

Govt relents on new tax formula for shares

The government has decided not to immediately impose the new formula for calculating capital gains on the sale of rights and bonus shares.

Following a meeting with agitating investors held at the Ministry of Finance (MoF) on Wednesday, the ministry agreed to put on hold until mid-July the revision in the way capital gains on rights and bonus shares are calculated.

The stock market, which was brought to a halt by investors to protest the new taxation system, resumed after the government's decision Wednesday.

After mid-July, the government will decide a formula based on the recommendations of a task force it formed Tuesday to resolve the dispute over the issue.

MoF formed a committee on Tuesday to look into the capital gains tax formula for rights and bonus shares and the committee is expected to submit its report within 15 days. The committee headed by Uttar Kumar Khatri, a joint secretary and head of the Financial Sector Management Division at the ministry, will include a member from the Securities Board of Nepal (Sebon), Nepse and securities clearing firm CDS and Clearing Ltd, as well as invited members from investor organizations.

Based on the agreement with investor groups, the Inland Revenue Department (IRD) has sent a letter to Nepal Stock Exchange (Nepse) instructing it to continue calculating the CGT on the basis of the previous formula until the task force comes up with its report.

“Capital gains will be calculated as per the existing formula until the task force submits its report,” said an official at MoF.

After the government decision to not immediately implement the new formula for calculating capital gains, the stock market resumed trading. Stock trading was halted completely on

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Tuesday and partly on Monday on the appeal of investor groups and with the tacit support of brokerage firms .

The Npse benchmark index jumped 13.91 points after the resumption of trading.

Npse had announced that it would impose the CGT on the sale of rights and bonus shares from Sunday as per the new calculation method following a circular from IRD last Friday.

The IRD decision to tweak the formula comes in the wake of the government's efforts to shore up its revenues. IRD has cited the Income Tax Act to instruct Npse to calculate capital gains on rights and bonus shares.

Investors argue that the new formula would require them to pay CGT even in case of loss while selling their shares.

Apart from tweaking the calculation method for capital gains, the government in its budget speech separately decided to increase the CGT rate to 7.5 percent from 5 percent.

Source: MyRepublica, 7th June 2018