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Procedural Guidelines for Digital Service Tax 2079:

As per the provision of Section 20 of Finance Bill 2079, Non-resident person providing any type of digital service to the consumer in Nepal, shall collect 2% of the transaction value as Digital Service Tax. Inland Revenue Department has issued the "Procedural Guidelines for Digital Service Tax 2079" for effective and simplified administration of Digital Service Tax.

Section 1 - Applicability Date:

These Guidelines will be applicable from Shrawan 01, 2079 (July 17, 2022)

Section 2 - Important Definitions

Fiscal Year – Fiscal year shall start from the 1st of Shrawan of this year to End of Ashad of next year. This normally covers a period from Mid July to Mid July.

Consumer – means a person having a normal place of residence in Nepal who consumes goods or services. However, a person who buys goods/services for commercial purpose or for the use in a business through a separate arrangement, will not be considered as consumer.

Digital Service provided to a consumer in Nepal – shall mean any type of digital service provided by the non-resident person to a consumer, if any of the following conditions are met:

1. Service is received within Nepal
2. Invoice is issued at any address in Nepal
3. Payment is made through any bank account in a bank of Nepal or through such approved payment service providers.
4. Payment is made through any debit card, credit card or such other payment mode issued by the any bank of Nepal or such approved payment service providers
5. Service is received by using the Internet Service Protocol address within Nepal.
6. Service is received using SIM card having telecommunication code of Nepal or using any landline telephone of Nepal.



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Digital Service – means the services for which information technology is essential and which are provided through self-automated internet with less human intervention and shall include the following:

1. Advertisement services.
2. Cinema, Television, Music, Over the Top (OTT), & other similar Membership based services.
3. Data collection related services.
4. Cloud services.
5. Gaming services.
6. Mobile Application related services.
7. Online market place services & those services availed through such platform.
8. Software supply & updates
9. Sale of data collected by the resident person
10. Data & image download related services.
11. Education, Consultancy, Skill development & Training services
12. E-Book, E-Library, E-magazine services
13. Other services of similar nature.

Section 3 – Basis of Calculation of Digital Service Tax (DST) and its rate:

- a. DST at 2% on the transaction value of the digital service provided by Non-resident person to a consumer in Nepal shall be applicable. Transaction value shall include the consideration received for the services excluding any indirect taxes applicable on the same in Nepal. (Indirect tax - VAT at 13% is applicable)
- b. DST is not applicable on annual turnover upto NPR 2 Million.
- c. DST is considered as direct taxes, so it shall not be separately added in the value of the services.
- d. Income tax under other provision of Income Tax Act, 2058 shall not be applicable, If DST is paid under these directive.

Section 4 – Arrangement relating to Tax Administration: This tax shall be administered by Large Tax Payer's Office (LTPO).



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Section 5 – Provisions relating to registration:

Any person liable to pay tax under these guidelines shall do business only after obtaining Permanent Account Number in Nepal. Person shall apply for obtaining the PAN number within 30 days of the transaction value exceeds the prescribed limit of NPR 2 Million. However, any person wants to register voluntarily can apply for the registration at any point of time.

Application for obtaining PAN shall be submitted electronically with requisite documents. LTPO shall provide the PAN number and registration certificate within 7 days of the application. If registration cannot be done due to any reason, then LTPO shall intimate the same to the applicant within 15 days of the application.

Section 6 – Provisions relating to accounting of transactions and submission of returns:

- a. Transaction value shall be mentioned in the Nepalese Rupees.
- b. Accounting for the purpose of tax shall be done on accrual basis.
- c. Return of the transactions shall be submitted as per the Nepalese fiscal year.
- d. Return shall be filed electronically within 3 (three) months from the end of the fiscal year.
- e. Fine at 0.1% annually of annual transaction value shall be charged if the returns are not filed within the due date.

Section 7 – Provisions relating to tax payment:

- a. Non-resident person shall pay the applicable taxes electronically as per the annual return within 3 (three months) from the end of fiscal year.
- b. If the applicable taxes are not paid within the due date, then interest at 15% annually shall be charged on due taxes.

Section 8 – Provisions relating to Tax assessment:

- a. LTPO can do the audit of transactions of Non-resident person.
- b. If a Non-resident person is found to have reduced or concealed the tax liability by declaring the less transactions than the actual transactions, then a fine of 50% of the reduced or concealed tax liability shall be levied.



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Section 9 – Provisions regarding de-registration:

A non-resident person stops doing the business in Nepal or want to de-register themselves, can apply for the same to LTPO in the prescribed format. LTPO shall deregister the person within 3 (three) months of the application. if the de-registration cannot be done because of any reason, then such reason shall be communicated.

Procedural Guidelines for Value Added tax on Digital Service provided by Non-resident Persons 2079:

Section 1 - Applicability Date:

These Guidelines will be applicable immediately.

Section 2 - Important Definitions

Consumer – Same as defined under “Procedural Guidelines for Digital Service Tax 2079”

Tax Period – Shall mean a Nepalese month (Normally starts in the middle of an English month and ends in the middle of next English month)

Transaction – Defined as “Digital Service provided to a consumer in Nepal” under “Procedural Guidelines for Digital Service Tax 2079”

Digital Service - Same as defined under “Procedural Guidelines for Digital Service Tax 2079”

Section 3 – Basis of Calculation of VAT and its rate:

- a. VAT at 13% shall be collected and deposited on the transaction value of Digital Service.
- b. A non-resident person dealing in digital service in Nepal having done turnover in excess of NPR 2 Million in previous 12 (twelve) months shall register themselves in VAT and collect VAT. Person once registered under VAT, shall collect VAT even if the threshold limit of transaction is not reached.
- c. VAT shall not be collected on digital service provided to other than a consumer in Nepal. Person other than a consumer in Nepal shall pay VAT under reverse VAT mechanism for import of services from outside Nepal, dealt separately under VAT Act.



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Section 4 – Arrangement relating to Tax Administration: This tax shall be administered by Large Tax Payer's Office.

Section 5 – Provisions relating to registration:

A non-resident person doing digital service transaction in excess of NPR 2 million in past 12 months, shall register themselves under VAT and start collecting VAT from the registration date. Application for VAT registration shall be submitted within 30 days of the date the person becomes liable to collect VAT.

A non-resident person can voluntarily register for VAT if it is estimated that the turnover would exceed NPR 2 million. VAT shall be collected from the date of registration.

Application for VAT registration shall be submitted electronically with requisite documents. LTPO shall register and provide registration certificate within 7 days of the application. If registration cannot be done due to any reason, then LTPO shall intimate the same to the applicant along with the reason.

Tax officer can impose a penalty of NPR 20,000/- for each time, if a non-resident person liable to register themselves under VAT does not register.

Section 6 – Provisions relating to accounting of transactions and invoices:

- a. Registered person can raise invoice electronically and it will not have to take approval from the department for electronic billing.
- b. Invoice shall be issued at the time of provision of services or receipt of consideration whichever is earlier.
- c. If consideration for the service is received in convertible foreign currency, then such amount should be accounted in Nepalese currency at the exchange rate published by Nepal Rastra Bank (Central Bank of Nepal) on the date of transaction.

Section 7 – Provisions relating to submission of returns:

- a. Non-resident person shall submit the return electronically within twenty-Five (25) days from the end of the tax period.



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b. Fine at 0.05% of the payable VAT on daily basis or NPR 1000/- (One Thousand) for each tax period, whichever is higher shall be levied if the VAT returns are not filed within the due date.

Section 8 – Provisions relating to tax payment:

Non-resident person shall pay the VAT electronically as per the VAT return within Twenty Five (25) days from the end of the tax period.

If due VAT is not paid within due date, then interest at 15% annually shall be levied on due VAT. Further, if the due VAT is not paid withing the due date, then additional fee at 10% shall also be levied.

Section 9 – Provisions relating to Tax assessment:

If a Non-resident person is found to have reduced or concealed the VAT liability by declaring the less transactions than the actual transactions, then a fine of 100% of the reduced or concealed VAT liability or imprisonment of Six (6) months or both can be levied.

Section 10 – Provisions for appeal:

If a Non-resident person is not satisfied with the tax assessment done by the tax officer, then the person can appeal for administrative review and further to Revenue tribunal.

Section 11 – Provisions regarding de-registration:

A non-resident person stops doing the business in Nepal or want to de-register themselves, can apply for the same in the prescribed format. De-registration cannot be done unless the whole VAT liability is paid. LTPO shall deregister the person within 3 (three) months of the application. if the de-registration cannot be done because of any reason, then such reason shall be communicated.

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