

LEGAL GUIDE

Nepal IT Sector Tax Guide 2026: Income Tax Rates, Withholding Tax and Compliance

Published On

22nd May 2026

Complete Nepal IT Sector Tax Guide 2026 covering corporate income tax rates, withholding tax, VAT, export incentives, startup tax holiday, employment rebates, SEZ benefits, and compliance requirements for software companies, BPO, and digital services in Nepal.



A. Introduction

1. Information Technology (IT) sector has become a strategically important part of Nepal's economy as the country expands its presence in software development, digital services, IT-enabled outsourcing, and export-oriented technology operations. Nepal's fiscal regulations ensures appropriate tax collection from technology-based economic activity while also encouraging investment, exports, and employment growth in the sector.
2. This Legal Guide sets out the taxation regime applicable to the IT sector in Nepal. This Legal Guide is structured on the basis of the principal legislation governing the taxation and sector classification of IT businesses, namely the Income Tax Act, 2058 (2002), the Finance Act, 2082 (2025), the Value Added Tax Act, 2052 (1995), the Industrial Enterprises Act, 2076 (2020), and the Special Economic Zone Act, 2073 (2016).
3. This Legal Guide discusses the tax regime applicable to the IT sector in Nepal in three layers: (i) general tax rules applicable to businesses in Nepal, (ii) tax rules specifically relevant to the IT industry, and (iii) more specific regime that apply to IT industry only if additional statutory conditions are satisfied.

B. Legal Definition of the IT Sector

4. For the purpose of this Legal Guide, the term "Information Technology Industry" should be limited only to the industries listed in Part (A) of Schedule 7 of the Industrial Enterprises Act. This Legal Guide does not cover the industries listed in Part (B) relating to communication technology, and it does not cover the industries listed in Part (C) relating to information dissemination or broadcasting technology.
5. Accordingly, for this Legal Guide, the Information Technology industry includes the following sectors:

S.N.	Information Technology Industry (as per the Industrial Enterprises Act)
1	Technology Park
2	IT Park
3	Biotech Park
4	Software Development
5	Computer and Related Services
6	Data Processing
7	Cyber Café

8	Digital Mapping
9	Business Process Outsourcing (BPO) and Knowledge Process Outsourcing (KPO)
10	Data Centre, Data Mining and Cloud Computing
11	Digital Signature Certifying Agency
12	Web Portal, Web Designing Service, Web Hosting, and Online Classified Advertising Service

6. Additionally, a recent amendment has been made to the clarification of section 11 of the Income Tax Act by the Finance Act, 2025, through which Information Technology Industry has been defined to include the following sectors:

S.N.	Information Technology Industry (as per Income Tax Act)
1	Technology Park
2	IT Park
3	Biotech Park
4	Software Development
5	Digital Mapping
6	Business Process Outsourcing (BPO)
7	Data Mining
8	Data Processing
9	Cloud Computing
Sectors not recognized as IT Industry by the Income Tax Act	
10	Computer and Related Services
11	Cyber Café
12	Knowledge Process Outsourcing (KPO)
13	Data Centre
14	Digital Signature Certifying Agency
15	Web Portal, Web Designing Service, Web Hosting, and Online Classified Advertising Service

7. Please note that although many of the sectors classified as Information Technology Industry under the Industrial Enterprises Act and the Income Tax Act overlap, the scope of the definition under the Income Tax Act appears to be comparatively narrower. For example, data centres are expressly recognized as an information technology industry under the Industrial Enterprises Act, but they are not expressly

mentioned within the corresponding definition under the Income Tax Act. This distinction is significant because, in practice, the tax authorities generally rely on the definitions, classifications and incentive provisions contained in the Income Tax Act and the annual Finance Act while determining eligibility for tax exemptions, rebates and concessions.

8. If any additional industry is to be included under the Industrial Enterprise Act in the future, the Government of Nepal may do so by publishing a notice in the Nepal Gazette on the recommendation of the Industry and Investment Promotion Board. However, the Finance Act can make changes in the definition of the Information Technology Sector as set out in the Income Tax Act.

C. General Income Tax Regime

9. The general income tax regime is summarized in Annexure 1 and iterated in further detail in the following sections.

Governing law and administrative approach

10. Corporate income taxation in Nepal is governed primarily by the Income Tax Act and the Income Tax Rules, 2059 (2003), administered through the Inland Revenue Department under a self-assessment model. Under this framework, companies or entities are required to register for a Permanent Account Number (PAN), maintain appropriate books of account and supporting documentation, compute taxable income in accordance with statutory rules, file annual returns within prescribed deadlines, and pay taxes through a combination of withholding mechanisms, advance instalments (where applicable), and year-end settlement.

Scope of taxation

11. A foundational principle of Nepal's income tax regime is the distinction between resident and non-resident persons for purposes of determining the scope of taxable income.
12. A company is generally treated as *resident in Nepal* if it is incorporated under the laws of Nepal or if its management is effectively controlled from Nepal during an income year. In broad terms, resident companies are taxed on worldwide income, while *non-resident companies* are taxed on Nepal-source income and on profits attributable to a permanent establishment in Nepal, where such establishment exists.

Corporate tax rate

13. Corporate entities in Nepal are subject to income tax under the income tax laws. The standard corporate income tax rate for most resident companies is 25 percent.

Determination of taxable profits

14. Capital gains earned by IT companies (e.g., from sale of business assets) are generally treated as ordinary income and taxed at the applicable corporate rate. Dividends paid by an IT resident company are subject to a final withholding tax of 5% at distribution. This means the IT company must withhold 5% of any dividend paid to its shareholders (resident or non-resident), and that tax satisfies the income tax on the dividend (the recipients do not pay additional tax on it). Similarly, interest payments, service fees, and royalties paid by companies may attract withholding at various rates (see below).
15. A non-resident IT company with a permanent establishment in Nepal is taxed at the normal corporate rates on its net income attributable to the Nepal operations. Non-resident entities without a branch are typically taxed via withholding on Nepal-sourced payments. These are final taxes in lieu of the general corporate tax rate on net income for those specific cases.

Withholding Tax System

16. Nepal operates a comprehensive withholding tax (WHT) system as a means of tax collection at source. The Income Tax Act obligates payers of certain income to deduct tax and remit it to the government, which either pre-pays the recipient's tax or serves as a final tax on that income. Key withholding provisions include:

Employment Income (PAYE)

17. Under Section 87, every employer in Nepal must withhold income tax from salaries, wages and other remuneration paid to employees. The tax is withheld according to the individual tax brackets (after the personal exemptions) applicable to that employee's income. Employers are responsible for depositing the tax monthly and providing an annual withholding statement for each employee. This Pay-As-You-Earn (PAYE) system means most employees have their tax obligations settled via employer withholding.

Investment Income

18. Section 88 requires withholding at the rate of 15% on various payments made by a resident person that are of an investment nature. This includes payments of interest, royalties, payments for the use of natural resources, rents, and payments for

services (service fees/consulting) that have a source in Nepal. For example, a company paying royalties to an author or interest to a lender must deduct 15% at source. There are exceptions: interest paid by banks and financial institutions on deposits of individuals is subject to only a 5% final withholding tax (this lower rate encourages personal savings). Similarly, certain retirement payments have 5% or 10% withholding as per rules. The 15% withheld on most investment payments to residents is creditable against the payee's tax liability, except where specified as a final tax. However, where a service charge is paid to a resident service provider registered for VAT (or a resident entity making VAT-exempt supplies), withholding applies at 1.5% of the payment amount.

Contractual Payments

19. Section 89 provides that any resident making a payment for contracts or services in excess of NPR 50,000 must withhold 1.5% of the gross amount (commonly known as "TDS on contracts"). This covers payments to contractors, consultants, and suppliers for work or services. The withheld 1.5% serves as an advance tax for the recipient (usually a business) which can be credited against their eventual tax due. Certain payments like general insurance premiums also fall under this clause.

Dividend and Final Withholdings

20. Dividends distributed by Nepali companies are subject to a **5%** withholding, which is a *final tax* on that income (neither the company nor the recipient owes further tax on the dividend). Likewise, bank deposit interest of individuals is taxed at a final 5% at source, and some other payments to residents (lottery prizes, retirement fund pay-outs, etc.) have specified final WHT rates. For non-residents, most Nepal-sourced payments (e.g., service fees, royalties, interest, commissions) are also subject to withholding tax, generally at **15%** (which is typically final for the non-resident). The idea is to capture tax from foreign recipients who may not file returns in Nepal. For example, if a Nepal company pays a foreign consultant USD 10,000, it must withhold 15% (around USD 1,500) and remit that to the IRD; the consultant receives the balance and usually has no further Nepal tax to pay (the 15% is final, absent tax treaty relief). Certain cross-border payments have special rates by law or treaties, as noted, international air/ship operators are subject to 2% or 5% final tax on their gross receipts in lieu of the standard rate.
21. All withheld taxes must be remitted to the government within the prescribed time (generally within 25 days after the end of the month of payment) along with a withholding statement. The withholding agent (payer) is liable for any failure to deduct or deposit the tax, with both the payer and payee remaining jointly liable for the tax in such cases. Payees should receive a tax withholding certificate as proof

(Section 91) to claim credit if applicable. Proper compliance with WHT obligations is a key part of tax administration in Nepal, and penalties apply for lapses.

Double Taxation Relief

22. It should be noted that Nepal has a network of *Double Taxation Avoidance Agreements (DTAAs)* with various countries. Treaty provisions can override domestic withholding rates, often reducing the rate for dividends, interest, or royalties paid to residents of treaty partner countries. Additionally, Nepal's law grants a foreign tax credit to resident taxpayers for taxes paid abroad on foreign income, up to the amount of Nepal tax applicable to that income. This prevents double taxation for Nepali residents with overseas income.

D. Tax Administration and Compliance

Tax Year and Filing

23. The Nepali fiscal year (and tax year) runs from *Shrawan* 1 to *Ashad* 31 in the *Bikram Sambat* calendar, roughly July 16 to July 15 in the Gregorian calendar. Tax returns for the year must be filed by the end of *Ashwin* (around mid-October), i.e., within 3 months of year-end. A tax return should declare all assessable income, allowable deductions, and compute the tax due. Nepal uses a self-assessment system: taxpayers self-report their income and tax calculations, and the IRD typically accepts returns as filed unless selected for audit or review. An extension of 3 months (until mid-January) can be requested for filing, which the IRD may grant, although any estimated tax should still be paid by the original due date to avoid interest.

Payment of Tax

24. Tax is paid throughout the year via withholding and advance tax instalments. Employers and others withhold tax at source as described. Taxpayers with business or professional income must also pay quarterly advance tax based on expected liability. Typically, instalments are: 40% of the estimated annual tax by *Poush*-end (mid-January), 70% by *Chaitra*-end (mid-April), and 100% by *Ashad*-end (mid-July). Any balance tax due (or refund claim) is settled upon filing the final return. The IRD has procedures to refund overpaid tax (officially within 60 days of claim, though in practice it may take longer).

Accounting and Audit

25. Tax is assessed on net income after deductions. Businesses are required to maintain accounting records and prepare financial statements as per recognized standards. All companies and firms must have their accounts audited annually by a

licensed auditor. The audited financial statements must be submitted along with the tax return. The audit requirement is waived for *small taxpayers* with turnover not exceeding NPR 10 million; such taxpayers can self-certify their financial statements. Nonetheless, even small businesses must keep proper books and records for verification. The IRD frequently scrutinizes returns and can select cases for tax audit (detailed examination). In practice, assessing officers often adjust taxable income after audits, so maintaining documentation and substantiation for declared income and expenses is crucial.

Penalties and Dispute Resolution

26. Nepal's tax law imposes various penalties, fines, and interest for non-compliance to encourage timely and accurate tax payment:

Late Filing and Payment

27. Failure to file a return on time, failure to pay tax by the due date, or filing an incorrect return can result in late fees and interest. Interest on overdue tax is charged at a prescribed rate (currently 15% per annum on the unpaid amount). There may also be a one-time late filing fee or penalty under the IRD's rules (often a small percentage of tax due or a fixed fine for each month of delay).

Understatement and Evasion

28. If a taxpayer files a false or misleading return that understates income, the penalty can range from 50% to 100% of the avoided tax (i.e., half to full amount of the tax shortfall). Deliberate tax evasion or refusal to pay tax can lead to more severe consequences. The ITA provides that tax evasion is an offense that may be prosecuted: upon conviction, the taxpayer can face fines and imprisonment. For example, submitting fraudulent information or documents can incur a fine between NPR 40,000 and NPR 160,000 and/or imprisonment from 6 months up to 2 years. Even lesser offenses like obstructing a tax officer carry penalties (fines of a few thousand rupees or short jail terms) under sections 123–127 of the Act. These punitive measures underscore that serious tax fraud is treated as a criminal matter (state prosecution).

Withholding Violations

29. If a payer fails to withhold tax when required or does not deposit withheld tax to the government, the law holds both the payer and the recipient jointly liable for the tax. The IRD can impose penalties on the payer, and demand the tax amount with interest. Additionally, a withholding agent who misappropriates withheld taxes (not remitting to IRD) can face large fines (up to NPR 200,000) and imprisonment up to 3 years as per the offense provisions.

Administrative Penalties

30. The IRD has the power (Section 129) to levy certain fines directly. For instance, the tax office can order payment of a fine up to the amount specified by law for an offense, without immediate court proceedings. Such orders are final unless appealed. Generally, minor compliance failures are handled by the IRD through administrative fines, whereas serious cases (like intentional evasion) may be referred for prosecution in the courts (which are handled as state cases).
31. Taxpayers who disagree with an assessment or penalty have avenues for dispute resolution. Initially, one can file an Administrative Review application to the IRD (typically to the Director General) within 30 days of receiving a tax assessment or penalty notice. The taxpayer must deposit all *undisputed* tax amounts and 25% of the *disputed* amount along with the review application. If not satisfied with the administrative review decision, the taxpayer can appeal to the Revenue Tribunal within a further 35 days. To appeal, generally 100% of undisputed and 50% of the disputed tax (including any interest/penalty) must be paid or secured by a bank guarantee. The Tribunal will hear the case and can confirm, reduce, or cancel the assessment. Final appeals on points of law may be taken to the Supreme Court of Nepal after the Tribunal's decision. This staged deposit requirement is designed to ensure taxpayers have genuine grounds for dispute and to secure the revenue while the dispute is ongoing.

E. Specific Income Tax Regime for IT Companies in Nepal

32. The specific income tax regime applicable to IT companies is set out below, and its summary is provided in Annexure II of this Legal Guide.

Corporate Tax Rate

33. As a general rule, a qualifying Information Technology industry is entitled to the reduced income tax rate available to the IT sector. This results in an effective corporate tax rate of 20%, instead of the normal 25% rate. In addition, where a qualifying IT business, such as software development, data processing, cybercafé, or digital mapping, is operated in a government-designated technology park, biotech park, or IT park notified in the Nepal Gazette, 75% of the applicable income tax on such income is exempt, subject to the prescribed conditions.

Digital Service Tax

34. Nepal imposes Digital Service Tax (DST) on digital services provided by a non-resident person to consumers in Nepal. DST is charged at the rate of 2% of the annual turnover where the annual transaction value with Nepali users exceeds NPR 3 million. DST applies only to business-to-consumer (B2C) transactions. Digital services supplied for business or commercial purposes are outside the DST regime and are governed by the ordinary tax rules.

Tax	Rate	Threshold
DST	2 % of turnover	Applies when annual transactions with Nepali users exceed NPR 3 million Applies only to B2C transactions

F. Incentives and Concessions

Export income incentive for IT services

35. Nepal provides export-oriented concessions to encourage foreign currency inflows and export competitiveness. Income earned from the export of services such as software development, business process outsourcing, and cloud services is eligible for a 50 percent tax exemption on qualifying export income, subject to prescribed condition that the income is earned in foreign currency.

Startup tax holiday for innovative technology enterprises

36. In order to encourage innovation and enterprise creation, startup enterprises applying new knowledge or technology and falling within the applicable turnover ceiling are granted a full income tax exemption for the first five years of operation. Eligibility is strongly dependent on satisfying the definitional and administrative requirements attached to startup classification, technology/innovation criteria, and turnover ceilings, as iterated below:

Incentive Description	Criteria
Start-Up Exemption: 100 % income-tax exemption for first 5 years	<ul style="list-style-type: none"> Business must use innovative knowledge or technology Annual turnover up to NPR 100 million

Employment-based tax rebates for IT industries

37. Employment generation incentives are available to IT industries through income tax rebates linked to the number of Nepali citizens employed throughout the income year, as iterated below

Employment threshold	Effective rebate on the applicable tax rate
100 or more employees	10%
300 or more employees	20%
500 or more employees	25%
1,000 or more employees	30%

38. Further, where an IT enterprise employs at least 100 Nepali citizens throughout the income year and at least one-third (33%) of the workforce comprises women, Dalits, or persons with disabilities, an additional concession may be available as per the laws of Nepal.

Regional incentives and long-horizon relief for Karnali and specified remote districts

39. Nepal provides regional incentives to encourage investment outside developed centres. IT enterprises are eligible for income tax exemptions ranging from ten percent to thirty percent, provided that the enterprise is located in a government-designated less developed, underdeveloped, or very underdeveloped area. The level of exemption depends on the classification of the area in which the enterprise is established.
40. In addition, IT enterprises established in *Karnali* Province or specified far western hilly districts that meet the prescribed workforce threshold are granted a one hundred percent income tax exemption for fifteen years, which is one of the most significant long-term incentives available and is intended to promote both investment and employment in remote regions.

Dividend tax treatment

41. To encourage enterprises to strengthen their capital base and reinvest earnings into expansion, IT companies that reinvest profits by issuing bonus shares are not subject to dividend tax on such capitalised distributions.

Stabilization Provision

42. The Income Tax Act provides stabilization protection where the Government of Nepal and any person enter into an agreement for construction and operation of infrastructure. In such case, the tax facilities available at the time of the agreement may continue to apply, subject to the said agreement and applicable law. Similar provision is also contained in the Industrial Enterprise Act.

G. More Specific Regime Applicable to IT Industry

43. This section should include only those concessions that apply to a narrower category of Information Technology businesses or that become available only when additional statutory conditions are satisfied.

Notified parks

44. A further concession may apply where a qualifying Information Technology business operates in a government-notified technology park, biotech park, or IT park. In such cases, income derived from specified activities such as software development, data processing, cybercafé, and digital mapping may enjoy a higher tax concession. Under the current framework, such income may receive a 75% exemption on the applicable income tax, subject to fulfillment of the prescribed legal conditions and notification requirements.

Special Economic Zone Regime

45. A separate and more specific tax regime applies to industries established inside a Special Economic Zone (SEZ). The extent of the concession depends on the location of the SEZ. Industries established in SEZs in mountain areas or in specified hilly areas may receive 100% income tax exemption for up to 10 years, followed by a 50% rebate thereafter. Industries established in SEZs in other areas may receive 100% exemption for the first 5 years and a 50% rebate thereafter.
46. A separate dividend concession is also available to SEZ industries. Dividend distributed by an industry established in an SEZ may be fully exempt for the first 5 years and may enjoy a 50% rebate for the following 3 years, subject to the applicable law.

H. Value Added Tax: General

Scope and Rate

47. Value added tax (VAT) in Nepal is governed by the Value Added Tax Act, 2052 (1995) (the “**VAT Act**”). It applies generally to taxable supplies of goods and services made in Nepal, and to imports, except where the relevant goods or services are exempt under Schedule 1 of the VAT Act. The standard VAT rate in Nepal is 13%. Supplies listed in Schedule 2 of the VAT Act are subject to zero rate, which includes, among others, certain exports of goods and services.

Registration threshold

48. VAT registration is required once the prescribed threshold is crossed. At present, registration is generally required where turnover in the last 12 months exceeds NPR 5 million in the case of a goods business, or NPR 3 million in the case of a service business or a mixed business of goods and services. A person importing goods worth more than NPR 10,000 at one time is also required to register within 30 days.

VAT invoices and compliance

49. Once registered, a taxpayer must issue VAT invoices in the prescribed format, file VAT returns, and pay the VAT due within the prescribed timeline. As a general rule, VAT returns are filed monthly, within 25 days after the end of the relevant Nepali calendar month, and the VAT payable for that period must also be paid within the same time.

Input tax credit

50. A registered person may generally claim credit for VAT paid on purchases to the extent that such purchases are used for making taxable supplies. Where purchases are used both for taxable and non-taxable supplies, input tax credit is allowed only to the extent attributable to taxable supplies, and where that extent cannot readily be determined, the credit is allowed in proportion to taxable sales.

Refund of excess VAT

51. Where input VAT exceeds output VAT, refund may be available subject to the conditions prescribed by law. In particular, where export sales of the month exceed 40% of total sales, the registered person may apply for VAT refund along with the VAT return of that month. In other cases, excess input VAT may generally be carried forward and adjusted against future VAT liability before refund becomes available in accordance with law.

I. VAT Treatment for the IT Sector

Domestic IT services

52. Where IT services are supplied within Nepal, the supply is generally subject to 13 percent VAT once the IT Service Provider meets the VAT threshold. This typically applies to software development services provided to Nepali clients and domestic based services delivered and consumed in Nepal.

Export of software and digital services

53. Export of software and digital services is treated as zero-rated. Under zero-rating, VAT is charged at zero percent on qualifying export supplies, and the IT service

provider may claim credit or refund of input VAT incurred on business purchases from the Inland Revenue Department, subject to the condition that procedural requirements are met.

J. Conclusion

54. The tax regime for Nepal's IT sector is designed to balance revenue collection with economic stimulation. Corporate tax rates are lower for IT businesses than for the general corporate sector, and companies in designated IT parks enjoy even greater fiscal concessions. VAT applies to domestic services but not to exports, encouraging business to target foreign markets.
55. A Digital Service Tax ensures that international platforms contribute to the national treasury when they derive income from Nepali users. Finally, a suite of concessions, including export rebates, start-up holidays, employment rebates and regional incentives, provides substantial relief to investors willing to invest in the IT sector. In a nutshell, these measures create a favorable environment for both domestic and foreign IT companies operating in Nepal.

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Annexure-I: General Income Tax Regime

Particular	Rate
Income Tax Regime	
Standard Corporate Income Tax	25%
Dividend Withholding Tax	5% final withholding tax
General Withholding Tax on interest, royalty, rent, service fee	15%
Contract / Service Payment TDS	1.5% on payments above NPR 50,000
VAT Regime	
VAT Standard Rate	13%
VAT Registration Threshold-Goods	NPR 5 million turnover in 12 months
VAT Registration Threshold-Services / Mixed Business	NPR 3 million turnover in 12 months

Annexure-II: Income Tax Regime Specific to IT Sector

Particular	Rate
Income Tax Regime	
Effective Corporate Tax Rate for qualifying IT industry	20%
IT business in Government-notified IT/Technology/Biotech Park	75% exemption on applicable income tax
Export income from IT services earned in foreign currency	50% tax exemption
Startup using innovative technology	100% income tax exemption for first 5 years
Employment rebate – 100+ Nepali employees	10% rebate
Employment rebate – 300+ Nepali employees	20% rebate
Employment rebate – 500+ Nepali employees	25% rebate
Employment rebate – 1,000+ Nepali employees	30% rebate
Digital Service Tax for non-resident digital service providers	2% of turnover, if annual Nepali-user transaction exceeds NPR 3 million
VAT Regime	
Domestic IT services VAT	13% VAT
Export of software/digital services	Zero-rated VAT
SEZ – mountain/specified hilly areas	100% exemption up to 10 years, then 50% rebate
SEZ – other areas	100% exemption for first 5 years, then 50% rebate
SEZ dividend concession	100% exemption for first 5 years, then 50% rebate for next 3 years