

VAT on brokerage service charge scrapped

The government has decided to waive off value added tax (VAT) on brokerage service charge on transaction of securities, ending the uncertainty over taxation of such transactions.

Through the Financial Bill for the upcoming fiscal year 2018/19, Minister for Finance, Yuba Raj Khatiwada, included the brokerage service fee in the list of commodities and services which will be waived off from VAT. Not only the brokerage service charge has been a service excluded from the purview of VAT, the finance ministry has also waived off all VAT liabilities of those brokerage firms whose assessment were carried out by Inland Revenue Department.

Inland Revenue Office had made VAT assessment of three brokerage firms last year after the Office of the Auditor General asked the government to recover outstanding tax debts from the brokerage firms, triggering protest from brokerage firms who even halted trading. They later withdrew their protest after the Ministry of Finance officials pledged to address the issue through the upcoming budget. Claiming that VAT was not the liability of brokerage firms but of customers, brokers firms were reluctant to file VAT stating that they had not collected the from the end users.

Brokerage firms have hailed the government decision to list the brokerage service charge in the category of services excluded from VAT. "The government has finally heeded our call. The waiver has also ended the uncertainty over whether brokerage service charge attract VAT," Priya Raj Regmi, the president of Stock Brokers Association of Nepal (SBAN). "The decision is a sigh of relief for us."

GOVT TO PUSH COMPANIES TO GO PUBLIC

There is also an announcement in the budget speech that all manufacturing companies with the capital of Rs 1 billion and above will have to convert themselves into public companies and list their shares in the secondary market.

However, it is not clear whether the government will make such conversion mandatory or prod them to float their shares to the public through various incentives. By announcing the new provision, the government has aimed to bring real sector companies in the secondary market that is largely dominated by bank and financial institutions (BFIs). If the plan materializes, there will be more public offerings from the real sector.

Private companies with capital of Rs 500 million that are converting themselves into public companies will get 10 percent income tax waiver for three years as an incentive to go public.

Similarly, the government has also said that private equities, venture funds and hedge funds, among other new investment funds, will be brought into the capital market.

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CGT INCREASED TO 7.5%

However, the government has increased capital gains tax (CGT) by 2.5 percentage points to 7.5 percent. Stock investors are likely to feel the pinch because of the decision.

The decision means investors gaining capital from share transactions will have to pay additional tax now. According to analysts, the increment in CGT is likely to discourage frequent trading of stocks in the market.

Source: MyRepublica, 2nd June 2018