



**INCOME TAX ACT
OF THE
KINGDOM OF BHUTAN
2001**

**MINISTRY OF FINANCE
ROYAL GOVERNMENT OF BHUTAN**

CONTENS

PREAMBLE

Section

Pages

General Preliminary

1. Shot Title, Commencement, Application and Extent
2. Definitions
3. Rules of construction

Part I

CORPORATE INCOME TAX

Chapter 1

Tax liability

1. Full tax liability
2. Limited tax liability

Chapter 2

Commencement and cessation of tax liability

3. Commencement of full tax liability
4. Cessation of full tax liability
5. Commencement of limited tax liability
6. Cessation of limited tax liability

Chapter 3

Income

7. Income
8. Tax holidays
9. Accounting treatment

Chapter 4

Allowable Deductions

10. General Principle
11. Direct cost
12. Employment expenses
13. Overhead expenses

14. Sales & marketing expenses
15. Bad debts
16. Miscellaneous/general expenses
17. Carry forward and offset of losses
18. Deductions not allowed for tax purposes

Chapter 5

Income and Deductions for debts, shares and intangibles

19. Forgiveness of indebtedness
20. Deductions and carry forward of loss by the debtor when debt has been forgiven
21. Deductibility of forgiven amount by the creditor
22. Gain or loss from sale of shares
23. Issue of stock
24. Dividend from the company's own shares
25. Reserve for contingencies
26. Intangibles

Chapter 6

Depreciation

27. Scope
28. Assets
29. Method and basis of depreciation
30. Blocks of Assets and percentage of depreciation
31. Depreciation of a damaged asset
32. Decline in value
33. Increase in value
34. Depreciation in the year of purchase and sale
35. Sales and transfer

Chapter 7

Valuation

36. Stock in Trade

Chapter 8

Amalgamation

37. Definition of amalgamation
38. Date of amalgamation
39. Liability to tax
40. Conditions for taxation
41. Assessment of the transferor
42. Compensation other than shares in the transferee

- 43. Annulment of shares
- 44. Shares received as compensation from the transferee

Chapter 9

Rate and Calculation of Income Tax

- 45. Tax Rates
- 46. Authorization

Chapter 10

Registration of taxpayers and filing of Tax Return

- 47. Tax Registration
- 48. Filing of income tax return
- 49. Payment of taxes
- 50. Exemption from filing
- 51. Correction of tax return and postponement of filing

Part II BUSINESS INCOME TAX

Chapter 1

Tax liability

- 1. Full tax liability
- 2. Limited tax liability

Chapter 2

Commencement and cessation of tax liability

- 3. Commencement of full tax liability
- 4. Cessation of full tax liability
- 5. Commencement of limited tax liability
- 6. Cessation of limited tax liability

Chapter 3

Income

- 7. Income
- 8. Business under the same ownership
- 9. Tax holidays
- 10. Accounting treatment

Chapter 4

Assessment of Taxable Income

11. Taxable Income

Chapter 5

Rate and Calculation of income tax

12. Tax rate
13. Authorization

Chapter 6

Registration of taxpayers and filing of tax return

14. Tax registration
15. Filing of Income Tax Return
16. Payment of taxes
17. Exemption from filing
18. Correction of tax return and postponement of filing

Part III

PERSONAL INCOME TAX

Chapter 1

Tax liability

1. Liability to tax
2. Taxation of married couples and minors
3. Members of Diplomatic Missions and Consular Posts

Chapter 2

Taxable income

4. Taxable income

Chapter 3

Income liable to tax

5. Income from salary
6. Income from real property
7. Exemption from tax
8. Income from dividends
9. Income from interest
10. Income from cash crops
11. Income from other sources

12. General Deductions
13. Net taxable income
14. Tax rates
15. Set off and carry forward

Chapter 4

Registration, filing of tax return and payment of tax

16. Registration
17. Filing of tax return

GENERAL PROVISION

Chapter 1

Taxation in the event of Bankruptcy

1. Scope
2. Companies, businesses and individuals

Chapter 2

Assessment

3. Assessment authority
4. Assessment
5. Reassessment
6. Transfer and closure of business
7. Associated business
8. Double taxation relief

Chapter 3

Collection

9. Collection authority
10. Payment of tax
11. Taxes deducted at source
12. Salary Income
13. Dividend income
14. Interest income
15. Royalty
16. Other income of individuals
17. National tour operators
18. Contractors
19. Obligations of withholders
20. Obligations of taxpayers
21. Taxes paid in instalments

- 22. Exemptions from payment of tax in instalments
- 23. Refund and adjustment of prepaid taxes

Chapter 4

Information, control and documentation

- 24. Documentation
- 25. Information from third persons
- 26. Financial institutions and insurance companies
- 27. General authority

Chapter 5

Fines and Penalties

- 28. Scope
- 29. Late filing of tax returns
- 30. Late payment of tax
- 31. Non filing of tax returns
- 32. Failure to maintain books of accounts and documents
- 33. Failure to comply with notice
- 34. Withholding agents
- 35. Concealment
- 36. Prosecutions

Chapter 6

Recovery measures

- 37. General
- 38. Restraints on assets
- 39. Detention of assets and auction
- 40. Responsibility of the Department
- 41. Power to search and detain
- 42. Search of premises
- 43. Winding up a business entry
- 44. Tax clearance certificate

Chapter 7

Settlement of disputes and Appeals

- 45. Appeal
- 46. Appeal Committee and Appeal Board
- 47. Appeal procedure
- 48. Waiver

Chapter 8

Duties and Functions of employees of Department

49. General
50. Confidentiality
51. Liability of officers
52. Intelligence
53. Anonymity of informant

INCOME TAX ACT OF THE KINGDOM OF BHUTAN, 2001

PREAMBLE

Whereas, it is expedient in the interest of the People of the Kingdom of Bhutan, in order to promote social justice, general welfare and the adoption of a tax system that is fair, uniform, equitable, efficient, and just, thereby securing equal distribution of wealth, financial sustainability, growth, progress and prosperity, do hereby, ordain and enact this legislation on taxation of Companies, Businesses and Individuals.

General Preliminary

1. Short Title, Commencement, Application and Extent

Be it enacted by the National Assembly of the Kingdom of Bhutan in the year 2001 as follows:-

This Act shall:

- (a) Be called the Income Tax Act of the Kingdom of Bhutan, 2001.
- (b) Come into force 17th day, 11th Month of the Iron Female Snake Year corresponding to 1st January of the year 2002.
- (c) On commencement supersede all rules and notifications not otherwise arising out of this Act.
- (d) Extend to persons liable to tax under the provisions of this Act in the Kingdom of Bhutan.
- (e) Require the Ministry of Finance to include a report on income tax in the Budget Report submitted to the National Assembly.
- (f) Be implemented by the Ministry of Finance.

2. Definitions

In this Act unless the context otherwise requires: -

- (1) **Arms-length basis** means transactions at the prevailing market conditions between parties not closely connected and where there is no conflict of interests.
- (2) **Assessment** means all proceedings starting with the filing of return or issue of notice and ending with determination of tax payable by an assessee.
- (3) **Citizen** means a citizen of the Kingdom of Bhutan.

- (4) **Company** means any body corporate or entity that is treated as a company for tax purpose.
- (5) **Contractor** means one who contracts to perform any work or service at a certain price or rate.
- (6) **Department** means the Department of Revenue and Customs including its branch offices.
- (7) **Dividend** means income from shares or other rights participating in profits. It includes everything that a company distributes to the shareholders, except bonus shares and distribution of proceeds from the winding up of a company in the year it is liquidated.
- (8) **Government royalties** means payment to the Government in return for the right to conduct a business or exploit natural resources.
- (9) **Head Office** and **Regional Office** means Head Office and Regional Office of the Department.
- (10) **Interest** means amount payable or receivable from debt and claims of every kind.
- (11) **Income Year** means the calendar year starting on the 1st of January and ending on the 31st of December.
- (12) **Ministry** means the Ministry of Finance, being the Minister of Finance and his authorized representatives.
- (13) **Permanent establishment** means a fixed place of business through which the business of an enterprise is wholly or partly carried on.
- (14) **Person** means an individual, a company, any other legal entity, and an association of persons or body of individuals.
- (15) **Provisional tax** means taxes paid before assessment of final tax either by deduction at source or in installments.
- (16) **Resident** means any person liable to be taxed in this country by reason of domicile, residence, place of management or any other criterion of a similar nature, and includes the State and any sub-division or local authority thereof.

(17)**Royalties** means payments of an kind received as a consideration for the use of, or the right to use, any copyright of literary, artistic or scientific work including cinematograph films, any patent, trade mark, design or model, plan, secret formula or process, for the use of, or the right to use, industrial, commercial or scientific experience.

3. Rules of construction

3.1. In this Act, unless the context indicates otherwise, the singular shall include the plural, and masculine shall include the feminine.

For the purpose of this Act, the term defined thereunder shall prevail over a meaning that may be defined under any other Laws of the Kingdom of Bhutan.

PART I CORPORATE INCOME TAX

CHAPTER 1 Tax liability

1. Full tax liability

All Companies registered under the Companies Act of the Kingdom of Bhutan shall be subject to full tax liability on all sources of income under the provisions of this Part of the Act.

2. Limited tax liability

2.1. Companies or legal entities resident abroad in which none of the participants are personally liable for the company's liabilities, and in which the surplus is distributed according to the ratio of investment from the participants or legal entities resident abroad are liable to corporation tax, if they: -

- a) Conduct business in Bhutan through a permanent establishment or participate in business activities conducted through a permanent establishment. The tax liability shall include income from letting such business, payments for consultant services, technical assistance or similar activities, and dividends, royalties or interest that are effectively connected with the permanent establishment. Activities in connection with preliminary survey, exploration or extraction of mineral resources shall be deemed to be conducted through a permanent establishment from the first day;
- b) In the capacity of owner, co-owner or user receive income from immovable property in Bhutan;
- c) Receive income as contractor from sources in Bhutan;

- d) Receive income as consultant, technical adviser, or similar activities from sources in Bhutan;
- e) Receive dividend from sources in Bhutan;
- f) Receive royalties from sources in Bhutan; or
- g) Receive interest from sources in Bhutan.

2.2. All income including income received either directly or through agencies in Bhutan from bi-lateral/multi-lateral agencies by way of grants or loans shall be deemed to have its source in Bhutan. Where, however, a person, not being a resident of this country, has a permanent establishment in Bhutan, the following income shall be deemed to have its source in Bhutan: -

- a) Interest paid or home on indebtedness in connection with the permanent establishment in Bhutan;
- b) Royalties paid by the permanent establishment in Bhutan for its own use;
- c) Technical services or consultant fees paid by the permanent establishment for services rendered; or
- d) Income from immovable property in Bhutan.

Chapter 2

Commencement and cessation of tax liability

3. Commencement of full tax liability

Full tax liability for resident companies shall commence from the date of its incorporation under the Companies Act of the Kingdom of Bhutan.

4. Cessation of full tax liability

Full tax liability shall cease when a resident company is wound up under the provisions of the Companies Act of the Kingdom of Bhutan or the Bankruptcy Act of the Kingdom of Bhutan.

5. Commencement of limited tax liability

Limited tax liability under 2.1 for companies resident abroad shall commence on the date of activities giving rise to the tax liability.

6. Cessation of limited tax liability

6.1. Limited tax liability under Section 2.1 shall cease on the day the company is dissolved or ceases its taxable activities.

- 6.2. The taxable activity ceases when the assets have been disposed off by way of sale or transfer. The transfer of assets shall be deemed as a sale at the prevailing market price.

Chapter 3 Income

7. Income

7.1. Taxable income for companies under full tax liability shall include all types of income be it in money or monies worth.

7.2. Taxable income for companies with limited tax liability shall include only income with source in Bhutan under Section 2.1.

8. Tax holidays

On satisfaction and in the public interest, the Ministry may grant exemption and tax holidays to certain companies.

9. Accounting treatment

Unless otherwise specified under the provisions of this Act, income and expenditure shall be accounted for on an accrual basis.

Chapter 4 Allowable Deductions

10. General Principle

10.1. For ascertaining the taxable income, deductions for expenses incurred wholly and solely for the purpose of the business shall be allowed from the gross income in accordance with the provisions of this Chapter.

10.2. For the purpose of allowable deduction, the following general principles shall apply: -

- a) Proper books of accounts are maintained;
- b) Expenses are incurred for the purpose of the business or company, and must be supported by documentary evidence, such as purchase invoices, money receipts, or other legally valid documents;

- c) Where only part of an expense has been incurred for the purpose of the business or company, then only a proportion of that expense shall be allowed as a deduction in the calculation of taxable income; and;
- d) Expenses incurred on transactions not done on an arm's length basis shall not be allowed.

10.3. The Ministry shall prescribe rules for allowable deductions in accordance with provisions under this Chapter.

11. Direct Cost

Direct costs associated with the operation of the business that may be directly attributed to the generation of income shall be allowed as deductions.

12. Employment Expenses

12.1. Wage, salary, and bonus paid to the employees shall be deductible as per the limits and rules prescribed by the Ministry.

12.2. Contributions made to a Provident and/or Gratuity Fund for the benefit of the employees shall be allowed as deductions provided the contributions are invested with a recognized financial institution in a separate account not accessible to the company. Such contributions are subject to limits and regulations as may be framed by the Government.

12.3. Medical expenses for treatment outside Bhutan shall be allowed as deductions provided prior recommendation is obtained from the Referral Committee of the Ministry of Health as per the rules prescribed by the Ministry.

12.4. Staff Welfare expenses within the limits prescribed by the Ministry shall be allowed as deductions.

13. Overhead Expenses

13.1. Preliminary expenses shall be allowed as deduction on the fulfillment of the following conditions:-

- a) Incurred prior to commencement of the business and directly related to the business; and
- b) Contributed to the actual commencement of the business.

13.2. Deduction under Section 13.1 shall only be allowed in equal installments over a period of first 3 years after the commencement of the business.

13.3. Costs incurred for Research and Development in connection with the business shall be allowed as deductions or depreciated in accordance with limits and rules prescribed by the Ministry.

13.4. The following general expenditure for the business shall be allowed as deductions:-

- a) Printing and stationary expenses;
- b) Postage and telegram expenses;
- c) Telephone, trunk calls and telex charges;
- d) User charges;
- e) Administrative fees and charges; or
- f) Any other expenses of similar nature.

13.5. Insurance premium relating to any asset owned by and used for the purpose of the business shall be allowed as deductions if not specified under Section 29.3

13.6. Allowable deductions for maintenance and repair costs shall include:-

- a) Current repair costs relating to any asset owned by and used for the business provided that the asset is shown in the balance sheet and fixed asset register;
- b) "Current repair cost" shall refer to any cost incurred to maintain the asset in a consistent working condition, without modifying the nature of the asset; and
- c) Major repair and enhancement work that may modify or significantly improve the asset so that the original nature of the asset is altered shall be treated as capital expenditure and depreciated.

13.7. Expenses incurred for hire of plant, machinery and vehicle shall be allowed as deductions provided that the expense is incurred for the purpose of business.

13.8. Rental expenses incurred on property used for business purpose shall be allowed as deductions.

13.9. Municipal and Motor Vehicle tax shall be allowed as deductions provided the asset is owned by and used for the purpose of the business.

13.10. Trade license registration and renewal fees shall be allowed as deductions.

13.11. Fees and expenses related to legal or professional work carried out on behalf of the business shall be allowed as deductions.

13.12. Annual membership fees and subscriptions paid for the purpose of the business shall be allowed as deductions.

13.13. Interest paid on loans shall be allowed as deductions provided that the loan is:-

- a) taken from a recognized financial institution;
- b) used for the purpose of the business; and
- c) within the debt equity ratio 3:1 including working capital.

13.14. Interest paid on legally recognised negotiable instruments shall be allowed as deductions provided that it is in keeping with the Company's Act of the Kingdom of Bhutan.

14. Sales and Marketing Expenses

14.1. Commission on business transactions supported by documentary evidence shall be allowed as deductions.

14.2. Entertainment expenses directly related to sales promotion of the business shall be allowed as deductions on actual expenses incurred or 2 per cent of assessed net profit, whichever is lower.

14.3. Publicity and advertisement expenses shall be allowed as deductions on actual expenses incurred or 2 per cent of assessed gross income, whichever is lower.

15 Bad debts

15.1. Bad debts less than Nu.25,000 per debtor shall be allowed as deductions on the fulfillment of the following conditions:-

- a) Tax has been paid on such debts in the relevant previous years;
- b) The debt is not less than 5 years old; and
- c) Bad debt would be incorporated as income if recovered in the subsequent years; or,

d) Where the debtor is declared bankrupt under the Bankruptcy Act of the Kingdom of Bhutan; or,

e) Scheme of arrangement has been made under the supervision of a Judge.

15.2. Bad debts exceeding Nu.25,000 per debtor shall be allowed as deductions on the fulfillment of the following conditions :-

a) Tax has been paid on such debts in the relevant previous year;

b) Judicial recourse has been exhausted in respect of the debt;

c) Bad debt would be incorporated as income if recovered in the subsequent years; or

d) Where the debtor is declared bankrupt under the Bankruptcy Act of the Kingdom of Bhutan; or,

e) Scheme of arrangement has been made under the supervision of a judge.

15. Miscellaneous/ General Expenses

16.1. Revenue losses due to theft, fire, and natural calamities shall be allowed as deductions.

16.2. Bhutan Sales Tax, Customs, Excise Duty and royalty paid on goods for use in the business shall be allowed as deductions provided it is not capitalized under Section 29.3.

16.3. Carriage and freight expenses incurred wholly for the purpose of business shall be allowed as deductions. Where such charges are incurred for the transportation of fixed assets to their place of use, this shall be treated as part of the capital cost of acquiring the assets and shall be depreciated as prescribed under Chapter 6 of this Part.

16.4. Donations shall be allowed as deductions within limits prescribed by the Ministry provided that the donation is made for one of the following purposes:-

a) Domestic fund for natural calamities in Bhutan;

b) Preservation and Promotion of religious and cultured purpose in Bhutan; or

c) Promotion of sporting, education and scientific activities in Bhutan.

17. Carry forward and offset of losses

Losses sustained in an the income year may be carried forward and adjusted in the subsequent 3 income year as prescribed under rules thereto.

18. Deductions not allowed for tax purposes

The following expenses shall not be allowed as deductions:-

- a) Domestic and private expenses on food, clothing, marriage etc.;
- b) Personal administrative fees of employees;
- c) Payment of dividend or profit distributions to shareholders, partners and properties before tax;
- d) Creation of or adjustments to reserves, except in the specific cases that may be prescribed under this Act;
- e) Life and Health insurance premium excepts schemes that may be approved by the Government;
- f) Business, Corporate and Personal income Tax;
- g) Penalties, fines, penal interest, forfeiture, etc.;
- h) Donations other than those authorized under this Act;
- i) Bad debts not fulfilling the conditions under this Act;
- j) Any sum, by whatever name called, payable for the use of license or permit through public auction or tender;
- k) Any other expenses not related to the business.

Chapter 5

Income and deductions for debts, shares and intangibles

19. Forgiveness of indebtedness

Forgiveness of indebtedness is not taxable income of the debtor where:-

- a) Debts has been forgiven pursuant to Part XI of the Bankruptcy Act of the Kingdom of Bhutan; and

- b) Debts have been forgiven as part of settlement of debts under the supervision of a judge.

20. Deductions and carry forward of losses by the debtor when debt has been forgiven

20.1. Losses to the extent of the forgiven debts shall not be carried forward.

20.2. Subjects to the provisions under Section 15 and 17 of this Part, the Ministry shall prescribed rules regarding the forgiveness of debt.

21. Deductibility of forgiven amount by the creditor

A loss consisting of a forgiven amount is not deductible by the creditor, unless it has been proven to be bed debts in accordance with Section 15.

22. Gain or loss from sales of shares

22.1 Gain or loss from the sales of shares shall be included in the computation of income. The Gain or loss is the different between the acquisition price and the sales price.

22.2. Where a share is sold at a discount, the fair market price shall be taken as sales price.

23. Issue of stock

Issue of stock at a premium shall not be taxed as income of the company.

24. Dividend from the company's own shares

Dividend from the company's own shares shall not be taxed as income of the company.

25. Reserve for loan loss contingencies

Financial institutions while computing taxable income may deduct reserves for loan loss contingencies provided that it is in accordance with the Financial Institutions Act of the Bhutan 1992.

26. Intangibles

26.1. When computing taxable income the following shall be included:-

- a) Gain or loss from sales of goodwill connected to the business;
- b) Gain or loss from sales or renunciation of rights such as know how, patent, copy right, artistic or trademarks;
- c) Gain or loss from sales or renunciation of right to lease or tenancy contracts; or

- d) Compensation for renunciation of agency.
- 26.2. Renunciation in the form of gift shall be deemed as sale.
- 26.3. Gain or loss shall be the difference between the sales price and the acquisition price.

Chapter 6 Depreciation

27. Scope

Assets and expenses in connection with acquisition and improvement of such assets, used wholly and solely in the business, as well as certain other costs, shall be depreciated or written off in accordance with the provisions under this Chapter.

28. Assets

All assets except antiques, works of art and land as specified shall be allowed for depreciation subjects to the fulfillment of the following conditions:-

- a) The asset is purchased by and registered in the Assets Register of the company.
- b) The asset is used for the purpose of the business ; and
- c) The asset ordinarily does not decline in value.

29. Method and basis of depreciation

- 29.1. Each asset shall be depreciated separately on the straight-line method or as may be prescribed by the Ministry.
- 29.2. Depreciation of assets shall be taken on the acquisition price or cost price if the goods are produced in the business.
- 29.3. Notwithstanding Section 13.5 and 16.2 of the part, related costs such as Customs, Excise duties, Sales tax, carriage, freight and insurance are not deductible if included in the acquisition price or the cost price.
- 29.4. The rate of depreciation chosen for the first income year shall be used for the entire period in which the asset is depreciated.

30. Blocks of assets and percentage of depreciation

The Ministry of Finance shall frame rules with regard to:-

- a) Categorization of depreciation assets in blocks;
- b) Fixation of maximum rates of depreciation in each blocks; and
- c) Fixation of limits for writing off of low value assets.

31. Depreciation of damaged asset

- 31.1. When a damaged asset has been repaired, the value of the asset shall be the same as before the damage.
- 31.2. Cost of repaired incurred to bring the asset in the same condition as before the damage shall not affect the net book value of the damaged assets.
- 31.3. Cost of repairing a damaged asset is deductible in the income year when the asset is repaired.
- 31.4. Insurance or restitution received for the damaged assets shall be taxed in the year it is accrued.

32. Decline in value

In the year an asset is damaged beyond repair, depreciation shall be taken pro-rata in accordance with Section 29 until the date of damage. From that date, depreciation shall be taken pro-rata on the decreased value.

33. Increase in value

- 33.1. The added value of an asset due to improvement shall increase the basis on which depreciation is taken and the net book value of the asset.
- 33.2. If maintenance cost exceeds the depreciation allowed on an asset, the amount in excess shall be regarded as an improvement and added to the net book value of the asset and depreciated thereto.

34. Depreciation of the year of purchase and sale

- 34.1. Depreciation of year of purchase of an asset shall be made on pro-rata basis from the date it is delivered in useable states.
- 34.2. No depreciation shall be allowed on as asset in the year of sale or demolition.
- 34.3. No depreciation shall be allowed on assets in the year where a company is wound up, dissolved or liquidated pursuant to the Companies Act of the Kingdom of the Bhutan.

35. Sales and transfer

- 35.1. When a company sells an asset, the gain or loss is calculated as the difference between the sales price and the net book value. If an asset of low value has been written off in the year of purchase, the sales price is a gain.
- 35.2. If an asset is transferred from business to a private use, or transferred from private use to the business, such transfer shall be treated as a sale or acquisition of the asset. The acquisition or sales price is the market value of the asset or the book value whichever is higher.
- 35.3. Any cession of assets shall be deemed to be a sale. The sales price shall be the market price or the book value whichever is higher.
- 35.4. Where assets of a permanent establishment are transferred from use in its business in this country for use abroad, the transfer shall be deemed to be a sale. The market price at the time of transfer shall be the sale price.
- 35.5. Where a permanent establishment transfers assets from abroad for use in a permanent establishment in this country, the transfer shall be deemed to be an acquisition. The market price at the time of transfer shall be purchase price.

**Chapter 7
Valuation**

36. Stock –in-trade

- 36.1. When assessing taxable income, the taxpayer may choose the value stock-in-trade on the basis of :-
- a) the cost price including Customs and Excise duties, Sales tax carriage, freight and insurance; or
 - b) actual cost of production where the goods are produced in the business.
- 36.2. When assessing the value of stock-in-trade under Section 36.1, levies, freight and insurance shall not be included if the same has been deducted when assessing taxable income.
- 36.3. The method used for valuation of stock-in-trade in the first income year shall be used for all subsequent income years.

Chapter 8 Amalgamation

37. Definition of amalgamation

Amalgamation means that a company transfers all its assets and liabilities (referred to as the “transferor”) to another company (referred to as the “transferee”) or merges with another company.

38. Date of amalgamation

For the purpose of this Act, the date of amalgamation shall be deemed to be the date when the company is registered under the Companies Act of the Kingdom of Bhutan.

39. Liability to tax

Amalgamating companies under full tax liability may choose to be taxed in one of the following manner:-

- a) At the time of amalgamation; or
- b) The amalgamated company shall assume all tax liabilities and be taxed at the end of the income year when returns are filed subject to the fulfillment of provisions under Section 40 to 44.

40. Conditions of taxation

40.1. In order to avail the provisions under Section 39 (b) the following conditions shall apply:-

- a) the shareholders in the transferor company are compensation in shares or parts in the transferee; and
- b) Compensation in cash is distributed equally to the shareholders and shall not exceed 10 per cent of the nominal value of the shares, or in the absence of such nominal value then the book value shall be taken.

40.2. Notwithstanding Section 40.1, the part of the shares or parts in the transferor that is owned by the transferee shall not be included.

41. Assessment of the transferor

Losses from prior years of the transferor shall not be offset against the profits of the amalgamated Companies.

- 42. Compensation other than shares in the transferee**
Shares in the transferor are deemed to be sold by the shareholders in the Company to an unrelated person to the extent they are not compensated with shares in the transferee.
- 43. Annulment of shares**
Shares annulled by a transferee company in connection with the amalgamation, including the transferee's own shares shall be disregarded for taxation purposes.
- 44. Shares received as compensation from the transferee**
Shares received as compensation from the transferee shall be deemed to be acquired at the same time and at the same acquisition price as the compensated shares.

Chapter 9

Rate and Calculation of Income Tax

- 45. Tax Rates**
- 45.1. The rate of income tax for companies under full tax liability shall be 30 per cent on the net profit.
- 45.2. The rates of income tax for companies under limited liability shall be as follows:-
- a) Permanent establishment at the rate of 30 per cent of the net profit;
 - b) Contractors and consultants at the rate of 3 per cent of the contract value;
 - c) Income from interest and royalty at the rate of 5 per cent of the gross amount ; and
 - d) Income from dividend at the rate of 10 per cent of the gross amount.
- 46. Authorization**
The Ministry shall lay down Rules regarding:-
- a) Calculation of tax;
 - b) Time limits for payment;
 - c) Adjustment of provision tax; and
 - d) Interest on surplus and outstanding tax.

Chapter 10
Registration of taxpayers and Filling of Tax Return

47. Tax Registration

All companies shall register with Department within 3 months from the date of establishment as per rules prescribed by the Ministry.

48. Filling of Income tax return

All companies shall file an income tax return for the income year within 31st of March of the succeeding year in accordance with the rules prescribed by the Ministry.

49. Payment of taxes

All companies shall pay tax on the basis of the tax return at the time of filing with the Regional Office where registered as a taxpayer.

50. Exemption from filling

Companies, whose tax is final, in accordance with Section 2.1 Sub-sections (c) to (g), shall be exemption from filling a tax return.

51. Correction of tax return and postponement of filling

51.1. A taxpayer may correct a tax return within fifteen days from the date of submission of tax return on grounds and reasons acceptable to the Department.

51.2. The time limit for filling a tax return may extend on written request in accordance with rules prescribed by the Ministry.

51.3. Postponement of filling shall not postpone the payment of tax. In such case, the amount payable within 31st March shall correspond to tax paid for the previous year or the self-assessed tax whichever is the higher.

PART II
BUSINESS INCOME TAX

Chapter 1
Tax liability

1. Full tax liability

All business not covered under Part 1 of this shall be subject to full tax liability under the provisions of this Part of the Act, provided that the person is a resident or an individual liable to tax on all sources of income in accordance with Section 1 of Part III of this Act.

2. Limited tax liability

2.1. Business resident abroad shall be liable to Business Income Tax, if they:

- a) conduct business in Bhutan through a permanent establishment or participate in business activities conducted through a permanent establishment. The tax liability includes income from letting such business, payments for consultant services, technical assistance or similar activities, and dividends, royalties or interest that are effectively connected with the permanent establishment. Activities in connection with preliminary survey, exploration or extraction of mineral resources shall be deemed to be conducted through a permanent establishment from the first day.
- b) in the capacity of owner, co-owner or user receive income from immovable property in Bhutan;
- c) receive income as contractor from sources in Bhutan;
- d) receive income as consultant, technical adviser, or similar activities from sources in Bhutan;
- e) receive dividend from sources in Bhutan;
- f) receive royalties from sources in Bhutan; or
- g) receive interest from sources in Bhutan.

2.2. All income including income received either directly or through agencies in Bhutan from bi-lateral/multi-lateral agencies by way of grants or loans shall be deemed to have its source in Bhutan. Where, however, a person not being a resident of this country, has a permanent establishment in Bhutan, the following income shall be deemed to have its source in Bhutan:

- a) interest paid or borne on indebtedness in connection with the permanent establishment in Bhutan;
- b) Royalties paid by the permanent fees paid in Bhutan for its own use;
- c) Technical services or consultant fees paid by the permanent establishment for services rendered; or
- d) Income from immovable property in Bhutan.

Chapter 2

Commencement and cessation of tax liability

- 3. Commencement of full tax liability**
Full Tax liability for resident businesses shall commence from the date when the Business License/Permit is issued.
- 4. Cessation of full liability**
Full tax liability shall cease when a business is closed either by choice or in accordance with the provisions of the Bankruptcy Act of the Kingdom of Bhutan.
- 5. Commencement of limited tax liability**
Limited tax liability under Section 2.1 shall commence on the date of activities giving rise to the tax liability.
- 6. Cessation of limited tax liability**
 - 6.1. Limited tax liability under Section 2.1 shall cease on the day the business is dissolved or cease its taxable activities.
 - 6.2. The taxable activity ceases when the assets have been disposed off by way of sale or transfer. Transfer of assets shall be deemed as a sale at the prevailing market price.

Chapter 3

Income

- 7. Income**
 - 7.1. Taxable income for business under full tax liability shall include all types of income be it in money or monies worth.
 - 7.2. Taxable income for businesses with limited tax liability shall include only income with source in Bhutan under Section 2.

8. Businesses under the same ownership

- 8.1. When a taxpayer owns several businesses, each business shall be treated as a separate taxable unit. Losses from one unit shall not be offset against the profit of another unit.
- 8.2. Notwithstanding Section 8.1 businesses falling under manufacturing and s service sector with the same activity at different geographical locations u under the same ownership may be treated as a single taxable entity.
- 8.3. Ministry shall prescribe rules with regards to this Section.

9. Tax holidays

On satisfaction and in the public interest, the Ministry may grant exemption and tax holidays to certain businesses.

10. Accounting treatment

Unless otherwise specified under the provisions of this Act, income and expenditure shall be accounted for on accrual basis.

**Chapter 4
Assessment of Taxable Income**

11. Taxable income

Taxable income shall be determined in accordance with the provisions under Chapters 4, 5, 6 and 7 of Part 1 wherever it may be applicable.

**Chapter 5
Rate and Calculation of income tax**

12. Tax Rates

- 12.1. The rate of Business Income Tax under full liability shall be 30 per cent on the profit.
- 12.2. The rates of Business Income Tax under limited tax liability shall be as follows:
- a) Permanent establishment at the rate of 30 per cent on the profit;
 - b) Contractors and consultants at the rate 3 per cent on the gross amount;

- c) Income from interest and royalty at the rate of 5 per cent on the gross amount; and
- d) Income from dividend at the rate of 10 per cent on the gross amount.

13. Authorization

The Ministry shall lay down Rules regarding:-

- a) Calculation of tax;
- b) Time limits for payment;
- c) Adjustment of provisional tax; and
- d) Interest on surplus and outstanding tax.

Chapter 6

Registration of taxpayers and Filing of Tax Return

14. Tax Registration

All businesses shall register with the Department within 3 months from the date of establishment as per rules prescribed by the Ministry.

15. Filing of income tax return

All businesses shall file an income tax return for the income year within 31st March of the succeeding year in accordance with the rules prescribed by the Ministry.

16. Payment of taxes

All businesses shall pay tax on the basis of the tax return at the time of filing with the Regional Office where registered as a taxpayer.

17. Exemption from filing

Businesses whose tax is final, under Section 2.1 Sub-sections (c) to (g) shall be exempt from filing a tax return.

18. Correction of tax return and postponement of filing

18.1. A taxpayer may correct the tax return within fifteen days from the date of submission of tax return on grounds and reasons acceptable to the Department.

18.2. The time limit for filing the return may be extended on written request in accordance with rules prescribed by the Ministry.

- 18.3. Postponement of filling shall not postpone the payment of tax. In such case, the amount payable within 31st March shall correspond to tax paid for the previous year or the self-assessed tax, whichever is higher.

PART III
PERSONAL INCOME TAX
Chapter 1
Tax Liability

1. Liability to tax

1.1. Liability to tax under this part shall be on:-

- a) Citizens: and
- b) Residents.

1.2. Notwithstanding Section 1.1, liability to tax shall also be on persons having income as specified under Section 4 of this Part.

2. Taxation of married couples under minors

2.1. Each spouse shall be taxed separately.

2.2. Minors shall be taxed together with one of the parent's income.

2.2. Where a minor has a guardian appointed by the Court, the minor's income shall be taxed separately.

2.4. Where a minor has inherited by will, the income from the inheritance shall be taxed separately.

3. Members of Diplomatic Missions and Consular Posts.

Nothing in this Act shall affect the fiscal privileges of members of Diplomatic Missions or Consular Posts under the general provisions of international law or persons under the provisions of special agreement.

Chapter 2
Taxable income

4. Taxable income

4.1. Nu. 100,000 per annum of the net taxable amount under Section 13.1 shall be exempted from taxable as a basis exemption.

4.2. Income on which tax is chargeable under this Part of the Act shall be income in respect of:

- a) Salary including non-licensed consultant fee for an employer in Bhutan or of work performed in Bhutan for an employer abroad;
- b) Income from Real property in Bhutan;
- c) Divided from sources in Bhutan;
- d) Interest from sources in Bhutan;
- e) Income from cash crops in Bhutan; and
- f) Income from other sources in Bhutan.

Chapter 3 **Income liable to tax**

5. Income from salary

5.1. Income from salary shall include everything received in money or monies worth from the employer in accordance with the rules prescribed by the Ministry but excluding leave travel concession, traveling allowance and daily allowance.

5.2. Salaries shall be taxed on an accrual basis.

6. Income from real property

6.1. The term "real property" means land, building and houses.

6.2. Rental income from real property shall be taxed on an accrual basis.

6.3. Allowable deductions for rental income shall be follows:

- a) Interest paid on borrowings provided that the loan is taken for the purpose of purchase or construction of the real property generating rental income and is from a recognized financial institution;
- b) 20 per cent of the rental income for the purpose of repair and maintenance cost;
- c) Municipal taxes and urban house taxes paid; and
- d) Insurance premium paid to a recognized insurance company.

7. Exemption from tax

7.1. One dwelling unit for an individual or family used for self-occupation shall be exempt from tax.

7.2. Property remaining vacant shall be exempt from tax on the fulfillment of the following conditions:

- a) The property has remained vacant;
- b) Tax Authorities have been informed in writing of the property remaining vacant; and
- c) Documentary proof to let out the said property is furnished.

7.3. Property remaining vacant, and not covered under section 7.2 shall be taxed on the fair market rent.

8. Income from dividends

8.1. Dividend means everything that a legal entity registered under the Companies Act of Bhutan distributes to the shareholders excluding bonus shares and distribution of proceeds from the winding up of a company in the year of its liquidation.

8.2. Dividend shall be taxed in the year it is distributed.

8.3. Total dividend income from Bhutanese companies not exceeding Nu.10, 000 per annum shall be exempt from tax.

8.4. Interest paid on borrowings shall be allowed as a deduction provided that the loan is taken for the purchase of shares from a recognised financial institution.

9. Income from interest

9.1. Interest for the purpose of this Act shall mean interest earned from fixed deposits held with financial institutions in Bhutan.

9.2. Interest income shall be taxed in the year it is received or credited.

9.3. Total interest income not exceeding Nu. 10,000 per annum shall be exempt from tax.

10. Income from cash crops

10.1 For the purpose of this Act, income from cash crops shall mean income from apple, orange and cardamom. The government may include other cash crops from time to time.

10.2 Income from cash crop shall be taxed on an accrual basis.

10.3 30 per cent of the cash crop income shall be allowed as a deduction to meet the cost incurred to secure the income.

11. Income from other sources

11.1 For the purpose of this Act, income from other sources shall mean income from hire of privately owned vehicles, plant and machinery, and from intellectual property rights.

11.2 Intellectual property for the purpose of this Act shall mean income from copyright, patent, trademark, design, model or any artistic or scientific work.

11.3 The income from other sources shall be taxed on an accrual basis.

11.4 30 per cent of the income from other sources shall be allowed as a deduction to meet the cost incurred to earn such income.

12. General Deductions

12.1 Donations are allowed to be deducted from taxable income within limits and procedures prescribed by the Ministry provided that the donation is made for one of the following purposes:

- a) Relief fund for natural calamities in Bhutan;
- b) Preservation and promotion of religion and culture in Bhutan; or
- c) Promotion of sporting, education, educational and scientific activities in Bhutan.

12.2 Actual cost of education or Nu. 50,000 whichever is lower.

13. Net taxable income

13.1 Net taxable income for the purpose of this Act shall mean total income derived from sources under sections 5, 6, 8, 9, 10 and 11 excluding allowable deductions.

13.2 Net taxable income shall be taxed as per the tax rates under Section 14.

14. Tax rates

The tax rates for personal income shall be:

Taxable Income	Tax rate
1. Where the total income does not exceed Nu.100,000	Nil
2. Where the total taxable income exceed Nu.100,000 but does not exceed Nu.250,000	10 percent of the amount by which the total taxable income exceeds Nu. 100,000
3. Where the total taxable income exceeds Nu.250,000 but does not exceed Nu.500,000	Nu.15, 000 plus 15 percent of the amount by which total taxable income exceeds Nu.250,000
4. Where the total taxable income exceeds Nu.500,000 but does not exceed Nu.1,000,000	Nu.52, 500 plus 20 percent of the amount by which total taxable income exceeds Nu.250,000
5. Where the total taxable income exceeds Nu. 1,000,000	Nu.152, 500 plus 25 percent of the amount by which total taxable income exceeds Nu.1,000,000

15. Set off and carry forward

- 15.1. Taxes prepaid or deducted at source shall be adjusted against the final tax unless otherwise specified.
- 15.2. Deficit from one source of income shall not be offset against another source of income. Deficit for the purpose of this Act shall mean amount of deductions exceeding the income.
- 15.3. Carry forward of deficit from one income year to the following year shall not be allowed.

Chapter 4

Registration, filling of tax return and payment of tax

16. Registration

Persons liable to tax under the provisions of this Part of the Act shall register with the concerned Regional Office in accordance with rules prescribed by the Ministry.

17. Filling of tax return

- 17.1. Persons liable for tax shall file their tax return before 1st March of the year following the income year with the Regional Office where registered.
- 17.2. Tax on self-assessed basis shall be paid at the time of filling the tax return.
- 17.3. Persons whose tax deducted at source is final shall be exempt from filling the tax return.

GENERAL PROVISIONS

These provisions shall apply to Part 1, Part 11 and 111 of this Act.

Chapter 1

Taxation in the event of Bankruptcy

1. Scope

This Chapter shall apply to taxation of entities declared bankrupt in accordance with the Bankruptcy Act of the Kingdom of Bhutan, 1999.

2. Companies, businesses and individuals

Entities filing a bankruptcy petition under the Bankruptcy Act and taxation thereof shall be as follows:

- a) Income earned under bankruptcy proceedings shall not be taxable;
- b) Loss for years before the date where the bankruptcy procedure is finalized cannot be adjusted against any future income; and
- c) The provision of Sub-sections (a) and (b) shall not apply if an order of adjudication is annulled. In such an event, all provisions under the Income Tax Act shall apply.

Chapter 2

Assessment

3. Assessment authority

The Department shall be responsible for the assessment of taxes in accordance with the provisions of this Act and may prescribe rules thereto.

4. Assessment

- 4.2. Assessment shall include all proceedings starting with the filing of tax return or issue of notice and ending with determination of tax payable by the assessee.
- 4.3. Where a person has submitted a return as provided under this Act the tax authority may:
- a) accept the return and make an assessment; or
 - b) refuse to accept the return and determine the chargeable income and make an assessment according to the best of his judgement.
- 4.4. Where a person has failed to maintain accounts or file a return as provided under this Act, the tax authorities may make an estimated assessment based on best judgement.
- 4.5. The assessment of companies and businesses shall be finalized no later than twenty-four months from the 31st March in the year succeeding the income year. If a taxpayer has obtained a postponement of filing, the time limit for finalizing assessment shall be calculated from the date on which the filing was allowed.

5. Reassessment

- 5.1. Reassessment may take place within 5 years for the end of the income year on the following grounds:
- a) Where the taxpayer has petitioned the reassessment;
 - b) Where an appeal case cannot be decided without further investigation;
 - c) Where there are reasonable grounds to believe that some income may have escaped assessment.
- 5.2. Notwithstanding Section 5.1 reassessment may be made without any time limit in cases of tax fraud.

6. Transfer and closure of business

A final assessment of business tax shall be made when a business is sold, transferred or closed.

7. Associated businesses

Tax authorities may make appropriate adjustments of the income of associated businesses if their dealings are not undertaken at an arms-length basis.

8. Double taxation relief

- 8.1. The Government may enter into an agreement with the government of any country:
- a) For granting of relief in respect of income earned in that country for avoidance of double taxation;
 - b) For exchange of information for the prevention of evasion or avoidance; or
 - c) For recovery of income tax under this Act.
- 8.2. Relief from double taxation shall be in accordance with treaties entered into and rules laid down by the Ministry.

**Chapter 3
Collection**

9. Collection authority

- 9.1. The department shall be responsible for collection of taxes in accordance with the provisions of this Act.
- 9.2. The Ministry shall prescribe rules for the provisions under this Chapter.

10. Payment of tax

- 10.1. Payment of taxes shall be made either by way of deduction at source, payment in installment or at the time of filing on a self-assessed basis.
- 10.2. Taxes paid under Section 10.1 shall be treated as provisional tax and adjusted against the final tax liability on finalization of the assessment unless otherwise specified.

11. Taxes deducted at source

- 11.1. Tax shall be deducted at source from the income specified under the provisions of this Act and in the manner and rates prescribed in rules by the Ministry.
- 11.2. The Ministry shall be authorized to broaden the coverage of taxes deducted at source from sources other than those mentioned in this Act.
- 11.3. Taxes deducted at source shall have priority over any other claims.

12. Salary income

12.1. Provisional tax on salary income is payable on a monthly basis during the income year.

12.2. The employer or assignee of a foreign entity shall deduct tax at source from salary income.

13. Dividend income

13.1. Legal entities shall be responsible for deducting tax at source at the time of distributing dividends.

13.2. Dividend tax for persons under limited tax liability shall be deducted at source at the rate of 10 per cent of the gross amount and shall be treated as final.

14. Interest income

14.1. Financial institutions in Bhutan shall be responsible for deducting tax at source on:

- a) interest income from fixed deposits for individuals; and
- b) interest tax deducted from non-residents not being a Bhutanese citizen is 5 per cent on the gross amount and shall be treated as final.

14.2. Interest tax deducted from non-residents not being a Bhutanese citizen is 5 per cent on the gross amount and shall be treated as final.

15. Royalty income

15.1. Legal entities shall be responsible for deducting tax at source at the time of payment.

15.2. Tax deducted from royalty income of persons under limited tax liability is 5 per cent on the gross amount and shall be treated as final.

16. Other income of individuals

Tax shall be deducted at source by legal entities at the time of paying out the following:

- a) Hire charges on privately owned plant, machinery or vehicles; or
- b) Payments made for the use of any intellectual property.

17. National tour operators

The Department of Tourism shall be responsible for deducting tax at source from payments made to tour operators as specified in rules.

18. Contractors

18.1. Tax shall be deducted from contractor under full tax liability for construction, logging work, transportation, management contracts, consultancy including other professional services and supplies.

18.2. Tax shall be deducted from contractors under limited tax liability for construction, logging work, transportation, management contracts, consultancy including other professional services and supplies. The tax shall be deducted at the rate of 3 per cent on the gross amount and shall be treated as final.

19. Obligations of the withholder

The withholder shall be responsible for the following:

- a) Deduct tax at source;
- b) Deposit the deducted tax on the due date; and
- c) Submit information as per the requirement of the Department.

20. Obligations of the taxpayer

Where tax is not deducted at source, or the deduction is lower than the rate prescribed, the taxpayer shall be liable to inform the tax authorities of the income earned and the amount of tax deducted.

21. Taxes paid in installments

21.1. All large and medium companies and businesses, except tour operators and contractors covered under Section 17 and 18, shall be liable to pay taxes in installment as prescribed in rules.

21.2. Provisional tax on salary received from an employer not liable to deduct tax at source shall be paid in no less than 4 installments by the employee.

22. Exemptions from payment of tax in installment

Notwithstanding the provisions of Section 21.1, the following assessment units are exempt from paying tax in installment:

- a) Newly established assessment units in the first income year of operation; or
- b) Unites classified as small assessment units in rules by the Ministry.

23. Refund and adjustment of prepaid taxes

23.1. Prepaid taxes shall be adjusted against the final tax liability.

- 23.2. Prepaid taxes in excess of final tax shall be refunded provided there is no outstanding debt to the government.

Chapter 4 **Information, control and documentation**

24. Documentation

- 24.1. All taxpayers shall maintain and submit accounts and any other documents relevant for the assessment as prescribed in rules by the Ministry.
- 24.2. Taxpayers shall be under an obligation to disclose any information relevant to the assessment.

25. Information from third persons

All public and private entities and individuals shall furnish any relevant information on a taxpayer to the Department on written request.

26. Financial institutions and Insurance companies

- 26.1. On written demand the financial institution or insurance company shall furnish information to the Department on the financial status and accounts of any taxable person.
- 26.2. Only the Head of the Department or an officer of superior rank in the Ministry may demand the information under Section 26.1.
- 26.3. Information on any single transaction exceeding Nu.1, 000,000 shall without request be furnished to the Department.

27. General authority

The tax authority shall have the power to investigate any taxpayer having disproportionate assets or any unexplained expenditure to the known sources of income.

Chapter 5 **Fines and Penalties**

28. Scope

A person shall be held liable to fines and penalties for default committed by him under the provisions of the Act.

29. Late filing of tax return

A fine equivalent to Nu.100 per day up to a maximum period of 3 months from the due date shall be imposed on late filing of tax return as per the rules prescribed by the Ministry.

30. Late payment of tax

A penal interest at the rate of 24 per cent per annum on the amount of tax due in addition to tax in arrears shall be imposed on failure to pay tax due as required under this Act.

31. Non filing of tax return

A fine at the rate of 100 per cent of the gross income shall be imposed on non-filing. Non-filing of tax return shall mean tax return not filed after 3 months from the due date.

32. Failure to maintain books of accounts and documents

A fine ranging from Nu. 100,000 depending on the size of the business for failure to maintain books of accounts, documents and furnish information as required under this Act shall be imposed as per the rules prescribed by the Ministry.

33. Failure to comply with a notice

A fine ranging from Nu.500 to Nu.5,000 for each default shall be imposed for failure to comply with a notice issued by the Department to give evidence and produce books of accounts or any other documents as per the rules prescribed by the Ministry.

34. Withholding agents

Withholding agents responsible for the deduction and remittance of tax shall be liable for penalties as follows:

- a) Failure to deduct whole or part of tax at source as required under this Act shall attract a penal interest at the rate of 24 per cent per annum on the amount due in addition to the tax in arrears; or
- b) Failure to deposit the tax deducted at source as required under this Act, shall attract a penal interest at the rate of 24 per cent per annum from the due date in addition to the tax in arrears.

35. Concealment

35.1. A fine equivalent to twice the tax amount sought to be evaded in addition to tax due shall be imposed on concealment of the particulars of income or furnishing inaccurate particulars of income.

35.2. Expenses related to income under Section 35.1 shall be disallowed as deductions.

36. Prosecutions

Notwithstanding the provisions of fines and penalties under this Act, the offender shall be liable for imprisonment for committing the following offences:

- a) Dealing with seized assets in contravention of the order made by the officer conducting the search;
- b) Removal, concealment, transfer or delivery of property to thwart tax recovery;
- c) Willful act or omission to deduct tax at source or pay tax to the government;
- d) Willful attempt to evade tax or failure to pay fines, penalty or interest imposed under this Act;
- e) Willful act or omission to file income tax return;
- f) Willful act or omission to produce books of accounts and documents;
- g) Making a false statement or deliver false accounts; or
- h) Abet or attempt to abet any offence under the provisions of this Act.

**Chapter 6
Recovery Measures**

37. General

37.1. Notwithstanding Chapters 2 and 3 of General Provisions, and where a person or entity does not pay or deduct tax within due date or pay fines and penalties, recovery shall be made in accordance with the provisions under this Chapter.

37.2. The Department shall recover the dues by:

- a) entering into an agreement with the offender for payment of any dues in instalments;
- b) executing bond or security issued by the entity or person
- c) selling any goods seized by the Department through an auction with or without the consent of the person; or

d) deducting the amount from any sum which may be due to the entity or person.

37.3. Notwithstanding Sections 37.1 and 37.2 above, any licence required to operate as a business shall be suspended or cancelled by the appropriate authority on the recommendation the Ministry.

38. Restraints on assets

38.1. Notwithstanding the provisions of Chapter 2 of General Provisions, the Department may put a restraint on assets belonging to the taxpayer where tax as per agreement under Section 37.2 (a) is not paid.

38.2. The Department shall by public notification publish the restraining order to prevent the person from disposing the assets.

38.3. Claims for tax and duty shall respect prior claims from third persons on the same asset but have priority to subsequent claims, unless the Regional Office has neglected to publish the restraint on the asset as prescribed.

39. Detention of assets and auction

39.1. Assets owned by any person violating Section 38.1 may be detained.

39.2. Restrained assets for which the person does not meet conditions of payment may be sold at an auction as per rules prescribed by the Ministry.

39.3. Proceeds from the auction shall be used to cover duties and taxes due, interest and fines as well as cost from detaining the assets and the auction thereof. The proceeds shall be deposited in the revenue account of the Government. Any excess amount shall be paid to the person.

39.4. The Department shall not detain assets that are exempt property under Section 36 of the Bankruptcy Act of the Kingdom of Bhutan.

39.5. The owner may appeal against the restraint on assets or detention of assets directly to the court of law. Detained assets may not be auctioned before an appeal procedure has been finalized.

40. Responsibility of the Department

The Department shall be responsible for compensation of losses and damages caused by unwarranted levying of execution, detention and auctioning of assets belonging to taxable persons.

41. Power to Search and detain

41.1. A Tax officer not below the rank of Assistant Commissioner shall have the power to search where he has reach to believe that a person has violated the provisions of this Act.

41.2. Where a person refuses to be searched under sub-section 41.1, such person may be detained for the conduct of search.

41.3. A person so detained shall be handed over to the Royal Bhutan Police with a statement in writing of the grounds for such detention.

42. Search of premises

42.1. A search warrant shall be obtained from the nearest court of jurisdiction for conducting the search of premises.

42.2. Only a Tax officer not below the rank of Assistant Commissioner may conduct the search of premises.

42.3. A search without warrant may be done where:

(a) there exists an imminent risk of disposing or destroying evidence of tax evasion; or

(b) there exists reasonable cause to believe that the premise, houses goods or documents that may be required in the process of investigation.

42.4. Where a search without warrant is conducted the Court shall be informed in writing with grounds for the search within 24 hours or the next working day.

42.5. The procedures for conducting search with or without warrant shall be as per the provision of searches under the Civil and Criminal Court procedures of the Kingdom of Bhutan.

43. Winding up a business entity

43.1. In case of transfer, closure or winding up of a business under bankruptcy all outstanding taxes shall be recovered as per Section 112 of the Bankruptcy Act of the Kingdom of Bhutan.

43.2. If a tax clearance certificate is not obtained from the tax authorities, the current owner of an entity shall be liable for any due taxes and duties.

44. Tax clearance certificate

A person shall produce a tax clearance certificate in the following cases:

a) Before leaving the country for 6 months or more;

b) At the time of obtaining and renewal of license or bidding for any works and service contract;

- c) At the time of transfer of ownership or location of business; or
- d) At the time of closing of a business.

Chapter 7

Settlement of Disputes and Appeals

45. Appeal

- 45.1. A person taxable or business entity may appeal on assessment of tax or any other decision passed by an officer of the Department.
- 45.2. Filing an appeal against an assessment does not postpone the date for payment of taxes.
- 45.3. An appeal shall be admitted only if the undisputed part of the taxes is paid.
- 45.4. Where the order in appeal does not reverse or the appeal is otherwise unsuccessful, the appellant shall be liable for the disputed amount along with a penal interest of 24 per cent per annum from the due date.

46. Appeal Committee and Appeal Board

- 46.1. An Appeal Committee shall be established at the Regional Office of the Department consisting of three officers of the Regional Office and chaired by the Regional Director but excluding the assessing officer.
- 46.2. An Appeal Committee shall be established at the Head Office of the Department consisting of five members.
- 46.3. An Appeal Board shall be established at the Ministry, consisting of four regular members and one ad hoc member as mentioned below:
 - a) Two from the Ministry of Finance;
 - b) One from the Ministry of Trade and Industry;
 - c) One from the Bhutan Chamber of Commerce and Industry; and
 - d) One ad hoc member.
- 46.4. Notwithstanding the Appeal Committee at the Regional and the Head Office, the quorum of the Board shall not be less than three members, one being always from the Bhutan Chamber of Commerce and Industry.

47. Appeal procedure

- 47.1. Appeal shall be filed before the Appeal Committee within 30 days from the date of the issue of demand notice.
- 47.2. The Appeal Committee at the Regional Office shall pass its decision within 30 days from the date of the receipt of an appeal.
- 47.3. Where an Appeal Committee fails or does not pass decision as specified under Section 47.2, a person or entity may appeal to the Appeal Committee at the Head Office.
- 47.4. The decision of the Appeal Committee of the Regional Office may be appealed to the Appeal Committee at the Head Office within 30 days from the date a decision has been passed.
- 47.5. The Appeal Committee at the Head Office shall pass its decision within 60 days from the date of the receipt of an appeal.
- 47.6. Where an Appeal Committee fails or does not pass a decision as specified under Section 47.5, a person or entity may appeal to the Appeal Board.
- 47.7. The decision of the Appeal Committee of the Head Office may be appealed to the Appeal Board within 60 days from the date a decision has been passed.
- 47.8. The Appeal Board shall pass its decision within 60 days from the date of the receipt of an appeal.
- 47.9. The decision of the Appeal Board may be appealed to the Court of law within 30 days from the date a decision has been passed.
- 47.10. Where the Appeal Board fails or does not pass a decision as specified under Section 47.8, a person or entity may appeal to the Court of Law.
- 47.11. The decisions passed thereto by the Appeal committee or the Board shall be in writing.
- 47.12. The provision of appeal under this Act shall not bar a person from filing an appeal in the Court of Law.

48. Waiver

Any penal interest or fine imposed on a taxable person or entity may be waived in whole or in part by the Department on satisfaction that the violation of the provisions of this Act was unintentional.

Chapter 8

Duties and functions of employees of the Department

49. General

A revenue and customs officer shall not take any assignment or task in which his relatives are involved or a case in which he may have a conflict of interest.

50. Confidentiality

All information obtained by staff of the Department in the course of their work shall be treated with the greatest confidentiality. Any information obtained in the office or while undertaking any duty outside the office shall not be disclosed to any unauthorized person. Any information obtained in service must not be used by the staff of the Department for their personal advantage or for the advantage of a third party.

51. Liability of officers

No prosecution or legal liability shall lie personally against any officer of the Department for any act or omission that may be committed in discharge of lawful duties under this Act or any other Act.

52. Intelligence

52.1. It shall be the duty of every officer under the Department to communicate intelligence or information relating to the interest of the Department, Ministry, or the security of the Nation.

52.2. It shall be the duty of the Head of the Department to treat all such information or intelligence as privileged and confidential and to communicate to the Government after verifying the validity of information or intelligence.

53. Anonymity of informant

53.1. An informant shall always be treated under confidence and his identity shall not be disclosed even if the information or intelligence is proved wrong.

53.2. An informant shall not disclose any source of information or intelligence under any circumstances to any person who is not authorized under this Act or any other Act.

