

Personal Income Tax Guide Book

Frequently Asked Questions

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The information in this booklet is for guidance only and reflects the tax position at the time of printing. For more details refer to the Income Tax Act of the Kingdom of Bhutan 2001 and the Rules on the Income Tax Act of the Kingdom of Bhutan 2001.

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Salary
Rental
Interest
Dividend
Cash Crop
Other Sources

Department of
Revenue & Customs
Ministry of Finance
Royal Government of Bhutan

This pamphlet contains general tax information
Taxpayer Series 2005/DRC/PIS/PIT/02

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Personal Income Tax in Bhutan

Background

The Income Tax Act of the Kingdom of Bhutan was enacted during the 79th session of the National Assembly and came into force on 1st January 2002. A major component of the new act was the introduction of personal income tax (PIT).

PIT was developed on the premise of ensuring social equity and the principle that tax should be levied based on the person's ability to pay. PIT is a progressive tax, meaning that the tax rate increases as an individual's taxable income increases. In order to ensure that the tax is not burdensome on rural people and those with lower incomes in urban areas, a certain level of income has been exempted from PIT by providing a basic exemption of Nu.100,000. In addition, there are specific exemptions/deductions allowed depending on the type of income.

Wherever possible, taxes will be deducted at source (TDS) and adjusted against the final tax liability at the time of filing annual tax returns. TDS has been designed to spread the burden of tax over the year for the taxpayer and to ensure timely collection of government revenue.

Objectives of PIT

The introduction of PIT in Bhutan is aimed at achieving the following objectives:

- To broaden the tax base by bringing all types of income under the tax net.
- To mobilise internal revenue.
- To reduce emerging disparities in income and wealth.
- To guide savings and investment activities in accordance with economic policy.

SOURCES OF INCOME	Amount(Nu.) Per annum	
1. Income from Salary & Consultancy Services (non-licensed)		
Monthly Salary	50,000	
Add: Allowances/Bonus(/ Fees/Commission/Benefits(per annum)	0	
Adjusted Gross Salary Income (Annual)	600,000	
2. Rental Income from Real Property		
Gross Rental Income	900,000	
Less: Specific Deductions		
Interest paid	(250,000)	
Repair and Maintenance (20% of GRI)	(180,000)	
Municipal and Urban House Taxes (Actual)	(25,000)	
Insurance Premium	(30,000)	
Adjusted Gross Rental Income	415,000	
3. Dividend Income from Shareholdings		
Gross Dividend Income	200,000	
Less: Specific Deductions/Exemption		
Exemption (fixed)	(10,000)	
Interest paid	(50,000)	
Adjusted Gross Dividend Income	140,000	
4. Interest Income from Fixed Deposits		
Gross Interest Income	50,000	
Less: Specific Deductions/Exemption		
Exemption(fixed)	(10,000)	
Adjusted Gross Interest Income	40,000	
5. Income from Cash Crop		
Gross Cash Crop Income	900,000	
Less: Specific Deductions/Exemption		
Deduction (30% of Gross Cash Crop Income)	(270,000)	
Adjusted Gross Cash Crop Income	630,000	
6. Income from Other Sources (hiring of pvt. veh., P&M, & Intellectual Property)		
Gross Income Other Sources	500,000	
Less: Specific Deductions/Exemption		
Deduction (30% of Gross Income from Other Sources)	(150,000)	
Adjusted Gross Income from Other Sources	350,000	
TOTAL ADJUSTED GROSS INCOME	2,175,000	
Less: General Deductions		
Annual Life Insurance Premium	0	
Donations (upto max 5% of Total Adjusted Gross Income)	0	
Education Allowance (upto max. Nu. 50,000 per child p.a)	(100,000)	
NET TAXABLE INCOME	2,075,000	
Income Slabs	Rate	Tax Amount
0 - Nu.100,000	0%	0
Nu. 100,001 - Nu. 250,000	6%	9,000
Nu. 250,001 - Nu. 500,000	9%	22,500
Nu. 500,001 - Nu.1,000,000	12%	60,000
Nu. 1,000,001 & above	15%	161,250
TAX AMOUNT		252,750
Taxes Deducted at Source (TDS) from:		
1. Salary (See annex III of the income tax rules)		(43,500)
2. Rental Income		
3. Dividend Income		(20,000)
4. Interest Income		(2,500)
6. Income from Other Sources		(25,000)
TOTAL TDS		(91,000)
BALANCE TAX PAYABLE/REFUNDABLE [TO BE PAID BY YOU]		161,750
GROSS INCOME (i.e., before specific deductions)		3,150,000
EFFECTIVE TAX RATE		8%

NOTE: TDS from rental income not reflected, as the landlord might not be having such arrangements with tenants (The above calculation was done using the PIT calculation model available on DRC website www.mof.gov.bt/drc).



VII. Income From Other Sources

a. What are the sources of income included under Income from Other Sources?

Income from other sources includes:

- i. Income earned from hire of privately owned plant and machinery
- ii. Income earned from hire of privately owned vehicles
- iii. Income earned from Intellectual property rights i.e. copyright, patent, trademarks etc.

b. How should PIT on Income from Other Sources be collected?

Any agency/organisation hiring your vehicle, plant or machinery will be responsible for withholding at source **5%** of the hire charges at the time of payment - which must be deposited with the concerned Regional Revenue & Customs Office by the **10th** of the following month. The tax withheld is a **provisional tax** which will be adjusted against the final tax liability when you file in your annual tax returns.

c. Are there any allowable deductions under this source of income?

Yes. 30% specific deduction is allowed from the gross income earned to cover expenses incurred to earn your income.

d. In case of hiring of vehicles, plant or machinery, is depreciation allowed under PIT?

No. Depreciation is not allowed because tax is charged on the income you have earned from hire and not on the value of the asset (vehicle or machinery).

VIII. Income From All Sources

e. If a taxpayer has income from all six sources how is his PIT calculated?

Assume that Mr. Taxpayer has all six sources of income and liabilities in an income year as shown below:

1. Salary Income	Nu.600,000
2. Real Property Income	Nu.900,000
Building Loan Interest (from recognised financial institution)	(Nu.250,000)
Insurance Premium	(Nu.30,000)
Local Taxes	(Nu.25,000)
3. Dividend Income	Nu.200,000
Loan interest for buying shares (from recognised financial institution)	(Nu.50,000)
4. Interest Income	Nu.50,000
5. Cash Crop Income	Nu.900,000
6. Income from other Sources	Nu.500,000
General deductions	-
Educational expense (for two children)	(Nu.100,000)
Gross Income	Nu. 3,150,000

I. General Questions

a. What is Personal Income Tax (PIT)?

PIT is a tax levied on personal income mentioned under **I.d**. If you earn or receive income over Nu.100,000 in an income year - which runs from 1st January to 31st December - you are required to pay income tax.

b. Who is liable to pay PIT?

Bhutanese citizens, residents and any other persons having taxable income from sources or for work performed in Bhutan exceeding the basic exemption of Nu.100,000 a year will be liable for PIT. Income earned abroad will not be subject to PIT.

c. Who is exempt from paying PIT?

A religious institution or organisation, charitable institution, trust or a body of persons shall be exempt from PIT provided the following conditions are met:

- Such organisations are approved by the government and established in the Kingdom of Bhutan.
- Is not operated or conducted for profit.
- Is established exclusively for religious worship or advancement of religion or for charitable purposes and is in the interest of the general public.
- Management and control is done through a board consisting of minimum three members.
- Proper books of accounts are maintained.
- Organisations are registered with the Department of Revenue and Customs.

d. What are the sources of personal income covered under PIT?

The sources of personal income covered under PIT are:

- i. Salary income from regular or part time work including bonus, perquisites, allowances etc.
- ii. Rental income from land, buildings and houses - after specific deductions.
- iii. Interest income from fixed deposits exceeding Nu.10,000 per annum.
- iv. Dividend income from shares in companies exceeding Nu.10,000 per annum.
- v. Cash crop income from apple, orange and cardamom - after specific deductions.
- vi. Income from hire of plant and machinery, intellectual property rights - after specific deductions.

e. Do I have to pay tax on everything I earn?

No. Everyone is entitled to receive a certain amount of relief that is, basic exemption. For example, a person is allowed to upto Nu.100,000 in an income year as basic exemption, any income above that amount is taxable.

f. How is my tax worked out?

Identify your source(s) of income from income sources mentioned in I.d. Then deduct specific deductions/exemptions allowed under each source of income to arrive at adjusted gross income (AGI). Add all the AGIs to arrive at the total AGIs. Then deduct general deductions to arrive at your net taxable income.

On the net taxable income apply the PIT tax rate to arrive at the tax amount payable by you. From the tax amount minus the taxes deducted at source (TDS) e.g. from salary/house rent/interest/dividend. Where the tax amount is more than the TDS, you must pay the difference when you file in your tax return. In the event the TDS amount is more than the tax amount, the excess will be refunded to you. See **VIII (Income From All Sources)** for actual computation. Please note, to claim TDS adjustments/deductions relevant documents must be produced.

g. What are general deductions?

General deductions are:

- Education allowance of a maximum of Nu.50,000 per child, per annum.
- Donation made to a government approved relief fund for; National Calamities, Preservation/Promotion of Religion and Culture, and for the Promotion of Sports, Educational and Science upto 5% of taxable net income.
- Premium on Life Insurance Scheme with an insurance company in Bhutan.
- Contributions to Provident Fund and Group Insurance Scheme.

The above deductions are subject to production of relevant support documents.

h. In the case of divorced parents, who is allowed to claim education allowance deduction? Is it the parent with whom the child is staying or the parent who is bearing the expenses as per the court verdict?

The parent actually bearing the educational expenses shall be eligible for education allowance deduction, provided the relevant documents are produced, such as receipts.

i. What is Gross Income and Net Taxable Income?

Gross Income is the total income before any deductions.

Net Taxable Income is the total income after specific deductions/exemptions and general deductions.

g. How is PIT on my cash crop income calculated?

Assuming that you have only one source of taxable income, i.e. cash crop income - PIT is calculated as given in the following example.

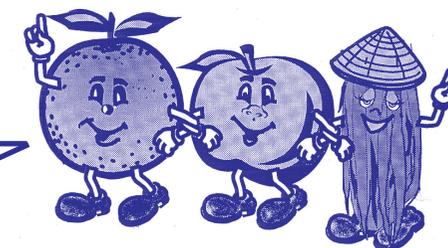
Let us take the cash crop income of three categories Mr. Low, Mr. Middle and Mr. High. We assume that the taxpayers (orchard owners) have only a single source of income i.e. cash crop, for the income year.

- i) Mr. Low earns income from orange orchard Nu.130,000
- ii) Mr. Middle earns income from apple orchard Nu. 500,000
- iii) Mr. High earns income from apple, orange and cardamom orchard Nu. 1,000,000

PER ANNUM (In Ngultrum)	MR. L	Mr. M	Mr. H	
Gross Cash Crop Income	130,000	500,000	1,000,000	
Deduction				
30% of Gross Cash Crop Income	(39,000)	(150,000)	(300,000)	
Net Cash Crop Income	91,000	350,000	700,000	
Income Slab	Rate	Tax due	Tax due	Tax due
0 to 100,000	(basic exemption)	0	0	0
100,001to 250,000	6%	0	9,000	9,000
250,001to 500,000	9%	0	9,000	22,500
500,001 to 1,000,000	12%	0	0	24,000
1,000,001 and above	15%	0	0	0
Total PIT due		Nil	18,000	55,500
Tax deducted at source (TDS)		0	0	0
Tax refund claim		0	0	0
Additional tax payable		0	18,000	55,500

If you have other sources of taxable income - it must be consolidated to arrive at the final tax amount due when you file in your tax returns.

LOOK AT VIII, 'INCOME FROM ALL SOURCES'.



VI. Cash Crop Income



a. Why is cash crop income included under PIT?

PIT ensures that the taxation system is applied to all types of income in a fair, equitable and just manner. Cash crop is included under PIT to ensure uniformity in the treatment of income.

b. Are all income earned from agriculture produce subject to PIT?

No. You have to pay PIT only on income earned from apple, orange and cardamom orchards.

c. When do I pay PIT on my cash crop income?

PIT on your cash crop income must be paid when you submit your annual tax returns.

d. Are there any allowable deductions?

Yes. **30%** fixed deduction is allowed from the gross cash crop income.

e. Where property is registered as dry land but is earning income from cash crop - is this income accountable as income from cash crop?

Yes. Any income received from cash crops is accountable under PIT irrespective of the type of land.

f. If I had income from my orchard last year but due to unavoidable circumstances this year, I have no income what will I have to do?

You will have to inform in writing to the Regional Director where you have registered of your status. After cross verification with other concerned agencies your case will be decided accordingly.

j. Where do I register to file my personal income tax return?

You must register as a taxpayer in **one** of the **six Regional Revenue & Customs Offices (RRCOs)** using **FORM PIT 1** (husband and wife must register in the same RRCO). You will be issued with a unique taxpayer no. (TPN) which must be used in all correspondence with the department.

All PIT correspondences, tax returns and payments pertaining to you will be dealt by the RRCO where you have registered as a taxpayer, regardless of the geographical location from where you earn your income. For example if you have rental income from property owned in Phuentsholing, Gelephu, Thimphu and you are registered with Thimphu regional office. You must file your tax returns with details of your rental income to the Thimphu regional office only - as that is where you are registered.

In the event you need to change the region of registration, you may do so with prior approval from that RRCO.

k. How do I file my personal income tax return?

Obtain a tax return **FORM PIT 2** from any RRCO, fill it in and return it to the regional office where you have registered as a taxpayer. The form can also be downloaded from our web site www.mof.gov.bt/drc

l. How many types of forms are there under PIT?

The following are the PIT forms which are available in all the Regional Revenue and Customs Offices and may also be downloaded from DRC web site www.mof.gov.bt/drc

- FORM PIT 1 - PIT Registration Form
- FORM PIT 2 - PIT Return Form
- FORM IT 1 - Monthly Salary Schedule
- FORM IT 2 - Income from Real Property
- FORM IT 3 - Income from Dividend
- FORM IT 4 - Income from Interest
- FORM IT 5 - Income from Other Sources
- FORM IT 7 (B) - Schedule of TDS Remittance from Contractors
- FORM IT 8 (A) - Information on Real Property (individual owners)
- FORM IT 8 (B) - Information on Real Property (to be furnished by the registering authority)
- FORM IT 9 - Information on Income from Other Sources
- FORM IT 10 (A) - Information on Orchard Owners (individual/owners)
- FORM IT 10 (B) - Information on Orchard Owners (to be furnished by the registering authority)



II. Salary Income

a. What is Salary Income?

Salary means gross salary income which is a total of pay, wages, allowances, remuneration, bonus, commission, consultancy fees and benefits received free or at a concessional rate. It does not include contributions to government approved pension funds, TA/DA, LTC, transfer grants, transportation benefits, stipend, living allowance received by volunteers, retirement benefits paid in lump sum at the time of retirement, foreign allowance and representational grants.

The income from salary is taxed on an accrual basis (meaning when it is earned rather than when it is received). For example, your employer will usually deduct the tax direct from your earnings each time you are paid. When you file in your PIT returns, your tax deducted at source from your earnings will be adjusted.

b. How do I work out my PIT if I have income only from salary?

Example: Income of three categories - Mr. L represents low income earning Nu. 5000 per month, Mr. M represents middle income earning Nu.12,000 per month and Mr. H earning Nu.30,000 a month represents high income. We assume that all three categories have salary as the only source of income.

PER ANNUM (In Ngultrum)	MR. L	Mr. M	Mr. H
Gross Salary Income	60,000	144,000	360,000
Deductions	Nil	Nil	Nil
education allowance		50,000	30,000
Net Income	60,000	94,000	330,000
Income Slab	Rates	tax due	tax due
0 to 100,000	basic exemption	0	0
100,001 to 250,000	6%	0	9,000
250,001 to 500,000	9%	0	7,200
500,001 to 1,000,000	12%	-	-
1,000,001 and above	15%	-	-
Total PIT due		Nil	Nil
Tax deducted at source (TDS)	Nil	(2,640)	(18,900)
Tax refund claim	Nil	2,640	2,700
Additional tax payable	Nil	Nil	Nil

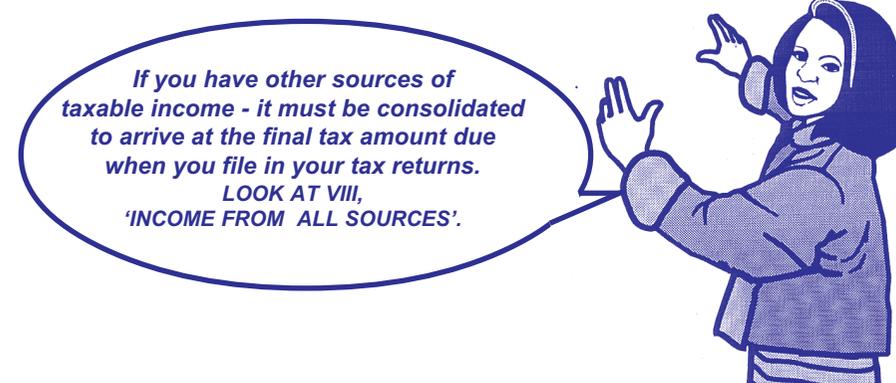
NOTE: At the time of filing of your return you will be required to put in your claim for refund of taxes withheld at source. All refund claims must be certified by the withholding agencies, in this case your employer.

h. How do I calculate my dividend Income?

Using the following example, let us take the dividend income of four categories to calculate the amount you might have to pay. Assume that the taxpayers have only a single source of income i.e. dividend.

- i) Mr. Low - income of Nu.10,000 a year
- ii) Mr. Middle - income of Nu.30,000 a year
- iii) Mr. High - income of Nu.100,000 a year
- iv) Mr. Loan - income of Nu.250,000 a year. He has availed loan amount of Nu.100,000 from a recognised financial institution at interest rate of 14 % per annum.

PER ANNUM	MR. Low	Mr. Mid	Mr. High	Mr. Loan
Gross Dividend Income	10,000	30,000	100,000	250,000
Loans	0	0	0	100,000 @14%
Less Deductions				
Actual interest against loan	0	0	0	(14,000)
Exemption for dividends	(10,000)	(10,000)	(10,000)	(10,000)
Net dividend Income	0	20,000	90,000	226,000
Income Slab	Rate	tax due	tax due	tax due
0 to 100,000	basic exemption	0	0	0
100,001 to 250,000	6%	0	0	7,560
250,001 to 500,000	9%	-	-	-
500,001 to 1,000,000	12%	-	-	-
1,000,001 and above	15%	-	-	-
Total PIT		Nil	Nil	7,560
Tax withheld at source	10%	0	(3,000)	(10,000)
Tax Refundable		0	3,000	10,000
Additional Tax Payable		0	0	0



If you have other sources of taxable income - it must be consolidated to arrive at the final tax amount due when you file in your tax returns. LOOK AT VIII, 'INCOME FROM ALL SOURCES'.



V. Dividend Income

a. How is dividend income taxed under PIT?

Dividend income derived from shareholdings will be taxed on a receipt basis.

b. Is there any exemption for the income earned from dividend?

Yes. An exemption of **Nu.10,000** on the total dividend per annum will be given. Interest payment on loans taken from recognised financial institutions shall be allowed as deduction provided the loan was taken for the purpose of buying the shares.

c. In the case of joint ownership of shareholding is the Nu.10,000 exemption allowed to both the owners?

Yes it is allowed - provided both the owners are taxpayers in their own right.

d. What is the rate applied for deductions at source?

The company distributing the dividend to shareholders will deduct **10%** of dividend at source, which will be adjusted against the individual's final tax liability.

e. Doesn't taxing dividend income amount to double taxation?

No. A company and its shareholders are two different legal entities and are therefore taxed as separate entities.

f. How is tax liability determined when there is a transfer of shares i.e. whether income is to be divided proportionally or fully by the buyer?

In this case the individual who receives the income will be liable for tax.

g. If a minor has dividend income, how will the minor be taxed?

If the minor has inherited the shares by way of will or has a guardian appointed by court, the minor will be taxed separately. In all other cases the minor's income will be clubbed with one of the parent's income, and treated as income of the parent for tax purposes.



III. Real Property Income

a. What is Real Property Income?

Real Property Income is income derived from rental and hire of immovable property such as land, house and buildings.

b. Are there any allowable deductions?

Yes. If supported by documentary proof where necessary, the allowable deductions are:

- **Interest on Borrowed Capital** - the actual amount of interest paid subject to the condition that the loan is obtained for the purpose of purchase/construction of the property earning rental income. The loan should be obtained from a recognised financial institution.
- **Repairs and Maintenance** - a fixed deduction of 20% of the gross rental income.
- **Local Taxes** - municipal and house taxes.
- **Insurance Premium** - the actual amount paid as premium to RICB for insurance of the rental property.

c. Is my self-occupied unit or house taxable?

No. Since you are not earning rental income from your self-occupied unit - it is tax exempt. Only one dwelling unit actually used for self-occupation is exempt from tax.

d. If a flat remains vacant, is it liable for tax?

No. But you must notify the concerned Regional Revenue & Customs Office of the situation in writing.

e. How is unrealised(due but not paid) rent to be treated?

Unrealised rental income will be considered only upon production of a court letter certifying that the rent is irrecoverable.

f. I own a building, which is earning rental income. I have now mortgaged this building with a financial institution for a loan to construct another building for future rental purpose. Can I deduct the interest component against the rental income?

No. When your new building is under construction, it is not earning rental income. As deductions are tied to income, the deduction will not be allowed. When your new building is rented out, the remaining interest payable can be deducted.



g. Can I adjust my interest payable from one rental income property with the income from another property?

Yes, as long as the income is from rental income. For example, if you have two buildings as shown below, you can offset the loss of **House A** from rental income of **House B**. Please note that the amount reflected for interest/insurance/local taxes would depend on your actual receipts/documents.

Per Annum	House A	House B
Rental Income	120,000	360,000
Less deductions		
Interest payable	(120,000)	(180,000)
Insurance premium	(3,000)	(5,000)
Local taxes	(5,000)	(7,000)
Repairs and maintenance (20%)	(24,000)	(72,000)
Net Income/Loss	(32,000)	96,000
		(32,000)
Taxable rental income		Nu.64,000

h. How do I calculate my rental Income?

Using the above mentioned figures you will need to do the following.

	House A	House B	
Gross Rental Income	120,000	360,000	
Deductions			
Interest payable	(120,000)	(180,000)	
Insurance premium	(3,000)	(5,000)	
Local taxes	(5,000)	(7,000)	
Repairs and maintenance	(24,000)	(72,000)	
Net Rental Income	(32,000)	96,000	
Net Taxable Income		64,000	
Income Slab	Rates	Tax due	Tax due
0 to 100,000 (basic exemption)		0	0
100,001 to 250,000	6%	-	-
250,001 to 500,000	9%	-	-
500,001 to 1,000,000	12%	-	-
1,000,001 and above	15%	-	-
Total PIT due		Nil	Nil
Tax deducted at source	5%	Nil	Nil
Tax refund claim		Nil	Nil
Additional tax payable		0	0

Note: If you have other sources of income then you will have to look at the example shown in VIII, 'Income From All Sources'.

i. In the case of a joint ownership of rental property - can each owner occupy one unit separately and claim deduction under PIT?

Yes, provided they are the legal owners of the property and they are not married to each other.

IV. Interest Income

a. How is interest income taxed under PIT?

Interest income derived from fixed deposits held with financial institutions will be taxed on a receipt basis.

b. Do I have to pay tax on the actual amount of deposits made?

No. You are liable to pay tax only on the interest earned with effect from 1.1.2002 exceeding the exemption of Nu. 10,000 and not on the principle amount.

c. Are all interest earned from accounts maintained in financial institutions taxed?

No. You will be liable for PIT only on income earned from fixed deposit accounts exceeding Nu.10,000 per annum.

d. In the case of joint account deposits is the Nu.10,000 exemption allowed to both the account holders?

Yes it is allowed - provided both the account holders are taxpayers in their own right.

e. What is the rate applied for tax deductions at source?

Financial institutions will withhold **5%** of the interest earned as provisional tax if it exceeds the specific exemption of Nu. 10,000.

f. How do I calculate my Interest Income?

For example, assume that two individuals Mr. M with Nu.500,000 and Mr. H with Nu.2,000,000 have opened fixed deposit accounts in the bank for a period of one year, earning **10%** interest **per annum** - and they have only one source of income i.e. interest income.

(In Ngultrum)	Mr. M	Mr. H	
Total fixed deposit amount	500,000	2,000,000	
Gross interest income	50,000	200,000	
Less deductions			
Exemption for interest income	(10,000)	(10,000)	
Net Interest Income	40,000	190,000	
Income Slab	Rates	Tax due	Tax due
0 to 100,000 (basic exemption)		0	0
100,001 to 250,000	6%	-	5,400
250,001 to 500,000	9%	-	-
500,001 to 1,000,000	12%	-	-
1,000,001 and above	15%	-	-
Total PIT due		NIL	5400
Tax deducted at source	5%	(5,000)	(10,000)
Tax refund claim		5,000	4600
Additional tax payable		0	0

NOTE: If you have other sources of income please refer to, 'Income From All Sources'.