



THE NEPAL CHARTERED ACCOUNTANT

June 2019
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Journal of the Institute of Chartered Accountants of Nepal





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June, 2019
Vol 21. No. 4



THE NEPAL CHARTERED ACCOUNTANT

(Quarterly Journal of The Institute of Chartered Accountants of Nepal)

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CONTENTS

Editorial	2
President's Message	3
Programme Schedule	7
Profiles	9

ARTICLES

ECONOMY

Local Market : Need for Integration	
- Mr. Bishal Raj Paudyal	22
Banking Crime and Bank Runs	
- Mr. Awatar Neupane	25

TAXATION

Tax Provision – Budget proposal – FY 2076-77 – Some thoughts	
- CA. NK Swami	29
Tax Exemptions and Concessions: An Overview with Comparisons	
- CA. Prabin Raj Kafle	37
VAT Refund	
- CA. Sudip Paudel	44
Budget Highlights	51
News	55-64
Notices	8

Contributors

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Editorial



Finance Minister, Dr. Yuba Raj Kathiwada, presented the federal budget amounting to Rs. 1.53 trillion for the fiscal year 2076/77 on 15th Jestha, 2076, with the slogan of “*Samriddha Nepal, Sukhi Nepali*” (*prosperous Nepal, happy Nepali*), which exuded a bright picture of the economy with robust indicators. The provincial economy grew at more than six percentage while the internal savings reached a historic high of 20.5 percentage of GDP. Moreover, significant strides have been taken in sectors like agriculture, tourism, infrastructure development, power production, airports, irrigation, and national highways. However, even though the exports have seen significant growth, high imbalance in balance of payment, is a case for concern. Inflation rate shall be curbed within 4.5 percentage.

The budget has high ambition of making qualitative improvement in the life style of general public and attaining rapid economic development along with social justice. The Finance Minister has scrupulously allocated Rs. 957.1 billion for recurring expenditure, 408.1 for capital expenditure and 167.85 billion for financial management. Major emphasis has been laid on education with programs like *Sakshar Nepal* (*literate Nepal*), *Vidhlaya Pathau* (let's send to school), and *Chinai Afnao Mato, Banai Afnai Desh* (let's be familiar with our soil, let's develop our nation). Similarly, science and technology, health, drinking water and hygiene, labor and employment, social security, youth and other issues received due emphasis and attention in the budget. With the slogan like *Ujjyalo Nepal* (bright Nepal) and *Nepal ko Pani Janata ko Lagani* (*Nepal's water, investment by people*), the budget emphasizes on energy development and provides opportunity to general public for the investment in the sector. The budget also focuses on tourism sector through the launch of *Visit Nepal 2020* campaign.

In taxation front, changes have been made in the Income tax Act and Vat Act. The basic exemption limit for natural persons has been raised and relief has been provided by lowering tax on capital gains on disposal of real-estate business from 7.5% to 5%. Administrative aspects of tax filing have been liberalized by introducing the provision to file revised return, which can be filed within thirty days from filing of the return. Similarly, to curtail tax malpractices of creating a ruse to evade taxes, a new section has been introduced to make the beneficiaries of income liable in addition to its recipient. Moreover, now salary expenses are deductible only if it is provided to employees with PAN, thereby curbing the practice of adding ghost employees to claim deductions. Addressing the much needed reform in the administrative review process, the amount to be deposited before submitting the case the review process has been reduced to one fourth of the disputed amount.. Similarly, the VAT regime has also been liberalized and compliant tax payers have been provided relief while, penalty and punishment have been made more onerous on the willful defaulters.

ICAN had provided suggestions for the Finance Act during the pre-budget session, which have been positively received by the Finance Minister. Overall the budget seems to be a balanced one and if rightly implemented, will pave the way to place Nepal in the league of miracle economies. However, it is long past time the government gave due emphasis on the capital expenditure and get the wheels of economy rotating by pumping liquidity in the economy and attracting FDI and state of the art technologies in the country. ICAN will always support the initiatives of the Government in the joy and journey of creation of better and brighter Nepal.



President's Message

Dear Professional Colleagues,

I am overwhelmed by a deep sense of gratitude to the Council Members and Past Council Members including all Chairman and Members of the Committees and Members of the Institute for the trust and confidence reposed in me. As the first term of the Eighth Council is drawing to the end, I reminisce and treasure our collective effort for the upliftment of the Institute and the profession. I would like to pass credit to the Council Members, ICAN management team, regulatory bodies, development partners and other stakeholders for the achievements of the Institute and take the blame for the shortcomings, despite our best efforts.

I congratulate and extend a warm welcome to CA. Krishna Prasad Acharya, President-elect and CA. Madan Sharma, Vice-president-elect for F.Y 2019/20. I am fully confident that their rich experience, professional expertise and skill will greatly benefit the Institute in the days to come.

Now, I would like to share the brief activities of the Institute, which were performed during my tenure with full support of management team and active participation of the Council Members and other Stakeholders.

Education:

Students are the ornaments of the Institute. In this regard, to attract the deserving and meritorious students for pursuing CA education, the Institute has provided full and partial scholarship. The Institute awarded scholarship to the meritorious and deserving students of various levels every as per the guidelines approved by the Institute.

The Institute organized an induction/orientation program to impart knowledge about the Institute to the new students enrolled in CAP I Level. This program was a huge success in that there was a robust growth in enrollment of students in CAP I Level. In order to support students for preparation of examinations, the Institute organized crash courses targeting students pursuing CAP II and CAP III Level of Chartered Accountancy Course. During my tenure, for first time Institute conducted crash course out of Valley, Pokhara where more than fifty students were benefitted from the from crash course. of the Student library at head office was refurbished as one of my priority to provide students with sound environment for concentrated study.

Membership and Professional Capacity Development

The Institute is committed to delivering efficient and prompt services to its members. Efforts have been made to impart timely information

about the Institute and the profession to the members. For this, the Institute has been disseminating information of activities and events in the website on a regular basis and circulates a fortnightly issue of e-news.

Capacity development of our Members is our top priority. Cognizant of the fact that enhancing capacity, growth and quality of members is of paramount importance, our efforts have been directed towards making the members abreast of recent changes in technology, research and knowledge. In this connection, the Institute conducted various capacity development programs around the year in Kathmandu valley and outside the valley. Capacity development training was held in Nepalgunj, Chitwan, Biratnagar, Butwal and other cities on topics such as Labor Act, tax audit, audit documentation, NFRS for SMEs etc. The Institute conducted five three-day programs on Audit Documentation for its members. Altogether 100 members availed the opportunity. Similarly, we have discussed with different entities and professional members of ICAN regarding the progress of implementation of NFRS.

The Institute along with other outsourcing units successfully conducted 29 CPE training during F/Y 2075/76. Altogether four institutes conducted CPE training in various places. More than 3,200 members actively participated in these trainings.

CPE is one of the most important tools for updating the capacity of the members. The Institute has increased the requirement of CPE hours for the members as per the Statements of Membership Obligations (SMOs) of IFAC. Moreover, the long felt need of online CPE has been introduced. Till date, more than 260 members have taken online CPE. In the initial stage, the members are allowed to take a maximum of 15 CPE credit hours through online CPE in a year, which will be gradually increased. Emphasis will be given to provide CPE training to the members considering their areas of work, and interest and initiatives have been undertaken to re-module the training package to address this effort. To support members for their annual registration sitting in remote area the Institute has introduced Online Form Renewal portal in the ICAN website supported with the online payment either through E-Sewa or swapping the Electronic Card.

The Institute pronounced NFRS to the Banking, Insurance and Other Sectors with some carve-outs. Similarly, the Institute is planning to implement NFRS for SMEs from 2076/77. In this connection, the Institute published a book of NFRS for SMEs with Practical examples in Nepali

language to facilitate the members. Pronouncement of Nepal Accounting Standards for Not for Profit Organization (NAS for NPOs) 2018 / Nepal Accounting Standards for Micro Entities (NAS for MEs) 2018 is a way forward to have International level reporting by all the entities in the Nepal.

The Institute has coordinated with the Public Service Commission for the generation of new position in the Government Entities and Entities under Nepal Government for its members for reduction of chances of financial fraud in the entities.

The Institute launched online Know Your Member (KYM) form in the website. With this launching, member /Institute can have easy access to data regarding members. Till date, more than 2,700 members have filled the online KYM. ICAN is planning to launch of UDIN from 1st Shrawan 2076 which will curb unethical practices by the members and non-members, besides providing an interface tracking ICAN data with the IRD will prove to be a turning point in the monitoring mechanism of the accounting profession in the Nepal.

Women Empowerment Committee

For the first time in the history of ICAN, ICAN has established the Women Empowerment Committee to increase participation of women members in all activities of the Institute

Forging Alliances

National and International recognition is essential for enhancing the reputation of the Institute and also for providing new avenues and platforms for the members to seek employment or to render services. Similarly, I am pleased to inform that the Institute coordinated with various Local and National Bodies of the Government of Nepal to conduct various programs and workshops. During this period, the Institute held meetings with Inland Revenue Department, Office of the Auditor General, Department of Money Laundering Investigation, Department of Revenue Investigation, Central Investigation Bureau etc.

It is my privilege to inform you that the Institute has signed a Memorandum of Understanding (MoU) with the Department of Money Laundering Investigation (DMLI) for mutual cooperation between the Institute and DMLI to combat money laundering and terrorist financing in the country. In this connection, the Institute held various round of meetings and interaction programme with

DMLI. Similarly, MoU was signed with Inland Revenue Department to allow uninterrupted access and exchange of relevant information of both the organizations through data interface mechanism.

Similarly, the Institute had active participation in various programme organized by different bodies. The Institute participated in programme organized by Nepalese Association of Financial Journalists, Inland Revenue Department, Department of Money Laundering Investigation, Public Expenditure and Financial Accountability, Coordination Committee of Integrated Public Financial Management Reform Project, etc. Signing of MRA with the ACCA and AICPA during my period was an initiative to explore opportunities for members of both the Institutes for their global recognition and professional development and avenues for exchange of technical knowledge. With good faith of all the Council Members and stakeholders an initiation was made to sign MRA with the ICAI which is in final phases and I am hopeful that new leadership will take this issue on priority basis for long term betterment of members of both the Institutes and the profession.

The Institute marked the International Accounting Day organizing a walkathon event coinciding with the International events to mark the Day on November 10, 2018.

Enhancing Quality Audit

The Institute has revised the Code of Ethics 2016 as per the revised Code of Ethics of International Ethics Standards Board for Accountants (IESBA), 2018. It is believed that the new Code of Ethics will help to enhance quality of the profession. Further, to have more clarity about the provisions outlined in the revised Code of Ethics, the Institute has published five guidelines for applicability from 1st Shrawan 2076 which is expected to give better understanding and clarity among the members and students of the Institute regarding Code of Ethics.

Recognizing the need for help and support from other regulatory bodies, the Institute has been advocating for a joint monitoring mechanism. As per the initiation taken by the Institute, a mechanism for information sharing with the Inland Revenue Department has been established. Similarly, cooperation from the Office of Company Registrar has sought to scrutinize unethical practices by the members. The meeting with the Securities Exchange Board of Nepal (SEBON) was organized to have monitoring on

reporting requirements of the listed companies for proper compliance of NFRS.

Quality Assurance Board started quality review of the selected audited firms from independent reviewers. With the formation of the Board, the Institute has been more effective in reviewing and increasing audit quality

Institutional and Human Resource Development

Human resource is the most vital asset of the Institute. Similarly, infrastructure development for efficient service delivery has been one of the priority areas. To this end, the Institute is guided by the three-year ICAN Strategic Plan Year 2018-2020, for timely and proper implementation scheduled tasks.

The Institute provided in-house training to the staff. In this connection, the Institute conducted a seven-days language course and an eight-days computer training for capacity development of the staff besides mentoring of staffs by International Accounting Body

I am pleased to inform you that the Institute upgraded the lobby and ground floor of the main building. Similarly, the Institute renovated the old building inside the ICAN premises for providing canteen services to serve healthy and good food to our staff, members and students.

The increasing volume of work and activities in the Institute has demanded the restructuring of the existing organizational structure. In this connection, the Institute recruited new staffs on a contractual basis for providing effective services to our valuable stakeholders from head office and its branches. During this period few efforts have been made to enhance operating system of the branches by installing various electronic devices.

An effort has been made to have Institute's branch offices in its own building in all the states. The first step in this direction has been initiated from from Biratnagar, where a letter of confirmation to provide 4 kathha of land by the local body has already been received and I am hopeful that within couple of months Institute will be able to laydown the foundation stone of new building.

International Relation

The Institute values relationship with various International Accounting Bodies and strives to deepen its cordial ties as it seeks to enhance its footprint in the International arena. In this regard, various joint seminars and workshops were organized in collaboration with pre-eminent International

Accounting Bodies like IFAC, CAPA, SAFA and accounting bodies of other countries.

The Institute organized a full-day SAFA International Conference on Enabling Business Environment for Economic Development on 4 April, 2019 in Kathmandu. In the same line, in the partnership with the Asian Development Bank and technical association with the Institute of Chartered Accountants in England and Wales, the Institute organized a five-day Audit Practice Manual Training.

The officials representing the Institute participated in various International and Regional level workshops, conferences and meetings. During the year, the ICAN officials visited and attended the SAFA Committee meetings, Board meetings and workshops / seminars in Sri Lanka, Pakistan, and Bangladesh. Similarly, our team members visited and attended WCOA Conference and IFAC, CAPA and SAFA meetings in Australia. The Member of ICAN visited the Institute of Chartered Accountants of England and Wales (ICAEW) with the support of Asian Development Bank and Confederation of Asia and Pacific Accountants and technical support of ICAEW to participate in the training on quality assurance at ICAEW office. The Institute had the privilege to honor IFAC President Dr. In-Ki Joo first time in Nepal during his visit to attend SAFA Events.

Similarly to deepen the relation at student level and further enhance the friendly ties, the Institute has been organizing student exchange programs. In this connection, the students of CAP III level visited and attended the students' conference in Pakistan, India and Sri Lanka.

At Last,

I am indebted for the generous support and encouragement from the Government of Nepal, Office of the Auditor General, Financial Comptroller General Office, Nepal Rastra Bank, Securities Exchange Board of Nepal, and other regulatory authorities, FNCCI, CNI, Council Members, Past Presidents and Past Council Members, Boards within the Institute, various Committees, Professional Organizations, ICAN Management and staff for the betterment of the Institute in days ahead.

This is my last message as a President of the Institute. As I get ready to leave, let me repeat what I said in my first message in the words of Robert Frost: *The woods are lovely, dark and deep. But I have promises to keep. And miles to go before I sleep, And miles to go before I sleep.*

The journey to excellence is never-ending. Even though I am demitting from the role of President of the Institute, I would always dedicate my efforts in enhancing the glory of the Institute. Through my humble efforts, though the Institute crossed but a few milestones, we have many milestones to cross. I once again congratulate CA. Krishna Prasad Acharya for being elected as the President and offer my unflinching, unreserved and untiring support to his efforts in serving our Institute.

Namaste.

Best wishes,



CA. Jagannath Upadhyay (Niraula)
President, ICAN

Notice of ICAN

Handbook of the Code of Ethics for Professional Accountants र त्यसमा आधारित निर्देशिकाहरू लागु गर्ने सम्बन्धमा

IESBA Code of Ethics 2018 को आधारमा तयार गरिएको Handbook of the code of Ethics for professional Accountants, 2018 र त्यसमा आधारित निर्देशिकाहरू Guidelines on Custody of Client Assets/Money by Professional Accountants in Public Practice, Guidelines on Marketing Professional Services by Professional Accountants in Public Practice, Guidelines on Networks and Network Firms, Guidelines on Professional Appointments र Guidelines on Non-compliance with Laws and Regulations लाई परिषदको निर्णय अनुसार मिति २०७६ श्रावण १ गते देखि लागु हुने व्यहोरा यसै सूचना मार्फत् जानकारी गराइन्छ ।

Unique Document Identification Number (UDIN)

पद्धती लागु गरिएको सम्बन्धमा

लेखा व्यवसायप्रति सामाजिक मान्यता र विश्वास अभिवृद्धि गर्न तथा गैरकानुनी लेखापरीक्षण कार्यलाई रोक लगाउने उद्देश्यले संस्थाले Unique Document Identification Number (UDIN) पद्धतीमा आधारित सूचना प्रणाली तयार गरेको र सो प्रणालीलाई परिषदको निर्णय बमोजिम मिति २०७६ श्रावण १ गते देखि ३ महिनासम्म स्वेच्छिक र २०७६ कार्तिक १ गते देखि अनिवार्य रूपमा लागु गरिएको व्यहोरा यसै सूचनाद्वारा जानकारी गराइन्छ ।

यस सम्बन्धमा थप विवरण यस संस्थाको website www.ican.org.np मा उपलब्ध छ ।

Nepal Accounting Standards for Not for Profit Organization (NAS for NPOs) 2018 / Nepal Accounting Standards for Micro Entities (NAS for MEs) 2018 लागु गर्ने सम्बन्धमा

नेपाल लेखामान बोर्डले तयार गरेको Nepal Accounting Standards for Not for Profit Organization (NAS for NPOs) 2018 र Nepal Accounting Standards for Micro Entities (NAS for MEs) 2018 नेपाल चार्टर्ड एकाउन्टेन्ट्स ऐन २०५३ को दफा ११(ड) अनुसार परिषदले मिति २०७६ श्रावण १ देखि स्वेच्छिक रूपमा र मिति २०७७ श्रावण १ गते देखि अनिवार्य रूपमा लागू गर्ने निर्णय गरेकोले सोही अनुसार गर्न गराउन हुन सम्बन्धित सबैको जानकारीको लागि यो सूचना प्रकाशित गरिएको छ ।

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NEPAL

Conference on

"Contemporary Issues of Accounting Profession"

Tuesday, 07 Shrawan 2076 (Corresponding 23 July, 2019)

Radisson Hotel, Kathmandu

Time	Program	Resource Person
10:00 am-10:30 am	Registration and Tea / Coffee	
10:30 am-10:45 am	Opening Remarks by CA. Jagannath Upadhyay Niraula, President, ICAN	
First Session		
10:45 am-12:45 pm	Ethical Values and Professional Accountants	Chairman : CA. K. K. Singh, Past President, ICAN Paper Presenter : CA. Madan Krishna Sharma, Vice President Elect, ICAN
12:45 pm-13:30 pm	Lunch Break	
Second Session		
13:30 pm-15:00 pm	IFRIC 4: Determining whether an Arrangement contains a Lease	Chairman: CA. Narendra Bhattarai, Past President, ICAN and Past Chairman, ASB, Nepal Paper Presenters: Mr. Malin Jayasinge, Vice President, ICA Sri Lanka CA. Ashish Garg, General Secretary, IPPAN
15:00 pm-15:15 pm	Tea Break	
Third Session		
15:15 pm-16:45 pm	IFRIC 12 : Service Concession Arrangements	Chairman: CA. Narendra Bhattarai, Past President, ICAN and Past Chairman, ASB, Nepal Paper Presenters: Mr. Malin Jayasinge, Vice President, ICA Sri Lanka CA. Ashish Garg, General Secretary, IPPAN
16:45 pm- 17:15 pm	Break	
17:15 pm-18:45 pm	Oath Taking of Newly Elected President and Vice President and BPA Award Distribution Ceremony	
18:45 pm onwards	Dinner	

Profile of CA. Kaushalendra Kumar Singh



CA. Kaushalendra
Kumar Singh

CA. Kaushalendra Kumar Singh is a Fellow Member of The Institute of Chartered Accountants of Nepal (ICAN) and Associate Member of The Institute of Chartered Accountants of India (ICAI). He served the Institute as a third President (1999-2000) and also served the various Committees of the Institute during his tenure. Currently he is Chairman of Code of Ethics Committee. He has presented various technical papers on accounting and auditing fields and performing as a Session Chairperson in different National and International conferences and seminars.

He was a Chairman of Auditing Standards Board of Nepal from March 2003 to March 2006. He has an extensive exposure of Internal and External Audit Services of various Sectors.

Profile of CA. Madan Krishna Sharma



CA. Madan Krishna
Sharma

CA. Madan Krishna Sharma qualified as a Chartered Accountant from the Institute of Chartered Accountants of India (ICAI) in May 1986 after obtaining bachelors in commerce from Tribhuvan University, Shankerdev Campus, Kathmandu. Started his career with the job in the government corporation, moved to a private sector joint venture company and started public practice in 1991. He is a Fellow Member of ICAI and the Institute of Chartered Accountants of Nepal (ICAN). He has served as a council member of ICAN and the Chairman of Accounting Standards Board of Nepal in the past. At present he is a member of current Council 2018-20 and Vice-President Elect for the year 2019/20. He has served as chairman and member in different committees of ICAN.

Presently he has been serving as the expert member in the Revenue Advisory Committee of the Ministry of Finance.

Ethical Values and Professional Accountants



Madan Krishna Sharma, FCA
23 July 2019

Contents

- Basic Premises of Ethical Values
- ICAN Code of Ethics for Professional Accountants
- Recently Updated Guidelines

Basic Premises of Ethical Values

श्रेयान्स्वधर्मो विगूणः परधर्मात्स्वनूष्णतात् ।
स्वधर्मे निधनं श्रेयः परधर्मो भयावहः ॥
भगवत् गीता ३.३५

It is far better to perform one's natural prescribed duty (Swodharma) even if it looks tinged with faults, than to perform another's prescribed duty (Paradharm), though perfectly. In fact it is preferable to die in the discharge of one's duty, than to follow the path of another, which is fraught with danger.

Basic Premises of Ethical Values

Swodharma is that action which is in accordance with your nature. It is acting in accordance with your skills and talents, your own nature (swabhav), and that which you are responsible for (karma). - Sri Sri Ravi Shanker

Basic Premises of Ethical Values

Professional Accountants' Swodharma (responsible act or duty) is to act in Public Interest.

Lord Buddha said: "If we can look upon our work not for self benefit, but as a means to benefit society, we will be practicing appreciation and patience in our daily lives."

Basic Premises of Ethical Values

Professional Accountants' are duty bound to act in Public Interest.

"To do the accounts of one entity well is indeed a matter of private interests. To do all accounts well, so that entities can compete with one other and so that outsiders can compare the outcomes of competition with a common yard stick, is a matter of public interest. In other words, the ability to ensure that all accountants maintain high quality standards produces social value add."

- Dr. Stavros B. Thomadakis, Chairman IESBA

ICAN Code of Ethics for Professional Accountants

The 2018 Edition of ICAN Code of Ethics is updated in line with the *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued by IESBA.

Sets out fundamental principles of ethics for professional accountants, reflecting the profession's recognition of its public interest responsibility.

These principles establish the standard of behavior expected of a professional accountant.

ICAN Code of Ethics for Professional Accountants

The following quote explains its applicability:

“The Code applies to not only professional accountants in public practice, but to all professional accountants, including those in private industry, the public sector, academia, and elsewhere. The ultimate objective of the Code is to shape behavior— to raise the bar of ethical attitudes.” - *Olivia Kirtley, IFAC President 2016*

This requires all Professional Accountants to read, fully understand and apply the Code of Ethics without compromise.

ICAN Code of Ethics for Professional Accountants

Fundamental Principles: integrity, objectivity, professional competence and due care, confidentiality, and professional behavior.

Threats to Compliance and Conceptual Framework to identify, evaluate and address threats -self-interest, self review, advocacy, familiarity and intimidation threats.

International Independence Standards for audits, reviews and other assurance engagements,

ICAN Code of Ethics for Professional Accountants

Updated Guidelines for Professional Accountants in Public Practice-effective from 1st Sawan 2076.

- Guidelines on Professional Appointments
- Guidelines on Custody of Clients' Money/Assets
- Guidelines on Ethical Marketing and Publicity Practices
- Guidelines on Networks and Network Firms
- Guidelines on Non-compliance with Laws and Regulations

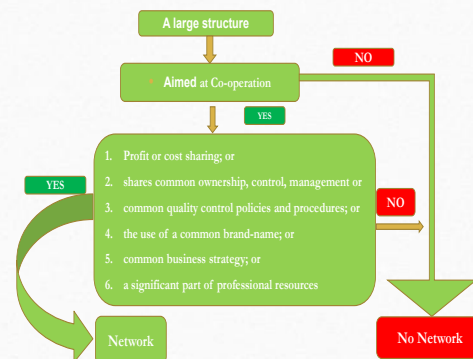
Guidelines on Networks and Network Firms

A larger structure formed with the co-operation of other firms or entities with an aim to enhance their ability to provide and enlarge standardized professional services and their earnings.

Creation of a larger structure depends on the particular fact and circumstances not dependent on whether the involved firms or entities are legally separate and distinct. The associate firm need to first determine itself whether the Network is created by considering the following fact and circumstances:

that a reasonable and informed third party would be likely to conclude that involved firms are associated in a such a way that a network firm exists; and continues throughout Networking arrangement.

Network of Firms



Network of Firms

Sharing of Professional Resources may be in any in the form of:

- Common systems that enable firms to exchange information such as a client data, billing and time records; and/or
- Partners and other personnel; and/or
- Technical departments that consult on technical or industry specific issues, transactions or events for assurance engagements; and/or
- Audit methodology or audit manuals; training courses and facilities.

Network of Firms

Instances where network does not exist:

- Larger structure is aimed only at facilitating the referral of work
- Sharing of immaterial costs
- An association between a firm and an otherwise unrelated entity to jointly provide a service or develop a product
- Cooperation is solely to respond jointly to a request for a proposal for the provision of a professional service.
- The shared resources are limited to common audit methodology or audit manuals or training courses/facilities, with no exchange of personnel or client or market information

Network of Firms

Independence Requirements:

- A network firm shall be independent of the audit clients of the other firms within the network.
- Independence requirements that apply to the network firm shall apply to any entity or firm that meets the definition of network firm.
- Network firm and its involved firms shall document the measures undertaken to safeguard threats to independence during their continuation of network to evidence that suitable measures were taken to reduce the threat to an acceptable level and the that the independence of the network firm is not compromised.

Network of Firms

Registration of the network firm:

- Professional Accountants in public practice (firm or individual) shall submit authenticated signed contract or agreement with the network firm.
- The contract or agreement for the networking in between the foreign firm and the local firm shall meet all conditions and circumstances required for enabling the formation of network firm.
- Submit the prescribed form completed along with the prescribed fees for first time registration and renewal.

Guidelines on Non-Compliance of Laws and Regulations

A comprehensive guidelines with 18 pages on responding to non-compliance situations by the professional accountants.

Self-interest or intimidation threat to compliance with fundamental principles of integrity and professional behavior is created when a professional accountant becomes aware of non-compliance or suspected non-compliance with laws and regulations.

Professional accountants are required to comply with the fundamental principles and apply conceptual framework set out in section 120 to identify, evaluate and address threats.

Guidelines on Non-Compliance of Laws and Regulations

Non-compliance or suspected non-compliance would be:

- those having a direct effect on the determination of material amounts and disclosures in the client's financial statements; and
- that do not have direct effect on the determination of the amounts and disclosures in the client's financial statements, but compliance with which might be fundamental to the operating aspect of the client's business, to its ability to continue its business, or to avoid material penalties.

Guidelines on Non-Compliance of Laws and Regulations

The laws and regulations deal with:

- frauds, corruptions and bribery;
- money laundering, terrorist financing and proceeds of crime;
- securities markets and trading;
- banking and other financial products and services;
- data protection;
- tax and pension liabilities and payments;
- environmental protection; public health and safety.

Guidelines on Non-Compliance of Laws and Regulations

- When there are legal regulatory provisions governing how professional accountants should address non-compliance or suspected non-compliance, the accountant shall obtain an understanding of those legal or regulatory provisions and comply with them.
- Where the professional accountant becomes aware of the non-compliances, the steps that the accountant takes to comply with the requirement of this guidelines shall be taken on a timely basis taking due regard to the nature of the matter and the potential harm to the interest of the entity, investors, creditors, employees or the general public.

Guidelines on Non-Compliance of Laws and Regulations

Addressing the matter

In discussing the non-compliance or suspected non-compliance with management and, where appropriate, those charged with governance, the professional accountant shall advise them to take appropriate and timely actions, if they have not already done so, to:

- rectify, remediate or mitigate the consequences of the non-compliance;
- deter the commission of the non-compliance where it has not yet occurred; or
- disclose the matter to an appropriate authority where required by law or regulation or where considered necessary in the public interest.

Guidelines on Non-Compliance of Laws and Regulations

The professional accountant shall comply with:

- applicable laws and regulations, including legal or regulatory provisions governing the reporting of non-compliance or suspected non-compliance to an appropriate authority; and
- requirements under auditing standards, including those relating to:
 - identifying and responding to non-compliance, including frauds;
 - communicating with those charged with governance;
 - considering the implications of the non-compliance or suspected non-compliance for the auditor's report.
- communicate with the group or parent company.

Guidelines on Non-Compliance of Laws and Regulations

Determining whether further action is needed, factors to consider, whether:

- the response is timely;
- the non-compliance or suspected non-compliance has been adequately investigated;
- action has been, or is being, taken to rectify, remediate or mitigate the consequences of any non-compliance;
- action has been, or is being, taken to deter the commission of any non-compliance where it has not yet occurred;
- appropriate steps have been, or are being, taken to reduce the risk of re-occurrence, for example, additional controls or training;
- the non-compliance or suspected non-compliance has been disclosed to an appropriate authority where appropriate and, if so, whether the disclosure appears adequate.

Thank You !

Profile of CA. Narendra Bhattarai



CA. Narendra Bhattarai

CA. Narendra Bhattarai, MBA, FCA was the Chairman of Nepal Accounting Standard Board. He was the President of the Institute of Chartered Accountants of Nepal (ICAN) for the year 2014-15. CA. Bhattarai is a senior chartered accountant with the bright academic career. Post graduated in Management with distinction from Tribhuvan University, Kathmandu, CA. Bhattarai was awarded with two gold medals for securing highest marks in MBA.

CA. Bhattarai is the Fellow Member of ICAN and Associate Member of ICAI. He was the Lecturer in Central Department of Management for 16 years and had been involved in teaching and professional research in financial Management and allied areas.

He was also the President of Nepal Bankers' Association for 4 years. He was the Board Member of Securities Board of Nepal (SEBON) for the term 2013-14.

Profile of CA. Ashish Garg



CA. Ashish Garg

Ashish Garg, FCA CISA, A Chartered Accountant qualified from the Institute of Chartered Accountants of India in 2002 with All India Merit Rank in both Intermediate and Final examinations. He holds B.Com (H) degree from Shri Ram College of Commerce, Delhi University and is also the first Nepalese Certified Information System Auditor from ISACA, USA. With more than 15 years of experience in banking, real estate and power sector in Nepal, he is one of the few experts in Nepal on foreign investment, infrastructure development and power sector. He is currently the General Secretary of Independent Power Producers Association Nepal, Executive Committee member of Nepal Land and Housing Developers Association and National Council Member of Confederation of Nepalese Industries.

Profile of Manil Jayesinghe FCA, FCMA, CIPFA



Mr. Manil Jayesinghe

Mr. Manil Jayesinghe is a Fellow Member of the Chartered Institute of Management Accountants (UK) , Fellow Member of the Institute of Chartered Accountants of Sri Lanka and a member of The Chartered Institute of Public Finance & Accountancy.

Head Of Assurance/Senior Partner, Professional Practice Director, in charge of Banking and Financial Services practice of Ernst & Young, Sri Lanka, counting over 36 years of extensive experience.

At present :-

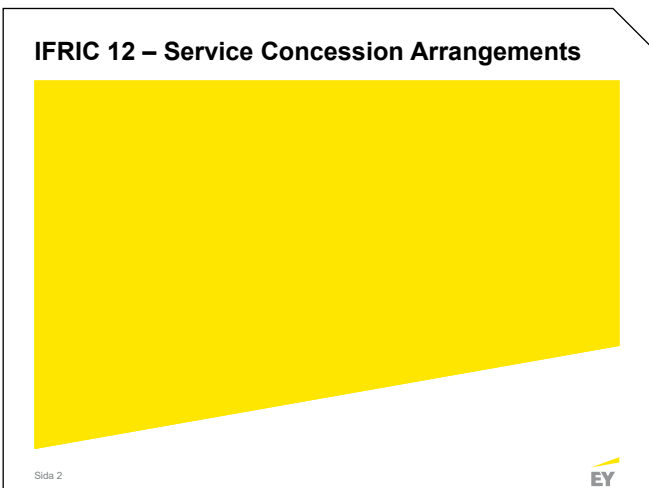
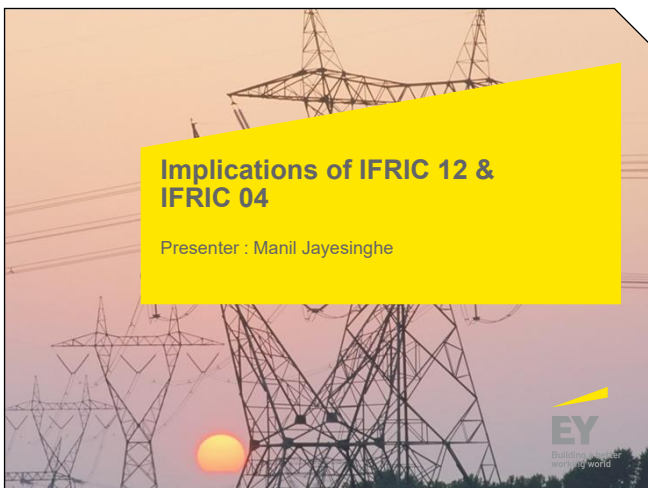
- Serving as the Vice President of the Institute of Chartered Accountants of Sri Lanka, Chairman of the Statutory Accounting Standards Committee, Member of the Statutory Auditing Committee and serves in many other committees.
- Member of the Board of International Accounting Education Standards Board of International Federation of Accountants.
- Serving as the Chairman of the Accounting Standards Committee of the South Asian Federation of Accountants (SAFA).
- Serves as a Consultant to the Audit Committees of the Listed Companies.
- Serving as a council member of CMA Sri Lanka.

Has been a presenter at the seminars conducted by CA Sri Lanka for Auditing and Accounting Standards, (SLAS, IFRS, SLAuS, ISA), Judge of Corporate Governance Report for the Annual Reports Awards Competition.

Presented papers at the CA Sri Lanka Annual Conference in addition to being a panelist.

He has served as the Chairman of the Examination Committee of CA Sri Lanka, Alternate Chairman of the Statutory Accounting Standards Committee over the past years. Other involvements include being a past member of the board of CIMA Sri Lanka, Chairman of the Technical Committee and the Accounting Standards Study Group, presenter of IFRS Programmes, judge of CIMA Technical paper competition and CIMA Business Case Awards.

Served on several listed company boards as a director.



Back ground of IFRIC 12

- In many countries, infrastructure for public services has traditionally been constructed, operated and maintained by the public sector
- In some countries, governments have introduced contractual service arrangements to attract private sector participation in these activities
- An arrangement within the scope of this Interpretation involves a private sector entity (an operator) constructing, operating and maintaining that infrastructure for a specific period
- A feature of these service arrangements is the **public service nature of the obligation undertaken by the operator.**

When is an arrangement within the scope of IFRIC 12? Scoping Provisions

Scope is based on "Control"

Grantor controls or regulates services (paragraph a)	
What services, to whom services are provided and at what price	May be by regulation or partial (e.g., price capping)
↓	
Grantor controls any significant residual interest remaining at the end of the term (paragraph b)	
Whole life arrangements	Can be by ownership, beneficial entitlement, etc.

When is an arrangement within the scope of IFRIC 12? Decision Tree

```

graph TD
    Q1[Does the grantor control or regulate what services the operator must provide with the infrastructure, to whom it must provide them, and at what price?] -- YES --> Q2[Does the grantor control through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the service arrangement?]
    Q1 -- NO --> Out[Outside the scope of IFRIC 12]
    Q2 -- YES --> In[Within the scope of IFRIC 12: Operator does not recognize infrastructure as property, plant and equipment or a leased asset.]
    Q2 -- NO --> Q3[Is the infrastructure constructed or acquired by the operator from a third party for the purpose of the service arrangement? Or is the infrastructure used in the arrangement for its entire useful life?]
    Q3 -- YES --> In
    Q3 -- NO --> Q4[Is the infrastructure existing infrastructure of the grantor to which the operator is given access for the purpose of the service arrangement?]
    Q4 -- YES --> In
    Q4 -- NO --> Out
  
```

When is an arrangement within the scope of IFRIC 12? Decision Tree (cont'd)

```

graph TD
    Start[Within the scope of IFRIC 12: Operator does not recognise infrastructure as property, plant and equipment or a leased asset.] -- YES --> Q1[Does the operator have a contractual right to receive cash or other financial asset from or at the direction of the grantor?]
    Start -- NO --> Q2[Does the operator have a contractual right to charge the users of the public services?]
    Q1 -- YES --> In[Operator recognises a FINANCIAL ASSET to the extent that it has a contractual right to receive cash or another financial asset.]
    Q1 -- NO --> Q2
    Q2 -- YES --> In
    Q2 -- NO --> Out[Outside the scope of IFRIC 12]
  
```

When is an arrangement within the scope of IFRIC 12? Scoping – Example 1

- Under Company A's (the operator) agreement with the government (the grantor), it will construct a power plant under a build-operate-transfer basis. After completion of the construction, Company A shall operate and maintain the power plant for the purpose of generation and supply of electricity to the grantor for a period of 25 years, after which the power plant shall be turned over to the government. The life of the power plant is estimated at 50 years.
- In consideration for the supply of electricity, the grantor will pay Company A fixed amount of currency per year.

When is an arrangement within the scope of IFRIC 12? Typical Public-to-Private Arrangements

Category	Lessee	Service Provider		Owner		
		Rehabilitate-operate-transfer	Build-operate-transfer	Build-own-operate	100% Divestment/Privatisation/Corporation	
Typical arrangement type	Lease (eg. Operator leases asset from Grantor)	Service and/or maintenance contract (specific task, e.g. Debt collection)				
Asset Ownership	Grantor			Operator		
Capital Investment	Grantor			Operator		
Demand risk	Shared	Grantor	Operator and/or Grantor		Operator	
Typical duration	8-20 years	1-5 years	25-30 years		Indefinite (or maybe limited to license)	
Residual interest	Grantor			Operator		
Relevant IFRSs	IFRS 16	IFRS 15	IFRIC 12		IAS 16	

When is an arrangement within the scope of IFRIC 12? Scoping – Example 1 (cont'd)

Does the grantor control or regulate what services the operator must provide with the infrastructure, to whom it must provide them, and at what price?

YES

Electricity is a regulated industry, and based on the agreement entered into, the grantor controls the type of service Company A will provide (power generation), to whom it will be provided, and at what price.

Does the grantor control through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the service arrangement?

YES

The grantor has control through significant residual interest of the power plant at the end of the cooperation period.

Is the infrastructure constructed or acquired by the operator from a third party for the purpose of the service arrangement?

YES

The infrastructure was constructed by the operator for the sole purpose of the service arrangement with the grantor.

Within the scope of IFRIC 12

When is an arrangement within the scope of IFRIC 12? Scoping – Example 2

- The Company B constructed a power plant under a build-own-operate basis. It has agreements (with varying terms and periods) with various distribution companies for electricity supply. It also has an agreement with the government for a supply of electricity for a period of 15 years.
- In consideration for the supply of electricity, the grantor will pay Company B an amount dependent on the electricity generated.

When is an arrangement within the scope of IFRIC 12? Scoping – Example 2 (cont'd)

Does the grantor control or regulate what services the operator must provide with the infrastructure, to whom it must provide them, and at what price?

NO

Outside the scope of IFRIC 12

Although the grantor controls the type of service Company B will provide, it is only to the extent of its capacity contract with Company B. It does not have control over Company B's other contracts.

How is service concession arrangement accounted for under IFRIC 12? - Accounting models

- Financial Asset Model
 - The operator recognizes a financial asset to the extent it has an unconditional contractual right to receive cash from the grantor.
- Intangible Asset Model
 - The operator recognizes an intangible asset to the extent that it receives a right (a license) to charge users of the public service.
- Some arrangements may contain both financial assets and intangible assets. These arrangements should be accounted for separately using both models.

How is service concession arrangement accounted for under IFRIC 12? - Accounting models (cont'd)

Arrangement	Model
Grantor pays – fixed payments	Financial asset
Grantor pays – payments vary based on demand (no minimum)	Intangible asset
Grantor retains demand risk – users pay but grantor guarantees amounts	Financial asset or bifurcated
Grantor retains demand risk – operator collects revenues from users until it achieves specified return	Intangible asset
Users pay – no grantor guarantees	Intangible asset

Accounting during Construction Phase

- Apply IFRS 15 Revenue from Contracts with Customers to recognize the construction revenue
- Accounting for construction revenues and costs are the same under both the financial asset and the intangible asset models.
- Borrowing costs
 - Intangible asset model = capitalized
 - Financial asset model = not capitalized

Accounting for Financial asset model

- The amount due from or at the direction of the grantor is accounted in accordance with IFRS 09 as:
 - at amortised cost or
 - Measured at fair value through profit or loss
- If the amount due from the grantor is accounted for at amortised cost, IFRS 09 requires interest calculated using the effective interest rate method to be recognised in profit or loss.

Accounting for Intangible Asset Model

- Recognized in accordance with IAS 38, Intangible Assets
- Revenues are recognized when the services are rendered to the public users
- Intangible asset is amortized over the concession period.
- Intangible asset is subject to impairment testing under IAS 36

Accounting during Operation Phase Intangible Asset Model – Amortization Method

IAS 38 paragraph 39 and 40 provides that an entity shall disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect.

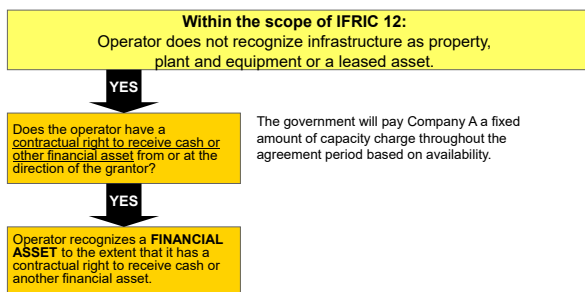
Amortization period and amortization method of the intangible shall be reviewed at least at each financial year-end and, to review if expectations differ from previous estimates.

If the variance between the actual results and estimates are significant, then the management should assess if the Company has the ability to make reasonable and reliable estimates to support a continuing use of the units of production method.

Accounting during Operation Phase Example 3

- Under Company A's (the operator) agreement with the government (the grantor), it will construct a power plant under a build-operate-transfer basis. After completion of the construction, Company A shall operate and maintain the power plant for the purpose of generation and supply of electricity to the grantor for a period of 25 years, after which the power plant shall be turned over to the government. The life of the power plant is estimated at 50 years.
- In consideration for the supply of electricity, the grantor will pay Company A a fixed amount of capacity charges per year.

Accounting during Operation Phase Example 3 (cont'd)



Page 19 IFRIC 12, Service Concession Arrangements

IFRIC 12: Practical Implementation Issues Accounting for Subsequent Expenditures

- The following accounting applies to both financial asset and intangible asset models:
 - **Spare Parts and Supplies** - accounting similar to that of Pre-IFRIC 12 (i.e., carried as inventory and recognized in profit or loss as consumed).
 - **Rotating Equipment and Major Replacement Parts** - carried as noncurrent assets and recognized in profit or loss as issued.
 - **Major Maintenance/Major Overhaul** - recognized and measured in accordance with IAS 37 (i.e., at the best estimate of the expenditure required to settle the present obligation at the balance sheet date).
 - *Note: Does not apply when done on a sectioning basis.*

Page 20 IFRIC 12, Service Concession Arrangements

IFRIC 4 – Determining whether an Arrangement contains a lease



Page 21 IFRIC 12, Service Concession Arrangements

IFRIC 4, Determining Whether an Arrangement Contains a Lease Scope

- IFRIC 4 provides guidance for determining whether arrangements contain leases that should be accounted for in accordance with IAS 17, *Leases*
- It does not provide guidance for determining how such a lease should be classified under IAS 17
- An arrangement may not take the legal form of a lease but conveys a right to use an asset (e.g., an item of property, plant or equipment) in return for a payment or series of payments

Page 22 IFRIC 12, Service Concession Arrangements

IFRIC 4, Determining Whether an Arrangement Contains a Lease Scope

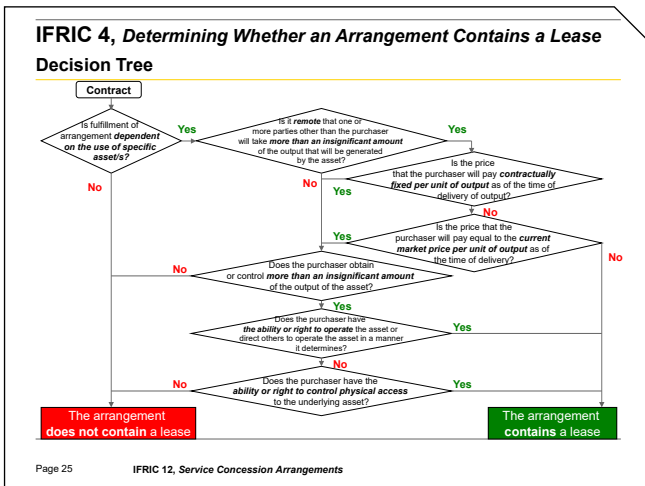
- IFRIC 4 does not apply to the following:
 - arrangements that are, or contain, leases excluded from the scope of IAS 17:
 - leases to explore for (or use) minerals
 - licensing agreements
 - public-to-private service concession arrangements already within the scope of IFRIC 12, *Service Concession Arrangements*.

Page 23 IFRIC 12, Service Concession Arrangements

IFRIC 4, Determining Whether an Arrangement Contains a Lease Lease Determination

- A contract contains a lease if:
 - Fulfillment of the agreement is dependent on the use of a specific asset or assets; and
 - The arrangement conveys a right to use the asset.
- Assessment of whether an arrangement contains a lease is made at the inception of the arrangement
 - Earlier between the date of arrangement and date of commitment

Page 24 IFRIC 12, Service Concession Arrangements



IFRIC 4, Determining Whether an Arrangement Contains a Lease Dependency on Use of Specific Asset

- IAS 17 applies only to an arrangement in which there is a 'right to use an asset'
- an arrangement will not contain a lease unless it depends on a specific asset or when no asset is specified but it is not economically feasible or practicable to use an alternative asset
- the phrase 'right to use an asset' does not preclude the asset from being a portion of a larger asset

Page 26 IFRIC 12, Service Concession Arrangements

IFRIC 4, Determining Whether an Arrangement Contains a Lease Right to Control the Use of an Asset

- Once a specific asset has been identified, it is necessary to assess whether there is a right to use it (essentially a right to control the use of the asset)
- Normally refers to the exclusivity of the specific asset for use of another party
- Exclusive use may be evidenced by the buyer's purchase of all or more than an insignificant output of the asset**

Page 27 IFRIC 12, Service Concession Arrangements

IFRIC 4, Determining Whether an Arrangement Contains a Lease Right to Control the Use of an Asset (cont'd)

- Circumstances in which the right to control the use of an asset is conveyed to a purchaser:
 - the purchaser will take substantially all or more than an insignificant amount of the output that will be produced by the asset;
 - it is highly unlikely that other parties will take more than an insignificant amount of the output; and
 - the price paid by the purchaser is neither fixed per unit of output nor the current market price at the time of delivery.

Page 28 IFRIC 12, Service Concession Arrangements

IFRIC 4, Determining Whether an Arrangement Contains a Lease Right to Control the Use of an Asset (cont'd)

Control of More than an Insignificant Amount of Output

- If the purchaser does not take substantially all of the output, the next step is to test whether the purchaser anyway obtains or controls more than an insignificant amount of the output
- It is a matter of professional judgment in each case as to what **proportion of the output is 'more than insignificant' and usually requires assessment of the asset's total capacity**

Page 29 IFRIC 12, Service Concession Arrangements

IFRIC 4, Determining Whether an Arrangement Contains a Lease Right to Control the Use of an Asset (cont'd)

Right to Operate and Control Physical Access

- The 'right to operate or direct others to operate' the asset relates to the ability to make decisions about when and how the asset will be used to meet specific needs of the purchaser
- May be evidenced by the purchaser's ability to hire, fire or replace the operator of the asset or its ability to specify significant operating policies and procedures in the arrangement
- Control physical access - ability to prevent others from using or accessing the asset for their needs or restricting the ability of the supplier to move or use the asset as it desires

Page 30 IFRIC 12, Service Concession Arrangements

IFRS 16 – Leases (New standard)



Page 31

IFRIC 12, Service Concession Arrangements

Overview - Superseded Standards

IAS 17

Leases

IFRIC 4

Determining whether an Arrangement contains a Lease

SIC 15

Operating Leases - Incentives

SIC 27

Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

Page 32

IFRIC 12, Service Concession Arrangements

Overview – what is changed?



Key changes primarily affecting lessees

Recognise assets and liabilities for most leases

New presentation and disclosure requirements

Lessors

Accounting substantially the same

New standard will be effective for annual periods beginning on or after 1 January 2019

Page 33

EY

Overview (cont.) Effects Analysis

Balance Sheet

	IAS 17 Finance Leases	IAS 17 Operating Leases	IFRS 16 All Leases
Assets	→ ↑↑	-	→ ↑↑ ↑↑↑↑
Liabilities	\$\$	-	\$\$\$\$\$\$
Off- balance sheet rights/ obligations	-	→ ↑↑ ↑↑↑↑	↑↑↑↑

Page 34

EY

Overview (cont.) Effects Analysis

Income Statement

	IAS 17 Finance Leases	IAS 17 Operating Leases	IFRS 16 All leases
Revenue	X	X	X
Operating costs (excl. depreciation & amortization)	---	Single expense	---
EBITDA			↑↑
Depreciation and amortization	Depreciation	---	Depreciation
Operating profit			↑
Finance costs	Interest	---	Interest
PBT			↔

Page 35

EY

Questions & Answers

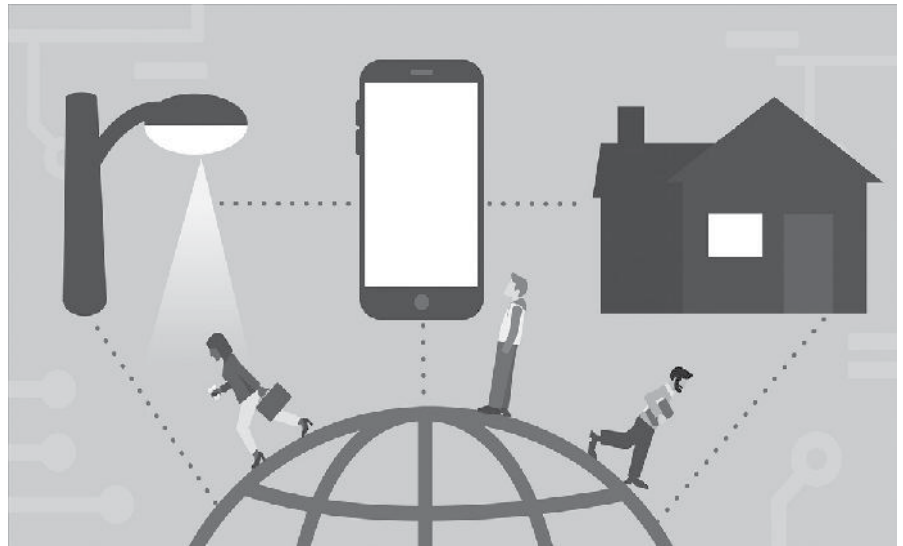
LOCAL MARKET: NEED FOR INTEGRATION

‘ The World Bank Report, 2012 states that, considering the volume of unobserved size of the Nepalese economy, the informal economy’s share to the total Gross Domestic Products (GDP) stands at 38%. ’



Mr. Bishal Raj Paudyal

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Though informal economy accounts for more than 70% of the economically active population in Nepal, yet nothing has been done to integrate and institutionalize them into the National Economy. According to Women in Informal Employment: Globalizing and Organizing (WIEGO), informal economy is a diversified set of economic activities, enterprises, jobs, and workers that are not regulated or protected by the state. The World Bank Report, 2012 states that, considering the volume of unobserved size of the Nepalese economy, the informal economy’s share to the total Gross Domestic Products (GDP) stands at 38%. This is a very substantial contribution to our economy, and also calls for untapped and unused economic potentials in the current economic

state. Nonetheless, the fast pace of growth of this sector needs much attention in the minds of policy makers and the Government to intrinsically understand the current situation of the underground economy as it encourages the anomalies in the form of widening inequality, enmity, and immorality. On a broader perspective, the Government should take steps to integrate and institutionalize.

In this article, I refer the informal economy as a local market just next to our homes. This means we do not have to go far to see such kind of an economy, consisting of small unregistered shops, street hawkers selling vegetables, artisans, marketers etc. The participants in the informal sector are mostly unskilled and less educated. They

are a vast majority trying to earn an honest living against great odds. Often they are stigmatized as being illegal (not paying taxes) having rent-seeking behavior without any benefit to the society. But, should we judge them as the 'grey economy' and disregard their de-facto contribution to the community around where they operate? I don't think so.

In a socio-economic context, the local market should not be deprived for sustainability. Rather, let's look at it the other way round. Local markets serve our local needs in terms of consumption. According to a recent survey, the average annual household consumption of Nepal (2015/16) is NRs.3,22,730 (\$3,160) which is spent for goods and services of which more than half (53.8%) goes for food. This means households spend a lot in food, as it is one of the basic necessities in life. Many of us would agree upon the fact that households depend on the market around their doorstep for food consumption. Almost every day household participants are buying consumption necessities from the local market. However, knowingly or unknowingly, we are driving demand for consumables in and around our society while the supply side is handled by the local market participants. In this way we are making the local market sustainable. However, there is still a great deal of descriptive analysis still lacking on the side of households. We are less aware of what actually goes around our local market: who comes in, where they belong, what is their family background, their supply chain, their pricing strategies and strategies to make them grow. These are vital to ensure not only the buoyancy of the local market, but also to institutionalize and integrate the local market for the social well being.

Motives to integrate

Integrating them with the national economy would mean to create an institution for them. This should be done at the local levels of the Government. For instance, we see more than a dozen of street hawkers during the evenings in hustle-bustle streets of Baneshwor, Kathmandu hollering around in search of potential customers. On one hand there is haphazard street vending, and the citizens are always complaining about unmanaged street vendors creating disturbances in the city and obstructing vehicles and pavements whereas on the other hand it is we who are creating the demand for their goods. Though street hawkers satisfy our household consumption needs, more than 20,000 street hawkers in the streets of Kathmandu face criticisms right in their faces and some are even abused because of their rent seeking behavior. As local

markets are deemed to have people like this and not everyone can afford a shop with roofs to give them shelter, there is certainly a mismatch in the society. The economic angle where demand meets supply is established whereas on the social front there is mismanagement of public resources. This is one reason for integration and institutionalization.

The second reason would be from the socio-cultural perspective. Street hawkers, a major participant of the local market, are always stigmatized in the society because of their rent seeking behavior. However, they do not have enough resources to become a registered firm or concern. This is quite a big challenge in today's society and has to be dealt in a smart way. On the positive front, households are able to find the right product at the right price and at the right place just next to their doorstep. A local market, especially street hawkers, creates ample opportunities for consumers to choose and make informed-buying decisions. There are space constraints for buyers to interact with the sellers and yet the buyers negotiate for the best price. Every consumer is provided with the opportunity with limited time to strike the best price which means there is right to product information and product characteristics with an element of human touch with the sellers. Some end up sharing a good rapport with the buyers and this brings high certainty that they would choose to return back to the same seller. In this way the existence of local market culture creates higher consumer awareness than any shopping malls or big stores can do. Further the Government of Nepal has already made consumer awareness course mandatory in the school curriculum. The challenges exist in institutionalization and integration. However, one possible way to overcome the challenges would be to create night bazaars in and around localities where such kind of market is thriving in present. This would be similar to the concept of Night Markets in Thailand where consumers would get all their required goods in a common net while also fulfilling all the legal requirements in consonance with what the State wants.

Thirdly, your art to know about the existing society in a better manner cannot overlook the small players who add value in your daily life. No matter how fragmented they are (one or two miles away from your residence), yet they still belong to the society you live. Bringing them under a common net, as pointed out earlier, would increase knowledge about their market to the consumers. We all must have experienced the fact that not more than a week has elapsed and there are new hawkers around with new goods, one or two

new shops with assortment of goods, or even a new store around. As a citizen, one must make an effort to talk to them, get to know their credentials, and what they deal in. Integration and institutionalization must happen in order to close the gap between local market whereabouts and you.

How local market will shape the consumer mindset after integration ?

Around the world local markets deliver one of the most efficient forms of market because they play a big role in shaping the mindset of a local consumer. The demand and supply is driven by the preferences and tastes of the local consumers. Once integration takes place, the consumer will know what to buy, where to buy, and how much to pay for. They will be warranted with total product information in their hands, rather than being skeptical in their buying habits. Moreover, in that local environment what will matter is the first point of contact with the seller: the experience more than the good. This exchange of relationships that will occur in the niche milieu serves the well-being of the society as a whole. The consumers will take every opportunity to exploit the benefits of having local market in their vicinities as it connects the national economy to your home market. Therefore knowing about local market would have several benefits. Firstly you would meet local customers who have been buying that product for many years. They know exactly the value derived from its consumption and whether or not it demands such a price. Secondly, the transfer of knowledge from one consumer to another regarding particular products will be better understood in a local market, like a Sunday market in your town, to make conscious purchasing decision in the future. Thirdly, apart from the values and knowledge transfer, local market supports the local economy in providing goods and services at the most economical value that ultimately affects consumer satisfaction. Therefore, the importance of immersing

yourself in the local market is vital to understand the local market and in shaping the consumer mindset

Start institutionalizing and integrating with a model

Nothing was talked about in the recent Investment Summit held in the capital, Kathmandu, about the growing dependence towards the informal economy in Nepal. However, the Local Government can take the model of Night Markets in Thailand to immediately implement the institutionalization and integration process. Though they are multiple challenges, yet nothing can hold back to institutionalize the local market when local consumers are well aware about their local market and the motives to integrate as envisioned above are clear. If consumers are getting what they want from fragmented local markets, or even clustered ones but both being considered illegal and 'grey', efforts must be made from local consumers to build an institution for them. The end point would be to remove the stigma prevailing today in the society. So, what is holding back the Nepalis to rely on the credence of local market? In my opinion, trust seems a major barrier more than anything else (at least for now). Consumers need to trust the local market participants just like they trust shopping malls and big store participants. Since the economic point of view where demand meets supply is satisfied, the proper set up is necessary now. It is said that Kathmandu is a land of many informal micro entrepreneurs. A proper and well managed institution must be present to allow them to thrive and exist while making some profits to sustain their lives. Once the institution is set up, than the legal part would be necessarily be complete. I would end up with an interesting question: Can you imagine all the informal street hawkers being registered (individually or collectively) and part of a larger institution to serve the local market needs in a well-managed environment? ■

BANKING CRIME AND BANK RUNS

Banking crime affects public faith in the banking system. The whole banking system is predominantly based on public faith. Banking systems are structured in a society to ensure public confidence. The number of frauds and forgeries in banking system throughout the world is substantial and increasing day by day.



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Introduction

Normally, banking functions are related to deposit taking, lending, funds remittance and miscellaneous service, like safe deposit lockers, agency and trustee business. The modern banking functions are mainly comprised of activities such as cross-border banking, merchant banking, credit cards, leasing and insurance and other financial services undertaken by the banks. Banks enjoy the trust and confidence of the people. Banks depend a great deal on public confidence. Without public confidence banks cannot survive. The sound banking system is an essential requirement to flourish international trade and economic expansion which is growing due to the elastic nature of globalization

and economic interdependence. There must be 'confidence' in the bank. The public accepts the bank as being 'as good as cash'. Public confidence in the bank depends therefore on the belief that the bank will always be able to exchange deposits for cash on demand. While the rapidly growing banking industry in Nepal, banking crime are also increasing very fast, and fraudsters have started using innovative methods.

Banking crime affects public faith in the banking system. The whole banking system is predominantly based on public faith. Banking systems are structured in a society to ensure public confidence. The number of frauds and forgeries in banking system throughout the world is substantial and increasing

day by day. Fraud is committed in the banks in various areas by the employees and by the outsiders with the connivance or negligence of the bank's employees. Banks also perform certain agency functions for and on behalf of their customers. Banking crime is a deliberate act or omission by any person carried out in the course of banking transactions or in the book of accounts, resulting in wrongful gain to any person for a temporary period or otherwise, with or without any monetary loss to the bank.

Banking crime is a white-collar crime. Banking crime includes a considerable proportion of white collar crimes being investigated by the government authorities. Bank frauds, unlike ordinary crimes, the amount misappropriated in these crimes runs into lakhs and crores of rupees. Banking crime had also traditionally been prosecuted as a violation of the federal mail fraud or wire fraud statutes when the prosecutors could prove that the federal mails or wires communications were used to execute the fraudulent scheme. Banking crime is known as any behavior by which one person's intends to gain a dishonest advantage over another. In other words, fraud is an act or omission which is intended to cause wrongful gain to one person and wrongful loss to the other, by way of concealment of facts or otherwise.² Bank fraud may involve either insiders or outsiders to a bank. The collapse of the international bank, the Bank of Credit and Commerce International (BCCI), highlighted the problem of insider fraud.³ Banking crime can be committed in the banks in various departments. Banking crime commonly emerges as a response to inadequate supervisory conditions.

Banking Offence and Punishment Act, 2008 (2064 B.S.) was promulgated with the objectives "to provide legal provisions on banking offences and punishments with a view to promoting trust towards banking and financial system thereby mitigating the consequences and the risks that the banking and financial system may suffer on account of the offences may be occurred in course of transactions of bank and financial institutions be it enacted⁴". Banking Offence and Punishment Act, 2008 has classified the banking crime under the fourteen headings as following.

1. Opening an account or demanding cash payment in an unauthorized manner,
2. Making unauthorized withdrawals or payments,
3. Obtaining or making payment by way of abuse or unauthorized use of electronic means,
4. Making available or providing loans in an unauthorized manner,
5. Misusing credit facility,
6. Misusing banking resources, means and assets,
7. Acquiring assets or opening account by borrower having over dues,
8. Stopping credit facility in the way to lose working project of borrower,
9. Making loss by altering account or ledger or by committing forgery or fraud,
10. Doing transaction by misrepresenting bank or financial institution or cooperative institution,
11. Deriving excess, low or false valuation,
12. Carry out or causing to carry out irregular economic or financial transactions,
13. Dhukuti transaction, and
14. Illegal banking transaction.

Nepal Rastra Bank has not issued a separate circular regarding the fraud related issue. Whereas the Reserve Bank of India (RBI) has issued a separate circular and reporting system regarding fraud. RBI has considered the classification of bank fraud on the basis of the provisions of the Indian Penal Code and have classified them under⁵ cheating, criminal misappropriation of property, criminal breach of trust, forgery, falsification of accounts, theft, extortion, burglary (house breaking), robbery, criminal conspiracy, bribery and corruption, and offences relating to currency notes and bank notes.

Banks can also frame internal policy for fraud risk management and fraud investigation function, based on the governance standards relating to the ownership of the function and accountability for malfunctioning of the fraud risk management process in their banks⁶.

² BANKING LAW OF INDIA 255 (L.P. Gurjal ed., 1st ed., Vardhaman Mahaveer Open University, Kota 2015).

³ ROSS CRANSTON, PRINCIPLE OF BANKING LAW 73 (1st ed. Clarendon Press, Oxford, 1997).

⁴ Banking Offence and Punishment Act, 2064 (2008), at preamble.

⁵ R P NAINTA, BANKING SYSTEM, FRAUDS AND LEGAL CONTROL 63 (1st ed., Deep & Deep Publications Pvt. Ltd. 2005).

⁶ Madan L. Bhasin, The Role of Technology in Combatting Bank Frauds: Perspectives and Prospects, ECOFRUM Vol. 5 Issue 2, 2016 at 210-211.

The effect of banking crime has a chain reaction on the community as a whole because banking industry constitutes a vital position in a community. Banking and financial industry's success or failure goes a long way to determine the success of the community. Banking crime is a major cause of bank failure.

Bank's Assets are loans and advances provided by banks that are expected to generate income in the form of interest while customer pays back principles amount in instalments. An asset of a bank turns into a non-performing asset, when it ceases to generate regular income such as interest for the bank. When a bank which makes a loan does not get back its principle and interest on time, the loan is said to have turned into a non-performing assets (NPA). Banks have to classify their assets as performing and non-performing in accordance with Central Bank's guidelines. According to the NRB guidelines, banks must classify their assets on an ongoing basis into the following five categories.

- Standard assets - loans that service their interest and principle installments on time- are also called performing assets,
- Standard/watch list- if any amount of interest or principle instalments remains overdue for more than one months - for the period up to three months.
- Sub-standard assets - if any amount of interest or principle instalments remains overdue for more than 3 months - for the period up to 12 months.
- Doubtful assets - an asset becomes doubtful if it remains a sub-standard asset for a period of 12 months and recovery of bank dues is of doubtful,
- Loss assets - where a loss has been identified by the bank or RBI - these are generally considered uncollectible.

Prompt Corrective Action (PCA) is intended to resolve the problems of bank and financial institutions with inadequate capital at the least possible long-term cost by earlier intervention in the bank and financial institutions through mandatory dividend restriction, prohibition on acceptance of deposits and in several

other ways, depending on the triggers. PCA is essential that corrective action is taken well in time when the banks and financial institutions still have adequate cushion of capital so as to minimize the cost of failure and its spillover effects on the economic through financial system. Nepal Rastra Bank (NRB) has issued a bylaw for PCA based upon the capital adequacy as PCA Bylaw, 2008 (later updated in 2017). PCA is intended to resolve the problems of banking and financial institutions with inadequate capital at least possible long-term cost by earlier intervention of deposits and in several other ways, depending on the triggers.

Bank runs occur when depositors or other creditors fear for the safety or availability of their funds, and large numbers of depositors try to withdraw their funds at the same time. Banks do not keep enough cash on hand to meet large-scale unexpected withdrawals of deposits. Deposits can be withdrawn on first-come-first-served basis. Therefore, a run reflects the group behavior to obtain the limited amount of cash that is available⁷. "Bank run/Bank Panic" means a series of unexpected cash withdrawals caused by a sudden decline in depositor confidence or fear that the bank will be closed by the chartering agency⁸.

In August, 1998, CNN and other television stations showed long lines of Russian citizens trying to withdraw their funds from local banks during the financial debacle in Russia. The Russia government defaulted on the payment of some of its securities, and the citizens thought that the banks were unsound. The banks were not able to pay off all depositors, and they were closed⁹. Similarly, a "silent run" occurs when large creditors, such as banks and investment companies, withdraw their funds in order to protect them. This happened to Continental Illinois Bank in 1974. International banks uninsured deposits of tens and hundreds of millions of dollars in Continental. Subsequently, Continental Illinois failed¹⁰. Runs on one bank may spark runs on other banks and create a domino or contagion effect.

On January 4, 1991, the Bank of New England announced that it expected a loss that would render it technically insolvent. Depositors made a run on the bank, withdrawing more than \$1 billion. Although their deposits were insured, they did not want to be inconvenienced, and they wanted liquidity. On January

⁷ BENTON E. GUP, & JAMES W. KOLARI, COMMERCIAL BANKING, THE MANAGEMENT OF RISK 34 (3rd ed., Wiley 2016).

⁸ NAVEEN CHAND JAIN, DICTIONARY OF BANKING 62 (2nd ed., A.I.T.B.S. Publishers, India 2012).

⁹ BENTON E. GUP, & JAMES W. KOLARI, COMMERCIAL BANKING, THE MANAGEMENT OF RISK 34 (3rd ed., Wiley 2016).

¹⁰ Ibid, at 35.

6, 1991 the bank failed, due in part to the run. It was declared insolvent by the Office of the Comptroller of the Currency (OCC), and the FDIC was appointed as receiver¹¹. In May 1974, Franklin National Bank (FNB), the 20th largest bank in the US, faced a crisis. FNB had made a large volume of unsound loans, as part of a rapid strategy. Bank's large depositors withdrew their deposits and other banks refused to lend to the bank. FNB offset the deposit outflows by borrowing from the Federal Reserve. Small depositors, protected by the FDIC, did not withdraw their deposits; otherwise the run would have been more serious. FNB had been used by its biggest shareholder, Michele Sindona, to channel funds illegally around the world. In March 1985 he died from poisoning, a few days after being sentenced to life imprisonment in Italy for arranging the murder of an investigator of his banking empire¹².

Banks were failure due to many reasons. There are number of contributing factors. For example, poor management can be the source of a weak loan portfolio or sloppy supervision by the regulators, and regulatory forbearance can make conditions ripe for rogue traders and fraud¹³.

- i) Poor Management of Assets,
- ii) Managerial Problems,
- iii) Fraud,
- iv) The Role of Regulators,
- v) Too Big to Fail,
- vi) Clustering,
- vii) Miscellaneous Factors.

The subprime mortgage financial crisis refers to the sharp rise in foreclosures in the subprime mortgage market that began in the US in 2006 and become a global financial crisis in July 2007. Rising interest rates increased newly-popular adjustable rate mortgages and property values suffered declines from the demise of the housing bubble, leaving home owners unable to meet financial commitments and lenders without

a means to recoup their losses¹⁴. The FDIC monitors the banks and thrifts that is insures. Once an insolvent institution is closed, there are two alternative ways for the FDIC to proceed - by payment or by purchase and assumption¹⁵.

In 2007 (2063 B.S.), Kantipur newspaper has published the news stating that the deposit of 1300 crores are risk depositing the Nepal Bangladesh Bank Ltd. The bank has lose the deposits from 1300 crores to 6000 crores. Nepal Rastra Bank took the management of the Nepal Bangladesh Bank Ltd. pursuant to the Nepal Rastra Bank Act, 2058 section 86. Nepal Rastra Bank has provided the liquidity to the Nepal Bangladesh Bank Ltd as per the provision of the lender to the last resort. Then public stop to withdraw their fund from bank. Due to the Nepal Rastra Bank positive and immediate response, the bank was safe.

Banks and Financial Institutions can become financially distressed and fail. A bank failure occurs when a bank cannot pay its depositors in full with enough reserves left to meet its reserve requirement. In particle, regulators can close a bank when they deem its net worth to be too low. The higher a bank's holding of reserves, marketable securities, or equity capital, the less likely is the bank to fail¹⁶.

Central Bank has tried to save the problematic bank as a lender of last resort. If it is not possible then the regulator can apply to the High Court for the dissolution of such commercial bank. Regarding the problematic bank and financial institutions can take an action by the Nepal Rastra Bank according the provisions of the section 86, 86 B of the Nepal Rastra Bank Act, 2058. The absence of convictions in the wake of such serious criminal conduct by large financial institutions generated significant criticism. Concern about "too big to fail" morphed into concern about "too big to jail". Much of this concern is fueled by the sense that the penalties imposed on these banks through settlements do not match the severity of the criminal conduct. ■

¹¹ Ibid, at 35.

¹² SHELAGH HEFFERNAN, MODERN BANKING 362 (1st ed., John Wiley & Sons, Ltd. 2005).

¹³ SHELAGH HEFFERNAN, MODERN BANKING 390 (1st ed., John Wiley & Sons, Ltd. 2005).

¹⁴ VIVEK & P.N. ASTHANA, FINANCIAL RISK MANAGEMENT 319 (2nd ed., Himalayan Publishing House, Hyderabad 2017).

¹⁵ MEIR KOHN, FINANCIAL INSTITUTION AND MARKETS 615 (2nd ed., Oxford University Press 2015).

¹⁶ KIRAN THAPA & DIPENDRA K. NEUPANE, BANKING & INSURANCE 26 (1st ed., Asmita Book, Kathmandu 2066).

TAX PROVISION - BUDGET PROPOSAL - FY 2076-77 - SOME THOUGHTS

Special provision has been made to exempt from submitting details, tax, fine & additional fees and interest to already established start ups business based on innovative ideas, skill, business which uses *entrepreneurship* & use of technology, if they have not come into the tax regime, provided they register before 14th January 2020 under Value Added Tax Act by taking PAN No. ,



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Finance Act Sec. 20 - Start up Sec. 20

Special provision has been made to exempt from submitting details, tax, fine & additional fees and interest to already established start ups business based on innovative ideas, skill, business which uses *entrepreneurship* & use of technology, if they have not come into the tax regime, provided they register before 14th January 2020 under Value Added Tax Act by taking PAN No. But this exemption applies only to years before 2075-76 and does not apply to 2075-76 (2018-19). But they have to submit the return for 2075-76 after registration with VAT Office and will have to pay the tax and fine and

other fees due as the provision of exemption applies only to the years before 2075-76 (आ.व. २०७५/७६ भन्दा अघिको वर्षहरूका लागि मात्र लागू गरिएका देखिन्छ तर आ.व.२०७५/७६ को लाई लागू हुने देखिदैन) Definition of “Start up” is required to be given or monitoring units under department of industry should be able to register and certify as “Start up “ entity. But no tax rebates /facilities has been provided for such “start up” units

Under the Value Added Tax Act

Under Sec. 10(2)(ka), the following additional business have been brought under compulsory registration. ‘Health Club,

Discotheque, Massage therapy, Motor parts, Electronic Software, Customs agent, Toy business, Waste & Scrap business.

- **Under Sec. 10(2)(kha)**, Educational and Legal consultancy, Services relating to Accounts and Audit have been included, omitting Health club, Discotheque, Massage therapy and beauty parlor which have been included under SubSec. (ka) above.

They are supposed to register once they commence their business whether their turnover exceeds the exemption limit or not.

- By adding **Sec.10 (Ga)**, they have made biometric identification in the PAN card. But until proper rules are made in this regard, it may be difficult to implement the same especially in the corporate sector where the person taking the PAN originally has left the company and the address is changed. It would have been better to make citizenship certificate biometric.
- **In Sec.19, sub-section (7ka)** has been introduced making it compulsory to deposit the VAT every month by cheque, draft or online medium where the VAT to be deposited exceeds rupees 10 Lakhs. It would have been better to make all VAT payments online through the respective banks in which case IRD will have to restructure its software in collaboration with Nepal Rastra Bank to receive the amount and issue the receipt for the same online. In that case, there can be no returned cheques and unnecessary interest and penalty. With E-banking availability the tax payers can pay the tax sitting in their office, without the necessity to go to the bank to deposit the tax. It is not clear whether those paying VAT less than Rs.10 lakhs also could pay online.
- **In Sec. 24(3)** for refund of the excess VAT Paid, VAT is refundable within 4 month instead of waiting for 6 months this will help the Cash Flow of exporters.
- **In Sec. 25**, previously the exemption of VAT was available only to the accredited EMPLOYEES of the foreign diplomatic entities, but the exemption has been extended to the foreign diplomatic ENTITIES also. But the minimum amount of VAT to claim refund should be Rupees Ten Thousand at a time (i.e. for each purchase bill or for each claim on various bills?). The previous limit was Rs.5, 000/- which has been enhanced to Rs.10, 000/-. In this connection a new Rule 45(2ka) has

been introduced restricting the refund only to purchases from the firm, Company, (refund shop) notified by the Department. Where and how it will be notified is no mentioned.

- **In Sec. 25 after sub-section (1 ka)**, the following sub-section (1 kha) has been inserted as an incentive for the consumer to demand VAT bill and make the payment through electronic means on all his purchases. This applies only to consumers who do not have the benefit of claiming input tax credit (this means available to non-trading direct consumer natural persons only?). Further the payment should have been made by electronic medium i.e. by on line payment or through credit or debt cards, when the respective bank account of the consumer could be identified. Since e-marketing is growing, this is an indirect way to bring them within the preview of VAT Act. Now the question arises whether payments made by foreign tourists through international credit cards in Nepal be eligible for this, if they collect VAT bill and pay VAT.

When goods are purchased on summary bill, on which VAT amount will not be separately mentioned in the bill (for which no input tax credit is available), will the costumer be able to get the refund? This should be made clear.

- **In Sec. 29(1) sub-section (9)** has been introduced by providing for a penalty of Rupees Ten thousand, if Sec.10 (7) is not followed. Sec. 10(7) provide for intimating the tax office for any change in the particulars given in the PAN application for registration. This is made leviable if the change in particulars in the PAN is not notified to the Tax office within fifteen days after each change. This will apply for every change including change in the person who is in charge of the office of the tax payer and the address. Provision should be made to make the intimation by electronic medium. PAN card should contain the e-mail address of the office to which such change has to be intimated.
- **Sec. 29 (d)** - The following sub-section (Ga) has been substituted. If a seller does not give VAT bill, he is liable to a fine of Rs.10, 000/- for each such instance. Similarly, if the purchaser does not demand and get the bill, he is liable to a fine of Rs.1, 000/-. This can apply only when both the seller and purchaser are registered in VAT. In other cases, the trace of the consumer may not be available. For this, wide publicity should be given so that all VAT registered dealers understand the consequence of this provision.

- Under **Sub-section (1Ga)**, if a person transports any taxable goods valued at more than Rs.10,000/- out from the notified area without carrying tax invoice, he (transporter?) is liable to a fine of Rs.10,000/- for each time of such offence.
- Under **Sub-section (1Ga)**, if seller issued VAT invoice without handing over goods or service he will be punished 50% of such invoice amount or 6 month imprisonment or with both.
- Under **Sec. 31ka**, the amount to be deposited for the administrative review to the Director General, has been reduced from One third (1/3) of the disputed tax to 25% of the disputed tax.

Some of the items that have been excluded from exemption of VAT as specified in previous Such -1 of VAT ACT have become now liable to Vat. Items are Wheat flour , Soybean nutrela , Tempo & Transportation services. Thus it seems that passenger transport services also have been brought under VAT.

Under exemption of VAT on other article, **item no. 5**, spare parts and accessories to be imported for production of electric Ricksha, last year items under Harmonic code 87.14 were mentioned which are mainly related to spare parts and accessories of motor cycles. But this year reference has been made to heading 87.08 which relates to parts of motor cars

Excise Duty Act

- Sec.19 (5)** has been amended that the amount to be deposited for the administrative review to the Director General, has been reduced from 1/3rd of the disputed tax to 25% of the disputed tax.

In the case of *ad valorem* duties, no change is made in the percent levy. In the case of all specific duty items 10% mark up on average has been made over the rates of last year.

In the case of Bidis, no increase in excise duty is proposed and remains at Rs.90/- per thousand sticks.

Excise duty exemption on import of MS Wire Rod Coil given till last year has been dropped this year.

Now excise duty has been imposed at 10% *ad valorem* on artificial flowers made of plastic or other materials under Heading 6702.

INCOME TAX ACT 2058

In section 11 after sub-section 2 ka, the following sub-section (2 kha) has been added under which on the income earned by operation of the special industry throughout the income year. Following exemptions are given:

(Ka) In the case of a natural person, individual, on the slab on which 30% tax is levied, an exemption of $\frac{1}{3}$ of tax leviable has been provided. In other words, slab will be taxed at 20% instead of 30%. Now, this means on the face of it, in this case, since no 30% slab is applicable, no additional tax at 20% will be applicable even if the income exceed Rs.20 lakh. If it is otherwise, IRD should give a circular.

(Kha) In the case of income of entities 20% on the tax will be exempted i.e. instead of normal 25%, the tax rate will be 20%.

This sub-section has been moved from schedule 1 to the Act 1 in earlier year.

(Ga) The person who is getting facilities as per “ka” or “Kha” above, they will be entitled to get other tax incentive also, if any, if they are eligible to avail.

This is in conflict to the provision that only one facility will be available under sec.11 (5) which States (5) Where a person qualifies for more than one concession under this section with respect to the same income, the person shall only be entitled to one concession with respect to that income but shall be entitled to select which concession applies, which denied multiple benefits has not been repealed/deleted. Thus there is conflict between Sec.11 (5) and the proposed Sec. (2kha) (Ga), one of which will have to be deleted.

Here possible scenarios are examined in which the provisions could be interpreted.

Natural Person earning income from operating special industry, tax		
		Normal without any rebate.
450000	0%	0 ¹
100000	10%	10000
200000	20%	40000
1250000	30%	375000
2000000		425000
500000	36%	180000
2500000		605000

¹ Since he will be carrying on as an individual firm, there is no tax on the first slab.

Running special industry		
450000	0%	0
100000	10%	10000
200000	20%	40000
<u>1250000</u>	20%	<u>250000</u>
2000000		300000
<u>500000</u>	20%	<u>100000</u>
2500000		400000

Since the slab is 20% only as one third exemption is given on 30% tax, 30% slab is not applicable and no 6% additional tax applicable. If it is argued that that applicable rate is only 30% and on the tax levied one third rebate will be given

then the working will be as follows;

450000	0%	0	A
100000	10%	10,000	B
200000	20%	40,000	C
<u>1250000</u>	30%	<u>375,000</u>	D
2000000		425,000	E
<u>500000</u>	30%	<u>150,000</u>	F
2500000		575,000	G
Addl. tax	6% on "f"	9,000	H
Total at 30% slab (d+f+h)		534000	I
less 1/3 (i/3)		178,000	J
Total tax payable (a+b+c+i-j)		406,000	K

If it is assumed that even though 20% is applicable additional tax at 20% is to be levied because his income is more than Rs.20lakhs, and he is liable to 30% slab but for sub Sec. 2kha(ka)

450000	0%	0
100000	10%	10,000
200000	20%	40,000
<u>1250000</u>	20%	<u>250,000</u>
2000000		300,000
<u>500000</u>	20%	<u>100,000</u>
2500000		400,000
20% of 20%	4%	4,000
Total at original 30% slab		354,000

It is not clear whether he will get rebate on the whole tax paid under 30% slab including

Additional tax or only on the tax payable at 30% when the income is more than Rs.20 lakhs since the section says that one third rebate will be given on the tax levied (लागेका क्रमा) on the 30% slab.

If it is intended that he will get 10% rebate on income above Rs.20 lakhs, this should be clearly mentioned, even though it is mentioned additional tax that also becomes tax and part of the tax rate. So it should be made clear whether on income above Rs.20 lakhs rebate will be only 10% or 12% i.e. $\frac{1}{3}$ of 36%. This clarification will avoid unnecessary dispute about the tax to be levied at the time of assessment.

In the case of entities that are special industries, normal rate is 25% without any slab, exemption 20% will be given, and the net tax rate will be 20%. They will be entitled to other concessions that are available under other subsections of sec.11, if they are eligible for the same

Section (3nga) sub-section kha)

Under sub-section (ka) for an individual person, whose income consists of export income, 25% rebate will be given on 20% tax slab and 50% rebate will be given on 30% slab. Here also it is to be made clear whether 50% rebate will be available on income above Rs. 20 lakhs on which tax is levied at 36% whether the rebate will be 18% on 36% tax or 15% on 30% tax only. This applies to Export houses, which do not produce any articles of their own for export as special industry, but procure the goods from the market and export the same. The net tax rate is 15% or the last slab 18% according to interpretations. Instead of this percentage concession the applicable rates for each slab could have been given thus avoiding any confusion.

If it is a special industry and he exports, the tax on his export income under sec. (2kha) will be 20% and on which under this section he should get further rebate of 25% on his tax at 20 % slab upto Rs750, 000 incomes. He gets a rebate of one third on his 30% slab he must get a further rebate of 50% on 20% tax he pays on 30% slab. Or in other words, his maximum tax rate will be 10%. Then the question remains whether he will be liable for additional tax on his export income above Rs.20 lakhs. This is not clear. It should be mentioned clearly that an exporter is not liable for additional tax or it is applicable 20% of 10% only on his income above Rs.20 lakhs.

In this case, the first slab will be 10%, next slab will be 15% and the next slab will be 20%, which will be reduced to 15% on his export income as per the above provision. If his income is above Rs.20 lakhs, whether he will still have to pay 20% additional tax on tax payable on income above Rs.20 lakhs on exports or not should be clarified. It seems no additional tax is leviable.

If it is considered not feasible to include in the Act, at least an explanatory circular with details of calculation of tax with an illustrative should be issued immediately, soon after the Act is passed by the Parliament. This will help the tax payer to pay the correct tax and also avoid disputes in future and also for the foreign investors to understand the effect of the concessions given.

This will also require review of the income tax return format and the software program with regard to calculation of the tax in the different situations.

(3 nga (Ga)

In the case of production oriented industry entities, on the income earned by export, an additional rebate of 25% is given on the tax payable as per Sec. 2 kha (kha).

An industry earning income on its export of production goods, in addition to 20% rebate, further 25% rebate will be given i.e. $25\% - 20\% \text{ of } 25\% = 20\% - 25\% \text{ of } 20\% = 5\%$ on its export income i.e. effective rate will be 15% on export income of entities.

Amendment in (3 cha) of Sec. 11:

Previously income from all the infrastructure facilities was given a Rebate of 40% on the tax payable on its income. Now different rates of rebate have been fixed for different types of infrastructure.

- (a) Tram or Trolley bus - rebate of 20% (previously 40%);
- (b) Ropeway, Cablecar, Railway, tunnel or overland bridge in construction and operation - rebate of 20% (previously 40%);
- (c) Airport construction and operation rebate of 40% (same as before);
- (d) Road, bridge or tunnel road construction and operation rebate of 52% (previously 40%)
- (e) By investing in tram or trolley bus and operating the same rebate of 52% (previously 40%)

Sub-section (3tha) is added after the present sub-section (3 ta).

In any income year, if any entity constructs and operates any projects which will eventually be transferred to the government (like Power House construction, production and distribution) a rebate of 20% will be given against the tax on the income of such projects.

11 (4)

The previous provision has been replaced by the provision that if any person has carried out projects with different rebates, income for each such project will be deemed to have been derived by different persons for the purpose of giving rebates. Thus separate accounts should be maintained for each such project.

- **Sec. 21** The following addition has been made to Sec. 21 to disallow the following expenses:

(Ga 1) Salary or wages paid to any employee or labour who do not have PAN

This is going to be a great challenge not only to the government but also to small businessmen with less than one core turnover. In villages, one could not obtain PAN bill for temporary coolies engaged who will be nomadic and the businessman cannot verify the PAN of those people who do not have PAN and he can not stop his business because PAN registered collies are not available.

This is no provision for compulsory registration for PAN. In VAT also unless his turnover exceeds Rs.50 lakhs only, he should be registered under VAT. In village and small town in far off places one cannot expect everybody to take registration under VAT and issue VAT bill and submit periodic return of VAT where it takes more than a day to reach the revenue tax office. Thus it is a draconian provision and should be modified to suit the prevailing circumstances in Nepal. Intention to bring all under tax umbrella is appreciable step but to bring them about should be adopted in a more acceptable ways that this punishing method.

For regular employees and workers of factories, big businesses and financial institutions which usually have the necessary resources to deduct tax and submit returns. This provision will be alright. But how this will be implemented in village and small towns where persons running the business do not have the necessary knowledge and literacy to carry out this sort of work with creating unnecessary burden and difficulties is to be examined and proper provision should be made so that no harassment inflicted on them. Initially this limit could be fixed upto Rs.10,000 and gradually bring that down, by which time people could be prepared to obtain PAN by various promotional measures.

- **Sec. 47 ka** extends the date for merger in consequences of policies of Nepal Rashtra Bank and Insurance Board to encourage merger of financial institution and insurance companies respectively.
- **Section 63** has been amended to include the following entities also on recognised entities without a necessity to take approval from the

Department of Revenue to establish Retirement Payment Fund, viz. Social Security Fund 2074 based on contribution and Pension Fund under Pension Fund Act 2075.

- **78(4)** has been added to make it compulsory for the person doing business by obtaining PAN should update the particulars under biometric. It seems that persons who do not do any business just like employees, pension holders, pensioner earning income by way of dividend and interest on deposit do not have any regular business do not come under this provision.

The definition in **Sec. 2(ta 1)** of business means the total amount to be included for calculating the income from employment, business and investment.

No explanation is available as to why biometric identification is necessary whether to avoid duplicate PAN in the name of same person. If the same person is acting as managers of two or three associated business companies and he takes PAN in his name for those companies and for himself also, how it will be distinguished or permitted should be explained.

- **Sec. 79 (1)** has been amended to permit communication of notices to the tax payer by electronic media like telephone, telex, email etc., a new sub-section (3) has been added in order to overcome the difficulties in servicing notices on tax payers who are not found at the address given or evade receiving notices by providing publication of notice through radio television and any national newspapers and such notice shall be deemed to have been received by the concerned tax payer. But if the tax payer has left the country and he has no other interest in Nepal, how this will be useful should be considered and what steps could be taken in such case.
- In **Sec.88 (1) (5)**, the following sub-section (Ga) has been added:

When the incentive refund of VAT is paid for payment by electronic medium, no tax is to be deducted at source on such payment. Since this is an incentive provision and in the starting period there may not be much taking and the Tax Department has to modify its billing programmes to separate customer usage payments and regular business payments to activate the refund of VAT and to connect the customer bank account. Until

this modification is introduced in the computer billing programmes, this section may not be practically applicable. Further all sales in the Malls and provision and general stores or any places where both wholesale and retail trade is carried on need not be direct consumers sale. So this is an incentive as a corresponding provision of punishing the customer who does not ask for and take VAT bill has been introduced. How seriously this can be implemented and how the offence could be found and penalty levied, the merchant communities reaction to this is to be seen.

- In **Sec. 94.1** The tax limit for the duty to submit advance tax return has been enhanced to Rs.7,500/- from the existing provision of Rs.5,000/-. This will have a marginal effect. This will affect individual tax payer earning more than 4, 50,000 or 5, 00,000 as the case may be and entities earning Rs.30, 000 or more.
- In **Sec. 95(ka) (2)** The rate of deduction of tax on the gain on sale of securities to be deducted by securities dealers has been reduced to 5% from 7.5% at present.

A new sub-section (**2ka**) has been added at to how to calculate the gain on sale of securities. When the securities of an entity have been acquired at different times, the weighted cost of securities has to be taken into account. Unless the account of acquisition and disposal of securities of individual accounts are maintained or available it will be difficult to ascertain the weighted average price. It may be possible only when all the shareholders maintain De-mat account with the authorized De-mat registered entities. Even then to locate all the shareholders who had taken shares long time back is difficult. Many companies have shareholders who could not be found at the address given at the time of subscribing. Unless each company takes effective steps to locate small shareholders, small shareholders will be the sufferers. An amendment should be made in the Companies Act that dividends not claimed, say, for more than 7 years should be transferred to a Special account with the government, with necessary safeguards to the shareholders.

- **Sub-section (6)** has been replaced by reducing the tax to be deducted from 10% to 1.5% in the case of transfer of land and building by persons other than individual i.e. by entities.

- Under **Sub-section (7)** dried vegetables, garlic, baby corn have been added for deduction of tax at 5% at the time of import at custom point. Similarly on the import of milk based items, eggs, honey, kodo, phaper. Junelo, rice kanika, Maida, Ata and rice flour, herbs, sugar cane, forest products, provision for tax deduction at 2.5% has been introduced.
- Under **Sec. 96** New sub-section (6) has been added providing for filing a revised return within one month from the date of filing the original return if it is otherwise but it should comply with the procedure prescribed for the same. The procedure has not been prescribed in the Act. But in the finance minister speech, it is mentioned to correct the mistakes but here that is not mentioned but }cGoyf ePdf } which is subject to various interpretations.
- A new **Section 110 Ga** has been added to collect the tax from the real owners {de-facto owner} of the business who really enjoy the fruits of the business operations where businesses are conducted in the name of Benami persons, who are found to have no resources to pay the tax. The section says that it is the responsibility of the real owners to pay the tax but does not provide that the tax will be collected from the real owner.
- **Section 115** has been amended that the deposit to be made to the Department when applying for administrative review has been reduced from 30% to 25%.
- **Section 166** has been amended that if no decision comes from the department within 60 days, the tax payer can file an appeal to the Revenue Tribunal by notifying the department of the same.

This has made clear the present situation in practice. The question arises if the department cannot take a decision to accept or dismiss the application for administrative revenue within 60 days why at all this provision is made. The same can be provided for direct appeal to the Revenue tribunal from the tax office assessment itself by depositing 25% of the disputed tax and thus unnecessary paper work of the department as well as of the taxpayer could be reduced considerably. It will be instructive and interesting to learn how many such applications are received in a financial year by the Department and how many are processed and how many are rejected.

After filing the appeal to the tribunal, the tax department should be intimated of the same within 15 days.

If substantial tax demand becomes pending, the government should set up machinery to dispose of the appeal within 3 months of filing so that foreign investors can have an assurance that the tax liabilities will be decided without delay in a fair manner.

Further the department has announced the following amendments to the Rules under VAT Act and Income Tax Act.

VAT Act Rules:

6ka (2). Some modification has been made without changing the import of the earlier rules. This applies to government departments, public entities, associations, societies and persons registered under VAT that they can **receive** any contract of more than Rs. 5, 00,000 from or obtain consultancy services exceeding Rs.5, 00,000 from only persons or entities registered under VAT Act. Previously the rule was applicable for contracts given by these entities and now it is mentioned contracts received by these entities.

A new rules **6ga** has been introduced in the manner of TDS under income tax Act in order to enhance the collection of tax for the government stating that the government departments, public entities, associations, societies wholly or partly owned by the government while making payment to the contractors, or under contract or for supplying goods or services, 50 % of the VAT amount should be paid to the government in the name of such suppliers and the balance 50% Vat amount to the supplier along with the payment of the bill amount. Under the law there is no limitation of time for the payment of the bill amount. If the amount is paid as advance to be adjusted along with the final bill and the final bill amount payment is delayed the deposit of the VAT amount also will be delayed to the Government. Further matching the bill of the supplier and the accounting in the recipients account is going to give problems to the various parties unless the government tunes up its computer program to match the entries.

Here also if a monetary limit like VAT above Rs. 5 lakhs per month, is put then the small players will not be affected.

Under Rule 7Kha, the time limit for updating the VAT with biometric, has been laid down up to the end of Ashadh, 2020. Unless the department makes, or has already made, the preparations to facilitate this in all tax offices of the country, the time limit will have to be extended.

Another most important change is in Rule 4(1) which includes Diesel, petrol and LP gas on which no input VAT credit will be available. This will affect the industries which depend on these for their production. But the tax evasion practised in these products will be curbed.

Sec.58ka providing for appointment of TAX HELPER has been deleted.

Income Tax Rules

Rule 29(3) has been amended that only tax payments above Rs.10 lakhs into government recognised bank account should be made by cheque or bank draft or by electronic medium. Previously all such payments have to be made by cheque or bank draft or by electronic medium. Thus such payments below Rs.10 lakhs can be made in cash also into the bank account, by this amendment.

Excise Duty Rules:

The only amendment in the rule 34 is amending the yield of alcohol produced from cereals from at least 30.57 liters of ENA of 68.8 OP to at least 42 liters of ENA only of 68.8 OP from one quintal of cereals. The entities producing wine from fruits should produce at least 2 liters wine with 12% alcohol content or proportionate wine at the same ratio. ■

Congratulation to Newly President and Vice President Elect

President Elect



CA. Krishna Prasad Acharya

CA. Krishna Prasad Acharya is President Elect of ICAN for the year 2019/20. He was elected Vice President of the Institute for the year 2018/19. He was also a council member for the year 2009/12. He has obtained CA degree from the Institute of Chartered Accountants of India (ICAI) in 2003 and has been a member of the Institute of Chartered Accountants of Nepal (ICAN) from 2003. He holds Masters of Philosophy in Management in 2010. He served in different Committees in the past.

He was an Administrator/CEO of Employees Provident Fund from 2012 to 2017. Before he was appointed as an Administrator he occupied the different senior positions in Employees Provident Fund. Furthermore, he was a CEO of United Insurance Co Ltd. and General Manager/ CEO at NIDC (Financial Institutions) Ltd. before he joined in the job he was in audit practice with different positions. Currently he is a board member at different organizations.

Vice President Elect



CA. Madan Krishna Sharma

CA. Madan Krishna Sharma qualified as a Chartered Accountant from the Institute of Chartered Accountants of India (ICAI) in May 1986 after obtaining bachelors in commerce from Tribhuvan University, Shankerdev Campus, Kathmandu. Started his career with the job in the government corporation, moved to a private sector joint venture company and started public practice in 1991. He is a Fellow Member of ICAI and the Institute of Chartered Accountants of Nepal (ICAN). He has served as a council member of ICAN and the Chairman of Accounting Standards Board of Nepal in the past. At present he is a member of current Council 2018-20 and Vice-President Elect for the year 2019/20. He has served as chairman and member in different committees of ICAN.

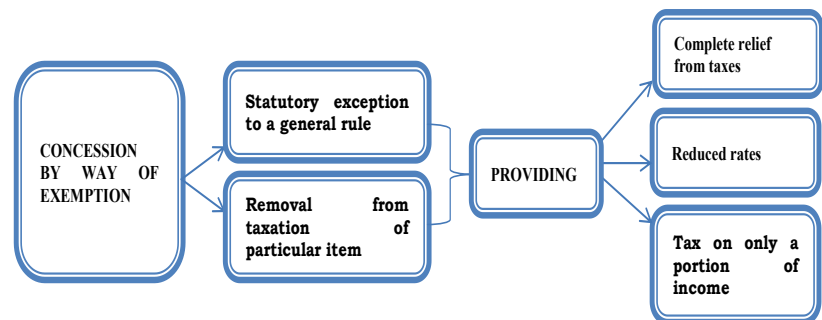
Presently he has been serving as the expert member in the Revenue Advisory Committee of the Ministry of Finance.

TAX EXEMPTIONS AND CONCESSIONS: AN OVERVIEW WITH COMPARISONS

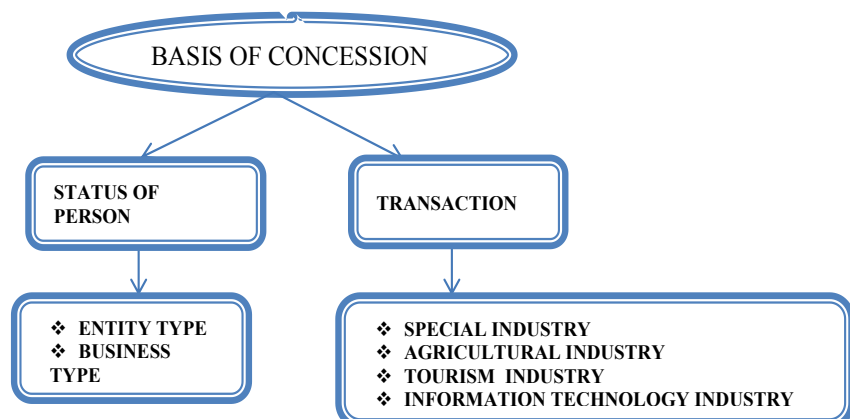
Business exemptions and concession means the benefits, facilities and rebate to a particular industry or sector. These benefits may be in the form of tax holiday or lower tax rate. Before the enactment of Income Tax Act 2058, other Acts, like Industrial Enterprises Act, Pension Fund Act, etc had provisions to allow tax exemption and tax concession.



1. Background



2. Basis of Concession



CA. Prabin Raj Kafle

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3. Business Exemption and Concessions

Business exemptions and concession means the benefits, facilities and rebate to a particular industry or sector. These benefits may be in the form of tax holiday or lower tax rate. Before the enactment of Income Tax Act 2058, other Acts, like Industrial Enterprises Act, Pension Fund Act, etc had provisions to allow tax exemption and tax concession. But the new Income Tax Act has repealed the provisions regarding Income Tax in the various Acts. The aim of providing such benefits are numerous such as promoting a backward or prioritized sector or industry, removing regional disparity by encouraging industry to set up in a particular region or sector, reducing unemployment problem or making the optimal use of local resources.

Business concession and exemptions are offered by Section 11 of Income Tax Act, 2058 in either of the following way:

- **By way of exemption:**
Exempted income such as agricultural income of a farmer, rural based cooperatives shall not be required to be included in income tax returns. In other words, for tax purpose such income shall not be treated as taxable income. Person earning exempted income only shall not be required to file income tax return.

- **By way of deducting from assessable income:**

In some cases concession is allowed after including in income from business/ investment, but deducting from assessable income such as Special Economic Zone (Hilly), Special Economic Zone (Other), Remote Industry, Information Technology Industry.

- **By way of tax credit or reduced rate:**

In such cases income shall be included in tax returns and proportionate or other credit is allowed on tax amount or reduced rate of tax shall be applied on taxable income. In other words, the income shall be deemed as normal income but concession shall be provided on tax amount.

4. Things that should be Considered while Allowing Exemptions

- A person eligible for more than one concession under Section 11 with respect to the same income shall be entitled to one concession of its own choice.
- While calculating the income by a person operating transactions eligible for separate benefit under Section 11 shall calculate the such income assuming the income derived by a separate person except in case of Section 11(2Kha).

Section	Entity	Effective Tax Rate 2075-2076	Effective Tax rate 2076-2077	Difference in Rate	Remarks
Section 11(1)	Agricultural Income derived by Entity	20.00%	20.00%	0.00%	
	Cooperatives registered under Cooperative Act, 2074 and engaged in dealing in Financial Transactions in				
Section 11(2)	a. Any Place: i. Agriculture and forest products ii. Forestry related business	0.00%	0.00%	0.00%	
Section 11(2)	b. Rural community based: i. Cooperative doing Financial Transactions	0.00%	0.00%	0.00%	
Schedule 1 Section 2(3)	c. Metropolitan or sub-metropolitan Area	20.00%	10.00%	10.00%	
Schedule 1 Section 2(3)	d. Municipality Area	20.00%	5.00%	15.00%	
Section 11(2)	Dividend distributed by co-operative societies doing business: i. Agriculture and forest products ii. Forestry related business iii. Rural community based Cooperative doing Financial Transactions	0.00%	0.00%	0.00%	

Section	Entity	Effective Tax Rate 2075-2076	Effective Tax rate 2076-2077	Difference in Rate	Remarks
Section 11(2Ka)	Payment of Interest upto Rs. 25,000 by i. Rural Community Based Micro Finance Institution ii. Rural development Bank iii. Postal saving bank iv. Cooperative as per Section 11(2)	0.00%	0.00%	0.00%	
Section 11(2Kha)(Kha)	Special Industry (Fully Operated) (Inserted by Finance Act, 2076)	20.00%	20.00%	0.00%	Note 1
Section 11(3)(Ka)	Special Industries providing direct employment(throughout the year)				
	a. 100 or more Nepalese citizens	18.00%	18.00%	0.00%	
	b. 300 or more Nepalese citizens	16.00%	16.00%	0.00%	
	c. 500 or more Nepalese citizens	15.00%	15.00%	0.00%	
Section 11(3)(Ka)	d. 1,000 or more Nepalese citizens	14.00%	14.00%	0.00%	
	Special Industries providing direct employment(throughout the year), of which at least one-third are women, oppresed or incapacitated				
	a. 100 or more Nepalese citizens	16.20%	16.20%	0.00%	
	b. 300 or more Nepalese citizens	14.40%	14.40%	0.00%	
Section 11(3)(Ka)	c. 500 or more Nepalese citizens	13.50%	13.50%	0.00%	
	d. 1,000 or more Nepalese citizens	12.60%	12.60%	0.00%	
	Information Technologies Industries providing direct employment to				
	a. 100 or more Nepalese citizens throughout the year	22.50%	22.50%	0.00%	
Section 11(3)(Ka)	b. 300 or more Nepalese citizens throughout the year	20.00%	20.00%	0.00%	
	c. 500 or more Nepalese citizens throughout the year	18.75%	18.75%	0.00%	
	d. 1000 or more Nepalese citizens throughout the year	17.50%	17.50%	0.00%	
Section 11(3)(Ka)	Information Technologies Industries providing direct employment(throughout the year), of which at least one-third are women, oppresed or incapacitated				
	a. 100 or more Nepalese citizens	20.25%	20.25%	0.00%	
	b. 300 or more Nepalese citizens	18.00%	18.00%	0.00%	
	c. 500 or more Nepalese citizens	16.88%	16.88%	0.00%	
Section 11(3)(Kha)	d. 1,000 or more Nepalese citizens	15.75%	15.75%	0.00%	
	Special Industries starting commercial operation for first 10 Years in				
	a. Very undeveloped (remote area)	2.00%	2.00%	0.00%	
Section 11(3)(Gha)	b. Undeveloped area	4.00%	4.00%	0.00%	
	c. Underdeveloped area	6.00%	6.00%	0.00%	
Section 11(3)(Ga)	New Special Industry with capital investment of more than Rs. 1 Billion and employing 500 individuals during the whole year				
	a. First 5 years	0.00%	0.00%	0.00%	
Section 11(3)(Gc)	b. Next 3 years	10.00%	10.00%	0.00%	
	Existing Special Industry if increases installed capacity by 25% and make capital investment to Rs. 1 Billion and providing direct employment to 500 individuals during the whole year				
Section 11(3)(Gc)	a. First 5 years	0.00%	0.00%	0.00%	
	b. Next 3 years	10.00%	10.00%	0.00%	

Section	Entity	Effective Tax Rate 2075-2076	Effective Tax rate 2076-2077	Difference in Rate	Remarks
Section 11(3Ka)	Industries established in Special economic zone (SEZ)				
	1. Special Industry				
	a. Himali districts and GON prescribed Hilly districts				
	i. First 10 years	0.00%	0.00%	0.00%	
	ii. Thereafter	10.00%	10.00%	0.00%	
	b. Other areas				
	i. First 5 years	0.00%	0.00%	0.00%	
	ii. Thereafter	10.00%	10.00%	0.00%	
	2. Other Industry (Schedule1 Section 2(2))	0.00%		0.00%	
	a. Himali districts and GON prescribed Hilly districts				
	i. First 10 years	0.00%	0.00%	0.00%	
	ii. Thereafter	12.50%	12.50%	0.00%	
	b. Other areas				
	i. First 5 years	0.00%	0.00%	0.00%	
	ii. Thereafter	12.50%	12.50%	0.00%	
	3. Other Industry (Schedule1 Section 2(2))				
	a. Himali districts and GON prescribed Hilly districts				
	i. First 10 years	0.00%	0.00%	0.00%	
ii. Thereafter	15.00%	15.00%	0.00%		
b. Other areas	0.00%		0.00%		
i. First 5 years	0.00%	0.00%	0.00%		
ii. Thereafter	15.00%	15.00%	0.00%		
Section 11(3Ka)(Ga)	Dividend distributed by industry established in special economic zone;				
	i. first 5 years	0.00%	0.00%	0.00%	
	ii. next 3 years	2.50%	2.50%	0.00%	
Section 11(3Ka)(Gha)	Income from foreign technology, management fee and royalty earned by foreign investor from industries established in special economic zone	7.50%	7.50%	0.00%	Note 2
Section 11(3Kha)	Person transacting on minerals if business operation starts within 2080 Chaitra end				
	a. First 7 years	0.00%	0.00%	0.00%	
	b. Next 3 years	10.00%	10.00%	0.00%	
	Person transacting on research and exploration of petroleum, if business operation starts within 2080 Chaitra end	0.00%		0.00%	
	a. First 7 years	0.00%	0.00%	0.00%	
	b. Next 3 years	15.00%	15.00%	0.00%	
	Person transacting on research and exploration of natural gases, if business operation starts within 2080 Chaitra end				
	a. First 7 years	0.00%	0.00%	0.00%	
b. Next 3 years	12.50%	12.50%	0.00%		
Section 11(3Ga)	Industry related with software development, data processing, cyber café, digital mapping established in technology park, Biotech Park and informational technology park prescribed by GON through publishing in Nepal Gazette	12.50%	12.50%	0.00%	

Section	Entity	Effective Tax Rate 2075-2076	Effective Tax rate 2076-2077	Difference in Rate	Remarks
Section 11(3Gha)	Commercial commencement within 2080 Chaitra of generation, transmission, or distribution of hydroelectricity by a person licensed for generation, transmission, distribution of electricity. Similar facility will be available for electricity generated from solar, wind and bio product.				Note 3
	a. First 10 years	0.00%	0.00%	0.00%	
	b. Next 5 years	10.00%	12.50%	-2.50%	
Section 11(3Nga)	1. Income from export having source in Nepal during any Income Year				Note 4
	a. Special Industry	20.00%	16.00%	4.00%	
	b. Other Industries	20.00%	20.00%	0.00%	
	c. Other Industries	20.00%	24.00%	-4.00%	
	2. Income from export of Manufactured goods by manufacturing based industry having source in Nepal during any Income Year				
	a. Special Industry	15.00%	12.00%	3.00%	
	b. Other Industries	15.00%	15.00%	0.00%	
Section 11(3Cha)	Operation of Tram or Trolley Bus, ropeway, cable car, railway, tunnel or overhead bridge after building it	20.00%	20.00%	0.00%	
	Building and Operation of Airport	15.00%	15.00%	0.00%	
	Operation of road, bridge or tunnel way after building it	12.00%	12.00%	0.00%	
	Investing and operating tram or trolley bus	12.00%	12.00%	0.00%	
Section 11(3Chha)	Manufacturing, tourism, hydroelectric generation, distribution and transmission entities and Industry operating in Technology Park, Biotech Park, and IT park and involved in software development, statistical processing, cyber café, digital Mapping; if listed in Stock Exchange				
	a. If Special Industry	17.00%	17.00%	0.00%	
	b. Electricity generation distribution and transmission	17.00%	21.25%	-4.25%	Note 4
	c. Other general industry	21.25%	21.25%	0.00%	Note 4
	d. Other general industry	25.50%	25.50%	0.00%	
Section 11(3Ja)	Industry producing brandy, cider and wine based on fruits and established in remote area For first ten years of operation	18.00%	18.00%	0.00%	
Section 11(3Jha)	Royalty income from export of intellectual property	15.00%	18.75%	-3.75%	
Section 11(3Yna)	Income from sale of intellectual property	12.50%	12.50%	0.00%	
Section 11(3Tta)	Tourism related industry or an airlines company carrying out international flights establishing on capital investment for more than Rupees two billion				
	a. First 5 years	0.00%	0.00%	0.00%	
	b. Next 3 years	12.50%	12.50%	0.00%	
Section 11(3Tta)	Prevailing such industry or airlines company on the income from capacity increment if it increases the installed capacity by twenty five percent and make the capital to Rupees two billion.				
	a. First 5 years	0.00%	0.00%	0.00%	
	b. Next 3 years	12.50%	12.50%	0.00%	

Section	Entity	Effective Tax Rate 2075-2076	Effective Tax rate 2076-2077	Difference in Rate	Remarks
Section 11(3Thha)	Dividend tax on capitalization of accumulated profit through bonus share by Special Industry and industry related with tourism for expansion of capacity of industry.	0.00%	0.00%	0.00%	Note 2
Section 11(3Dda)	Conversion of any operating Private Company having paid up capital of Rs. 50 crore or more into any Public Company				Note 5
	1. For Subsequent 3 years of Conversion				
	a. Special Industry	18.00%	18.00%	0.00%	
	b. Other Industry Schedule 1 Section 2(1)	22.50%	22.50%	0.00%	
Section 11(3Ddha)	Income earned from the sale of its products by the Domestic Tea Manufacturing and processing Industry, Industry dealing in Dairy Product, Textile Manufacturing Industry				
	a. Special Industry	10.00%	10.00%	0.00%	
	b. Other Industries	12.50%	12.50%	0.00%	
Section 11(3Nna)	Health Institution operated by Community.	20.00%	20.00%	0.00%	
Section 11(3Ta)	Micro enterprises				Note 6
	1. Special Industry				
	a. Owned by Woman(for 7 years)	0.00%	0.00%	0.00%	
	b. Owned other than by female (5 Years)	0.00%	0.00%	0.00%	
	2. Other Industry Schedule 1 Section 2(1)				
	a. Owned by Woman(for 7 years)	0.00%	0.00%	0.00%	
	b. Owned other than by female (5 Years)	0.00%	0.00%	0.00%	
	3. Other Industry Schedule 1 Section 2(2)				
	a. Owned by Woman(for 7 years)	0.00%	0.00%	0.00%	
b. Owned other than by female (5 Years)	0.00%	0.00%	0.00%		
Section 11(3Tha)	Entity wholly engaged in the projects conducted by any entity so as to build public infrastructure, own, operate and transfer it to the GON and in power generation, transmission, or distribution	20.00%	20.00%	0.00%	Note 7
Schedule 1 Section 2(1)	General companies/firms/industries(not listed below)	25.00%	25.00%	0.00%	
Schedule 1 Section 2(2)	Banks and Financial Institutions	30.00%	30.00%	0.00%	
Schedule 1 Section 2(2)	General Insurance Companies	30.00%	30.00%	0.00%	
Schedule 1 Section 2(2)	Petroleum products as per Nepal Petroleum Act,2040	30.00%	30.00%	0.00%	
Schedule 1 Section 2(2)	Person carrying business of cigarette,bidi,cigar,chewing tobacco,liquor,beer	30.00%	30.00%	0.00%	
Schedule 1 Section 2(2)	Telecommunication or Internet Service Provider	30.00%	30.00%	0.00%	
Schedule 1 Section 2(2)	Money Transfer	30.00%	30.00%	0.00%	
Schedule 1 Section 2(2)	Security Market	30.00%	30.00%	0.00%	
Schedule 1 Section 2(2)	Merchant Banking	30.00%	30.00%	0.00%	
Schedule 1 Section 2(2)	Capital market Business	30.00%	30.00%	0.00%	

Section	Entity	Effective Tax Rate 2075-2076	Effective Tax rate 2076-2077	Difference in Rate	Remarks
Schedule 1 Section 2(2)	Operating Commodity Future Market	30.00%	30.00%	0.00%	
Schedule 1 Section 2(2)	Commodity and Security Broker	30.00%	30.00%	0.00%	
Schedule 1 Section 2(6)	Repatriation of income by Foreign Permanent Establishment	5.00%	5.00%	0.00%	

Note: 1	Special industry means a manufacturing industry, agricultural and forest based and mineral industry other than an industry producing cigarettes, bidi cigar, chewing tobacco, khaini, ghutkha, pan masala or other goods of a similar nature using tobacco as the basic raw material, or alcohol, beer, or other goods of a similar nature. Special Industry is also eligible if any for another tax rebate as per section 11.
Note : 2	As per Withholding procedure U/S 88
Note: 3	However, the provision at time of getting the license will be applicable for a licensed person who has already commenced commercial operation at the time of introduction of this Sub Section.
Note 4	After deletion of provision of Schedule 1 Section 2(3Ka) for Export Oriented Entity and Schedule 1 Section 2(4) for entity wholly engaged in the projects conducted by any entity so as to build public infrastructure, own, operate and transfer it to the GON and in power generation, transmission, or distribution by Finance Act, 2076 normal rate will be applied to those entities.
Note 5	However, the Public Company established under Section 12 of Companies Act, 2063 will not enjoy the benefit provided under this Sub Section.
Note 6	Micro Enterprises means the enterprises classified under Section 15 (1) (Ka) of Industrial Enterprises Act, 2073 which states as follows : a. Maximum of 5 lakhs fixed assets investments (except land and building) b. Entrepreneur self-involved in management c. Maximum 9 employees including entrepreneur d. Yearly transaction less than 50 Lakhs e. If such industry has used engines, equipment's or machines then energy used in such devices in the form of electricity or diesel or petrol or other crude oils shall not exceed 20 Kilo watt. However, Industries specified under section 7 of Industrial Enterprises Act,2073 i.e. industry requiring permission before registration shall never be micro industries.
Note 7	Inserted by Finance Act, 2076

* * *

VAT REFUND

‘ Sometimes, the amount of VAT paid becomes more than the VAT collected by the person. In such case, the figure of VAT to be deposited in above table becomes negative, i.e. VAT is to be receivable. Such excess of payment over collection is termed as “credit” in VAT laws. VAT Act and Rules has provided for refund of such credit if certain conditions are fulfilled. ’



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Overview of the Article

- Background
- Cases of VAT Refund
- Process of Refund
- Time Limitation
- Interest Rate
- VAT Fund

Background

A registered person collects VAT from the customer on the sale of VAT attractive goods/services. Similarly, he pays VAT on purchase, import and various expenses incurred for the purpose of business. VAT law states that the person can credit such VAT paid¹, and deposit

only the remaining amount to the government.

	Particulars	Amt.
	VAT collected on sales	Xxxx
less:	VAT paid on purchase	(xx)
	VAT to be deposited	Xxxx

Sometimes, the amount of VAT paid becomes more than the VAT collected by the person. In such case, the figure of VAT to be deposited in above table becomes negative, i.e. VAT is to be receivable. Such excess of payment over collection is termed as “credit” in VAT laws. VAT Act and Rules has provided for refund of such credit if certain conditions are fulfilled.

¹ Certain conditions are to be fulfilled in order to deduct VAT credit. For example, Section 17 of VAT Act 2052 and Rule 41 of VAT Rules 2053.

	Particulars	Amount
	VAT collected on sales	Xx
less:	VAT paid on purchase	(xxxx)
	VAT to be receivable (i.e. credit)	(xxxx)

Apart from this, there are some instances where the tax payer stands in such position where the amount of VAT is receivable by them from the government, e.g., when VAT is collected by mistake. VAT laws has addressed this issue as well.

Cases of VAT Refund

VAT Act and Rules has provided for certain cases where the tax payer can apply for VAT refund. The following list is an exhaustive list of such provisions:

- a. Refund of VAT credit for more than 4 consecutive months²
- b. Refund of VAT credit to significant exporter
- c. Refund to person availing diplomatic privilege
- d. Refund to international institution exemption facility
- e. Refund to project under bilateral or multilateral agreements
- f. Refund of VAT on amount paid via electronic medium
- g. Refund of VAT paid by mistake
- h. Refund of VAT paid by foreign tourists
- i. Refund of VAT re-export
- j. Refund of VAT to industries not availing bonded warehouse or cash deposit (passbook) facility
- k. Refund of VAT in case of export of hand arts
- l. Refund of VAT paid on scooter to incapacitated person
- m. Refund of VAT to small hydroelectricity projects³
- n. Refund in case of industries dealing with certain goods⁴
 - Matchstick, Dhoop and tire-tube
 - Maida

- Mustard oil, Banaspati Ghee and other processed edible oil
- Dairy product
- Tea
- Sheet, circle and utensils from scrap of copper and bronze
- Cloth
- Cellular mobile phone set
- Sugar

a. Refund of VAT credit for more than 4 consecutive months:

As per Section 24(3) of VAT Act 2052, if a registered person has continuous credit of VAT for four months, then such credit is eligible for refund. Further, Rule 39(4) of VAT Rules 2053 states that in such case, the person has to file application in the format prescribed by Annexure 10. Upon receiving such application, the tax officer shall proceed for refund pursuant to Rule 45.

If the refund is not done within 60 days, then the government is liable to pay interest⁵ on such due amount.

Once the person applies for refund, such credit cannot be adjusted in the next month.

Circular about Interpretation of 6 months continuous credit (2056.01.05)

The amount eligible for 6 months continuous credit is the VAT amount which is still outstanding even after claiming for 6 months.⁶

Circular regarding dual facility (2073.05.29)

The person availing refund facility under Schedule 1 Group 11 shall also avail the refund facility under Section 24(3).⁷

² Previously, this provision of refund was for 6 consecutive months. Finance Bill 2076 has revised it to 4 consecutive months.

³ This provision was introduced only once via Finance Bill 2072 for FY 2072/73.

⁴ The provision of these refunds has been removed by Finance Bill 2075.

⁵ Rate of interest is 15% p.a. as per Rule 47.

⁶ The period for refund in case of continuous credit is now 4 months after amendment by Finance Bill 2076.

⁷ The refund facility under Schedule 1 Group 11 has been removed by Finance Bill 2075.

b. Refund of VAT credit to significant exporter

Significant exporter here refers to the registered person exporting more than 40% of total sales during a month. As per Section 24(4), such person can apply for refund for the month where VAT amount stands credit, without having to wait for four months.

The concept behind this provision is that while exporting goods/services, 0 VAT is collected by the tax payer on such export sales. In other words, the amount of output tax is Nil. On the other hand, as he is eligible to deduct the input tax paid on purchases, the net amount generally becomes negative. It can be made clear by the following table:

Case 1: Normal person:

Particulars	Sales / Purchases Rs.	VAT Rs.
Sales	100,000	13,000
Purchases	50,000	6,500
Net VAT payable / (credit)		6,500

Case 2: Exporter:

Particulars	Sales / Purchases Rs.	VAT Rs.
Export Sales	100,000	0
Purchases	50,000	6,500
Net VAT payable / (credit)		(6,500)

We can see that due to zero output tax, the VAT is on credit. To address this issue, VAT laws has inserted this provision of refund for a significant exporter. Another objective of this provision is to promote export in the economy. VAT law is based on Destination Principle. Since the exported goods/services are not used in Nepal, the VAT paid for generating such goods/services is also refunded.

Rule 39(5) of VAT Rules 2053⁸ states that in such case, the person has to file application in the format prescribed by Annexure 10 including the

necessary documents relating to export⁹. Upon receiving such application, the tax officer shall proceed for refund pursuant to Rule 45.

As stated in Rule 39(5), the following things should be considered by tax officer while making the decision of refund:

- Whether VAT on import/purchase has been paid or not
- Whether previous VAT returns have been submitted or not; and if submitted, whether the refund is justified or not

If the refund is not done within 30 days, then the government is liable to pay interest on such due amount pursuant to Rule 47.

Once the person applies for refund, such credit cannot be adjusted in the next month.

Circular regarding Proof of payment of export to India (2055.01.04)

In case of export of goods to India (against payment other than L/C), the proof of payment can be ensured by examining the export Pragyan Patra.

Circular stating Detailed audit not required in case of refund to regular exporter (2056.12.03)

In order to shorten the time period of refund to regular exporter, full audit shall not be required to be carried out; the refund to be made upon Refund Verification only.

Circular regarding Refund of VAT paid on construction by Regular exporter (2060.03.30)

In case of regular exporter eligible for refund under Section 24, the VAT paid on construction material and stock shall also be eligible for refund.

Circular regarding refund of VAT on capital items and stock (2072.09.28)

If the ratio of export is fulfilled, the VAT credit on capital items and remaining stock shall also be refunded.

⁸ The ratio of export was stated as 50% in Rule 39 (until 21st amendment 2076) which contradicted with the ratio stated in Section 24, i.e. 40%. Previously, the rate in both provisions was 50%. Later in 2066, the ratio in Section 24 was amended to 40% but the ratio in Rule 39 was not amended. The recent amendment has cleared this confusion by making 40% in both places.

⁹ As per Explanation in Rule 39(5), the documents related to export include export certificate, certificate of receipt of goods, letter of credit and import certificate in case of goods exchange. In case of export, the documents include export certificate, certificate of receipt of goods, certificate of payment and letter of credit.

c. Refund to person availing diplomatic privilege

Section 25(1)(ka) states that the VAT paid in Nepal by person having diplomatic privileges on a reciprocal basis from Ministry of Foreign Affairs, or by diplomat having exemption facility engaged in Regional or International organizations is eligible for refund. VAT Directives 2069 (first amendment 2073) has further clarified that such claim has to be recommended by Ministry of Foreign Affairs. As per Rule 45(3), application should be filed in the format prescribed by Annexure 17. As per Rule 57, the note given by Ministry of Foreign Affairs should also be included along with the application.

Section 25(1)(ka1) has provided for the refund of VAT paid by organization having diplomatic facility on the purchase of taxable goods or services within Nepal on the recommendation of Ministry of Foreign Affairs.¹⁰

In both cases, the application for refund has to be filed within 3 years from the date of such transactions. However, VAT shall not be refunded for purchase less than Rs. 10,000 at a time¹¹.

Further, as per Rule 45(2ka), the VAT paid on purchase of goods or service from the firm or company (refund shop) listed in IRD shall be refunded within 30 days as per the procedure prescribed by IRD.¹²

d. Refund to international institution exemption facility

Section 25(1)(kha) further states that the VAT paid by International institution having exemption facility from Ministry of Finance is also eligible for refund. VAT Directives has further clarified that such purchase has to be associated with organizational activities, and PAN has to be obtained by such institution. As per Rule 45(3), application should be filed in the format prescribed by Annexure 18.

The application for refund has to be filed within 3 years from the date of such transactions.

e. Refund to project under bilateral or multilateral agreements

Section 25(1)(ga) states that the VAT paid during the course of conducting project in Nepal under bilateral or multilateral agreements which avail exemption facility from Ministry of Finance is eligible for refund. As per Rule 45(3), application should be filed in the format prescribed by Annexure 18.

The application for refund has to be filed within 3 years from the date of such transactions.

Circular regarding VAT Refund for UNDP (2058.12.07)

The bills issued in the name other than the person eligible for VAT refund shall not be eligible for refund. The name of purchaser should be clearly stated in the bill. The amount of VAT should also be clearly seen. The words "Tax Invoice" should be written. TPIN and Serial Number should be clearly mentioned. The bill should not be overwritten. The bill should not be older than 3 years from the date of transaction. The amount should not be less than Rs. 1,500¹³.

f. Refund of VAT on amount paid via electronic medium

As per Section 25(1)(1kha), on the purchase of goods or services by a consumer, if such purchase value is paid via electronic medium as per prevailing laws, 10% of the VAT paid shall be refunded as incentive directly in their bank account as per the procedure prescribed by IRD. Section 88 of Income Tax Act 2058 has further provided that no TDS shall be deducted on such incentive amount.¹⁴

Section 2(Ta1) has defined "electronic medium" as the medium such as computer, internet, e-mail, fax, electronic cash register, fiscal printer or electronic payment medium or any other medium of similar nature as prescribed by IRD.

¹⁰ This provision has been inserted by Finance Bill 2076.

¹¹ Initially the amount was Rs. 1,500. Finance Bill 2071 amended it to Rs. 5000. Recently, Finance Bill 2076 has amended it to Rs. 10,000,

¹² This provision has been newly inserted by 21st amendment.

¹³ The amount is now Rs. 10,000 after amendment by Finance Bill 2076.

¹⁴ This provision has been newly inserted by Finance Bill 2076.

g. Refund of VAT paid by mistake

As per Section 25(1)(gha), any tax collected by mistake shall also be refunded. The application for refund, however, shall have to be filed within 3 years from the date of such event. Such refund shall be made only to the person having the actual burden of tax.

h. Refund of VAT paid by foreign tourists

As per Section 25Ka, if a foreign tourist leaving Nepal via air transport along with the taxable goods worth more than Rs. 25,000, the VAT paid on such goods shall be refunded. 3% of such refundable amount shall, however, be deducted as service charge.

i. Refund of VAT on re-export

Section 25Kha states that if any goods are re-exported, the concerned person shall be refunded in the custom point out of the Deposit amount on the basis of evidence of such re-export.

Section 25Ga states that if any goods are re-exported and payment is received in convertible foreign currency in advance, then the VAT paid on purchase by the concerned person shall be refunded.

j. Refund of VAT to industries not availing bonded warehouse or cash deposit (passbook) facility

As per Clause 17 of Schedule 1 Group 11(aa), for the industries not availing bonded warehouse or cash deposit (passbook) facility, if the raw materials, ancillary raw materials, and the packing material (not produced in Nepal) required for production are imported, and the goods produced from them are exported within prescribed time and by prescribed procedure; then the VAT paid at custom point on such import shall be refunded from the custom point by publishing notice in Rajpatra. The goods, rate and period for such refund shall be as prescribed in such notice.

k. Refund of VAT in case of export of hand arts

As per Clause 9 of Schedule 2, if sculptures, paintings, carvings and other similar handicrafts

locally manufactured by cottage and small industries are exported via approved export trading house, then the VAT paid on raw materials used in manufacture of such handicrafts shall be refunded after fulfilling the procedure specified by IRD.

l. Refund of VAT paid on scooter to incapacitated person

As per Clause 10 of Schedule 2, VAT paid on import or local purchase of scooter to be used by persons with disability shall be refunded provided that such scooter is registered in their name in Office of Transport Management upon the recommendation of Ministry of Women, Children and Senior Citizen or concerned Chief District Officer. Refund shall be done from concerned custom office in case of import, and from IRD in case of local purchase.

If the scooter is sold to person other than the person with disability, then VAT shall be recovered.

m. Refund of VAT to small hydroelectricity projects

Finance Bill 2072 had introduced this provision for FY 2072/73.¹⁵

As per Section 24 of Finance Bill 2072, the VAT paid by certain small hydroelectricity projects shall be refunded upon recommendation of Alternative Energy Promotion Center (if approved by AEPC) or Electricity Development Department (for others).

The above facility was provided only to the community based non-profit small hydroelectricity projects constructed and operated by Consumer Committee which were eligible for Zero rate facility, or to those small hydroelectricity projects (including those carrying out work through contract) which were not availing Zero rate facility till that date.

Such refund had to be claimed within 2072 Poush end.

n. Refund in case of industries dealing with certain goods

In order to provide facility to certain sick industries, to promote certain prioritized projects,

¹⁵ This provision was introduced only once via Finance Bill 2072 for FY 2072/73.

¹⁶ Finance Bill 2075 has removed the provision of such refund facility.

to maintain tax indifference between local goods and imported goods and to minimize the chances of import smuggling, VAT Act had provided facility of refund of certain portion of VAT collected on sales or VAT paid on purchases by prescribed persons. Such provision was stated in Schedule 1 of VAT Act.¹⁶

The specific cases prescribed by the Act for FY 2074/75 (i.e. just before annulment by Finance Bill 2075) were as follows:

i) Matchstick, Dhoop and tire-tube industries:

Refund of Net VAT amount (i.e., VAT collected on sales less VAT paid on purchase) shall be done.

Such case is also termed as Square Off refund.

ii) Maida industry:

25% of Net VAT amount shall be refunded.

iii) Local industry manufacturing mustard oil or other processed edible oil industry:

Refund of 40% of VAT amount collected on sale of oil and locally produced Banaspati Ghee to *VAT registered persons*. However, such facility shall not be provided in case of sale to another industry or bulk quantity sales to any person.

iv) Local dairy industry:

50% of VAT collected on sales shall be refunded.

v) Local tea producing and processing industry:

50% of VAT collected on sales to *VAT registered persons* or Auction House shall be refunded.

vi) Local industry producing Sheet, circle and utensils from scrap of copper and bronze:

25% of VAT collected on sales to *VAT registered persons* shall be refunded.

vii) Local cloth industry:

70% of VAT collected on sales to *VAT registered persons* or government institutions shall be refunded.

In case of local cloth industry producing cent percent Suti cloth, refund of Net VAT amount (i.e., VAT collected on sales less VAT paid on purchase) shall be done.

viii) Local industry producing or importing cellular mobile phone set:

40% of VAT paid on raw materials and finished goods shall be refunded, if it can produce the evidence of sale to *VAT registered persons*.

ix) Local industry producing sugar:

90% of VAT collected on sales to *VAT registered persons* shall be refunded.

Summary:

SN	Item Name	Refund	Remarks	Condition	IRD Circular
	Matchstick, Dhoop, tire-tube	100%	of Net VAT		Circular dated 2057.04.09, 2064.04.01
	Maida	25%	of Net VAT		
	Oil, Ghee	40%	of VAT collected on sales	to VAT registered person	Circular dated 2065.02.20, 2065.02.21
	Dairy	50%	of VAT collected on sales		
	Tea	50%	of VAT collected on sales	to VAT registered person or Auction House	
	Sheet, circle, utensils	25%	of VAT collected on sales		
	Cloth	70%	of VAT collected on sales	to VAT registered person or govt. institution	Circular dated 2057.04.09, 2064.04.01
	100% Suti cloth	100%	of Net VAT		
	Cellular mobile phone set	40%	of VAT paid	to VAT registered person	Circular dated 2064.04.01, 2064.12.07
	Sugar	90%	of VAT collected on sales	to VAT registered person	

The rates specified above are for FY 2074/75. Some of the rates have been amended every year by the annual Finance Bills, which is tabulated as under:

SN	Item Name	76/77	75/76	74/75	73/74	72/73	71/72	70/71
	Matchstick, Dhoop, tire-tube	-	-	100%	100%	100%	100%	100%
	Maida	-	-	25%	25%	25%	25%	25%
	Oil, Ghee	-	-	40%	40%	50%	50%	50%
	Dairy	-	-	50%	50%	50%	50%	50%
	Tea	-	-	50%	50%	50%	50%	-
	Sheet, circle, utensils	-	-	25%	25%	25%	25%	-
	Cloth	-	-	70%	70%	70%	50%	100%
	100% Suti cloth	-	-	100%	100%	100%	-	exempt
	Cellular mobile phone set	-	-	40%	40%	40%	60%	60%
	Sugar	-	-	90%	90%	90%	70%	70%

Process of Refund

As per Rule 45, for the purpose of Section 24(3) and (4) or Section 25, the tax officer shall immediately investigate the evidence submitted by the tax payer, and refund within 60 days after filing of application in case of Section 24(3) and 30 days after filing of application in case of Section 24(4) and 25. If it is necessary to re-investigate the evidence, then it shall be done without delay; and refund shall be done within 15 days. Refund of amount more than Rs. 20,000 shall be done in the bank account of concerned person.

Circular regarding Audit (2055.07.11)

The matters to be considered while carrying out detailed audit was described in this circular.

Circular regarding Detail audit not required (2057.03.29)

If any amount is seen as payable by tax payer in ATR, the payment of such due amount has to be made before initiating the refund process. Further, verification regarding partial credit, proportional credit, credit unrelated to business or unusual purchase to be done. Full audit shall not be required.

Circular regarding VAT Refund Process (2057.04.11)

The process of VAT Refund Audit and the items to be included in such audit report was described in this circular.

Time Limitation

As per Section 25Gha, no refund shall be provided if application is not filed within 3 years of expiry of tax period.

As per Rule 46, the copies of decision, orders, judgments, memos or other documents to be obtained under VAT Act and Rules shall not be provided if application is not submitted within 3 years of expiry of accounting period.

Interest Rate

As per Rule 47, the rate of interest for the purpose of Section 24(5) shall be 15% p.a. Such interest shall be calculated after 60 days of refund application date pursuant to Section 24(3) and (4).

VAT Fund

As per Rule 51, for the purpose of Section 24 and 25, all the tax amount collected in the custom point should be deposited in the account of VAT Fund daily. The amount ordered by IRD shall be refunded from the Fund, and the remaining amount shall be daily transferred to the prescribed revenue account. The procedure for operation of the Fund shall be as prescribed by the Office of Financial Comptroller General.

References

- Value Added Tax Act 2052
- Value Added Tax Rules 2053
- VAT Directives 2069 (First Amendment 2073)
- Annual Finance Bills
- IRD Circulars and Notices
- Kar sambandhi paripatra sangalo, 2066 - Bhavanath Dahal
- Income Tax and Value Added Tax (fifth to tenth edition) - Bhavanath Dahal
- Tax Credit and Tax Refund Process, Feb 2002-IRD ■

Budget Highlights

Fiscal Year 2076/77

Prepared by



THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NEPAL

Budget Highlights 2076/77 The Institute of Chartered Accountants of Nepal

BUDGET HIGHLIGHTS 2076/77

Page 2 of 19

Budget Highlights 2076/77 The Institute of Chartered Accountants of Nepal

Objectives of the Budget

- Qualitative reform in lifestyle by immediate fulfillment of fundamental rights of citizens.
- Rapid economic development with social justice by maximum utilization and judicious distribution of available resources, opportunities and capabilities.
- Develop the milestone of prosperous socialism oriented economy by upgrading to medium income earning country within 2030 AD by developing economical, biological and social infrastructure.

Page 3 of 19

Budget Highlights 2076/77 The Institute of Chartered Accountants of Nepal

Economic Growth Rate

Year	Economic Growth Rate (%)
2075/76	7.0%
2076/77	8.5%

Inflation Rate

Year	Inflation Rate (%)
2075/76	4.5%
2076/77	6.0%

Page 4 of 19

Budget Highlights 2076/77 The Institute of Chartered Accountants of Nepal

Budget Size

S/N	Source of Fund	NPR. (in Billion)	Application of Fund	NPR. (in Billion)
1	Revenue	981.14	Revenue Expenditure	597.50
2	Foreign Grant	27.99	Capital Expenditure	493.41
3	Loan and Borrowing	493.82	Debt Servicing	147.83
		1502.94		1532.94

Page 5 of 19

Budget Highlights 2076/77 The Institute of Chartered Accountants of Nepal

Functional Expenditure Estimate (NPR. in Billion)

Page 6 of 19

Budget Highlights 2076/77 The Institute of Chartered Accountants of Nepal

Budget Highlights

Education Sector:

- Compulsory education up to fundamental level and free education up to secondary level.
- Budget allocated for construction of school buildings and expansion of class rooms.
- Encouragement of volunteer teachers.
- 70 districts targeted for full literacy.
- Establishment of Madan Bhandari Science and Technology University has been proposed.

Health Sector:

- Health insurance project will be implemented in all districts with insured amount of Rs. 1 Lakh.
- Smoking will be prohibited on all public places and public transportations.
- Primary health service will be provided free of cost and emergency health service will be ensured.

Page 7 of 19

Budget Highlights 2076/77 The Institute of Chartered Accountants of Nepal

Drinking Water and Sanitation Sector:-

- Arrangement has been made for availing drinking water facility to 92% population.

Labor and Employment Sector:-

- Rs. 5.10 arba has been allocated for "Pradhanmantri Rojgar Karyakram".

Social security and Civil Protection Sector:-

- Elderly allowance has been increased to Rs. 3000 per month.
- Differently abled, single women allowance has been increased by Rs. 1000 per month.
- Elder citizen meeting center will be established.

Youth Sector:-

- Youth Scientist Conference will be organized.

Agriculture and Animal Husbandry Sector :

- Rs 8.10 arba has been allocated for Prime Minister Agriculture Project.
- Rs. 9 arba has been allocated as grant for chemical fertilizers.

Page 8 of 19

Budget Highlights 2076/77 The Institute of Chartered Accountants of Nepal

Land Management Sector:-

- Necessary arrangement will be made for availing unutilized land for long term utilization in agriculture and use of factories by establishing land bank.
- Digitization of all land ownership papers and blueprints will be completed within 2 years.
- Illegally held government land will be returned to government within this fiscal year.

Co-operative Sector:-

- Credit Information Center and Deposit and Credit Guarantee Fund for co-operative sector will be established.

Industrial Sector:-

- Domestic textiles industries registered in Value Added Tax will be provided 50% exemption on electricity bill and grant equal to 5 % of interest on bank loan availed.
- Challenge fund will be established for providing seed capital to establish business based on new ideas.

Page 9 of 19

Budget Highlights 2076/77 The Institute of Chartered Accountants of Nepal

Commerce and supplies Sector

- In order to control increasing trade deficit 'Safeguard, Anti-dumping and Countervailing laws' will be implemented effectively.

Road Infrastructure Sector

- Additional budget has been allocated for highways under construction.

Transport Management Sector

- Facility of electronic card will be made for payment of transportation fares of public vehicles.
- GPS tracking system will be implemented in public vehicles.

Infrastructure Sector

- Necessary studies will be conducted to develop smart cities.
- Necessary arrangement will be made for 24 hour operation of TIA and it will be developed as boutique international airport.
- Budget has been allocated to replace dangerous structures to cross rivers.

Page 10 of 19

Budget Highlights 2076/77 The Institute of Chartered Accountants of Nepal

Reconstruction Sector

- Budget has been allocated for reconstruction of heritages and educational institutions.

Information and Communication Sector

- Establishment of secured printing press will be initiated for printing of bank notes, excise sticker, postal sticker, land ownership certificate and other important printings.

Financial Sector

- Availability of banking facility in all local level will be ensured.
- Arrangement will be made for investment by Non Resident Nepalese in secondary market also.

Good Governance and Public Service Sector

- Election will be conducted for vacant position of legislators in federal and provincial level.

Economic plan and Statistics Sector

- Long term plan for next 25 years will be implemented in 15th plan of Government with effective from Shrawan 2076 .

Page 11 of 19

Budget Highlights 2076/77 The Institute of Chartered Accountants of Nepal

Civil Service Sector

Increment of 20% of salary for non-gazetted and 18% of salary for gazetted civil employees, security personnel, teachers and lecturers those remunerated from government fund.

Page 12 of 19

Budget Highlights 2076/77 The Institute of Chartered Accountants of Nepal

Changes and Reforms in Tax

Indirect tax Highlights

1. Changes in custom rate for promotion of domestic production of agro based and industrial products for self-dependency on production and to discourage import of goods detrimental for public health.
2. For promotion of export, exemption on custom (Mahasul) on export of goods excepts alcohol and tobacco based products, raw material to be consumed domestically, and basic agricultural products.
3. For promotion of export, facility of bonded warehouse is provided to import of all types of raw materials for producers who export their product exceeding 20 %.
4. Custom rate for import of some industrial raw materials reduced in comparison to custom rate for import of finished goods.
5. Exemption of 50 % customs on import of vehicle by agro based cooperatives.
6. 1% of custom rate is applicable for import of following number of ambulances by different local level authorities in recommendation of Ministry of Health and Population :

Page 13 of 19

Budget Highlights 2076/77 The Institute of Chartered Accountants of Nepal

- a. Rural Municipality : 2 ambulances
- b. Municipality : 3 ambulances
- c. Sub- metropolitan city and metropolitan city : 4 ambulances

7. 1 % custom rate is applicable for import of Mill machinery, spare parts and chemicals for self- utilization by textile industries.
8. Custom rate is reduced for import of machinery and equipments by industries with high prospects in domestic market such as textile industry, thread industry, tea industry, basic medicine industry, sanitary pad industry , feed supplement industry for their protection and promotion
9. For promotion of water transport in nation, import of all types of transport medium for water transport is subject to 5% custom rate instead of 15 %.
10. Nepalese Nationals are allowed to import up to 100 gram gold ornaments while returning from foreign countries by paying applicable custom.
11. In order to protect and promote the domestic production of goods on which Nation is self- dependent such as tea, coffee, dairy products, ghee, chicken, biscuits, noodles, banana, peas, peanuts, potato chips, ice cream, juice, mineral water, sugar, sakhar, chocolate, chewing gum, pasta, zinc sheet, shoes, sandals, thread, tent and industrial goods, custom rate is increased for import of such goods.

Page 14 of 19

Budget Highlights 2076/77 The Institute of Chartered Accountants of Nepal

12. VAT refund can be claimed in case of continuous VAT receivable/credit for 4 months instead of 6 months.
13. Person and Entities enjoying diplomatic facilities can get immediate VAT refund if they purchase goods and services from listed firms.
14. Unregistered startup businesses operating with innovative ideas, skills, entrepreneurship and technology are exempted on tax, fines, penalties, additional fees and interest applicable (Both income tax and VAT) before fiscal year 2075/76 if they register in VAT and Income tax within Poush 2076;
15. Custom and excise on products that are detrimental to health such as alcohol, cigarettes, and other tobacco based and other products detrimental to health is slightly increased.

Page 15 of 19

Budget Highlights 2076/77 The Institute of Chartered Accountants of Nepal

Direct tax Highlights

1. Basic exemption limit on remuneration tax is changed as under:

Status	Fiscal Year	
	2076/77	2075/76
Individual	400,000.00	350,000.00
Couple	450,000.00	400,000.00

2. To implement policy of "One man one PAN", facility of obtaining pan registration will be made available from every Inland Revenue office.
3. In order to encourage investment in share, applicable tax rate for natural person is reduced to 5 % from 7.5 % and calculation of tax on share transaction will be based on weighted average cost method.
4. Capital gain tax on real-estate business is reduced
5. Tax rate applicable for cooperatives involved in financial transactions is as follows

Cooperatives operating in municipal areas	: 5 %
Cooperatives operating in metropolitan and sub-metropolitan areas	: 10 %

Page 16 of 19

Budget Highlights 2076/77 The Institute of Chartered Accountants of Nepal

6. Transaction based presumptive tax is made progressive. Income tax on social security funds established as per Social Security Fund Act, 2074 is exempted.
7. Income tax facility and exemption on merger of Bank and Financial Institutions and Insurance Companies is available if letter of intent is submitted up to 2077 Ashad End. (Extended for one year).
8. Value added tax is not applicable for accident and health insurance.
9. Any error on tax return submitted can be rectified by submitting revised tax return within 30 days from the date of submission of erroneous tax return.

Reforms in Tax Administration

1. Biometric system will be implemented for reform in tax registration system.
2. Unified tax system will be formulated for simple and transparent tax laws.
3. Necessary arrangements will be made for submitting the documents for custom clearance through electronic medium.
4. Amount to be deposited for administrative review is reduced to 1/4th of disputed tax from 1/3rd of disputed tax.

Page 17 of 19

Budget Highlights 2076/77 The Institute of Chartered Accountants of Nepal

5. 10 % of VAT of the related invoice will be deposited directly to bank account of buyer on purchase of goods or services through card or online payment system. Withholding tax is not applicable for such deposit.
6. Import of goods without description of quality, inferior goods, goods that may have detrimental effect on health compulsory labeling will be controlled. Necessary arrangement will be made for sale of such product only with the label of importer and distributor.
7. Arrangement will be made for payment of all types of tax through online payment system and issuing invoice through electronic mechanism. Simplified arrangement for tax refund form related Inland Revenue office has been made. Facility of providing automatic tax clearance certificate from system of Inland Revenue department to taxpayers without any tax dues.
8. Arrangement will be made tracking system of different stages such as production, transportation until sales in order to minimize tax evasion.

Revenue Board will be established for conducting study and research related to revenue matters, for providing policy related and operational advices to Government, and to handle the affairs currently dealt by Revenue Advisory Committee.


Page 18 of 19

Budget Highlights 2076/77 The Institute of Chartered Accountants of Nepal

Disclaimer

The Institute of Chartered Accountants of Nepal (ICAN) has created and maintains this publication as a service to its members, students and the community. This publication is intended to provide general information and is not intended to provide or substitute legal or professional advice. This publication has been prepared so that is current as at the date of writing.

For detail follow to the following Links:
[final speech 2076 corrected 20190529022126.pdf](#)
[अर्थको विवरण 2076.pdf](#)



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Page 19 of 19

NEWS

SAFA Events Organized by ICAN

The Institute of Chartered Accountants of Nepal (ICAN) organized following SAFA Committees and Board Meeting from 04 - 06 April, 2019 at hotel Radisson, Kathmandu:

- Meeting of Committee for Improvement in Transparency, Accountability and Governance;
- Meeting of Committee for Professional Accountants in Business;
- Meeting of Committee on Education, Training and Continuing Professional Development;
- Meeting of Committee to Study Fiscal Regimes and Other Statutory Requirements of Business in SAARC Countries; and
- 58th SAFA Board Meeting

These meetings have discussed on agendas for professional development in the South Asian Region and decisions have been made with an objective to uplift profession by adopting global practices. The 58th SAFA Board meeting was also participated by IFAC President Dr. In-Ki Joo where he assured to extend all corner support to SAFA to strengthen profession in the South Asian Region.

SAFA International Conference

The Institute hosted a full day SAFA International Conference on the theme ***“Enabling Business Environment for Economic Development”*** on 4 April, 2019 in hotel Radisson, Kathmandu, which was inaugurated by the Chief Guest of the program Hon’ble Finance Minister Dr. Yuba Raj Khatiwada.



Finance Minister Dr. Yuba Raj Khatiwada Inaugurating the Conference

Hon’ble Auditor General Mr. Tanka Mani Sharma (Dangal), Chairman of SEBON Dr. Rewat Bahadur Karki, SAFA President CMA Dr. PVS Jagan Mohan Rao were Guest of Honor in the Ceremony.



ICAN President CA. Jagannath Upadhyay Niraula Delivering Welcome Remarks

ICAN President CA. Jagannath Upadhyay (Niraula), in his welcome remarks, welcomed all International delegates and National participants and highlighted the importance of this conference in National Context. Similarly, the program was also addressed by the Chief Guest Hon’ble Finance Minister Dr. Yuba Raj Khatiwada and the Guest of Honor Hon’ble Auditor General Mr. Tanka Mani Sharma (Dangal) and SAFA President CMA Dr. PVS Jagan Mohan Rao. The opening session of the program concluded with vote of thanks by Vice President CA. Krishna Prasad Acharya.

The conference consisted of four technical sessions as under:

- Session 1: International Trade: Challenges and Opportunities;
- Session 2: Foreign Assistance: Growth Prospects of Nation;
- Session 3: Foreign Direct Investment and Sustainable Development; and
- Session 4: Panel Discussion on “Role of Professional Accountants in Sustainable Economic Environment (Country Experience)”

In the first session, Dr. Posh Raj Pandey presented on international scenario of trade, opportunities, prospects and challenges of Nepalese organizations in international trade. Mr. Chandra K. Ghimire, Secretary Ministry of Health and Population and moderated by Mr. Gyan Chandra Acharya, Former Under - Secretary General and High Representative, UN-OHRLS commented and moderated in the presentation respectively.

Similarly, in the second session, Mr. Rurik Marsden, Head of DFID Nepal and Mr. Franck Bessette, Program Manager and Lead Financial Management Specialist of World Bank presented on foreign assistance, relation of respective development partners with Government of Nepal etc. Mr. Shree Krishna Nepal, Joint Secretary Ministry of Finance and Mr. Kewal Prasad Bhandari, Secretary at Office of the Prime Minister and Council of Ministers commented and moderated in the presentation respectively.

Similarly, in third session, Mohammed Humayun Kabir, FCA, ICA Bangladesh and CA. Charanjot Singh Nanda, Council Member ICA India presented on foreign direct investment and its role in sustainable development. CA. Maha Prasad Adhikari, CEO, Investment Board of Nepal and Dr. Shankar Sharma, Former Vice Chairman of National Planning Commission, Nepal commented and moderated in the presentation respectively.



Chief Guest, Special Guest and ICAN Officials on the Dias

Finally, last session was a panel discussion on role of professional accountants in sustainable economic development (Country Experience). This session was moderated by CA. Narendra Bhattarai, ICAN Past President where representatives of SAFA member bodies were panelists.

More than 230 participants actively participated the conference including ICAN Council Members, ICAN Past Presidents, ICAN First President CA. Komal Bahadur Chitracar, SAFA Immediate Past President / ICAN Past President CA. (Dr.) Suvod Kumar Karn, delegates from SAFA Member Bodies, Government Officials, Representatives from different Corporate Organizations, Development Partners, ICAN Members, ICAN Students and ICAN Staffs.

The Conference concluded with the vote of thanks by ICAN Executive Director CA. Sanjay Kumar Sinha.

IFAC President's Visit to ICAN

Dr. In-Ki Joo, the President of International Federation of Accountants (IFAC) made a visit to the Office of the Institute of Chartered Accountants of Nepal (ICAN) on 7 April 2019. His visit to the Institute was coincided with his presence in the SAFA Board meeting held on 6 April 2019 in hotel Radisson, Kathmandu, Nepal.

During IFAC President's visit to the Institute, a meeting was organized to share with him about ICAN, the accountancy profession in Nepal and functioning modalities of the Institute including that of the Nepal Accounting Standards Board and Nepal Auditing Standards Board. The President of the Institute CA. Jagannath Upadhyay (Niraula) heartily welcomed Dr. In-Ki Joo in the meeting where Vice-President CA. Krishna Prasad Acharya, Chairman of Nepal Accounting Standards CA. Mahesh Khanal, Chairman of Auditing Standards Board, Nepal, CA. Anup Kumar Shrestha, Executive Director CA. Sanjay Kumar Sinha and the Department heads of the Institute were also present.



IFAC President Visits to the ICAN Office

A presentation on the related subject was made by the Executive Director of ICAN CA. Sanjay Kumar Sinha, Chairman of Accounting Standards Board CA. Mahesh Khanal and Chairman of Auditing Standards Board CA. Anup Kumar Shrestha followed by discussion with the visiting President of IFAC. Dr. In-Ki Joo's queries on the governance, structure, functioning modalities of ICAN and relationship of ICAN with the state's authorities were settled by the President and Vice-President. Dr. In-Ki Joo also visited the office of Nepal Accounting Standards Board and Auditing Standards Board, Nepal after he received the thorough understanding of the standards formulation and pronouncement process in Nepal during the meeting.

It was a matter of pride to the President of ICAN, CA. Jagannath Upadhyay (Niraula) and the Institute on behalf of all the members of the Institute to mark the IFAC President Dr. In-Ki Joo's remarkable visit to the Institute.

During his visit to ICAN, IFAC president also visited the Office of Finance Minister along with ICAN representatives.

SAFA President Meeting with the SAARC Secretary General

A team of delegates led by President of South Asian Federation of Accountants (SAFA), Dr. PVS Jagan Mohan Rao had a cordial meeting with the SAARC Secretary General H. E. Mr. Amjad Hussain B. Sial. The meeting was as well attended by the Executive Director of the Institute CA. Sanjay Kumar Sinha and the officials from the SAARC Secretariat. The meeting coincided with the SAFA Events held from 4 - 6 April 2019 here in Kathmandu, Nepal.



SAFA President had a Cordial Meeting with the SAARC Secretary

In the meeting, SAFA President Dr. PVS Jagan Mohan Rao shared with the Secretary General the ongoing cooperation in the field of accounting profession between and among the member bodies of SAFA, representing the countries within the SAARC. The Secretary General also noted the active role played and the initiatives taken by SAFA which remains as an apex body of SAARC to foster the eminence of accounting profession in the South Asian Region. The SAARC Secretary General promised his support and participation in the SAFA events to be organized in future which highlights the regional cooperation in the accounting profession.

Participation in 53rd AGM of FNCCI

CA. Jagannath Upadhyay (Niraula) representing the Institute attended the 53rd AGM of the Federation of Nepal Chamber of Commerce (FNCCI) on 11 April 2019 in Kathmandu. Rt. Honorable Prime Minister K.P. Sharma Oli inaugurated The AGM program.

Meeting with Insurer Association

A team led by President, Insurer Association of Nepal Mr. Dip Prakash Panday had a meeting with the officials of the ICAN on 22 April 2019 in ICAN Office, ICAN Marg, Satdobato, Lalitpur.

The meeting was focused on to address the technical difficulties faced by the Insurance Companies in Nepal for preparing their financials adopting Nepal Financial Reporting Standards (NFRS). CA. Suraj Rajbahak representing Insurer Association made a presentation covering various aspects related to adoption of NFRS by the Insurance Companies and few suggestions to get it resolved such that compliance to legal and professional requirement can be achieved soonest possible.



A Glimpse of Meeting with Insurer Association

ICAN President CA. Jagannath Upadhyay (Niraula) and Vice President CA. Krishna Prasad Acharya responded to the concerns raised in the meeting and suggested way forward to get it implemented in line with the pronouncement made by the ICAN for preparing financials by adopting NFRS.

Executive Director CA. Sanjay Kumar Sinha, Acting Director, Mr. Binod Prasad Neupane, Joint Director CA. Kiran Kumar Khatri and Deputy Director CA. Ghanashyam Kafle attended the meeting.

ICAN Signed MoU with NOC

The Institute of Chartered Accountants of Nepal (ICAN) has signed a Memorandum of Understanding (MoU) with Nepal Oil Corporation Limited (NOC), a state owned entity on April 25, 2019 to support implementation of Nepal Financial Reporting Standards (NFRS) in NOC. ICAN and NOC have agreed for collaboration to implement NFRS in two phases as under;

- GAP analysis to implement NFRS in NOC; and
- Implementation of NFRS in NOC

The MoU was signed in the NOC office in the presence of President CA. Jagannath Upadhyay (Niraula), Vice President CA. Krishna Prasad Acharya, Past President CA. Prakash Jung Thapa, Deputy Director CA. Ghanashyam Kafle, Senior Financial Management Specialist of World Bank Mr. Yogesh Bom Malla, Managing Director of NOC CA. Surendra Kumar Paudel, Officiating Deputy Managing Director of NOC CA. Nagendra Sah and high ranking officials of NOC. The Memorandum of Understanding (MoU) was signed and exchanged between the Executive Director of ICAN CA. Sanjay Kumar Sinha and Managing Director of NOC CA. Surendra Kumar Paudel. Speaking at the MoU signing ceremony, President CA. Jagannath Upadhyay (Niraula) stressed the importance of NFRS and stated that ICAN is always supportive for implementation of NFRS.

ICAN is collaborating with NOC for NFRS implementation under the financial support of Integrated Public Financial Management Reform Project (IPFMRP) as per the MoU between Public Expenditure and Financial Accountability (PEFA) Secretariat and ICAN signed on 15 July, 2018. IPFMRP is jointly funded by Multi Donor Trust Fund (MDTF) administered by the World Bank and the Government of Nepal.

Meeting at Office of the Auditor General

Audit Advisory Committee of Office of the Auditor General (OAG) had organized a meeting on 12 May, 2019 at Office of the Auditor General in the Chairmanship of Honorable Auditor General Mr. Tanka Mani Sharma (Dangal). The meeting discussed on 56th Annual Report submitted by OAG to the Government, action plan for risk based audit and matters of public interest to be covered in audit. President CA. Jagannath Upadhyay Niraula, represented ICAN in the meeting in the capacity of member of the committee.

ICAN Signed Mutual Collaboration Agreement with ACCA

In its continuous effort for increased recognition of the Institute and its members in the international arena, the Institute has signed a *Mutual Collaboration Agreement* with Association of Chartered Certified Accountants (ACCA), UK on 30th April, 2019 in the United Kingdom. ICAN and ACCA have agreed on the principles for recognition that will apply to members of both bodies which is based on professional program and examinations' and "practical experience".

The Agreement was signed and exchanged between President CA. Jagannath Upadhyay (Niraula), and Ms. Helen Brand, Chief Executive Officer of ACCA in the cordial presence of Vice President, Chairperson and Members of International Affairs Committee of ICAN and high level officials of ACCA. Institute has also issued a pathway to membership procedure depicting the process of gaining ICAN membership by ACCA members and vice versa.

ICAN Signed MoU with Association of International Certified Professional Accountants

In its continuous effort of establishing International image and exploration of avenues for technical collaboration the Institute has signed Memorandum of Understanding (MoU) with the Association of International Certified Professional Accountants on 31st May 2019 in Malaysia. The MoU now allows ICAN members in good standing to obtain AICPA International Associate membership if they meet the eligibility criteria. ICAN and AICPA also agreed to work together to provide support to each other's in conferences and/or live events including other areas of expertise. The MoU was signed and exchanged between President,

CA. Jagannath Upadhyay (Niraula) and Director - Global Alliances Mr. Jim Knafo in the presence of Past President CA. Prakash Lamsal, Executive Director CA. Sanjay Kumar Sinha and high officials of the AICPA.

Participation in Committee, Board & Members Meetings

Confederation of Asian and Pacific Accountants (CAPA) had organized a Committees, Board and Members meeting in Malaysia from May 30, 2019 - June 01, 2019. President CA. Jagannath Upadhyay (Niraula) along with Past President / CAPA Director CA. Prakash Lamsal and Executive Director CA. Sanjay Kumar Sinha represented the institute in the meeting.

ICAN Signed MoU with Association of International Certified Professional Accountants

In its continuous effort of establishing international image and exploration of avenues for technical collaboration, the Institute has signed Memorandum of Understanding (MoU) with Association of International Certified Professional Accountants, USA coinciding with the participation in the CAPA meetings in Malaysia on 31st May 2019 to allow ICAN members in good standing to obtain AICPA International Associate Membership. The Parties have agreed to work together to provide support to each other in conferences and /or live events including other areas of expertise. The MoU was signed and exchanged between President, CA. Jagannath Upadhyay Niraula and Director - Global Alliances, AICPA Mr. Jim Knafo in the presence of Past President and CAPA director, CA. Prakash Lamsal, Executive Director, CA. Sanjay Kumar Sinha and high officials of AICPA.

Meeting with SEBON for NFRS Implementation in Listed Companies

A meeting was held between the Institute of Chartered Accountants of Nepal (ICAN) and Securities Board of Nepal (SEBON) on 14 May, 2019. The meeting discussed on current status of Nepal Financial Reporting Standards (NFRS) implementation in listed companies and immediate actions to mitigate it's implementation gap. The meeting also explored possible areas of cooperation between ICAN and SEBON in this regard and agreed to form a task force to strengthen NFRS implementation in listed companies.

President CA. Jagannath Upadhyay (Niraula) along with Vice President CA. Krishna Prasad Acharya, Executive Director CA. Sanjay Kumar Sinha and CA. Komal Bahadur Chitracar, Chairman of ICAN's NFRS Implementation Committee (Other than Banking) represented the Institute in the meeting whereas; Dr. Rewat Bahadur Karki, Chairman of SEBON, Directors and Chief Executive Officers of SEBON represented SEBON in the meeting.

Launch of Online CPE Training

Coinciding with the New Chartered Accountant Members Welcome Program, online Continuing Professional Education (CPE) Module of the Institute was launched on 16th May, 2019 at ICAN Building, ICAN Marg, Satdobato, Lalitpur. President CA. Jagannath Upadhyay (Niraula) unveiled the online CPE Training Module by making live demonstration in the program. Chairman of Continuing Professional Education (CPE) Committee CA. (Dr.) Suvod Kumar Karn briefed the journey of materializing this success by the Institute. The program was also attended by Vice President CA. Krishna Prasad Acharya, Council Members and Executive Director of ICAN.

Newly Qualified Chartered Accountant Members Welcome Program

The Institute organized *Newly Qualified Chartered Accountant Members Welcome Program* on 16th May, 2019 at ICAN Building, Satdobato Lalitpur. President CA. Jagannath Upadhyay (Niraula), in his address, congratulated the newly qualified members for their achievement and welcomed them as the members by distributing Chartered Accountant membership certificates. He urged new members to



Newly Enrolled CA Members with ICAN Officials

play constructive role to strengthen the Institute and promote accounting profession in Nepal. Opening remarks of the program was delivered by Vice President CA. Krishna Prasad Acharya. On behalf of newly qualified members, CA. Anima Pokharel and CA. Mooja Manandhar shared their experience as students and also expectation from the Institute as members.

Altogether 48 newly qualified Chartered Accountant members participated the program. The program was also attended by Council Members, Past President CA. (Dr.) Suvod Kumar Karn, Executive Director CA. Sanjay Kumar Sinha and employees of the Institute.

Workshop on Audit Documentation

The Institute has organized a 3 days Capacity Development Workshop on Audit Documentation in different places with the initiation of RA Member Capacity Development Committee. The workshop was exclusively focused to enhance capacity of practicing B Class Registered Auditors Members of the Institute.

S.No.	Date	Place	No of Participants	Resource Person
1	3-5 May, 2019	Lalitpur	20	CA. Nanda Kishor Sharma
2	10-12 May, 2019	Chitwan	18	
3	17-19 May, 2019	Biratnagar	20	
4	28-30 June, 2019	Nepalgunj	20	
5	2-4 July, 2019	Lalitpur	21	



Resource Person CA. Nanda Kishor Sharma Receiving Token of Love



Group Photographs of Participants at Audit Documentation

The workshop basically covered various topics related to audit such as appointment of auditor, communication with former auditor, planning, evaluation of threat, mobilization of audit team, review/evaluation of audit documentation, reporting etc.

The participants of the workshops were awarded with the participating certificate.

Training on Audit of Cooperative

The Institute organized a 2 days training on Audit of Cooperative with practical aspects from 10 to 11 May, 2019 at ICAN Building, ICAN Marg, Satdobato, Lalitpur.



ICAN Officials and Resource Person in Audit of Cooperative with Practical Aspects Training

The training was designed to cover topics related to audit ethics, standards on quality control, planning and controlling of audit, detail substantive and control procedures, compliance to regulatory requirements, review and completion of audit, auditor's opinion in context of audit of cooperative institutions. More than 50 members of the Institute actively participated in the training.

Audit Practice Manual Training

The Institute has organized a two days "Audit Practice Manual Training" at ICAN Building, ICAN Marg, Satdobato, Lalitpur on 2-3, 16-17 and 23-24 June 2019 and with support of Asian Development Bank (ADB) and in technical cooperation with the Institute of Chartered Accountants in England and Wales (ICAEW), UK.



Participants at Audit Practice Manual Training with ICAN Officials

The program started with welcome remarks by Mr. Dev Bahadur Bohora, Chairman of Quality Assurance Board. During his remarks, Chairman stressed on enhancing the quality of audit services delivered by ICAN members and ensuring its proper documentation. He also updated the participants about the ongoing quality assurance reviews and other activities of the Board and progresses materialized in this regard. The audit practice manual, designed by ICAEW for use by audit practices internationally, was used for the training. This training has introduced an audit practice manual and system designed for audits of general audit clients, with few customizations required for special audit clients.

The training covered various topics of the audit practice manual such as fundamentals of Nepal Standards on Auditing (NSA) compliant audit, presentation on meeting Nepal Standards on Quality Control -1 (NSQC - 1) requirements, presentation on planning, execution, completion and review of audit. The training facilitator was CA. Nanda Kishor Sharma.

The closing ceremony of the program was addressed by President CA. Jagannath Upadhyay (Niraula) where he urged members to further improve the quality of audit and stressed that Institute is committed in providing such trainings as part of Institute's objective of providing assistance to audit firms to carry out audit complying with all Nepal Standards on Auditing (NSAs) and ethical requirements.

The training ended with the certificate distribution to participants. Altogether 90 Chartered Accountant members of the Institute participated in these trainings.

Workshop on Issues Related to Auditing and Role of Monitoring Committee

The Institute organized a one day interactive workshop on "Issues Related to Auditing and Role of Monitoring Committee" in Pokhara on 15 June, 2019.

The program started with the welcome remarks by CA Lakshman Adhikari, Member of Branch Advisory Committee of Pokhara Branch. The program was also addressed by RA. Chandra Bahadur Thapa, Member of Branch Advisory Committee, Pokhara Branch, ICAN. CA. Sujan Kumar Kafle, Member of Monitoring Committee imparted information relating to roles of monitoring committee, regulations and other provisions governing accounting profession.

Council Member and Member of Monitoring Committee RA. Bahadur Singh Bista answered the queries raised by the participating members in the program. All

together 78 participants actively participated the workshop including 60 ICAN members.

Canteen Services in ICAN

The Institute of Chartered Accountants of Nepal (ICAN), considering the need for easily accessible and healthy refreshments to its members, students and employees, has arranged to start the canteen services officially from 26 April, 2019 within ICAN Premises at ICAN Marg, Satdobato, Lalitpur.

President CA. Jagannath Upadhyay (Niraula), in the presence of Council Members, Executive Director, employees and students has inaugurated the canteen services with the objective to cater healthy refreshments at reasonable rates to all the persons visiting ICAN.



A Glimpse of Inauguration of New Canteen at ICAN Premises

Meeting at the World Bank

Vice President CA. Krishna Prasad Acharya alongwith Executive Director CA. Sanjay Kumar Sinha, Members of Accounting Standards Board (ASB) and Auditing Standards Board (AuSB) had a meeting with Ms. Anke D'Angelo, Vice President & Auditor General of the World Bank and other senior officials of the World Bank on 28th June, 2019 at World Bank office here in Nepal.

The meeting discussed on the roles being played by the Institute and the Boards to uplift the accounting profession and to support the Government and Private Sector to have globally recognized financial statements. Various concerns raised by the representatives regarding globalization of national reporting system, gender sensitization in the profession, coordination with Government and Development Sector and adoption of International Financial Reporting/Auditing Standards were addressed by the Vice-President and Executive Director including the representatives of ASB and AuSB. The meeting also discussed about the contemporary status of Public Financial Management (PFM) sector and overall role played by the Institute to strengthen Public Financial Management sector in Nepal.

Training Program on “Leadership and Team Building”

The Institute organized a two days “Leadership and Team Building” training for its staffs at Chandagiri Hills, Kathmandu from 21-22 July, 2019. This training covered various topics such as leadership competencies, interpersonal relationship among employees, self-development, negotiation skills and developing positive attitude. During the training, participants were engaged by the trainer in different open discussions and group activities.

The opening session of the training was addressed by President CA. Jagannath Upadhyay (Niurala). President, in his address, stressed the essence of such trainings to facilitate overall development of employees and made a commitment to organize such useful trainings in future as well. Altogether 35 employees of the Institute along with Executive Director CA. Sanjay Kumar Sinha participated in this training. The training was attended also by Vice President CA. Krishna Prasad Acharya.

Microsoft Excel Training

The Institute has conducted a six days in-house staff training program on microsoft excel from 25 June, 2019 to 1 July, 2019. Altogether 45 employees of the Institute participated in this training.

MEMBERS NEWS

Membership Upgrading Result

The Institute has published result of upgrading of Registered Auditor members based on qualification and experience of registered auditor members of the Institute on 11 April 2019. As per the notice published by the Institute, altogether 13 C Class Registered Auditor members have been upgraded from Class C to Class B. Similarly, 3 D Class Registered Auditor members have been upgraded from Class D to Class C. As per the result following members were upgraded from their respective classes.

From C to B		
1. Krishna Ram Pahi (3485)	7. Bal Krishna GC (693)	13. Sabina Chitrakar (4907)
2. Hari Prasad Baral (5843)	8. Gopal Shrestha (3703)	From D to C
3. Prakash Dhakal (5209)	9. Amar Raj Suwal (3704)	
4. Som Raj Thapa (4225)	10. Saroj Kumar Pandey (3260)	1. Ghanashyam Shrestha (843)
5. Suresh Bahadur Khadka (6034)	11. Gyan Bahadur Karki (376)	2. Dal Bahadur Khadka (3422)
6. Shiva Hari Sapkota (3622)	12. Badri Nath Bhattarai (3003)	3. Narayan Prasad Subedi (5260)

According to the published result none of the members were upgraded from upgrading examination.

Registration of New Chartered Accountant at ICAN

The Institute registered 43 chartered accountants pursuant to Sec16 (2) the Nepal Chartered Accountants Act, 1997. During the period of April 2019 to June 2019, the newly registered chartered accountants is as follows:

1	KRISHNA NEPAL	23	ANIL LAMICHHANE
2	BHIM BAHADUR CHAND	24	NIRJALA PHASHI
3	BAHUTANTRA PRATAP SINGH KSHETREE	25	PRATIKSHA BANIYA
4	KESHAB BASHYAL	26	SUDAN GAJUREL
5	SUWAN THAPA	27	NISHA KUMPAKHA
6	SUBAS ACHARYA	28	KALPIT DHAKAL
7	JELINA KANDEL	29	SURAJ PUDASAINI
8	ANIMA POKHAREL	30	JAMUNA KHAREL
9	SUJAL SUWAL	31	ANUP ARYAL
10	SUSHIL KUMAR POUDEL	32	KABITA SHRESTHA
11	DEEPIKA JOSHI	33	RAJ KUMAR ARYAL
12	QUANTUM BHANDARI	34	YUVRAJ KANDEL
13	SUBASH RIJAL	35	UTSAB MAHARJAN
14	RANJU LAMSAL	36	PRATISTHA JOSHI
15	DIPESH KHATIWADA	37	BISHWESHWAR PRASAD ADHIKARI
16	BARSHA BARAL	38	SUJAN SUBEDI
17	DIPESH SHRESTHA	39	SAGUN KHANAL
18	SUBANI SHRESTHA	40	BISHAL BARAL
19	MOOJA MANANDHAR	41	SUJIT TRIPATHI
20	SUNIL KUMAR POUDEL	42	LALIT KUMAR AGRAWAL
21	GITANJALI KUMARI SHAH	43	RANJAN DAWADI
22	KRISHNAHARI BUDHATHOKI		

STUDENTS NEWS

Chartered Accountancy Examination- June 2019

The Chartered Accountancy Examination of June 2019 has been conducted from 2 to 11 June 2019.

Different level examinations were conducted in Kathmandu as well as its branch offices Biratnagar, Birgunj, Butwal and Pokhara. Details of applied and appeared number of examinees were as follows:

S. No.	Level	Description	Both Group	First Group	Second Group	Total
1	CAP I	Total Applicants	-	-	-	1130
		Total Appeared	-	-	-	1055
2	CAP II	Total Applicants	1022	398	252	1672
		Total Appeared	963	301	220	1484
3	CAP III	Total Applicants	262	258	225	745
		Total Appeared	253	233	197	683

Altogether 3,434 candidates appeared in the examination.

Membership Examination -June 2019

The Institute successfully conducted the Chartered Accountancy Membership Examination on 2 and 3 June 2019 in Kathmandu. Total applicants of the examination were 275 while 237 were appeared in the exam.

RA Up-gradation Examination Conducted

The Institute successfully conducted RA upgrading examination from 2 to 5 June 2019 in Kathmandu. Total applicants of the examination were 3 while single C class RA member appeared in the examination to upgrade in B class.

Crash Course

The Institute, with its objective to support students for their upcoming examination of June 2019, completed crash course for the CAP II and CAP III students from 1 - 26 April 2019 at ICAN Building, ICAN Marg, Satdobato, Lalitpur. The Institute also took mock tests for both levels during crash course. 43 Students of CAP II and 38 Students of CAP III attended the crash course conducted by the Institute. The Institute also organized crash course for CAP II level students in Pokhara from 28 April to 3 June 2019. Altogether 19 students attended the course.

One year Internship for Foreign CA Degree Holders

Pursuant to Nepal Chartered Accountants Regulation, 2061, Rules 41(KA) of its 5th amendment, The Institute of Chartered Accountants of Nepal has made mandatory provision of one year internship to the foreign CA degree holders for getting Membership and Certificate of Practice. During the period of April 2019 to June 2019, total number of 79 chartered accountants member from ICAI have joined one year internship.

Student Registration

1208 students enrolled in ICAN in various levels for CA education during the period of April 2019 to June 2019. The details are as follows:

Level	CAP I	CAP II	CAP III
No of Students	1187	6	15

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सजिलो र भरपर्दो माध्यम ।

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ग्याँस लिकेज भएमा यसो गर्ने

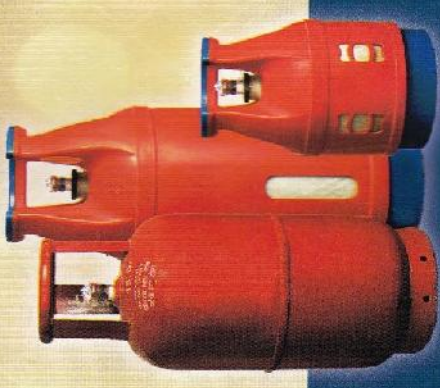
ग्याँसको तीस्रो गन्ध आइसकेको छ भने ग्याँस लिक भएको बुझ्नपर्दछ । ग्याँस लिक भए पहिले रेगुलेटर बन्द गरेर घुल्नो बन्द गर्ने । आगोको किल्ला निस्कने : सलाई, लाइटर, घुणजस्ता कुराहरु नबाल्ने । ग्याँस लिक भइरहेको सिलिण्डरबाट रेगुलेटर छुटाई सेफ्टी क्याप लगाएर बाहिर खुल्ला ठाउँमा राख्ने । आफूलाई अनुभव नभए तुरुन्त नजिकको तालिम प्राप्त ग्याँसस डिलर, अगोज वा सुरक्षाकर्मीलाई सबेर गर्ने ।

ग्याँस दुर्घटनाबाट बच्नो उपायहरू

सिलिण्डर ल्याउँदा, लेजाँदा नगुडाउने, सुताएर वा धोटाएर प्रयोग नगार्ने । गुणस्तरीय रेगुलेटर, पाइप, घुल्नो र लाइटर मात्र प्रयोग गर्ने । दुई/दुई वर्षमा ग्याँसको पाइप फेर्ने । सिलिण्डर र घुल्नोको दूरी कम्तीमा २ मिटर राख्ने । ग्याँस प्रयोग गर्दा न्यायल र ठेका खुला राख्ने । खाना पकाउँदा आगो छिने विन्ने कपडा नलगाउने र घुलन प्रयोग गर्ने । माछामा सिलिण्डरसँगो सेफ्टी क्याप अनिवार्य राख्ने । माछाको काम सकिएपछि अनिवार्य रेगुलेटर बन्द गर्ने । ग्याँसको प्रयोग गर्दा सुरक्षासम्बन्धी ज्ञानहरु सिक्ने र परिवारका सबै सदस्यहरुलाई सिकाउने । सम्बन्धित कम्पनीको आधिकारिक डिलर (निक्रेता प्रमाणिकरण भएको) बाट मात्र ग्याँस सप्लिड गर्ने । Date Expire भएको, कुटिएपछको, पुरानो सिलिण्डरहरु प्रयोग नगार्ने ।

ग्याँस बचत गर्ने उपायहरू

घुल्नो बल्लुगुन्दा पहिले पकाउने । सामानहरु ठिक पारौं । खानेकुरा उठिलन थालेपछि आँच कम गरौं । जोडगुडी पकाउनुगुन्दा पहिले किजाएर राखौं । सक्कभर परिवारका सबै सदस्यहरु छुट्टैपटक खाना खान बसौं । खानेकुरा सक्कभर प्रेसकुकुकरमा पकाऔं । नियमित रूपमा घुल्नो सफा राखौं । गुणस्तरीय ग्याँस घुल्नो, रबर पाइप र रेगुलेटर प्रयोग गरौं ।



ग्याँसको प्रयोग सुरक्षित तवरले गरौं । आफू पनि बुझौं अरुलाई पनि बुझाऔं । सम्भावित दुर्घटनाबाट बचाँ र बचाऔं ।

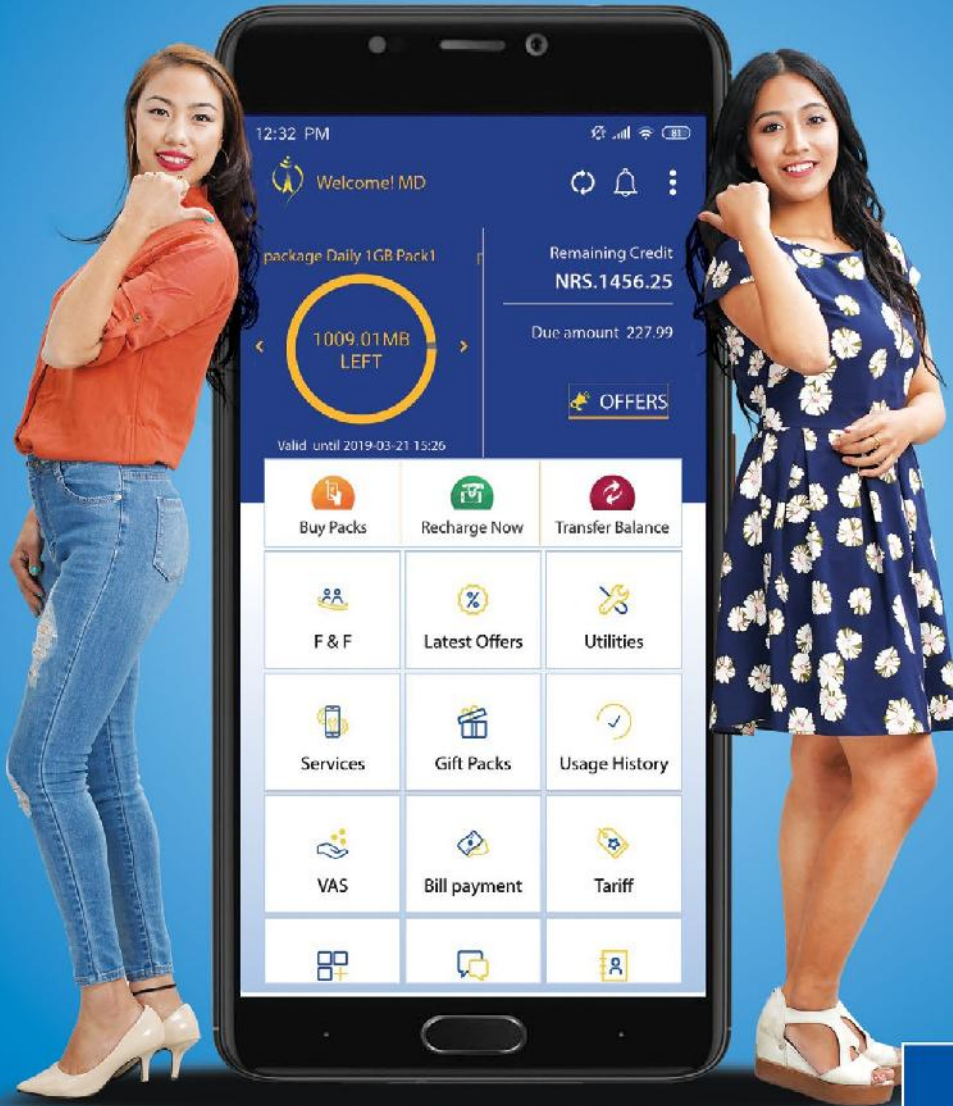


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