Installment Tax and Estimated Tax return

Requirement of installment tax

The requirement is primarily based on **pay as you earn (PAYE)** principle. This principle dictates that tax should be paid at the same time and in proportion to the income being earned.

Liable to pay/when to pay/how much to pay installment Tax

1. **Sec 94(1)** Any person who has or is expected to have assessable income from a **business or investment** in an income year is required to pay tax in three installments

Deadline	Cumulative tax to be paid
Poush End	40% of the estimated tax
Chaitra End	70% of the estimated tax
Ashad End	100% of the estimated tax

2. **Sec 94(1ka)** Natural person paying tax based on **turnover basis** (sec4(4ka)) in two installments

Deadline	Cumulative tax to be paid
Poush 20^{th}	Tax based on actual Turnover as on date
Ashad 20^{th}	Tax based on estimated annual turnover less tax paid earlier.

Not liable to pay installment Tax

1. Sec 94(2) If total estimated tax for the entire year is **less than Rs. 7500.**
2. Resident Natural Person who pays tax as per sec 4(4) **Presumptive taxation**.
3. Person receiving income subject to **final withholding tax** covers income from windfall gain also (92(1))
4. Natural person having **income from employment** only

Estimated Tax return Sec 95(1)

Any person who is liable to pay installment tax under section 94 must file estimated tax return **within the date of first installment is due** for that income year.

Required information in the Return

1. The estimated assessable income from every source and the specific source of that income.
2. Total expected taxable income and Total estimated tax payable for the year without deducting any medical tax credits.
3. The estimated income to be repatriated abroad by a non-resident person and the tax payable on that income.
4. Any additional information prescribed by the Department.

Note: if the person is registered after Poush end and upto Chaitra end the estimated return should be filed before Chaitra end and if registered after that then estimated return should be filed before Ashad end

Revision in Estimated Tax return

An estimate return remains valid for the entire year unless a revised estimated return is filed. If the details of initial estimated return changes due to new information, the taxpayer can file a revised return explaining the reasons for the change and the revised estimate shall only apply to installment payments due after revised estimate return.

Departmental Authority and Exemptions

Departmental Estimates: If a person fails to file a return, or if the Department is unsatisfied with a filed estimate or revision, the Department may issue its own estimate of the taxpayer's installment tax liability. This is often based on the tax paid in the previous income year. **Sec 95(7)**. The Department provides the taxpayer with a written notice explaining the reasons and the method used for the calculation.

Exemptions: The Department has the authority to exempt certain persons or groups from the requirement to file an estimated return. **Sec 95(6)**

Consequences of Non-Compliance

Filing Fees: Under Section 117(1)(a), a person who fails to file an estimated tax return is liable for a fee of either **5,000 Nepalese Rupees** or **0.01% of the assessable income** mentioned in the return, whichever is higher.

Interest on Underpayment: If the total installments paid are less than **90%** of the actual tax liability for the year, interest is charged at the standard rate (15% per annum) on the shortfall.