

**VAT Refund for Diplomats,  
International Agencies and  
Foreign Aided Projects**

Inland Revenue Department  
Lazimpat, Kathmandu  
October 2001

# **VAT Refund for Diplomats, International Agencies and Foreign Aided Projects**

## **1. Introduction**

His Majesty's Government of Nepal has been implementing the value added tax (VAT) since November 16, 1997. This tax was introduced in place of the import/manufacturing level sales tax, hotel tax, contract tax and entertainment tax. VAT is levied on all goods and services unless specifically exempted in the VAT legislation and is collected at each stage in the process of production and distribution. The list of exempt goods and services is given in Appendix 4 to this brochure. Vendors having an annual taxable turnover below Rs. two millions are not required to register for VAT. Vendors who are not registered for the VAT cannot charge VAT on their sales.

## **2. Diplomats**

An accredited diplomat to Nepal is entitled to claim tax refund on purchases on a reciprocal basis. The Inland Revenue Department will be provided with a list of accredited diplomats from the

Ministry of Foreign Affairs. Embassies and diplomats have to submit Refund claim with schedule 17 through Ministry of Foreign Affairs, Consular Section. Schedule 17, is given in Appendix 1 to this brochure.

### *2.1 Local Purchases by Diplomats*

Diplomats, as others, will be charged VAT on the purchases of taxable goods and services in the local market. They are, however, entitled to claim tax refund on purchases, except a single purchase (one bill) of goods and services up to Rs. 1500. Refund Claim Procedures are as follows:

- Diplomats may claim for refund through diplomatic mission. Claims must be made within three years from the date of transaction.
- Claims are to be submitted to the VAT Refund Section of the Inland Revenue Department through the consular section of the Ministry of Foreign Affairs.
- Original tax invoices as well as copies of the invoices are to be attached to the refund form.

- The original invoices will be stamped and signed by the concerned officer and returned immediately to the concerned diplomatic mission and the Refund Section of the Inland Revenue Department will keep copies.
- Refund Section of the Inland Revenue Department will issue a cheque in the name of the concerned diplomat or embassy.
- Diplomats are requested to send an authorisation letter as specified in Appendix 3 to this brochure regarding the collection of cheque.

## *2.2 Imports by Diplomats*

Imports by accredited diplomats are zero-rated. This means that accredited diplomats do not have to pay the VAT on their imports.

## **3. Foreign Aided Projects**

Any persons or organisations employed in carrying out a project in the Kingdom of Nepal under a bilateral or multilateral agreement for which the Ministry of Finance has approved tax exemption may make a claim for refund of tax paid by them on purchases or imports made for the project as per the Bill of Quantity.

The procedure for claiming refund will depend on the status of the person or organisation. If the person or organisation is registered for the VAT the claim will be made on monthly or 6 monthly basis in accordance with the procedures fixed for other registered taxpayers and explained in a separate brochure entitled "Tax Credit and Tax Refund Procedure". If the person or organisation is not registered for the VAT, the person or organisation will be required to make a claim on Schedule 18 which is given in Appendix 2 to this brochure.

Refund claim procedures are as follows:

- Foreign aided projects may claim for refund of VAT paid on purchases except a single purchase (one bill) of goods and services up to Rs. 1500. Claims must be made within three years from the date of transaction.
- Claims are to be submitted to the Refund Section of the Inland Revenue Department.
- A copy of the tax exemption certificate/a copy project document is to be attached to the refund claim form.

- Original tax invoices as well as copies of the invoices are to be attached to the refund claim.
- The original invoices will be stamped and signed by the concerned officer and returned immediately to the concerned project and the Refund Section of the Inland Revenue Department will keep copies.
- Refund Section of the Inland Revenue Department will then process the paper and issue a cheque in the name of the concerned project.
- Foreign aided projects are requested to send an authorisation letter as specified in Appendix 3 to this brochure regarding the collection of cheque.

#### **4. International Agencies**

##### *UN and other International Agencies*

UN and other International agencies, which are involved in the development process of Nepal and are entitled for the privileges of Vienna Convention, can get VAT refund paid in local purchases or import. Request for the refund should be filed with the refund section in the schedule 17 (Appendix 1 to this Brochure) along with

original invoices. Other procedures are similar to diplomatic refund stated in paragraph 2 above.

##### ***Zero Rating Facility:***

This facility can be provided by HMG/N to any agency depending upon the agreement signed between HMG/N and the agency. Concerned agency will have to submit a certified proforma invoices to the Refund Section of the Inland Revenue Department. The Refund Section will then stamp the proforma invoice based on the agreement with zero rating facility. On receipt of such an invoice the supplier will charge zero rating on the sale to the agency up to the limit of proforma invoice. So in such a case the agency/Project will not have to pay any VAT on local purchases or imports.

#### **5. Further Inquiry**

Please contact the Refund Section of the Inland Revenue Department for any further information.

**The Director**

**Refund Section**

**Inland Revenue Department**

**Lazimpat, Kathmandu**

**Tel.: 415802, 415803, 439787, 410340**

**FAX: 411788**

If you have any comments or needs for further information, please contact the VAT Project Office at the following address and telephone number:

**VAT Project Office**  
**Jyoti Bhawan**  
**Kantipath, Kathmandu**  
**Tel.: 244715, 266738, 266739**  
**Fax: 248951**

**Appendix 1: Application for Refund of VAT Paid by Diplomats**

**Schedule 17**  
 (Related to Rule 45(3))

His Majesty's Government  
 Ministry of Finance  
**Inland Revenue Department**

**APPLICATION FOR REFUND OF VAT PAID BY DIPLOMATS**

1. The under mentioned goods have been purchased by diplomats of the ..... Embassy. It is requested that the amount specified in section 3 be refunded.
2. Period of claim : from ..... to.....

3. Description of Purchases (*See attached list with Original Invoices*)

Purchaser's Name	Purchased goods/services	Invoice Price	VAT Paid
TOTAL			

I certify that the above mentioned goods and/or services have been purchased by or supplied to diplomats of the ..... Embassy and request that refund of Rs. .... (Amount .....) be made to the signatory/..... The refunded amount to the signatory/..... will be as per the clause 25(1)(a) of the VAT Act 1996.

For Official use only

Refunded Amount:	Cheque issues date:
Approved by:	Approved Date:
Bank A/C number:	Cheque issued Bank:
Payment Date:	Signature of Tax officer

day/month/year

**Appendix 2: Application for Refund of VAT Paid by Foreign Aided Projects**

**Schedule 18**  
(Relating to Rule 45 (3))

His Majesty's Government  
Ministry of Finance

**Inland Revenue Department**

**TAX REFUND FORM**

(For projects run under bilateral or multilateral agreements or foreign agency and organisation)

1. Period of Claim : from..... to .....
2. Description of organisation
  - (a) Name of the chief of the Project/Organisation
  - (b) Address
  - (c) Purpose of the organisation/aid/loan (if applicable)
  - (d) Agreement Date if applicable    \_\_\_\_\_ / \_\_\_\_\_ / \_\_\_\_\_
  - (e) Termination Date                \_\_\_\_\_ / \_\_\_\_\_ / \_\_\_\_\_

- (f) Total amount of the goods and services purchased Rs. \_\_\_\_\_
- (g) Date of receipt of approval from the Ministry of Finance (if applicable) \_\_\_\_\_ / \_\_\_\_\_ / \_\_\_\_\_
- (h) Copy of agreement to be attached
- (i) Grant / Loan Number (if applicable)

3. CONTRACTOR

- (a) Name and address of the management / contractor with whom agreement has been made by the project : \_\_\_\_\_
- (b) Contract no. \_\_\_\_\_
- (c) Date of commencement of contract \_\_\_\_\_ / \_\_\_\_\_ / \_\_\_\_\_
- (d) Date of termination of contract \_\_\_\_\_ / \_\_\_\_\_ / \_\_\_\_\_
- (e) TPIN 

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(copy of the conditions set with the contractor to be attached)

4. Name of the purchaser of goods / material \_\_\_\_\_

5. Name of the supplier \_\_\_\_\_

6. Description of goods / material

Purchased goods and services	TPIN	Invoice No.	Invoice Price	VAT Paid

Total				
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Please add more pages, if necessary

7. Clause of the agreement under which the VAT is to be refunded\_
  
8. Goods purchased before filling this form on which VAT has been refunded.

S.N.	Name of the Firm	Description of goods	Quantity	Value

I/we \_\_\_\_\_ solemnly declare that the purchased goods or services will not be authorised to use or transfer unless prior approval of tax offices.

\_\_\_\_\_  
Contractor's Name

\_\_\_\_\_  
Certified by the Agency/Organisation

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Signature  
Name and Address of the Office

\_\_\_\_\_  
Office Stamp

\_\_\_\_\_

For Official Use

Refunded Amount:  
 Approved by:  
 Bank A/C number:  
 Payment Date:  
 day/month/year

Cheque issues date:  
 Approved Date:  
 Cheque issued Bank:  
 Signature of Tax Officer

### Appendix 3: Authorisation Letter

The Director  
Refund Section  
Inland Revenue Department  
Lazimpat, Kathmandu

Mr./Ms..... of .....Embassy/Project/.....is authorised to collect the cheque issued by the VAT Department in the name of this Embassy/Project/...or my name/. His/Her signature is as follows:

Signature of Mr./Ms.....

(.....)  
.....Embassy/Project/.....

### Appendix 4 : List of VAT exempt goods and services

#### 1. Basic Agricultural Products

- (a) paddy, rice, wheat, maize, barley, millet, pulses, flour, and similar unprocessed food materials.
- (b) green and fresh vegetable, fresh fruits, fresh eggs and similar products (except used in hotels, restaurants, bars, guest houses, cafeteria and other similar organisations)
- (c) unprocessed cereals, (such as sugarcane, tea leaf, orthodox tea produced using compost manure, coffee seeds, unprocessed tobacco, cotton, cardamom, zinger, sutho jute, oil seeds, soybean)
- (d) herbs

#### 2. Goods of Basic Needs:

- (a) Unprocessed edible oil
- (b) Piped water, including water supplied by tankers
- (c) Fuel wood and coal
- (d) Kerosene
- (e) Salt

#### 3. Live Animals and animal products

- (a) he goat, sheep, yak, he buffalo, bore, pigs, rabbit, and similar other animals; their fresh milk, including pastured, curd and uncooked/unprocessed varieties
- (b) cows, she buffalo and she goat their fresh milk (including pasteurised )and fresh curd



- (c) ducks, hens, cocks, turkey and similar other birds, and thier fresh meat, eggs, and similar uncooked varieties.
- (d) fresh or dried fish (other than packed)

**4. Agricultural inputs**

- (a) seeds of any plants listed in Group 1
- (b) manure, fertilizer and soil conditioners
- (c) agriculture hand implements,
- (d) pesticides, made mainly for use of crops
- (e) agriculture equipment, including tractors,
- (f) Birds and Animal feed

**5. Medicine, Medical and Similar Health services**

- (a) medical or surgical services provided by Government Institutions
- (b) human blood and products derived from human blood
- (c) human or animal organs or tissue for medical research
- (d) the supply of services by persons on the regisere of veterinary surgeons and veterinary doctors
- (e) the supply of goods made for, and suitable only for the use of, disabled persons.
- (f) X-ray film and oxygen gas to be used for treatment
- (g) Raw materials purchased or imported by the drug industries to the extent approved by the Department of Drug Management.

**6. Education**

- (a) The provision of research in a school or university
- (b) The provision, otherwise than for profit, of professional or vocational training or refresher training
- (c) The provision of education in a school or university

**7. Books, Newspapers etc.:**

- (a) Books, newspapers, newsletters and periodicals
- (b) Newsprint

**8. Artistic and cultural goods and services, carving services**

- (a) Painting, handicrafts, carving and related services.
- (b) cultural programme
- (c) Admission to libraries, archaeology, museums, zoos botanical gardens, national parks.

**9. Passengers and goods transportation services**

Air transport, non-tourist transportation (except cabal car) and goods carrier (except transportation related to supply)

**10. Personal or Professional service :**

Personal services rendered by artists, sportsmen, authors, writers, designers, translators and interpreters institutionally or individually.

**11. Other goods or services:**

- (1) Postal services (provided by HMG only)
  - (a) The service of conveyance of letters, money and postal packets by the Post office

- (b) The supply by the post office of any service in connection with the conveyance of letters, money and postal packets
- (c) Postage stamps,
- (2) Financial and insurance services.
- (3) Bank notes, and cheque books.
  - (a) The printing and issue of bank notes
  - (b) The supply of bank notes from outside the Kingdom of Nepal to the Kingdom of Nepal.
  - (c) Cheque book
- (4) Gold and silver
  - (a) Gold, gold coins and gold ornaments
  - (b) Silver and silver coins (other than ornaments and goods made of silver)
- (5) Electricity,
- (6) Raw wool,
- (7) Battery operated tempo, their chassis and battery
- (8) Bio-gas, solar power and wind power operated power generation plant and their main parts on the recommendation of the Alternative Energy Centre.
- (9) Aeroplane, Helicopter, Fire Brigade and Ambulance
- (10) Jute goods
- (11) Industrial machinery included in section 84 of customs tariff and subject to 5% tariff
- (12) Woollen carpet & woollen carpet weaving, dying,
- (13) Aluminium, copper, scrape, circle, plate and utensils washing, knitting
- (14) Cotton Sadi, Lungi, Dhoti, Petani, Gamcha
- (15) Cotton yarn
- (16) Woollen yarn to be used in domestic hand knitting sweater (except artificial & acrylic)

(17) Donated goods received for calamities or philanthropic purpose approved by Ministry of Finance.

## **12. Land and Building**

Purchase and rent of land and buildings (except the rental service provided by hotels, guest houses or similar organisation)

## **13. Betting, casinos, lotteries.**

- (a) The provision of any facilities for the placing of bets or the playing of games of chance
- (b) Lottery

## VAT Related Publications

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### **B. English**

18. Common Questions and Answers on Value Added Tax
19. VAT Registration
20. Completing the VAT Return

21. Keeping VAT Records
22. VAT and the Import Export Trade
23. VAT and the Hotel Industry
24. VAT Inspections
25. VAT Information for the Consumer
26. An Introduction to VAT Administration
27. Tax Credit and Tax Refund Procedure
28. VAT in a Nut Shell
29. VAT and the Business Community
30. VAT Refund for Diplomats, International Agencies & Foreign Added Projects