

Understanding the Basics of VAT in Nepal

Value Added Tax (VAT) is a tax applied on the sale of goods and services at every stage of the supply chain—from production to the final sale. In simple terms, every time a business sells a product or service, VAT is added until it reaches the end user. This final consumer can be a person or a company using the product or service for consumption, not for resale.

In Nepal, VAT is regulated by the VAT Act, 2052 (also referred to as "the Act").

What is the VAT Rate in Nepal?

Nepal follows a single VAT rate of 13% for applicable goods and services. This 13% is calculated on the net selling price and added to the invoice provided to customers.

VAT Billing Format in Nepal

VAT is charged at each point in the supply chain—during manufacturing, distribution, and retail. This cascading tax increases the final cost to the consumer. To manage this and protect essential items, the Act introduces two key categories:

1. VAT Exempt Goods and Services

Items listed in Schedule 1 of the Act are VAT-exempt. These include essential goods and services such as:

- Agricultural products
- Food and basic needs
- Medicines and health services
- Educational services
- Air and passenger transportation

Businesses solely dealing in these goods and services are not required to register for VAT (e.g., hospitals, schools, farms).

2. Zero-Rated Transactions

Schedule 2 of the Act lists zero-rated transactions, which include:

- Export of goods and services
- Supplies to industries in Special Economic Zones (SEZs)
- Domestic machinery sold to hydropower projects

Although VAT applies to these transactions, the rate is 0%.

Summary Table

Goods & Services	VAT Rate
Items in Schedule 1	No VAT
Items in Schedule 2	0%
All other goods and services	13%

VAT on Imported Goods

VAT is also charged on imports, in addition to customs duties. If a domestically produced item is subject to VAT, a similar imported product is also taxed to maintain parity.

Who Needs to Register for VAT?

Businesses are required to register for VAT if they meet the following turnover thresholds:

Business Type	Annual Turnover Threshold
Goods only	Above Rs. 50 lakhs
Services only	Above Rs. 30 lakhs
Goods and Services combined	Above Rs. 30 lakhs

Businesses not meeting these criteria may voluntarily choose to register for VAT.

Steps for VAT Registration in Nepal

1. Fill out the online VAT registration form at [IRD's official website](#).
2. Provide required information such as registration number, business address, director's details, and estimated turnover.
3. Submit the following documents to the IRD office:
 - Online VAT application
 - Copy of Business Registration Certificate
 - Address proof (e.g., rent agreement or land ownership document)
4. One of the business owners or directors must appear in person at IRD with original documents for biometric verification.
5. After verification, IRD issues the VAT Registration Certificate.

PAN vs VAT: What's the Difference?

Though both PAN and VAT numbers appear similar, they serve different purposes. PAN registration is mandatory for all businesses. VAT registration becomes mandatory only after a business crosses the specified turnover threshold.

VAT Compliance for Registered Businesses

Once a business registers for VAT, it must:

A. Charge VAT on Sales and Pay the Government

- Add 13% VAT to all taxable sales
- File VAT returns by the 25th of the following month
- Pay the VAT liability based on returns filed

B. VAT Invoicing Requirements

- Every invoice must include the VAT number
- Invoice numbers should be sequential and dated correctly
- Clearly mention VAT rate and amount on each invoice

For high-volume retail businesses (e.g., restaurants, supermarkets), abbreviated invoices inclusive of VAT can be used. However, if requested by a customer, a full VAT invoice must be provided.

C. Maintain Records (Maskebari)

i. Kharid Khata (Purchase Register):

- Record all purchases, categorized as stock, assets, imports, or VAT-exempt items
- Returns should be entered as negative entries

ii. Bikri Khata (Sales Register):

- Track domestic and export sales
- Include returns and canceled invoices

If IRD-approved software is used for billing, physical copies of these registers are not mandatory.

VAT Filing and Payment in Nepal

The VAT period is typically one month. Businesses must:

- Calculate VAT liability monthly
- Pay by the 25th of the next month

VAT Liability Formula

VAT Payable = VAT Output (on Sales) - VAT Input (on Purchases) - VAT Credit Carried Forward

If VAT Input exceeds Output (i.e., more purchases than sales), the excess can be carried forward as VAT credit for future months.

Scenario	Outcome	Action
VAT on Sales > VAT on Purchases	VAT Payable	Pay by 25th of next month
VAT on Purchases > VAT on Sales	VAT Credit	Carry forward to next tax period

Filing a VAT Return in Nepal

The VAT return is submitted online and includes:

- Net Sales and Output VAT
- Net Purchases and Input VAT
- Adjustments and carried forward credits
- High-value transaction details (if turnover exceeds Rs. 5 crores)

Note: Sales and purchase returns should be adjusted within the gross figures; they aren't listed separately in the form.

VAT Adjustment Process

If a business misses transactions or miscalculates VAT in a previous month, adjustments can be made in the following return cycle. This helps in correcting errors related to:

- Unreported invoices
- Incorrect VAT figures
- Prior period adjustments

What is VAT Registration?

Value Added Tax (VAT) registration is the process by which businesses in Nepal register with the Inland Revenue Department (IRD) to collect and remit VAT on their sales of goods and services. VAT registration provides businesses with a unique VAT registration number that must be used on invoices and tax filings. The VAT registration process ensures businesses are compliant with Nepal's VAT laws and enables them to claim input tax credits on their purchases.

Is VAT Registration compulsory in Nepal?

VAT registration is compulsory for businesses in Nepal that meet certain turnover thresholds or engage in specific types of business activities. However, not all businesses are required to register for VAT. The VAT Act 2052 (1996) outlines the criteria for mandatory VAT registration.

What companies must register for VAT in Nepal?

Certain types of businesses must mandatorily register for VAT in Nepal regardless of their turnover. These include:

- Manufacturing industries
- Import-export businesses
- Hotels, restaurants and bars
- Travel agencies and tour operators
- Telecommunications service providers
- Consulting firms
- Accounting and auditing firms
- Legal services
- Educational consultancies
- Healthcare facilities
- Construction companies
- Real estate developers
- Advertising agencies
- Event management companies
- Security service providers

Additionally, businesses in other sectors that exceed the turnover thresholds are required to register for VAT.

Requirements & Thresholds for VAT Registration in Nepal

The key requirements and thresholds for VAT registration in Nepal are:

- Annual turnover exceeding NPR 5 million for businesses dealing in goods
- Annual turnover exceeding NPR 2 million for businesses providing services
- Annual turnover exceeding NPR 2 million for businesses dealing in both goods and services

- Businesses importing taxable goods valued at over NPR 10,000 in a single transaction
- Businesses that obtain commercial loans exceeding NPR 1 million

Businesses meeting any of these criteria must register for VAT within 30 days of becoming eligible. The turnover is calculated on a rolling 12-month basis, looking at either past or projected turnover.

Procedure for VAT Registration in Nepal

1. Obtain PAN Registration
2. Complete Online VAT Registration Application
3. Submit Supporting Documents
4. Biometric Verification
5. Receive VAT Registration Certificate

Step 1: Obtain PAN Registration

Description: Before registering for VAT, businesses must first obtain a Permanent Account Number (PAN) from the Inland Revenue Department. PAN registration is mandatory for all businesses in Nepal.

Step 2: Complete Online VAT Registration Application

Description: Businesses can apply for VAT registration online through the IRD's Taxpayer Portal. The online application requires details such as business information, estimated turnover, bank account details, and director/owner information.

Step 3: Submit Supporting Documents

Description: After completing the online application, businesses must submit supporting documents to their local Tax Office. This includes the company registration certificate, PAN certificate, and other relevant documents.

Step 4: Biometric Verification

Description: The business owner or authorized representative must visit the Tax Office in person for biometric verification. This involves capturing fingerprints and a photograph.

Step 5: Receive VAT Registration Certificate

Description: Upon successful verification and processing of the application, the Tax Office issues a VAT Registration Certificate with a unique 9-digit VAT number. This certificate must be prominently displayed at the business premises for [Import Export Business in Nepal](#).

Read More: [Taxation in Nepal](#) [Nepalese Tax Structure](#) [Income Tax Rules, 2059](#)

Documents required for VAT Registration in Nepal

Documents required for VAT Registration in Nepal

- Completed VAT registration application form
- Company registration certificate
- PAN certificate
- Memorandum and Articles of Association
- Share certificates (for companies)
- Citizenship certificates of directors/owners
- Recent passport-size photographs of directors/owners
- Rental agreement or proof of business premises ownership
- Bank account details
- Estimated financial statements/projections

Additional documents may be required depending on the nature of the business. All documents should be certified copies.

Timeframe for VAT Registration

The VAT registration process in Nepal typically takes 3-5 working days from the date of submitting a complete application with all required documents. However, the actual processing time may vary depending on the workload of the Tax Office and any additional verifications required.

Cost of VAT Registration in Nepal

There is no official government fee for VAT registration in Nepal. However, businesses may incur costs related to document preparation, notarization, and professional fees if using the services of consultants or lawyers for the registration process.

VAT Deregistration Process in Nepal

Businesses can apply for VAT deregistration if they no longer meet the turnover thresholds or cease operations. The deregistration process involves:

1. Submitting a written application to the Tax Office
2. Settling any outstanding VAT liabilities
3. Undergoing a tax audit
4. Receiving a deregistration certificate

Businesses must continue to comply with VAT regulations until the deregistration is approved.

Voluntary VAT Registration in Nepal

Businesses that do not meet the mandatory registration thresholds can opt for voluntary VAT registration. This may be beneficial for businesses that:

- Deal primarily with VAT-registered customers
- Want to claim input tax credits on purchases
- Anticipate crossing the threshold soon
- Wish to enhance their business credibility

The process for voluntary registration is the same as mandatory registration.

Read More:

1. [Tax Audit Process in Nepal](#)
2. [An Overview of Tax Law in Nepal](#)
3. [Tax Law for Foreign Companies in Nepal](#)
4. [Corporate Tax Law in Nepal](#)
5. [VAT Registration Process in Nepal](#)

Conclusion

VAT registration is a critical compliance requirement for many businesses operating in Nepal. The registration process, while straightforward, requires careful preparation and submission of accurate information and documents. Businesses should assess their VAT registration obligations based on their turnover and nature of activities. Proper VAT registration enables businesses to legally collect VAT, claim input credits, and avoid penalties for non-compliance.

Frequently Asked Questions

What is VAT?

VAT is a consumption tax levied on the sale of goods and services in Nepal. It is collected at each stage of the production and distribution chain, with the final consumer bearing the ultimate tax burden.

How to register for VAT in Nepal?

VAT registration in Nepal involves obtaining a PAN, completing an online application, submitting supporting documents, undergoing biometric verification, and receiving a VAT certificate from the Tax Office.

What is the threshold for VAT Registration in Nepal?

The VAT registration threshold in Nepal is NPR 5 million annual turnover for goods businesses and NPR 2 million for service businesses or those dealing in both goods and services.

How long does VAT Registration take?

VAT registration in Nepal typically takes 3-5 working days from the submission of a complete application with all required documents to the Tax Office.

Should I register PAN or VAT in Nepal?

PAN registration is mandatory for all businesses in Nepal and must be obtained before VAT registration. VAT registration is only required if you meet the turnover thresholds or engage in specific business activities.

How to register a company in VAT in Nepal?

To register a company for VAT in Nepal, complete the online application on the IRD portal, submit supporting documents to the Tax Office, undergo biometric verification, and obtain the VAT registration certificate.

Is the company VAT Registered?

To check if a company is VAT registered in Nepal, you can verify their VAT number on the IRD website or request to see their VAT registration certificate.

How much VAT for Business in Nepal?

The standard VAT rate for businesses in Nepal is 13% on the sale of taxable goods and services. Some goods and services may be exempt or zero-rated.