WORKING PAPER AL-WP-2083-01 • TAX AUDIT & CORPORATE COMPLIANCE

Poush-End Corporate Tax Audit (Extended D-03), NFRS-to-Tax Reconciliation & 40% Advance Tax Working Paper

By **ArthaLedger Research Desk** • Updated: Mangsir 2083 (November 2026) • 12 min technical briefing

✓ **Fact-Checked by a Nepal CA Professional:** Rates, statutory references, and worked examples reviewed against FY 2083/84 (2026/27) provisions.

Poush Masanta
Final Extended D-03 Filing Cutoff (Sec. 98)

40% Target
1st Installment Advance Tax Due (Sec. 94)

90% Rule
Statutory Estimate Threshold vs. Sec. 118 Interest

Executive Summary: Why Mangsir–Poush Is Nepal's Highest-Risk Tax Window

Every year between **Mangsir and Poush Masanta**, corporate finance departments and Chartered Accountancy audit teams in Nepal face a dual statutory bottleneck under the **Income Tax Act, 2058**:

1. **Finalizing Prior-Year Extended Corporate Returns (D-03):** Entities that obtained a 3-month filing extension prior to Ashoj-end under **Section 98** must complete statutory and tax audits, reconcile NFRS/NAS financial statements into tax assessable income, reconcile E-TDS credits on the IRD portal, and upload certified returns on or before **Poush Masanta** (zero further extension permitted).
2. **Estimating & Paying Current-Year 1st Installment Advance Tax (FY 2083/84):** Simultaneously, under **Section 94**, every entity earning assessable business or investment income must file its estimated tax return and deposit **40% of estimated current-year tax** (net of creditable TDS) by Poush-end.

> **Critical Statutory Distinction (Sec. 98 vs. Sec. 118):** An approved IRD time extension up to Poush Masanta shields the taxpayer strictly from *late-return filing penalties under Section 117(1)*. It **never** suspends **15% p.a. interest under Section 118** (computed monthly or part of a month) on any residual unpaid tax balance that remained outstanding after Ashoj-end.

Part I: Master NFRS Accounting Profit to ITA 2058 Reconciliation Schedule

A high-risk trigger during Inland Revenue Office (IRO) full-audit assessments is mechanical submission of NFRS/NAS income figures without reversing accounting accruals and statutory caps. Audit review files should verify all 10 reconciliation adjustments below:

Statutory Section	NFRS / Accounting Treatment	Income Tax Act 2058 Adjustment
Sec. 19 & Sch. 2 Tax Depreciation	Component useful-life depreciation (NAS 16) & ROU Asset amortization (NFRS 16)	Add back 100% accounting depreciation & ROU amortization; deduct block WDV depreciation across Pools A–E applying addition timing fractions (100% / 2/3 / 1/3).
Sec. 16(2) Repair & Improvement	Routine repairs expensed in P&L as incurred	Capped at **7% of the closing Depreciation Basis** of the respective asset pool. Excess over 7% is disallowed in the current year and capitalized to next year's opening pool WDV.
Sec. 15 Cost of Trading Stock	Inventory write-downs / NRV provisions (NAS 2) & overhead absorption variances	Disallow general/unverified obsolescence provisions; value closing stock at lower of cost or market value under prescribed absorption/prime-cost consistency rules.
Sec. 14(2) Thin Capitalization Interest	Full finance cost expensed on related-party debt	For resident entities controlled (≥25%) by tax-exempt entities or non-residents, interest paid to controlling parties is capped at **Interest Income + 50% of Adjusted Taxable Income (ATI)**.
Sec. 17 & Sec. 18 Pollution Control & R&D	Capitalized or expensed per project policy	Deductible up to **50% of ATI from all businesses**; unabsorbed excess is capitalized into **Pool D** at the start of the subsequent income year.
Sec. 21(1) & (2) Express Disallowances	Recorded in administrative / operating expenses	Add back fines/penalties paid to government bodies, personal/domestic expenses, income tax, unsupported non-PAN invoices above petty limits, and non-banking cash payments breaching Sec. 21(2) banking thresholds.
Sec. 24 & NAS 19 Employee Benefits & Gratuity	Actuarial gratuity, sick/home leave provisions & bonus accruals	Disallow unfunded actuarial provisions; allow strictly actual payouts or irrevocable transfers to approved retirement funds (SSF / CIT / EPF) reconciled with payroll TDS.

Statutory Section	NFRS / Accounting Treatment	Income Tax Act 2058 Adjustment
NFRS 16 Lease Accounting	ROU Depreciation + Implicit Lease Interest Expense	For operating leases not qualifying as finance/installment purchases under tax law, add back ROU depreciation + finance interest and deduct actual contractual lease rent (subject to 10% rent TDS verification).
Sec. 25 / 26 Prior Period & FX Unrealized	Unrealized year-end FX revaluation gains/losses & prior-year bills	Verify tax realization rules on translation items and disallow prior-period expenses belonging to closed assessment years under accrual matching principles.
Sec. 12 Donations / CSR	CSR & charitable contributions expensed	Deductible only if paid to IRD tax-exempt registered entities, capped at lower of **5% of ATI** or **NPR 1,00,000** (unless special heritage/sports notification under Sec. 12Ka/12Kha applies).

Part II: Schedule 2 Depreciation Blocks & Addition Timing Reference

Errors in asset addition cutoffs between Poush, Chaitra, and Ashadh remain one of the most frequent automatic audit adjustments during tax assessments:

Asset Pool	Asset Category	WDV Rate (Normal)*	Addition Timing Rule (Unabsorbed Portion Carry-Forward)
Pool A	Buildings, structures & permanent civil works	**5%**	• **Shrawan 1 – Poush End:** 100% added to Depreciation Basis • **Magh 1 – Chaitra End:** 2/3rd added (1/3rd deferred to next year) • **Baisakh 1 – Ashadh End:** 1/3rd added (2/3rd deferred to next year)
Pool B	Computers, data processing, office furniture & fixtures	**25%**	
Pool C	Automobiles, buses, minibuses & motor vehicles	**20%**	
Pool D	Construction/earth-moving plant, manufacturing machinery & unabsorbed PCC/R&D	**15%**	
Pool E	Intangible assets (software licenses, patents, copyrights)	**SLM over useful life** (rounded down to nearest half-year)	Same 100% / 2/3rd / 1/3rd addition timing applies to initial basis

*Note: Special industries (manufacturing, hydropower/energy, infrastructure under Sec. 11 & Schedule 2 Para 3) qualify for **1/3rd accelerated depreciation** on Pools A–D (e.g., 6.67%, 33.33%, 26.67%, 20%).

Part III: Poush-End 40% Advance Tax & The 90% Safe-Harbor Framework

Under **Section 94**, current-year advance tax is payable in three cumulative milestones: **40% by Poush End**, **70% by Chaitra End**, and **100% by Ashadh End**.

1. **Formula for Poush Cash Remittance:** `Poush Payable = Max(0, [40% × Estimated Full-Year Tax Liability] – Advance/Withholding Tax (TDS) Already Suffered up to Poush End)`.
2. **Reconcile E-TDS Ledger Before Deducting Credits:** Only subtract customer/bank withholding taxes where the counterparty has actually deposited and mapped the E-TDS voucher to your corporate PAN on `ird.gov.np`. Unverified receivable TDS frequently triggers shortfall demand notices.
3. **Section 118 Installment Shortfall Interest Trap:** If cumulative installments paid fall below **90% of actual final tax liability** (or if estimated return figures understate required benchmarks), 15% p.a. compounding monthly interest attaches to the installment deficit from Poush-end through return due date. *Best practice:* re-forecast Q2 run-rate margins in the final week of Poush and build a 5%–8% prudence buffer into your estimated return.

Part IV: Pre-Submission Sign-Off Checklist (D-03 & Poush Installment)

- **Turnover Cross-Tie:** Reconcile Audited Revenue ↔ 12 Monthly VAT Returns (Schedule) ↔ D-03 Turnover Note (explain deferred revenue, credit notes, and exempt exports explicitly).
- **Expense Cross-Tie:** Reconcile Salary Expense ↔ Monthly Payroll E-TDS filings + SSF/EPF challans; Rent/Consultancy/Contract Expenses ↔ Vendor E-TDS schedules.
- **Opening Tax WDV Tie-Out:** Match Opening Pool A–E balances + deferred unabsorbed additions + prior-year excess 7% repairs strictly against the prior year's filed D-03 annex.
- **Loss Carry-Forward Aging (Sec. 20):** Verify that brought-forward business losses are within the statutory **7-year window** (or 12 years for eligible infrastructure/petroleum/hydropower projects).

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