

Digital Services Taxes In Nepal: Implementation Experience and Revenue Collected

Prakash Paudel
Chief Tax Officer
Large Taxpayer Office
Nepal

27th Nov. 2023

Challenges

- The cross-border service business is becoming more complex,
- Hi-Tec and new trends in service sales & delivery,
- Inadequate tax base in developing countries,
- Dominated and emaciated domestic market through digital means,
- Due to this, the available tax base is getting even more narrow.
- No physical presence, challenge to bring into the tax net.
- Augmenting in the coming days.

Current Provisions

- Implementing the Value Added Tax Act for the past 25 years,
- Latest Income Tax Act for the past 20 years,
- For Business-to-Business transactions, Tax Deduction at Source,
- Reverse Vat in the case of Value Added Tax,
- If the source of income is created in Nepal, deserves right to tax.
- Nepal's Value Added Tax is based on the Destination Principle.

Problems

- Lack of Such arrangements in business-to-Consumer transactions,
- Consumer is neither obliged to collect reverse vat nor to collect TDS,
- Non-resident person located outside the country,
- State cannot proclaim their PE depending upon prevailing laws,
- Even Nepal possesses the taxing rights, couldnot levy,
- Challenge to the basic principle of direct tax and our prevailing tax law,
- The cross-border service through digital means consumed in Nepal,
- Indirect tax was not being collected therein,
- It was not compatible with the principle of taxation.

Discussion Phase.....

- Comprehensive discussions were held to tax such businesses,
- Many alternatives like Virtual PE, Significant Economic Presence were raised during the discussions,
- There was no universally accepted standard for bringing such digital transaction under the tax net,
- However, some countries were proceeding to collect tax on such transactions under the names of DST, GAFA etc,
- News that Mother countries of such MNCs were opposing such a tax,
- Such news were a kind of challenge to countries like Nepal, that has been receiving foreign aid on the basis of diplomatic relation,
- Divided opinions on unilateral and multilateral measures.

.....Discussion Phase

- At the same time, the OECD was advancing the discussion of the Two Pillars Solution.
- Some of the participants of discussion argued that,
 - In the case the OECD Solution is fair and effective, the DST that Nepal is trying to implement will not be necessary,
 - As the international environment progresses, Nepal should follow the same.
- Rest of the participants propounded that
 - since it will take time to implement the said convention of OECD,
 - Nepal should implement DST, even for an interim period,
 - After the full implementation of the OECD convention, in the case that the system is equitable and effective, Nepal will also follow the same.
- The second opinion got unanimity.

Implementation

- VAT Act has been amended so that the non-resident business to consumer will also be taxed,
- Tax will be collected by non-resident companies,
- Amendments in the Income Tax Act could induce the ambiguities and complications in the operation of well-established domestic tax.
- Similarly, this could raise the legal problems caused by the Double Taxation Avoidance Agreement with different countries.
- Therefore, a new Digital Service Tax, which is a direct tax in nature, was introduced and has been being implemented since July 2023,
- They have been facilitated through online registration and tax returns.

Scope & Tax Collection

<i>S.N.</i>	<i>PAN</i>	<i>Reg.Date</i>	<i>VAT Payment (NRs.)</i>	<i>DST Payment (NRs.)</i>
1	290001093	28-Jan-23	31050093	3592687
2	290001167	14-May-23	1930764	0
3	290001109	19-Mar-23	0	0
4	290001154	9-May-23	79496407	0
5	290001183	4-Jul-23	41253576	0
6	290001170	4-Jul-23	1102538	80682
7	290001244	7-Jul-23	1920123	0
8	290001215	6-Jul-23	5561164	0
9	290001257	7-Jul-23	2729326	397006
10	290001305	28-Aug-23	8901324	0
11	290001318	26-Sep-23	0	0
12	290001321	18-Oct-23	0	0
Total NRs.			173945315	4070375

Thank You !