

VAT and the Hotel Business

**Inland Revenue Department
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1. What is VAT?

Value Added Tax (VAT) is a tax based on goods or services. VAT is a refined version of the sales tax. This tax (VAT) is levied on value added at each stage in the production and distribution process of goods and services.

2. On what kinds of goods and services is VAT levied?

Apart from items and services that have been listed by the law as exempted, VAT is levied on all other goods and services. Therefore, VAT encompasses all types goods and services whether imported or produced in the country.

3. Is VAT levied on the services provided by hotels?

Yes, VAT is levied on hotel bills pertaining to lodging, food, telephone, tours, etc.

4. Is VAT levied on money exchange transactions?

No, money exchange transaction is exempt from VAT.

5. Do all hotels have to be registered for the purpose of VAT?

Yes, all hotels that exceed the annual registration threshold have to be registered for VAT.

6. What is meant by the threshold fixed for registration?

Hotels that have an annual transaction of less than a particular fixed amount do not have to be registered for VAT. The amount that is known as fixed for this purpose is known as the registration threshold.

7. As per the VAT Law what is the level of registration threshold?

The threshold fixed for compulsory registration is NRs. 20 lakhs (or NRs 2 million).

8. Is it necessary for small hotels that have an annual transaction of less than NRs. 2 million to keep on being registered with the Hotel Tax Act?

No, after the implementation of VAT, hotel tax is abolished and therefore small hotels do not have to be registered for hotel tax.

9. Does this mean that even big hotels do not have to pay hotel tax?

Yes. After the implementation of VAT even big hotels do not have to pay hotel tax.

10. Can small hotels and restaurants that have an annual transaction of less than NRs. 2 million be registered for VAT?

Even small hotels that do not cross the annual threshold of taxable transactions (i.e., NRs 2 million) can voluntarily register for VAT although it is not compulsory for them to register.

11. After the implementation of VAT, is it still necessary for hotels to pay sales tax on their purchase?

No. Since VAT has replaced the sales tax it is not necessary for hotels to pay sales tax on their purchase.

12. Can hotels reclaim the VAT that they paid while purchasing the goods that they have in stock?

Yes. Those hotels that have been registered for VAT and, according to the VAT regulation, have paid VAT within one year of being registered can deduct the VAT incurred while purchasing their stock by following the prescribed process.

13. What are the records that have to be kept for the purpose of VAT?

Hotels have to keep their purchase book, sales book and VAT accounts for the purpose of VAT.

14. What is meant by VAT accounts?

The summary of the sales tax that has been collected and tax that has been paid in purchasing or importing goods by any hotel within each taxable period is the VAT accounts.

15. For how long does a hotel have to safely maintain its records?

The records have to be maintained safely up to a period of six years.

16. What kind of tax period should be adopted?

Like other taxpayers, even hotels have to adopt a monthly tax accounting period. This means that they have to maintain and submit a monthly return. But those hotels operating below the taxable transaction threshold and have voluntarily registered for VAT can submit a four-monthly (trimester) return. The Finance Act of 2058 has established a system whereby if hotel or tourism related business wish they can adopt and submit a bi-monthly VAT return. But to avail this facility permission has to be sought from the Inland Revenue Office.

17. What is tax invoice?

VAT is a tax that is based on 'tax invoice'. A registered hotel has to issue a tax invoice when supplying/selling taxable goods to another registered tax-payer. The term 'Tax Invoice' has to be clearly stated on the title page of the bill. Three copies of such invoice have to be made. The first copy should be given to the buyer, the second copy should be submitted to the tax officer when asked for (can be asked for at any time), and the third should be kept by the hotel in its records.

18. Does a tax invoice have to be issued for every sale?

No. Tax invoice does not have to be given to unregistered buyers. An abbreviated tax invoice can be issued for sales not exceeding NRs. 5,000, inclusive of VAT.

19. When the payment is received in foreign currency, what kind of bill/invoice should the hotel issue?

If the payment is received in convertible foreign currency, the invoice should be made by converting the amount into Nepali currency based on the exchange rate fixed for that particular day by the Nepal Rashtira Bank.

20. What is VAT return?

Within any tax period, documents that show detailed description regarding the purchases/imports made by a hotel, the tax paid on these, the tax accumulated through sales, and the tax that is due is the VAT return.

21. What is meant by zero return?

If within any tax accounting period, a hotel has not made any purchases or sales and has no tax claims to make on purchases nor collected any tax on sales, it still has to submit a 'zero return' at the Inland Revenue Office within the stipulated time. A return that has been registered showing zero transaction and zero tax as proof that the regulation of paying tax within the stipulated time period has been followed is the 'zero return'.

22. When should the VAT return be submitted?

Hotels that have been registered for VAT have to submit their VAT return within 25 days of the month following the end of the accounting period.

23. What are the other documents that have to be submitted along with the tax return?

It is not necessary to submit copies of the purchase or sales invoice or any other documents with the return. It is sufficient for hotels to submit a one-page return.

24. What is meant by tax paid on purchases?

The tax paid by hotels while purchasing or importing goods related to its business is the tax paid on purchases. The tax paid while purchasing raw materials, goods for sale, office equipment, telephone, etc for a taxable businesses is included in this.

25. What is meant by tax on sales?

The tax that is levied on the supply (sale) of goods or services is the tax on sales.

26. What is tax deduction?

Under VAT, when purchasing any taxable business related goods or services, a registered hotel has to pay tax. The hotel deducts this amount from the tax collected on sales or supplies and this is called tax deduction on purchases or simply tax deduction. This tax deduction (paid on purchases) includes tax paid on stock, raw materials, semi-processed goods and other business expenses but these purchases or expenses have to have been expended only on taxable goods or services.

27. What is the process for deduction of tax paid on purchases?

Each registered hotel has to prepare a tax return at the end of the month. In this return, the hotel sums up the tax that has been paid on purchases and the tax that has been collected on sales in that month. They then deduct the tax that has been paid on purchases (input tax) from the tax that has been collected on sales (output tax). When the statement is prepared in this manner tax deduction takes place automatically.

28. What happens if the tax paid (input tax) is more than the tax collected (output tax)?

If the tax paid is more than the tax collected then there is provision for the business person to deduct the excess credit (on tax paid on purchase) from the tax that has to be paid in the following month.

29. Under what circumstances does a situation arise where a hotel gets tax refund?

If for six consecutive months the tax paid on purchases is more than the tax collected on sales, then a situation arises where the hotel gets a tax refund. If the payment is not given within 60 days after the claim is made then there is provision in the VAT Act, section 24 (5), for the amount to be refunded with interest.

30. Can the entire tax paid on purchase be deducted?

Yes. Apart from aeroplanes and automobiles in which case only 40 % can be deducted, the entire tax amount can be deducted on purchases made for the purpose of taxable businesses. But there is no provision to deduct taxes on expenses such as duty meals given to staff members, etc.

31. What are the conditions that the hotel has to fulfill in order to deduct tax on purchases?

In order to deduct tax on purchases the hotel has to have tax invoice.

32. When does the tax payment have to be made?

The tax has to be paid within 25 days of the month following the end of the tax period.

33. What happens if a hotel does not pay tax?

If a hotel does not pay tax on time, a fine of 5 % is charged in the first month after the tax liability was created and, thereafter, a further fine is charged at the rate of 5 %. Since there could be severe penalty and punishment for not paying tax on time, it is advisable for hotels to pay VAT on time.