Step2: Statement showing total cost of each products using Activity Based Costing

Particulars	A	B	C	D
A.Output (Units)	1440	1200	960	1008
B. Direct materials (Rs)	60,480	54,000	38,400	48,384
C. Direct labour (Rs)	14,400	10,800	6,720	8064
D. Set up Cost	30,000	25,000	20,000	21,000
E. Store receiving	18,000	18,000	18,000	18,000
F. Inspection Cost	15,000	12,500	10,000	10,500
G. Material handling & dispatch cost	1,620	1,350	1,080	1,134
H. Total Cost	139,500	121,650	94,200	107,082

Working Note:
Apportionment of Machine Department cost in ratio (4:3:2)

	Machine department costs	Setup costs	Store receiving cost	Inspection	Material handling and dispatch
Costs Rs	126,000	40,000	30,000	20,000	5,184
Apportionment of Machine Department Cost	(126,000)	56,000	42,000	28,000	-
Total	-	**96,000**	**72,000**	**48,000**	**5,184**

Comments:

The use of activity based costing gives, different product costs than what were arrived by using traditional costing. It can be argued that product costs using ABC are more precise as overheads have been identified with specific activities.

Advance Taxation

Questions

1. Horizontal Pvt. Ltd. is an industry cigarette manufacturing industries. Compute the tax liability including interest and penalty payable by the company on the basis of the following information for the income tax year 2070/71.

   - Sales as per ledger Rs. 350 million
   - Sales as per Vat Statement Rs. 525 million
   - Opening stock of raw material Rs. 15 million
   - Cost of Raw material purchase including transportation Rs. 150 million
   - Interest on trade service used for material purchase through L/C Rs. 20 million

- Closing stock of raw material Rs. 20 million
- Processing cost Rs. 30 million
- Opening stock of finished goods Rs. 10 million
- Closing stock of finished goods Rs. 8 million
- Deductible administrative expenses Rs. 25 million, it includes the pollution control expenses Rs. 0.5 million
- Interest on Long term loan Rs. 15 million. This interest is payable to foreign investors holding 60 % share of the company.
- Depreciation Rs. 12 million
- As per ledger, export Rs.140 million out of above sales.
- The difference between sales with Vat return statement is caused by excise duty.
- Finished goods valued including all related cost.
- On Mansir 30, 2070, the company has purchased fiscal printers and cash machines for billing on Rs. 1 million. The company has charged Rs. 0.5 million for depreciation of these goods and included in above depreciation amount.
- There are 1100 Nepalese citizens working in the company throughout the year.
- No estimated tax return and advance tax paid during the year, but the company paid excise duty in advance amounting of Rs. 30 million on 30 Ashad, 2071.
- The Company has filed tax return on Bhadra 2071.
- The Company is established in Chitawan.

2. You are appointed as a tax advisor of Metroexim Pvt. Ltd on 30 Falgun, 2070. The company is registered as a special industry in 2063. It is a food production industry and located in underdeveloped area. The management shall submit its tax return to concerned Inland Revenue office based on your tax assessment of the income year. The management provides the following information pertaining to the income year 2069/70 and its documents for the calculation of tax liability. As per TOR, you have to calculate taxable amount and all tax liability including fees and interest of the Pvt. Ltd till chaitra end 2070.

- Total sales Rs. 26,674,925.00 The ledger shows export Rs. 21,674,925.00, local sales Rs. 5,000,000.00
- Cost of sales Rs. 18,492,000.00. The ledger shows opening stock valued Rs. 1,992,000.00 under section 15 of Income tax act, raw material purchase during the year Rs. 18,500,000.00, direct expense Rs. 3,000,000.00 and closing stock valued Rs. 2,500,000.00 as per purchase price of raw material.
- Direct expense includes allowable repair and maintenance Rs. 100,000.00 and depreciation Rs. 300,000.00 of the machinery used for the production. Other variable direct expenses are electricity charges, wages, freight; stores consumed etc total Rs. 2,600,000.00 All direct expenses are allowable as per relevant provision of income tax act.
- Depreciation on Car Rs. 250,000.00 and it is allowable.
- Company has no policy to include the direct cost to the finished goods. Such costs are directly booked in ledger and total amount presented in Trading account.

- Total Administrative expenses pertaining to this year is Rs.1,000,000 which includes salary Rs. 470,000.00 , printing and stationary Rs. 30,000.00 telephone Rs. 50,000.00 audit fee Rs. 20,000.00, petrol expenses for Maruti Alto Car Rs. 200,000.00 advertisement expenses 100,000.00 and insurance premium Rs. 130,000.00
- VAT invoices are used in all transaction but not included in above figures.
- Per Kg selling price is Rs. 145, Per Kg, opening Valuation is Rs. 120 and 25,000 Kg is in finished stock at the end. No opening and closing stock of raw material. The company has followed FIFO method.
- No estimated tax return and tax payment.

3. Mrs Sahita is working in Bhojpur branch of Nepal Bank Ltd. In Income Year 2070/71, information about her are as follow:

- Salary Rs. 30,000 per month; Dashain allowance Rs. 30,000; Bonus Rs. 60,000.
- Amount of Rs. 60,000.00 has been deposited into CIT in the year but the contribution by the employer for the year is Rs. 30,000.00 only
- Her husband is a pension holder from Nepal Government; he has received Rs. 150,000.00 pension during the year. He is involving in share transactions from secondary market. During the year, he has net cash gain of Rs. 1,000,000.00 from share transactions.
- The couple has covered the insurance and paid insurance Rs. 10,000.00 for wife and Rs. 12000.00 for husband during the year.
- Mrs. Sahita paid Rs. 4,000.00 and her husband paid Rs. 6,000.00 for their medical treatments to approved institution.
- Mrs. Sahita did not have information about the gain on share transactions while providing the information to the Bank branch.
- She has declared the couple under section 50 for calculating her monthly remuneration tax during the year.

Discuss whether the bank should take into account of her husband income while calculating her remuneration tax and tax credit.
Compute Assessable Income, Taxable Income, Tax liability of Mrs. Sahita and her couple for the Income year 2070/71 as per Income tax act, 2058.

4. Rural social organization is registered in Social and Welfare council of Nepal. The primary objective of this NGO is to create public awareness, group formation, support the rural people to generate the income from their saving and improve their living standard. This NGO has obtained tax exemption certificate from Inland Revenue Department. It has not obtained banking transaction approval from Nepal Rastra Bank. It receives loan from financial institution and international organization and receives grant from international organization. It implements its social program and also provides soft loan to the group of community. It deposits the balance amount into the account of commercial bank for the interest income. The hiding objective providing the loan and charging interest on loan is to make sustainable this organization. This NGO has been submitting its financial statement into the concern Inland Revenue Office within the prescribed time.

In the light of the above situations, discuss on the following issues:

- Compliance of income tax act 2058,
- Tax exemption amount for this NGO,

5. Briefly states the tax implications on the following issues

a) SANO development bank Ltd. has outstanding loan Rs. 1000 million as on Ashad end, 2070. It had claimed all loan loss provision Rs. 50 million as per Income tax Act 2058 till Ashad end 2070. The Bank had made loan loss provision Rs. 45 Million as per NRB directives and it was presented in the financial statements in 2069/70. During the year 2070/71, bank has outstanding loan Rs. 800 Million and loan loss provision Rs.65 million in its financial statements as per directives. The bank has not written off any loan from its books of account.

b) Maruti oil industry is a leading industry in Nepal for edible oil. It is in Bhairahawa. The partners of this oil industry have also investment in Indian oil industry located in New Delhi. The refinery branch of Indian Oil industry has been established in Gorakhpur, India. The Maruti Oil exports all its oil cakes to the Indian Oil industry, the Indian oil industry refine the cakes and produces oil form the cakes. The Maruti Oil industry always has been submitting its tax return with loss from the business.

6. Himalayan Insurance company Limited had filed its tax return on 28 Poush, 2070 for the income year 2069/70. The extended time was approved by tax officer. The concern Inland Revenue Office (IRO) has selected for amended assessment on the ground that the claim for deductions by the company had been made more than actual deductible. Such deductions were related to provisions of unexpired premium and outstanding claims. The tax officer has sent a notice to submit documents for inspection related to the Income year. The company denied to submit documents and replied that its financial statements have been approved by Insurance Board of Nepal and such statements were submitted to the IRO along with tax assessment from Chartered Accountant. Also the company replied that it has not more documents other than financial statements. As per its financial statements and tax assessment report, premium amount and unsettled outstanding claims and claims for deductions were as follows:

Net premium amount as per profit and loss account Rs. 220 Million
Claimed for deduction on premium Rs. 165 million
Total unsettled outstanding claims at the year-end Rs. 95 million as per schedule
Unsettled outstanding claims included in financial position Rs. 50 million
Claims for deductions on outstanding claims Rs. 109.25 million

In this case, answer the followings

i) Whether the deductions had been claimed as per the provision for the above transactions, if not, how much would have been claimed?

ii) How the tax officer can make amended assessment if the documents are not produced by the taxpayer?

iii) Was the response to the notice by the company justifiable? If not, how is it penalized?

7. Citizen's international Ltd. held 45 percent of share of Kathmandu Pvt. Ltd. during the income year 2070/71. Both companies are involved in tourism business with residential status during the year. The international has granted 4 cars out of 10 cars on 1 Falgun, 2070 to the Kathmandu Pvt. Ltd. The book value of the cars as on 1 Shrawan, 2070 was Rs. 24,00,000.00 and the market value of the cars is Rs. 30,00,000.00 on 1 Falgun, 2070. Answer with the light of the provisions including the tax implications of income tax act, 2058 in this case.

8. Write short note on the followings:

a) Taxpayers' Rights under the Income Tax Act 2058.
b) Loan loss provisions for cooperatives.

9. What is Double Taxation Avoidance Agreement (DTAA)? What are the major objectives of doing DTAA?

10. Super Construction Pvt. Ltd. has been awarded a contract by Road Department for expansion of Ring Road in Kathmandu Valley. The amount shall be paid by ADB directly into the bank account of the Contractor. Total value of the contract is Rs. 4 billion. The contract shall have to be completed over the period of 3 years. In the third year, the Road department has issued a variation order worth Rs. 2 billion and time of one year extension. The variation order was approved by Council of Ministers. Initially, it is estimated that the cost of the construction is 99% of the value of the contract but the estimated cost for the variation work is 70 %.

The construction cost was Rs.1300 million, Rs. 1200 million, Rs. 1600 million and 1200 million in the first, second, third and fourth year respectively

Calculate the income that is to be included in the income and allowable expenses on this long term contract of Super Construction Pvt. Ltd for each of the four years. Assume no indirect expenses.

11. Guras international Trade Link, a proprietorship firm is a leading exporter of jewelry. The trade link imports the glass beads and exports the jewelry made by the glass beads. It was registered on 15 Jestha, 2068 in Inland Revenue Department. The books of account of the trade link shows value added tax receivable Rs. 7 million at the end of Ashad, 2071. It has not produced any application for refund. The details of the VAT receivable of Rs. 7 million are as follows:

Tax period	**Amount receivables**

2068 Jestha	Rs. 10,00,000.00
2068 Ashad	Rs. 5,00,000.00
Total of 12 periods (2068 shrawan to Ashad, 2069)	Rs.24,00,000.00
Total of 12 periods (2069 shrawan to Ashad, 2070)	Rs.15,00,000.00
Total of 12 periods (2070 shrawan to Ashad, 2071)	Rs. 16,00,000.00
	Rs.70,00,000.00

Further information:

The following issues are not adjusted till Ashad end, 2071.

- In the month of Shrawan, 2071, the trade link found the missing invoice of Rs. 1,50,000.00 dated on 14 Shrawan 2070 during the tax auditing.
- In the month of Ashad, 2069, the trade link imported goods of Rs. 20, 00,000.00 but the Custom officer could not determine the transaction value of the goods and asked the link to deposit the vat amount on the declared value. The declared value of this transaction was determined on 15 Mansir 2070.

Compute, how much VAT amount can be claimed for refund by the trade link on 30 Shrawan 2071.

12. Nepal Government has determined the Royalty @ Rs. 800 per cu.fit on wood for national forest. R suppliers submitted a bid quoting @ Rs. 900 per cu.fit for 2000 cu.fit wood to Kathmandu forest office to purchase the wood on auction. The suppliers have been awarded the auction of the wood. In addition, the suppliers have purchased 1000 cu.fit wood from co-operative forest @ Rs. 700 per cu.fit for its business. Determine the VAT amount on these purchases with reference to the provisions of Value Added Tax Act, 2052.

13. A Manufacturing Company, based in Hetauda has imported a machine (HS code 8479.89.10) on 30 July, 2014 from Culcutta, India at FOB cost of IRs 1 million, other details are as follows:

i) Freight from Culcutta to Birgunj custom was IRs. 50,000.00 & Birgunj custom office to Hetauda IRs. 20,000.00
ii) Insurance was paid to insurer in Nepal: Rs. 5,000.
iii) Amount Rs. 10,000.00 paid to custom agent for clearance from custom office.
iv) The machine was produced in 2012 in India.
v) Custom tariff is 5 % for the Machine

Calculate all duty and taxes payable to Custom office, if applicable.

14. A car manufactured in 2004 was imported in Nepal in 2007 by a project under customs duty privilege paying 1 % customs duty for recording purpose. The value determined at the time of import was FCY 15,000.00 and rate of exchange was Rs. 70 for FCY1. The custom duty of Rs.10,500.00 was paid as 1 % whereas excise duty and VAT were exempted as per the decision of Government.

On July 14, 2014 the project has allowed the general manager in Nepal to get the ownership of the car in his own name free of cost. But the GM has to pay all duties and taxes in case payable. All supporting documents have been submitted to the custom office for clearance on 30 July, 2014.

The custom tariff 80 % and excise duty 60 % are applicable for such imported car. The exchange rate on 30 July is Rs. 96 for FCY1.

Calculate all duties and taxes payable to the customs office.

15. Divya plastic Industries is engaged in producing various plastic products. It Imports PVC granules from India. The various products are sold in local markets, i.e. within Nepal. The production norms was prepared by the Industries and got approval from Department of Industrial. As per the norms, 110 Kg input is required for 100 Kg output. The Industries has imported 5600 Kg PVC granules during Bhadra, 2071. The average selling price Rs. 560 per Kg for the products has been determined by the industries. The selling price includes all taxes prevailing during the period. The Company has no any opening and closing stocks during the period. You are required to calculate the excise duty and VAT payable by the industries on the sales of plastic products during the period.

16. Highland Distillery has been manufacturing 25, 30, and 70 UP Alcohol using Molasses as prime raw material. The input output ratio is 20 litre per quintal of molasses. During the month Bhadra 2071, it has purchased 200 quintal Molasses. The excise duties payable on the production are Rs. 538.00, Rs. 501.00 and Rs.22 on 25, 30 and 70 UP respectively. The distillery has not made adequate arrangement for the preservation of the Molasses. During the period, there are losses of 50 quintal Molasses. In this case, whether there is any excise implications on the losses of Molasses as per Excise act and rules.

17. A manufacturing company producing excisable goods and have obtained approval for self removable system. As per the financial statements for the year 2070/71 of the company, there is excise payable of Rs. 1, 50,000.00 on which Rs. 50,000.00 is related to the sales of Jestha, 2071 and the balance amount related to the Ashad, 2071. The company has not paid the excise amount till 15 Bhadra, 2071.

In this case, briefly mention the excise duty payment in case of self removable system and calculate fee if applicable till Bhadra 15, 2071.

18. Mention the appeal procedures as per Custom Act, 2064.

19. State the persons who are responsible to determine and pay/collect the excise duty according to sec. 4ka of Excise Duty Act.

20. Writes short notes on the followings
- i) Input tax credit is availed without tax invoice.
- ii) Export Duty
- iii) Physical Control System and Self Removal System

SUGGESTED ANSWERS/ HINTS

Answer to questions No.1

Calculation of Assessable Income

Sales		Rs 350 million
Less deduction expenses:		
Interest (section 14) W.N. 1	Rs. 35 million	
Cost of sales (section 15) W.N.2	Rs. 177 million	
Pollution control expenses	Rs. 0.5 million	
Depreciation (section 3) W.N.3	Rs.12.5 million	
Administrative expenses	Rs. 24.5 million	Rs.249.50 million
Assessable and taxable income		**Rs.100.50 million**

Computation of tax liability
Export sales is 40 percent (140/350 *100)

Particulars	**Total**	**Export 40 %**	**Local Sales 60 %**
Taxable income	Rs. 100.50	Rs.40.2 million	Rs. 60.3 million
Tax rate	--	15 percent (working 4)	30 percent
Tax	Rs. 24.12 million	Rs.6.03 million	Rs.18.09

Tax assessment under section 99 as per above Rs.24.12 million

Fees under section 117 (1)(ka)	Rs.2,000.00
Interest under section 118 (1) (WN 5)	Rs.1.59795 million
Total tax liability	Rs.2,57,19,950.00

Working Note 1:

Calculation of Adjusted taxable Income

Sales		Rs 350 million
Less deduction expenses:		
Cost of sales (section 15) W.N.2	Rs. 177 million	
Depreciation (section 3) W.N.3	Rs.12.5 million	
Administrative expenses	Rs. 25 million	Rs.214.50 million
Adjusted taxable income (ATI)		**Rs.135.50 million**
50 % of ATI		**Rs.67.75 million**

So, allowable interest expenses

Interest on short term loan under section 14(1)	Rs. 20 million
Interest on long term loan under section 14(2)	Rs.15 million
Total	Rs.35 million

Working Note 2:

Opening stock of raw materials	Rs.15 million
Purchase	Rs. 150 million
Less closing stock	(Rs. 20 million)
Consumption for production	Rs. 145 million
Opening stock of finished goods	Rs. 10 million
Processing charge	Rs. 30 million
Less closing stocks	(Rs. 8 million)
Cost of sales	Rs. 177 million

Working Note 3:

As per schedule 2 (3) of Income tax act, 2058, purchase amount of fiscal printer and cash machine is allowable for depreciation for the year. So, 1 million is allowable for deduction. The company has charged only Rs. 0.5 million. Total allowable depreciation is Rs. 12.5 million

Working Note 4:

Calculation of tax rate:

With reference to the schedule 2 (2), 30 % is the applicable tax rate for the cigarette industry. Further, schedule 2(3ka) states that 20 % tax rate applicable for the taxable income through its source in Nepal from export in any income year. In addition, 25% rebate on applicable tax rate is available for the 11 (3 Nga) manufacturing industries having profit on export sales. In this case, applicable tax rate for the taxable income from export of this industry would be as follows:

Particulars	Tax rate
Normal Tax Rate for the company as per Schedule 2(2)	30 %
Tax rate for export as per schedule 2(3ka)	20%
Rebate for export 25% of 20% as per section 11 (3Nga)	5%
Applicable Tax Rate for export	15%

For special industry, section 11 (3)(ka) has provisioned that if any special industry creates employment for 300 or more Nepali citizen throughout the year, than only 90% of normal income tax shall be levied. But the cigarette industry has been excluded from special industry as per the definition under the section 11.

<u>Working Note 5:</u>

Calculation of interest under section 118

Installments	To be paid Rs.	Period for interest calculation	Interest amount Rs.
Poush end	9.648 million	Magh 2070 to Bhadra 2071	0.9648 million
Chaitra end	7.236 million	Baishakha 2071 to Bhadra 2071	0.45225 million
Ashad end	7.236 million	Shrawan 2071 to Bhadra 2071	0.1809 million
Total	24.12 million		1.59795 million

Answer to questions No.2

Calculation of Taxable Amount

Total Sales	Rs. 26,674,925.00
<u>Allowable expenses</u>	
Cost of sales under section 15 (WN 1)	Rs. 20,254,000.00
Repair & Maintenance under section 16	Rs. 100,000.00
Depreciation (Machinery and car) under section 19	Rs. 550,000.00
Other expense (WN 4)	<u>Rs. 1,026,000.00</u>
Total allowable expenses	Rs. 21,930,000.00
Assessable Income	Rs. 4,744,935.00

Taxable Income	Rs. 4,744,935.00

Calculation of Total Tax liability

Applicable tax rate is 20 % for special industry as per schedule 1 of income tax act and 30 % of 20 % for the special industry of underdeveloped area as per section 11(3). The industry has established in 2063, it is running in 7 years. Further, 25% rebate on applicable tax rate is available for manufacturing industries having profit on export sales as per section 11(3Nga). References to the section 11(5), one selection should be made in case of multiple exemptions. The first selection shall lower the burden of tax payable.

Taxable income as above	Rs. 4,744,935.00
Tax rate applicable (20% of 30%)	6 %
Tax assessment under section 99 for the year	Rs.284,696.00
Fees under section 117 (1)(ka)	Rs.2,000.00
Fees under section 117 (1)(ga) (WN 5)	Rs.13,337.46
Interest under section 118 (1) (WN 5)	Rs.20,177.84
Interest under section 119 from Kartik to chaitra 2070	Rs. 21,352,20
	Rs.341,563.55

Total tax payable at the end of Chaitra, 2070 is Rs. 341,563.55

Working Notes

Working Note 1: calculation of cost of sales

Opening Stock	Rs. 1,992,000.00
Purchase	Rs. 18,500,000.00
Direct expenses (WN 2)	Rs. 2,600,000.00
Less Closing stock (WN 3)	Rs. 2,838,000.00
	Rs, 20,254,000.00

Working Note 2: Calculation of direct expenses

Total Direct expense	Rs. 3,000,000.00
Less Repair & maintenance allowed under section 16	Rs. 100,000.00
Less Depreciation allowed under section 19	Rs. 300,000.00
Total allowable	Rs. 2,600,000.00

Working Note 3: Valuation of closing stock

Sales Rs. 26,674,925.00 @ Rs. 145	= 183965 Kg
Less Opening Stock Rs. 1,992,000.00 @ Rs.120	= 16,600 Kg
Add Closing Stock	= 25,000 Kg
Total Production during the year	192365 kg

Allowable direct expense per KG = Allowable direct expenses = Rs. 2,600,000.00

Production Quantity 192365 kg

= Rs. 13.52

Closing stock valued as per purchase price = Rs. 2,500,000.00
Direct expense for 25,000 Kg @ Rs. 13.52 = Rs. 338,000.00
Total Rs.2,838,000.00

Working Note 4: Administrative expenses under section 13

Total as per information	Rs. 1,000,000.00
VAT credit not allowed for petrol purchase	Rs. 26,000.00
Total allowable	Rs.1,026,000.00

Working Note 5: Calculation of Fees and interest

- Under section 117 (1)(ga): Total assessable income as per the section is Rs.26,674,925.00, fees 0.1 % annually of 26,674,925 for 6 months (from Kartik 2070 to Chaitra 2070) is Rs. 13,337.46 or Rs. 100 per month whichever is higher.
- Under section 118: total tax Rs. 284,696, interest shall be charged on Rs. 256,226.40 (90 %) of the tax amount as follows:

Installments	To be paid Rs.	Period for interest calculation	Interest amount Rs.
Poush end	102,490.56	Magh 2069 to Ashoj end 2070	11,530.19
Chaitra end	76,867.92	Baishakha 2070 to Ashoj end 2070	5,765.10
Ashad end	76,867.92	Shrawan 2070 to Ashoj end 2070	2,882.55
Total	256,226.40		20,177.84

Answer to questions No.3

Discuss on calculating Sahita's remuneration tax and tax credit.

With references to section 87 of Income tax act, 2058, the bank has to deduct social security tax and remuneration tax on the remuneration amount provided to Sahita for her services. The bank should calculate her tax as per schedule 1 of the act. If she furnished all the income source of her husband and asked to deduct tax accordingly, then bank could deduct tax from her remuneration. If she does not select section 50 for calculating tax on her remuneration, bank should consider the 10 percent discount out of total tax on her remuneration as per schedule 1(11). If any natural person selects the section 50 for return filing, the employer is not liable but husband and wife both shall be jointly and severally responsible between each other for the tax payable by them in that year.

Computation of assessable Income, Taxable Income and Tax Liability of Mrs. Sahita and his husband as a couple for the Income year 2070/71

Particulars		**Amount Rs.**	**Remarks**
Salary	30,000*12	360,000.00	

Dashain Allowance		30,000.00	
Bonus		60,000.00	
Bank contribution to provident fund		30,000.00	
Husband's Pension		150,000.00	
Assessable income from Employment		**Rs.630,000.00**	
Capital gain from share	1,000,000.00/.95	1,052,631.00	Net cash gain has received after deducting 5 % TDS as per section 95ka (2) ka.
Assessable income from investment		**1,052,631.00**	
Total assessable income		**1,682,631.00**	
Deductible Amount			
Contribution to PF lower of • Actual contribution Rs. 60,000.00 • 1/3 of assessable income Rs. 560,877.00 • Maximum limit Rs.300,00.00		60,000.00	
Adjusted Taxable income		**1,622,631.00**	
Deductible pension income		62,500.00	25 % of basic limit
Deduction for remote allowances category under D		20,000.00	
Taxable income		**1,540,131.00**	
Deduction for insurance, lower of • Premium paid for both Rs.22,000.00 • Maximum limit Rs. 20,000.00		20,000.00	
Taxable Income (For Tax Calculation)		**1,520,131.00**	
Calculation of Tax Liability			
Upto Rs. 250,000.00		2,500.00	only 1 % Social security tax
Next Rs. 100,000.00		15,000.00	15 % tax rate
Balance amount Rs. 117,500 excluding non-business taxable income (1,520,131.00-250,000.00-100,000.00-1,052,631.00)		29,375.00	25 % tax rate
Net gain from disposal of non-business taxable assets Rs. 1,052,631.00		52,631.00	5 % as per schedule 1(4)(3)
Total tax liability		**99,506.00**	
Less Medical tax credit		750.00	Rs. 5000 medical expenses shall be carried forward.
Net tax liability		98,756.00	

While filing the tax return, Mrs. Sahita should claim the deducted tax amount on remuneration, pension and gain.

Hint to questions No.4

Discussion on the light of situations

Compliance of Income Tax Act, 2058
The NGO has fulfilled the provision of income tax act and its rules in case of filing of tax return. It has submitted its financial statement within the prescribed time as per rule 5 of Income tax rule, 2059. The assessment of tax has not been done because of exclusively tax exempt certificate. The objectives of the NGO does not state clearly about the transaction of Micro credit.

Exemption amount for this NGO
Rural social organization, the NGO has obtained tax exempt certificate for social activities, i.e. its business. As per section 10 (Chha) of income tax act 2058, the following amounts received by an organization entitled to exemption:
(1) Donation, gift,
(2) Other contributions directly related with an organization entitled to exemption as referred to in Clause (d) of Section 2 without having consideration or without hoping for such contribution,.

As per this provision, this NGO is entitled for exemption for its social activities. The income from investment is not exempted to the organization, whether these are interest income from bank deposit or from micro credit. This organization is entitled for the exempted income, such as grants, membership fee and donation etc.

Answer to questions No.5

a) References to section 59 (1a), bank can claim loan loss provision for the deduction while making tax assessment, such deduction is limited to five percent of outstanding loan. In this case, in year 2069/70 bank claimed 5 % of outstanding loan, i.e. Rs. 50 million. In year 2070/71, the outstanding loan has been downed to Rs. 800 million and bank can claim upto Rs. 40 million for deduction. It had already claimed Rs. 50 million. As per information, the bank has not written off any loan from its books of account. It indicates that bank has recovered such loan amount and it has to reverse the loan loss provision amount of Rs. 10 million in Income year 2070/71. Such reverse loan loss amount should assess as income while making assessment.

b) Section 33 of Income tax act shall be applicable in this situation. Inland Revenue Department can assess the self tax assessment of Maruti oil industry considering whether the transactions with Indian Oil Industry are arms length basis or not. Tax officer may re-characterize the income of oil cakes based on the market price or selling price of cakes determine by other industries and issue order on writing for inclusion and deduction for the transaction including tax liability of the Maruti Oil industry through this transaction.

Answer to questions No.6

iv) Section 60 of Income tax act, 2058 allows the followings deductions in case of General Insurance:
   1) 50 % of the net premium credited to the income statement during the year and

2) 115 % of the pending and unsettled claims outstanding at the end of the year. But the company has to reverse in coming income year.

So, expenses are allowed as:

50% of Net premium	=Rs.220 million*50%
	=Rs.110 million
Unsettled outstanding Claim	=Rs.50 million
115% of unsettled amount	=Rs.50*1.15
	=Rs.57.50 million

The company had not claimed the deductions as expenses for the provisions of premium and unsettled claims as per the act. It had claimed more than the limit for allowable expenses. It can as calculated above.

v) If any taxpayer does not produce the documents that are asked by tax officer under section 83 of Income tax act, 2058, the tax officer with authority in writing from department can access to any premises, places, documents or properties as per section 82 of the act. Then, tax officer can make amended assessment on the income and expenses of the taxpayer.

vi) The response by the company was not justifiable; the company should submit the documents that are asked by the tax officer under section 83. The company shall be punished with a fine of a sum from Five Thousand Rupees to Twenty Thousand Rupees or with imprisonment for a term from one month to Three months or with both penalties under section 125 of the act.

Answer to questions No.7

Section 45 of Income tax act, 2058 states the gain and loss of property transfer between associated persons and other non-market transfers. Sub-section 1 of the section is as follows:

If any person disposes any property by transferring it to an associated person or any other person for without any consideration, the following provisions shall apply:-

(a) The person who has disposed the property shall be deemed to have received the amount equal to the market value of that property at the time of disposal for the disposal, and

(b) The person who has acquired the property through disposal shall be deemed to have incurred

Provided that, this provision shall not be applicable where the provision of Section 43 and 44 applies.

Further sub-section 3 has the following provisions

Notwithstanding anything contained in Sub-section (1), if any person disposes any depreciable property by transferring ownership over such property to any associated person by fulfilling the matters contained in Sub-section (6), the following provisions shall apply:-

(a) That person shall be deemed to have received, for the disposal, the amount equal to the remaining value of the group of the descending system pursuant to Section 4 of Schedule-2 at the time of disposal, and
(b) The person who has acquired the property through transfer shall be deemed to have incurred cost in a sum equal to that mentioned in clause (a).

Where depreciable property are disposed to an associated person, the provisions under sub-section 3 is applied instead of sub-section 1 but the conditions mentioned in sub-section 6 are required to fulfill.

The conditions under sub-section 6 are as follows:

(a) The disposed business property, stock-in-trade or depreciable property of business shall be the business property, stock-in-trade or depreciable property of business of the associated person immediately after the transfer by the person making such disposal.

(b) The disposed non-business taxable property, stock-in-trade or depreciable property of any investment shall be the business property, non-business taxable property stock-in-trade or depreciable property of the associated person immediately after the transfer by the person making such disposal.

(c) In the case of any liability, the liability has to be transferred to the associated person for the earning of income from any business or investment of the associated person.

(d) The transferor and the associated person shall have to be residents at the time of transfer, and the associated person has not to be a person enjoying tax exemption.

(e) The ownership vested in that property or burden vested in that liability shall continue to exist Fifty percent as the case may be.

(f) Both of that person and the associated person have to make request in writing in order to enforce an option under Sub-sections (2), (3) or (5), as the case may be.

In this situation, Citizen's international Ltd. held 45 percent of share of Kathmandu Pvt. Ltd, the conditions mentioned in sub-section 6 of this section regarding the ownership vested in that property is not fulfilled. So, the gain and loss shall be assessed as per sub-section 1 of this section on the disposal of depreciable assets to Kathmandu Pvt. Ltd. As per the provision, incoming and outgoing are as follows:

Incoming of Citizen's international Ltd: Rs. 30,00,000.00

Outgoings of Kathmandu Pvt. Ltd: Rs. 30,00,000.00

Implications of tax:

For Citizen's international Ltd:

The market value of the cars of Rs. 30,00,000.00 shall be deducted on the opening WDV of the block of the assets (Group C) instead of Rs. 24,00,000.00 in computing the depreciation base. The international does not requires calculating the net gains and losses under section 36.

For Kathmandu Pvt. Ltd:

Kathmandu Pvt. Ltd should recognize Rs. 30,00,000.00 as revenue under section 7(2) (e), it is treated as gift received from any person in respect of the business. The Outgoings of the assets is the cost of the cars for the Pvt. Ltd. The Pvt. also added the 2/3 of the amount Rs. 30,00,000.00 to the respective block of the assets (Group C) in computing the depreciation base.

Answer to questions No.8

a) Taxpayers' Rights under the Income Tax Act 2058

A taxpayer with respect of paying tax under Income Tax Act shall have the following rights:

I. right to get respectful behaviour
II. right to receive tax related information as per the prevailing laws
III. right to get opportunity of submitting proof in own favour in respect of tax matters.
IV. Right to appoint lawyers or auditors for defence and
V. right to secrecy in respect of tax matters and keep it inviolable

b) Loan loss provisions for cooperatives.

Previously, expense for loan loss provisions for cooperatives was not available till Income year 2070/71. The Finance ordinance 2071 has introduced the allowable provision under section 59 (1kha). As per the provisions, an amount that is up to five percent of a due and recoverable loan held in the risk bearing fund by the cooperative is a deductible expenses.

Actual expenses for a loan loss should be deducted from the outstanding provisions; such actual loss shall not be allowed for deductions as expenses if it is claimed as per sub-section 1kha. Further, the amount of loan loss provisions is capitalized, or profits or dividends are distributed, the same shall be included in the income of the year in which such distribution is made.

Answer to questions No.9

In the present globalization age, the economies of the countries are interlinked. Businesses have become global and therefore the residents of one country have business activities in other countries as well. This poses a challenge to the revenue administration authorities in terms of understanding the whole facets of the business and at times collecting what is due from the tax payer. Also from the tax payer's view point, he may get taxed in two different countries. It is therefore to share the information about the tax payer having business activities in two countries and to give recognition of the tax collected by one country in another; sovereigns enter into agreement, this is called double taxation avoidance agreement.

There are internationally accepted general conventions with regard to tax on income, which are;

- Income earned in a particular country with establishment of the permanent establishment & management, the country will have the right to collect the tax on income,
- Income earned not by having a permanent establishment, but through technology transfer etc, the particular country will have right to tax at the lower rate,
- When tax is deducted at source at the earning country, the resident country should give credit to the tax such paid and tax the income in that country,
- Getting credit of the tax paid in another country will benefit the tax payer, where he will not be taxed twice in the same income.

Following are the major objectives of having the double taxation avoidance agreement:

- Eliminate the double taxation situation,
- Reduce the tax burden,
- Reduce the uncertainty around the tax laws of the country,
- Stop the revenue leakage of the countries.

Answer to questions No.10

Calculation of the income that is to be included in the income and allowable expenses on this long term contract of Super Construction Pvt. Ltd

Rs. in Million

Particulars	**Year 1**	**Year 2**	**Year 3**	**Year 4**
Initial Contract Price	4,000	4,000	4,000	4,000
Variation Order			2,000	2,000
Total Contract Price	**2,000**	**4,000**	**6,000**	**6,000**
Initial estimated cost amount	3,960	3,960	3,960	3,960
Estimated cost for variation			1,400	1,400
Total estimated cost amount	**3,960**	**3,960**	**5,360**	**5,360**
Expenses incurred this year	1,300	1,200	1,600	1,200
Cumulative expenses	1,300	2,500	4.100	5,300

Percentage completed	32.82%	63.13%	68.33%	100%
Income included for tax (percentage completed X contract price)	1,312.80	2,525.20	4,099.80	6,000
Less; income considered till last year	-	1,312.80	2,525.20	4,099.80
Income for the current year	1,312,80	1,212.40	1,574.60	1,900.20
Allowed expenses for the year	1,300	1,200	1,600	1,200
Assessable income	12.80	12.40	(25.40)	700.20
Less: Carry forward loss	-	-	-	25.40
Taxable income	12.80	12.40	(25.40)	674.80

Answer to questions No.11

Calculation of VAT that can be claimed:

Particulars	**Taxable Amount Rs.**	**VAT amount Rs.**	**Remarks**
Vat Receivable at the end of Ashad, 2070		70,00,000.00	
Adjustment			
Missing invoice	1,50,000.00	0	W.N.1
Adjustment of imported goods on Ashad, 2069	20,00,000.00	2,60,000.00	W.N. 2
Less VAT cannot be claimed for refund		(15,00,000.00)	W.N.3
VAT amount can be claimed for refund by the trade link on 30 Shrawan, 2071		57,60,000.00	

Working Note 1

As per rule 39 (2) of Value added tax rules, 2053, tax deduction may be made only once under this Rule. When making a tax deduction, there must be invoices or the import documents up to one year before the date of making the claim. So, the missing invoice was expired the term of one year, tax cannot be deducted.

Working Note 2

As per section 48 (4) of Value added tax rules, 2053, In case any goods have been imported by furnishing a deposit, a claim for a tax deduction may be made only within a year from the date of determination of the value. The value was determined on 15 Mansir 2070, so tax amount has been claimed. It is within a year after the determination.

Working Note 3

As per section 24 ka of Value Added Tax Act, 2052, no vat shall be refund if an application is not made for the refund of the amount refundable pursuant to this Act within three years after the date of expiration of the period of tax. The time from Jestha, 2068 to Shrawan, 2071 is 3 years 2 months. So VAT receivable of Jestha & Ashad, 2068 cannot be claimed for refund on Shrawan, 2071.

Answer to questions No.12

Section 12A of Value Added Tax, 2058 states the taxable value of timber transaction. As per the section, the followings are mentioned:

(1) There shall be levied and collected tax on the amount of royalty of the timber of national forest or the amount of auction, whichever is higher, at the time of auction, release or saw order, whichever is earlier.

(2) If the timber of a personal cultivated, private forest or community forest for business purpose and despite that royalty is not chargeable, tax shall be leviable as if it were the timber of national forest.

Based on the above provisions, the VAT amount shall be as follows:

Particulars	Quantity in cu.fit	Applicable rate for taxable value in Rs.	Taxable Value	VAT Amount Rs.
Purchased from Forest office	2000	900.00	18,00,000.00	2,34,000.00
Purchased from co-operative forest	1000	800.00	8,00,000.00	1,04,000.00
Total VAT payable on these transactions				**3,38,000.00**

Answer to questions No.13

Answer

a) Computation of Assessable Value:

FOB Value	IRs. 10,00,000.00
Add: Freight upto Birgunj Custom:	IRs.50,000.00
Total C & F:	IRs. 10,50,000.00
Total in Rs. (Exchange rate IRs1= Rs.1.6015)	Rs. 16,81,575.00
Add: Insurance:	Rs. 5,000.00.
Total transaction value	Rs. 16,86,575.00

Computation of total Duty:

Applicable custom rate	5%
Less exemption on rate for import of Indian product	7% of 5%: 0.35
So, applicable rate for this machine	4.65%
Custom duty	78,425.74
Custom service fee	500.00
Value added tax (note)	65.00
Total duty and taxes payable at custom	**78,990.74**

Note:
As per schedule 1 of VAT act, 2052, industrial machinery included in section 84 of customs tariff and subject to 5% tariff shall not be taxable. So, VAT is not payable on the transaction value but custom service fee is not included in the schedule.

Answer to questions No.14

Solution:

Particulars	FCY
Value of the car at the time of import	15000
Depreciation allowed: Before import the car was in foreign for 3 years. The maximum period for depreciation allowed is 5 years minus 3 years =2 years only Depreciation for 1st year import @ 10%	1500
Depreciated balance for 2nd year	13,500
Depreciation for 1st year import @ 10%	1350
Value for custom duty	12,150
Value for custom duty in Nepali currency 12,150X96	Rs. 11,66,400.00
Calculation of duty and taxes payable	
Custom Valuation	Rs. 11,66,400.00
Applicable custom rate (80 %-60% of 80%) 60 percent of applicable rate is exempted as per Finance Act in this situation	32 %
Custom duty	Rs.3,73,248.00
Less 1% paid amount	Rs. 10,500.00
Net custom duty payable	3,63,248.00
Excise duty (60 % of Value plus custom duty)	Rs.9,17,788.80
Custom service fee	Rs. 500.00
VAT	Rs. 3,18,231.78
Total duty and taxes payable as per above calculation	**Rs. 15,99,768.58**

Answer to questions No.15

a) Calculation of Sales price before excise duty and VAT

	Sales prices
Selling price per Kg	560.00
Sales price before VAT (560/1.13)	495.58
Sales price before Excise duty (495.58/1.05)	471.98

Five percent excise duty is applicable for plastic product.

b) Calculation of quantity produced and sold:

Input	5600 kg
Output	5600/1.10=5090.90 kg

c) Calculation of duty and taxes payable:

Total value before excise duty (5090.90*471.98)	= Rs.24,02,812.12
Excise duty @5% on Rs. 24,02,812.12	= Rs. 1,20,141.61
VAT @ 13% on Rs.25,22,952.73	= Rs. 327,983.85
Excise and VAT payable	**= Rs.4,48,124.46**

Answer to questions No.16

Rule 17 of excise rules, 2059 states that any manufacturer of liquor must make arrangement for the proper preservation of molasses, spirit and other raw materials. In case any loss or damage results from the failure to preserve such raw materials properly, it will be deemed that licensee has produced liquor out of the raw materials so lost. The excise office may recover an amount of excise duty from the licensee calculated below:

Liquor deemed to be produced from the lost raw materials * maximum rate of tariff payable on the liquor = Amount may be recovered from the licensee.

The Highland Distillery has not made adequate arrangement for the reservation of molasses, so, it has to pay the excise duty on the losses of molasses calculated as follows:

Calculation of Excise duty payable on losses of Molasses
Loss of Molasses: 20 Quintal
Production ratio: 50 Liter per quintal
Deemed production: 1000 liters
Highest tariff: Rs. 538 per liter
Excise duty on deemed production = Rs. 5,38,000.00

Answer to questions No.17

As per (1) (kha) of section 4kha of Excise Act, 2058, the taxpayer has to pay the excise duty collected during a month up to 25th day of the end of the month in which the invoice for excisable goods or services is issued. Further, sub-section 2 of section 4kha states that if a taxpayer did not make payment as per 1 (kha), late fee @ 0.05 % per day shall be charged on the outstanding excise amount.

The company has excise payable of Rs. 1,50,000.00 that is related to the Jestha and Ashad, 2071.

So, late fee shall be as follows till Bhadra 15, 2071

Month	Amount payable	Stipulated time for deposit	Per day late fee	No. of delay days till Bhadra 15, 2071	Late fee Rs.
Jestha	Rs. 50,000.00	Ashad 25, 2071	Rs. 25.	53 days	1,325.00
Ashad	Rs.100,000.00	Shrawan 25, 2071	Rs.50	21 days	1,050.00
Total	**Rs. 150,000.00**				**2,375.00**

Answer to questions No.18

As per section 62 of Custom Act, 2064, the appeal procedures are as follows:

1. A person who is not satisfied with the customs duty determined by the Customs Officer or other employee under this Act or with any order or punishment or decision issued or made by the Customs Officer, except any decision or order referred to in Section 13, or with any decision made by the valuation review committee formed pursuant to Section 61may make an appeal to the Revenue Tribunal within thirty five days after the date of the determination of such customs duty or the imposition of punishment or the making of decision.
2. A person who files an appeal pursuant to sub-section (1) may make such appeal by making payment of or furnishing a deposit of the duty and amount of fine and penalty chargeable pursuant to that decision or order against which such appeal is to be made, to or with the concerned Customs Office.
3. A person who files an appeal pursuant to sub-section (1) shall give a copy of such appeal to the concerned Customs Office no later than seven days after the filing of such appeal.
4. In the event of not being satisfied with any decision made by the valuation review committee formed pursuant to Section 61, the Customs Officer may file an appeal to the Revenue Tribunal no later than thirty five days after the making of such decision.

Answer to questions No.19

a) As per section 4ka of Excise Act, 2058, the following persons are responsible to determine and pay/collect the excise duty:

2. In case of goods manufactured in Nepal-The Manufacturer,
3. In case of goods or services imported into Nepal – The person whose name is mentioned in the Bill of Lading or Air Bill (Importer)
4. In case of auction of taxable goods-the person accepting the auction.
5. In case of re-sale or use of goods (except liquor and cigarette) for other purpose, sold earlier from Duty Free Shop – The person who re-sales the goods or uses the goods for other purposes.
6. In case the non-taxable goods or services are converted into taxable as per the provisions of Excise Act – The person who have the ownership of such goods.
7. In the cases other than above – The person prescribed by the Inland Revenue Department.

Answer to questions No.20

a) Input tax credit is availed without tax invoice.

Tax invoice is major and default supporting to claim input tax credit. Apart from tax invoice, there are some cases where input tax is allowed without tax credit supporting:

- Bills from electronic cash register.
- VAT paid voucher against wood from forest
- VAT paid voucher against reverse charging
- VAT paid voucher against import
- VAT collected by GON, Local Authorities or INGOs u/s 15(3)

b) Export Duty: Schedule 2 of each financial act gives a list of tariff chargeable on export of different goods. It is specified that the list is exclusive list for charging export duty. It means export duty shall not be charged on the goods exported which are not covered by the list.

The transaction value for export is determined on the basis of FOB the customs office. It means all the direct expenses incurred to bring the goods up to the customs office shall be included in the invoice for charging export duty.

The rate of foreign exchange shall be as determined by NRB for the day of export for conversion and determining the transaction value in case the invoice value is in foreign currency.

c) Section 2 of the Excise Act defines the terms Physical Control System and Self Removal System. As per the definition, Physical Removal System is a system where the excisable good's production, removal, export or import takes place under the control of Excise Officer or the staff nominated by Excise Officer.

Self Removal system on the other hand is the system where the production, removal, export or import of excisable goods and services takes place not under the direct control of the excise but he has to keep proper records so that the excise officials can any time visit the place of manufacture and check the records for its correctness.