, 7, 10, 11, 12 or 13.

(2) If a person whose annual turnover is more than twenty lakh rupees in any income year makes a cash payment of more than fifty thousand rupees at a time in that income year, he shall not be allowed to make that deduction except in the following circumstances:-

(a) Payment made to the Government of Nepal, a constitutional body, a corporation or bank or financial institution owned by the Government of Nepal,

(b) Payment made to a farmer or producer producing a primary agro-product, and payment to a farmer who has processed such product on his own, notwithstanding that primary processing of such product has already been carried out,

(c) Payment for retirement contribution or retirement payment,

(d) Payment made in a place where banking services are not available,

(e) Payment made on the day when banking services are closed or payment involving a mandatory provision of payment in cash, or

(f) Amount deposited in the bank account of the recipient of payment.

(3) Subject to the provisions of Sections 14, 15, 16, 17, 18, 19, 20 and 71, no amount shall be deductible for capital expenses or foreign income tax.

Explanation: For the purposes of this Section,-

(a) "Expenses of domestic or personal nature" means the following expenses:-

(1) Private expenses of any individual, and expenses including the following expenses to the extent a loan has been used for personal purpose, in respect of interest on a loan borrowed by an individual:-

(a) Expenses made for an individual for the provision of lodging, food, snacks, entertainment or other activities of amusement,

(b) Expenses for the movement by an individual from his house to the place where the business or investment is operated, except for movement in the course of business or investment,

(c) Expenses made to purchase clothes for an individual except those clothes which are not proper to put on at times other than working times, and

(d) Expenses made for education or training.

Provided that the expenses made only for education directly related with the business or investment, where no degree or diploma is achieved, shall be deductible.

(2) Except in the following circumstances and to that extent, expenses incurred in respect of a payment made by any person to any individual and expenses made for a third person:-

(a) If that payment has been included in computing the income of an individual,

(b) If the individual has made, as a consideration, a return payment to that person in a sum equal to the market value of the payment received, or

(c) If payment is made for such prescribed petty amounts of which accounts are difficult or administratively impracticable to be maintained.

(b) "Place where banking service is available" means any place within a ten-kilometer area whereof banking service is available.

(c) "Cash payment" means a payment other than a payment by letter of credit, account payee cheque, draft, money order, telegraphic transfer, money transfer (Hundi) through a bank or financial institution to be deposited in a bank account, payment made through a digital wallet approved by Nepal Rastra Bank, and a transfer made by any other means between banks or financial institutions.

(d) "Capital expenses" means the following expenses, excluding the ones incurred in the issuance of shares or:-

(1) Expenses incurred in feasibility study, exploration and development of natural resources,

(2) Expenses incurred in acquiring any property with useful life for more than twelve months, or

(3) Expenses in disposing of a liability.

(d1) ......

Chapter-6 Tax Accounting and Time

22. Method of tax accounting:

(1) The matter of when any person receives any income or makes any expense shall be determined in accordance with the widely recognized accounting principle, subject to this Act.

(2) An individual shall, while computing the income to be earned from his employment and investment, maintain accounts on the cash basis, for purposes of tax.

Provided that where, after the filing of a case in court and its determination, any individual receives a lump-sum payment of remuneration for past income years in respect of employment, such remuneration shall be accounted for on the accrual basis in the relevant income years for tax purposes.

(3) A company shall maintain accounts on the accrual basis, for purposes of tax.

(4) Except if the Department has otherwise specified by issuing a notice in writing, any person may, for purposes of income tax, maintain accounts on the cash or accrual basis, subject to sub-sections (1), (2) and (3).

(5) Any person may make an application to change the method of accounting for tax purposes, subject to sub-sections (2) and (3). If the Department thinks that it is necessary to change the method of accounting to clearly show the income of such person, the Department may give permission to change the method of accounting.

(6) If the method of accounting of any person for purposes of tax is changed pursuant to sub-section (5), in computing the income of that person in the income year when such change is made, adjustment shall be so made that no amounts out of those included, deducted or to be included or deducted are omitted or duplicated.

23. Cash basis accounting:

Any person shall, in maintaining accounts on the cash basis of his income earned from employment, business or investment for tax purposes, subject to this Act, do as follows:-

(a) To treat as income received and include it in his income computation only at the time when payment is received by him or made available to him.

(b) To deduct for expense only after he makes payment.

24. Accrual basis accounting:

(1) Any person shall, in maintaining accounts on the accrual basis of his income earned from business or investment, subject to this Act, for purposes of tax, include any payment in computation of his income, considering that such payment has been received immediately when the right to receive such payment is created.

(2) For the purposes of making deduction in computing income earned by any person as mentioned in sub-section (1), the following expenses shall be deemed to have been borne:-

(a) If any payment involving such expenses has been made in lieu of a payment made by any other person, the expenses shall be deemed to have been borne in the following circumstances:-

(1) The person has the liability to make that payment,

(2) The value of such liability can be ascertained in a realistic manner, and

(3) Payment has been received from another person, or

(b) In all other circumstances except that mentioned in clause (a), an expense shall be deemed to have been borne at the time when payment is made.

(3) Notwithstanding anything contained in sub-section (1), the Department may recognize the accounting specified by the Nepal Rastra Bank with respect to banking business, subject to the Nepal Rastra Bank Act, 2058 (2002) and prevailing laws relating to banking.

Provided that a cooperative organization may keep accounting of interest income on cash basis.

(4) Where, in computing on the accrual basis the income earned by any person from a business or investment, any payment receivable by that person is included or any payment to be borne by that person is deducted, and a difference occurs in the amount received or paid by that person because of, inter alia, difference in the exchange rate, the difference shall be adjusted in receiving or making payment.

25. Reverse of amounts including bad debt:

(1) When maintaining accounts of the amounts received and expenses borne in the computation of the income earned by any person from any employment, business or investment, the person shall make proper adjustments at the time of reimbursement, recovery, relinquishment of claim, writing off or remission in any of the following circumstances:-

(a) Where that person pays back such amount, or recovers the expense, as the case may be,

(b) Where the accounts of the amount received have been maintained on the accrual basis and the person subsequently relinquishes his right to receive that amount, or where that amount is a debt claim of that person and he writes off the debt as a bad debt, or

(c) Where the accounts of the expense incurred have been maintained on the accrual basis and the person subsequently relinquishes his liability to incur such expense, or where that expense is a debt claim, the person to whom the debt is to be repaid remits the debt.

(2) Any person may relinquish the right to receive any amount or write off the debt claim of that person as a bad debt only in the following circumstances:-

(a) In the case of a debt claim of any financial institution or bank, the debt claim is converted into a bad debt as per the specified criteria, and

(b) If, after having followed all proper measures to receive payment in circumstances other than those referred to in clause (a), that person is reasonably satisfied that the right or debt claim cannot be realized or recovered.

26. Method of deriving average of amounts includible and deductible under long-term contract:

(1) For the purposes of computing the income earned by any person from any employment, business or investment in any income year, the estimated amounts includible and deductible according to the sum of sequential increase as per the percentage of completion of the contract under the long-term contract of that person shall be deemed to have been received or spent.

Explanation: For the purposes of this Section, "long-term contract" means any contract of the following nature:-

(a) A contract with a validity period of more than twelve months, and

(b) A contract with a deferred consideration except a contract which is concluded for production, installation or construction or for the discharge of relevant services for each of such works or a contract not containing such elements.

(2) A contract with deferred consideration, a contract to be included according to the sum of sequential increase, a contract to be deducted according to the sum of sequential increase, an excluded contract and a contract of completion percentage shall be as prescribed.

Chapter-7 Quantification, Allocation and Characterization of Amounts

27. Quantification of amounts:

(1) Any payment shall be quantified equal to the following amount:-

(a) In the case of a payment made by transferring property by any person to another person, the amount equal to the market value of the transferred property,

(b) The amount to be determined as prescribed for the payment made for the provision of the following matters, or the amounts to be determined pursuant to clause (e) where there is no provision for determining the amount:-

(1) A motor vehicle used or made available for use for personal purposes of the recipient of payment in full or in part, or

(2) A building made available for the recipient of payment.

(c) The amount which remains by deducting the contributions of the recipient of payment from the expenditure made by the person making payment for the provision of the following:-

(1) The services of a caretaker of the house, cook, driver, gardener or other domestic assistant,

(2) Any food, beverage or entertainment, or

(3) Services like water, electricity, telephone installed in the residence of the recipient.

(d) If the interest paid by any person who has to receive payment in any income year for a loan is less than the amount of interest to be paid as per the prevailing interest rate, the amount to the extent of such a difference, and

(e) In respect of a payment other than the payment referred to in clauses (a), (b), (c) and (d), if a third person receives payment instead of the recipient of payment, the amount equal to the value of the benefit derivable generally.

(2) The time when a payment is earned, received, made, borne or otherwise worked out for tax purposes in respect of clauses (a) and (e) of sub-section (1) shall be the time when the quantification of amounts has been made.

28. Conversion into money:

(1) If the income of any person and the amounts to be included and deducted in assessing that income are quoted in a currency other than Nepalese rupees, such amounts shall be converted into Nepalese rupees.

(2) If the amounts to be included or deducted in computing the income of any person in any income year have been quoted in a currency other than Nepalese rupees, such currency shall be converted into Nepalese rupees as per the exchange rate prevailing at the time when the amount was received, expended, paid, settled or otherwise worked out for tax purposes.

(3) Notwithstanding anything contained in sub-section (2), if the Department has, by issuing a notice in writing, given permission for the purposes of that sub-section, any person may apply the average exchange rate prescribed by the Department for that income year.

29. Indirect payments:

If any person gets indirect benefit from the payments made by the payer or a person associated with him or specifies another person to receive the payment, the Department may, by issuing a notice in writing, treat such person deriving such benefit or such other person so specified as the recipient of the payment.

30. Investment under joint ownership:

For the purpose of computing the income earned by any person from an investment under joint ownership with other persons, the amounts to be included or deducted in computing the income shall be allocated on the basis of proportion of the respective interests of the joint owners in that investment.

31. Characterization of payment for compensation:

If any person or his associated person has received any compensation amount, including payments for insurance, for the following matters, at the time of receipt of the amount for the compensation, such amount shall be included, as the case may be, in computing the income earned from employment, business or investment:-

(a) Compensation for any income earned or likely to be earned by that person from any business, employment or investment or for any amount to be included in the computation of that income, or

(b) Compensation for any loss suffered or likely to be suffered by that person from any business or investment or for any expenses to be deducted in the computation of the income of that person.

Provided that

(1) The amount of payment of compensation for physical damage suffered by a resident individual from a personal accident shall not be included in the income, and the expenses incurred in the treatment of such damage shall not be claimed for tax adjustment pursuant to Section 51.

(2) The compensation amount to be received for the death of an individual shall not be included in the income.

32. Characterization of payment under annuities, installment sale and financial lease:

(1) Any payment made by a person who acquires a property under annuities or installment sale, or payment made to any person for the use of any property under a financial lease, shall be treated as the interest and return of capital under the debt claim pursuant to this Section.

(2) All payments referred to in sub-section (1) shall be calculated in gross and the total sum thereof shall be divided into two portions as follows:-

(a) Capital portion comprising all payments for annuities as per necessity or equivalent to the market value of any property at the time of selling that property by installment or leasing it, and

(b) Interest portion to be set by subtracting the capital portion from the total sum of all payments referred to in sub-section (1).

(3) A total payment schedule shall be provided by clearly setting out the capital and interest portions, in determining installments, at the time when annuity, installment sale or financial lease is made. One who cannot provide such a schedule shall treat the interest and principal portions, annuity, installment sale or financial lease as if they were mixed loans with interest to be kept on adding in every six months and allocate them among the payments referred to in sub-section (1).

(4) The borrower shall pay the principal in part and the interest in part by working out the portion of interest in the due and payable principal at the time of each payment in a manner that the rate of interest remains the same during the period of the loan of payment to be made pursuant to sub-section (1) as if it were a mixed loan.

(5) The following conditions shall be fulfilled in making a lease under a financial lease pursuant to this Section:-

(a) Where the lease agreement contains an option that ownership is transferred after expiry of the validity period of the lease, or the lessee can purchase that property at a certain or foreseen price after expiry of the validity period of the lease,

(b) Where the period of lease exceeds seventy-five percent of the useful life of that property,

(c) Where the estimated market value of that property after expiry of the period of the lease is less than twenty percent of the market value of that property prevailing at the beginning of the lease,

(d) In the case of a lease that commences prior to the ultimate twenty-five percent of the useful life of the property, where the current value of the minimum lease payment is equal to ninety percent of the market value of that property at the time of commencement of the period of the lease or more than that, or

(e) Where a property has been prepared in a special manner for the lessee and, after expiry of the period of lease, that property is not of practical use for any other person except the lessee.

(6) Each payment referred to in sub-section (1) shall be divided into two portions pursuant to sub-section (3), and the interest portion under the debt claim shall be treated as paid or to be paid interest and the capital portion as repayment of capital.

(7) A lessee under a financial lease shall be treated as the person having ownership of the property leased, and the lessor shall be treated as having a debt claim over the lessee.

(8) The current value of the lease payment shall be computed by applying a discount rate equal to the general interest rate.

Explanation: "Period of lease" means and includes an additional period for which the lessee is entitled to have the lease renewed.

33. Transfer pricing (Transfer Pricing) and other arrangements between associated persons:

(1) If any arrangement is made between associated persons and if the Department determines that the arrangement does not reflect the taxable income or payable tax that could be set for them as if it were operated as per arms length, the Department may, by issuing a notice in writing, distribute,

appropriate or allocate the amounts to be included or deducted in computing the income between those persons.

(2) In carrying out anything mentioned in sub-section (1), the Department may do as follows:-

(a) To re-characterize any income, loss, amount or source and type of payment, or

(b) Where various expenses including main office expenses which any person had to incur to operate any business have yielded benefits to associated persons, to allocate such expenses between the associated persons on the comparative basis of the turnover of the business.

(3) The transfer pricing valuation method between associated persons pursuant to this Section shall be as determined by the Department.

33A. Special Provisions Relating to Safe Harbour Rules

(1) Notwithstanding anything contained in Section 33, a person having an annual turnover of up to NPR 100 crore and fulfilling the conditions prescribed in subsection (3) may determine the transfer price of a controlled transaction at the ordinary market transaction (arm's length) value under the Safe Harbour Rule.

(2) A person opting for the Safe Harbour Rule under subsection (1) shall, while filing the income tax return, accept the transfer price as the ordinary market transaction (arm's length) value in the manner prescribed by the Department.

(3) To qualify for the Safe Harbour Rule, any one of the following conditions must be satisfied:

(a) The operating profit margin from Information Technology (IT) service exports is maintained at not less than fifteen percent (15%) of operating costs.

(b) The interest rate on intra-group loans denominated in foreign currency is fixed at a rate not exceeding the relevant benchmark rate plus 200 to 400 basis points, as prescribed.

(c) For services with low value addition as prescribed by the Department, the service provider has added a profit mark-up of not more than five percent (5%) on the total cost of such services.

(4) Once a taxpayer elects to apply the Safe Harbour Rule under this section, such arrangement shall continue to apply for five consecutive income years, unless there is a material change in the nature and circumstances of the transaction.

(5) The procedures relating to the implementation of the Safe Harbour Rule under this section shall be as prescribed by the Department.

33B. Advance Pricing Agreement (APA)

(1) Notwithstanding anything contained elsewhere in this Act, the Department may enter into an Advance Pricing Agreement (APA) with a taxpayer regarding the basis and methodology for determining the arm's length value of an international transaction between associated persons.

(2) Where the Government of Nepal has entered into a Double Taxation Avoidance Agreement (DTAA) under Section 73 with a foreign country and such agreement contains provisions relating to the Mutual Agreement Procedure (MAP), the competent authority of Nepal may coordinate with the competent authority of the relevant foreign country and enter into an agreement under subsection (1) on a bilateral or multilateral basis.

(3) An agreement under subsection (1) or (2) shall specify the methodology to be applied for determining the arm's length price of the international transaction, (a) comparable assumptions, (b) critical assumptions, and (c) other necessary conditions. The value determined according to the methodology and procedure specified in the agreement shall, for the purposes of this Act, be treated as the arm's length value.

(4) An agreement entered into under subsection (1) or (2) shall remain effective for the period specified in the agreement. However, such period shall not exceed five consecutive income years.

(5) While entering into an agreement under subsection (1) or (2), the parties may mutually agree to include a rollback provision covering international transactions of up to four income years immediately preceding the year in which the agreement becomes effective.

(6) An agreement entered into under this section shall be binding on both parties. Provided that, if there is a material change in the conditions specified in the agreement or in the applicable legal provisions, the agreement shall cease to be binding.

(7) If it is established that a person obtained the agreement by fraud, misrepresentation of facts, or by submitting incorrect or false information, the Department may cancel such agreement with retrospective effect from the beginning. The Department shall provide notice of such cancellation to the concerned person.

(8) The fee payable by a person wishing to enter into an agreement under this section shall be as prescribed.

(9) The format of the application, required documents, renewal procedures of the agreement, and other related procedures under this section shall be as prescribed by the Department.

34. Division of income:

(1) If any person attempts to divide his income with another person and it appears that it will reduce the payable tax, the Department may, in order not to allow such reduction in liability, have the amounts to be included or deducted in computing the income of each person adjusted by giving a notice in writing.

(2) The situations mentioned in sub-section (1) shall also include the transfer of the following amounts directly or indirectly between any person and an associated person through one or more interposed entities, and circumstances where attempts are made to divide income to reduce the tax required to be paid by such person or associated person by virtue of that transfer:-

(a) The amounts to be received and expenses to be incurred, or

(b) The amounts to be received or used from any property by the transferee of that property or expenses incurred or payment made by that person for the acquisition of ownership of that property.

(3) In determining as to whether or not any person has attempted to divide any income pursuant to sub-section (2), the Department shall take the market value of any payment made for the transfer as the basis.

35. General rule against tax avoidance:

For the purposes of ascertaining the tax liability pursuant to this Act, the Department may carry out the following:-

(a) To re-characterize any arrangement or any part of such arrangement made or attempted to be made as a part of a tax avoidance scheme,

(b) To disregard any arrangement or any part of such arrangement that does not show any substantial economic effect, or

(c) To re-characterize any arrangement or any part of such arrangement that does not show any substantial element.

Explanation: For the purposes of this Section, "tax avoidance scheme" means any arrangement with the main objective of having avoidance of tax liability or of reducing the tax liability.

Chapter-8 Assessment of Net Profit from Property and Liability

36. Net profits from property and liability:

(1) The net profits derived from the disposal of business assets or liability of a business of any person for any income year shall be computed by deducting the following losses from the sum of all profits derived from the disposal of business assets or liability of that business in that income year:-

(a) The sum of all losses suffered in that year from the disposal of business assets or liability of that business,

(b) The loss that could not be deducted elsewhere out of the net loss suffered from any other business of that person in that year, and

(c) The loss that could not be deducted out of the net loss suffered from that business or from any other business of that person in any past income year.

(2) The net profits derived from the disposal of taxable non-business assets of investment of any person for any income year shall be computed by deducting the following losses from the sum of all profits derived from the disposal of taxable non-business assets of that investment in that income year:-

(a) The sum of all losses suffered in that year from the disposal of non-business taxable assets of that investment,

(b) The loss that could not be deducted elsewhere out of the net loss suffered from any other business or investment of that person in that year, and

(c) The loss that could not be deducted out of the net loss suffered from that investment, any business or any other investment of that person in any past income year.

(3) Any person may make a claim for deduction pursuant to sub-section (1) or (2) in respect of a loss suffered from the disposal of property or liability of foreign source only to the extent of the profit derived from the disposal of any property or liability of foreign source.

(4) If any person is entitled under sub-section (1) or (2) to deduct the net loss suffered from a business or investment in more than one computation pursuant to sub-section (1) or (2), that person may select computations for the purpose of deducting that loss or portion thereof.

Explanation: For the purposes of this Section,-

(1) "Net loss" means,-

(a) In respect of any business, the amount to the extent that the loss suffered from the disposal of the business assets or liability of that business in any income year exceeds the profit derived from the disposal of business assets or liability of that business in that year, and

(b) In respect of any investment, the amount to the extent that the loss suffered from the disposal of the taxable non-business assets of that investment in any income year exceeds the profit derived from the disposal of taxable non-business assets of that investment in that year.

(2) "Net loss that could not be deducted" means, with respect to any business or investment:-

(a) The loss in any income year that could not be deducted pursuant to clause (b) or (c) of sub-section (1) or clause (b) or (c) of sub-section (2), out of the net loss suffered by that business or investment in that income year, and

(b) Any loss of that business or investment referred to in sub-section (7) of Section 20 that could not be deducted and is not qualified for remission by virtue of the time-limit referred to in sub-section (1) or (2) of Section 20.

37. Profit and loss made from property and liability:

(1) The profit derived by any person from the disposal of any property or liability shall be computed, considering it to be the extent that the sum of the incomes derived from that property or liability exceeds the sum of the outgoings for that property or liability at the time of disposal.

(2) The loss suffered by any person from the disposal of any property or liability shall be computed, considering it to be the extent that the sum of the outgoings for that property or liability exceeds the sum of the incomes earned from that property or liability at the time of disposal.

38. Expenses and net expenses for property and liability:

(1) The following expenses shall be included in the expenses for the property or liability of any person, subject to this Act:-

(a) In respect of any property, the expenses made by that person in acquiring that property, inclusive of the following amounts:-

(1) The related expenses made in the construction and production of that property, and

(2) Any amount required to be included in the computation of the income of that person as a result of acquisition of such property.

(b) The expenses made by that person in obtaining the ownership of that property or liability, inclusive of the expenses incurred in the alteration, improvement and repair and maintenance of the property or liability, and the expenses in the repair and maintenance of the property,

(c) The expenses made by that person in the disposal of the property or liability, and

(d) Casual expenses made by that person in acquiring the property or bearing liability and in disposing such property or liability.

Provided that the expenses referred to in clauses (a), (b), (c), (d) and (e) of sub-section (1) of Section 21 and the expenses that are allowed to be deducted in the assessment of income shall not be required to be included in such expenses.

(2) The net expenses for any property or liability at any particular time shall be so computed as to consider the amounts to the extent of excess of the sum of all expenses for that property or liability over the sum of all incomes for that property or liability at that time.

(3) The amount of expenses to be deducted in computing the income as referred to in Chapters-6 and 7 shall be deemed as if they were made in respect of the expenses for any property or liability and shall be applicable in respect of the expenses referred to in sub-section (1).

Provided that Section 26 shall not apply to the above-mentioned provision.

39. Income and net income for property and liability:

(1) The following amounts shall be included in the incomes for the property or liability of any person, subject to this Act:-

(a) The amounts received by that person, in respect of the liability, in bearing the liability,

(b) The amounts to be received by that person in acquiring the property or in respect of bearing the liability, including the amounts acquired by altering or lessening the value of the property or increasing the liability, and

(c) The amounts received or to be received by that person in respect of the disposal of that property or liability.

Provided that the amounts exempted from tax, amounts subject to tax deduction finally, or amounts to be included in the income in assessing the income of that person shall not be included in such income.

(2) The net incomes for any property or liability at any time shall include the amounts to the extent of excess of the incomes for that property or liability over the sum of all expenses for that property or liability at that time.

(3) The amount to be included in the income in computing the income as referred to in Chapters-6 and 7 shall be deemed as if they were made in respect of the incomes for any property or liability and shall be dealt with pursuant to sub-section (1).

Provided that Section 26 shall not apply to the above-mentioned provision.

40. Disposal of property or liability:

(1) If the ownership of any person over any property ceases, that person shall be deemed to have disposed of that property. The disposal of property shall include acts such as distribution of the property by the owner of the property, amalgamation of the property in other property or liability, sale of the property by installments or lease of the property to any other person under a financial lease, cancellation, destruction, loss, expiration or surrender of the same.

(2) If the burden of liability of any person ceases, that person shall be deemed to have disposed of that liability. The disposal of liability shall include acts such as settlement, cancellation, release, completion of the liability or amalgamation of liability in other liability or property.

(3) Notwithstanding anything contained in sub-sections (1) and (2), any person shall be deemed to have disposed of any property or liability in the following circumstances:-

(a) In respect of an individual, immediately before the death of that person,

(b) In respect of any property, if the sum of the incomings for that property exceeds the sum of the outgoings for that property,

(c) In respect of any property subject to debt claim,-

(1) If it has become a bad debt as per the standards as prescribed in respect of a debt claim of a bank or financial institution, and

(2) If, in any other circumstance, that person has reasonably believed the debt claim as non-recoverable.

Provided that the person shall have already pursued all proper measures to recover that debt claim.

(d) If any person has started using business assets, non-business taxable assets, depreciable property or stock-in-trade in a manner to alter the type thereof, immediately before the use of the altered form of that property,

(e) In the circumstances referred to in Section 57 in respect of any entity, and

(f) Immediately before that person becomes a non-resident person, except in the case of land or building situated in Nepal.

(4) If any person disposes of any property by leasing it under a financial lease pursuant to sub-section (1), the lessee of that property shall be deemed to have acquired the ownership of that property at the time of disposal.

(5) The following provisions shall apply for the purposes of computing the profits derived by any person from the disposal of the property or liability:-

(a) The amounts of net expenses for any property under the ownership of any person at the time of commencement of this Act shall be deemed to be equal to the market value of the property prevailing at that time,

(b) The amounts of net incomes for liability of any person at the time of commencement of this Act shall be deemed to be equal to the amount as per the market value of the liability prevailing at that time.

41. Disposal along with retention of property or liability:

If any person disposes of any property or liability in any manner referred to in clauses (c), (d), (e) and (f) of sub-section (3) of Section 40, the following provisions shall apply:-

(a) In respect of property,-

(1) That person shall be deemed to have received the amount equal to the market value of that property at the time of disposal for the disposal, and

(2) When that property is re-disposed, the net outgoings made for that property until the time of disposal pursuant to this Section shall be deemed to be equal to the amount receivable.

(b) In respect of liability,-

(1) That person shall be deemed to have incurred expenses in a sum equal to the market value of that liability at the time of disposal for the disposal, and

(2) When that liability is re-disposed, the net incomes derived for that liability pursuant to this Section until that time shall be deemed to be equal to the amount of expenses.

42. Disposal through installment sale or financial lease:

If any person disposes of any property by way of installment sale or lease under a financial lease to any other person, the following provisions shall apply:-

(a) The person who has disposed of the property shall be deemed to have received the amount equal to the market value of that property at the time of disposal for the disposal, and

(b) The person who has acquired the property through disposal shall be deemed to have incurred cost in a sum equal to clause (a).

Provided that this provision shall not be applicable where the provision of Section 45 applies.

43. Transfer of property to husband, wife or former husband, wife:

If any individual who is a divorcee or lives apart upon having partition share disposes of a property by transferring it to his or her husband, wife or former husband or wife, and that husband, wife or former husband or wife makes a choice in writing to have this Section enforced, the following provisions shall apply:-

(a) That person shall be deemed to have obtained, for disposal, the amount equal to the net expenses incurred immediately before the disposal, and

(b) The person who has acquired the property through transfer shall be deemed to have incurred cost in a sum equal to clause (a).

44. Transfer of property after death:

If the ownership of any property is disposed through transfer to any other person because of the death of any individual, the following provisions shall apply:-

(a) That person shall be deemed to have obtained, for disposal, the amount equal to the market value of that property prevailing at the time of disposal, and

(b) The person who has acquired the property through transfer shall be deemed to have incurred cost in a sum equal to clause (a).

45. Transfer between associated persons and other non-market transfers:

(1) If any person disposes of any property by transferring it to an associated person or any other person for no consideration, the following provisions shall apply:-

(a) The person who has disposed of the property shall be deemed to have received, for the disposal, the amount equal to the greater of the market value of that property or the net expenses for that property immediately before the disposal, and

(b) The person who has acquired the property through disposal shall be deemed to have incurred cost in a sum equal to clause (a).

(c) In the case of property transferred pursuant to sub-clause (5) of clause (r) of Section 2, the costs incurred by the person transferring such property shall be deemed to be the costs incurred by the person acquiring such property.

(2) Notwithstanding anything contained in sub-section (1), if any person disposes of any business assets, non-business taxable assets or property remaining as stock-in-trade by transferring ownership over such property to any associated person and the matters contained in sub-section (6) are fulfilled, the following provisions shall apply:-

(a) That person shall be deemed to have received, for the disposal, the amount equal to the net expenses for that property immediately before the disposal, and

(b) The person who has acquired the property through transfer shall be deemed to have incurred cost in a sum equal to clause (a).

(3) Notwithstanding anything contained in sub-section (1), if any person disposes of any depreciable property by transferring ownership over such property to any associated person by fulfilling the matters contained in sub-section (6), the following provisions shall apply:-

(a) That person shall be deemed to have received, for the disposal, the amount equal to the remaining value of the group of the descending system pursuant to Section 4 of Schedule-2 at the time of disposal, and

(b) The person who has acquired the property through transfer shall be deemed to have incurred cost in a sum equal to clause (a).

(4) If any person disposes of any liability by transferring it to an associated person pursuant to this Section or by transferring it to any other person without giving any value, the following provisions shall apply:-

(a) That person shall be deemed to have incurred cost for the disposal in a sum equal to the lesser of the market value or the net income earned for the liability immediately before the disposal, and

(b) The transferee of the liability shall be deemed to have received an amount equal to that liability in respect of assumption of the liability.

Provided that this provision shall not be applicable where the provisions of Sections 43 and 44 apply.

(5) If any person disposes of any liability assumed in earning income from any of that person's businesses by transferring it to an associated person, by fulfilling the matters mentioned in sub-section (6), the following provisions shall apply:-

(a) That person shall be deemed to have incurred cost for the disposal in a sum equal to the net income earned for the liability immediately before the disposal, and

(b) The associated person shall be deemed to have received an amount equal to that amount in respect of assumption of the liability.

(6) For the purposes of sub-sections (2), (3) and (5), the following matters shall have been fulfilled:-

(a) The disposed business assets, stock-in-trade or depreciable assets of the business shall be the business assets, stock-in-trade or depreciable assets of the business of the associated person immediately after the transfer by the person making such disposal.

(b) The disposed non-business taxable assets or depreciable property of any investment shall be the business assets, non-business taxable assets, depreciable property or stock-in-trade of the associated person immediately after the transfer by the person making such disposal.

(c) In the case of any liability, the liability shall have been transferred to the associated person for the earning of income from any business or investment of the associated person.

(d) The transferor and the associated person shall have been residents at the time of transfer, and the associated person shall not be a person enjoying tax exemption.

(e) The vested ownership in that property or vested burden in that liability shall continue to exist at least fifty percent, as the case may be.

(f) Both that person and the associated person shall have made request in writing in order to enforce an option under sub-section (2), (3) or (5), as the case may be.

46. Involuntary disposal of property or liability with substitution:

(1) If any person, no later than one year of the involuntary disposal of any property in any mode out of the modes mentioned in sub-section (1) of Section 40, acquires ownership over other property of similar type in lieu of that property and makes request in writing to have this Section applied, the following provisions shall apply:-

(a) That person shall be deemed to have received, for the disposal, an amount equal to the sum of the following amounts:-

(1) Net expenses for that property immediately before the disposal, and

(2) If the amount derived from the disposal exceeds the expenses incurred in acquiring the substituted property, the amount of such excess, and

(b) That person shall be deemed to have incurred expenses in a sum equal to the sum of the following amounts, in acquiring the substituted property:-

(1) Net expenses for the disposed property immediately before the disposal, and

(2) If the expenses incurred in acquiring the substituted property exceed the amount derived from the disposal, the amount of such excess.

(2) If any person, no later than one year of the involuntary disposal of any liability in any mode out of the modes mentioned in sub-section (2) of Section 40, bears other liability of similar type in lieu of that liability and makes request in writing to have this Section applied, the following provisions shall apply:-

(a) That person shall be deemed to have incurred expenses, for the disposal, in a sum to be set by subtracting the amount mentioned in clause (2) from the amount mentioned in clause (1):-

(1) Amount for net incomes for that liability immediately before the disposal, and

(2) If the expenses incurred in making that disposal exceed the amount in assuming the substituted liability, the amount of such excess expenses.

(b) That person shall be deemed to have received a sum equal to the sum of the following amounts, in assuming the substituted liability:-

(1) Net incomes for the disposed liability immediately before the disposal, and

(2) If the amount derived in assuming the substituted liability exceeds the expenses incurred in making the disposal, the amount of such excess.

(3) The circumstances where involuntary disposal is created after substitution of one security of any entity for another security as a result of a change in the security of the interest in the entity or restructuring of the entity shall be as prescribed.

47. Disposal upon amalgamation of property and liability:

(1) If, as a result of acquisition of any property or bearing of any liability by any person, any other property under ownership of, or any other liability borne by, that person ceases or is amalgamated and thus disposal takes place, the following provisions shall apply:-

(a) Where net expenses were incurred for the amalgamated property or liability immediately before disposal, that person:-

(1) Shall be deemed to have received an amount equal to the net expenses in respect of the disposal of the amalgamated property or liability.

Provided that such amount shall not exceed the amount received by that person for the amalgamated liability.

(2) Shall be deemed to have incurred expenses in a sum equal to that amount in holding ownership or bearing liability of the amalgamated property.

(b) Where net incomes were earned for the amalgamated liability in respect of the amalgamated liability immediately before the disposal of the liability, that person:-

(1) Shall be deemed to have incurred expenses in a sum equal to net incomes for the disposal of the amalgamated liability.

Provided that in the case of the amalgamated property, that amount shall not exceed the amount spent by that person in acquiring that property.

(2) Shall be deemed to have received an amount equal to that amount in holding ownership of or bearing liability of the amalgamated property.

(2) Without prejudice to the matters contained in sub-section (1), that sub-section shall also apply to the following circumstances:-

(a) If that person carries out an act of acquisition or sale of any property,

(b) If that person acquires the property leased, and

(c) If the guaranteed liability is transferred by the transferee.

47A. Special provision on disposal as a result of merger of business:

Removed

48. Disposal of property and liability through division:

If the rights related with any property owned by or the burdens related with any liability borne by any person devolve on any other person also by way of lease of any property or any part thereof, the following provisions shall apply:-

(a) Where the rights or burdens are permanent, that first person shall be deemed to have disposed of any part of that property or liability but not to have acquired any new property or liability, and

(b) Where the rights or burdens are temporary or contingent, that first person shall be deemed not to have disposed of any part of that property or liability.

Provided that such person shall be deemed to have acquired a new property or assumed a new liability, as the case may be.

49. Disposal through allocation of incomes and expenses:

(1) Any person shall, in the following circumstances, allocate the expenses or incomes made in acquiring, bearing or disposing of any property or liability between properties and liabilities, on the basis of the market value at the time of acquisition, bearing or disposal, as the case may be:-

(a) Where one or more properties are acquired or one or more liabilities assumed at the same time, or

(b) Where one or more properties or liabilities are disposed of at the same time.

(2) If any person who holds ownership of any property or bears any liability disposes of any part of that property or liability, the net expenses or net incomes of that property or liability immediately before the disposal shall be allocated in the portion of the disposed property or liability and in the remaining portion, as the case may be, on the basis of the market value thereof immediately after the disposal.

Chapter-9 Special Provisions Relating to Individual

50. Spouse:

(1) Both a resident individual and his or her resident husband or wife may, by giving a notice in writing, choose to be treated as one individual in any specific income year for tax purposes.

(2) The husband or wife out of the spouses who choose the provision contained in sub-section (1) in respect of any income year shall be jointly and severally responsible between each other for the tax payable by them in that year.

(3) Notwithstanding anything contained in sub-sections (1) and (2), a resident widow or widower responsible for bearing dependents shall be deemed as a couple.

51. Tax adjustment for medical treatment:

(1) Any resident individual may make a claim for adjustment of tax for medical treatment in any income year for the approved medical treatment expenditure incurred by himself or through any other person for himself.

(2) The tax adjustment amount for medical treatment of an individual in any income year shall be computed also by adding any amount, if any, referred to in sub-section (4) to the amount to be set by fifteen percent of the approved medical treatment expenditure referred to in sub-section (1).

(3) Notwithstanding anything contained in sub-section (2), the amount of tax adjustment for medical treatment claimed by an individual in any income year shall not exceed the prescribed limit.

(4) In the case of any individual in any income year, the excess amounts as mentioned in clauses (a) and (b), up to the following limit, may be carried forward and included in the amount referred to in sub-section (2) in the forthcoming years:-

(a) Where the amount referred to in sub-section (2) exceeds the limit referred to in sub-section (3), the amount of such excess, and

(b) The amount to the extent that the person referred to in clause (a) of Section 3 is not allowed to use tax adjustment for medical treatment because of the tax payable by that person in that year being less.

Explanation: For the purposes of this Section, "approved medical treatment expenditure" means the approved medical treatment expenditure as prescribed.

Chapter-10 Special Provisions for Entities

52. Principles of taxation applicable in respect of entities:

(1) For purposes of payment of tax, any entity shall be responsible distinctly from its beneficiaries.

(2) Distributions to be made by an entity shall be as mentioned in Section 53, and in distribution to be so made, tax shall be imposed on its beneficiaries pursuant to Section 54.

(3) The amounts derived by and expenses borne by an entity shall be deemed to have been received or borne by the entity irrespective of whether or not the entity has derived the same or borne expenses for another person.

(4) A property under ownership of an entity and the liability borne by it shall be deemed to be under ownership or burden of the entity. Such property under ownership and liability borne shall not be deemed to be under the ownership or burden of any other person.

(5) Foreign income tax paid by the manager, beneficiary of an entity or the entity, whosoever, for the income of the entity shall be deemed to have been paid by the entity.

(6) Transactions between any entity and its managers and beneficiaries shall be recognized subject to Chapter-7 and Section 45.

53. Distribution by entity:

(1) The following matters shall be included in the distribution to be made by an entity:-

(a) Payment made by the entity to any of its beneficiaries in any capacity, or

(b) Capitalization of profits.

(2) Notwithstanding anything contained in sub-section (1), any payment referred to in clause (a) of that sub-section shall be deemed to have been distributed only in the following circumstances:-

(a) Where the payment exceeds the amount paid by a beneficiary to the entity in exchange for a consideration likely to be obtained from the entity, and

(b) Where the following amounts are not included in the payment:-

(1) The amounts included in computing the income of the beneficiary,

(2) The payments from which tax has been deducted finally except for reason of distribution.

(3) Only if the distribution of any entity reduces the value of property or liability of that entity, such distribution shall be deemed to be a distribution of profits or return of capital.

(4) In any of the following circumstances, a distribution of any entity shall be deemed to be a distribution of profits, subject to Section 55:-

(a) Where the distribution is of a type referred to in sub-section (3) and the amount as per the market value of the property exceeds the total amount of the capital contribution consisting of the market value of the liability of the entity at the time of distribution and of capitalized profits, as well, and

(b) Where profits are capitalized.

(5) The distribution referred to in sub-section (3) shall be deemed to be a return of capital to the extent of non-distribution of profits.

(6) The distribution of any entity shall be deemed to be a dividend of that entity to the extent of non-return of capital.

Explanation: For the purposes of this Section, "capitalization of profits" means and includes any capitalization made by issuing bonus share or similar other interest or increasing the paid-up sum of the interest of that entity or crediting the profits to the premium and capital account of that entity.

54. Tax on dividend:

(1) On the dividend distributed by a resident entity, it shall be as follows:-

(a) If dividend is distributed to the shareholder of any company or partner of any partnership firm, tax shall be imposed as per the mode of final tax deduction, and

(b) No tax shall be imposed on distribution, if any, made by other entities.

(2) The dividend distributed by any non-resident entity to any resident beneficiary shall be included in the income of the beneficiary and tax imposed accordingly.

(3) Notwithstanding anything contained in sub-section (1), no tax shall be levied on the dividend received after tax deduction if it is distributed.

(4) ......

(5) The incomes referred to in Chapter-8 receivable for the interest of a beneficiary of an entity shall include the amount for capital return made by any entity for that interest.

Provided that the dividend distributed by the entity is not required to be included.

55. Dissolution of entity:

(1) A distribution made in proportion to the portion of profit earned by and that of capital contributed by any beneficiary in disposing the interests in the course of dissolution of any entity shall be deemed to be the payment of partial dividend and partial capital of that entity, if all of the following conditions are fulfilled:-

(a) Where any distribution has been made by such entity in respect of cancellation, release or acceptance of the interest in that entity because of, inter alia, purchase by the entity of its interest or dissolution of the entity by following the process of law in force,

(b) Where, except in cases of full dissolution, the rights of the beneficiaries in the portion of profits of that entity have not been computed in proper proportion or could not be computed reasonably, and

(c) Where the beneficiary who gets that distribution is not an associated person with the entity after the disposal.

(2) Notwithstanding anything contained in sub-section (1), the provisions contained in that sub-section and Section 53 shall not be applicable if any entity purchases the interest of any beneficiary in the entity through the securities market recognized under the law in force and makes distribution to that beneficiary.

56. Transaction between entity and beneficiary:

(1) Subject to Section 45, if a property is disposed through transfer of ownership over the property in any manner of distribution between an entity and its beneficiary or in any other manner, it shall be as follows:-

(a) The transferor of the property shall be deemed to have received, from the disposal, an amount equal to the market value of the property immediately before the disposal, and

(b) The transferee of the property shall be deemed to have incurred cost in a sum equal to that mentioned in clause (a) in acquiring the property.

(2) Subject to Section 45, if any liability is disposed through transfer of the liability between any entity and its beneficiary, it shall be as follows:-

(a) The transferor of the liability shall be deemed to have incurred cost, in disposing the liability, in a sum equal to the market value of the liability immediately before the disposal, and

(b) The transferee of the liability shall be deemed to have received an amount equal to that mentioned in clause (a) in assuming the liability.

(3) If any entity distributes dividends other than profits as dividends to any beneficiary, the amount of such dividends shall be included in computing the income of the entity.

Provided that provisions may be made to exclude the matters contained in this sub-section in any circumstance as prescribed.

57. Change in control:

(1) If the ownership of any entity changes by fifty percent or more as compared to its ownership until before the last three years, the entity shall be deemed to have disposed of the property under its ownership or the liability borne by it.

Provided that this section shall not apply in the following circumstances:

(a) where, in a startup venture capital fund or private equity fund, the number of shares and capital held by the existing shareholders or partners remain unchanged, and additional shareholders or partners are admitted resulting in an increase in capital; or

(b) where, due to the death of a beneficiary (interest holder) of an entity, the interest held in that entity is transferred to the lawful heir through succession; or

(c) where there is a change in the ownership of a resident entity solely because of a change in ownership of another resident entity holding an interest in that entity.

(1a) For the purpose of computing the change in ownership of fifty percent or more of any entity referred to in sub-section (1), only the following ownership of such entity shall be included:-

(a) Ownership held by a shareholder or partner holding one percent or more of the total ownership, and

(b) Ownership held by the associated person of a shareholder or partner holding less than one percent of the total ownership, among shareholders or partners holding more than one percent of the total ownership.

(2) If the ownership of any entity is changed as mentioned in sub-section (1), the entity shall not be allowed to carry out the following acts after such change:-

(a) To deduct interest incurred by that entity prior to the change in ownership and carried forward pursuant to sub-section (3) of Section 14,

(b) To deduct the loss suffered by that entity prior to the change in ownership pursuant to Section 20,

(c) To carry back a loss suffered after the change in ownership in any income year before such change pursuant to sub-section (4) of Section 20,

(d) To make adjustment pursuant to sub-section (4) of Section 24, if it has been calculated for any amount or expenses prior to the change in ownership and correction has been made on that amount or expenses pursuant to sub-section (4) of Section 24 after the change in ownership,

(e) To make adjustment pursuant to sub-section (1) of Section 25, if any amount has been calculated pursuant to clause (b) of sub-section (1) of Section 25 prior to the change in ownership and the right to receive that amount has been relinquished or in the event of that being a debt claim, such person has written off such amount as a bad debt after the change in ownership,

(f) To subtract pursuant to Section 36 the loss suffered in disposing any property or liability prior to the change in ownership from the income earned from the disposal of the property or liability after the change in ownership,

(g) If premium has been calculated pursuant to sub-clause (1) of clause (b) of sub-section (2) of Section 60 prior to the change in ownership and such premium has been returned to the insured after the change in ownership, to claim for credit accordingly, or

(h) To carry forward in the forthcoming year the tax paid in respect of a foreign income prior to the change in ownership pursuant to sub-section (3) of Section 71.

(3) If the ownership of any entity changes in any income year in any manner mentioned in sub-section (1), the parts before and after the change in ownership in that income year shall be treated as separate income years.

58. Provision restricting reduction of dividend tax:

(1) An arrangement made by any entity upon maintaining all of the following conditions shall be deemed to be an arrangement made for reducing dividend tax:-

(a) Where profit of such entity is reserved, current or expected,

(b) Where any person who acquires an interest of the entity and the recipient of the interest or his or her associated person makes any payment to the present or previous beneficiary of the entity or his or her associated person irrespective of whether or not it is related to the acquisition of interest and whether or not it is made at the time of acquisition of interest,

(c) Where the payment is fully or partly reflected in the profits of the entity, and

(d) Where the entity distributes dividends to the recipient of interest and the profits cover the dividends fully or partly.

(2) If dividends are distributed by any entity under an arrangement reducing dividend tax made pursuant to sub-section (1), the arrangement shall be deemed to be as follows:-

(a) Payment made by the recipient of interest or his or her associated person shall not be deemed as payment made by that person but as distribution by that entity of dividends to the previous or present beneficiary referred to in clause (b).

(b) Dividends distributed by that entity to the recipient of interest shall be deemed as equal to a sum to be set by subtracting the amount of payment said to have been made from the dividends referred to in clause (a).

Chapter-11 Special Provisions on Banking and Insurance Business

59. Banking business:

(1) In computing the income or loss made by any person carrying on a banking business from that business in any income year, it shall be separately computed as if the banking business were a business distinct from any other business carried on by that person.

(1a) Amount up to five percent of the amount of loan due to be recovered and amount managed for non-banking property, kept in the risk bearing fund by the person operating banking business or operating a hire-purchase business after obtaining approval from Nepal Rastra Bank, shall be deducted as expenses, subject to the standards prescribed by the Nepal Rastra Bank.

(1b) Amount up to five percent of the amount of loan due to be recovered kept in the risk bearing fund by a cooperative organization shall be deducted as expenses.

(1c) If expenses are accounted from the profits where the risk bearing fund is maintained pursuant to sub-sections (1a) and (1b), the same shall not be remitted, and if the amount held in such fund is capitalized or profit or dividend is distributed, it shall be included in the income in the year in which it is distributed.

(2) ......

(3) ......

Explanation: For the purposes of this Section, "banking business" means the banking transaction carried out by banks and financial institutions having obtained approval to carry out banking transactions pursuant to the law in force.

60. General insurance business:

(1) In computing the income or loss made by any person carrying on a general insurance business from that business in any income year, it shall be separately computed as if the insurance business were a business distinct from any other business carried on by that person.

(2) In computing the income of any person carrying on the general insurance business in any income year, it shall be done as follows:-

(a) In income, in addition to any other amounts required to be included pursuant to this Act, the following amounts, as well, shall be included:-

(1) Amounts for premium of insurance including premium for reinsurance received by that person from that business in that year, and

(2) Amounts received in that year from payments referred to in sub-clause (1) of clause (b) for any contract of reinsurance, security, guarantee or compensation.

(b) In expenses, in addition to the amounts that can be deducted pursuant to this Act, the following amounts, as well, may be deducted:-

(1) Payments made by that person as an insurer in operating that business in that year, and

(2) Premiums included pursuant to sub-clause (1) of clause (a) in computing the income earned from that business in that year or last year and returned to the insured in that year.

(3) Sum of the following amounts kept in the risk bearing fund:-

(a) Amount up to fifty percent of the net insurance cost shown in the profit and loss account of any year, and

(b) Amount up to one hundred and fifteen percent of the remaining amount for payment of claim at the end of any year.

Provided that the amount received as deduction in expenses in any year pursuant to this sub-clause shall be included in income in computing the income of insurance business in the forthcoming income year.

(3) ......

(4) ......

Explanation: For the purposes of this Section, "registered general insurance business" means an insurance business registered in Nepal under the law in force and carrying on general insurance transactions.

61. Investment insurance business:

(1) In computing the income or loss made by any person carrying on an investment insurance business from that business in any income year, it shall be separately computed as if the investment insurance business were a business distinct from any other business carried on by that person.

(2) It shall be as follows in computing the income of any person carrying on the investment insurance business in any income year:-

(a) Except the following amounts, other amounts that can be included pursuant to this Act shall be included:-

(1) Amounts for premium of insurance including premium for reinsurance received by that person in operating that business in that income year, and

(2) Amounts received in that year from payments referred to in sub-clause (1) of clause (b) for any contract of reinsurance, security, guarantee or compensation.

(b) Except the following amounts, other amounts that can be deducted pursuant to this Act shall be deducted:-

(1) Payments made by any person as an insurer in operating that business, and

(2) Premiums referred to in sub-clause (1) of clause (a) returned to the insured.

(3) The amounts referred to in sub-clauses (1) and (2) of clause (a) and sub-clauses (1) and (2) of clause (b) of sub-section (2) shall not be considered as incomes and expenses for the property or liability of that person.

(4) The investment insurance agreement of the investment insurance business of any person shall not be deemed as the property and liability of that person.

62. Amount received from insurance:

(1) For the purposes of computing the income of any person, the provisions contained in Section 31 shall apply in respect of the amount received by that person from insurance.

(2) Notwithstanding anything contained in sub-section (1), the following provisions shall apply in respect of the profits made from investment insurance:-

(a) If a resident person makes payment of such amount, tax shall be imposed on the insured through final tax deduction, and

(b) If a non-resident person makes payment of such amount, it shall be computed by including that amount in the income of the insured.

Explanation: For the purposes of this Section, "profits made from investment insurance" means the excess sums of payment received by any person for investment insurance in respect of that insurance over the premiums paid by that person.

Chapter-12 Special Provisions on Retirement Saving

63. Retirement fund:

(1) ......

(2) An individual who is the beneficiary of an approved retirement fund may make a claim to have the retirement contribution made to the fund in any income year deducted while computing his taxable income.

(3) Notwithstanding anything contained in sub-section (2), the amount claimed by any person for deduction in any income year pursuant to that sub-section shall not exceed the prescribed limit of retirement contribution.

Explanation: For the purposes of this Section, "approved retirement fund" means the Employees' Provident Fund established under the Employees' Provident Fund Act, 2019 (1962); the Citizens Investment Trust established under the Citizens Investment Trust Act, 2047 (1991); the retirement fund operated by the Social Security Fund established under the Contribution-Based Social Security Fund Act, 2074 (2018); and the retirement fund operated by the Pension Fund established under the Pension Fund Act, 2075 (2018).

64. Tax in retirement fund:

(1) For the purposes of assessing the income of the retirement fund, the amounts to be included or deducted pursuant to this Act shall be included or deducted in computing the income.

Provided that

(a) Contributions made to the fund shall not be the income of the fund and such contributions shall not be included in computation.

(b) Retirement payments shall not be the expenses of the fund and such payments shall not be deducted in computing the income.

(c) Interest of any beneficiary in the retirement fund shall not be a liability of the fund.

(2) No tax shall be levied on the income of the approved retirement fund.

(3) If any approved retirement fund ceases to remain in the form of such fund, such fund shall pay tax at the rate mentioned in sub-section (1) of Section 2 of Schedule-1 on the amount computed by subtracting the amount referred to in clause (b) from the amount referred to in clause (a):-

(a) All retirement contributions paid to the fund between the period from the date when the fund obtained approval as a retirement fund and the date when the recognition ceased to exist, and all income amounts that would be treated as taxable incomes if sub-section (2) were not applicable,

(b) All retirement payments made by the fund between the period from the date when the fund obtained approval as a retirement fund and the date when the recognition ceased to exist.

65. Retirement payments:

(1) For the purposes of computing retirement payment income earned by any individual from the interest based on contribution held in any approved retirement fund, or retirement payment from the Government of Nepal, the following provisions shall apply:-

(a) Retirement payments made by the fund for the interest in the fund shall be included in the income, and

(b) Notwithstanding anything contained in clause (a), if such payment is made in lump sum, the payment to be set by subtracting fifty percent of the paid amount or five hundred thousand rupees, whichever is higher, from the amount so paid shall be deemed as the profit made by the person from the disposal of his non-business taxable assets.

(2) For the purposes of computing the profit made by any individual from the interest in any retirement fund that has not obtained approval, the following provisions shall apply:-

(a) Where a resident person has made payment, tax shall be imposed on the beneficiary in that amount as withholding of tax finally, and

(b) Where a non-resident person has made payment, that amount shall be included in computing the income of the beneficiary.

Explanation: For the purposes of this Section, "profit made from the interest in any retirement fund that has not obtained approval" means, if retirement payments made from a retirement fund which has not obtained approval to a beneficiary individual for his interest in the fund exceed the amounts of retirement contributions paid by that person to that fund for his interest in the fund, the amount to the extent of such excess.

Provided that payment made from any non-contributory fund shall not be considered as benefit from interest held in a retirement fund that has not obtained approval.

66. ......

Chapter-13 International Tax

67. Source of income, loss, profit and payment:

(1) If, in the source of income earned from any employment, business or investment of any person, the amounts mentioned in clause (a) exceed the amounts mentioned in clause (b), the amounts to the extent of such excess shall be deemed to have source in Nepal:-

(a) The amounts with source in Nepal included in computing the income,

(b) The amounts with source in Nepal deducted in computing the income.

(2) If the amounts mentioned in clause (a) exceed the amounts mentioned in clause (b) in the loss suffered from any business or investment of any person, the amounts to the extent of such excess shall be deemed to have source in Nepal:-

(a) The amounts with source in Nepal to be deducted in computing the income of the business or investment,

(b) The amounts with source in Nepal included in computing the income.

(3) The amounts to be included in computing the income shall be deemed to have source in Nepal in the following circumstances:-

(a) The net profits referred to in clause (c) of sub-section (2) of Section 7 or clause (b) of sub-section (2) of Section 9 to be set by subtracting the loss suffered from the disposal of the property or liability with source in Nepal from the profit made from the disposal of the property or liability with source in Nepal,

(b) If a property situated in Nepal or a liability to be borne in Nepal is included, the profits and amounts to be included in computing the income as mentioned in clause (d) of sub-section (2) of Section 7 or clause (c) of sub-section (2) of Section 9,

(c) Received payments with source in Nepal, subject to clauses (a) and (b).

(4) If a property situated in Nepal or a liability to be borne in Nepal is included, the source of profit or loss made or suffered from the disposal of the property or liability shall be deemed to have source in Nepal.

(5) If the following amounts are included in the amounts deducted in assessing the income, the source of such amounts shall be deemed to be in Nepal:-

(a) The amount that can be deducted as cost expenditure mentioned in sub-section (1) of Section 15 in respect of the properties situated in Nepal,

(b) The expenses referred to in sub-section (1) of Section 16 in respect of the properties situated in Nepal, and the expenses to the extent allowed to be deducted pursuant to Section 19, and

(c) The payments with source in Nepal, subject to clauses (a) and (b).

(6) The following payments shall be deemed to have source in Nepal:-

(a) Dividends paid by a resident entity,

(b) Interest paid by a resident person,

(c) Payment for natural resources made in respect of the natural resource derived from the land situated in Nepal or calculated with reference to such source,

(d) Rent paid for the use of any property situated in Nepal,

(e) Royalty received by any person for having allowed any person to use any property situated in Nepal or for accepting the right to use the property or the restriction on the use of such property,

(f) Amount for the general insurance paid by any person in respect of insurance against risks in Nepal and premium paid to that person for general insurance,

(g) Payments received by any person as follows by operating inland, sea or air transport or charter service business in Nepal, except as a result of transshipment:-

(1) The carriage of departing passengers, or

(2) The shipment of mail, livestock or other direct movable property.

(h) Payments received by a person who carries on a business of dispatching information or news through means of communication such as wire, radio, optical fiber or satellite in respect of dispatch of news or information through networks established in Nepal, irrespective of whether or not such news or information is originated in Nepal

(i) Payments in the following circumstances including service charges of the kinds not mentioned in clauses (g) or (h) for doing employment or rendering service or accepting restriction in those acts:-

(1) Where the acts are carried out in Nepal irrespective of the place of payment, or

(2) Where the Government of Nepal is to make payment irrespective of the place of employment.

(j) Annuities, amount for investment insurance and retirement payment paid by a resident person which does not fall under clause (i), and any premium or other payment paid to the resident person in order to ensure such amounts,

(k) Gifts received in respect of a business or investment operated from the property situated in Nepal, and

(l) The following payments except those mentioned in clauses (a), (b), (c), (d), (e), (f), (g), (h), (i), (j) and (k) above:-

(1) Payments made in respect of disposal of the property situated in Nepal or in respect of acquiring liability to be borne in Nepal, or

(2) Payments made in respect of activities carried out in Nepal.

(7) Any income, loss, amount, profit or payment other than the one deemed to have source in Nepal as mentioned in the above sub-sections shall be deemed to have foreign source, and the references to Nepal given in this Act shall be applicable as if they were used in the case of any particular foreign country for the purposes of ascertaining in which country such income, loss, amount, profit or payment has source.

Explanation: For the purposes of this Section,-

(a) "Property situated in Nepal" means the land or buildings situated in Nepal and the property other than land or building of a resident person situated in any foreign country, or if the person is associated with a controlled foreign entity pursuant to Section 69, inclusive of his interest in that entity.

(b) "Liability to be borne in Nepal" means the liability of a resident person created from activities carried out in Nepal.

68. Foreign permanent establishments:

(1) Notwithstanding anything contained in Section 3, any foreign permanent establishment of a non-resident person situated in Nepal shall be liable to pay tax payable on the income of such establishment, subject to other provisions of this Act.

(2) The income of a person having ownership of a foreign permanent establishment shall be separated from the income of that establishment pursuant to Section 69.

(3) Tax shall be imposed on the permanent establishment referred to in clause (b) of Section 3 in the income sent abroad by the foreign permanent establishment of a non-resident person situated in Nepal.

(4) The income sent abroad in any income year by the foreign permanent establishment of a non-resident person situated in Nepal shall be equal to the amount of dividends distributed by that foreign permanent establishment in that year.

69. Controlled foreign entities:

(1) If any entity distributes dividends of the associated income earned in any income year as a controlled foreign entity at the end of the income year, it shall be deemed to have distributed dividends in proportion to its beneficiaries, as follows:-

(a) As per the rights of the beneficiaries to the income in distributing dividends, or

(b) If the rights are not determinable in a reasonable manner, as per the method which the Department thinks proper according to the circumstance.

(2) Tax shall not be levied on the dividends distributed by an entity as a controlled foreign entity at the end of any income year except those distributed pursuant to sub-section (1).

(3) The following shall be deemed to have occurred in respect of the dividends distributed by a controlled foreign entity pursuant to sub-section (1) to the beneficiaries associated with that entity at the time of distribution of dividends:-

(a) Having the characteristic equivalent to the type and source of the associated income of that entity, and

(b) Having distributed proportionately out of each type and source of the associated income of that entity.

(4) Any tax paid by any controlled foreign entity including that deemed to have been paid pursuant to sub-section (5) or sub-section (5) of Section 52 in respect of the amounts deemed to be distributed pursuant to sub-section (3) shall be set aside for the beneficiary associated with that entity.

(5) The tax set aside pursuant to sub-section (4) at the time of allocation shall be deemed to have been paid by the beneficiary, and the beneficiary may get facility of tax adjustment for such tax as provided for in Section 71.

(6) The amount deemed as distributed to the beneficiary pursuant to sub-section (1) at the time of distribution shall be included in the expenses for any property or liability of the recipient beneficiary in the entity making such distribution.

(7) The dividends distributed to the beneficiary enjoying tax exemption pursuant to sub-section (2) at the time of distribution shall be included in the income for any property or liability of the recipient beneficiary as an interest in the entity making such distribution.

(8) For the purposes of this Act, the foreign income tax paid or foreign income tax deemed as paid by any controlled foreign entity pursuant to sub-section (5) or sub-section (5) of Section 52 shall be

deemed as tax amount paid by that entity or deemed to be paid by that entity pursuant to this Act.

Explanation: For the purposes of this Section,-

(a) "Associated income" means, in computing the taxable income of any controlled foreign entity in any income year, a taxable income computed as if that entity were a resident entity.

(b) "Controlled foreign entity" means any non-resident entity in which any resident person has interest directly or indirectly through one or more interposed non-resident entities in any income year; and where that person is associated with that entity, or where any person deemed to be associated with that person and any other resident persons not exceeding four persons are associated with that entity, it includes such entity, as well.

70. Tax chargeable on non-resident person providing water transport, air transport or telecommunications service in Nepal:

(1) The taxable income of any non-resident person who operates water traveling/rafting, charter service or air transport in any income year shall consist of the amounts derived from the following acts except the amounts derived from transshipment in that year:-

(a) Carriage of passengers departing from Nepal, or

(b) Carriage of the mail, animals or goods dispatched from Nepal.

(2) The taxable income of any non-resident person who carries on a business of cable, radio, optical fiber or satellite communication in any income year shall consist of the amounts derived from the dispatch of news or information through any device established in Nepal, whether originated in Nepal or not.

(3) Tax shall be levied on the amounts to be included in the taxable income of any non-resident person pursuant to sub-section (1) or (2) at the rate specified in sub-section (7) of Section 2 of Schedule-1.

Provided that

(a) Those amounts need not to be computed in computing the tax payable in respect of any due taxable income of that person,

(b) The expenses related with the computation of those amounts shall not be allowed to be deducted in computing that due taxable income, and

(c) That person shall not be entitled to any facility of tax adjustment from the amount of tax payable by that person pursuant to this Section.

Explanation: For the purposes of this Section, "non-resident person" means a resident entity within the group of associated entities with head offices outside Nepal.

71. Foreign tax adjustment:

(1) Any resident person may claim for adjustment of tax for the foreign income tax paid by that person in any income year to the extent of the tax paid for the assessable foreign income of that person in that year.

(2) When computing the foreign tax adjustment claimed pursuant to sub-section (1), it shall be done as follows:-

(a) Separate computation shall be done for the assessable foreign income having source in each country, and

(b) Foreign tax adjustment claim shall not be made in respect of the assessable foreign income at the rate of tax higher than the average rate of tax of Nepal payable by that person in that year in respect of each computation.

(3) Any foreign income tax paid in respect of the assessable foreign income of any person who is not entitled to the foreign tax adjustment facility pursuant to sub-section (1) by virtue of the limit provided for in clause (b) of sub-section (2) may be dealt with as follows:-

(a) It may be carried forward in the coming year, and

(b) It shall be deemed to be paid in respect of the assessable foreign income in the future income year of the person having source in the country where such foreign income has been earned.

(4) Notwithstanding anything contained in sub-section (1), any person may give up a claim for foreign tax adjustment to which that person is entitled in any income year and also claim for credit for the foreign income tax for which such adjustment facility is available in that year as an expense.

Explanation: For the purposes of this Section,-

(a) "Assessable foreign income" means the following income to be included in the assessable income earned by any resident person in any income year from any employment, business or investment:-

(1) Income earned from a foreign source, or

(2) Income of a non-resident person deemed as distributed to that resident person under Section 69 irrespective of the source.

(b) "Average rate of tax of Nepal" means the rate resulted from multiplying by one hundred the amount to be set by dividing the amount of tax required to be paid by the person referred to in clause (a) of Section 3 in that year before any foreign tax adjustment, by the taxable income of that person for that income year.

Chapter-14 Tax Administration and Authentic Documents

72. Department:

(1) The Department shall be responsible for the implementation and administration of this Act.

(2) The Government of Nepal may, by a notification in the Nepal Gazette, establish large taxpayer offices, medium level taxpayer offices, inland revenue offices under the Department and prescribe their working areas, in order to render assistance in fulfilling the responsibility of the Department mentioned in sub-section (1). The offices of which working areas have been so specified shall remain as organs of the Department.

(3) The Department may have the following officers and other employees:-

(a) Director General,

(b) Deputy Director General, Chief Tax Administrator, Director, Chief Tax Officer, Tax Officer and other officers in the required number, and

(c) Other employees.

(4) The Director General may carry out the following functions, subject to the direction given by the Government of Nepal:-

(a) To exercise any of the powers conferred on the Department pursuant to this Act,

(b) To so delegate the powers referred to in clause (a) as to be exercisable by any other officer, subject to sub-sections (5) and (6), and

(c) To so specify that all or any of the powers referred to in clause (a), except the power to issue public circular pursuant to Section 75, to specify the document referred to in Section 77, to hold any reviewable decision or otherwise affect it pursuant to sub-section (5) of Section 115, to accept or reject fully or partly the matters contained in an application made by any person pursuant to sub-section (7) of Section 115, to make addition by adding offence pursuant to Section 129, or to grant authority to any officer pursuant to Section 82, may be exercised by any officer employee of the civil service.

(5) The Deputy Director General, Chief Tax Administrator, Director, Chief Tax Officer and Tax Officer who acts as the Chief of Office may carry out the following functions, subject to the direction given by the Government of Nepal or the Director General:-

(a) To exercise the powers conferred on the Department pursuant to this Act, other than the power to issue public circular pursuant to Section 75, to specify the document referred to in Section 77, to hold any reviewable decision or otherwise affect it pursuant to sub-section (5) of Section 115, to accept or reject fully or partly the matters contained in an application made by any person pursuant to sub-section (7) of Section 115, to make addition by adding offence pursuant to Section 129, and

(b) To so delegate such powers as to be exercisable by any other officer of the Department, subject to sub-section (6).

(6) Any other officer of the Department except the Director General, Deputy Director General, Chief Tax Administrator, Director, Chief Tax Officer or Tax Officer who acts as the Chief of Office may carry out the following functions:-

(a) To exercise any powers delegated to that officer out of the powers conferred on the Department, except the following powers:-

(1) To issue public circular pursuant to Section 75, to specify the document referred to in Section 77, to hold any reviewable decision or otherwise affect it pursuant to sub-section (5) of Section 115, to accept or reject fully or partly the matters contained in an application made by any person pursuant to sub-section (7) of Section 115, to make addition by adding offence pursuant to Section 129, or

(2) To grant authorization to any officer pursuant to Section 82 or issue a notice pursuant to Section 109.

(b) That officer shall not be entitled to re-delegate any power delegated to him.

73. International agreements:

(1) If any income of any person is taxable pursuant to this Act or the laws in force and the same income is also taxable in a foreign country, the Government of Nepal may conclude an international agreement with the foreign country for the avoidance of double taxation.

(2) This sub-section shall be applicable if, pursuant to any international agreement concluded with Nepal, the competent authority of the other country requests the Department to collect in Nepal the amount payable by any person who is in arrears of that amount pursuant to the taxation law of that other country.

(3) If sub-section (2) is applicable, the Department may, for the purpose of sending that amount to that competent authority, issue a notice in writing to the person who is in arrears of tax and require that person to pay such amount to the Department within the date mentioned in that notice.

(4) This sub-section shall be applicable if any international agreement contains a provision under which Nepal has to exempt income or payment or has to apply the reduced tax rate to income or payment.

(5) If sub-section (4) is applicable, any of the following entities shall not be entitled to enjoy tax exemption or tax deduction facility:-

(a) An entity that is considered as a resident of the other party of the agreement for purposes of the agreement, and

(b) Where fifty percent or more of the vested ownership of that entity is owned by individuals or by entities in which no individual has any interest and, for purposes of the agreement, those persons or entities are residents of neither the other country party to the agreement nor Nepal.

Explanation: For the purposes of this Section, "international agreement" means any treaty or agreement containing the following provisions, concluded with any foreign government and applicable to Nepal:-

(a) To avoid double taxation and prevent fiscal evasion, or

(b) To render reciprocal administrative assistance in the implementation of tax liability.

74. Taxpayer's rights:

(1) The taxpayer shall fulfill the duties referred to in this Act.

(2) In the context of paying tax pursuant to this Act, the taxpayer shall have the following rights:-

(a) The right to be treated with honour,

(b) The right to receive information on tax related matters pursuant to the laws in force,

(c) The right to have an opportunity to furnish proofs in defence on tax related matters,

(d) The right to appoint a legal practitioner or auditor for defence, and

(e) The right to have tax related secret matters inviolable except as otherwise mentioned in this Act.

Explanation: For the purposes of this Section, "taxpayer" means a person on whom tax is imposed and collected as mentioned in Section 3.

75. Public circular:

(1) In order to bring about uniformity in the implementation of this Act and simplify tax administration and give guidelines to the officers of the Department as well as the persons affected by this Act, the Department may issue written public circulars, accompanied by explanations, on the provisions made in this Act.

(1a) The interpretation made by the Department pursuant to Sub-section (1) shall be final.

(2) The Department may publish and transmit the circulars issued pursuant to sub-section (1) in the website of the Department or a newspaper of national level or other electronic means for the information of the public.

(3) The Department shall be compelled to take action according to the circular issued pursuant to sub-section (1) unless and until such circular is revoked.

76. Advance ruling:

(1) If any person makes an application in writing to the Department for the removal of any confusion as to the application of this Act to any arrangement proposed or accepted by that person, the Department may issue its version by an advance ruling as prescribed, by notifying the person in writing.

(2) Notwithstanding anything contained in sub-section (1), the Department shall not be entitled to issue an advance ruling referred to in sub-section (1) on any matter of confusion that has occurred in the implementation of this Act if such matter is sub judice in the court or has already been decided by the court.

(3) If any person acts as follows prior to the issuance of an advance ruling pursuant to sub-section (1), the Department shall be compelled to implement this Act as per that ruling until the ruling issued to that person remains valid:-

(a) If the full and actual statements of the matter related to that ruling are presented to the Department, and

(b) If the arrangement corresponds to the point mentioned in the application made by that person for the ruling.

(4) If the public circular issued pursuant to Section 75 and the advance ruling issued pursuant to sub-section (1) are mutually contradictory, priority shall be given to the matters mentioned in the advance ruling in the case of the person to whom such ruling has been issued.

(5) Prior to the issuance of the advance ruling pursuant to sub-section (1), the Department may give an opportunity to the applicant to furnish further statements, if any, in person or through a representative.

(6) The Department shall be compelled to take action according to any advance ruling issued pursuant to sub-section (1) unless and until such ruling is revoked.

77. Format of documents:

(1) The Department may, from time to time, so specify the mode of submission and formats of necessary documents, statements including income returns, tax deduction statements and formats of records, as well as notices, information and details required under this Act and the rules framed under this Act for the effective implementation of this Act.

(2) The Department shall make available the formats referred to in sub-section (1) in the Department and in any other places specified by the Department and through any other means.

(3) The Department may so prescribe that information, return or documents to be submitted by any person to the Department shall be submitted through electronic means.

78. Permanent account number:

(1) The Department shall, subject to this Act, issue a permanent account number to any person for the purpose of identifying that person.

Provided that an entity may provide such permanent account number upon completion of the procedure under this Act upon approval from the Department. The taxpayer receiving the permanent account number issued as such shall not operate transactions of import and export until the period as prescribed by the Department.

(2) The Department may order any person to mention his or her permanent account number in any income return, statement, version or other document to be used for purposes of this Act.

(3) The Department may specify the circumstances where any person has to show or mention his or her permanent account number.

(4) Notwithstanding anything contained in sub-section (1), the person referred to in sub-section (3) shall obtain a permanent account number prior to making any transaction.

(4a) A person making transactions by obtaining a permanent account number pursuant to sub-section (4) shall update such registration details as specified by the Department in the biometric system within the prescribed period.

(5) Notwithstanding anything contained in sub-sections (1), (2), (3) or (4), no person shall be free from tax obligation for the reason that the person has not obtained a permanent account number.

78A. Suspension of permanent account number:

(1) The Department may suspend the permanent account number in any of the following circumstances:-

- **(a)** If the transaction is left,
- **(b)** In the case of an entity, if it is closed, sold or transferred or such entity ceases to exist by any other reason,
- **(c)** In the case of an individual ownership, if such owner dies, and
- **(d)** In the case of registration by mistake.

(2) The procedure for the suspension of the permanent account number shall be as prescribed.

79. Service of documents:

(1) Any document required to be given or delivered to any person pursuant to this Act shall be deemed to have been given or delivered to that person in the following circumstances:-

- **(a)** Where it is sent to the fax, email or such other electronic medium at the address of that person,
- **(b)** Where it is delivered by hand to whom it has to be delivered individually or to his or her representative or staff and, in the case of an entity, to the manager or the representative or staff assigned by the manager, or
- **(c)** Where it is sent by a registered post to the residential, office, business or other address of the person to the extent known.

(2) Any document signed, encrypted or encoded through computer technology, or written with the name and designation of the competent authority of the Department indicated therein, and issued, served or given pursuant to this Act shall be deemed to have met the formal requirements.

(3) If a document cannot be served pursuant to sub-sections (1) and (2), information thereof may be given by broadcasting or publishing a notice of the related order by radio, television or a newspaper of national circulation in the name of the concerned person. Information so given shall be deemed to have been received by the concerned person.

80. Defective documents:

(1) Any document issued under this Act shall not be deemed defective in the following circumstances:-

- **(a)** Where it is consistent with this Act substantially, and
- **(b)** Where the person who is addressed in the document is normally indicated in the document.

(2) If any document issued by the Department pursuant to this Act contains any error and the error does not give rise to any dispute as to the interpretation of this Act or the fact of any specific person, the Department may make amendment in the document for the purpose of rectifying such error.

Chapter-15 Records and Information Collection

81. To maintain records of documents:

(1) Each person who is liable to pay tax pursuant to this Act shall, in Nepal, set up and maintain the following necessary documents, in addition to the documents required to be maintained in the format or type as prescribed by the Department, or to be certified or authenticated by audit or in any other manner:-

(a) Necessary information and documents supporting the income returns or any other documents required to be submitted including invoices to the Department pursuant to this Act,

(b) Documents assisting to assess the tax payable by that person,

(c) Documents supporting the deduction of expenses.

(2) Except as otherwise specified by the Department by issuing a notice in writing, the documents referred to in this Section shall be safely retained for five years from the date of expiration of the concerned income year.

(3) If any document referred to in sub-section (1) is not in the Nepali or English language, the Department may, by issuing a notice in writing, require the concerned person to submit the translated version of such document in the Nepali language done, at that person's own cost, by a recognized translator under the law in force.

(4) The Department may, upon prescribing the standards and procedures, may make necessary arrangements regarding maintenance through electronic means and to keep the documents required to be kept under sub-section (1) through electronic means.

(5) Notwithstanding anything contained in Sub-section (4), the Department may, by publishing a notice, require a taxpayer specified in such notice to:

(a) compulsorily issue invoices through electronic means and integrate with the Department's Central Billing Monitoring System (CBMS); or

(b) issue electronic invoices using the billing system provided by the Department.

(6) The Department shall formulate and implement a working procedure relating to the security and reliability of the software or device for issuing invoices through electronic means. The relevant producer, distributor and user shall comply with such working procedure.

81A. Prohibition on depositing amount for business transactions in personal bank account:

No person shall deposit any amount received through cash, cheque, QR code or any other electronic means for business transactions in a personal bank account.

82. Powers of Department to obtain information:

(1) The officer of the Department may do the following in order to implement this Act:-

(a) To have full or unhindered access to any premises, places, documents or properties situated in Nepal, subject to the laws in force,

(b) To obtain any portion of or duplicate copy of the document, including an electronic copy of the documents to which there is access pursuant to clause (a),

(c) If the concerned officer thinks that the document to which there is access pursuant to clause (a) is evidence that could be necessary to assess the tax liability of any person pursuant to this Act, to take such document in that officer's custody, and

(d) If any person having access to any document, who is requested to provide a duplicate copy of such document, does not provide it, and the officer thinks that such document is kept in any property in any form, to take such property in own custody in order to have access to such document.

(2) No officer shall be entitled to exercise the powers referred to in sub-section (1) without having authority in writing from the Department. If, in entering any premise or place in exercise of the powers referred to in sub-section (1) by any officer, the possessor of such premise or place or the person having access to any concerned document or property requests to see the authority of the Department, such officer shall show such authority to them.

(3) If any officer of the Department who enters any premise or place in exercise of the powers referred to in sub-section (1) so requests, the possessor of such premise or place or the person having access to any concerned document or property shall provide all proper facilities and assistance for the effective exercise of the powers.

(4) The Department may hold in its custody the document or property taken in its custody pursuant to clause (c) or (d) of sub-section (1) until the following time:-

(a) In the case of any document taken in custody pursuant to clause (c) of sub-section (1), until the time the document is required to assess the tax liability of any person or for any other action pursuant to this Act, and

(b) In the case of any property taken in custody pursuant to clause (d) of sub-section (1), until the time when access to the document in question is gained and it is taken in custody.

(5) The person whose document is taken in custody pursuant to sub-section (4) may inspect such document and may obtain a copy of or copy down a portion of such document at that person's own cost within office hours and under supervision as prescribed by the Department.

(6) Notwithstanding any provision made on privilege or public interest in respect of having access to the documents required for the implementation of this Act, the provisions contained in this Section shall apply in that respect.

Explanation: For the purposes of this Section, "possessor" means, in respect of any premise or place, a person having ownership of that premise or place, the manager of the premise or place or any other person remaining there.

82A. Power to Obtain Information or Particulars

For the implementation of this Act, the Department may, through electronic means, obtain information or particulars relating to the financial transactions of any person residing or operating in Nepal under the prevailing laws; such person’s customers; employees; service recipients; members; or any other person who possesses facts, information, or records relating to such person.

83. Power to obtain information by notice:

(1) The Department may, by giving a notice in writing, order any person with or without liability to pay tax pursuant to this Act to do as follows:-

(a) To submit any information specified in the notice within the time specified in the notice, also by preparing any document,

(b) To be present at the Department at the place and time specified in the notice before the officer of the Department for inspection on the tax related matters of that person or any other person,

(c) To submit, for the purpose of inspection, any document mentioned in the notice that is under that person's control at the time when that person is examined pursuant to clause (b).

(2) Any person who is to be examined pursuant to clause (b) of sub-section (1) shall have the right to have legal or other representation during such examination.

(3) Notwithstanding any provision made on any privilege or on public interest in respect of having access to the documents required for the implementation of this Act, the provisions contained in this Section shall apply in that respect.

84. Governmental secrecy:

(1) Any officer and other employee of the Department shall maintain secrecy of all documents and information that come to that person's custody or knowledge in the course of carrying out duties pursuant to this Act.

(2) Notwithstanding anything contained in sub-section (1), any officer of the Department may disclose the document or information referred to in sub-section (1) to the following persons as follows:-

(a) To the extent that it is necessary to carry out the duty of that officer pursuant to this Act,

(b) If it is so ordered by any court or tribunal in respect of administrative review or action pursuant to this Act,

(c) Before the Minister for Finance,

(d) If it is necessary to disclose for the purposes of any other financial law,

(e) If it is necessary for any person in the service of the Government of Nepal for any acts relating to revenue or statistics, before such a person,

(f) If it is necessary in the course of carrying out duties, before the Auditor General or any person authorized by the Auditor General, or

(g) Before the competent authority of the government of any country with which the Government of Nepal has concluded an international agreement, to the extent as provided for in such agreement in that respect.

(3) Any person, court, tribunal, body or official who obtains any document or information pursuant to sub-section (2) shall keep such document or information secret except to the minimum extent required.

Chapter-16 Payment of Tax

85. Time, place and mode of payment of tax:

(1) Tax required to be paid under this Act shall be paid in the place and mode as prescribed, and the Department may so prescribe that tax to be paid shall also be paid through electronic means.

(2) Tax required to be paid under this Act shall be paid at the following times, subject to sub-section (1):-

(a) In the case of one who has to withhold and pay advance tax, at the time mentioned in sub-section (4) of Section 90,

(b) In the case of one who has to pay tax in installments, at the time mentioned in sub-section (1) of Section 94,

(c) In the case of one who has to pay assessed tax,-

(1) On the date when the income return is to be submitted in respect of the tax assessment referred to in Section 99,

(2) Within the time limit as specified in the tax assessment notice delivered pursuant to Section 102 in respect of tax assessed pursuant to sub-section (2) of Section 100,

(3) Within the time limit as specified in the tax assessment notice delivered pursuant to Section 102 in respect of the amended tax assessment made pursuant to Section 101,

(d) In respect of the amounts required to be paid to the Department as per any notice issued pursuant to sub-section (8) of Section 104, sub-section (1) of Section 109, or sub-section (1) of Section 110, on the date mentioned in the notice,

(e) In respect of a liability fixed upon failure of any entity to pay tax pursuant to sub-section (2) of Section 107, at the same time when the entity is required to pay the tax,

(f) In respect of the amounts required pursuant to sub-section (3) or (4) of Section 108, within seven days of the date on which the amounts are adjusted by auction sale or on which the amounts cannot be so adjusted, and

(g) In respect of the fees and interest assessed pursuant to Section 122, on the date as mentioned in the assessment notice.

(3) The date on which tax has to be paid shall not be affected in the following circumstances:-

(a) An action taken by the Department pursuant to Chapter-20 to recover tax, or

(b) Other action has been commenced pursuant to this Act.

86. Evidence of payable tax:

The certificate signed by the officer of the Department, indicating the name, address of any person and the amount of tax required to be paid by that person, shall be an ample evidence for the amount of tax required to be paid by that person in the following actions:-

(a) Any action taken by the Department pursuant to Chapter-20 to recover tax, or

(b) Any action on any offence pursuant to Chapter-23.

Chapter-17 Withholding on Payment

87. Withholding of tax by employer:

(1) When making payment of any amount having source in Nepal that is to be included in computing the income derived by any employee or worker from employment, each resident employer shall withhold (deduct) tax at the rate referred to in Schedule-1.

(2) The liability of an employer required to withhold tax pursuant to sub-section (1) shall not decrease or end by virtue of the following:-

(a) If the employer has the right or duty to deduct, hold up or subtract any other amount from the said payment, or

(b) If the income earned by the employee or worker from employment cannot be subtracted pursuant to other laws in force.

88. Withholding of tax in making payment for investment return and service charge:

(1) When a resident person makes payment for interest, natural resource, rent, royalty, service charge, commission, sales bonus, retirement payment and any other consideration having source in Nepal, and in making payment of the amount, that person shall withhold tax at the rate of fifteen percent of the total amount of payment.

Provided that tax shall be withheld in the following payments at the following rate:-

(1) In the case of retirement payment from the Government of Nepal or contribution-based retirement payment from an approved retirement fund, at the rate of five percent on the benefit computed under clause (b) of sub-section (1) of Section 65,

(2) In a commission paid by the resident employment company to a non-resident person, at the rate of five percent,

(3) In payment of amount for lease of aircraft, at the rate of ten percent,

(4) In service charge paid to a service provider resident person registered in value added tax, or to a resident entity carrying on transactions exempt from value added tax, at the rate of one and half percent of the payment amount,

(5) In rent payment made by a resident person having source in Nepal, at the rate of ten percent,

Provided that

(a) In an amount paid to a person registered in value added tax and operating a business of providing vehicles on rent, for rent of such vehicles, one and half percent shall be withheld from such amount,

(b) No tax shall be withheld on an amount received by an individual for house rent,

(c) ......,

(6) In an amount paid as consideration distributed to an individual by a mutual fund, at the rate of five percent,

(7) In a payment for use of satellite, bandwidth, optical fiber, tools related to telecommunications or electricity transmission line by a resident person, at the rate of ten percent,

(8) In a payment for carriage service or in payment for renting a carrier vehicle, at the rate of two and half percent,

Provided that in an amount paid to a person registered in value added tax and operating a business of providing carriage service or renting carrier vehicles, one and half percent shall be withheld from such payment.

(9) In payment of interest for a loan received in foreign currency from a foreign bank or other financial institution by a resident bank and financial institution for investment in the sectors as specified by the Nepal Rastra Bank, at the rate of five percent,

(9a) In payment of interest by a hydropower project having a capacity above two hundred megawatts with reservoir and semi-reservoir for which financial closure is completed by Chaitra of 2082 (mid-April 2026), on a loan received in foreign currency from a foreign bank or other foreign financial institution, at the rate of five percent,

(10) Tax shall not be withheld on the motivational amount provided for payment made through payment card, e-money (wallet), mobile banking or similar electronic payment instruments under the prevailing law in the purchase of goods and services by a consumer,

(11) In payment of registration charge, tuition charge and examination charge to a foreign school or university, at the rate of five percent of the paid amount,

(12) In payment of interest by a resident bank and financial institution to a life insurance company on deposits, at the rate of five percent, and

(13) In payment of royalty to a resident person for a literary work or composition, at the rate of one and half percent of the payment amount.

(14) At the rate of twenty percent (20%) on service fees or commission paid to a resident individual acting as an insurance agent.

(2) A resident person shall, in making the following payments having source in Nepal, withhold tax at the following rate:-

(a) In a dividend payment, at the rate of five percent of the paid amount,

(b) In a benefit payment of investment insurance, at the rate of five percent of the paid amount, or

(c) In a benefit payment from an unapproved retirement fund, at the rate of five percent of the paid amount.

(3) Notwithstanding anything contained in sub-section (1), a resident bank, financial institution, cooperative organization or any other entity issuing bonds, or a company enlisted under the prevailing law, shall, in making payment to any individual of interest or of an amount in the form of interest as follows in consideration for deposits, bonds, debentures and government bonds, withhold tax at the rate of six percent of the total amount of payment:-

(a) Which has source in Nepal, and

(b) Which is not related with the operation of business.

(4) Notwithstanding anything contained in sub-sections (1), (2) and (3), this Section shall not apply to the following payments:-

(a) Any payment other than that related to the operation of business by an individual, ..., (a1) Payment for a feature or article in a newspaper,

(b) Interest paid to a resident bank or other resident financial institution,

(b1) Interest paid by a cooperative bank and cooperative union or organization to each other for loan investment,

(b2) ......,

(c) Payment enjoying tax exemption or payment liable to tax withholding pursuant to Section 87,

(d) Inter-regional interchange charge paid to the bank issuing a credit card,

(e) ......

88A. Tax withholding in windfall gain:

(1) Tax shall be withheld at the rate of twenty-five percent in making a payment for a windfall gain.

Provided that the Government of Nepal may, by a notification in the Nepal Gazette, provide exemption from levying windfall gain tax on national and international awards for contribution made to literature, art, culture, sports, journalism, science, technology, agriculture and public administration.

(2) Notwithstanding anything contained in sub-section (1), no windfall gain tax shall be levied on a national and international award of up to five hundred thousand rupees for contribution made to literature, art, culture, sports, journalism, science, technology, agriculture and public administration.

Provided that if the award amount exceeds five hundred thousand rupees, windfall gain tax shall be levied on the amount exceeding that.

89. Tax withholding in making payment of deed or contract:

(1) In making payment of a sum exceeding fifty thousand rupees for a deed or contract, a resident person shall withhold tax at the rate of one and half percent of the total amount of payment.

(2) The amount referred to in sub-section (1) shall be fixed by also adding any other payments, if any, made by that person or the associated person of that person under the same contract to the person entitled to payment under that contract or the associated person of that person in the past ten days.

(3) Notwithstanding anything contained in sub-section (1), tax shall be withheld as follows from payment made by any resident person to any non-resident person under any contract:-

(a) For ...... deed or contract, five percent,

(b) For a commission in payment of a premium to a non-resident insurance company or a premium amount received for reinsurance from a non-resident insurance company, one and half percent,

(c) Where the Department has given that resident person a notice in writing, except as referred to in clause (a) or (b), at the rate specified in the notice.

(3a) [Omitted by the Finance Bill, 2083.]

(4) Notwithstanding anything contained in sub-section (1), this Section shall not apply to the following payments:-

(a) Any other payment to an individual other than one operating a business, except rent paid for a land or house and fixtures and equipment installed therein having source in Nepal,

(b) Payments enjoying tax exemption or payments liable to tax withholding pursuant to Sections 87, 88 or 88A.

Explanation: For the purposes of this Section, "deed or contract" means a contract or agreement concluded for the supply of any goods or labor, or construction, installation or establishment of tangible property or structure, and such act as specified to be a deed or contract by the Department, and such contract or agreement also includes payment for the service related to construction, installation or establishment if such service is also covered by it.

90. Statement and payment of tax withheld:

(1) Each person who has to withhold tax shall submit to the Department a statement in such mode and format as specified by the Department within twenty-five days of the expiration of each month.

(2) The person withholding tax shall pay to the Department the amount of tax withheld or deemed to be withheld pursuant to sub-section (3), along with the statement referred to in sub-section (1), within the time-limit referred to in sub-section (1).

(3) Even though the person withholding advance tax has not withheld tax pursuant to Sections 87, 88, 88A. or 89, the tax shall be deemed to be withheld at the time when it has to be withheld.

(4) The person withholding advance tax shall pay to the Department the amount of tax withheld pursuant to Sections 87, 88, 88A. or 89 or the amount of tax deemed to have been withheld pursuant to sub-section (3); and if sub-section (5) is applicable, the person subject to advance tax withholding shall pay the tax within twenty-five days after the period referred to in sub-section (1).

(4a) Notwithstanding anything contained in sub-section (4), ... the person paying tax on the basis of transaction pursuant to sub-section (4a) of Section 4 of this Act shall pay the advance tax withheld under Chapter-17 at the time of payment of the installment tax.

(5) The person subject to withholding advance tax and the person withholding advance tax shall both be jointly and severally responsible to pay such tax amount to the Department in the following circumstances:-

(a) If the person withholding advance tax does not withhold tax from any payment pursuant to Sections 87, 88, 88A. or 89, and

(b) If the person withholding advance tax does not pay to the Department the amount of tax deemed to have been withheld pursuant to sub-section (3) within the date on which tax has to be paid pursuant to sub-section (4).

(6) If the person withholding advance tax withholds tax and pays it to the Department pursuant to Sections 87, 88, 88A. or 89, and the person subject to tax withholding makes any claim as to that payment subject to tax withholding, that amount shall be treated as if it were paid to the person subject to tax withholding.

(7) If the person withholding advance tax pays to the Department the amount of tax not withheld pursuant to Sections 87, 88, 88A. or 89, that person may recover the amount equal to the amount of tax so paid from the person subject to tax withholding.

(8) If the Department believes that any person has not submitted a return or paid tax required to be submitted or paid under sub-section (1) or (2), or that the circumstance referred to in sub-section (5) exists in respect of any person, it may issue an order to pay the amount not paid or the amount paid less, and the interest referred to in Section 119, as well as the charge referred to in Section 120 if advance tax has not been deducted from the payment subject to advance tax deduction.

Provided that prior to issuing such an order, a written notice shall be given to submit evidence in defence in respect of such order, within the time-limit of fifteen days, setting out an appropriate reason.

91. Tax withholding certificate:

(1) The person withholding advance tax shall provide the tax withholding certificate, as follows, to the person subject to tax withholding at the time specified in sub-section (2):-

(a) Having been certified in accordance with the manner, if any, as prescribed by the Department,

(b) Setting out the amount of tax withheld pursuant to Sections 87, 88, 88A. or 89 and the paid amounts.

(2) The tax withholding certificate setting out the period of advance tax withholding shall be provided within twenty-five days from the date of expiration of the month in which advance tax is withheld.

(3) Notwithstanding anything contained in sub-section (1), if tax is withheld pursuant to Section 87, the tax withholding certificate shall be provided as follows:-

(a) The certificate shall be valid only for the period when the employee continues to serve in that income year.

(b) The certificate shall be provided within thirty days from the expiration of that year, or if the employee leaves employment with the person withholding advance tax in that year, within thirty days from the date of leaving employment.

92. Payment from which tax is withheld finally:

(1) The following payments shall be treated as payments from which tax is withheld finally:-

(a) Dividend paid by a resident company or partnership firm,

(b) Rent paid for the land or building and fixtures and equipment appurtenant thereto having source in Nepal to an individual other than one who is carrying on business,

(c) Profit paid by a resident person for investment insurance,

(d) Profit paid by a resident person for the interest of an unapproved retirement fund,

(e) The following interest paid by a bank, financial institution or other entity issuing bonds or a company enlisted under prevailing law or cooperative organization mentioned in sub-section (3) of Section 88:-

(1) Payment made to an individual having source in Nepal and not related to operation of business,

(2) Payment made to an organization entitled to enjoy exemption pursuant to clause (s) of Section 2.

(f) Payment subject to tax withholding made to a non-resident person pursuant to Sections 87, 88, 88A. or 89,

(g) All kinds of retirement payment, including that paid by the Government of Nepal or an approved retirement fund or unapproved retirement fund (except regularly paid pension),

(h) Meeting allowance of up to twenty thousand rupees per meeting, payment for teaching each time, payment for preparing question papers or checking answer sheets,

(i) Payment for a windfall gain,

(i) Amount of consideration distributed to individuals from a mutual fund,

(Ja1) In the case of a resident natural person and a non-resident person who are not required to submit an income statement under Section 95A(2) and (5): gain, and payments in foreign currency as referred to in Sub-sections (6b), (6c) and (6d), and service payments as referred to in Sub-section (6e),

(Ja2) Service fees or commission paid by a resident natural person to an insurance agent,

(k) Payment for rent of a motor vehicle or carrier vehicle or carriage service of an individual other than a private firm.

(2) If the person withholding advance tax or the person subject to tax withholding pays to the Department the amount of tax withheld from the payment from which tax is withheld finally pursuant to Sections 87, 88, 88A. or 89 or the amount of tax deemed to have been withheld pursuant to sub-section (3) of Section 90, the person referred to in clause (c) of Section 3 shall be deemed to have fulfilled the tax liability.

93. Adjustment facility and inclusion of tax not to be withheld finally:

(1) If any tax is withheld from any payment for the purposes of computing the amount of such payment, such tax-withheld amount shall be treated as a portion of that payment.

(2) If any tax is withheld from any payment except the payment from which tax is withheld finally, the person subject to tax withholding shall be deemed to have paid the amount of tax as follows:-

(a) The amount of tax withheld from payment pursuant to Sections 87, 88 or 89,

(b) If the person withholding advance tax or the person subject to tax withholding pays to the Department the amount referred to in sub-section (3) of Section 90 or the amount of tax deemed to have been withheld from payment, such amount.

(3) The person subject to tax withholding may make a claim for adjustment of the amount referred to in sub-section (2) only against the amount of tax payable in the income year in which that payment is made.

Chapter-18 Installment and Advance Tax

94. Payment of tax in installments:

(1) A person who has or will have assessable income from any business or investment in any income year shall pay tax in three installments as follows:-

Date on which payment is to be made	**Amount to be paid**
By the end of Poush (mid-January)	Amount remaining from forty percent of the estimated tax, after deducting tax already paid
By the end of Chaitra (mid-April)	Amount remaining from seventy percent of the estimated tax, after deducting tax already paid
By the end of Ashad (mid-July)	Amount remaining from one hundred percent of the estimated tax, after deducting tax already paid

Explanation: For the purposes of this sub-section,-

(a) "Estimated tax" means the estimated tax in installment computed by any person liable to pay tax in installments pursuant to Section 95 at the time when the installment tax is to be paid in any year.

(b) "Tax remaining to be paid" means the amount found to be insufficient upon subtracting the following aggregate sum from the amount as specified by the percentage for installment payment of the estimated tax in this sub-section:-

(1) The amount of tax deposited in that income year by a prior installment before the date on which the installment in question is to be paid,

(2) The amount of tax withheld from payments to be included in computing the income of any person in any income year pursuant to Chapter-17 before the date on which the installment in question is to be paid in that year,

(3) If the person withholding advance tax or the person subject to tax withholding pays to the Department the amount of tax deemed to have been withheld from the payment referred to in clause (2) pursuant to sub-section (3) of Section 90 in that year, before the date on which the installment is to be paid, such amount of tax, and

(4) The amount of tax adjustment for approved medical treatment expenses which that person may claim pursuant to Section 51 in respect of approved medical treatment expenses incurred by that person before the date on which the installment is to be paid.

(1a) The person paying tax on the basis of transaction shall pay tax in two installments as follows:-

Date on which payment is to be made	**Amount of tax to be paid**
By the end of Poush (mid-January)	Tax at the prescribed rate on the transaction up to the 20th of Poush (4 January)
By the end of Ashad (mid-July)	Tax amount to be set by subtracting the tax paid up to the end of Poush (mid-January) from the amount of tax calculated at the prescribed rate, after estimating the transaction to be carried out by the end of Ashad (mid-July) on the basis of actual transactions up to the 20th of Ashad (4 July)

(2) Notwithstanding anything contained in sub-section (1), if the total amount of installments to be paid pursuant to that sub-section is less than seven thousand five hundred rupees, the amount of such installment need not be paid.

(2a) Notwithstanding anything contained in this Section, the advance tax payable pursuant to Section 95A in respect of income from the disposal of non-business taxable assets shall not be required to be paid in installment form.

(3) The person paying tax in installments shall be allowed to deduct the amount of tax paid in any income year by way of installments pursuant to this Section from the tax chargeable in that year.

95. Return of estimated tax to be paid:

(1) Each person who has to pay tax in installments in any income year shall submit to the Department a return, in such format and manner as may be prescribed by the Department, setting out estimates of the following amounts of that person for that year, within the date on which the first installment of tax is to be paid in that year pursuant to Section 94:-

(a) Assessable income that could be earned by that person from each source of employment, business and investment in that year, and the source of such income,

(b) Taxable income of that person that could be earned in that year and the amount of tax to be paid by the person referred to in clause (a) of Section 3, computed pursuant to Section 4 without subtracting the amount of tax adjustment for medical treatment expenses,

(c) In respect of a non-resident person's foreign permanent establishment situated in Nepal, the amount of income sent abroad by such foreign establishment in that year and the amount of tax to be paid by the person referred to in clause (b) of Section 3, computed pursuant to sub-section (5) of Section 4 in respect of that income, and

(d) Any other details as specified by the Department.

(2) The sum total of the tax amounts mentioned in clauses (b) and (c) of sub-section (1) shall be the estimated tax payable by the person referred to in sub-section (1) in that income year.

(3) In computing the foreign tax adjustment amount to be claimed pursuant to Section 71 in order to estimate the tax to be paid in any income year pursuant to clause (b) of sub-section (1), only the foreign tax paid by any person in that year or the foreign income tax estimated by that person as payable in that year shall be computed.

(4) Unless any person paying installment of tax submits to the Department an amended estimate in the format referred to in sub-section (1) setting out the necessary information and the reasons for amendment, the estimate made by that person pursuant to that sub-section shall remain in force throughout the income year.

(5) Notwithstanding anything contained in sub-section (2), the amended estimate submitted by any person pursuant to sub-section (4) shall be applicable only in computing the installment of tax to be paid pursuant to Section 94 in that income year after the date of its submission to the Department.

(6) Notwithstanding anything contained in sub-sections (1) and (5), the Department may so specify that any person or class who has to pay installment of tax is not required to submit an estimate pursuant to sub-section (1).

(7) Notwithstanding anything contained in sub-section (2), if any person who has to pay installment of tax does not submit an estimate in any income year pursuant to sub-section (1) or the Department

is not satisfied with the submitted estimate or amended estimate, ... the Department may do as follows:-

(a) The person referred to in clause (a) or (b) of Section 3 may make an estimate of the estimated tax to be paid by that person in that year on the basis of the tax required to be paid by that person in the last income year, and

(b) If the Department is not satisfied with the estimate prepared pursuant to clause (a), the Department shall give a written notice to the person who has to pay installment, setting out the method used in preparing the estimate and the reasons for not being satisfied with the estimate submitted by the person.

(8) If the Department gives a notice to the person who has to pay installment of tax pursuant to sub-section (7), the amount of estimated tax to be paid by that person in that year shall be the amount estimated by the Department.

95A. Collection of advance tax:

(1) The entity operating commodity future market service shall collect advance tax at the rate of ten percent on the profit and benefit earned by a person trading under the commodity future market from such business.

(2) If any person other than a resident entity registered under the prevailing law carrying on transactions for the purchase and sale of securities derives benefit from the disposal of interest in any resident entity, advance tax shall be collected on such benefit computed pursuant to Section 37, as follows:-

(a) In the case of benefit derived from the disposal of interest in an entity enlisted in the Securities Board of Nepal, by the entity operating the securities exchange market, at the rate ofseven and half percent of the profit amount for a resident individual who has held the interest for more than three hundred sixty-five days, ten percent for a resident individual who has held the interest for three hundred sixty-five days or less, ten percent of the profit for a resident entity, and twenty-five percent for others,

(b) In the case of benefit derived from the disposal of interest in an entity not enlisted in the Securities Board of Nepal, by the entity in which the interest has been disposed, at the rate of ten percent of the profit for a resident individual, fifteen percent of the profit for a resident entity, and twenty-five percent for others.

(2a) In computing the benefit pursuant to clause (a) of sub-section (2), it shall be computed on the basis of the weighted average cost of the interest owned by that person in the entity of which the interest is to be disposed on that date.

(3) While recording the share in the Company Registrar's Office upon disposal of interest pursuant to clause (b) of sub-section (2), it shall record the same only after the submission of evidence of advance tax payment on the profit amount.

(4) ......

(5) The registering authority shall collect advance tax as follows at the time of registration on capital gain earned from the disposal of land or a private building by any individual:-

(a) If the disposed non-business taxable asset (land and building) has been in ownership for five years or more, at the rate of seven and half percent, (a1) In the case of a non-business taxable asset (land and building) compulsorily disposed of due to acquisition of land belonging to a natural person by the Government of Nepal, at the rate of two and one-half percent (2.5%),

(b) If the disposed non-business taxable asset (land and building) has been in ownership for less than five years, at the rate of ten percent.

(5A) Notwithstanding anything contained in Sub-section (5), where a natural person transfers, free of charge, land or a private building owned by him/her to the Government of Nepal, a Provincial Government, or a Local Level, no capital gain shall be deemed to arise from such disposal of the land or private building.

(6) If any land or building owned by any other person except as mentioned in sub-section (5) is disposed, the registering authority shall collect advance tax at the rate of one and half percent of the value of disposal at the time of registration.

(6a) A resident bank or financial institution providing the facility of foreign currency exchange to students going abroad for study, for language examination fees or standardised test fees, shall collect advance tax at the rate of fifteen percent of the amount of such examination fees at the time of providing such foreign currency exchange facility.

(6b) If a resident individual not involved in the operation of a business receives payment in foreign currency for providing software or other similar electronic services outside Nepal, the concerned bank, financial institution or money transfer institution shall collect advance tax at the rate of five percent of the amount received at the time of making such payment.

(6c) If a resident individual not involved in the operation of a business receives payment in foreign currency for personally providing consultancy services outside Nepal, the concerned bank, financial institution or money transfer institution shall collect advance tax at the rate of five percent of the amount received at the time of making such payment.

(6d) If a resident individual not involved in the operation of a business receives payment in foreign currency for uploading audio-visual content on social networks, the concerned bank, financial institution or money transfer institution shall collect advance tax at the rate of five percent of the amount received at the time of making such payment.

(6e) A resident electronic commerce operator (e-commerce operator) shall collect advance tax at the rate of one percent at the time of making payment of the amount for the sale of goods, services or goods and services to a person providing goods, services or goods and services through its platform.

(6f) A resident ride-sharing service operator shall collect final tax at the rate of one percent (1%) on the amount paid for services to a natural person providing services through the operator's platform.

(7) ......

(8) Even though the person or entity responsible for collecting advance tax pursuant to sub-sections (1), (2), (5), (6), (6a), (6b), (6c), (6d) and (6e) does not collect it, the tax shall be deemed to have been collected at the time required for such collection.

(9) The person responsible for collecting advance tax shall submit details to the Department in the mode and format prescribed by the Department within twenty-five days of the expiration of each month.

(10) The amount collected as advance tax or the amount deemed to have been collected pursuant to sub-section (8) shall be paid to the Department within the time-limit mentioned in sub-section (9), together with the details referred to in sub-section (9).

(11) The person required to deposit advance tax and the person responsible for collecting advance tax shall both be jointly and severally responsible for depositing such amount in the Department in the following circumstances:-

(a) If the person responsible for collecting advance tax does not collect the tax, and

(b) If the person responsible for collecting advance tax does not deposit the amount deemed to have been collected pursuant to sub-section (8) in the Department pursuant to sub-section (10).

(12) The person required to deposit advance tax pursuant to sub-section (11) shall deposit such tax within twenty-five days of the expiration of the date referred to in sub-section (9).

(13) If the person responsible for collecting advance tax deposits in the Department the advance tax not collected, pursuant to sub-section (10), that person may recover the amount equal to the tax so deposited from the person required to deposit such tax.

(14) The person required to deposit tax shall be allowed to deduct the advance tax deposited pursuant to this Section from the annual tax liability.

(15) If the Department is satisfied that the person responsible for collecting and depositing advance tax pursuant to this Section has not collected, deposited, or has deposited short, or has not deposited within the prescribed time, it may issue an order to deposit the amount not deposited or short-deposited together with the interest referred to in Section 119 and, in the case of failure to collect advance tax, the charge referred to in Section 120.

Provided that prior to issuing such an order, a written notice shall be given setting out an appropriate reason, with a time-limit of fifteen days to submit evidence in defence in respect of such order.

Chapter-19 Income Return and Assessment of Tax

96. Income return:

(1) Each person shall, within three months of the expiration of an income year, and subject to Sections 97, 98 and 100, submit the income return of that year in the place specified by the Department.

(2) The income return referred to in sub-section (1) shall be as follows:-

(a) It shall be prepared in the manner and format specified by the Department, setting out the following matters:-

(1) Assessable income earned by that person from each employment, business or investment in that year and the source of such income,

(2) Taxable income of that person in that year and the tax imposable on the person referred to in clause (a) of Section 3 in respect of that income,

(3) Income sent abroad in that income year by a non-resident person's foreign permanent establishment situated in Nepal and the tax imposable on that income,

(4) ......,

(5) ......,

(6) Such other information and details as specified by the Department.

(b) The income return shall be signed by that person or manager, declaring that it is true and complete, and

(c) The following matters shall be accompanied with the income return:-

(1) ......,

(2) Any details made available to that person pursuant to sub-section (4),

(3) ......,

(3a) If a choice has been made pursuant to sub-section (4b) of Section 4, information thereof, and

(4) Such other information and details as specified by the Department.

(3) If any person, except in the capacity of an employee, prepares or assists in preparing the income return of any other person or the documents or details to be accompanied with the income return, in lieu of any payment, such person shall certify the following matters:-

(a) Having examined the documents maintained by the other person pursuant to Section 81, and

(b) Having the circumstances in question actually reflected in the details or information.

(4) If the person required to certify the return pursuant to sub-section (3) refuses to certify, information setting out the reasons for such refusal shall be given in writing to the person whose income return was to be certified.

(5) In the following circumstances, the Department may require any person to submit the income return of an income year or any part of an income year within the time-limit mentioned in the written notice given to such person, subject to Section 100, prior to the due time-limit for submission of the income return of the income year pursuant to sub-section (1):-

(a) If that person becomes bankrupt, insolvent or is dissolved,

(b) If that person is to leave Nepal for an uncertain period of time,

(c) If that person is leaving the act being carried out in Nepal for any reason, or

(d) If the Department otherwise thinks it proper.

(6) If any person wishes to amend the income return submitted to the Department within the time-limit, that person may amend the income return within thirty days of the date of its submission in accordance with the process specified by the Department.

97. Submission of income return not required:

(1) Notwithstanding anything contained in Section 96, the following persons shall not be required to submit an income statement (tax return):

(a) A person who is not liable to pay tax and falls within the category of persons referred to in Section 3(a) during that income year.

(b) A person referred to in Section 3(c) during that income year.

(c) A resident natural person to whom Section 4(3) applies during that income year.

(d) In the case of a natural person other than a sole proprietorship owner of a vehicle who pays tax pursuant to Schedule 1, Section 1, Sub-section (13), such natural person.

(e) A person specified by the Department.

Provided that, the Department may, by written order or public notice, require such person to submit an income statement.

(2) Notwithstanding anything contained in sub-section (1), an individual having income of more than forty lakh rupees in any income year shall submit the income return pursuant to Section 96 of this Act.

(3) The individual required to submit the return pursuant to sub-section (2) shall include in the return, in addition to the income required to be included, the income gained from the business exemption benefit referred to in clause (d) of Section 5, sub-section (3) of Section 7, clause (a) of sub-section (3) of Section 8, clause (a) of sub-section (3) of Section 9 and Section 11.

Provided that it shall not be mandatory to include retirement payment, meeting allowance and interest income.

(4) From the income computed pursuant to sub-section (3), the income referred to in clause (c) of Section 3 and the income exempted from tax under Section 11 of this Act shall be deducted.

Provided that it need not be deducted where retirement payment, meeting allowance and interest income have not been included.

(5) The format of the income returns to be submitted pursuant to sub-section (2) shall be as specified by the ...... Department.

98. Extension of time-limit for submission of income return:

(1) If any person who has to submit an income return pursuant to Section 96 makes an application in writing to the Department within the time-limit for the submission of such return for an extension of the time-limit, the Department may extend the time-limit for submission of the income return if there is a reasonable cause. Information of the decision made by the Department on the application for the extension of time-limit shall be given in writing to the applicant.

(2) For the purpose of submitting the income return pursuant to sub-section (1), the Department may extend the time-limit, at one time or on several occasions, for a period not exceeding three months in total.

99. Assessment of tax:

(1) If any person has submitted the income return of any income year, setting out the following amounts, on the date of submission of the return, the tax of the income return shall be deemed to have been assessed:-

- (a) The amount of tax mentioned in the income return payable by the person mentioned in clauses (a) and (b) of Section 3 in that income year, and
- (b) The amount of tax mentioned in the income return remaining due and payable in that year.

(2) If any person does not submit the income return of any income year, tax shall be deemed to have been assessed as follows on the due date for submission of the income return until the return is submitted:-

- (a) The tax payable by that person in that year shall be deemed to equal the sum of any tax withheld from amounts received pursuant to Chapter-17 and any amount paid by that person in installments for that year pursuant to Chapter-18, and
- (b) No tax shall be deemed due and payable pursuant to tax assessment.

100. Self-assessment of tax:

(1) Section 99 shall be applicable if the income return of any income year or any part of an income year has to be submitted pursuant to sub-section (5) of Section 96.

(2) Notwithstanding anything contained in sub-section (1), in the circumstance mentioned in sub-section (5) of Section 96, the Department may, based on the amounts mentioned in sub-clauses (1), (2) and (3) of clause (a) of sub-section (2) of Section 96, assess the tax of that person for any income year or for the part of such year in a justifiable manner.

(3) The following provisions shall apply if tax is assessed pursuant to sub-section (1) or (2):-

- (a) A person whose tax is assessed for the whole income year shall not be required to submit the income return referred to in sub-section (1) of Section 96 for that income year, or
- (b) A person whose tax is assessed for a portion of any income year shall be required to submit the income return referred to in sub-section (1) of Section 96 for that income year.

(4) The amount of tax paid as per the assessment of tax for a portion of any income year may be adjusted against the tax chargeable as per the assessment of tax for the whole year.

(5) In assessing the tax pursuant to this Section, the Department shall give a time-limit of seven days for the submission of proof and evidence in defence.

101. Amended tax assessment:

(1) The Department may make an amended tax assessment in order to adjust, on reasonable grounds, the tax liability of a person whose tax has been assessed pursuant to Section 99 or 100, in accordance with the purposes of this Act.

(2) If the Department considers it proper to re-amend the amended tax assessment made pursuant to sub-section (1), it may amend it for any number of times on reasonable grounds.

(3) The Department shall complete the assessment of tax pursuant to sub-section (1) or (2) within four years from the following date:-

(a) If tax is assessed pursuant to Section 99, the due date for the submission of income return,

(b) If tax is assessed pursuant to sub-section (2) of Section 100, the date on which the tax assessment notice is given to the person whose tax is assessed pursuant to Section 102,

(c) If tax is assessed pursuant to sub-section (1) or (2), the date mentioned in clause (a) or (b) related with the previous tax assessment that has been amended pursuant to sub-section (1).

(4) Notwithstanding anything contained in sub-section (3), if the tax of any person has been assessed in a wrong manner due to fraud, the Department may amend such tax assessment at any time. Such amendment shall be completed within one year of receipt of information that details have been given or tax assessed fraudulently.

(5) Notwithstanding anything contained in sub-section (3), if the tax assessment is amended or the assessed tax is reduced by the Revenue Tribunal or other competent courts, the Department shall not be able to amend such tax assessment to that extent.

Provided that if an order has been issued to re-examine the matter, it shall not be deemed to bar the making of an amendment.

(6) In making an amendment to the tax assessment pursuant to this Section, the Department shall give that person a written notice clearly setting out the grounds for such amendment and a time-limit of fifteen days for the submission of proof and evidence in defence on such tax assessment.

101A. Tax assessment on property of undisclosed source:

(1) If a reference is received by the Department on the assessment of tax in relation to any person's property of undisclosed source pursuant to Section 28 of the Asset (Money Laundering) Prevention Act, 2064 (2008), the Department shall, subject to that Section, examine whether or not a tax-related offence has been committed.

(2) If no tax-related offence is found upon examination pursuant to sub-section (1), income tax shall be recovered from that person at the maximum tax rate applicable to the income of that year.

102. Tax assessment notice:

The Department shall give the person whose tax has been assessed a written notice of the tax assessment made pursuant to sub-section (2) of Section 100 or Section 101, setting out the following matters:-

(a) The assessed tax payable and due and payable by the person mentioned in clauses (a) and (b) of Section 3 for the income year or period related to the tax assessment,

(b) The method of computation of tax in the tax assessment mentioned in clause (a),

(c) The reason why the Department has to assess the tax,

(d) The time for payment of the assessed tax due and payable, and

(e) The time, place and mode for making a petition if not satisfied with the tax assessment.

Chapter-20 Collection, Remission and Refund of Tax

103. Security for tax payable by withholding:

(1) The tax required to be withheld by a person who has to withhold advance tax pursuant to Chapter-17 shall be given preference over any payment to be made by the order of a court or as per any other law or in any other manner.

(2) The following provisions shall apply in respect of the tax withheld by a person who has to withhold advance tax pursuant to Chapter-17:-

(a) The tax withheld by such person as well as the property, if any, received for such tax shall be deemed to have been held for the Government of Nepal,

(b) The amount of tax so withheld shall not be attached to the loan or liability of such person, and

(c) If the person withholding advance tax becomes bankrupt or is dissolved, the amount of tax so withheld shall not be treated as a part of the assets so dissolved or become bankrupt; and in making distribution upon such dissolution or bankruptcy, the Department shall have the first lien over the tax withheld or over such property.

104. Lien over property:

(1) Notwithstanding anything contained in the laws in force, if any person does not pay tax on the due date for payment of tax, the lien of the Government of Nepal shall be deemed to have been created over the property of the person who is in arrear of tax.

(2) When claiming the property over which the lien is created pursuant to sub-section (1), the Department shall give that person a written notice setting out the following matters:-

(a) Description of the property claimed,

(b) Limit of the claim referred to in sub-section (3),

(c) Tax related to the claim, and

(d) Other matters, if any.

(3) When making a claim over property pursuant to sub-section (2), the claim shall be created only to the extent of the tax due and payable by such person, the interest payable in respect of such tax pursuant to Section 119 and the expenses incurred in auction sale.

(4) The claim made pursuant to sub-section (2) shall not take effect unless and until the following matters take place:-

(a) In respect of a building and land, until the Department gives information to have the claim registered pursuant to sub-section (6),

(b) In respect of other tangible property, until the Department takes possession of such property pursuant to sub-section (3) of Section 105, and

(c) In any other circumstances whatsoever, until the notice referred to in sub-section (2) is given to the person who is in arrear of tax.

(5) If the person in arrear of tax pays to the Department all the amounts referred to in sub-section (3) and covered by the claim made pursuant to sub-section (2), the property so claimed shall be released.

(6) If the Department makes a claim over any land or building pursuant to sub-section (2), information shall be given to the concerned Land Revenue Office; and that Office shall withhold such land or building so that it cannot be sold and disposed of or ownership transferred to any person.

(7) If the claim over land and building has to be released pursuant to sub-section (5), the Department shall give information thereof to the Land Revenue Office. Upon receipt of such information, the Land Revenue Office shall release the withheld land and building.

(8) The Department shall promptly give the person in arrear of tax a notice setting out the following matters in respect of the expenses to be charged pursuant to sub-section (3):-

(a) The expenses incurred by the Department for the claim on the property of the person in arrear of tax and for the auction sale thereof, prior to giving such notice, and

(b) The date on which the person in arrear of tax shall pay such expenses to the Department.

Explanation: For the purposes of this Section, "expenses incurred for claim and auction sale" means the following expenses incurred or to be incurred by the Department:-

(a) The expenses incurred or to be incurred by the Department in creating or releasing the claim over the property pursuant to this Section, or

(b) The expenses incurred or to be incurred by the Department pursuant to Section 105 in possessing, holding and auctioning the claimed property.

105. Auction sale of claimed property:

(1) The Department shall give the person in arrear of tax a notice on auctioning the claimed property held by the person in arrear of tax.

(2) The notice given pursuant to sub-section (1) may be included in or attached to the notice given pursuant to sub-section (2) of Section 104. Such notice shall clearly set out the following matters and be given to the person in arrear of tax:-

(a) The claimed property and the mode and time for its auction or sale, and

(b) In respect of tangible property, the mode and place of possessing the property by the Department.

(3) After the Department has given the notice referred to in sub-section (1) or (2) to the person in arrear of tax, it may do as follows:-

(a) Take possession of the tangible property mentioned in the notice at any time,

(b) For the purpose of taking possession of the tangible property, enter any premises mentioned in the notice referred to in sub-section (1) at any time, and

(c) In respect of tangible property except land or building, keep such properties at such place as thought proper by the Department, at the expense of the person in arrear of tax.

(4) If the Department has given the notice referred to in sub-section (1) to the person in arrear of tax, it may, at the following times, publicly auction such claimed property or sell, dispose of or use such property in such manner as thought proper:-

(a) If the claimed property is land or building, after thirty days from the date of possession of such property pursuant to sub-section (3),

(b) If the claimed property is a perishable tangible property, after one day from the date of possession pursuant to sub-section (3),

(c) If the claimed property is a tangible property except those mentioned in clause (a) or (b), after ten days from the date of possession pursuant to sub-section (3), and

(d) If the claimed property is any other kind of property, after ten days from the date of possession of such property pursuant to sub-section (3).

(5) From the proceeds derived from the auction sale pursuant to sub-section (4), the expenses incurred in making the claim and auctioning the property shall first be deducted. After such expenses are deducted, the payable tax and the interest payable on the tax pursuant to Section 119 shall be deducted; and if any amount then remains, such amount shall be refunded to the person in arrear of tax.

(6) After the proceeds derived from the auction sale have been adjusted pursuant to sub-section (5), the Department shall give the person in arrear of tax a written notice setting out the process of adjustment.

(7) If, in adjusting the proceeds derived from the auction sale by following the process referred to in sub-section (5), the proceeds are not sufficient to fully pay the amounts for the expenses, tax and interest mentioned in that sub-section, the Department shall re-institute action to recover the shortfall amount pursuant to Section 104, 111 or this Section.

Explanation: For the purposes of this Section,-

(a) "Claimed property" means the property of the person in arrear of tax mentioned in sub-section (2) of Section 103 or sub-section (2) of Section 104.

(b) "Expenses incurred in making claim and auction sale" means the expenses incurred in making claim and auction sale pursuant to Section 104.

(c) "Person in arrear of tax" includes the person withholding advance tax mentioned in Sections 103 and 104.

106. Prevention from leaving Nepal:

(1) If any person does not pay tax within the time-limit due for the payment of tax, the Department may, by giving written notice to the concerned office of the Government of Nepal, issue an order to prevent such person from leaving the country for a period not exceeding 72 hours from the date of expiration of the time of issue of the notice to such person to pay tax.

(2) If it is required to extend the period mentioned in sub-section (1), the Department shall obtain prior leave of the concerned High Court.

(3) If the person referred to in sub-section (1) pays tax or the Department considers that such person has made a satisfactory arrangement for payment of tax, it may withdraw such order by giving notice to the concerned office pursuant to sub-section (1).

107. Officer employees of entity to be held responsible:

(1) If any entity does not observe anything required to be observed under this Act, each person who acts as the officer of that entity at that time shall be responsible therefor.

(2) If any entity does not pay tax on the due date for payment of tax, all officers who are incumbent in that entity at the time or were incumbent until six months prior shall be jointly and severally liable to pay that tax.

(3) Notwithstanding anything contained in sub-sections (1) and (2), those sub-sections shall not apply in the following circumstances:-

(a) Where the entity has committed such offence without the knowledge or consent of such person, and

(b) Where that person has, in order to avoid such offence, observed or exercised the same care, effort and skill which a reasonable person would observe or exercise in similar circumstances.

(4) If any person pays the tax required to be paid pursuant to sub-section (2), that person may do as follows:-

(a) Recover from that entity the amount so paid, and

(b) For the purposes of clause (a), hold under own control the property including the moneys of that entity which is in that person's possession or which may come under that person's possession, to the extent not exceeding the amount so paid.

(5) If any person holds any property under own control pursuant to clause (b) of sub-section (4), the entity or any other person shall not be entitled to make any claim against such person.

Explanation: For the purposes of this Section, "officer of any entity" means the manager of that entity or any person who acts in that capacity.

108. Recovery of tax from recipient:

(1) Each recipient shall give notice of the matter to the Department in writing within fifteen days of the date of appointment to the post of recipient or the date of having possession of the property situated in Nepal, whichever is earlier.

(2) The Department shall give the recipient a written notice of the amount to be paid by the person in arrear of tax.

(3) On receipt of the notice referred to in sub-section (2), the recipient shall do as follows:-

(a) Set aside the amount notified by the Department under sub-section (2), after making payment of the loan, if any, which is preferential to the tax payable pursuant to sub-section (2) subject to clause (c) of sub-section (2) of Section 103, from the proceeds of the sale of the required portion of the property which has come under possession of the recipient, and

(b) Pay to the Department the amount so set aside for the tax liability of the person in arrear of tax.

(4) To the extent that no amount has been set aside by the recipient pursuant to sub-section (3), it shall be the personal liability of the recipient to pay to the Department the amount equal to the tax liability payable by such person in arrear of tax.

Provided that the recipient may recover from the person in arrear of tax the amount of tax so paid.

Explanation: For the purposes of this Section,-

(a) "Recipient" means any of the following persons:-

(1) A liquidator,

(2) A person appointed from outside or by a court as a recipient in respect of any property or entity,

(3) A person possessing property by mortgage,

(4) An heir apparent, administrator or manager of the property belonging to a deceased individual, or

(5) A person looking after the affairs of an incapacitated individual.

(b) "Person in arrear of tax" means the person whose property has come under the possession of the recipient.

109. Recovery of tax from the person liable to pay amount:

(1) If a person in arrear of tax does not pay tax within the due date for payment of tax, the Department may, by giving a notice in writing, order any of the following payers to pay to the Department the amount to the extent of the tax payable on behalf of the person in arrear of tax, within the date mentioned in that notice:-

(a) The person who has to pay an amount to the person in arrear of tax,

(b) The person who holds money for or on behalf of the person in arrear of tax,

(c) The person who holds money on behalf of any third person in a manner to pay it to the person in arrear of tax, or

(d) The person who has received authority from a third party to pay the amount to the person in arrear of tax.

(2) The Department shall give a copy of the notice given to the payer pursuant to sub-section (1) to the person in arrear of tax.

(3) Notwithstanding anything contained in sub-section (1), the date mentioned in the notice referred to in that sub-section shall not be earlier than the dates mentioned in clauses (a) and (b):-

(a) The date on which the amount has to be paid to the person in arrear of tax or the date on which such amount has been held on behalf of that person, and

(b) The date on which the notice has been given pursuant to sub-section (2).

(4) The amount paid by the payer pursuant to sub-section (1) shall be deemed as paid to the person in arrear of tax. The person in arrear of tax or any other person shall not be allowed to claim such amount against the payer.

110. Recovery of tax from the agent of a non-resident person:

(1) If a non-resident person in arrear of tax does not pay tax within the due date for payment of tax, the Department may, by giving a written notice, order any person in possession of any property owned by such non-resident person in arrear of tax to pay tax, on behalf of the person in arrear of tax, from the amount equivalent to the market value of that property, in respect of the tax liability of the third person, in a sum not exceeding the amount of tax payable by such person in arrear of tax, within the date mentioned in the notice.

(2) If any person pays the amount of tax as per the order referred to in sub-section (1), that person may do as follows:-

(a) Recover the amount of such payment from the person in arrear of tax, and

(b) For the purposes of clause (a), take under own control any property whatsoever, including the money belonging to the person in arrear of tax which is or would come in that person's possession, in a sum not exceeding the amount so paid.

(3) If any person takes possession of any property pursuant to clause (b) of sub-section (2), the person in arrear of tax or any other person shall not be allowed to make any claim against such person.

110A. Recovery of arrear tax in installments:

If, prior to the institution of a case pursuant to Section 111, any person makes a written request to pay the arrear amount in installments, the tax officer may give approval to pay in installments, giving a reasonable time-limit.

110B. Responsibility of tax payment of joint venture:

The persons involved in a joint venture shall be jointly or severally responsible for payment of the tax obligation of the joint venture in which they are involved.

110C. Person receiving real consideration to be responsible for payment of tax:

If it is proved that the person receiving the real consideration of a business is different from the person registered for business, the person receiving such consideration shall be responsible for payment of tax of such business.

111. Institution of case on failure to pay tax:

The Department may file a case in the concerned District Court for the recovery of tax from the person who does not pay tax within the due time-limit for payment of tax.

112. Remission:

(1) If the tax payable by any person cannot be recovered, the Government of Nepal may remit such tax in full or in part.

(2) Notwithstanding anything contained in sub-section (1), the Government of Nepal may remit, in full or in part, the fee or interest imposed pursuant to Chapter-22.

113. Tax refund and adjustment of amount:

(1) If any person has paid tax exceeding the tax liability payable by that person, the Department may give direction to subtract the excess amount of tax paid from the amount of tax payable by that person pursuant to this Act. The Department shall refund the excess amount resulting from such subtraction to the concerned person.

(2) If the tax in relation to which any person has paid interest pursuant to Section 119 is not required to be paid, the Department shall refund such interest to that person.

(3) If any person makes an application to the Department, as prescribed, for the refund of the amount pursuant to sub-section (1), the Department shall refund such amount within sixty days of the date on which the application was made.

(4) The person who makes an application pursuant to sub-section (3) shall do so within two years from the latest of the following dates. If an application is not made within that time-limit, the amount referred to in sub-section (1) shall not be refunded:-

(a) The date of expiration of the income year to which the excess payment relates,

(b) The date on which the excess amount is paid, or

(c) The date on which the case is decided.

(5) The Department shall give a written notice of the decision made by it on the application made pursuant to sub-section (3).

(6) When refunding any amount of tax to any person by virtue of the order of a court or any other reason, the Department shall pay to such person interest at the normal rate for the following period:-

(a) If such tax refund is related to the excess tax adjustment available to any person in any income year pursuant to Section 93, 94 or 100, the period between the due date for submission of the income return pursuant to Section 96 and the date of tax refund, and

(b) In any other case, the period between the date of payment by such person of the refundable tax and the date of tax refund.

(7) Tax deduction that can be claimed pursuant to Section 51 or 71 in any year shall not be adjusted, and such tax deduction shall not be adjusted in amounts or refunded pursuant to this sub-section.

Provided that the tax deduction adjustment may be made in that year in accordance with the provisions of sub-section (2) of Section 4, sub-section (4) of Section 51 and sub-section (3) of Section 71.

(8) ......

Chapter-21 Review and Appeal

114. Decisions subject to administrative review and procedures therefore:

(1) For the purposes of this Act, the following decisions may be subject to administrative review:-

(a) Advance ruling issued by the Department pursuant to Section 76,

(a1) Decision or order made pursuant to sub-section (8) of Section 90,

(b) Estimate made by the Department on, or decision made by it to estimate, the estimated tax payable by any person pursuant to sub-section (7) of Section 95,

(c) Decision made by the Department to order any person to submit the income return pursuant to sub-section (5) of Section 96 or Section 97,

(d) Decision made by the Department on any application made by any person for the extension of the time-limit for submission of the income return pursuant to Section 98,

(e) Assessment of tax payable by any person for any income year pursuant to Section 100 or 101, or assessment of auction expenses referred to in sub-section (5) of Section 105, or assessment of fees and interest payable by any person pursuant to Section 122,

(f) Notice given by the Department requiring any recipient to set aside amounts receivable pursuant to sub-section (2) of Section 108,

(g) Decision made by the Department to order any person holding moneys payable to the person in arrear of tax to pay the same to the Department pursuant to sub-section (1) of Section 109,

(h) Decision made by the Department to order any person to pay tax of any person due and payable on behalf of a non-resident person pursuant to sub-section (1) of Section 110,

(i) Decision made by the Department on any application made by any person for the refund of tax pursuant to sub-section (5) of Section 113, and

(j) Decision made by the Department on any application made by any person for the extension of the time-limit for filing a complaint pursuant to sub-section (3) of Section 115.

(2) Notwithstanding any decision made by the Department on the matters mentioned in clauses (d), (i) and (j) of sub-section (1), if the Department does not give notice of the decision to the applicant within thirty days after the making of the application pursuant to Section 98, sub-section (3) of Section 113 or sub-section (3) of Section 115, the decision may be subject to administrative review as if it were a decision to reject the application.

(3) If the applicant does receive a notice of decision within the time-limit referred to in sub-section (2) and registers information thereof with the Department, the decision made by the Department to reject the application mentioned in that sub-section and notice thereof shall be deemed to have been served on that person on that date.

115. Application for administrative review:

(1) A person who is not satisfied with any decision subject to administrative review referred to in Section 114 may make an application to the Department against the decision within thirty days of the date of receipt of notice of that decision.

(2) The application to be made pursuant to sub-section (1) shall clearly set out the reasons and grounds for such review.

(3) If the time-limit for making an application pursuant to sub-section (1) expires and any person makes an application for an extension of the time-limit within seven days from the date of expiration, the Department may do as follows:-

(a) Extend the time-limit for a period not exceeding thirty days from the date of expiration of the time-limit for making the application pursuant to sub-section (1), where there is a reasonable cause, and

(b) Give the applicant a written notice of the decision made by the Department on the application.

(4) The making of an application pursuant to sub-section (1) shall not be deemed to affect the implementation of the decision mentioned in sub-section (1) of Section 114.

(5) Notwithstanding anything contained in sub-section (4), the Department may postpone or otherwise affect the decision made pursuant to sub-section (1) of Section 114 pending the settlement of the application made by any person pursuant to sub-section (1).

(6) A person who makes an application pursuant to sub-section (1) shall pay the total amount of undisputed tax and one-fourth of the disputed tax out of the assessed tax amount.

(7) The Department may do as follows on an application made by any person pursuant to sub-section (1):-

(a) Accept or reject, fully or partly, the matters mentioned in the application, and

(b) Give the applicant a written notice of the decision on the application.

(8) If the Department fails to give the applicant notice of a decision on the application within sixty days of the date on which the application was made pursuant to sub-section (1), the applicant may make an appeal to the Revenue Tribunal pursuant to Section 116.

(9) If an appeal is made pursuant to sub-section (8), such person shall give written information to the Department, enclosing a copy of the appeal, within fifteen days of the date on which the appeal was filed.

116. Appeal to the Revenue Tribunal:

(1) A person who is not satisfied with any decision made by the Department pursuant to Section 115 may make an appeal to the Revenue Tribunal under the Revenue Tribunal Act, 2031 (1974).

(2) A person who makes an appeal pursuant to sub-section (1) shall register a copy of the appeal with the Department within fifteen days of the date of filing the appeal.

(3) The making of an appeal pursuant to sub-section (1) shall not be deemed to affect the implementation of the decision mentioned in sub-section (1) of Section 114.

(4) Notwithstanding anything contained in sub-section (1) of Section 114, if the Director General has made a decision subject to administrative review as mentioned in that sub-section, an appeal may be made to the Revenue Tribunal.

(5) Upon filing an appeal to the Revenue Tribunal pursuant to sub-section (1), the undisputed amount of the assessed tax shall be submitted and fifty percent of the disputed tax amount, charge and fine, or a bank guarantee of such amount, shall be provided.

(6) In computing the deposit amount or bank guarantee pursuant to sub-section (5), the twenty-five percent of the tax amount submitted to the Department for administrative review shall also be included.

(7) The bank voucher deposited in the deposit account at the Office of the Comptroller and Accountant General in the name of the concerned office pursuant to sub-section (5), or the bank guarantee letter equal to such amount, shall be submitted together with the appeal.

Chapter-22 Fees and Interest

117. Fees to be charged in event of failure to maintain documents or to submit return or income return:

(1) If any person does not submit the following details, the following charge shall be imposed on that person:-

(a) If the return of any income year has not been submitted pursuant to sub-section (1) of Section 95, five thousand rupees or 0.01 percent of the assessable income amount mentioned in the return, whichever is higher,

(b) If any person required to collect advance tax has not submitted the details pursuant to sub-section (9) of Section 95A, such person shall be imposed a charge of one and half percent per year of the amount of advance tax to be collected, for each month and portion of the month, from the date required to make submission until the date of actual submission,

(c) If the income return of any income year is not submitted pursuant to sub-section (1) of Section 96, for the person mentioned in sub-section (4) of Section 4, an amount at the rate of one thousand two hundred rupees per return and one hundred rupees per month for a period of less than one year; and for other persons, an amount at the rate of 0.1 percent per year of the assessable income computed without deducting any amount that can be deducted and by including any amount that has to be included, or one thousand two hundred rupees per return and one hundred rupees per month for a period of less than one year, whichever is higher, and

(d) If the income return of any income year is not submitted pursuant to sub-section (2) of Section 97, an amount at the rate of 0.1 percent per year of the assessable income after deducting the income subject to final withholding tax, or one thousand two hundred rupees per return and one hundred rupees per month for a period of less than one year, whichever is higher.

(2) If any person does not maintain the documents required to be maintained in any income year pursuant to Section 81, a charge of 0.1 percent per year of the assessable income computed without deducting any deductible amount and by including any includable amount, or one thousand rupees, whichever is higher, shall be imposed on such person for each month and portion of the month.

(3) If any person withholding tax does not submit the return referred to in sub-section (1) of Section 90, a charge of two and half percent per year of the amount of tax to be withheld shall be imposed on such person for each month and portion of the month from the due date for submission of the return until the date on which such return is submitted.

118. Interest to be charged where person paying in installments makes lesser payment than estimated tax:

(1) If, with respect to the amount of installment tax to be paid by any person in any income year under Section 94, the amount mentioned in clause (b) exceeds the amount mentioned in clause (a), interest shall be charged on such excess amount pursuant to sub-section (2):-

(a) Amount of each installment paid by such person in any income year, and

(b) The estimated amount or revised estimate amount, if correct; and, if not correct, ninety percent of the tax amount to be submitted as installment for each installment period in that income year by the person mentioned in clauses (a) and (b) of Section 3.

(2) The person referred to in sub-section (1) shall be charged interest at the general rate of interest for each month and portion of the month from the due date for payment of the installment of that year for the following period:-

(a) In the case of a person whose tax is assessed pursuant to sub-section (1) of Section 99, until the due date for submission of the income return, and

(b) In the case of a person for whom the revised tax has been assessed by the Department for the first time under Section 101 as not having been assessed pursuant to sub-section (1) of Section 99, until the date of submission of notice of such amended tax assessment under Section 102.

Explanation: For the purposes of this Section, "amount to be submitted as installment" means the installment amount computed pursuant to sub-section (5) of Section 95 for those who have not submitted a revised estimate after submitting an initial estimate, for those who have not submitted an estimate and the Department has estimated pursuant to sub-section (7) of Section 95, and for those who have submitted a revised estimate and where the Department has estimated being not satisfied with the estimate or revised estimate pursuant to sub-section (7) of Section 95.

119. Interest to be charged if tax is not paid:

(1) If any person does not pay tax on the prescribed due date for payment of tax, that person shall be charged interest at the general rate of interest for each month and portion of the month, on the amount remaining due and payable, for the entire period during which tax is so due and payable.

(2) For the purpose of computing the interest to be charged pursuant to sub-section (1), interest shall not be exempted for the extended time-limit given pursuant to Section 98.

(3) The person responsible for collecting advance tax who has not complied with sub-section (8) of Section 95A, or the person withholding tax who has not complied with sub-section (4) of Section 90, shall not be allowed to recover the interest payable by that person from the person required to make advance tax payment or the person subject to tax withholding.

(4) If tax is not paid within the time-limit given pursuant to Section 110A, such person shall be liable to pay an additional interest of five percent per annum on the outstanding tax.

119A. Charge to be imposed:

(1) If a taxpayer who has obtained approval to issue invoices electronically pursuant to sub-section (4) of Section 81, or one who has not obtained such approval, is found to be using software that can delete or alter data, a charge of five hundred thousand rupees shall be imposed.

(2) If a person who manufactures, installs or operates software or a device for issuing electronic invoices pursuant to sub-section (4) of Section 81 does not comply with the working procedure issued by the Department, a charge of five hundred thousand rupees shall be imposed.

(3) If Section 81A is violated, a charge of five thousand rupees or two percent of the total amount, whichever is higher, shall be imposed for each instance of monitoring.

(4) Except as otherwise provided in this Act, a charge of five thousand to twenty-five thousand rupees shall be imposed on a person who does not comply with any provision of this Act or the Rules framed under this Act.

120. Charge to be imposed on the person who submits a false or misleading statement:

If any person submits to the Department a false or misleading statement on any matter, or the information mentioned in the statement becomes misleading as a result of concealing or removing information of any matter or thing required to be submitted, the following charge shall be imposed on such person:-

(a) If it has become false or misleading not knowingly or recklessly but by mistake, fifty percent of the amount of tax less resulted therefrom.

(b) If it has become false or misleading knowingly or recklessly, one hundred percent of the amount of tax less resulted therefrom.

Explanation: For the purposes of this Section, "statement submitted to the Department" means any statement submitted in writing to the Department or to the officer authorized by the Department in the course of performing duties pursuant to this Act, and includes the following:-

(a) Application, notice, description, complaint, deposition, or other document submitted, prepared, given or furnished pursuant to this Act,

(b) Document submitted to the Department or any officer of the Department except under this Act,

(c) Reply to any question asked by the Department or any officer to any person, or

(d) Information given by any person who has reasonable knowledge of the matter to be informed, to the Department or any officer through any other person.

121. Charge to be imposed on accomplice:

An accomplice who knowingly or recklessly aids, abets or advises any offender referred to in this Act in committing any offence mentioned in this Act shall be charged a sum equal to one hundred percent of the tax less paid by such person.

122. Assessment of fee and interest:

(1) The Department shall assess the fee and interest required to be paid by any person pursuant to this Chapter.

(2) In computing the liability for fee and interest chargeable where any particular act has not been performed or chargeable in respect of any statement pursuant to this Chapter, it shall be computed separately in the case of each Section of this Chapter.

(3) The fee and interest chargeable pursuant to this Section shall be added to any other tax, if any, payable pursuant to this Act; and mere payment of such fee and interest shall not be deemed to release any person from the liability related to criminal proceedings mentioned in Chapter-23.

(4) If the fee and interest have been assessed pursuant to this Section, the Department shall give that person a written notice of the assessment setting out the following matters. Such notice may be attached to and sent along with the notice issued pursuant to Section 102:-

(a) The reasons why the Department has to assess the fee and interest,

(b) The amount of fee and interest payable,

(c) The method by which the amount has been computed, and

(d) The time, place and mode for making a complaint against the assessment.

(5) It shall be as follows in assessing the fee and interest pursuant to this Section:-

(a) The matters contained in sub-section (1), sub-section (2), clause (b) of sub-section (3), sub-sections (4) and (5) of Section 101 shall also apply in assessing the fee and interest pursuant to this Section, and

(b) The matters contained in clauses (b) and (c) of sub-section (3), sub-sections (4) and (5) of Section 101, and Section 102 shall also apply in the case of sub-section (4) of this Section.

Chapter-23 Offences and Punishment

123. Punishment to one who does not pay tax:

A person who does not pay tax by the due date for payment of tax without any reasonable cause shall be punished with a fine of a sum from five thousand rupees to thirty thousand rupees, or with imprisonment for a term from one month to three months, or with both punishments.

124. Punishment to one who submits a false or misleading statement:

If any information or statement submitted by any person to the Department is false or misleading because of submission with intention or recklessness, or that information becomes misleading since such person has not mentioned or has removed information of any particular matter or thing from the statement, such person shall be punished with a fine of a sum from forty thousand rupees to one hundred sixty thousand rupees, or with imprisonment for a term from six months to two years, or with both punishments.

Explanation: For the purposes of this Section, "any information or statement submitted to the Department" means any statement submitted in writing to the Department or the officer authorized by the Department in the course of complying with the obligation under this Act, and includes the following:-

(a) Application, notice, details, complaint, statement, or other documents deposited, prepared, given or submitted pursuant to this Act,

(b) Document submitted to the Department or any officer of the Department,

(c) Answers to questions asked by the Department or any officer to any person, or

(d) Information provided by any person who has reasonable knowledge of the matter to the Department or any officer through any other person.

125. Punishment to one who obstructs or unduly influences tax administration:

(1) Any person who commits the following acts shall be punished with a fine of a sum from five thousand rupees to twenty thousand rupees, or with imprisonment for a term from one month to three months, or with both punishments:-

(a) Obstructing the officer of the Department in the course of carrying out duties pursuant to this Act,

(b) Not acting as per the notice referred to in Section 83, or

(c) Obstructing in any other manner the implementation of this Act.

(2) Any person who attempts to commit any act referred to in sub-section (1) shall be punished with half the punishment mentioned in that sub-section.

126. Punishment in the event of commission of offence by a person with or without authority:

(1) Any authorized person who violates Section 84 shall be punished with a fine of a sum not exceeding eighty thousand rupees, or with imprisonment for a term not exceeding one year, or with both punishments.

(2) If any person who is not authorized under this Act collects tax or any other amount in the name of tax or attempts to collect the same, such person shall be punished with a fine of a sum from eighty thousand rupees to two hundred forty thousand rupees, or with imprisonment for a term from one year to three years, or with both punishments.

127. Punishment to accomplice:

Any person who intentionally aids or abets or advises any other person to commit any offence under this Act, or certifies a false financial or tax account, or gives wrong advice, shall be punished with half the punishment imposed on the offender.

> *Provided that* if such an accomplice is a governmental employee, that person shall be liable to punishment equal to the punishment imposed on the offender.

128. Punishment to one who does not observe the Act:

Except as otherwise provided for in this Act, any person who does not observe any provision of this Act or the rules framed under this Act shall be punished with a fine of a sum from five thousand rupees to thirty thousand rupees.

129. Power of Department to issue order to pay fine amount:

(1) Notwithstanding anything contained elsewhere in this Chapter, if any person admits in writing, before the commencement of court proceedings, that that person has committed any one or more offences mentioned in this Chapter, except the offence mentioned in Section 126, the Department may order such a person to pay the amount of fine not exceeding the amount of fine imposable for the commission of such one or more offences.

(2) In making the order referred to in sub-section (1), the Department shall set out in such order the offence committed, the amount of fine to be paid and the date for payment of the fine amount.

(3) The order made by the Department pursuant to this Section shall be final and no appeal may be made against it.

130. Government of Nepal to be plaintiff:

Cases under this Chapter shall be state cases with the Government of Nepal as plaintiff.

131. Investigation and filing of cases:

(1) The prescribed officer shall investigate cases related to offences punishable under this Chapter, and the case shall be filed in the concerned District Court within thirty-five days of the completion of such investigation.

(2) In conducting investigation pursuant to sub-section (1), the investigating officer shall seek advice and opinion of the government attorney.

Chapter-24 Miscellaneous

132. Power to obtain expert's service:

The Government of Nepal or the Department may obtain the service of the concerned expert for acts related to tax auditing; and the provision on governmental secrecy mentioned in Section 84 shall also apply to such expert.

133. Departmental action to be taken:

If the liability of a taxpayer increases or decreases because of a tax assessment made with recklessness, the Director General may institute departmental action to punish the concerned officer who has made such tax assessment or has not made the amended tax assessment within the time-limit referred to in sub-section (3) of Section 101, in accordance with the law in force relating to the service conditions of that officer.

134. Identity card of officer:

Each officer shall hold the identity card as prescribed and shall show such identity card to anyone who requests to see it in the course of carrying out duties.

135. Powers of a court of law to be vested:

For the purposes of this Act, the Department shall have the powers vested in a court under the law in force in the matters of summoning the presence of the concerned person, recording of statements, examining evidence and compelling production of documents.

136. Not to be responsible for an act done in good faith:

Notwithstanding anything contained elsewhere in this Act, no officer shall be personally responsible for any act done in good faith in carrying out duties.

136A. Provision for prize and informant's expenses:

(1) A person who provides information along with evidence that any person has evaded, or attempted to evade, all or any portion of the tax liability may be awarded a prize equal to twenty percent of the tax amount assessed on the basis of the evidence submitted by that person, from the amount of tax recovered on the basis of such information, upon the decision of the Director General.

(2) If there are more than one person entitled to the prize pursuant to sub-section (1), the prize amount shall be provided on a pro rata basis.

(3) Notwithstanding anything contained in sub-section (1), a person who gives information on revenue leakage may be provided immediately with informant's expenses of up to ten thousand rupees, pursuant to the procedures specified by the Department, on the basis of the truthfulness of the information provided.

(4) The name, surname and address of the person providing information pursuant to sub-sections (1) and (3) shall be kept confidential.

137. Power of the Government of Nepal to give order or direction:

The Government of Nepal may give necessary order or direction to the Department in order to make tax administration effective.

138. Power to frame rules:

The Government of Nepal may frame necessary rules in order to carry out the objectives of this Act.

Schedule-1 Tax Rates

(Related to Section 4)

1. In respect of a natural person:

(1) Subject to sub-sections (2), (4) and (4a) of this Schedule, tax shall be levied on the taxable income of a resident natural person in any income year at the following rates:-

(a) If taxable income from employment is up to ten lakh rupees, at the rate of one percent,

Provided that for a taxpayer registered as a sole proprietorship firm, no tax pursuant to this clause shall be levied on income from pension, pension fund and the income of a natural person contributing to a contribution-based social security fund.

(b) If taxable income exceeds ten lakh rupees but does not exceed fifteen lakh rupees, ten thousand rupees on taxable income up to ten lakh rupees pursuant to clause (a), and ten percent on taxable income exceeding ten lakh rupees,

(c) If taxable income exceeds fifteen lakh rupees but does not exceed twenty five lakh rupees, sixty thousand rupees on taxable income up to fifteen lakh rupees pursuant to clause (b), and twenty percent on taxable income exceeding fifteen lakh rupees,

(d) If taxable income exceeds twenty five lakh rupees but does not exceed forty lakh rupees, two lakh sixty thousand rupees on taxable income up to twenty five lakh rupees pursuant to clause (c), and twenty seven percent on taxable income exceeding twenty five lakh rupees, and

(e) If taxable income exceeds forty lakh rupees, an additional tax at the rate of two percentage on the rate prescribed in clause (d) shall be levied on the amount of taxable income exceeding forty lakh rupees.

(2) [Removed by the Finance Act, 2083. The rates under Sub-section (1) now apply to both a resident natural person and a resident couple.]

(3) The provision of sub-section (4) shall apply in the following circumstances:-

(a) In the case of a resident natural person or a resident couple, where income exceeds NPR 1,000,000 in any income year, and

(b) Where the net profit derived from the disposal of non-business taxable assets is included in the income and taxable income computation of such natural person or couple.

(4) Subject to sub-section (3), tax shall be levied on the following persons as follows:-

(a) Tax shall be levied at the rate specified in sub-section (1) or (2) of this Schedule on such natural person or couple, treating only the higher of the following amounts as the taxable income:-

(1) The amount resulting from subtracting the amount of such profit from the total taxable income of such natural person or couple, and

(2) Ten lakhs rupees in the case of a natural person, or a couple.

(b) Tax shall be levied on the remaining amount of such taxable income at the rate of ten percent.

Provided that

(1) If the disposed non-business taxable asset (land and building) has been in ownership for five years or more, tax shall be levied at the rate of seven and half percent,

(2) If the disposed non-business taxable asset (land and building) has been in ownership for less than five years, tax shall be levied at the rate of ten percent, and

(3) In the case of profit derived from the disposal of interest held for more than three hundred sixty-five days in an entity listed on the Securities Board of Nepal, tax shall be levied at the rate of seven and half percent, and in the case of interest held for three hundred sixty-five days or less, at the rate of ten percent.

(4a) Notwithstanding anything contained elsewhere in this Section, tax shall be levied at the rate of five percent on the income of a resident natural person not involved in the operation of a business, received pursuant to sub-sections (6b), (6c) and (6d) of Section 95A of the Act.

(5) In computing the tax pursuant to this Section, the remote area allowance as prescribed of a natural person working in a remote area as specified by the Government of Nepal, up to a maximum of fifty thousand rupees, shall be deducted from the taxable income and the tax shall be computed only on the remaining amount.

(6) Seventy-five percent of the foreign allowance of an employee working in a diplomatic mission of Nepal situated abroad shall be deducted from the taxable income and the tax shall be computed only on the remaining amount pursuant to this Section.

(7) The tax amount pursuant to sub-section (4) of Section 4 of the Act shall be as follows:-

(a) For a natural person carrying on business in a Metropolitan or Sub-metropolitan Municipality area, seven thousand five hundred rupees,

(b) For a natural person carrying on business in a Municipality area, four thousand rupees, and

(c) For a natural person carrying on business in areas other than those mentioned in clauses (a) and (b), two thousand five hundred rupees.

(8) Tax shall be levied at the rate of twenty-five percent on the taxable income of a non-resident natural person in any income year.

(9) ……

(9a) Notwithstanding anything contained elsewhere in this Section, if any resident natural person has pension income, tax shall be computed on the remaining amount after deducting twenty-five percent of the amount mentioned in clause (a) of sub-section (1) for a natural person, ~~or clause (a) of sub-section (2) for a couple~~, from the taxable income.

Provided that the amount so deducted shall not exceed the prescribed limit.

(10) Notwithstanding anything contained elsewhere in this Section, if any resident natural person has a disability, tax shall be computed on the remaining amount after deducting fifty percent of the amount mentioned in clause (a) of sub-section (1) for a natural person, ~~or clause (a) of sub-section (2) for a couple,~~ from the taxable income.

(11) Notwithstanding anything contained elsewhere in this Section, if any resident natural person is a woman earning remuneration income only, ten percent rebate shall be given on the amount of tax payable by such natural person.

(12) Notwithstanding anything contained elsewhere in this Section, if any resident natural person has made an investment insurance with a resident insurance company, the annual premium paid for

such insurance or forty thousand rupees, whichever is lower, shall be deducted from the taxable income, and the tax pursuant to this Section shall be computed only on the remaining amount.

(13) Notwithstanding anything contained elsewhere in this Section, the following annual income tax shall be collected at the time of registration or renewal of a vehicle from the owner of vehicles on hire through the Traffic Management Office:-

Type of Vehicle	**Annual Tax per Vehicle (Rs.)**
(1) Car, Jeep, Van, Micro-bus	
(a) Up to 1300 c.c.	6,500
(b) 1301 to 2000 c.c.	7,000
(c) 2001 to 2900 c.c.	7,500
(d) 2901 to 4000 c.c.	9,500
(e) 4001 c.c. and above	11,000
(2) Mini-truck, Mini-bus, Water Tanker	9,500
(3) Mini Tipper	11,000
(4) Truck, Bus	12,500
(5) Dozer, Excavator, Loader, Roller, Crane and similar machinery equipment	17,500
(6) Oil Tanker, Gas Bullet, Tipper	17,500
(7) Tractor	3,500
(8) Power Tiller	3,000
(9) Auto Rickshaw, Three-Wheeler, Tempo	3,500
(10) Electric Vehicle	
(a) Up to 50 kilowatt	4,000
(b) 50 kilowatt to 125 kilowatt	5,000
(c) 125 kilowatt to 200 kilowatt	7,500
(d) Above 200 kilowatt	9,500
(11) E-Rickshaw	3,500
(12) Two Wheelers	3,000

(14) ......

(15) ......

(16) Notwithstanding anything contained elsewhere in this Section, if any resident natural person has made a health insurance with a resident insurance company, the annual premium paid for such insurance or twenty thousand rupees, whichever is lower, shall be deducted from the taxable income, and the tax pursuant to this Section shall be computed only on the remaining amount.

(16a) Notwithstanding anything contained elsewhere in this Section, if any resident natural person has made an insurance of a private building under own ownership with a resident insurance company, the annual premium paid for such insurance or ten thousand rupees, whichever is lower, shall be deducted from the taxable income, and the tax pursuant to this Section shall be computed only on the remaining amount.

(16b) Notwithstanding anything contained elsewhere in this Section, where a resident natural person has made payment of tuition fees to a resident person for the education of his or her descendant, an amount equal to twenty-five percent of the annual tuition fee paid or twenty-five thousand rupees, whichever is lower, shall be deducted from the taxable income.

(17) In computing the tax on the turnover amount pursuant to sub-section (4a) of Section 4 of the Act, the tax applicable to transactions up to thirty lakh rupees shall be the tax pursuant to sub-section (4) of Section 4 of the Act; and for the turnover amount exceeding that, the tax shall be levied at the following rates:-

(a) For a person carrying on trade in goods by adding up to three percent commission or value, including gas and cigarettes, at the rate of 0.25 percent on the turnover amount exceeding thirty lakh rupees up to fifty lakh rupees, and 0.3 percent on the turnover amount exceeding fifty lakh rupees up to one crore rupees,

(b) For a person carrying on a business other than that mentioned in clause (a), at the rate of one percent on the turnover amount exceeding thirty lakh rupees up to fifty lakh rupees, and 0.8 percent on the turnover amount exceeding fifty lakh rupees up to one crore rupees, and

(c) For a person carrying on a service business, at the rate of two percent of the turnover amount.

2. In respect of an entity:

(1) Subject to sub-sections (2), (3), (5) and (7) of this Section, tax shall be levied on the taxable income of any entity in any income year at the rate of twenty-five percent.

(2) In any income year, tax shall be levied on the taxable income of any bank, financial institution, general insurance business, entity carrying on financial transactions, or entity engaged in telecommunications and internet services, money transfer, capital market business, securities business, merchant banking business, commodity future market, securities and commodity brokerage business, or in the business of cigarettes, bidi, cigar, chewing tobacco, khaini, gutkha, paan masala, liquor or beer, or carrying on petroleum operations pursuant to the Nepal Petroleum Act, 2040, at the rate of thirty percent.

Explanation: For the purposes of petroleum operations, "taxable income" means the taxable income determined in accordance with the procedure specified in the petroleum agreement and pursuant to this Act and the Rules framed under this Act.

(3) If a cooperative institution registered pursuant to the Cooperative Act, 2074 carries on transactions other than transactions exempt from tax, tax shall be levied at the following rates:-

(a) If operating within the area of a Municipality, at the rate of five percent,

(b) If operating within the area of a Sub-metropolitan Municipality, at the rate of seven percent, and

(c) If operating within the area of a Metropolitan Municipality, at the rate of ten percent.

Provided that in the case of a cooperative institution carrying on savings and credit transactions, tax shall be levied at the following rates:-

(1) If operating within the area of a Municipality, at the rate of ten percent,

(2) If operating within the area of a Sub-metropolitan Municipality, at the rate of fifteen percent, and

(3) If operating within the area of a Metropolitan Municipality, at the rate of twenty percent.

(3a) ……

(3b) Tax shall be levied on the taxable income of a school or college registered and operated under a public trust at the rate of twenty percent.

(4) ……

(5) Tax shall be levied on the taxable income of the trust receiving or managing the property of any deceased resident person or the trust of an incapacitated resident natural person in any income year, treating such trust as a resident natural person, pursuant to sub-sections (1) and (4) of Section 1 of this Schedule.

(6) Tax shall be levied at the rate of five percent on the income remitted abroad by the foreign permanent establishment of a non-resident person situated in Nepal in any income year.

(7) Tax shall be levied at the rate of five percent on the taxable income of a non-resident person in respect of the income mentioned in Section 70 of the Act in any income year.

Provided that in the case of a non-resident person providing water transport, air transport or telecommunications services without departing from Nepal to any other foreign country, tax shall be levied at the rate of two percent.

(8) ……

Schedule-2 Determination of Depreciation Deduction

1. Classification and grouping of depreciable property:

(1) Depreciable property shall be classified as follows:-

Class	Description of Property
A	Buildings, structures and other similar constructions of a permanent nature.
B	Computers, data processing equipment, furniture, fixtures and office equipment.
C	Automobiles, buses and mini-buses.
D	Construction and mining equipment and other depreciable assets not included elsewhere, including under sub-section (3) of Section 17, sub-section (3) of Section 18 and sub-section (3) of this Schedule.
E	Intangible assets other than those mentioned in Class D.

(2) Any person shall, at the time when any depreciable property used for earning income from a business or investment comes into ownership or is first used in any income year, place it in the following groups; and such groups shall be deemed to be the groups of depreciable property of that person in that year:-

(a) Depreciable property of Class A, B, C or D under the same class as other property of the same class already under ownership or use of that person shall be placed in the same group as such other property, and

(b) In respect of depreciable property of Class E, even if the properties are of the same class, they shall be placed in separate groups.

(3) The cost incurred for the extraction of natural resources, mining operations and development related thereto, in the course of earning income from business, shall be treated as the cost of acquiring property for the business related to such income.

2. Depreciation expenses:

(1) Any person may, in any income year, deduct expenses equal to the depreciation of the property in each group computed pursuant to sub-sections (2) and (6) of this Section for the groups of depreciable property of that person.

(2) Any person shall compute the depreciation deduction of property in a group in any income year using the following formula:-

A x B

where "A" denotes the depreciation base amount of the property group at the end of that income year, and "B" denotes the depreciation rate applicable to that group pursuant to Section 3 of this Schedule.

(3) The depreciation base amount of the depreciable property of Class A, B, C or D at the end of any income year shall be computed by subtracting the amount of clause (c) from the sum of the amounts of clauses (a) and (b):

Provided that the amount after such subtraction shall not be less than zero:-

(a) The amount remaining after deducting the depreciation expenses computed pursuant to sub-sections (2) and (6) for that group from the depreciation base amount of that group at the end of the previous year,

(b) The cost added to the depreciation base amount of that group in that income year for the property added to that group during that income year, pursuant to sub-section (5) of this Schedule, and

(c) Any amount received from the disposal of any property of that group in that year.

(4) The depreciation base amount of each depreciable property of Class E at the end of any income year shall be the sum total of the following amounts:-

(a) Depreciation base amount of depreciable property in the group at the end of the previous income year, and

(b) The cost added pursuant to sub-section (5) for the property in the group in that income year.

(5) The cost incurred for any depreciable property included in any group of depreciable property of any person shall be added to the depreciation base amount of the relevant group as follows:-

(a) At the later of: the time of placement in the group pursuant to Section 1 of this Schedule, or the time at which cost for acquiring that property is incurred - whichever comes later, by computing the first value using the following formula and adding it:-

A/3 x B

For the purposes of this clause,

"A" shall have the following value for the following periods:-

(i) For the period from the beginning of the income year to the end of Poush (mid-January): three,

(ii) For the period between Magh and the end of Chaitra (mid-January to mid-April): two, and

(iii) For the period from Baisakh to the end of the income year (mid-April to mid-July): one.

"B" denotes the cost amount.

(b) The remaining portion of the cost shall be added in the income year following the income year in which the first portion was added, provided that the group has not been dissolved in the intervening period pursuant to sub-section (2) of Section 4 of this Schedule.

(6) If, after deducting the depreciation expenses computed pursuant to sub-section (2) of this Section from the depreciation base amount of the property of Class A, B, C or D groups, the remaining amount is less than two thousand rupees, the entire remaining amount shall be computed as additional depreciation expenses.

3. Rate of depreciation:

(1) Subject to sub-section (2), the applicable depreciation rate for each group mentioned in sub-section (2) of Section 2 of this Schedule shall be as follows:-

Class	**Rate**
A	5 percent
B	25 percent
C	20 percent
D	15 percent

E	Rate (in percent) computed by dividing the cost of the property at the time of purchase by the useful life of the property, rounded off to the nearest half year

(2) The projects mentioned in sub-section (2) of Section 19 of the Act, and the entities mentioned in sub-sections (2b), (3c) and (3t) of Section 11 of the Act, shall be entitled to an additional one-third of the depreciation rate applicable to the depreciable property of Classes A, B, C and D mentioned in sub-section (1) of this Schedule.

(3) Any person may, in a single year, claim as depreciation expenses fifty percent of the capital amount invested in property required for the production of energy from renewable sources for own business use.

(4) If any person keeps a fiscal printer and cash machine and issues bills and invoices thereon, the entire cost incurred on such printer and cash machine may be claimed as depreciation expenses in that year.

4. Disposal of depreciable property:

(1) In computing the income from the disposal of depreciable property used in the business or investment of any person in any income year, if the amount in clause (a) exceeds the amount in clause (b), the excess shall be included in that income:-

(a) Income received in that year from the disposal of depreciable property of any person in Class A, B, C or D groups, and

(b) The depreciation base amount of that group at the end of that year computed pursuant to sub-section (3) of Section 2 of this Schedule without including the income from disposal.

(2) If any person disposes of all the property in a group of depreciable property before the end of any income year, the group shall be deemed to have been dissolved, and it shall be as follows:-

(a) If the depreciation deduction amount computed by the following formula for the property in the group of depreciable property exceeds the depreciation base amount of the group, that person shall be deemed to have received the amount of such excess for that year:-

A - B

or

(b) If the amount computed by the following formula for the property in the group of depreciable property exceeds the depreciation base amount of the group, that person shall be entitled to remission of such excess cost amount for that year:-

B - A

Explanation: For the purposes of this Section,-

(1) "A" means the incomings received or to be received by any person from the disposal of such property in that year.

(2) "B" means the sum total of the amounts of sub-clauses (i), (ii) and (iii):-

(i) The declining balance value of the group in that year,

(ii) The outgoings for property in the group added to the depreciation base amount of the group in that year, and

(iii) The outgoings to be added to the depreciation base amount of the group in the following year pursuant to sub-section (5) of Section 2 of this Schedule.

(3) For the purposes of this Schedule, the declining balance value of a group of depreciable property in any income year means:-

- **(a)** In the case of Class A, B, C or D, the amount remaining after deducting any depreciation computed pursuant to sub-sections (2) and (6) of Section 2 of this Schedule for that year from the depreciation base amount of that group at the end of the previous income year, and
- **(b)** In the case of Class E, the amount remaining after deducting all past-year expenses allowed to be deducted pursuant to sub-section (1) of Section 2 of this Schedule from the depreciation base amount of that group at the end of the previous income year.