

(Unofficial Translation)

**Public Statement on the promulgation of Finance Ordinance and other
Fiscal Ordinances
by Hon'ble Minister of State for Finance Dr. Roop Jyoti
on January 14, 2006**

Beloved Brothers and Sisters,

1. His Majesty the King Gyanendra Bir Bikram Shah Dev has taken a very important historical step for the overall betterment of the nation on February 1, 2005 keeping in view the aspirations of the people and in line with the glorious traditions of Shah Dynasty. As per the wishes of His Majesty the King, His Majesty's Government is committed to ensure peoples' happiness and well-being through necessary reforms in the economic sector and by implementing programs for the people's benefit. In this connection, His Majesty the King on January 14, 2006 has re-promulgated Appropriation Ordinance, National Debt Ordinance, Loan and Guarantee Ordinance and Finance Ordinance with necessary refinements, to give continuity of these Ordinances which were promulgated on July 16, 2005. I am here today to make public the major provisions of different Fiscal Ordinances promulgated by His Majesty the King for the remaining six months period of Fiscal Year 2005/06.
2. There has been no significant change in the objectives, bases and the fundamental policies of the budget and the accompanying fiscal ordinances presented on July 16, 2005 which was formulated with a focus on the spirit and letters of the historical step taken by His Majesty the King on February 1, 2005, 21-point program issued by His Majesty's Government and Tenth Plan goal of poverty alleviation. There has, however, been some change in the revenue policy as stated in the Finance Ordinance with a view to addressing the needs of the changing times.
3. While formulating the Finance Ordinance, the objective of revenue policy has been to enhance honesty and transparency in economic activities by considering Value-Added Tax system (VAT) as the main pillar of our taxation system.

4. The present Finance Ordinance incorporates necessary reforms in our revenue system so that our commitments in of WTO, BIMSTEC and SAFTA are addressed.
5. While introducing VAT system in Nepal, experts and honest businessmen had forwarded a number of valuable suggestions. However, many of such suggestions could not be implemented due to lack of commitment, knowledge of implementation and courage. There was also of felt-need of the cooperation and confidence of the businessmen for the implementation of those suggestions. In this connection, I would like to express my sincere gratitude to His Majesty the King for giving me the opportunity to make timely corrections in the revenue policy with a view to widening the tax base under the dynamic leadership of His Majesty the King.
6. I would like to make clear that the present Finance Ordinance has given clear direction for the effective implementation of 21-point program of His Majesty's Government. I would also like to state that the present Finance Ordinance has made specific arrangements for corruption control, greater transparency, private sector development, consumer participation in economic activities, tourism, and foreign employment and for the promotion of domestic industries.
7. Special efforts have been made to make VAT more effective, which is the main pillar of government revenue mobilization. In this connection, I am confident that the provisions relating to revision of customs duties, controlling of smuggling through open and porous border and under-invoicing made in the present Finance Ordinance will help in promoting invoice-based transactions and self compliance of businessmen in VAT. This, I hope, will help in collecting the revenue as targeted.
8. The entrepreneurs themselves are convinced that effective and small-scale protection can be beneficial for the promotion of industries and employment than the larger level of protections—but accorded only on paper. In this connection, high import tariffs maintained in the name of providing protection to domestic industries has been reduced. At the same time, import duty on the raw materials consumed by such industries have also been reduced to ensure protection of domestic industries.
9. Since suggestions and recommendations have been received from various organizations, agencies, entrepreneurs, traders, leaders and people from all segments of society during the process of formulation of this ordinance, I firmly believe that, through revenue policies initiated under this Ordinance, the economy will take forward momentum by encouraging entrepreneurs to conduct their businesses honestly while enhancing tax compliance, by increasing transparency and honesty in tax administration, by enhanced consumer participation in economic activities, and by increased effectiveness of industrial sector.

10. Now, I would like present highlights of Finance Ordinance promulgated by His Majesty the King on January 14, 2006.

(a) On Policies

1. Special emphasis will be accorded to collecting VAT by giving continuity to the policy arrangements made in the Finance Ordinance promulgated on July 16, 2005.
2. It is estimated that the targeted revenue can be collected even under the present circumstances through the implementation of reform programs initiated by His Majesty's Government and those reform programs to be initiated in revenue administration in future.
3. While formulating revenue policy for the second half of FY2005/06, pertinent issues such as widening tax base, maintaining appropriate tariff, simplified procedures, and strengthened administration have been taken into consideration.
4. A tax-payer friendly atmosphere will be created whereby tax-payers will be encouraged to pay their taxes honestly. For this, emphasis will be given towards promoting partnership with the private sector in the areas of revenue collection and overall development of the nation.
5. Effort will be made to bring the potential tax payers into the tax net.
6. Arrangements have been made to introduce timely reform and amendment in the policy, legislation, and administrative systems related to revenue matters on the basis of suggestions and recommendations of Revenue Advisory Committee, recommendations of various private sector organizations, agencies and institutions related to economic sector and commitments made by the government.
7. In order to regulate barter trade, arrangement has been made to encourage such transactions through the banking system by setting up value threshold for such trade.
8. Arrangement has been made to provide certain facilities under income-tax to encourage businesses generating domestic employment opportunities.
9. Timely improvement has been introduced on customs duty with due consideration for the benefit of consumers and for the improvement in collection of VAT. In the meantime, due care will be taken through effective tax administration not to allow any decrease in revenue collection.

10. Reform program initiated in the past in the revenue sector, for bringing quality improvement in the functioning of revenue administration, will be continued in view of positive results shown by such programs.
11. Arrangement has been made to strengthening the system of displaying tax (registration) plate.
12. Arrangement has been made to bring the traders with a monthly turnover of Rs. 200,000 into the VAT net.
13. 'Conscious Trader Program' will be conducted in addition to existing 'Conscious Consumer Program'.
14. Efforts have been geared towards the simplification of revenue collection procedures, controlling leakage of revenue and participation of all concerned by diverting the focus from collecting revenue simply by raising tax rates.
15. Inspection, monitoring, and investigation activities will be given momentum for checking revenue leakage occurring due to unlawful activities and transactions, and for enhancing revenue collection.
16. Priority will be given for timely dissemination of information about the arrangements made in the Finance Ordinance and other prevailing laws through the organization of seminars, workshops, discussion forums with the participation of private sector and also by using different communication media.

(b) On Value Added Tax (VAT) and Excise:

1. In view of past experience of opportunity provided for stock declaration, such arrangement, under the amended regulations, has been extended until 12 February 2006. On such declarations, VAT at the rate of 9 percent and penalty in the amount equivalent to applicable customs duty will be levied.
2. An arrangement has been introduced whereby VAT could be levied on minimum retail price of specified commodities in order to bring retail trading of such commodities into the VAT net. Voluntary entry into such a VAT system for items other than those specified, however, will be open.
3. A system of penalty has been introduced for those having the obligation to register for tax purpose but carrying out business without tax registration.
4. Bank guarantee facility being provided for export promotion on Customs and VAT has been continued.

5. Arrangement has been made to encourage the use of cash register.
6. The system of imposing VAT at the rate of 13 percent for service business carried out by Foreign Employment Service Providers has been abolished and from now on excise at the rate of 2 percent on the invoiced amount will be imposed. Such excise amount will be used to buy insurance policy of up to Rs. 500,000 for the security of people going on foreign employment on the basis of invoice amount paid by such person to the Foreign Employment Company.
7. Arrangement has been made to bring businessmen organizing temporary trade fairs into the VAT net.
8. The non-filers of VAT returns, who are subject to penalty and other dues, are permitted to file returns within 7 April 2006 and on which a rebate on penalty will allowed as specified.
9. In relation to Cinema Development Fee, classification of cinema halls has been changed and, from now on, there shall only be two classes and at the same time rate of entrance fee also has been changed.
10. VAT collected by the Tire and Ball-pen industries will be refunded to the concerned industrial unit as specified.
11. VAT exemption on cotton yarn and cotton clothing (except for cotton *Saree, Petani, Lungi* and *Gamchha*) has been withdrawn.
12. A new provision has been made to impose 5% excise duty on health services by abolishing 13% VAT previously levied on these services.
13. The system of partial VAT exemption on mustard oil has been abolished and the VAT has been imposed on the import of oil seed.
14. A provision has been made to levy VAT on the sale of High Voltage electricity, freight services, transportation and kerosene. However, these new provisions will not be effective until further notice.
15. To control the consumption of domestically produced illicit liquor, permission will be granted for the production of 50 UP and 70 UP alcohol. Similarly, the production of high quality alcohol with 15 UP shall also be permissible.
16. VAT has been exempted fully on woolen carpets and weaving, washing, spinning and dying of woolen yarn used for producing woolen carpet and other thread.
17. VAT has been exempted fully for the raw materials used by woolen carpet industries.

18. VAT has been exempted fully for the raw materials, associated raw materials and packing materials imported or purchased by the Pharmaceutical industries themselves as specified by Drugs Management Department.
19. The excise duty on chassis of battery-operated three-wheelers (Tempos) is fully exempted.

(c) On Income Tax

1. In order to encourage creation of domestic employment opportunities, businesses providing employment to Nepali citizen will be allowed to deduct Rs 500 per employment as permissible expenditure.
2. Provision has been made to levy income tax at a rate of 2 percent of turnover of the Airline Services having office and business in Nepal but not operating flights to and within Nepal.
3. Facility has been granted to taxpayers having tax arrears to clear their arrears within 13 March 2006.
4. The present rate of 10 percent tax deduction at source for payment of commission by a resident company to a non-resident company has been reduced to 5 percent.

(d) On Customs Tariff

1. The custom tariff has been reduced with a view to increasing honesty in revenue sector, increasing compliance and implementing VAT in retail level effectively. It is believed that such a provision will create an atmosphere for the business people to declare the real price honestly and consequently collection of custom and VAT will increase.
2. Traders can declare their estimated freight cost at the time of import and the papers related to actual freight expense can be submitted within 90 days of the import.
3. All pending bank guarantee will be released if the exporters submit within April 13, 2006 the certificate of export and evidence of payment.
4. The present regime of barter trade with Tibet region of PRC has been revised and is confined to limited traditional goods only.
5. For the purpose of eliminating the problems faced in the custom valuation, the valuation system has been redefined making compatible with WTO arrangements.

6. In order to facilitate Nepalese returning from foreign employment, the present flat tariff rate has been reduced and additional facility in relation to permissible items has been provided.
7. In order for promoting the poultry farming industry, custom duties and agriculture improvement fees imposed on bone-meal used for producing poultry-feed have been fully exempted.
8. In order to enhance competitiveness of domestic industries, producing finished goods for which the customs tariff has been reduced, the tariff on raw materials consumed by such industries has also been reduced
9. Duty at the rate of 1 percent on the import of mustard seed by anyone will be imposed by replacing the present system of 5 percent duty on industrial import and 10 percent for commercial import.
10. Import duty of petrol has been increased by Rs. 4 per litre while duty on diesel has been reduced by Rs. 1 per litre. Similarly, duty on aviation fuel has been increased to Rs. 2.10 from Rs. 1.29 per litre whereas the duty on kerosene has been increased to Rs. 2.10 from Rs. 0.80 per litre. The revision of duty on kerosene, however, will not be effective until further notice.. These changes in tariff will not raise the prices of petroleum products.
11. In view of imminent energy crisis in the country, import duty of 1 percent will be imposed on generators in excess of 10 KW capacity.
12. Import duty on wheel chairs, special shoes, hearing aid and such other goods used by physically-challenged handicapped people has been fully exempted.
13. The changes on custom tariff have been annexed to the Finance Ordinance.

(e) Miscellaneous

1. The land registration fee has been waived for the land purchased by freed bonded-labor families through bank loan.
11. I sincerely express my sincere gratitude to His Majesty's the King for providing me this opportunity of formulating new revenue policies affecting the entire economy of the country in the context of conducting environment created as a result of historical step taken by His Majesty's King Gyanendra Bir Bikram Shah Dev as per the wishes and aspirations of all Nepalese for peace and overall development.

12. I would like to thank everyone belonging to industrial and commercial institutions, academics, intellectuals, civil servants, and the representatives of civil society who have extended their cooperation in formulating this Ordinance.
13. I am thankful for the continuous support extended by friendly countries and the donor community for the strengthening of our economy.
14. I would like to thank all Nepalese brothers and sisters for their valuable support and also appeal for cooperation from all entrepreneurs, businessmen and members of civil society for the successful implementation of the decisions made through the present Finance Ordinance, which is guided by the objective of promoting welfare of the common people.
15. Finally, my special thanks go to the officials of the Finance Ministry and Departments for their support in preparing this Ordinance.

Thank You !

14 January 2006