

Enterprises, govt at odds over taxing company-level welfare funds

Enterprises and the government are at odds over the taxing of the fund transferred to the company-level employee welfare fund. While the government wants to levy tax on welfare fund if that is not spent in line with its purpose, companies say that the decision of the Inland Revenue Department to impose tax on such fund has been problematic for both employees and business firms.

After distribution of bonus to staffers, companies transfer surplus fund to their staff welfare fund.

The IRD had issued a public notice in 2016 requiring companies to deduct taxes if the company-level employee welfare fund was to be distributed to employees. The taxation at various layers goes against the purpose of the welfare fund, argue many company executives.

As per the bonus act, each profit-making company has to allocate 10 percent of the net profit for the bonus of employees. After distributing bonus equal to three or four or six months' salary based on the scale of income, the residual amount should be transferred to company-level welfare fund (70 percent of residual amount) and national level welfare fund (remaining 30 percent). The contention between the private sector and the government is on the payment to employees from the company-level welfare fund.

"If we follow the IRD's directive, employees are going to be taxed at multiple levels," said Ravi KC, Surya Nepal's corporate vice president. "When a company makes a profit, everybody gets benefited from it. Shareholders get return, government gets tax and employees get bonus. The taxation by the government on employees' bonus at least thrice is a kind of injustice to them," added KC.

If the public notice of the IRD in this respect is to be followed, income tax will have to be deducted at 30 percent at the time of transferring to company-level employee welfare fund after allocating 30 percent of the residual fund on national-level welfare fund. Then, there will be tax again up to 35 percent at the time of the payment to employees for welfare activities from the company-level fund.

"The result is that employees will pocket only a nominal amount when there are taxes on the same fund at minimum of three layers," said KC.

However, tax officials say that the decision of taxation is due to growing misuse of such fund. "How that fund is being used is of major concern. Companies should come up with details of income and expenditure of that fund. Many companies seem to be not using the money in line with the intent of the fund," said Yagya Prasad Dhungel, the IRD's spokesperson.

Source: The Himalayan Times, 28th January 2018