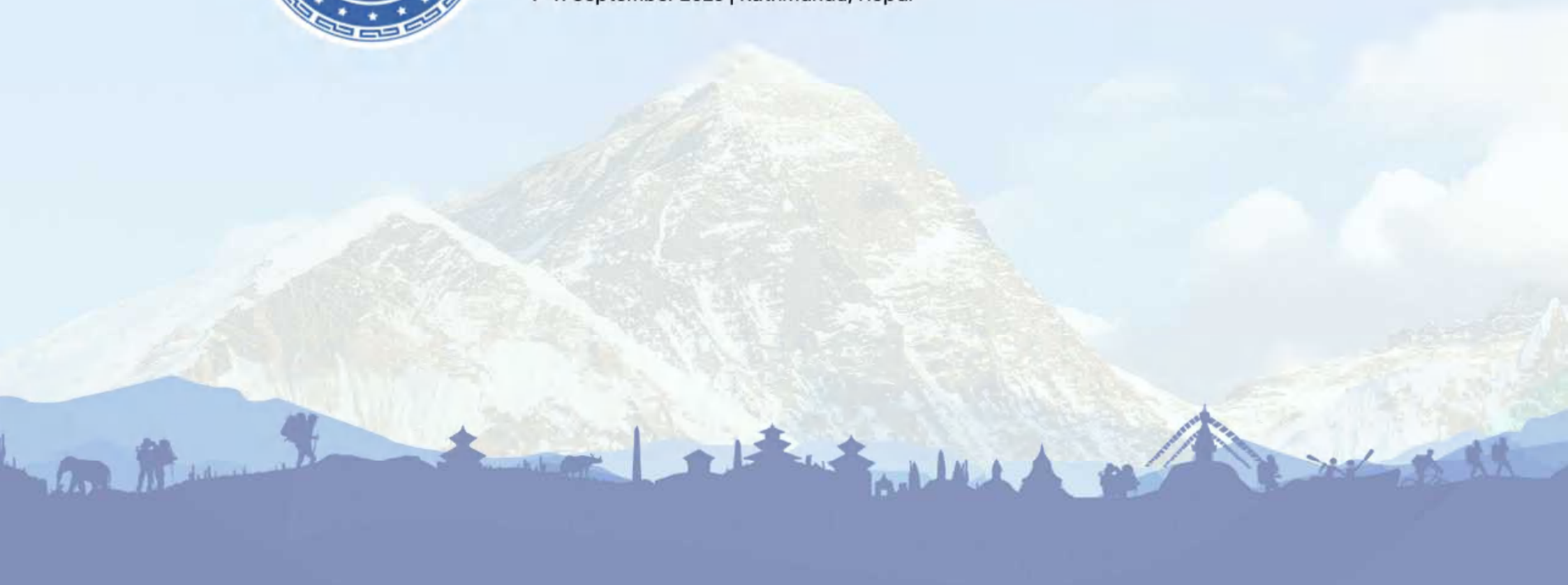




The 6th BRITACOF

Shared Progress in Taxpayer Service for a Better Business Environment

9-11 September 2025 | Kathmandu, Nepal





Tax Rule of Law Governance in Nepal:

Building a Fair, Modern and Cooperative Tax System

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Tax Rule of Law Governance

**Rule of Law: Limits of Legislation,
Transparency, Accountability and Fairness**

Tax Rule of Law Governance:

Taxes are levied only as per law,
Taxpayers' rights are protected,
Tax obligations are clear, predictable and enforceable,
Tax administration is transparent and free from undue influence

**Focus Areas: Tax Legal System, Tax Rule of Law Environment,
Deepening Tax Cooperation, Tax Policy Support**

Tax Legal System in Nepal

- Tax Legislation:

- Income Tax Act and Regulation: Self Assessment System
- Value Added Tax Act and Regulation: Destination Principle
- Excise Act: Production and Imports of Goods

- Tax Administration

- Inland Revenue Department
 - Large Taxpayer Office - 1
 - Medium Level Taxpayer Offices - 2
 - Inland Revenue Offices - 47
 - Tax Service Offices - 35

Tax Policy Guided By:

- Five Year Annual Plan
- Domestic Revenue Mobilization Strategy - DRMS
- Annual Finance Acts



Tax Legal System in Nepal

Current Status

- Revenue Growth: Increased but below potential
- Tax Base Expansion
- Digitalization Efforts:
 - Online Filing,
 - E-registration,
 - E-payment,
 - E-billing

- Major Challenges:
- Weak Enforcement and Tax Evasion
 - Complex Tax Laws
 - Frequent Change in Tax Policies

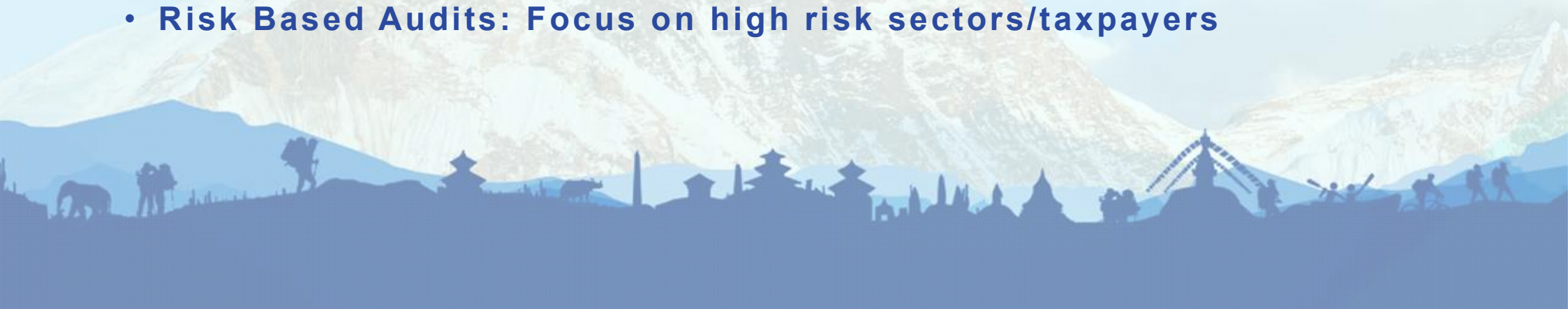
Tax Rule of Law Environment in Nepal

Improving Tax Certainty

- **Efforts to minimize frequent tax policy changes**
- **Directives, Guidelines, Circulars for clarity**
- **Advance Ruling and Guidance for tax payers on complex transactions**

Enhancing Taxpayer Compliance

- **Digitalization: Simplified Tax Procedure, digital platforms like Online Tax Filing, e-registration, e-payment....**
- **Awareness Programs: Tax Payer Education Programs**
- **Risk Based Audits: Focus on high risk sectors/taxpayers**



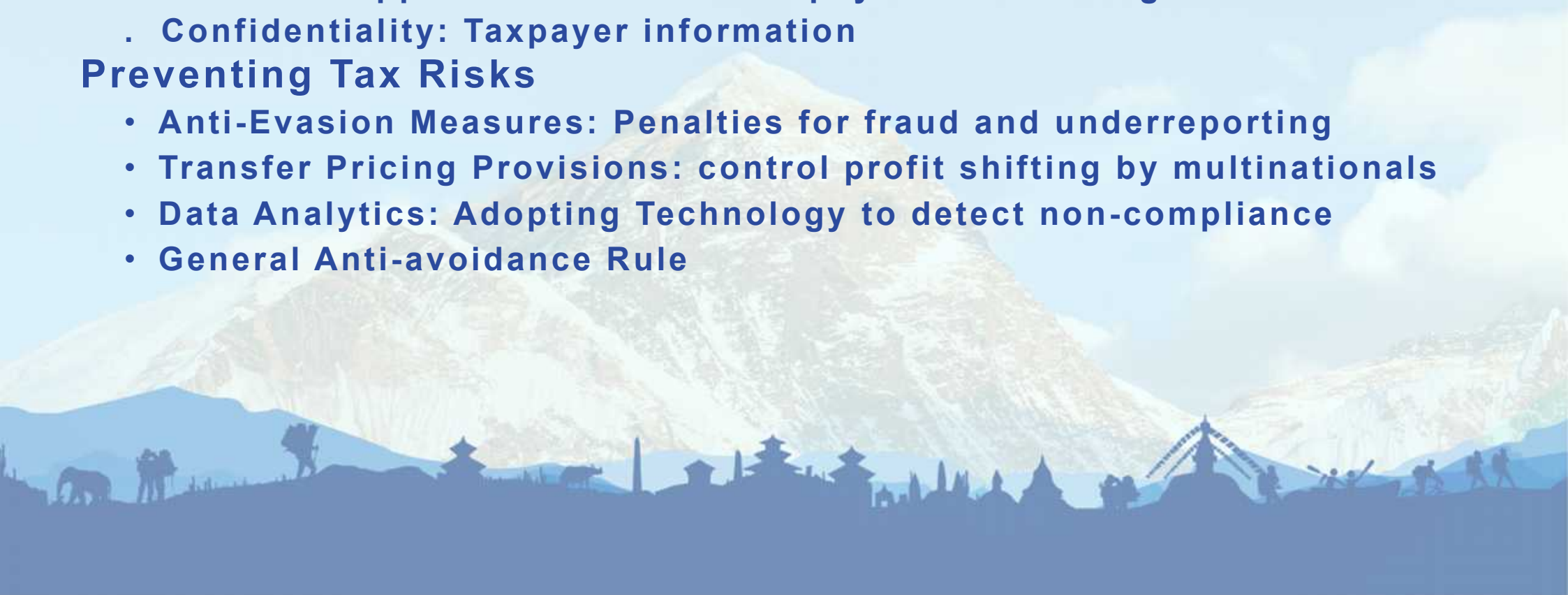
Tax Rule of Law Environment in Nepal

Safeguarding Taxpayer Rights

- **Access to appeal Mechanisms:** Taxpayer can challenge IRD decisions
- **Confidentiality:** Taxpayer information

Preventing Tax Risks

- **Anti-Evasion Measures:** Penalties for fraud and underreporting
- **Transfer Pricing Provisions:** control profit shifting by multinationals
- **Data Analytics:** Adopting Technology to detect non-compliance
- **General Anti-avoidance Rule**



Deepening Tax Cooperation in Nepal

Multilateral Tax Coordination Mechanisms

- SAARC/Regional Cooperation
- Working on building mechanism for global tax reforms
- Collaboration with int'l organizations (IMF, WB..) for capacity building

Improvement of Tax Treaties

- DTAA network expansion: DTAA with 11 countries
- Modernization of Treaties: working to make domestic model treaty
- Ongoing negotiations with key investment partners

Strengthening Tax Dispute Resolution

- Mutual Agreement Procedure (MAP)
- Plans to introduce Advance Pricing Agreements (APA) and safe harbor rule guidelines



Tax Policy Support in Nepal

Supporting the Digital Economy

- **E-commerce Taxation: Vat and Digital Service Tax on cross-boarder digital services since 2023**
- **Digital Service Providers: Requirement of foreign platforms to register and remit taxes**
- **Incentives for Technical Startup: Tax holidays and reduced Tax rate for IT/software companies**
- **Digital Payment promotion: 10 percent VAT refund**
- **Threshold of Rs. 50,000 for Cash Transaction**

Tax Policy Support in Nepal

Promoting Green Economic Development

- Tax exemptions for solar/wind energy projects
- Concession rate on IT Industries/Parks
- Concession rate on EV Production/Assemble industry
- Excise and VAT free on EV Charging Station Equipment production and assemble
- Income Tax free on Green Hydrogen Industries, Excise free on machines
- VAT free on E-riksa (three wheeler EV) production
- pollution control: High excise duty on fossil fuel vehicles



Thank you