REVISED TAXATION POLICY

1992

ROYAL GOVERNMENT OF BHUTAN
MINISTRY OF FINANCE
TASHICHHODZONG
THIMPHU : BHUTAN

TELEX : 890-201
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Telephone Office : 2843
2223
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ROYAL GOVERNMENT OF BHUTAN
MINISTRY OF FINANCE

དངུལ་རྩིས་བློན་པོ་

MINISTER

TASHICHHO DZONG
THIMPHU—BHUTAN

Date...4th August 1992.

TAXATION POLICY 1992.

The Sixth Five Year Plan has come to an end and the Seventh Five Year Plan commenced on 1st July 1992. In order to fulfill the objectives enshrined in the Seventh Plan it is necessary to review and improve the tax policy of the Royal Government. Taxation must be made a major policy instrument to promote growth, regulate external trade and ensure equitable distribution of income. Generation of revenue is only one of the objectives of taxation.

The Seventh Five Year Plan outlay is over Nu. 16000.0 m. This does not include expenditures for large investment projects which have been kept outside the plan outlay. The Plan also envisages a very ambitious growth rate of 5% per annum and has made the achievement of self relience one of the most important goals. The success of the plan would therefore depend among other factors largely upon a fiscal policy that would be conducive to growth and at the same time generate adequate resources to reduce excessive dependence upon external assistance. In order to move towards the achievement of the goal of self relience the Royal Government remains committed to the objective of being able to meet the cost of maintenance of essential services from domestic revenues.

In order to strike an acceptable balance between revenue and maintenance cost the Government had in the past resorted mainly to cuts in the budget. Further cuts are no longer sustainable and would affect the quality of services. Hence, the effort now is to enhance the revenues. During the Seventh Plan period the cost of maintenance is likely to reach at least Nu. 8611.0 m as compared to Nu. 4973.0 m during the Sixth Plan period. The total revenue collected during the Sixth Plan is Nu. 4700.0 m, and by the fiscal year 1991-92 the revenue receipt of Nu. 1064.0 m was adequate to meet over 90% of the cost of maintenance which was Nu. 1140.0 m. During the Seventh Plan the total revenue target is Nu. 7636.0 m which is adequate to meet only 90% of the maintenance cost of Nu. 8611.0 m. The task of generating a revenue of Nu. 7636.0 m would require expansion of the tax base and strengthening of the tax administrative set up.

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While the revenue target is rather ambitious it is necessary to note that taxes form only about 30 per cent of the total revenues. This shows that the Royal Government is still heavily dependent upon non-tax receipts from Government corporations, departmental enterprises and other capital receipts. Tax revenues must, in the long run, form the main source of revenue. However, given the present socio-economic conditions in Bhutan, concerted efforts will have to be made to maximize the revenues from the non-tax sources.. In this connection the Government is committed to levying realistic levels of user charges, fees etc. for public services and increasing the tariff for power and other public utilities.

While formulating the new tax policy, care was taken to ensure that rural taxes affecting the common people were not increased. Such rural taxes are presently not cost effective and the rural people in any case already contribute significantly in terms of labour for projects. Major changes were made only in sales tax, urban property tax, and cash crop tax. Some changes were also introduced in the salary tax. The main emphasis was on rationalization of the taxes in light of the Governments objectives. The tax policy changes were guided by the following principles:

1. Rationalization of the tax structure
2. Expansion of the tax base
3. Promotion of Savings and Investment
4. Discourage consumption in general
5. Correct the trade imbalances
6. Ensure equity
7. Simplify administrative procedures

It is expected that the new tax policy would promote growth, generate revenue and also help to reduce imbalances in the external trade. It is also the endeavour of the government to review the tax policy from time to time in keeping with the changing needs and potentials.........

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During the formulation of the present tax policy the Ministry of Finance was fortunate to receive detailed comments and suggestions from tax experts from the IMF mission who were here on a mission. The IMF mission broadly endorsed the tax policy and made several useful recommendations for further improvements in the near future.

The tax policy is part of a general effort to streamline the fiscal and monetary policy measures aimed at promoting growth and sustainability. Appropriate changes will also be brought about in the import regulations. The Government will have a clear cut tariff system to replace quantative restrictions and make the rules transparent to all.

This tax policy will supercede all tax policy directives including the 1989 tax policy and come into force from 10th August 1992.

(D. Tshering)

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I. DIRECT TAXES: (With effect from 1st January 1992)

A direct Tax is a tax levied on the profit of companies and mainly comprise of Corporation Income Tax and Business Income Tax.

1. Corporate Income Tax

30% Corporate Income Tax shall be levied on the net profit of corporate units.

While the rate of. 30% Corporate tax has not been revised, the following changes have been decided to further strengthen the system for a more effective tax administration and better resource mobilisation:-

i) With the enactment of the Bhutan Company Act 1989, the provision of the Corporate Income Tax shall be applicable to all registered corporations and companies.

ii) Currently some categories of industries known as priority industries are given special concessions in terms of blanket exemptions of sales tax and import duties and other subsidies. In order to rationalize the concessions it has been decided to withdraw some of the exemptions to overcome distortionary effects and improve cost effectiveness in resource allocation. Therefore, the existing distinctions between priority and other industries have been abolished.

iii) To promote the use of indigenous resources for industrialization and to reduce trade imbalances, it has been decided to levy sales tax @ 3% of the invoice value on all types of raw materials imported by the manufacturing sector. However, the present system of exempting sales tax on plant, machineries and spares for all industries will be continued in order to encourage investment in the productive sector.

iv) Deductible expenses permitted for industries under corporate tax as specified in Annexure A have been revised with special reference to depreciation rates to have uniform standards. Salary ceilings have been revised upwards taking into account general inflationary trends and type of business. Other items of deductible expenses have been modified where applicable. Further, some new deductible items like writing off of bad debts, subscriptions and other bonafide business expenses which were not categorised earlier have been incorporated.

v) General guidelines for submission of accounts, treatment of returns and maintenance of basic records have been prescribed and incorporated in Annexure E.

vi) Standard book keeping requirements as prescribed in Annexure B shall continue.

The following provisions have been kept for future policy considerations:-

i) in case of foreign Collaboration, separate rules and regulations on foreign investments will be framed by the Royal Government

ii) in case local products are found to be competitive both in quality and price, higher import duties and taxes may be levied on imports of similar goods to encourage rapid import substitution

iii) to encourage maximum value addition within the country, no tax concessions will be considered for those industries and businesses exporting goods in unprocessed forms which could otherwise be viably used for value addition in the country with the exception of agricultural produces.

2. **Business Income Tax: (With effect from 1st January 1992)**

30% Business Income Tax (BIT) shall be levied on the net profit of the following Business and trading units:-

i) Traders; both whole sale and retail
ii) Hotels and Restaurants
iii) Tour and Travel Agencies
iv) Consultancies and other service units
v) Contractors
vi) Workshops and other service industries
vii) Passenger and Goods Transport Agencies
viii) Unregistered manufacturing Industries
ix) All other assessees not covered under Corporate tax.

All the assesses covered under the provision of Business Income Tax shall observe the prescribed dates and procedures incorporated in Annexure E as regards to the submission of returns and payment of taxes.

In order to have cost effective and simplified assessment procedure for all businesses and service units, it has been decided to categorise assessees into three assessment groups/categories as follows:

i) **Large and potential assesses**

All the classified large and potential assessees shall have to maintain proper books of accounts as notified in part (A) of Annexure C.

ii) **Medium size assessees**

All the classified medium size assessees shall have to maintain basic books of accounts as notified in part (B) of Annexure C.

iii) **Small and erratic assessees**

Small and erratic assessees are those business units in the trading and service sectors who are illiterate and unable to maintain their accounts/business records.

In order to simplify collection procedures, curtail administrative expenses and realise a minimum amount of tax, a flat rate of Nu.500/- per annum shall be collected from all such assessees by the tax authorities before 31st March every year.

However, such assesses shall be required at least to preserve the purchase bills/documents in order to review their income status during annual survey time.

The Department of Revenue and Customs in collaboration with the Department of Trade and Industries shall henceforth carry out delailed survey exercises in order to accurately classify the assessees into the above mentioned three assessment categories/groups. The basic guidelines for the categorisation will be the following criteria :

i) Past records.
ii) Size of Shop.
iii) Nature of business.
iv) Location.
v) Capital employed.
vi) Detailed feasibility study wherever possible.

Based on the findings and recommendations of the annual surveys at the time of assessment, assessees may be re-classified under appropriate groups/categories where deemed necessary.

3. Deduction of expenses and maintenance of books of accounts for both Corporate and Business income tax are given below :

Annexure (A)	(Deduction of expenses permissible to arrive at net profit for Corporate Tax)
Annexure (B)	(Books of Accounts and Records to be maintained for Corporate Tax purposes)
Annexure (C)	(Books of Accounts to be maintained for Business Income Tax purposes)
Annexure (D)	(Deduction of expenses permissible to arrive at net profit of Business Income Tax)
Annexure (E)	(General guidelines for submission of accounts)
Annexure (F)	(Rates of Depreciation)

CORPORATE TAX

(A) Deduction of Expenses permissible to arrive at taxable net profits.

(1) Preliminary expenses

All legitimate expenses incurred prior to the commencement of the business or in connection with the extension of an existing business will be allowed during the initial three years. These expenses are feasibility studies, market surveys, engineering services, project reports, legal charges etc. directly related to the project being assessed.

(2) Depreciation of Assets

Depreciation of assets will be allowed and regulated as provided for in annexure F.

(3) Appreciation of Assets

In case the assets are revalued and shown at the appreciated value in the books of accounts during a year, depreciation calculated at the appreciated value will be allowed to be charged to the profit and loss account.

However, the amount of appreciation over and above the book value of the asset at the beginning of the year, will be treated as income of the business for the purpose of corporate tax.

(4) Expenditure on pay, allowances and perquisites

The expenditure incurred by the assessee on pay, allowances and perquisites of his employees will be allowed for deductions subject to a maximum limit of Nu. 20,000/-. Any amount paid in excess of this amount will be taxable.

However, for experts and highly professional employees this limit can be enhanced on a case by case basis on the recommendation of the Ministry of Trade & Industry and with the prior approval of Ministry of Finance.

The expenditure incurred or the equivalent market value in providing the following perquisites to the employees will be deemed to form part and parcel of pay and allowance(s) for the purpose of above limits.

i) Rent free accommodation.

ii) Any concession in rent in respect of any accommodation provided to the employees.

iii) Any benefit or amenity granted or provided free of cost or at concessional rate to the employee such as the following:

a) Free domestic services.

b) Free gas, electric energy and water supply.

c) Conveyance or transport facility.

d) Education facility.

e) Holiday home trip or holiday trip.

f) Children education allowance or reimbursement of tuition fee.

g) Tiffin allowance.

h) Telephone facility.

i) Medical benefit.

j) Recreational facility.

k) Maintenance of house.

l) Bonus.

m) Others.

It is obligatory on the part of the employer to deduct and deposit the salary tax and health contribution from the gross salaries of the employees and deposit the same in the Royal Government Revenue Account on a monthly basis under intimation to the nearest office of the Department of Revenue & Customs supported by the salary tax schedule along with a copy of bank receipt.

1. **Salary Tax Rates: (With effect from 1st August 1992)**

To ease the incidence of tax on low income earners, the exemption limit has been enhanced from Nu. 1600 to Nu. 4000 per month while introducing an element of a progressive tax system for the higher income brackets.

Gross Salary Range	Tax Rate
Upto Nu. 4000 per month	- Exempted
Nu.4001 - Nu. 6000 per month	- 2%
Nu.6001 - Nu. 10000 per month	- 3%
Nu.10,001 - Nu. 15,000 per month	- 4%
Nu. 15,001 - Nu. 20,000 per month	- 5%
Nu.20,001 and above per month	- 6%

2. **Health Contribution : (With effect from 1st August 1992)**

1% on the gross salary will be charged as a nominal contribution towards health services provided free of cost.

(5) **Remuneration to the Proprietor**

a) The proprietor (owner) of a business who is engaged full time in the day to day running of the business unit will be allowed to draw pay and allowances, and to meet expenditure on POL, car maintenance, driver's salary, etc. subject to the following limits. However the expenditure under this head should be commensurate with the size and profits from the business.

i)	Large scale industry	maximum	Nu. 20,000 per month
ii)	Medium scale industry	"	Nu. 15,000 "
iii)	Small scale industry	"	Nu. 10,000 "
iv)	Cottage industry	"	Nu. 5,000 "

b) Where a proprietor owns more than one business, his remuneration will be allowed to be charged to only one business unit.

c) In the case of partnership firm, the above remuneration will be allowed only to one partner. If more than one partner is engaged on full time basis in specialised firms like consultancies, chartered accountancy firms etc., each full time working partner will be allowed full salary. However, the prior approval of Department of the Revenue and Customs will be necessary.

Note:-

I. **GUIDELINES FOR CATEGORISATION OF INDUSTRIES, TRADING AND SERVICE UNITS**

1. **Industrial Sector:-**

Scale	Investment range excluding working capital		
Large	Above	Nu. 20.0	million
Medium	Nu. 5.0 million to	Nu. 20.0	million
Small	Nu.0.5 million to	Nu. 5.0	million
Cottage	Nu.0.1 million to	Nu. 0.5	million

2. **Trading Sector**

Category	Investment range		Turnover range	
Large	above	0.5 million	above	2.0 million
Medium	0.1 million to	0.5 million	0.3 m. to	2.0 million
Small	0.05 million to	0.1 million	upto	0.3 million

3. Service Sector:-

Category	Investment range		Turnover range	
Large	above	10.0 million	above	2.0 million
Medium	5.0 to	10.0 million	1.0 m to	2.0 million
Small	upto	5.0 million	upto	1.0 million

II. Salary tax and health contribution at the prescribed rates as detailed above are to be deposited on the proprietors remuneration with the Royal Government Revenue Account under intimation to the nearest office of Department of Revenue & customs on a monthly basis supported by the salary schedule and bank receipt.

(6) **Business Entertainment Expenses**

The amount spent on entertainment expenses by the assessee directly related to promotion of sales of the business concerned shall be allowed upto a maximum of 2% of the net profit.

(7) **Rent, taxes and insurance premium of business premises**

(A) **Hired buildings:**

i) The rent paid for any part of the premises occupied solely for purpose of the business is an allowable deduction from profits for computing corporate tax.

ii) Any amount paid on account of local and municipal rates and taxes that relate to the use of the property for business purposes are allowed.

iii) Where the hired premises are occupied by the assessee partly for business purposes and partly for dwelling purpose, the deduction in respect of rent paid, cost of repairs and any amount paid on account of local and municipal taxes will be allowed on proportionate expenditure basis.

(B) **Self owned building**

The rent, local and municipal taxes and insurance of the building owned by the proprietor/firm, and used for business purposes shall be allowed to be charged to the Profit and Loss Account subject to the following conditions :-

i) The building is used for the purpose of the business.

ii) The rent chargeable is reasonable and not more than the prevailing market rate for similar type of buildings in similar locations. In case of any dispute on the amount of rent assessed, the decision of the Board of Appeals shall be final.

iii) No depreciation on such buildings will be allowed to be charged to the Profit and Loss Account.

iv) When the premises are used partly for business and partly for residential purposes, proportionate expenditure on account of current repairs, local and municipal taxes relating to the portion used for business will be allowed.

(8) Repairs and Insurance of Plant, Machinery and Furniture

Current repairs and insurance premium of plant, machinery and furniture used for the purpose of business is an admissible expenditure.

(9) Contribution towards recognised Provident Fund

Any sum paid by the assessee as an employer by way of contribution towards a recognised provident fund is an admissible expenditure, provided the contribution towards provident fund are invested with financial institutions and not kept in the business.

This will, however, be subject to such limits, rules and regulations framed by the Royal Government from time to time.

(10) Contribution towards the Gratuity Fund

The amount paid by the assessee as an employer towards contribution to a gratuity fund for the benefit of his employees will be allowed to be charged to the Profit and Loss Account. However, such amounts must be invested with Financial Institutions and will not be permitted to be retained in the business of the assessee.

This will also be subject to such limits, rules and regulations framed by the Royal Government from time to time.

The amount of gratuity paid to the retiring employee during the year will be paid out of the gratuity fund subject to the maximum limit of one month's basic pay for each completed year of service. The amount of gratuity paid from the Gratuity Fund by the assessee as an employer during the year will not be allowed to be charged to the Profit and Loss Account of the employer's business.

(11) Bonus paid to the employees

Any amount paid to an employee as bonus in a year for services rendered is an admissible expenditure. The amount of bonus should be reasonable with reference to (a) the pay of the employee and conditions of his service (b) the profit of the business for the year (c) general practice prevailing in the similar business and (d) the total bonus amount deductible will be subject to 10% of net profit or two months basic pay whichever is lower.

No allowance will be admissible for bonus to the proprietor, his/her spouse and children.

(12) **Publicity & Advertisement expenditure**

The actual expenditure on advertisement and publicity is an allowed deduction.

(13) **Interest**

a) The income derived through deposits with financial institutions shall be exempted from tax at source. Income from interest and dividends will be treated as taxable income under the corporate tax.

b) Interest paid on the money taken as loan from recognised financial institutions shall be allowed as expenditure provided and to the extent that the loan is used for the purpose of business.

c) Interest on capital provided by the proprietor shall not be allowed as expenditure for the purpose of calculating taxable profit.

d) Interest paid to any person or concern who is subject to corporate tax shall be allowed as expenditure subject to the condition that recipient person or concern shows it as income in their books of account for computation of net profit for corporate or business income tax.

e) Interest on money borrowed from private sources will not be admissible.

(14) **Carrying Forward of Losses**

The loss sustained during the year can be carried forward and adjusted against future profits of the same business for a maximum period of three years only.

(15) **Membership Fees**

The annual membership fees paid to Bhutan Chamber of Commerce and Industry shall be admissible expenditure.

(16) **Bad Debts.**

Bad debts will be an admissible allowance subject to fulfilling the following conditions :-

i) The debt should not be less than 5 years old

ii) There should be documentary evidence that the recovery was pursued vigorously
iii) Judicial recourse should have been exhausted in respect of individual items of bad debt of Nu. 10,000 or more
iv) The tax should have already been paid on such debts in the relevant previous year
v) The assessee should commit that the bad debt would be incorporated as income, should the amount be recovered in the subsequent years.

(17) **Other Miscellaneous Expenses**

The other bonafide business expenses incurred by the assessee shall be admissible subject to the condition that proper documents are available. Some of such expenses are listed below :-

i) Printing and stationery expenses
ii) Postage and Telegram
iii) Telephone, trunk call and Telex charges
iv) POL expenses of the vehicle owned by the concern
v) Commission on purchase or sales provided the same is reflected on bills/invoices and recorded in books of accounts
vi) Auditor's fees
vii) Licence fee/legal fees
viii) Accidental losses such as theft, fire, earthquake, flood etc. to the extent not covered under insurance claims
ix) Donation/contributions authorised by the Royal Government will be allowed provided prior written clearance from the Ministry of Finance is issued.

ANNEXURE B

CORPORATE INCOME TAX

All the assessees covered under the corporate income tax shall be required to submit their annual accounts i.e. Trial balance, Manufacturing/Trading accounts, Profit and loss accounts, Balance sheet and other related documents. The annual accounts are to be accompanied by the completed tax return forms for the relevant calendar year which must reach the tax authorities latest by 31st March of the succeeding year.

The following Books of Accounts and Records must be maintained for taxation purposes as per standard accounting principles and practices :

a)	**Cash Book**	:	Record of all daily cash receipts and payments showing cash balances at hand for each day and at the end of the month.
b)	**Purchase Book**	:	Record of goods purchased on credit. The total amount of purchase book must be posted to the debit side of purchase account. The entries in the purchase book are made from invoices.
c)	**Sales Book**	:	Record of all goods sold on credit. Goods refer to those commodities in which the trader usually deals in. The total of the sales book is posted to the sales Account.
d)	**Purchase Return Book**	:	Record of all goods returned to the supplier for various reason viz. defective goods, goods not according to sample/ order, etc.
e)	**Sales Return Book**	:	Record of all goods returned by the buyer to the trader/supplier.
f)	**Journal**	:	Record of opening and closing entries, entries for correction of errors, transfer between accounts and for transactions of special nature etc.
g)	**Ledger**	:	Record of all real, personal and Nominal Accounts. This is written from Cash Book, Purchase Book, Sales Book, Journal. It depicts the position of each account.
h)	**Stock Register**	:	Record of stock for all goods and materials.

i) Carbon copies of the bills and cash memos (duly serial numbered) issued by the trader and carbon copies/counterfoils of receipt issued by the trader.

j) Original purchase bills, receipts/vouchers in respect of expenditure incurred by the trader.

k) Monthly Bank statement of business transactions made through bank.

l) Any other book/record suitable to particular business.

ANNEXURE C

BUSINESS INCOME TAX

All assessees covered under the business income tax shall be required to submit their annual accounts i.e. Trial balance, Manufacturing/Trading accounts, Profit and loss accounts, Balance sheet and other related documents accompanied by the completed tax return forms for the relevant calendar year within 31st March of the succeeding year to the tax authorities.

(A) For shops with proper accounting facilities the following books of accounts must be maintained

1. **Cash Book** : To record cash transactions:- cash receipt, payments and cash at hand. Double column cash book is required to be maintained for cash transaction and transactions through Bank.

2. **Journal** : To record

   a) Opening entry: the entry to record opening balances of assets and liabilities.

   b) Credit sales and purchase of fixed assets, investments and any others that are usually not transacted by the firm.

   c) Bad debts to be written off.

   d) Losses due to fire, earthquake, theft and other natural calamity.

3. **Purchase book** : To record the credit purchases of goods dealt by the firm.

4. **Sales Book** : To record credit sales of goods dealt by the firm.

5. **Purchase Return Book (Return outward book)** : To record goods returned to the supplier.

6. **Sales Return Book (Return inward book)** : To record sales of goods returned to the firm.

7. **Ledger Book (Principle Book)** : To show the result of various transactions through above said books.

8. **Stock Register** : To record the stock of goods & materials.

Note: The above books of Account should be accompanied by the following materials:

i) Carbon copies of the bills/Cash memos (duly serial numbered) issued by the firm and carbon copies/counterfoils of the receipts issued by the firm.

ii) Purchase bills, receipts/vouchers in respect of expenses incurred by the firm.

iii) Monthly Bank statement of business transactions made through Bank.

(B) **Medium sized business shall maintain the following books of accounts :-**

1. Daily sales register supported by cash memos in case of cash sales and bill books and pay bill register in case of credit sales.
2. Purchase register along with original bills/cash memos.
3. Expenditure register in respect of sundry expenses supported by relevant documents and bills.
4. Sale return books and purchase return books.
5. Stock register.

ANNEXURE D

BUSINESS INCOME TAX

Deduction of expenses permissible to arrive at taxable profit

1. **Preliminary expenses:**

   All legitimate expenses incurred prior to the commencement of the business or in connection with the extension of an existing business will be allowed during the first three years. These expenses are feasibility studies, market surveys, engineering services, project reports, legal charges etc. directly related to the project being assessed.

2. **Carriage or freight:**

   The freight expenses incurred by the assessees either to bring goods into the business premises or godowns, or to transport goods out of it for business purposes, if properly documented, can be admissible expenses.

3. **Electricity charges:**

   The electricity charges for the business will be admissible.

4. **House Rent:**

   Rent for premises occupied exclusively for the purpose of the business shall be at current market prices. In the case, if some portions of the premises taken on rent are used partly for business purposes, the deductible expenses will be taken into consideration proportionately only for those portions of the building.

5. **Rent of the self owned building:**

   The rent for the building owned by the firm or proprietor of the firm and used for the business purposes shall be allowed to be charged to Profit and Loss account subject to the following conditions:

   a) The building is used for the purpose of the business.
   b) The rent charged is in keeping with market rates for similar type of premises.
   c) No depreciation on such buildings/premises shall be allowed to be charged to the Profit and Loss Account.

6. **Repairs:**

   Current,repair expenses of the buildings and other assets owned by the business and used exclusively for the business affairs within reasonable limits will be deductible expenditure subject to the condition that no rent is charged. Repair and maintenance expenditure of the rented building shall not be admitted, as such expenses are to be borne out of the rent paid.

7. **Interest:**

Interest on funds borrowed from recognised financial institutions for investment or expansion of the business will be allowed. The interest element prior to the commissioning of the project will have to be capitalised.

Interest paid on loans from private sources will not be allowed as deductible expenses.

Interest derived through deposits with financial institutions shall be exempted from tax at source.

8. **Remuneration to the Proprietor:**

The remuneration to the proprietor shall be deductible expense in case he or she is engaged in full time day to day affairs of the business without a manager to manage the business. The remuneration of the Proprietor is allowed as deduction either as per the slabs given below or upto 10% of the gross profit whichever is less.

a) Large units	Maximum Nu. 10,000.00 per month
b) Medium units	Maximum Nu. 5,000.00 per month
c) Small Units	No ceiling as they will be paying tax at a flat rate of Nu. 500 per year

If the Proprietor owns more than one business and manages the businesses on full time basis with the help of manager(s), his remuneration shall be allowed to be charged to only one business.

The salary tax and the health contribution at the prescribed rates as detailed below are to be deducted and deposited in the Royal Government Revenue Account under intimation to the nearest Revenue and Customs Office on a monthly basis along with salary schedules and bank statements.

Salary Tax : (With effect from 1st August 1992)

To ease the incidence of tax on low income earners, the exemption limit has been enhanced from Nu. 1600 to Nu. 4000 per month while introducing an element of a progressive tax system for the higher income brackets.

Gross Salary Range			Tax Rate
Upto	Nu.4000	per month	Exempted
Nu.4001	Nu 6000	per month	2%
Nu.6001	Nu 10,000	Per month	3%
Nu.10,001	Nu.15,000	per month	4%
Nu.15,001	Nu. 20,000	per month	5%
Nu. 20,001 and above		per month	6%

Health Contribution : (With effect from 1st August 1992)

1% of the gross salary.

9. **Expenditure on Pay, Allowances and Perquisites.**

The expenditure incurred by the assessee on pay, allowances and perquisites of his employees shall be allowed subject to the following slabs:

a) Large units Maximum Nu 10,000.00 per month
b) Medium units Maximum Nu 5000.00 per month

The expenditure incurred or equivalent market value in providing following perquisites to the employees will be deemed to form part and parcel of pay and allowances for the purpose of above limits.

i) Rent free accommodation.
ii) Any concession in rent in respect of any accommodation provided to employees.
iii) Any benefit or amenity granted or provided free of cost or at concessional rate to the employee such as the following:

a) Free domestic services
b) Free gas,electric energy and water supply
c) Conveyance or transport facility
d) Education facility
e) Holiday home trip or holiday trip
f) Children Education Allowance or reimbursement of tuition fee
g) Tiffin allowance
h) Telephone facility
i) Medical benefits
j) Recreational facility
k) Maintenance of House
l) Bonus
m) Others.

It is obligatory on the part of the employers to deduct the Salary tax and Health Contribution at the above prescribed rates from the employees Salary and deposit the same with the Royal Government Revenue Account under intimation to the nearest Revenue and Customs Office on a monthly basis supported by salary schedule and bank statement.

10. **Entertainment expenses:**

The amount spent by the firm on entertainment related to the business shall be allowed upto the maximum of 2% of net profits.

11. **Taxes and Rates:**

The rates and taxes other than Business Income Tax payable for the business.

12. **Insurance Premium:**

The Insurance premium on the assets owned by the concern and used in the business shall be admissible expense. The insurance premium paid on plant & machinery and premises by the lessee(s) of Government owned units like Government Workshops where specific contractual agreement exists shall also be allowed.

13. **Contribution towards recognised Provident Fund:**

Any sum paid by the assessee as an employer by way of contribution towards provident fund provided the contribution towards provident fund are invested in Government financial institutions. This shall be subject to ceilings framed by the Royal Government.

14. **Contribution towards the Gratuity Fund:**

The amount paid by the assessee as an employer towards contribution to a gratuity fund for benefit of his employees. The amount of gratuity paid to the retiring employee should not exceed one month's basic pay for each completed year of service and maximum limit will be regulated as per Government Rules and Regulations. The gratuity contribution must be invested in the Government financial institutions in order to qualify for this deduction.

15. **Publicity & Advertisement expenses:**

The deduction in respect of expenses on bonafide advertisement of the business on actual basis within reasonable limits and depending upon the operations of the unit shall be allowed subject to the conditions that proper documents are on record.

16. **Bonus to the employees:**

Any amount paid to an employee as bonus for services rendered is an admissible expenditure. The amount of bonus should be reasonable with reference to (a) the pay of employee and condition of his service (b) the profit of the business for the year for which the payment is made and (c) general practice prevailing in the similar business and (d) the total bonus amount deductible will be 10% of net profit or two months basic pay whichever is lower.

No allowance will be admissible for bonus to the proprietor, his/her spouse and children.

17. **Membership Fees**

Annual Membership Fees/Subscriptions paid to Bhutan Chamber of Commerce and Industry shall be admissible expenditure.

18. **Bad Debts:**

Bad Debts will be admissible subject to the following conditions:-

i) The debt should not be less than 5 years old.
ii) There should be documentary evidence that the recovery was persued vigorously.
iii) Judicial recourse should have been exhausted in respect of individual items of bad debts.
iv) The tax should have already been paid on such debts in the relevant previous year(s).
v) The assessee should commit that the bad debt would be incorporated as income, should the amount be recovered in the subsequent years.

19. **Depreciation of Assets**

Will be allowed and regulated as provided in Annexure F.

20. **Appreciation of Assets**

In case the assets are revalued and shown at the appreciated value in the books of accounts during a year, depreciation calculated at the appreciated value will be allowed to be charged to the profit and loss account.

However, the amount of appreciation over and above the book value of the asset at the beginning of the year, will be treated as income of the business for the purpose of corporate tax.

21. **Other Miscellaneous Expenses**

The other bonafide business expenses incurred by the assessee shall be admissible subject to the condition that proper documents are available. Some of such expenses are listed below :-

i) Printing and stationery expenses
ii) Postage and Telegram
iii) Telephone, trunk call and Telex charges
iv) POL expenses of the vehicle owned by the concern
v) Commission on purchases or sales provided the same is reflected on bills/invoices and recorded in books of accounts.
vi) Auditor's fees
vii) Licence fee/legal fees
viii) Accidental losses such as theft, fire, earthquake,flood etc. to the extent not covered under insurance claims.
ix) Donations/Contributions will be allowed with the prior clearance from the Ministry of Finance.

ANNEXURE E

(A) General Procedure of submission and Treatment of Returns and Basic records.

1. All the assessees covered under corporate/business income tax shall be required to submit their Annual Accounts (viz. Trial Balance,Manufacturing/Trading Accounts,Profit & loss Account, Balance sheet and other related documents). They shall also be required to file their tax return of the relevant calendar year within 31st March of the succeding year and deposit tax on self assessment basis.

2. The tax return shall be filled up and signed by the proprietor(s) or his authorised agent and Managing Director incase of a company/ corporation.

3. An assessee may correct his tax return within 15 days from date of submission of return on genuine grounds and reasons acceptable to the assessing authority.

4. Incase an assessee is not in a position to submit the accounts for the year within 31st march of the succeeding year due to genuine reasons acceptable to the assessing authority, the time limit can be relaxed on a special case on his written application as under :-

   a) By two months i.e. upto 31st May by the head of the Regional office of the Department of Revenue and Customs.

   b) By another three months i.e. upto 31st August by the head of the Department of Revenue & Customs.

   The application for extension of such time shall only be considered by the assessing authority if the assessee submits the written application by 20th March and also deposit the provisional taxes either based on the previous years assessment or as assessed by the assessing authority which he deems reasonable.

5. The additional taxes assessed as a result of verification of the books of accounts of the assessee shall be paid within 30 days from the date of issue of demand notice failing which the late fine at the prescribed rates shall be levied.

6. In case of objection or appeal, the assessee should submit the appeal to the assessing authority within 20 days from the date of issue of demand notice.

7. In case the appeal is not submitted within 20 days from the issue of demand notice,the assessee will have to deposit the assessed tax before the appeal is admitted. No appeal shall be entertained after 30 days from the date of issue of original demand notice.

8. In case refund of tax is required to be given as a result of re-examination or appeal, the refund shall be given with the prior approval of the Head of the Department of Revenue and Customs or the tax refundable can be adjusted against the future tax liabilities of the assessee.

9. The books and records, and other documents connected with the business must not be disposed off/destroyed unless the tax audit is completed by the assessing authorities and it should be retained for a minimum of five years from the close of the business calendar year.

10. In case of non-maintenance of business records or improper books of accounts, the tax will be computed on best of judgement basis which will be final and binding. No appeal for review in such cases shall be entertained by the department.

11. In case of transfer or winding up of business, the assessee should clear all outstanding taxes and procure a tax clearance certificate from the Department of Revenue & Customs failing which transfer or winding up will not be recognised and the former licensee shall be responsible for all tax liabilities.

12. Profit of one independent entity cannot offset the losses incurred by another tax independent entity of the same owner or holding company.

(B) General guidelines on certain items of Expenditure and Valuation of Stock

I. a) Amount spent as capital expenditure on fixed assets, both movable and immovable, will not be allowed to be charged to the profit and loss account. It also includes expenditure on replacement, addition and alteration or major repairs which enhances the value of the capital assets. However, such expenditure will be allowed to be capitalised for computing depreciation.

b) Any expenditure which will generate income at a later date or will enhance income generating capacity shall also be treated as capital expenditure.

c) In case the benefit of expenditure incurred during the year is to be derived over a number of years, the amount of such expenditure should be capitalised and shall be divided equally during the years in which the benefit will be enjoyed.

II. Personal expenses will not be allowed to be charged to the profit and loss account. Personal expenses means money spent on personal needs such as food, clothing or on domestic or private purposes and not for business purposes.

III. Amount spent for the purpose of the business for the year for which assessment is to be done will be allowed to be charged to the profit and loss account. As such, amounts payable during the forthcoming year or advances paid during the previous year related to year under assessment will be treated as expenditure for the year under assessment.

IV. In case a businessman is operating more than one business, the expenditures incurred for one business will not be permitted to be charged to the other business.

V. In order to claim any expenditure, as stated in his accounts, the assessee will be required to produce supporting bill, voucher or documentary proof issued by the recipient of the payment. In cases where no supporting documents are made available, the expenditure will not be allowed.

VI. **Valuation of Stock**

a) The stock-in-trade at the close of the year is to be valued at the cost price or market price whichever is less. The valuation of stocks is to be LIFO (Last in, first out) system.

b) **Valuation of Work-in-Progress**

The Work-in-progress at the close of the year is to be valued by adding cost of material, direct labour and direct overheads.

c) **Valuation of stock of finished goods**

The stock of finished goods at the close of the year is to be valued by adding cost of material, direct labour and direct overheads.

ANNEXURE F

DEPRECIATION OF ASSETS

(A) Depreciation on assets owned by the assessee and used for the bonafide purpose of the business will be allowed at the following rates per annum.

		Maximum Rates (S.L.M.)
(I)	**Building (excluding the cost of land)**	
i)	For Office, Godown & Residential Buildings	3%
ii)	Factory Buildings	5%
iii)	Semi permanent buildings	10%
(II)	**Furniture & Fittings**	
i)	General Rate	10%
ii)	Furniture & Fittings used in hotels, restaurants, meeting halls, cinema houses,theaters etc.	15%
(III)	**Plant & Machinery**	
i)	Plant & Machinery (General Rate)	10%
ii)	Generator	10%
iii)	Petrol Pump Installation	10%
iv)	Oil Tanks (under ground)	10%
v)	Gas Cylinders	15%
vi)	Electric Installation	5%
vii)	Mining Equipment	20%
viii)	Office Equipment	10%
ix)	Tools & Implements	10%

Note SLM = Straight Line Method

x)	Laboratory Equipment	15%
xi)	Spares and Accessories	15%
xii)	Scooters, Motor Cars & Motor Cycles	15%
xiii)	Cycles	15%
xiv)	Rope-way Installation	10%
xv)	Truck, Jeeps, Tractor, Trailers,Buses, Vans	15%
xvi)	Earth-moving Machinery	20%
xvii)	Road rollers	15%
xviii)	Aircraft	15%
xix)	Refrigerators & Deep freezers	10%
xx)	**Crockeries & cutleries**	
a)	Silver, steel & metallic	10%
b)	Clay & glass	20%
xxi)	Vacuum cleaner	10%
xxii)	Carpets	
a)	Woolen & synthetic	10%
b)	Jute & Linoleum	20%
xxiii)	Mattresses, pillows & blankets	20%
xxiv)	Curtains & upholstery	20%
xxv)	Telephone equipments including PABX	10%
xxvi)	Video Cassettes	20%

(B) Depreciation is to be calculated in the straight line method on the assets at the end of the year. For additions during the year, the depreciation will be calculated proportionately for the period from the date of purchase.

(C) In case the asset, on which depreciation is charged to the profit and loss account in the previous year/years, is sold during the year under assessment, the profit earned or loss sustained by the owner (i.e. the sale price of the assets minus the depreciation on the asset at the beginning of the year) will be treated as profit or loss of the business and will be allowed to be shown as such in the Profit and Loss Account. It will be obligatory for the assessee to preserve/produce proper and authentic sale documents of the asset sold during the year.

(D) The particulars of assets for which depreciation is claimed are to be submitted in the following proforma:

i) Particulars of asset.

ii) Original cost of the asset.

iii) Addition during the year. (Purchase or acquisition).

vi) Deletion during the year. (By way of sale/transfer).

v) Total cost of the asset.

vi) Depreciation provided upto the end of previous year.

vii) Rate of Depreciation.

viii) Depreciation for the year.

ix) Total Depreciation provided upto the end of the year.

x) Net value at the end of the year.

Immediate write off on purchases of small low cost items upto Nu.5000/- per assessment year to be allowed.

Notes :-

1. In case there are more than one asset under particular category, all the assets should be shown separately. For example, if there are three cars, all cars should be shown separately and should not be clubbed in the above statement.

2. The assets which are fully depreciated and are still in use, their Book Value should be put up as Nu.1/- in the Depreciation Chart and Assets Register for identification purposes.

3. The maintenance of Fixed Assets Register shall be mandatory.

II. INDIRECT TAXES: (With effect from 10th August 1992)

Indirect Taxes are levied on goods and services and comprise of Bhutan Sales Tax, Excise Duty, Amusement Tax and import tariffs.

1. Bhutan Sales Tax

Bhutan Sales Tax (BST) is a consumption tax applied on goods imported from India on entry into Bhutan.

Exemptions have been rationalised to zero sales tax rates for essential goods like food items. However, the BST applied for non essential commodities have been revised to reduce trade imbalances, curve excess consumerism and generate enhanced revenue.

The following organisations shall continue to be exempted from payment of Bhutan Sales Tax:

1. RBA, RBG and RBP.
2. IMTRAT, DANTAK, GREF.
3. Foreign Diplomatic Missions.
4. Geological Survey of India.
5. Central Water Commission.
6. International Assisted Projects.
7. International and Foreign Organisation with whom specific understanding/agreements exist.

Schedule of Rates of Bhutan Sales Tax:

The rates of BST have been fixed at the following slabs

i)	Goods exempted from BST	-	Schedule 'A'
ii)	Goods subject to 5%	-	Schedule 'B'
iii)	Goods subject to 10%	-	Schedule 'C'
iv)	Goods subject to 15%	-	Schedule 'D'
v)	Goods subject to 20%	-	Schedule 'E'
vi)	Goods subject to 30%	-	Schedule 'F'
vii)	Goods subject to 50%	-	Schedule 'G'
viii)	BST on Petroleum Products ,	-	Schedule 'H'
ix)	BST on Hotels and Restaurants	-	Schedule 'I'

2. Amusement Tax

The existing rate of 30% levied on the basic price for cinema shall continue.

SCHEDULE 'A'

1. GOODS EXEMPTED FROM BHUTAN SALES TAX

Description of Goods

1. All food grains, cereals and pulses, including particles and husk and bran thereof.

2. All types of flours including suji and maida
3. All kinds of vegetables and lentils in any shape or forms [but not canned]
4. Salt
5. Fresh milk, curd, butter milk
6. Fresh mutton, chicken, beef, pork, fish and all other meat raw or frozen [not packed in tins].
7. Fresh fruits and nuts
8. Eggs
0. Bread
10. Sugar, Gur and Molasses
11. Sago [an edible starch prepared from palm trees].
12. Livestocks including poultry
13. Seeds of all kinds
14. Agricultural implements other than operated by power
15. Oil Cakes
16. Straw [Hollow stalks of grain after threshing]
17. Newspapers
18. Power Tillers
19. Mustard and other cooking oil
20. Fertilizers
21. Drugs, patent and proprietary medicines
22. Insecticides, fungicides, herbicides, germicides and pesticides
23. Yarn
24. Industrial Plant, Machinery and spares
25. L.P. Gas

2. GOODS SUBJECT TO 5% BHUTAN SALES TAX

Description of goods

1. Matches
2. Hair Oil
3. Foot Wears
4. Hosiery products
5. Tea [packed and loose].
6. Soaps of all kind: washing, shaving, toilet, medicated, liquid, washing powder etc.
7. Tooth paste, Tooth powder, Tooth brushes etc.
8. Coir yarn
9. Coir ropes
10. Incense sticks
11. Skimmed/Powder milk,
12. Blankets, Bedsheets etc.
13. Textiles
14. Stationery
15. Books and Periodicals
16. Timber
17. Bamboo
18. Sand, Boulder and Mud [earth]
19. Industrial raw materials
20. Fork lifts
21. Heavy earth moving equipment like bull dozer, crapers, excavators, wheel loaders, pile layers etc.
22. Drill rods
23. Pre fabricated bridge parts
24. Bitumen
25. Explosives
26. Tractors
27. All those items which are not covered under, A,C,D,E,F,G & H.

3. GOODS SUBJECT TO : 10% BHUTAN SALES TAX

Description of Goods

1. All kinds of spices
2. Crockery
3. Cutlery, China Ware, Stone Glazed ware, porcelain ware
4. Articles other than utensils made of stainless steel.
5. Shoe polish including shoe creams
6. Shaving sets, safety razors, razor blades
7. Fans, Exhaust fans and air circulators
8. All parts of paints including acrylic and plastic emulsion paints, lacquers, distemper, cement colour or paints, enamels, liquid paints etc.
9. Clay Bricks
10. Varnishes, Vegetable paints, removers, Stainers of all kinds
11. Sound transmitting equipment including telephones, loud speakers and spare parts
12. Electric Heaters
13. Readymade Garments
14. Sports Goods
15. Fluorescent tubes and Mercury and fitting chokes, starters tubes.
16. Sanitary ware and other bathroom fitting
17. Electrical goods and fitting [including voltage stabiliser]
18. M.S. Rod
19. Hardware items and Hand tools.
20. Wire ropes
21. Pipes and fitting [G.I, C.I. PVC]
22. Bicycles & Components
23. CGI sheets
24. Aluminium utensils
25. Photocopying Machine
26. Typewriters, tabulating machines and calculators
27. Condensed Milk

4. GOODS SUBJECT TO: 15% BHUTAN SALES TAX

Description of Goods

1. Cushion mattresses, pillows and other articles made wholly or partly of artificial or synthetic resin and plastic foam and rubber foam
2. Furniture made of aluminium, iron, steel or wood.
3. Iron and steel almirah
4. Laminated sheets like formica, sunmica
5. Linoleum
6. PVC tiles
7. Dolomite chips and slabs
8. Limestone chips and powder
9. Weighing machines and components
10. Buses and goods vehicle
11. Chassis and bodies of buses, goods vehicles
12. Refrigerators and components
13. Biscuits
14. Coffee in whole or powdered form including instant coffee
15. Vacuum flasks of all kinds
16. Carpets of all varieties
17. Motor scooters, mopeds, motorised cycle rikshaws.
18. Spare parts of Automobiles
19. Both storage and dry cell etc.
20. Tyres/retreaded tyres, tubes and flaps for all vehicles
21. Lifts and its accessories and components, motor cycle
22. Vacuum Cleaners
23. Washing machines

5. GOODS SUBJECT TO 20% BHUTAN SALES TAX

Description of Goods

1. Betel Nuts [Doma]
2. Light motor vehicles
3. Cigarette cases and Lighters
4. Binocular, telescope and opera glasses
5. Perambulators including push chairs for babies
6. Dry or preserved fruits.
7. Leather goods other than shoes
8. Furs and articles made thereof.
9. Photographic and other cameras and enlargers and spare parts accessories and component parts thereof: lenses, films, plates, paper and cloth and other accessories used therewith
10. Wireless reception instruments and apparatus, amplifier, loud speakers and spare parts [including radios and transistors].
11. Luggage, suit cases and handbags
12. Watches, clocks, time pieces and its components
13. Marble floor, chips, slabs and articles made of marble
14. Ceramic tiles
15. Cinematographic equipment including cameras, projectors and sound recording and other parts

6. GOODS SUBJECT TO 30% BHUTAN SALES TAX

Description of Goods

1. Confectionery and sweets
2. Ice Cream
3. Aerated water, non alcoholic beverages etc.
4. Cosmetics
5. Television sets and Monitors
6. Video cassette Recorder/player and video cassettes
7. Packaged and canned foods, snacks including dalmuts, bhujias etc.
8. Tape recorder, cassette tapes and dicataphones.
9. Gramophones and its components and records
10. Powder for food, drinks having cocoa or chocolate and malt [ovaltine, Bournvita etc.]

7. GOODS SUBJECT TO 50% BHUTAN SALES TAX

Description of Goods

1. Beer and any other alcoholic drinks
2. Cigarettes and all other tobacco products.

SCHEDULE 'H'

8. BHUTAN SALES TAX ON PETROLEUM PRODUCTS.

1.	Petrol	5% of price/value
2.	Diesel	3% "
3.	Lubricants	5%
4.	Kerosene	Exempted

SCHEDULE 'I'

9. **BHUTAN SALES TAX ON HOTELS & RESTAURANTS**

20% BST on bills shall be charged on all standard hotels and restaurants.

II. 3. **EXCISE DUTY**

The specific rates of Excise Duty applied earlier was changed in 1989 to the ad-valorem system. The Excise Duty was levied only on alcoholic beverages and aerated waters.

The existing Excise Duties as shown below have been not revised for the present.

The Excise Duty rates shall continue as follows:-

Sl. No.	Brand	Existing AWP Cost	Rate of duty
1.	Spiced liquors	165.00	59%
2.	Apsoo/Royal Bhutan XXX Rum	183.00	68%
3.	Changta Whisky/ Brandy	207.00	64%
4.	P. Gin	207.00	59%
5.	Crystal dry Gin	230.00	59%
6.	Black Mt. Whisky	240.00	64%
7.	Dragon XXX Rum	330.00	41%
8.	Bhutan Mist	585.00	28%
9.	Special Courier	1100.00	25%
10.	60 U.P (under proof)	27.00 per gallon	-
11.	M/sets	30.00 (per set)	-

Vend Fee Supplies of Liquor products to Indian defence forces (CSD) on concessional rate of duty shall continue as follows:-

Sl.No.	**Organization**	**rate**
1.	C.S.D	Nu. 6.00
2.	All other Export	Nu. 9.00

Aerated Waters

The rates on Aerated Waters have not been revised, as such the following rates shall continue:-

Type	Existing cost	Rate of duty
Plain aerated water	20.00 per crate	20%
All coloured aerated water	40.00 per crate	30%

N.B. Army Welfare Project (AWP) shall be exempted from levy of Sales Tax on import of raw materials for its distillery.

III. OTHER TAXES, FEES AND CHARGES

1. Contractors Tax: (With effect from 10th August 1992)

a) National Licensed Contractors:

2% Contractors with holding tax on the bill amount shall be deducted at source by the Contract Awardee and deposited with the Royal Government Revenue Account. The same will be adjusted against their final tax liability.

b) Foreign Contractors:-

3% with holding tax on the bill amount shall be deducted at source by the Contract Awardee and deposited with the Royal Government Revenue Account in lieu of business income tax.

2. Individual taxes, fees and charges:

The salary tax and the health contribution at the prescribed rates as detailed below are to be deducted and deposited in the Royal Government Revenue Account under intimation to the nearest Revenue and Customs office on a monthly basis along with salary schedules and bank statements.

a) **Salary Tax structure: (With effect from 1st August 1992)**

To ease the incidence of tax on low income earners, the exemption limit has been enhanced from Nu. 1600 to Nu. 4000 per month while introducing an element of a progressive tax system for the higher income brackets.

Gross Salary Range		Tax Rate
Upto	Nu. 4000 per month	Exempted
Nu. 4001 to	Nu. 6000 per month	2%
Nu. 6001 to	Nu. 10000 per month	3%
Nu. 10001 to	Nu. 15000 per month	4%
Nu. 15001 to	Nu. 20000 per month	5%
Nu. 20001 and above	per month	6%

b) **Health Contribution: (With effect from 1st August 1992)**

1% on the gross salary shall be levied on all salaried individuals towards medical benefits provided free of cost.

c) **Foreign Travel Tax (Airport Tax): (With effect from 10th August 1992)**

A sum of Nu.300 shall be levied on all out going passengers at the Airport.

3. **Industrial Registration and Licence Fees: (With effect from 1st July 1992)**

The existing rates charged for industrial registration and licence fees collected by the Ministry of Trade and Industries shall continue. However, it has been decided to revise the registration and annual licence fees for contractors as follows:

Class A Contractor	
for registration	Nu. 15,000
for annual licence fee	Nu. 10,000
Class B Contractor	
for registration	Nu. 10,000
for annual licence fee	Nu. 5,000
Class C Contractor	
for registration	Nu. 2,000
for annual licence fee	Nu. 1,000
Petty contractors	
for registration	Nu. 1,000
for annual licence fee	Nu. 500

Note:

All categories of contractors shall also be charged Nu. 100 for the licence booklet.

4. **Trade Licence Fees: (With effect from 1st July 1992)**

No revision has been made. As such, the Trade Licence Fees shall continue to be at the following rates:-

i) Nu. 25 for Vegetable shops.
ii) Nu. 1,000 for each Bar Licence in Thimphu and Phuntsholing.

5. **Company Registration Fees: (With effect from 1st July 1992)**

No revision has been made. As such the Company Registration Fees shall continue to be charged at Nu. 1,000.

6. Motor Vehicle Tax, Fees and Charges : (With effect from 1st July 1992)

In order to simplify procedures for assessees and improve tax compliance, it has been decided to introduce lumpsum Motor Vehicle Tax on all trucks and taxi operators.

However, bus operators under lease basis and big transport companies who are licensed shall continue to be subject to 30% BIT. It shall be mandatory for them to maintain proper books of accounts. The lumpsum tax payble in respect of trucks owned by such transport companies shall be adjusted at the time of final tax assessment.

Other Motor Vehicle Tax, Fees and Charges have also been revised, the rates of which are as follows :

i) Annual Motor Vehicle Tax : (With effect from 1st July 1992).

	Registration Fees	Motor vehicles Tax	Total
1. Trucks			
a. Light (Below 5 tonne tare) (for average 3 tonne)	3,800	5,000	8,800
b. Heavy (5 tonne and above tare)	8,200	7,000	15,200
2. Buses			
a. Mini Buses (below 20 seats) for average of 18 seats.	3,000	-.	3,000
b. Other buses (20 seats & above) for 44 seats.	5,000	-	5,000
3. Tractors			
a) (Below 20 HP)	1,000	-	1,000
b) (above 20 HP)	2,000	-	2,000
4. Bull dozers,earth moving equipments, mobile, crane, road roller.	5,000	-	5,000
5. Light motor Vehicle	1,500	-	1,500
a. Govt. or Private Light motor Vehicle upto pickup size			

b.	Taxis			
i)	Sedans	1,500	1,500	3,000
ii)	Jeeps	1,500	1,500	3,000
6.	Two wheelers			
a.	Scooters	350	-	350
b.	Motor cycles	350	-	350

ii) **Transfer/Conversion of Motor Vehicle Numbers : (With effect from 10th August 1992).**

a) Charges related to any of the following transactions shall be levied a sum of Nu.500:

(i) Conversion of numbers from Government to Private/Taxi/Public/Private
(ii) Issue of duplicate blue book
(iii) Transfer from one region to another

b) Sale or change of ownership of vehicles shall be charged transfer tax @ 5% of sale value or assessed value whichever is higher.

c) A late registration fee of Nu.100/- per day from the date of delivery shall continue after the expiry of 15 days grace period.

d) Issue of NOC for transfer of registration of Indian manufactured vehicles to India are subject to the following:

1. Scooter/ Motor Cycle	Nu.1000
2. Cars	Nu.2000
3. Jeeps	Nu.2500
4. Trucks	Nu.6000

e) **Driving Test Fees**

A sum of Nu.100 per test shall be levied.

f) **Driving Licence fees/Renewal of Driving licence**

The rates of Driving licence fees/Renewal of driving licence shall be as follows :-

1.	Two Wheelers	Nu. 100
2.	Light Vehicles	Nu. 300
3.	Heavy Vehicles	Nu. 300

IV. RURAL TAXES: (With effect from 1st January 1993).

It has been decided by the Royal Government not to make any revisions on Rural Taxes except Orchard Land Tax which have been reduced to a flat rate of Nu. 12 per acre. As such the following rates shall continue:

1. Land Tax

a.	Wet Land	Nu. 24 per acre
b.	Dry Land	Nu. 12 per acre
	Bamboo and Khar	Nu. 1 per acre
	Undeveloped shifting cultivation land	Nu. 10 per acre
c.	Orchard Land (apples, oranges, cardamom)	
	Fruit bearing	Nu. 12 per acre
	Non fruit bearing	Nu. 12 per acre

2. House Tax

a.	Permanent house	Nu. 20 per annum
b.	Semi-Permanent house	Nu. 10 per annum

Same classification of houses shall be maintained. However, semi-permanent houses may be defined as all houses with walls of bamboo with mud plastering only, the rest will fall under the permanent house category.

3. Grazing Licence Fee

a.	Undeveloped Chamdos	Nu. 100 per year
b.	Developed Chamdos	Nu. 5 per year

4. Cattle and other Livestock Tax

a.	Upto 10 of all types	Nu. 1 per head
b.	11 and above	Nu. 5 per head
c.	Sheep	Nu. 1 per head

Cattle tax would apply to all types of Cattle, horses, buffaloes and mules.

5. Tax on Cash Crops: (With effect from 10th August 1992).

Tax on cash crops will be levied at the time of export(Exit Point). This tax shall be called With Holding Tax on cash crops and will be assessed and collected at the customs checkpost. The rates shall be as follows:-

Apple, Orange	@ Nu.500/tonne
Cardamom	@ Nu.3,000/tonne

V. MUNICIPAL TAXES, FEES AND CHARGES

Revisions have been made keeping in mind that in the medium to long run all the Municipal Corporations should become self sustainable in meeting its recurring and maintenance expenditure and that taxes should be commensurate with the resource needs of the Municipal Corporations for providing such services.

Depending on the level of infrastructure and quality of services provided, towns have been reclassified as follows:-

1. **Group 'A' Towns**

   1. Thimphu
   2. Phuntsholing
   3. Samdrup Jongkhar

2. **Group 'B' Towns**

   1. Gaylegphug
   2. Tashigang
   3. Mongar
   4. Tongsa
   5. Paro
   6. Samchi
   7. Sarbhang

3. **Group 'C' Towns**

   1. Shemgang
   2. Jakar
   3. Haa
   4. Chimakothi
   5. Damphu
   6. Wangdiphodrang
   7. Punakha
   8. Pemagatshel
   9. Gomtu
   10. Deothang

4. **Group 'D' Towns**

   1. Lhuntshi
   2. Chengmari
   3. Kanglung
   4. Diafam
   5. Bhangtar
   6. Dagapela
   7. Lamidara

(i) Classifications will be reviewed periodically for any necessary changes.

(ii) For purposes of Government acquisition, the Lhengyal Shungtshog decision of June 26th, 1986 will continue irrespective of above classifications or any revisions thereof.

(iii) During the 7th Five Year Plan it has been decided by the Royal Government that selected towns are to be relocated to new sites. The following towns which are to be relocated will not be liable for any municipal taxes until proper establishment of the new township:-

1. Punakha
2. Wangdiphodrang
3. Dagana
4. Lhuntshi
5. Nganglam
6. Kalikhola
7. Sibsoo
8. Pemagatshel
9. Jakar
10. Tashiyangtshi
11. Shemgang

1) **Land Tax: (With effect from 1st January 1993).**

In view of a substantial increase in the land value and use, the land tax has been revised as follows :-

Group 'A' Towns

i)	Residential Land	25ch/sq.ft
ii)	Commercial/Industrial Land	50ch/sq.ft

Group 'B' Towns

i)	Residential Land	20ch/sq.ft
ii)	Commercial/Industrial Land	40ch/sq.ft

Group 'C' Towns

i)	Residential Land	15ch/sq.ft
ii)	Commercial/Industrial land	30ch/sq.ft

Group 'D' Towns

i)	Residential Land	10ch/sq.ft
ii)	Commercial/Industrial Land	20ch/sq.ft

2. **Underdevelopment Land Tax : (With effect from 1st January 1993).**

An underdevelopment land tax shall be levied in addition to the above Land Tax @ 25% of the Land Tax applicable on owners holding on to land without any constructed house aproved by the Municipal Corporation.

3. **Land Allotment and Development Fees: (With effect from 10th August 1992).**

In view of a very high development cost to the Government in the provision of infrastructures like roads, water supply, power connections, drainage etc., the rates have been revised as follows:-

Land Allotment and Development Fees shall be as follows:

		Residential Rate/Sq.Ft	Commercial/ Industrial Rate/Sq.Ft.
A)	**Group 'A' Town**		
	Land Price	Nu. 2	Nu. 7
	Development Cost	Nu. 10	Nu. 23
	Total	Nu. 12	Nu. 30
B)	**Group 'B' Town**		
	Land Price	Nu. 1.50	Nu. 4
	Development Cost	Nu. 4.50	Nu. 11
	Total	Nu. 6.00	Nu. 15
C)	**Group 'C' Town**		
	Land Price	Nu. 1	Nu. 2
	Development Cost	Nu. 4	Nu. 8
	Total	Nu. 5	Nu. 10
D)	**Group 'D' Town**		
	Land Price	Nu.0.50	Nu. 1
	Development Cost	Nu.2.50	Nu. 4
	Total	Nu.3.00	Nu. 5

4. **Urban House Tax: (With effect from 1st January 1993).**

The existing annual Urban House tax shall continue at the same rates as given below. However, there has been an inclusion of a new category referred to as Houses in addition to Buildings.

Classification of buildings and houses will be based on the following criteria:

	Buildings		Houses	
Class of Accommodation	Minimum size Apartment	Minimum Space Apartment	Minimumsize House	Detached/Semi-detached ndependent Houses
Class I	Above 1260 sq.ft (120 sq.m.)	Sitting/Dining 3 bed rooms 2 Toilets/baths Kitchen/Store	Above 1500sq.ft	Sitting/Dining 3 Bed rooms 2 Toilets/baths Kitchen/Store Garage/Servant's quarter.
Class II	875-1259 sq.ft (85 sq.m.)	Sitting/Dining 2 Bed Rooms 2 Toilets/Bath Kitchen/Store	1200-1499 sq.ft	Sitting/Dining 2 bed romms 2 Toilets/Bath Kitchen/Store
Class III	508-874 sq.ft (50 sq.m)	Sitting/Dining 1 Bed room 1 Toilet/Bath Kitchen	874-1199sq.ft	Sitting/Dining 1 Bed Room 1 Toilet/Bath Kitchen
Class IV	362-507 sq.ft (32 sq.m)	1 Room Kichen Toilet/Bath	500-873 sq.ft	1 Room Kitchen Toilet/Bath

The term house includes Bungalow, Duplex house and Cottage, of permanent or semi-permanent structure.

N.B: A unit is defined as either a shop and office or dwelling unit. Where one shop or office or warehouse occupies large spaces, unit would be calculated on a carpet area of 771 sq.ft. per unit.

URBAN HOUSE TAX RATES: (Rates per unit per annum)

A. **Buildings**

i) **Group 'A' Town**

a)	1st	Class	Buildings	Nu.100/unit p.a
b)	2nd	Class	Buildings	Nu. 75/unit p.a
c)	3rd	Class	Buildings	Nu. 30/unit p.a
d)	4th	Class	Buildings	Nu. 20/Unit p.a

ii) **Group 'B' Town**

a)	1st	Class	Buildings	Nu. 75/Unit p.a
b)	2nd	Class	Buildings	Nu. 50/Unit p.a
c)	3rd	Class	Buildings	Nu. 25/Unit p.a
d)	4th	Class	Buildings	Nu. 15/Unit p.a

iii) **Group 'C'Town**

a)	1st	Class	Buildings	Nu. 50/Unit p.a
b)	2nd	Class	Buildings	Nu. 40/Unit p.a
c)	3rd	Class	Buildings	Nu. 20/Unit p.a
d)	4th	Class	Buildings	Nu. 10/Unit p.a

iv) **Group 'D'Town**

a)	1st	Class	Buildings	Nu. 25/Unit p.a
b)	2nd	Class	Buildings	Nu. 20/Unit p.a
c)	3nd	Class	Buildings	Nu. 10/Unit p.a
d)	4th	Class	Buildings	Nu. 5/Unit p.a

B. **Houses**

Type of House

a)	Class I	Nu.500/Unit p.a
b)	Class II	Nu.300/Unit p.a
c)	Class III	Nu.200/Unit p.a
d)	Class IV	Nu.100/Unit p.a

5. **Land Demarcation Fee: (With effect from 10th August 1992).**

In view of the increase in the cost of such services, the fees have been revised to 20 Cheltrums per sq.ft or Nu. 1,000/- which ever is more.

6. **Property Transfer Tax: (With effect from 10th August 1992).**

The existing rate charged at 5% of sale value of the property shall be paid by the seller.

Present exemptions from all taxes for transfers between immediate family members will continue.

Immediate family members may be defined as husband, wife and children.

7. **Service Charges: (With effect from 1st August 1992).**

Service charges for providing municipal services such as water supply, roads, street lighting and garbage collection shall be charged in all urban areas where such services are available at the folowing rates:-

a) **Residential units:** (Rates based on units per month)

Category	Water charges	Garbage Collection charges	Street lighting charges	Total
1. **Buildings**				
Class I	15	10	05	30
Class II	13	08	04	25
Class III	11	06	03	20
Class IV	09	04	02	15
2. **Houses:**				
Class I	40	40	20	100
Class II	30	30	15	75
Class III	20	20	10	50
Class IV	10	10	05	25

Note: Water charges, if metered, will be on actual basis.

b) **Commercial/ Industrial Units :**

The following monthly rates will be applicable :-

(Rates per unit per month)

1. **Standard Shops & Restaurants :** Nu. 60/-
2. **Hotels :**

a)	1st class(Single room charge (Nu.200/- and above per night)	per room	Nu.15/-
b)	2nd class (Nu.101 - Nu.199)	per room	Nu.10/-
c)	Economy (Nu.100 and below)	per room	Nu. 7/-

8. **Building Plan Processing Fees : (With effect from 10th August 1992).**

In view of the fact that the Building Plan Processing is not only time consuming but also requires regular visits to sites, the rates have been increased as follows:

a) Building plan processing fees Nu.1000/- per plan

b) Modification, Extension etc. Nu. 500/-

9. **Septic Tank cleaning Charges: (With effect from 10th August 1992).**

Due to increase in fuel price and labour cost, the Septic Tank cleaning charges have been revised @ Nu.1000 per tank on user charge basis.

VI. Royalty: (With effect from 10th August 1992).

Royalty on tourism shall be levied at 35% on net tour payments.

VII. Penal Provision (With effect from 1st July 1992).

Fines and penalties shall be imposed on the following:-

1. **Late & non payment of all taxes :**

   When the taxes are not paid within the specified time, a fine of 24% p.a. of the tax due or fraction thereof would be recovered along with the tax.

   Twelve months after the due date the following action against the delinquent will be taken

   a) Cancellation of all licenses
   b) Suspension of all government services/utilities and
   c) the case sent to court for necessary action.

   Thirty days prior notice will be given before above action is taken.

2. **Under declaration and other tax evasions:**

   Whenever a tax payer is apprehended for intentionally:-

   i) Concealing taxable income, either in part or entirely,

   or

   ii) under declaring taxable income, then a penalty equal to two times the amount sought to be evaded shall be recovered along with all outstanding taxes within 30 days of notice. Failure to deposit these amount in full within the stipulated time will invite the following :-

      a) Cancellation of all licences
      b) Suspension of all government services/utilities and
      c) the case sent to the court for necessary action.

3. **Delay in submission of accounts:**

   Any delay except those due to genuine reason acceptable to the Department of Revenue & Custom, will invite a fine of 24% per year or fraction thereof the tax assessed subsequently in case of loss assessed a fine of Nu.100/- per day after the prescribed tax return date will be recovered.

4. **Special Provisions:**

a) **Board of Appeals**

If tax assessed is appealed by any tax payer for being either incorrect, unreasonable or unfair, the appeal will be looked into firstly by the Head of the Department of Revenue & Customs. If his decision is not acceptable by the applicant, then he can appeal to a Board of Appeals which may be constituted by the Ministry of Finance for such an exigency and will include members representing the Ministry of Trade and Industries, the Bhutan Chamber of Commerce and the Royal Audit Authority. If the applicant is still not satisfied with the decision of the Board, he or she may refer the matter to the Court,whose decision shall be final and binding.

b) **Municipalities**

To maintain necessary controls on encroachments as well as violation of Building Codes, Rules and regulations, Municipalities will continue to be empowered to levy fines and as a last resort disconnect services.