

The background of the slide is a collage of images. At the top, there are two triangular sections showing snow-capped mountains. The left one shows a mountain peak partially obscured by clouds and a tree with pink blossoms. The right one shows a clear view of a mountain peak with a tree in the foreground. Below these, a large triangular section shows construction workers in blue shirts and yellow hard hats working on a dirt path. To the left, a vertical strip shows a traditional village with wooden buildings. At the bottom, another vertical strip shows a large crowd of people in a public square.

# Nepal Budget Statement Highlights

*VRock & Company*

**FY 2078/79 (2021/22)**

## BUDGET 2078-79 (2021-22)

The Government's annual budget functions as a policy leverage to stimulate economic development by providing necessary guidance and mobilizing resources for effective governance. Full budget plan for the fiscal year 2078-79 (2021-22) was presented by Hon'ble Finance Minister, Mr. Bishnu Prasad Poudel on Saturday, 29 May 2021. Major highlights from the budget is summarised in this document.

### OBJECTIVES

- Protecting the life of citizens from the COVID 19 Pandemic.
- Optimum utilization of resources, opportunity and capacity for rapid economic development and upliftment.
- Strengthen public welfare role of Government, provide social security, and achieve prosperity with social justice.
- Development of production-oriented economy by mobilizing resources and means of public, private and cooperative Sector.

### PRIORITIES

#### Health (COVID 19)

Extension of testing, provision for treatment, supply of health equipment and materials, assurance of free vaccination, development of health infrastructure and effective mobilization of health workers to prevent, control and cure COVID 19.

#### Economic Recovery from COVID 19

Uplifting economic activities through relief packages to families affected from COVID 19 and providing incentives, subsidies, and packages economic revival to the private sector.

#### Employment Creation and Social Security

Assurance of job and employment to entrants into the labour market and labourers who have lost their jobs.

Social security and protection based on life cycle to all citizens.

#### Agriculture and Productivity

Agricultural production and productivity enhancement and assurance of food security.

#### Infrastructure Development

Investment in infrastructure or skilful and practical education. Construction of infrastructure having strategic importance which help in rapid industrialization and provide early returns.

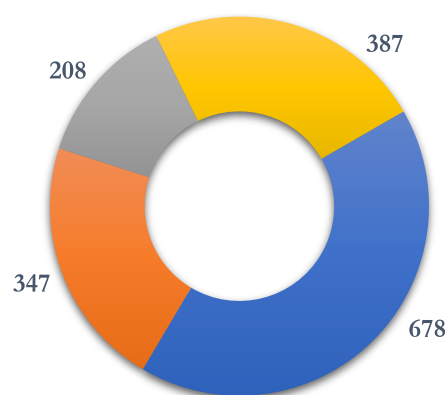
#### Sound Governance

Balanced development through coordination and cooperation between Federal, Provincial and Local level structure.

Ending all types of discrimination and inequality, equitable development, and justified access on the returns of development.

Provision of responsible governance, assurance of peace and security, corruption control, effectiveness on governance and services.

### Allocation of Budget (In billions)



- Current Expenditure
- Capital Expenditure
- Financing Provision
- Transfer Province and Local Government

### SOURCES OF BUDGET

**Budget 1,647 Billion**

Revenue  
1,025  
Billion

Budget Deficit  
559 Billion

Foreign  
Grant  
63 Billion

Foreign  
Loan  
309 Billion

Domestic  
Loan  
250 Billion



## COVID 19 Prevention, Treatment, and Control Packages

- Relief on utilities used during lockdown:

### *Electricity consumption:*

Electricity charges to households on consumption during lockdown period to be waived, as follows:

Units	Relief
Up to 20	100%
Up to 150	50%
Up to 250	30%

Production based industries, hotel and cinema industries affected by the pandemic will be provided full exemption on demand charge for electricity throughout the lockdown period. 50 percent waiver on electricity charges on oxygen generating plants.

### *Drinking Water Consumption:*

100% rebate on consumption of water up to 20,000 liter per month to be effective from current month onwards.

- Business affected by COVID 19 such as hotel, travel, trekking and similar tourism business, public transportation, airlines, cinema industry, handicraft, media house, advertising, tailoring, beauty parlour and health clubs shall be given waiver in license and renewal fees for FY 2021-22.
- Government and government owned entities shall provide 50% rebate on rental payment of land, warehouse, and building during the lockdown period.
- Refinancing facility being provided by Nepal Rastra Bank at 5% interest rate for the entrepreneurs affected by COVID 19 will be continued. The scope of business that can use this facility will be expanded along with the amount of refinancing.
- Export-oriented industries that have availed bonded warehouse facility and imported raw materials, under bank guarantee, but have not been able to export their products, can export it and release bank guarantee within the extended period of 2078 Chaitra end.
- Full exemption of Customs Duty and VAT will be given on import of machinery and equipment required for setting up of oxygen plant. Community and private hospitals will be given 50% capital subsidy on the cost of installing oxygen plants.
- Social Security Fund (SSF) contribution will be deposited by GoN for the month of Jestha and Ashadh 2078 on behalf of registered employers and regularly contributing and employees.

- For encouraging start-up businesses, facility of seed capital loan up to Rs. 2.5 million, at an interest rate of 1%, will be provided to young entrepreneurs. Similarly, for attracting foreign investment in start-up businesses, simplified policy shall be introduced. Challenge Fund of Rs. 1 billion has been established for encouraging start-up businesses.

## Health Sector

- Embracing the approach that 'health is everything', a significant chunk of the budget is dedicated to the healthcare sector.
- The total budget of the Ministry of Health and Population is of NPR 122.77 billion, which accounts for 7.45% of the total budget.
- Earmarked NPR 26.75 billion for COVID-19 vaccines
- NPR 37.53 billion has chalked out for COVID-19 control and treatment.
- A monthly allowance of NPR 12,000 will be given to female community health volunteers.

## Education Sector

- A big share of NPR 180.04 billion has been dedicated to the Ministry of Education, which is 10.93 % of the total budget, and highest amongst all sectors.
- Concessional loan up to NPR 2.5 million for undergraduate degree holders, with collateral as educational certificate, to be provided.
- Student loan, at an interest rate of 1%, for laptop purchase to be provided.

## Energy Sector

- 121.97 billion has been allocated to Ministry of Energy, Water Resources and Irrigation, which is 7.4% of the total budget.
- 1,600 MW electricity to be added to national grid through the completion of large hydropower projects.
- Priority would be given to the semi storage type and storage type hydropower construction to meet internal demand during dry season. Higher returns will be provided to storage projects with multiple benefits.
- "Ujyalo Nepal Abhiyaan" will be completed in coming year by electrification in 43 districts. Electricity connection free of charge to deprived families.
- Cross border bilateral and multilateral power trade agreement will be entered into for encouragement of investment in hydropower sector.

- Rebate will be provided to industries consuming electricity beyond the threshold limit during the time of low demand.
- Custom duty has been reduced on electric appliances such as electric cooker, refrigerator, microwave, washing machine, and similar household equipment, to encourage higher consumption of electricity by the households.
- Investment and financing models of multiple projects will be designed.
- Credit rating of Nepal Electricity Authority (NEA) will be conducted. Capacity building of NEA to receive source of funds based on corporate guarantee.
- 50,000 households not connected to the national grid will be provided electricity via micro and small hydropower, solar power, and wind power. 90 percent subsidy will be provided on such installations.
- Net metering and net payment policy will be adopted by NEA on purchase of solar power from NEA.

### ***Electric Vehicles***

This year's budget has an ambitious plan to phase out petrol-diesel vehicles and replace them with e-vehicles by the year 2031 in Nepal. Some attractive changes intended to achieve it are as follows:

- Complete eradication of excise duty on import of e-vehicles
- Cutting Customs Duty from an existing 80% down to 10%
- Renewal and Road Taxes to be waived for five years if an existing petroleum vehicle switches to battery power.

## **Financial Sector**

### ***Banking***

- Tax revenue collection and making payment for social security allowances, subsidies and other payments would be done through banking channel.
- Payment cards, retail payment systems, QR code would be made operable. Nepal's own payment card would be introduced.
- National payment switch will be established for settlement of local transactions.
- Digital and cashless economy will be made available, accessible, and secure.
- Arrangements will be made for transfer of remittance money, by migrant workers in foreign countries, via mobile wallet to local bank account.
- Remittance money received from banking channel will receive an additional 1% interest if deposited to a Fixed Deposits account in a BFIs.
- Effective implementation of national roadmap for reduction of Anti Money Laundering (AML) and Combating of Financing Terrorism (CFT).

### ***Insurance***

- Insurance services will be expanded to 1/3rd of the population (around 1/4th at current)
- Insurance Premium, up to 5,000 NPR, to insure personal house by an individual, would be allowed for deduction for calculation of income tax.
- Agriculture insurance subsidy provided by government has been reduced from 75 percent to 50 percent.

### ***Cooperatives***

- Cooperative sector to be mobilized for access to finance, social and economic empowerment, Agri subsidy mobilization and productive sector.
- Cooperative sector encouraged to provide storage, processing, packaging and marketing services for promotion of small and cottage industries. Concessional loan will be availed for co-operatives processing and storage of Agri products.
- Poverty Alleviation Fund (PAF) to be discontinued. Community groups affiliated to PAF would be converted into co-operatives.

## **Taxes**

### ***Direct Taxes***

- Considering the impact of COVID 19, rebate of 90%, 75% and 50% in income tax rate shall be provided to taxpayers having annual turnover, up to NPR 2 million, 2-5 million and 5-10 million, respectively.
- 1% rate of tax shall be applicable on total taxable income of businesses highly affected by COVID-19 including hotel, travel and trekking, transportation and aviation services, cinema industries and media houses. In addition, losses incurred by such businesses will be allowed to be carried forward for 10 years.
- Payment from funds allocated to Corporate Social Responsibility, for construction of specialized hospitals and supplies of health equipment for treatment relating to COVID 19 to Health institutions, specified by Ministry of Health and Population, can be claimed as tax deductible expenditure for FY 2077-78.
- Additional 25% concession shall be provided in the computation of taxable pension income.
- For both VAT registered and unregistered person, transaction limit for presumptive taxpayers have been increased from NPR 20 lakhs to NPR 30 lakhs. Transaction limit for turnover based taxation has been increased from NPR 50 lakhs to NPR 1 crore.
- Tax exemption has been provided to income from Mutual Funds.

- Donations made to funds established by Federal, Provincial or Local government for prevention, control and treatment of COVID- 19 can be claimed as expenditure for computation of taxable income in FY 2077-78
- 50% rebate provided to taxable income from commercial agriculture to encourage commercialization of agriculture, its production and employment generation.
- For economic resurgence after the COVID 19 pandemic, investments in manufacturing industries shall be encouraged by reviewing corporate tax rates.
- 100% tax concession is provided to start-up businesses, from the date of transaction up to 5 years from operation.
- Seed capital provided by private industries and institutions up to NPR 1 lakh each to a maximum of 5 Start-up businesses can be claimed as tax deductible expenditure.
- 20% tax concession provided to income generated from sales of locally produced raw materials and sales of ancillary raw materials to special industries.
- 10% rate of tax shall be levied on export income generated by special industries.
- Tax shall not be withheld on payment of interest in borrowings among cooperatives and cooperative banks.
- Reduction in withholding tax rate on payment of interest of borrowing from foreign banking and financial institutions by banks.
- 50% rebate shall be provided for first 3 years of operation and 25% rebate shall be provided for further 2 years to the industries that produce finished goods by way of recycling materials that directly affect the environment.
- 50% rebate shall be provided for first 3 years from production and 25% rebate shall be provided for further 5 years to industries relocating to Industrial Areas.
- refrigerator, grinder, rice-cooker, fan and other electronic equipment.
- Reduction of 50% Custom Duty on import of baby feeding milk.
- Increment in Excise Duty of liquor, beer, wine, cigarette, other tobacco related products and soft drinks.
- Provision of electronic billing system shall be made mandatory for all VAT registered taxpayers.
- Immediate refund of 10% of VAT amount shall be arranged on purchase of Goods/Services through Debit/Credit card, QR code, Scan to Pay, and through other electronic medium.
- For protection of local industries, provision has been made to ensure that Custom Duty on industrial raw material is 1 level lower as compared to finished goods.
- Exemption of Custom Duty on import of equipment and their parts used in industries for producing tea, jute, cinema, pashmina, hatchery industry and agriculture & nursery firm.
- 50% waiver of Custom Duty on import of one transport vehicle by agricultural cooperative.
- No requirement of approval of sales and purchase register from tax officer
- Renewal of Exim Code shall be provided for 5 years

#### ***Tax Amnesty***

- Companies registered under Companies Act 2063 and Private Firm Registration Act 2014, which have not submitted annual returns and have not renewed till FY 2075/76. shall be granted 90% waiver in applicable fee and penalty, in case the returns are submitted, and penalty is paid within Ashwin end 2078
- If legal cases (except relating to fake invoices) pending till Asadh 2077, under Income Tax Act 2058, Value Added Tax, 2052 and Excise Duty Act 2058 with Inland Revenue Department, Revenue Tribunal and Courts, are withdrawn and tax liability and 50% of interest thereon are paid within Mangsir end 2078, fee, additional fee and penalties shall be waived.
- If tax liability and interest thereon remaining under Income Tax Act 2058, Value Added Tax, 2052 and Excise Duty Act 2058, until Ashad end 2076 are paid within Poush end 2078, fee, additional fee and penalties shall be waived.

#### ***Indirect Taxes***

- VAT paid on Diesel and LP Gas used in taxable business shall be eligible for Input Tax Credit.
- VAT exemption on “transportation charges, rental of transport vehicle, cargo, E-library services, deposit security fee, trekking & tour services, certificate of origin fee”.
- For export industry under Bonded Warehouse facility, importing raw material against Bank Guarantee, unable to export processed goods within timeline, the deadline for releasing Bank Guarantee has been extended to 2078 Chaitra end.
- Custom Duty, VAT and Excise duty has been exempted until Poush end 2078, for import/production and sale of Oxygen Gas, Liquid Oxygen, Oxygen concentrator and other life-saving materials and machinery.
- 1% Custom duty levied on induction stove. 100% waiver on excise duty and reduction in custom duty rates on



**VRock & Company Private Limited**

357/36, Kalika Marg, Kalikasthan, Kathmandu-29, Nepal

Tel: +977 1 4410291

Website: [www.vrockcompany.com](http://www.vrockcompany.com)

Email: [info@vrockcompany.com](mailto:info@vrockcompany.com)

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