

# MGT 314: Taxation in Nepal

*Credit: 3*

*Lecture Hours: 48*

## Course Objectives

This course aims to acquaint students with the basic knowledge of general principles, practices, and legal framework of income taxation in Nepal. It also views to develop the managerial skill and expertise in income tax and value added tax for both the organizations-government and private sectors.

## Course Description

This course includes conceptual values, norms and sources of taxation with emphasis on the Income Tax Act apply in the preparation of employment, business, and investment tax returns. The course bases on the current income tax system to provide students a core principle of inclusion and exclusion of income, and fundamental rules of deductible and non-deductible costs, expenses, and amounts. It also contributes an involvement of analysis and calculation of assessable income from employment, business, and investment perspectives. From this course, the student will also grasp the knowledge taxable income, offset of losses and tax liabilities under income taxation and the basic norms and methods of calculation of expenditure taxation.

## Course Details

### Unit 1: Theoretical foundation:

**LH 2**

Concepts, meaning, and objectives of taxation, Principles of taxation, Canons of taxation, Classification of taxes, Brief historical background of taxation in Nepal.

### Unit 2: General background of income tax Act

**LH 12**

Income tax Act 2058 and its features, Income tax Act and its relation to other laws, Definition of key terms, Classification and status of a taxpayer: Individual and entity, Resident and non-resident person, Classification of income heads: Employment, Business and Investment including non-business taxable assets, Exempt amount of other concessions: Exempt amounts, Exempt entities, Business exemptions and concessions, Methods of tax accounting and timing. Couple, Medical tax credit, Retirement contribution, Taxation of retirement fund, Retirement payment, Taxation of dividends, Distribution by entities. Types of assessment: (a) Self-assessment, (b) Jeopardy assessment and (c) Amended assessment, Return of income and its types: (a) Annual tax return, and (b) Jeopardy return, Tax payment in installments. Concept of withholding, Withholding from employment, business, and investment, Types of withholding: Final and non-final withholding, Rights and duties of tax authorities, Rights and duties of taxpayers.

### Unit 3: Deductions of costs and expenses

**LH 3**

Concept of deduction. Difference between costs and expenses. Deductions: (1) General deductions, and (2) Specific deductions: (a) Interest, (b) Cost of trading stock – including treatment of under and overvaluation of closing and opening stock, method of valuation of closing stock. (c) Repair and improvement costs, (d) Pollution control costs, (e) Research & development costs, (f) Depreciation, (g) Losses (as per section 20 & 59), (h) Bad debts.

- Unit 4: Non-deductible expenses or amounts** **LH 2**  
Personal and domestic expenses, Capital expenses and capital loss, Income tax, Fines and Penalties, Expenses made for acquiring tax free income, Expenses not relating to earning of income, Cash payment in excess of Rs. 50,000 or more at once time, and Other not allowable expenses.
- Unit 5: Quantification, allocation, and characterization of amounts** **LH 2**  
Quantification of amounts, Quantification in rupees, Indirect payments, Jointly owned investment, Characterization of compensation payments, Characterization of payments under annuities, installments sales, and finance leases, Transfer pricing and other arrangements between associates, Income splitting, General anti-avoidance rule,
- Unit 6: Business income and calculation of assessable income** **LH 8**  
Concept, meaning, and features of business, Income inclusions while calculating profit and gains from business: Sales incomes, Net gain from disposal of business assets and liabilities, Effectively connected returns from capitals, and Other receipts or receivable in conducting the business: Business gift, Compensation, Indirect payment, Bad debts recovered remitted earlier, Difference of interest against soft loan, Amount derived from accounting system, Amount received from exchange rate, Average inclusions under long-term contract, Amount of accepting a restriction and others. Review of deductions for business income, Calculation of assessable income from business income.
- Unit 7: Employment income and calculation of assessable income** **LH 6**  
Concept, meaning and features of employment, Distinction between employment and self employment, Inclusions (chargeable) from employment income: Cash incomes, Incomes in kinds payments, and Incomes regarding with condition, Redundancy, Loss or termination of employment, Retirement contributions, Payments including other incomes: Third party payment, Soft loan, Income received from other than employer in connection of the employment and similar types of employment incomes, Determination of grade and salary, Calculation of assessable income.
- Unit 8: Investment income and calculation of assessable income** **LH 3**  
Concept, meaning and features of investment income, profit and gains from conducting the investment: Dividend, Interest, Rent, Royalties, Gain of investment insurance, Income of natural resources, Gain/interest of an unapproved retirement funds, Retirement payment and approved retirement fund, Net gain from the disposal of non-business chargeable assets, Amount received from changing an accounting method, Amount of devaluation of currency, Bad debts recovered remitted earlier, Gain/net gain from disposal of depreciable assets, Gift in connection to the investment, Amount received from accepting a restriction, Income of jointly owned investment, Compensation, Other amounts (if any). Review of deductions for investment income. Calculation of assessable income.
- Unit 9: Calculation of taxable income** **LH 2**  
The concept of assessable income, Calculation of assessable income, Introduction of deductible items while calculating the taxable income: Contribution to retirement funds (in the case of an individual) and Donations. Calculation of taxable income.

**Unit 10: Calculation of income tax liabilities****LH 4**

Concept of taxable income, taxable base, and tax liabilities, Introduction of deductible items while computing the taxable base and tax liabilities. The concept of loss, Offset of losses and duration of losses, Fundamental rules for offsetting, Offsetting of business and investment losses. Tax rates: Individual and Entities, Calculation of tax liabilities.

**Unit 11: Value added tax****LH 4**

Concept, origin, and evolution of value added tax, Types of value added tax, Method of administering the value added tax, Comparison among sales tax, excise tax, and value added tax, Calculation of value added tax with examples.

**Basic Reading Materials**

Income Tax Act, 2058, (with latest amendment)

Income Tax Rules, 2059, (with latest amendment)

Value Added Tax Act, 2052 (with latest amendment)

Value Added Tax Rules, 2053 (with latest amendment)

**Reference Books**

Agrawal, Jagadish. *Income tax – Theory and practice*. Kathmandu: Buddha Academic Publishers & Distributors P. Ltd. (Latest edition).

Amatya, Surendra Keshar, Sapkota Prem Prasad and Thapa, Krishna Bahadur. *Taxation in Nepal: Income tax, property tax & value added tax*. Kathmandu: G-Seven Publication Pvt. Ltd. (Latest edition).

Bhatia, H. L. (2011). *Public finance*. New Delhi: Vikas Publishing House Pvt. Ltd.

Bhattarai, Ishwor and Koirala, Girija Prasad. *Taxation in Nepal with tax laws & tax planning*. Kathmandu: Asmita Books Publishers & Distributors (P. ) Ltd. (Latest edition).

Dhakal, Kamal Deep; Panday, Vikram and Bhattarai, Rama Kanta. *Fundamentals of taxation in Nepal*. Kathmandu: M. K. Publishers & Distributors

Kandel, Puspa Raj. *Nepalko bartaman kar byabastha*. Kathmandu: Buddha Academic Publishers & Distributors P. Ltd. (Latest edition).

Khadka, Rup (2000). *The Nepalese tax system*. Kathmandu: Sajha Prakashan

Lekhi, R. K. (2004). *Public finance*. New Delhi: Kalyani Publisher.

Musgrave, R. A., & Musgrave, P. B. (2004). *Public finance in theory and practice*. New Delhi: Tata McGraw-Hill Publishing Company Limited.