

Sonam Choden (Lund Record.)

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ROYAL GOVERNMENT OF BHUTAN
MINISTRY OF FINANCE

TELEX : 890-201
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Resi. : 2494

TASHICHHO DZONG
THIMPHU-BHUTAN

Date...4th August 1992.

TAXATION POLICY 1992.

The Sixth Five Year Plan has come to an end and the Seventh Five Year Plan commenced on 1st July 1992. In order to fill the objectives enshrined in the Seventh Plan it is necessary to review and improve the tax policy of the Government. Taxation must be made a major policy instrument to promote growth, regulate external trade and equitable distribution of income. Generation of revenue is only one of the objectives of taxation.

The Seventh Five Year Plan outlay is over Nu. 16000.0 m. It does not include expenditures for large investment projects which have been kept outside the plan outlay. The plan also envisages a very ambitious growth rate of 5% per annum and has made the achievement of self reliance one of the most important goals. The success of the plan would therefore depend among other factors largely upon a fiscal policy that would be conducive to growth and at the same time generate adequate resources to reduce excessive dependence on external assistance. In order to move towards the achievement of the goal of self reliance the Royal Government is committed to the objective of being able to meet the cost of maintenance of essential services from domestic resources.

In order to strike an acceptable balance between revenue and maintenance cost the Government had in the past resorted to cuts in the budget. Further cuts are no longer sustainable and would affect the quality of services. Hence, the effort now is to enhance the revenues. During the Sixth Plan period the cost of maintenance is likely to be at least Nu. 8611.0 m as compared to Nu. 4973.0 m during the Sixth Plan period. The total revenue collected during the Sixth Plan is Nu. 4700.0 m, and by the fiscal year 1991-92 the revenue receipt of Nu. 1064.0 m was adequate to meet over 90% of the cost of maintenance which was 1160.0 m. During the Seventh Plan the total revenue is Nu. 7636.0 m which is adequate to meet only 90% of the maintenance cost of Nu. 8611.0 m. The task of generating a revenue of Nu. 7636.0 m would require expansion of the tax base and strengthening of the tax administrative

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While the revenue target is rather ambitious it is necessary to note that taxes form only about 30 per cent of the total revenues. This shows that the Royal Government is still heavily dependent upon non-tax receipts from government corporations, departmental enterprises and other capital receipts. Tax revenues must, in the long run, form the main source of revenue. However, given the present socio-economic conditions in Bhutan, concerted efforts will have to be made to maximize the revenues from the non-tax sources. In this connection the Government is committed to levying realistic levels of user charges, fees etc. for public services and increasing the tariff for power and other public utilities.

While formulating the new tax policy, care was taken to ensure that rural taxes affecting the common people were not increased. Such rural taxes are presently not cost effective and the rural people in any case already contribute significantly in terms of labour for projects. Major changes were made only in sales tax, urban property tax, and cash crop tax. Some changes were also introduced in the salary tax. The main emphasis was on rationalization of the taxes in light of the Governments objectives. The tax policy changes were guided by the following principles:

1. Rationalization of the tax structure
2. Expansion of the tax base
3. Promotion of Savings and Investment
4. Discourage consumption in general
5. Correct the trade imbalances
6. Ensure equity
7. Simplify administrative procedures

It is expected that the new tax policy would promote growth, generate revenue and also help to reduce imbalances in the external trade. It is also the endeavour of the government to review the tax policy from time to time in keeping with the changing needs and potentials.....

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During the formulation of the present tax policy the Ministry of Finance was fortunate to receive detailed comments and suggestions from tax experts from the IMF mission who were on a mission. The IMF mission broadly endorsed the tax policy and made several useful recommendations for further improvements in the near future.

The tax policy is part of a general effort to streamline fiscal and monetary policy measures aimed at promoting growth and sustainability. Appropriate changes will also be brought about in the import regulations. The Government will have a clear cut tariff system to replace quantitative restrictions and make the rules transparent to all.

This tax policy will supercede all tax policy directives including the 1989 tax policy and come into force from August 1992.

(D. Tshering)

MUNICIPAL TAXES, FEES AND CHARGES

Revisions have been made keeping in mind that in the medium to long run all the Municipal Corporations should become self sustainable in meeting its recurring and maintenance expenditure and that taxes should be commensurate with the resource needs of the Municipal Corporations for providing such services.

Depending on the level of infrastructure and quality of services provided, towns have been reclassified as follows:-

1. Group 'A' Towns

1. Thimphu
2. Phuntsholing
3. Samdrup Jongkhar

2. Group 'B' Towns

1. Gaylegphug
2. Tashigang
3. Mongar
4. Tongsa
5. Paro
6. Samchi
7. Sarbhang

3. Group 'C' Towns

1. Shemgang
2. Jakar
3. Haa
4. Chimakothi
5. Damphu
6. Wangdiphodrang
7. Punakha
8. Pemagatshel
9. Gomtu
10. Deothang

4. Group 'D' Towns

1. Lhuntshi
2. Chengmari
3. Kanglung
4. Diafam
5. Bhangtar
6. Dagapela
7. Lamidara

① Classifications will be reviewed periodically for any necessary changes.

) For purposes of Government acquisition, the Lhengyal Shungtshog decision of June 26th, 1986 will continue irrespective of above classifications or any revisions thereof.

) During the 7th Five Year Plan it has been decided by the Royal Government that selected towns are to be relocated to new sites. The following towns which are to be relocated will not be liable for any municipal taxes until proper establishment of the new township:-

1. Punakha
2. Wangdiphodrang
3. Dagana
4. Lhuntshi
5. Nganglam
6. Kalikhola
7. Sibsoo
8. Pemagatshel
9. Jakar
10. Tashiyangtshi
11. Shemgang

Land Tax: (With effect from 1st January 1993).

In view of a substantial increase in the land value and use, the land tax has been revised as follows :-

Group 'A' Towns

- | | |
|--------------------------------|------------|
| i) Residential Land | 25ch/sq.ft |
| ii) Commercial/Industrial Land | 50ch/sq.ft |

Group 'B' Towns

- | | |
|--------------------------------|------------|
| i) Residential Land | 20ch/sq.ft |
| ii) Commercial/Industrial Land | 40ch/sq.ft |

Group 'C' Towns

- | | |
|--------------------------------|------------|
| i) Residential Land | 15ch/sq.ft |
| ii) Commercial/Industrial land | 30ch/sq.ft |

Group 'D' Towns

- | | |
|--------------------------------|------------|
| i) Residential Land | 10ch/sq.ft |
| ii) Commercial/Industrial Land | 20ch/sq.ft |

Underdevelopment Land Tax : (With effect from 1st January 1993).

An underdevelopment land tax shall be levied in addition to the above Land Tax @ 25% of the Land Tax applicable on owners holding on to land without any constructed house approved by the Municipal Corporation.

Land Allotment and Development Fees: (With effect from 10th August 1992).

In view of a very high development cost to the Government in the provision of infrastructures like roads, water supply, power connections, drainage etc., the rates have been revised as follows:-

Allotment and Development Fees shall be as follows:

	Residential Rate/Sq.Ft	Commercial/ Industrial Rate/Sq.Ft.
Group 'A' Town		
Land Price	Nu. 2	Nu. 7
Development Cost	Nu. 10	Nu. 23
Total	Nu. 12	Nu. 30
Group 'B' Town		
Land Price	Nu. 1.50	Nu. 4
Development Cost	Nu. 4.50	Nu. 11
Total	Nu. 6.00	Nu. 15
Group 'C' Town		
Land Price	Nu. 1	Nu. 2
Development Cost	Nu. 4	Nu. 8
Total	Nu. 5	Nu. 10
Group 'D' Town		
Land Price	Nu.0.50	Nu. 1
Development Cost	Nu.2.50	Nu. 4
Total	Nu.3.00	Nu. 5

Urban House Tax: (With effect from 1st January 1993).

The existing annual Urban House tax shall continue at the same rates as given below. However, there has been an inclusion of a new category referred to as Houses in addition to Buildings.

Classification of buildings and houses will be based on the following criteria:

Buildings		Houses		
Minimum size Apartment	Minimum Space Apartment	Minimum size House	Detached/Semi-detached independent Houses	
Above 1260 sq.ft (120 sq.m.)	Sitting/Dining 3 bed rooms 2 Toilets/baths Kitchen/Store	Above 1500sq.ft	Sitting/Dining 3 Bed rooms 2 Toilets/baths Kitchen/Store Garage/Servant's quarter.	<u>Cl. I</u>
875-1259 sq.ft (85 sq.m.)	Sitting/Dining 2 Bed Rooms 2 Toilets/Bath Kitchen/Store	1200-1499 sq.ft	Sitting/Dining 2 bed romms 2 Toilets/Bath Kitchen/Store	<u>Cl. II</u>
508-874 sq.ft (50 sq.m.)	Sitting/Dining 1 Bed room 1 Toilet/Bath Kitchen	874-1199sq.ft	Sitting/Dining 1 Bed Room 1 Toilet/Bath Kitchen	<u>Cl. III</u>
332-507 sq.ft (32 sq.m.)	1 Room Kitchen Toilet/Bath	500-873 sq.ft	1 Room Kitchen Toilet/Bath	<u>Cl. IV</u>

Each house includes Bungalow, Duplex house and Cottage, of permanent or semi-permanent structure.

A unit is defined as either a shop and office or dwelling unit. Where one shop or office or warehouse occupies large spaces, unit would be calculated on a carpet area of 771 sq.ft. per unit.

TOWN HOUSE TAX RATES: (Rates per unit per annum)

Buildings

i) Group 'A' Town

a)	1st	Class	Buildings	Nu.100/unit p.a
b)	2nd	Class	Buildings	Nu. 75/unit p.a
c)	3rd	Class	Buildings	Nu. 30/unit p.a
d)	4th	Class	Buildings	Nu. 20/Unit p.a

ii) Group 'B' Town

a)	1st	Class	Buildings	Nu. 75/Unit p.a
b)	2nd	Class	Buildings	Nu. 50/Unit p.a
c)	3rd	Class	Buildings	Nu. 25/Unit p.a
d)	4th	Class	Buildings	Nu. 15/Unit p.a

iii) Group 'C' Town

a)	1st	Class	Buildings	Nu. 50/Unit p.a
b)	2nd	Class	Buildings	Nu. 40/Unit p.a
c)	3rd	Class	Buildings	Nu. 20/Unit p.a
d)	4th	Class	Buildings	Nu. 10/Unit p.a

iv) Group 'D' Town

a)	1st	Class	Buildings	Nu. 25/Unit p.a
b)	2nd	Class	Buildings	Nu. 20/Unit p.a
c)	3rd	Class	Buildings	Nu. 10/Unit p.a
d)	4th	Class	Buildings	Nu. 5/Unit p.a

B. Houses

Type of House

a)	Class I	Nu.500/Unit p.a
b)	Class II	Nu.300/Unit p.a
c)	Class III	Nu.200/Unit p.a
d)	Class IV	Nu.100/Unit p.a

5. Land Demarcation Fee: (With effect from 10th August 1992).

In view of the increase in the cost of such services, the fees have been revised to 20 Cheltrums per sq.ft or Nu. 1,000/- which ever is more.

5. **Property Transfer Tax: (With effect from 10th August 1992).**

The existing rate charged at 5% of sale value of the property shall be paid by the seller.

Present exemptions from all taxes for transfers between immediate family members will continue.

Immediate family members may be defined as husband, wife and children.

7. **Service Charges: (With effect from 1st August 1992).**

Service charges for providing municipal services such as water supply, roads, street lighting and garbage collection shall be charged in all urban areas where such services are available at the following rates:-

a) **Residential units: (Rates based on units per month)**

Category	Water charges	Garbage Collection charges	Street lighting charges	Total
1. Buildings				
Class I	15	10	05	30
Class II	13	08	04	25
Class III	11	06	03	20
Class IV	09	04	02	15
2. Houses:				
Class I	40	40	20	100
Class II	30	30	15	75
Class III	20	20	10	50
Class IV	10	10	05	25

Note: Water charges, if metered, will be on actual basis.

b) **Commercial/ Industrial Units :**

The following monthly rates will be applicable :-

(Rates per unit per month)

1. **Standard Shops & Restaurants :**

2. **Hotels :**

Nu. 60/-

- | | | | |
|----|---|----------|---------|
| a) | 1st class(Single room charge (Nu.200/- and above per night) | per room | Nu.15/- |
| b) | 2nd class (Nu.101 - Nu.199) | per room | Nu.10/- |
| c) | Economy (Nu.100 and below) | per room | Nu. 7/- |

Building Plan Processing Fees : (With effect from 10th August 1992).

In view of the fact that the Building Plan Processing is not only time consuming but also requires regular visits to sites, the rates have been increased as follows:

- a) Building plan processing fees Nu.1000/- per plan
- b) Modification, Extension etc. Nu. 500/-

Septic Tank cleaning Charges: (With effect from 10th August 1992).

Due to increase in fuel price and labour cost, the Septic Tank cleaning charges have been revised @ Nu.1000 per tank on user charge basis.