

VISION

To develop an effective tax system that will serve as a fiscal policy tool to regulate the economy; adapt to changes, and contribute to the growth of the economy through the mobilization of national revenue.

MISSION

To raise national revenues for the government in a fair and equitable manner by encouraging voluntary compliance to the rules and providing efficient taxpayer services.

VALUES

To be guided by values such as integrity, dedication and professionalism in dealing with taxpayers, fostering mutual confidence, and treating all taxpayers with respect and civility.

FUNCTIONAL MANDATE AND STRATEGIES

The Tax Administration Division is directly responsible for the formulation and implementation of income tax rules and regulations, assessment, collection and monitoring of direct taxes, reviewing and recommending tax policy changes to the Ministry of Finance.

As tax administrators, we continuously strive to develop an effective tax system that will serve as a fiscal policy tool for the government to manage and regulate the economy from time to time. In doing so, we remain guided by the principles of equity, fairness, and efficiency in our endeavors to mobilize adequate revenue for the government. We also ensure that the department has the capacity to collect taxes efficiently and effectively at minimum cost through impartial service to taxpayers.

Further, maintaining a high degree of integrity and morale of our staff is a major operational strategy. To this end, we strive to put in place an effective policy framework, risk-based control mechanisms and a strong culture of accountability in our work. We remain fully dedicated both in our spirit and actions to contribute towards achieving the national goal of self reliance by mobilizing adequate internal revenue to the government every year.

Foreword

The Tax Administration Division is pleased to bring out its 6th Performance Indicator Report for Assessment Year 2009 and 2010. This annual publication, like in the previous year, attempts to report on the performance of the division in IY 2008, in its core areas such as assessment, collection and other administrative initiatives. The report covers two Income Years (IY), that is, IY 2008 for entire 12 months and IY 2009 for three months ending 31st March 2010.

The report is organized in five parts; Part I gives an overview of the organizational set up of the division including staffing, qualification and training details and new developments and initiatives undertaken during the year; Part II discusses region wise taxpayer composition and the tax type. Part III covers revenue performance for IY 2008 while Part IV covers revenue performance for IY 2009 (as of 31st March 2010). Finally, Part V provides an update on tax holiday and incentives.

All readers must note that the figures presented in this report are different from the figures reported in the National Revenue Report. This is due to difference in the reporting basis. The former is reported on an IY/calendar year basis, while the later is on a fiscal year basis.

The Division would like to thank and acknowledge the support and guidance of the Hon'ble Director, Regional Directors, Tax Heads and hard working tax officials in the regional offices for their support and assistance in publishing this report. We hope that they will find this report useful in planning, monitoring, reviewing strengths and weaknesses, and taking appropriate measures to further strengthen the administration in their respective regions.

**Tax Administration Division
DRC, HQ**

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Annexure

Annexure I: Performance Indicator Data for IY 2008

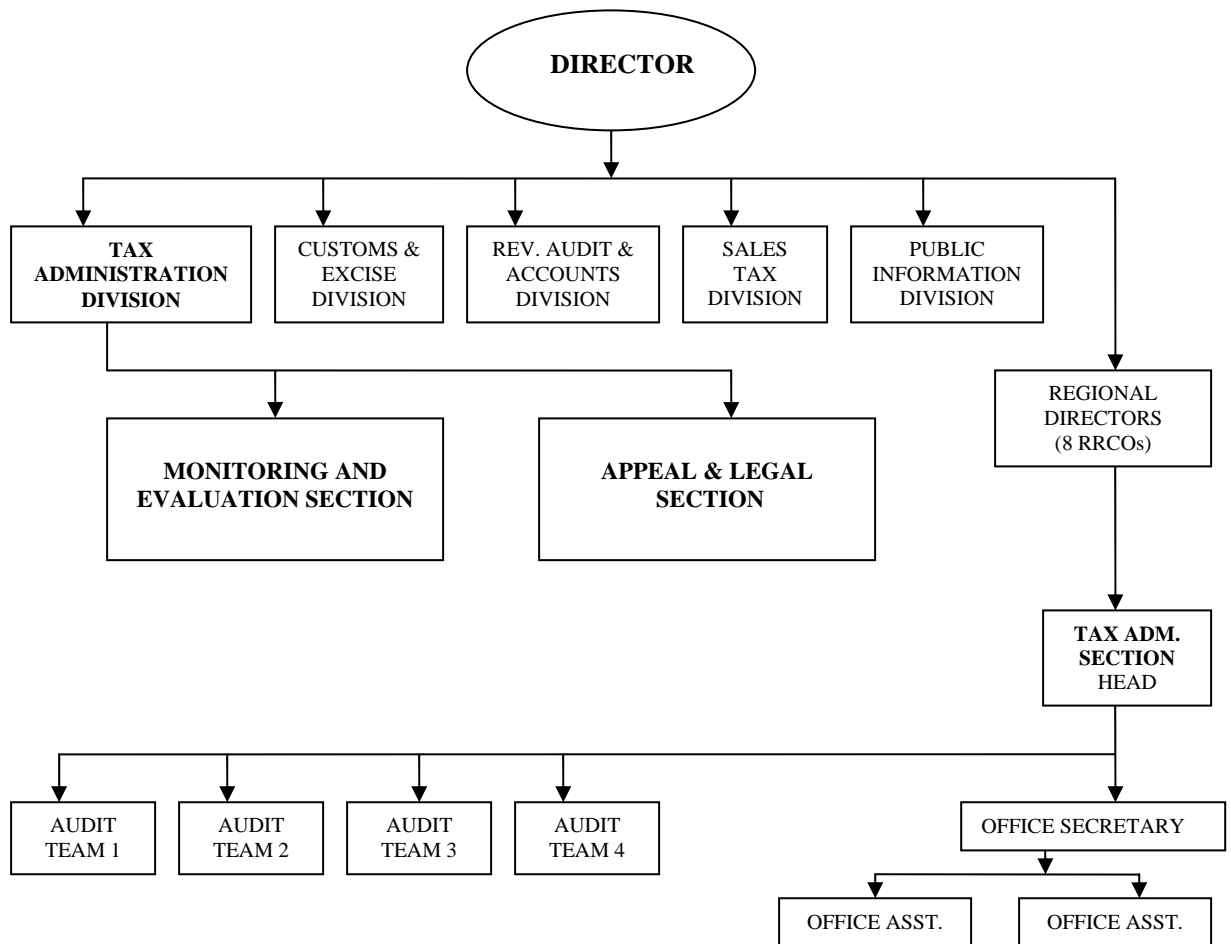
Annexure II: Performance Indicator Data for IY 2009 (self declared data till 31st March 2010)

PART I

ORGANIZATIONAL STRUCTURE

1.1 ORGANIZATIONAL SET UP

The division is structured along functional lines to avoid duplication of work and for better coordination, efficiency, and effectiveness in the overall management and administration of direct taxes. The organogram of the Tax Administration Division at the Head Office Level and Regional Level is given below.



Currently, the department has eight regional offices covering 20 Dzongkhags. The eighth regional office was established in Bumthang in January 2009. The number of audit teams varies from one RRCO to another depending on the number of tax officials and the number of taxpayers registered under each jurisdiction. Table 1 gives the administrative jurisdictions of the eight regional offices.

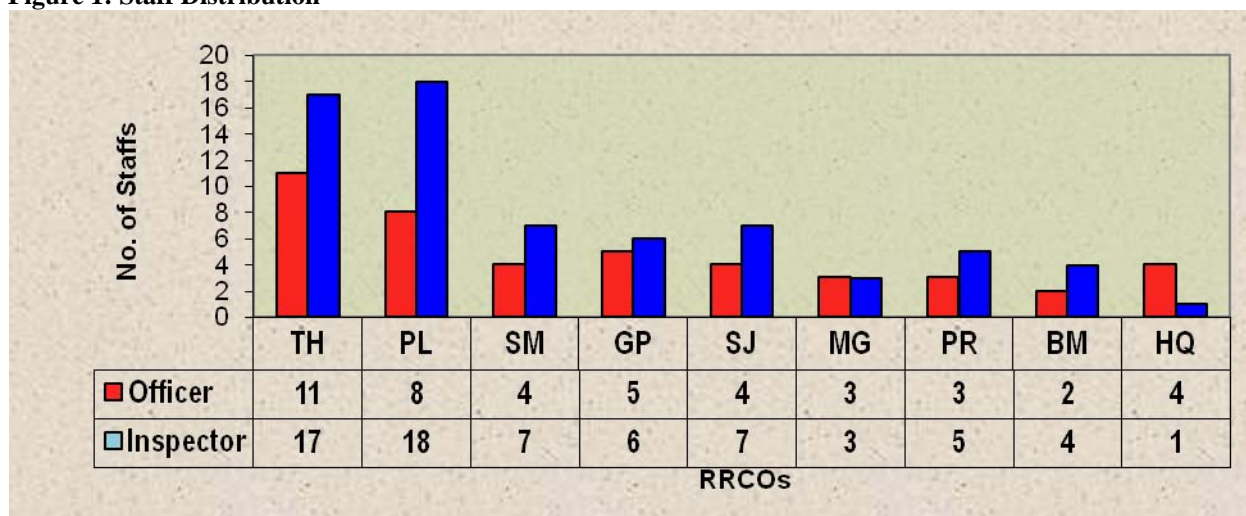
Table 1: Regional Offices and their Administrative Jurisdiction

RRCO	Coverage	Dzongkhag
Thimphu	4 Western Dzongkhags	Thimphu, Punakha, Wangdi Phodrang & Gasa
Paro	2 Western Dzongkhags	Paro and Haa
Phuentsholing	1 Southern Dzongkhag	Chukha
Gelephu	4 Southern Dzongkhags	Sarpang, Tsirang, Zhemgang & Dagana
Samtse	1 Southwest Dzongkhag	Samtse
Mongar	4 Eastern Dzongkhags	Mongar, Trashigang, Trashy Yangtse & Lhuentse
Samdrup Jongkhar	2 Southeast Dzongkhags	Samdrup Jongkhar & Pema Gatshel
Bumthang	2 central Dzongkhags	Bumthang & Trongsa

1.2 STAFF STRENGTH

As of May 2010, the Tax Administration Division recorded total staff strength of 116 officials, comprising of 48 tax officers and 68 tax inspectors. In Jan 2010, five new officers joined the division after completing the induction course at RIM. However, the number of tax inspectors remained unchanged since May 2009. Meanwhile, four senior officers have left the division following their appointment as 1. Chief Statistical Officer, National Statistic Bureau, Thimphu, 2. Employment Officer, Department of Employment, Thimphu, 3. Regional Director, RRCO Samtse and 4. Regional Director RRCO Gelephu. This reduced the number of tax officers in the division to 44 as of 30th June 2010.

The manpower allocated to the RRCOs is based on revenue potential, the number and type of taxpayers under each RRCO. The detailed staff distribution pattern is presented in the chart below:

Figure 1: Staff Distribution

1.3 QUALIFICATION

The minimum qualification requirement for officer level entry in the division is bachelor degree or equivalent. For the inspector level, the requirement level is pre-university level or class XII. The last batch of inspectors recruited was in 2008.

As of 30th June 2010, the division has 14 officers with a post graduate degree, 28 officers with an undergraduate degree, and the remaining 68 with pre university level qualifications. Two officers are currently pursuing their post graduate degrees in Philosophy in Canada and Public Policy & Taxation in Japan. Five tax inspectors are also pursuing their under graduate courses in India. The qualification details are given in the table below.

Table 2: Qualification Details

RRCO	Master Degree	Bachelors Degree	Class XII	Class X	Pursuing Masters	Total
Head Office	4	0	0	1	0	5
Thimphu	3	7	17	0	1	28
P/ling	2	6	16	2	0	26
Samtse	1	3	6	1	0	11
Gelephu	1	4	3	3	0	11
S/Jongkhar	1	3	6	1	0	11
Paro	0	3	5	0	0	8
Mongar	2	0	3	0	1	6
Bumthang	0	2	3	1	0	6
Total	14	28	59	9	2	112

1.4 TRAINING

Trainings are essential in enhancing work productivity as well as changing attitudes and behaviours of the employees. It not only sharpens the work skills, but also allows them to keep up-to-date with the ever evolving business conditions and environments. The nature of work and complexity and risks involved are very high unlike other professions. During the period beginning 1st Jan 2009 till 30th June 2010, the following ex-country and in-country trainings were initiated and conducted. The details are given in the table below.

Table 3: Training Details

RRCO	Korea	NADT/ NACEN	IMF/ ADBI	Conference/Study Tours/ Others	NFP	In-house	Total
Head Office	1	1	2	6	0	5	15
Thimphu	6	5	1	2	1	17	32
P/ling	1	3	0	2	0	22	28
Samtse	2	0	0	1	0	9	12
Gelephu	1	1	0	1	1	6	10
S/Jongkhar	1	1	0	1	0	9	12
Paro	2	0	0	1	1	7	11
Mongar	0	0	0	1	0	6	7
Bumthang	2	0	0	1	0	6	9
Total	16	11	3	16	3	87	136

1.5 SIGNIFICANT INITIATIVES UNDERTAKEN AS ON DATE:

The division, besides regular work, initiated following administrative and policy related measures to bring further improvement and strengthen the overall tax administration and collection of taxes in the region.

1.5.1 INTRODUCTION OF DIRECT DEPOSIT FACILITY

The division introduced *Direct Deposit Facility* covering both On-line and Off-line payment system for PIT payers with effect from 6th Jan 2010. This system was implemented in collaboration with Bank of Bhutan Ltd. to allow and facilitate payment of taxes in its branch offices in all 20 Dzongkhags. The division hopes to introduce & initiate similar facility with other commercial banks in the future.

1.5.2 FISCAL INCENTIVES

The department of Revenue and Customs under the guidance of the MoF formulated the *Fiscal Incentives Notification, 2010 and the Rules and Regulations* governing the incentives. The main objective is to promote private sector growth and support the government's policy to provide employment opportunities to the growing number of job seekers.

The fiscal incentives broadly consist of three types viz. *General Incentives, Specific Incentives and Sector-specific incentives*. General Incentives are applicable to all sectors of the economy. Specific Incentives are applicable to Cottage and Small Industries (CSIs) and Cooperatives established outside Thimphu and Phuentsholing city areas. The Sector Specific Incentives are applicable to Tourism, ICT, Film & Media, Agriculture, Transport, Construction, Education and Health sectors. Besides the above, non-tax incentives are also covered. The incentive scheme came into force on **2nd April, 2010**.

1.5.3 REVISION OF THE INCOME TAX ACT

The Income Tax Act of the Kingdom of Bhutan, 2001 is currently being reviewed. Some of the areas proposed for immediate revision are entertainment expenses, TDS and fines and penalties. The proposed amendments have been endorsed by both the Ministry of Finance and the Lhengyel Zhungtshog and have been submitted for discussion in the up-coming Parliamentary session.

1.5.4 LAUNCHING OF TAXPAYER NUMBER (TPN) SEARCH ENGINE

With support from the IT section, the division initiated and developed a TPN search engine to facilitate and make the use of TPN convenient for import, export, and tax filing purposes. This has been uploaded and made available on the Ministry's website www.mof.gov.bt. All taxpayers payers can now obtain their TPN anytime and from anywhere by simply entering their citizenship identity card number.

1.5.5 DOUBLE TAX AVOIDANCE AGREEMENT

The first round of negotiation on the Double Taxation Avoidance Agreement (DTAA) with the Government of India (GoI) was successfully concluded in August 2009 at New Delhi, India. Out of a total of 31 articles in the agreement, we have negotiated and agreed on 17 articles, and the remaining articles will be taken up during the second round of negotiation, which is scheduled to be held in Thimphu in October 2010.

1.5.6 DEVELOPMENT OF COMMON FOLDER

In order to expedite information sharing between the regional offices and the head office, a common share folder has also been developed with assistance from the IT section. Focal persons in all the regional offices can upload information relevant for tax audit and collection purposes to be viewed by other RRCOs.

1.5.7 TAX MANAGEMENT SYSTEM (TMS) REVIEW WORKSHOP

A Refresher Training cum Review Workshop on TMS was conducted from 17th May till 28th May 2010 in two batches, comprising of 32 participants in each batch, in RRCO Phuentsholing. The workshop was organised to orient new officers on TMS who had joined the division in 2008 and 2009, and for others to review and take stock of as well as address certain teething problems faced in the region.

PART II

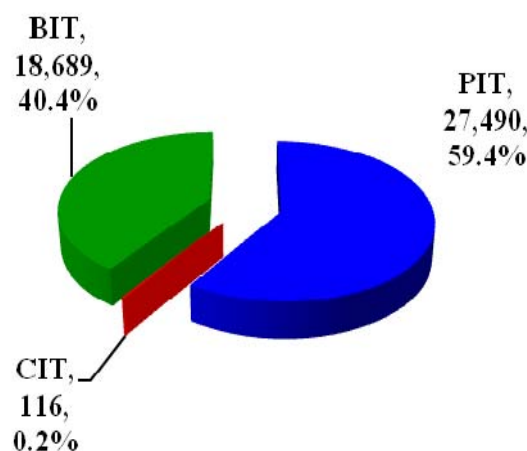
TAXPAYER HIGHLIGHTS

2.1 TAXPAYER COMPOSITION

Depending on the type of Direct Taxes, taxpayers are categorized into Corporate Income Taxpayers, Business Income Taxpayers and Personal Income Taxpayers.

During the IY 2008, the department recorded a total of 46,295 taxpayers registering a growth of 10.2% over the previous year's total of 42,026 taxpayers. PIT recorded the highest increase with 15.0%, followed by BIT with 3.75%, and CIT with 3.57% for the IY 2008. Amongst the RRCOs, RRCO Mongar recorded the highest taxpayer growth with 24.8%, followed by RRCO Samtse at 20.5%, and RRCO Paro at 15.2%. However, RRCO Gelephu registered a negative growth of 28.5 % due to the establishment of a new RRCO in Bumthang. The taxpayers from Zhemgang, Trongsa and Bumthang Dzongkhags are now put under administrative jurisdiction of RRCO Bumthang. The taxpayer composition based on type of Tax is given below.

Figure 2: Taxpayer Composition



In terms of taxpayer composition, PIT payers constituted the largest number of taxpayers at 59.4%, followed by BIT payers at 40.4%, and CIT payers at only 0.2%. Among the regional offices, RRCO Thimphu continued to record the highest number of taxpayer registrations at 36.8%, followed by RRCO Phuentsholing at 15.2%, RRCO Gelephu at 10.5%. RRCO Bumthang has the least number of taxpayer registrations at 5%.

Table 4: Taxpayer Details

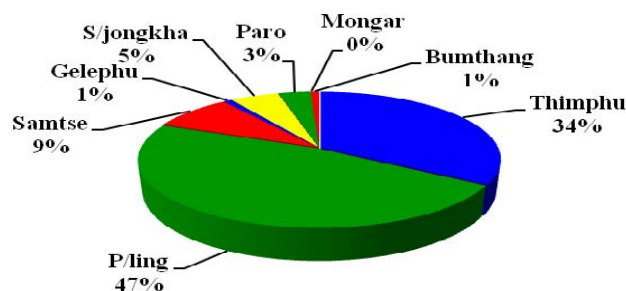
RRCOS	PIT			CIT			BIT				Total	% Distn
	Filer	E-Filers	A ¹	Filer	NoP	B ²	Non Estimated	Estimated	NoP	C ³		
Thimphu	10310	781	296	38	0	1	742	3515	1151	201	17035	36.8%
P/ling	4792	44	0	45	10	0	251	1554	243	88	7027	15.2%
Samtse	1698	5	0	9	1	0	156	1348	120	40	3377	7.3%
Gelephu	1832	18	0	1	0	0	83	2944	0	3	4881	10.5%
S/Jongkhar	1858	53	111	5	1	0	117	1349	132	0	3626	7.8%
Paro	1876	23	25	3	1	0	83	1362	149	22	3544	7.7%
Mongar	2299	64	89	0	0	0	24	1748	244	0	4468	9.7%
Bumthang	1316	0	0	1	0	0	43	948	29	0	2337	5.0%
Total	25,981	988	521	102	13	1	1,499	14,768	2,068	354	46,295	100%
Percentage	59.38%			0.25%			40.37%				100%	

2.2 CIT TAXPAYERS

CIT payers are those entities incorporated under the Company’s Act of the Kingdom of Bhutan, 2000. It includes both wholly and partially state-owned corporations. Total CIT payers during IY 2008 accounted for only 0.25% of the total taxpayers, with 3.6% (116) increase from 112 in the previous IY.

RRCO Phuentsholing has the highest CIT registration at 47.4%, followed by 33.6% in RRCO Thimphu, and 8.6% and 5.2% in RRCO Samtse and RRCO S/Jongkhar respectively. 10 CIT payers under RRCO Phuentsholing and 1 each under RRCO S/Jongkhar, RRCO Samtse and RRCO Paro were non-operational units.

Figure 3: Distribution of CIT Payer



¹ A = No. Of units transferred to other RRCOs

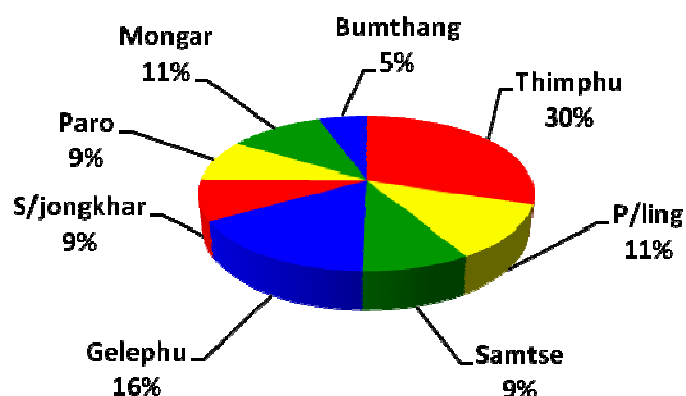
² B = No. Of units converted to CIT units

³ C = No. Of closed units

2.3 BIT TAXPAYERS

BIT payers are non-incorporated business units holding valid trade licenses or registration certificates (in case of micro units engaged in trading activities, weaving and tailoring) issued by the Ministry of Economic Affairs (MoEA). BIT payers consist of a well established large business houses to small sized micro business units, including retail outlets. During IY 2008, BIT units constituted 40.4% of the total registered taxpayers (46,295 taxpayers). RRCO Thimphu continues to record the highest registration of BIT taxpayers with 30%, followed by RRCO Gelephu (16.2%), RRCO Phuentsholing (11.4%), RRCO Mongar (10.8%) and RRCO Samtse (8.9%).

Figure 4: BIT Payer Distribution



For monitoring and collection purposes, BIT payers are further categorized into non-estimated units (those submitting books of accounts) and estimated units (those not submitting books of accounts). During the IY 2008, there were a total of 18,689 registered BIT taxpayers in the country and it represented 12.7% increase from the previous IY. However, the numbers of estimated units during IY 2008 declined by 2.3% while the number of units submitting accounts saw an increase of 2.7%. 14,768 taxpayers (79% of the total BIT payers) paid their taxes under estimated method while 8% of the taxpayers paid their taxes based on book of accounts. This is a positive development considering the numerous book keeping workshops conducted by the division in coordination with BCCI in the recent years.

Table 5: BIT Profile

RRCOs	Non Estimated	Estimated	NoP	Closed units	Total	% Distribution
Thimphu	742	3515	1151	201	5,609	36.8%
P/ling	251	1554	243	88	2,136	15.2%
Samtse	156	1348	120	40	1,664	7.3%
Gelephu	83	2944	0	3	3,030	10.5%
S/Jongkhar	117	1349	132	0	1,598	7.8%
Paro	83	1362	149	22	1,616	7.7%
Mongar	24	1748	244	0	2,016	9.7%

Bumthang	43	948	29	0	1,020	5.0%
	1499	14768	2068	354	18,689	100.0%
	8.0%	79.0%	11.1%	1.9%	100.0%	100.0%

For those units where there are no books of accounts maintained, tax assessment is based on the following information and methods.

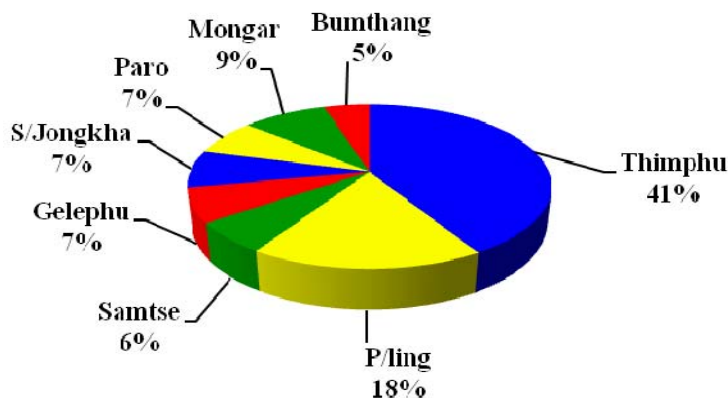
- Import and export Information,
- TDS records,
- Taxes paid on estimated basis in the preceding years.
- Taxes paid by other similar units and
- Information collected from taxpayers themselves.

In our consistent effort to inculcate book keeping habit, the division together with BCCI will be conducting training on a simplified accounting format so that tax assessment and collection is accounts-based and estimated method, which is fraught with a lot of practical and administrative difficulties, is gradually phased out.

2.4 PIT TAXPAYERS

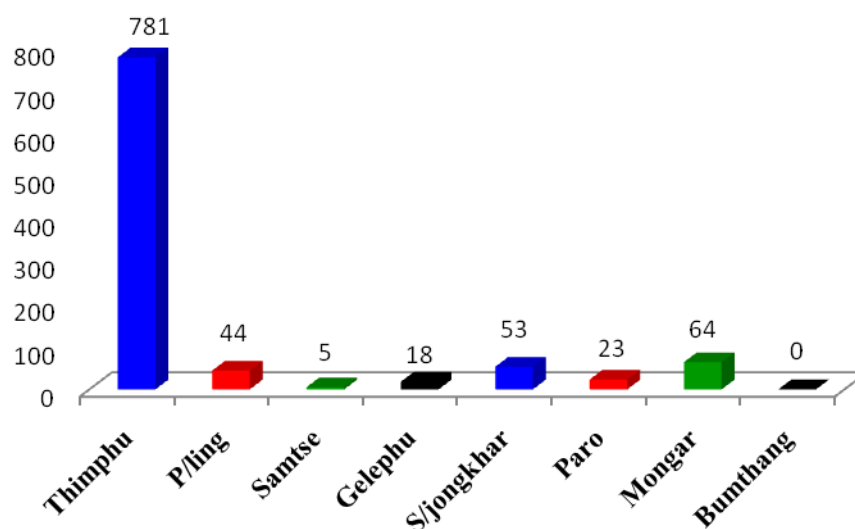
Any individual having a taxable income from any or all of the six sources laid out in the Income tax Act is termed as PIT payer. During the IY 2008, a total of 27,490 PIT payers filed tax returns, which is an increase of 15% over the previous IY's total of 23,901. The increase was noted mainly in salary income and income from other sources. Amongst the regions, RRCO Thimphu recorded the highest number of PIT payers at 41.4% (11,387 PIT payers), followed by RRCO Phuentsholing at 17.6%. (4,836 PIT payers). During the year, there were 410 PIT taxpayers who had sought change in the place of registration from one RRCO to the other, owing mainly to change in place of employment or work. The detailed region wise distribution of PIT payers is given below.

Figure 5: PIT Payer Distribution



With introduction of E-filing, 988 payers had filed their tax returns electronically. This facility was initiated mainly to reduce the taxpayer rush in the RRCOs and make filing more convenient and efficient. The region wise details on the number of e-filers are given in the chart below.

Figure 6: Distribution of E-filers



In terms of taxpayer composition by income source, 92.6% of the total PIT payers are salary income earners, followed by rental income at 4.1% and income from other sources at 2.4%. PIT payers having income from the remaining three sources constituted only 0.9% of the total PIT payers.

Table 6: PIT Profile, Income Source wise

Income Source	RRCOs								Total	% income distn.
	T/phu	P/ling	Samtse	G/phu	S/J	Paro	Mongar	B/thang		
Salary	9,974	4,701	1,641	1,738	1,935	1,772	2,397	1,298	25,456	92.6%
Rental	664	99	45	72	79	97	54	18	1,128	4.1%
Dividend	47	7	7	11	6	2	1	0	81	0.3%
Interest	51	19	8	9	2	46	0	0	135	0.5%
Cash Crop	10	0	2	20	0	2	0	0	34	0.1%
Other sources	641	10	0	0	0	5	0	0	656	2.4%
Total	11,387	4,836	1,703	1,850	2,022	1,924	2,452	1,316	27,490	
% Distribution	41.42%	17.59%	6.19%	6.73%	7.36%	7%	8.92%	4.79%	100%	100 %

For the purpose of this report, taxpayers with multiple sources of income have been categorized under those sources where the income declared is the highest.

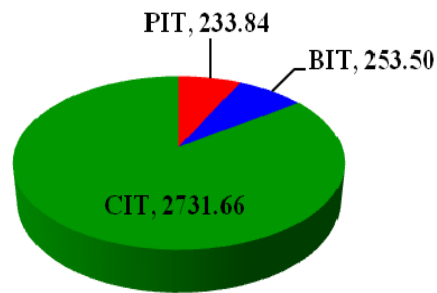
PART III

TAX REVENUE HIGHLIGHTS

3.1 OVERALL TAX COLLECTION⁴

During the year, the total tax collection from BIT, CIT and PIT amounted to Nu.3,219.0 million, recording an increase of 44.1% from Nu.2,234.1 million in the previous IY. Collection under CIT recorded the highest at 49.5%, while the increase under PIT and BIT was 20.1% and 19.6% respectively.

Figure 7: Tax Revenue Composition (in million Ngultrum)



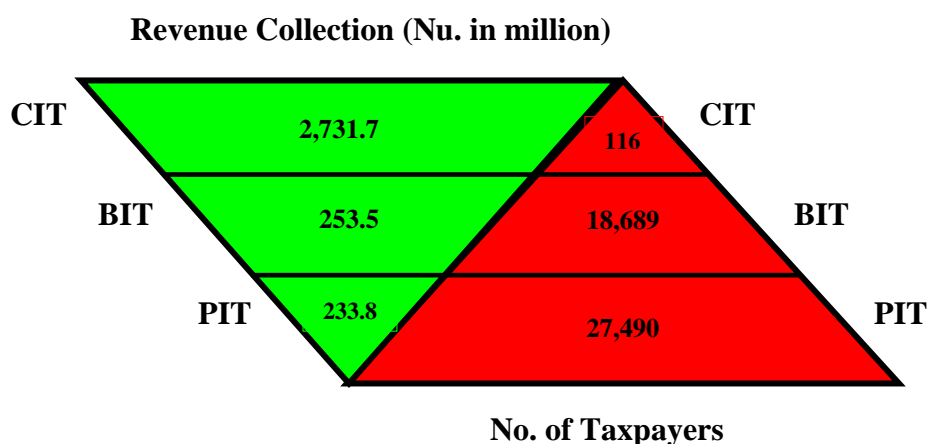
The share of CIT to the total direct tax collection continues to remain the highest at 84.9%, followed by BIT at 7.9%, and PIT at 7.3%. As compared to the previous IY, the share of CIT to the total tax revenue this year has seen an increase of 3.1%, that is, Nu. 904.1 million from the Nu. 1827.6 million in the previous year. As regards PIT and BIT, although there was an increase in actual collection (by Nu. 39.2 m for PIT and Nu. 41.7 m for BIT), the share of its contribution to the total tax revenue, in percentage terms, has decreased by 1.4% and 1.6% respectively.

The relationship between the number of registered taxpayers and the revenue collection under each type of Direct Tax also continues to be asymmetrical. The CIT collection during the year was 84.9% of the total tax revenue while the number of CIT taxpayers, contributing this share of revenue is 0.2% of the total registered taxpayers. PIT and BIT taxpayers, on the other hand, constitute 99.8% of the total registered taxpayers while their contribution accounted for only 15.1% of the total direct tax revenue.

The inverse relationship between the numbers of taxpayer vis-à-vis the actual collection is shown below.

⁴ Tax collection figures reflected in this report differs from figures reflected in the revenue report since this report is based on calendar year while the revenue report is based on fiscal year.

Figure 8: Relationship between no. of taxpayer vis-à-vis actual tax collection



The percentage of the total actual collection from BIT, CIT and PIT to GDP⁵ is recorded at 5.55%.

3.2 CIT COLLECTION

CIT constituted 84.9% of the total direct tax revenue for the year, recording a 49.5% increase over the previous IY's collection of Nu.1827.6 million. The increase in collection is attributed to better assessment efforts, better compliance and improved performance by major corporate units such as M/s Druk Green Power Corporation Ltd., M/s Druk Holding & Investments Ltd., M/s Bhutan Power Corporation Ltd., M/s Druk Air Corporation and M/s Bhutan National Bank Ltd.

Table 7: Comparative CIT Collection

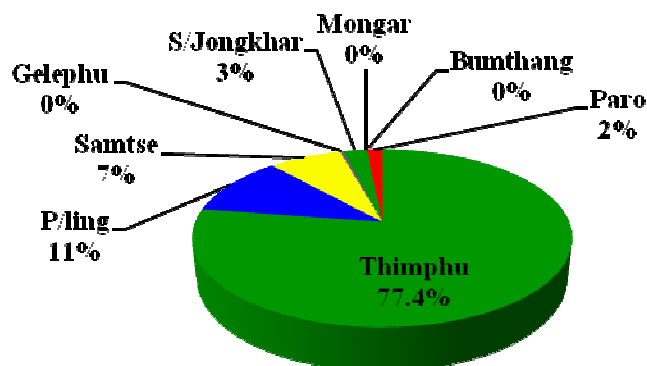
RRCOS	No. of Units		NoP		Tax Amount		% of Tax Amt	% + -
	2007	2008	2007	2008	2007	2008	2008	2007-2008
Thimphu	35	39	0	0	512,906,674	2,113,992,133	77.4%	312.2%
P/ling	55	55	9	10	1,062,923,792	299,621,821	11.0%	-71.8%
Samtse	9	10	0	1	190,982,628	201,389,475	7.4%	5.4%
Gelephu	2	1	0	0	7,472,400	8,854,801	0.3%	18.5%
S/Jongkhar	6	6	0	1	38,108,971	65,734,701	2.4%	72.5%
Paro	4	4	0	1	0	42,071,585	1.5%	0.0%
Mongar	1	0	0	0	15,199,306	0	0.0%	-100.0%
Bumthang	0	1	0	0	0	0	0.0%	0.0%
Total	112	116	9	13	1,827,593,771	2,731,664,516	100%	236.79%

Amongst RRCOs, RRCO Thimphu recorded the highest CIT collection at 77.4%, followed by RRCO Phuentsholing and RRCO Samtse with 11.0% and 7.4% respectively. In terms of increase in collection over the previous IY, RRCO Thimphu recorded the highest increase at 312.2% followed by RRCO S/Jongkhar, with 72.5% and RRCO Gelephu with 18.5%. RRCO

⁵ Source: National Revenue Report, 2008-2009, DRC. GDP during 2008-2009 was 57,891.15 million.
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Mongar and RRCO Phuentsholing recorded a negative growth mainly caused by the reorganisation of Kurichu Hydro Power Authority and Chukha Hydro Power Corporation, under DGPC during the year. The two corporations were under RRCO Mongar and Phuentsholing until 2007. The lowest CIT collection was recorded by RRCO Gelephu with Nu. 8.8 million.

Figure 9: Region-wise CIT Collection



3.2.1 TOP FIVE CIT PAYERS

M/s Druk Green Power Corporation emerged as the highest revenue contributor to the national exchequer amongst the CIT payers, followed by M/s Druk Holding & Investments in IY 2008. The Corporate Income Tax share of DGPC to the total direct tax revenue stood at 29%. Meanwhile, M/s Bhutan Power Corporation Ltd. notched one position up from fourth to the third position this year. M/s Druk Air Corporation occupied the fourth position, while M/s Bhutan National Bank Ltd. continued at fifth position for the third consecutive year. M/s Bhutan Telecom Ltd. and M/s Penden Cement Authority Ltd. dropped from the top five CIT payers. The share of the top five CIT payers to the total direct tax revenue is 66%, registering a growth of 3% over the previous year. The share of the top five CIT payers to the total CIT collection, currently recorded at 78%, is expected to increase once assessments are completed in the RRCOs. The figures reported above are based on self declaration at the time of filing.

Table 8: Top Five CIT Payer

(Amount in Ngultrum)				
SL. No.	Unit Name	Tax Amount	RRCO	Remarks
1	Druk Green Power Corporation	928,567,693.52	Thimphu	Self declared
2	Druk Holding and Investments	646,646,049.90	Thimphu	Self declared
3	Bhutan Power Corporation Ltd	242,074,345.89	Thimphu	Self declared
4	Druk Air Corporation	173,517,805.28	Paro	Self declared
5	Bhutan National Bank Limited (BNB)	138,270,011.24	Thimphu	self declared
		2,129,075,905.83		

3.3 BIT COLLECTION

The total collection for the year amounted to Nu. 253.5 million. This is an increase of 19.7% over the previous IY's collection of Nu.211.8 million. As in the previous year, 8% of the total registered BIT payers, that is, those submitting books of accounts, contributed 77% of the total BIT collection, while 79% of the total registered BIT payers, constituting estimated units or units not submitting books of accounts, contributed only 23%. The remaining 11.1% is reported as non-operational and 2.4% as closed units. A BIT unit registered under RRCO Thimphu was incorporated into a Company (CIT unit) during the year.

Table 9: Comparative BIT Collection

RRCOS	Account Filers (Tax Amount)		Estimated (Tax Amount)		Total Tax Amount		% of Tax Amt 2008	% + - 2007-2008
	2007	2008	2007	2008	2007	2008		
Thimphu	75,427,452	88,364,296	16,678,696	25,154,470	92,106,148	113,518,766	44.8%	23.2%
P/ling	53,403,324	53,802,478	10,363,850	10,948,766	63,767,174	64,751,244	25.5%	1.5%
Samtse	15,544,739	20,844,294	1,278,762	2,687,128	16,823,501	23,531,423	9.3%	39.9%
Gelephu	2,357,264	3,162,153	7,517,403	4,320,813	9,874,667	7,482,967	3.0%	-24.2%
S/Jongkhar	14,696,341	22,467,563	1,526,137	1,676,453	16,222,478	24,144,016	9.5%	48.8%
Paro	2,592,346	2,651,092	5,516,953	5,556,083	8,109,299	8,207,175	3.2%	1.2%
Mongar	64,644	2,848,131	4,876,288	4,610,046	4,940,931	7,458,177	2.9%	50.9%
Bumthang	0	640,186	0	3,765,845	0	4,406,031	1.7%	0.0%
	164,086,109	194,780,194	47,758,089	58,719,604	211,844,198	253,499,798	100.0%	141.4%

Amongst the RRCOs, RRCO Thimphu continues to be the highest contributor of BIT revenue both under estimated and non estimated category. 43% of the total estimated collection and 45.4% of the total non estimated collection came from RRCO Thimphu, followed by RRCO Phuentsholing with 18.6% and 27.6 % respectively. The lowest contribution was recorded under RRCO Bumthang at 0.3% under non estimated category while RRCO S/Jongkhar recorded 2.9% under estimated category.

3.3.1 TOP FIVE BIT PAYERS

The Top five BIT taxpayers for the IY 2007 remained in the Top Five for the Income Year 2008 as well. During the year, TCC Head Office registered with RRCO Phuentsholing was the highest BIT payer, followed by M/s Sherja Equipment Hiring Unit. The previous years' top BIT payer M/s Lhaki Cement was the 3rd highest BIT payer for the year. M/s Druk Hotel and M/s Bhutan Hyundai Motors switched positions from the previous year and were respectively 4th & 5th for the IY 2008. The share of the top five BIT payers to the total BIT collection accounted for 57.2% and to that of the total direct tax collection at 4.5%. M/s TCC HQ alone contributed 39.9% of the total BIT collection during the period. The share of top five BIT payers is expected to increase after the completion of assessment. The details of the top five taxpayers are given below:

Table 10: Top Five BIT Payers

SL. No.	Unit Name	Tax Amount	RRCO	Remarks
1	M/s TCC Ho	101,184,447.13	Phuentsholing	self declared
2	M/s Sherja Equipment Hiring Unit	19,110,269.27	S/Jongkhar	self declared
3	M/s Lhaki Cement	13,410,660.91	Samtse	self declared
4	M/s Hotel Druk	6,187,688.42	Phuentsholing	self declared
5	M/s Bhutan Hyundai Motors	5,207,934.74	Thimphu	self declared
		145,101,000.47		

3.3.2 ESTIMATED COLLECTION

Estimated Collection is the tax collection made from taxpayers who do not maintain books of accounts. Assessments are based on the available information with the department, taxpayers or the third parties. The total estimated collection during the year amounted to Nu.58.7 million recording an increase of 22.9% over Nu 47.7 million collected in the previous IY. This is significant increase considering the decrease in the total number of estimated taxpayers from 15,120 taxpayers to 14,768 taxpayers this year.

While these taxpayers represent 79% of the total registered BIT payers, their contribution accounted for only 1.8% of the total direct tax revenue and 23% of the total BIT collection. Amongst the RRCOs, RRCO Thimphu recorded the highest collection with Nu. 25.1 million, followed by RRCO Phuentsholing and RRCO Paro at Nu. 10.9 million and Nu. 5.5 million respectively. RRCO S/Jongkhar recorded the least collection at Nu. 1.7 million, while RRCO Bumthang recorded the least number of estimated taxpayers with only 948 taxpayers.

The national average collection per estimated unit for the IY 2008 was recorded at Nu.3,976 and the average lowest and highest collection at Nu.1,395 and Nu.187,481 respectively. There was an increase in average tax collection by 26% and the maximum and minimum tax collection by 12% each. The maximum tax collected per taxpayer was recorded at Nu.552,291 under RRCO Thimphu and the lowest tax collection at Nu.100 under RRCO Thimphu and RRCO Samtse.

Table 11: Average Estimated Collection in 20 Dzongkhags

RRCO	Dzongkhags	No. of units from whom tax was collected	Actual estimated collection for 2008	% of Total Tax Rev (Nu.3219.78 mill)	Average Tax Collected in 2008	Min. Tax Collected per TP	Max. Tax Collected per TP
Thimphu	Thimphu	2642	20,628,100	0.64%	7808	100	552,291
	Wangdue	496	2,403,793	0.07%	4846	100	44,906
	Punakha	321	2,033,357	0.06%	6334	200	57,561
	Gasa	56	89,220	0.00%	1593	300	3,850
	Subtotal	3515	25,154,470	0.78%	7156	700	658,608
P/Ling	Chukha	1554	10,948,766	0.34%	7046	500	181,385
	Subtotal	1554	10,948,766	0.34%	7046	500	181,385
Samtse	Samtse	1348	2,687,128	0.08%	1993	100	36,958
	Subtotal	1348	2,687,128	0.08%	1993	100	36,958
Bumthang	Bumthang	458	1,774,035	0.06%	3873	520	34,500
	Trongsa	237	1,166,726	0.04%	4923	500	39,000
	Zhemgang	253	825,085	0.03%	3261	600	17,200
	Subtotal	948	3,765,846	0.12%	3972	1,620	90,700
Gelephu	Dagana	524	742,483	0.02%	1417	500	14,700
	Sarpang	1900	2,570,891	0.08%	1353	500	35,200
	Tsirang	520	1,007,440	0.03%	1937	500	27,000
	Subtotal	2944	4,320,813	0.37%	1468	4,740	258,300
S/Jongkhar	Pemagatshel	570	969,830	0.03%	1701	500	18,300
	S/Jongkhar	779	706,623	0.02%	907	500	47,400
	Subtotal	1349	1,676,453	0.05%	1243	1,000	65,700
Paro	Haa	222	873,806	0.03%	3936	600	28,200
	Paro	1140	4,682,277	0.15%	4107	500	60,000
	Subtotal	1362	5,556,083	0.17%	4079	1,100	88,200
Mongar	Mongar	655	1,772,153	0.06%	2706	300	60,000
	Trashigang	641	1,962,723	0.06%	3062	200	28,000
	Tashiyangtse	298	442,083	0.01%	1484	500	17,000
	Lhuntse	154	433,086	0.01%	2812	400	15,000
	Subtotal	1748	4,610,046	0.14%	2637	1,400	120,000
OVERALL		14768	58,719,605	1.82%	3,976	1,395	187,481

3.4 PIT COLLECTION

The PIT collection for the year noted a total collection of 233.8 million, registering an increase of 20.13% over Nu. 194.6 million in the previous IY. The region wise PIT collection vis-à-vis the number of PIT payers is given in the table below.

Table 12: PIT Collection

RRCOs	2007	2008	2007	2008	2007	2008	2007-2008	2007-2008
	No of Taxpayers		Tax amount		% of tax		% + -	% + -
Thimphu	9,755	11,387	101,100,187	115,060,246	51.9%	49.2%	16.7%	13.8%
P/ling	4,527	4,836	48,537,215	61,924,037	24.9%	26.5%	6.8%	27.6%
Samtse	1,437	1,703	7,981,380	13,276,231	4.1%	5.7%	18.5%	66.3%
Gelephu	2,755	1,850	8,436,525	6,586,390	4.3%	2.8%	-32.8%	-21.9%
S/Jongkhar	1,719	2,022	10,201,589	11,772,956	5.2%	5.0%	17.6%	15.4%
Paro	1,736	1,924	11,411,128	14,087,067	5.9%	6.0%	10.8%	23.5%
Mongar	1,972	2,363	6,993,164	7,299,565	3.6%	3.1%	19.8%	4.4%
Bumthang	0	1,316	0	3,831,560	0.0%	1.6%	0.0%	0.0%
Total	23,901	27,401	194,661,186	233,838,052	100.00%	98.36%	14.64%	20.13%

Amongst the RRCOs, RRCO Thimphu alone accounted for 49.2% of the total PIT revenue. The second highest contributor is RRCO Phuentsholing at 26.5%, followed by RRCO Paro at 6%. The contributions from the remaining five RRCOs were in the order of 5.7% under RRCO Samtse, 5% under RRCO S/Jongkhar, 3.1% under RRCO Mongar, 2.8% under RRCO Gelephu and 1.6% under RRCO Bumthang. The highest number of PIT payers is recorded under RRCO Thimphu at 41.4% followed by RRCO Phuentsholing at 17.69%. The two regions together constitute around 59% of the total registered PIT payers and accounted for 75.7% of the total PIT revenue. The top ten PIT payers contributed 9.42% of the total PIT collection. As compared to the previous year, the share of top ten PIT payers to total PIT collection has however decreased by 1.97%.

3.4.1 SOURCE WISE ANALYSIS

Out of the total registered PIT payers of 27,490 taxpayers, 95.7% is recorded as having only one source of income and 3.6% with two sources of income. The source wise analysis vis-à-vis the number of taxpayer is given below.

Table 13: PIT Analysis

Income Source	RRCOs								Total	% income distn.
	T/phu	P/ling	Samtse	G/phu	S/J	Paro	Mongar	B/thang		
One source	10,614	4,773	1,585	1,810	1,938	1,875	2,422	1,293	26,310	95.7%
Two Sources	639	49	98	34	69	43	29	23	984	3.6%
Three Sources	115	14	18	5	13	6	1	0	172	0.6%
Four Sources	16	0	2	1	2	0	0	0	21	0.1%
Five Sources	3		0	0	0	0	0	0	3	0.01%
Six Sources	0		0	0	0	0	0	0	0	0.0%
Total	11,387	4,836	1,703	1,850	2,022	1,924	2,452	1,316	27,490	100.0%

% Distribution	41.4%	17.6%	6.2%	6.7%	7.4%	7.0%	8.9%	4.8%	100.0%	
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3.5 TAX REFUND

From the total direct tax collection of Nu.3,219.00 million during the IY 2008, Nu.49.6 million, representing 1.54% of the total collection was refunded. PIT refund alone accounted for 92.5% while BIT/CIT refund together accounted for only 7.5% of the total refund. This is an increase of 61.2% over the previous IY. However, PIT refund, despite the increase in the number of PIT filers decreased by 4.6% mainly due to better compliance and improved assessment efforts by the regional offices. BIT and CIT refund, on the other hand, increased by 4.4% and 0.2% respectively during the period.

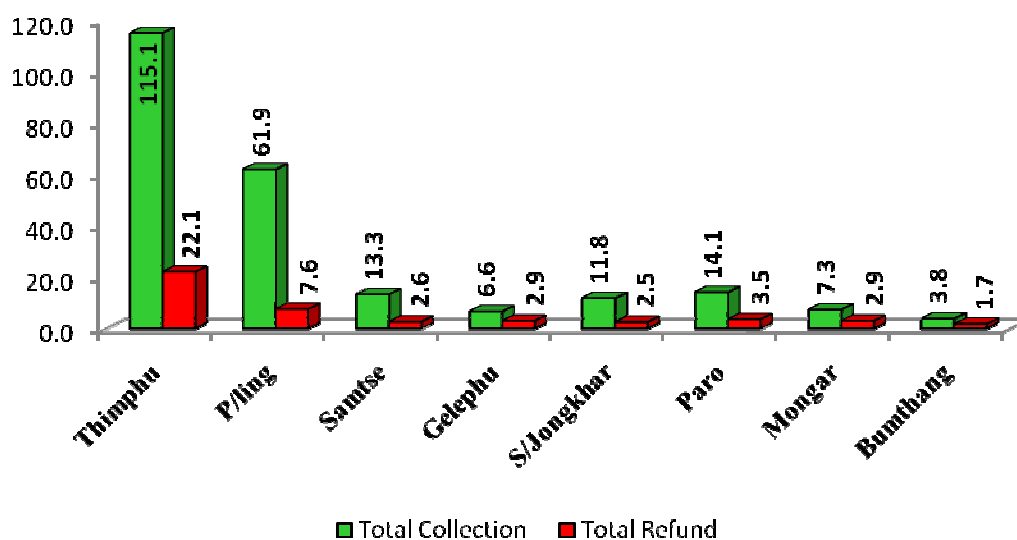
Table 14: Comparative Tax Refund

(Figure in million Ngultrum)

RRCOS	2007	2008	2007	2008	2007	2008	% + - (2007-2008)			Total Refund	% distribution
	PIT		BIT		CIT		PIT	BIT	CIT		
Thimphu	14.51	22.12	0.11	0.26	0.43	0.00	52%	129%	-100%	22.38	45%
P/ling	5.43	7.55	0.36	2.45	0.00	0.77	39%	575%	0%	10.78	22%
Samtse	1.99	2.60	0.00	0.00	0.00	0.00	31%	0%	0%	2.60	5%
Gelephu	3.00	2.92	0.00	0.00	0.00	0.00	-3%	0%	0%	2.92	6%
S/Jongkhar	1.75	2.50	0.00	0.00	0.00	0.00	43%	0%	0%	2.50	5%
Paro	1.27	3.54	0.00	0.25	0.00	0.00	179%	0%	0%	3.78	8%
Mongar	1.95	2.94	0.00	0.00	0.00	0.00	51%	0%	0%	2.94	6%
Bumthang	0.00	1.74	0.00	0.00	0.00	0.00	0%	0%	0%	1.74	4%
Total	29.89	45.91	0.48	2.96	0.43	0.77	54%	520%	81%	49.64	100%

There were a total of 21,056 refund cases, out of which 41.9% were processed by RRCO Thimphu, 14.8% by RRCO Phuentsholing, and 8.4% by RRCO Mongar. The remaining five RRCOs collectively processed 34.8% of the total refund cases. This is an increase of 29.9% over the previous IY's refund cases of 16,205 returns. The details of the total PIT collection and total PIT refunded under each RRCO are given below in the graph.

Figure 10: Total PIT Collection Vis-à-vis Total PIT Refund (in million Ngultrum)



3.6 TAX OUTSTANDING

Total tax outstanding as a percentage of the total tax liability is recorded at 2.5% during the IY 2008. This is an increase of 1.2% from the previous IY. This is mainly because of Nu. 70.1 million BIT outstanding which has singularly contributed to the overall increase in tax outstanding. Tax compliance from BIT taxpayers is seen to be very poor and most assessments end up in tax appeals. On the other hand, CIT and PIT outstanding recorded a decrease of 32.2% and 67.8% respectively indicating improved compliance and collection effort by the regional offices. Amongst the RRCOs, RRCO S/Jongkhar recorded the highest percentage of outstanding taxes under PIT at 3.6%. Under BIT, RRCO Thimphu recorded the highest at 36.1% and under CIT, RRCO Phuentsholing recorded the highest at 1.3%.

Table 15: Tax Outstanding Profile

(Figure in million Ngultrum)

RRCOS	PIT		BIT		CIT		Total Tax Amount (2007)			% Arrears (2007)		
	2007	2008	2007	2008	2007	2008	PIT	BIT	CIT	PIT	BIT	CIT
Thimphu	2.97	0.19	6.89	64.49	7.33	7.74	115.25	178.57	2,121.73	0.2%	36.1%	0.4%
P/ling	0.12	0.37	0.40	0.33	8.37	3.94	62.30	65.08	303.56	0.6%	0.5%	1.3%
Samtse	0.01	0.00	0.19	4.25	0.77	0.14	13.28	27.78	201.53	0.0%	15.3%	0.1%
Gelephu	0.00	0.01	0.02	0.07	0.00	0.00	6.60	7.55	8.85	0.1%	0.9%	0.0%
S/Jongkhar	0.19	0.44	0.07	0.10	0.00	0.00	12.22	24.24	65.73	3.6%	0.4%	0.0%
Paro	0.01	0.00	0.07	0.46	0.00	0.00	14.09	8.66	42.07	0.0%	5.3%	0.0%
Mongar	0.02	0.01	0.48	0.02	0.96	0.00	7.31	7.48	0.00	0.1%	0.3%	0.0%
Bumthang	0.00	0.04	0.00	0.47	0.00	0.00	3.88	4.88	0.00	1.2%	9.7%	0.00
Total	3.32	1.07	8.14	70.18	17.43	11.82	234.91	324.25	2,743.48	5.8%	68.5%	1.7%
Percentage of total tax in arrears										0.5%	21.6%	0.4%

3.7 ASSESSMENT HIGHLIGHTS

The Income Tax Act mandates every tax return to go through a desk assessment (DA) within 90 days of the filing of return and a field assessment (FA) once in twenty four months.

At the DA stage, every return is subject to logical and arithmetical checks on the figures submitted and reasonableness checks on the level of self declared tax. Every return is then further examined to see whether FA is required or not. Accordingly the returns are either finalized or marked for further assessments. Generally, units are prioritized for field assessment where there are substantial tax refunds claimed or where the unit is a loss making concern or where the unit has not been assessed for the past two IYs.

FA entails three major stages that are planning, assessment and review. The planning process includes planning of field assessment and planning of individual field assessment, developing a general strategy and a detailed approach for the expected nature, timing and extent of assessment procedures. FA is a more in-depth assessment carried out at the business premises and tax returns and financial statements filed by taxpayers are reviewed and assessed as per the Income Tax Act and Rules. Further, compatibility test to the tax ratios for their respective sector and size of the businesses are also carried out. The assessment report and notice of assessment are then finally issued to the taxpayer.

The performance of RRCOs vis-à-vis targets and achievements in DA and FA for IY 2008 is given below:

Table 16: Assessment Status 2008

PARTICULARS	T/PHU	P/LING	S/TSE	G/PHU	S/J	PARO	MG	BM	OVERALL
PIT									
DA Targeted	11087	4836	1703	1850	1827	1899	2452	1316	26970
DA Completed	11087	4836	1703	1850	1827	1899	2452	1314	26968
% Completed	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	99.8%	99.9%
DA Pending	0	0	0	0	0	0	0	2	2
FA Targeted	0	20	10	0	35	10	0	0	75
FA Completed	0	20	10	0	35	10	0	0	75
% Completed	0	100.0%	100.0%	0	100%	100%	0	0	100.0%
FA Pending	0	0	0	0	0	0	0	0	0
CIT									
DA Targeted	0	0	9	0	0	0	0	1	10
DA Completed	0	0	9	0	0	0	0	1	10
% Completed	0	0	100%	0	0	0	0	100%	100%
DA Pending	0	0	0	0	0	0	0	0	0
FA Targeted	7	32	9	1	3	3	0	1	56
FA Completed	3	24	3	1	2	1	0	1	35
% Completed	42.9%	75.0%	33.3%	100.0%	66.7%	0.0%	0	100.0%	62.5%
FA Pending	4	8	6	0	1	2	0	0	21
BIT									
DA Targeted	243	222	156	33	0	56	24	41	775

DA Completed	233	210	156	33	0	56	24	41	753
% Completed	95.9%	94.6%	100.0%	100.0%	0.0%	100.0%	100.0%	100.0%	97.2%
DA Pending	10	12	0	0	0	0	0	0	22
FA Targeted	44	73	55	47	107	26	24	41	417
FA Completed	39	64	44	33	57	26	22	34	319
% Completed	88.6%	87.7%	80.0%	70.2%	53.3%	100.0%	91.7%	82.9%	76.5%
FA Pending	5	9	11	14	50	0	2	7	98
Overall Coverage									
DA Completed	99.9%	99.8%	100.0%	100.0%	100.0%	100.0%	100.0%	99.9%	99.9%
DA Pending	10	12	0	0	0	0	0	2	22
FA Completed	82.4%	86.4%	77.0%	70.8%	64.8%	94.9%	91.7%	83.3%	78.3%
FA Pending	9	17	17	14	51	2	2	7	119
Tax Officer to Taxpayer ratio	710	260	422	488	302	394	638	467	454

3.7.1 DESK ASSESSMENT (DA)

Out of a total of 26,970 returns received under PIT, only 2 returns remained un-assessed, as compared to 121 returns in the previous IY. There was 100% DA in all RRCOs, except under RRCO Bumthang, registering 99.8% overall coverage.

The DA coverage for CIT units was 100% for the year. However, it was only under RRCO Samtse and RRCO Bumthang that DA for CIT units have been identified.

Under BIT, except RRCO Thimphu and Phuentsholing, the other RRCOs have all covered 100% DA. The overall DA coverage was 99.9% with pending assessments of only 24 units.

3.7.2 FIELD ASSESSMENT (FA)

Except for RRCO Phuentsholing, RRCO Samtse, RRCO S/Jongkhar and RRCO Paro, other four RRCOs have not targeted any PIT payers for field assessment in the IY 2008. The assessment coverage for the PIT taxpayers under the first four RRCOs was 100%. Under CIT, FA was carried out in most RRCOs as the revenue risk involved was much higher than the BIT units. A total of 56 CIT units were identified for FA but had assessed only 35 units making the overall coverage of only 62.5%. The FA coverage under BIT was 76.5% leaving a pending assessment of 98 units.

3.7.3 OVERALL ASSESSMENT EFFORTS

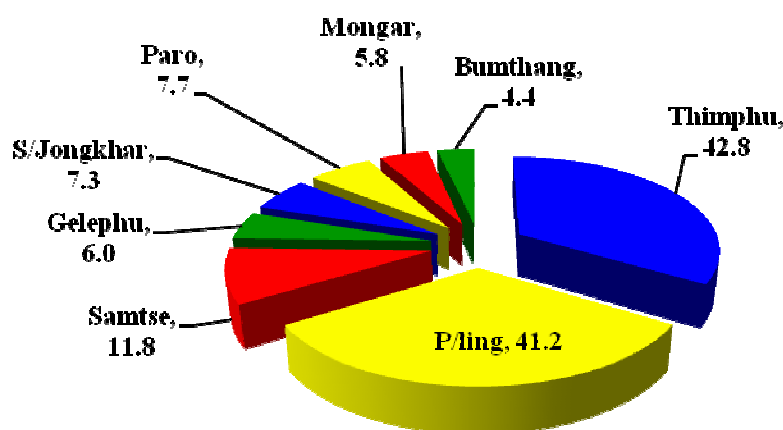
The overall coverage under DA for all three types of taxes (BIT, PIT and CIT) at the national level remained at 99.9% as compared to 99% in the previous year. Similarly, the overall coverage under FA for all three types of taxes at national level stood at 78.3% indicating a reduction in field assessment by 5.7% as compared to the previous IY's coverage of 84%. The decrease in FA coverage was due to more number of IYs covered under FA and lack of adequate manpower in the division. The increase in the number of taxpayers is not matched by corresponding increase in the manpower, and this problem needs to be addressed.

The ratio of assessing officials to taxpayers for the year stands at 1:454. RRCO Thimphu has the highest ratio of assessing officials to taxpayers at 1:710.

3.8 ASSESSMENT EFFORTS

Any additional revenue raised or collected purely through the assessment efforts of the RRCOs is taken as a yardstick to measure the effectiveness and efficiency of the division as well as the individual RRCO concerned. As usual, the larger regions continued to surpass the smaller regions in terms of tax collection. Unlike in the previous year, RRCO Thimphu topped the list by posting an additional tax collection of Nu.42.8 million, followed by RRCO Phuentsholing with Nu.41.2 million. RRCO Thimphu, RRCO Phuentsholing, RRCO Gelephu and RRCO Mongar recorded a negative growth as compared to the previous year. The overall additional collection declined from Nu 146.6 million in the previous IY to Nu. 126.9 million in IY 2008. This is a negative growth of 13%.

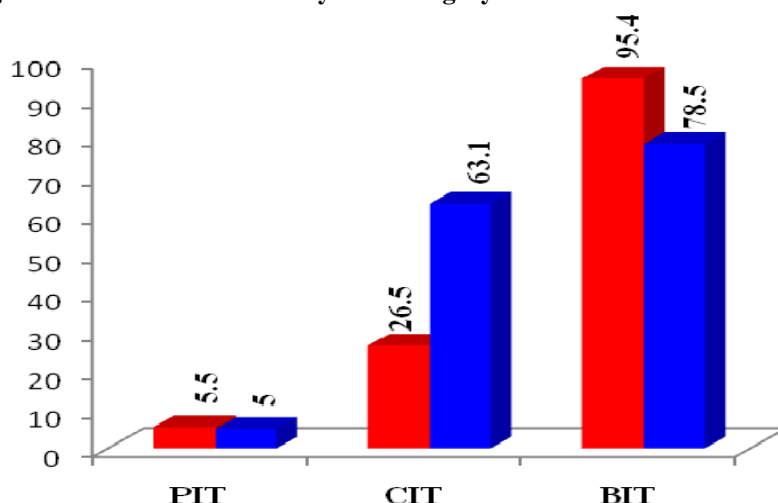
Figure 11: Assessment Efforts (in million Ngultrum)



The overall assessment effort is recorded at 4% registering a decrease of 2% from the previous IY. It suggests that from the total direct tax collection of Nu. 3,219.0 million, 4% is collected through the administrative and assessment efforts, while the remaining 96% of the collection is through self/voluntary declaration by taxpayers and TDS arrangements.

Out of the total additional collection, BIT collection notched the highest collection with 74.7%, followed by CIT with 20.9%, and PIT with 4.3%. The assessment effort under PIT has increased by 10% i.e. from Nu. 5.0 million in IY 2007 to Nu. 5.5 million in IY 2008. Similarly, additional BIT collection recorded a growth of 21% i.e. from Nu. 78.5 million in IY 2007 to Nu. 94.9 million in IY 2008. Additional CIT on the other hand recorded negative growth of 58% i.e. from Nu. 63.1 million in 2007 to Nu.26.5 million in 2008. On the whole, the additional collection has decreased by 13.4%. The reduction in overall assessment effort as compared to the previous year was due to less FA coverage under CIT, owing to manpower shortage in the division.

Figure 12: Assessment Effort by Tax Category



3.9 APPEALS

Tax appeals arise when:

- A taxpayer's rights are infringed by actions of the tax authorities; and
- Taxpayers disagree with the tax demand notice issued by the RRCOs.

As per the provisions of the Act, tax appeals are heard and examined at three stages; RRCO level, Head Office level and Ministry level (Tax Appeal Board). Tax appeals are first heard by the Regional Tax Appeal Committee (RTAC) set up at the RRCO level. If the taxpayer disagrees with the decision passed by the RTAC, then the same is forwarded to the head office for further review. Otherwise the decision of the RTAC is final. Further, the taxpayer has the right to submit his/her appeal to the Appeal Board at the Ministerial level if they are not satisfied with the decision of Tax Appeal Committee (TAC) set up at the Head Office level. If the decision of the Appeal Board is not agreeable, then the taxpayer has the option to appeal to the court of law. However, in no case, the taxpayer is barred from filing their appeal in a court of law directly.

Like the previous year, most appeals were for waiver of fines and penalties incurred for delay in deposit of taxes or non-filing. Few appeal cases were for disallowances made by the assessing team. During the year, the division recorded a total of 333 appeal cases registering an increase by 63% from the 204 cases in the previous IY. Out of 333 cases, 270 cases were resolved at RRCO level, 63 cases were forwarded to the Head Office for further decision. The DRC Tax Appeal committee resolved all the cases that were forwarded by the regional offices. However, eight tax payers have re-appealed to the Appeal Board. Amongst the three types of direct taxes, BIT registered maximum appeals with 171 cases, followed by PIT at 140 cases, and CIT at 22 cases. Compared to the previous year, PIT appeals increased by 300%, BIT by 19.6% while CIT appeals dropped by 15.4%. During the period, fines and penalties were imposed on 2303 offences and a total of Nu. 11.2 million were collected by the RRCOs.

Table 17: Appeal Details

PARTICULARS	Type of Tax			TOTAL
	PIT	CIT	BIT	
Filers	27,490	116	18,689	46,295
Filing Time Extension cases	26	32	157	215
Non Operational Taxpayers	0	13	2068	2,081
No. of late submission fines imposed	108	13	422	543
No. of 24% late interest imposed	784	28	822	1,634
No. of fines imposed on concealment	72	0	54	126
Total fines and penalties imposed	964	41	1,298	2,303
Amount of late submission fines collected	101,819	39,600	906,359	1,047,778
Amount of 24% late interest collected	479,228	4,355,833	4,487,929	9,322,990
Amount of fines collected on concealment	181,658.75	-	631,277.37	812,936.12
Total fines and penalties collected	762,706.17	4,395,432.78	6,025,564.59	11,183,703.54

TAX APPEALS

No of Appeals Received	140	22	171	333
Appeal Resolved at RRCO Level	128	14	128	270
Amount Waived by RTAC on:				
- Fines and Penalties	601,063	18,500	1,450,524	2,070,087
- Disallowances	467,811	151,848,189	89,871,220	242,187,220
No. of Appeals forwarded to Head Office	12	8	43	63
Appeals Resolved at HQ Level	12	7	33	52
Appeals received in 2009 but dealt in 2010*	0	0	3	3
Amount Waived in appeal at HQ level	2,434,733	12,062,568	42,134,473	56,631,774
Appeal Forwarded to Appeal Board in 2009	-	1	7	8

* Under BIT, 3 appeal cases were dealt in January 2010 although the same was received from RRCOs in December 2009.

3.10 COST OF COLLECTION

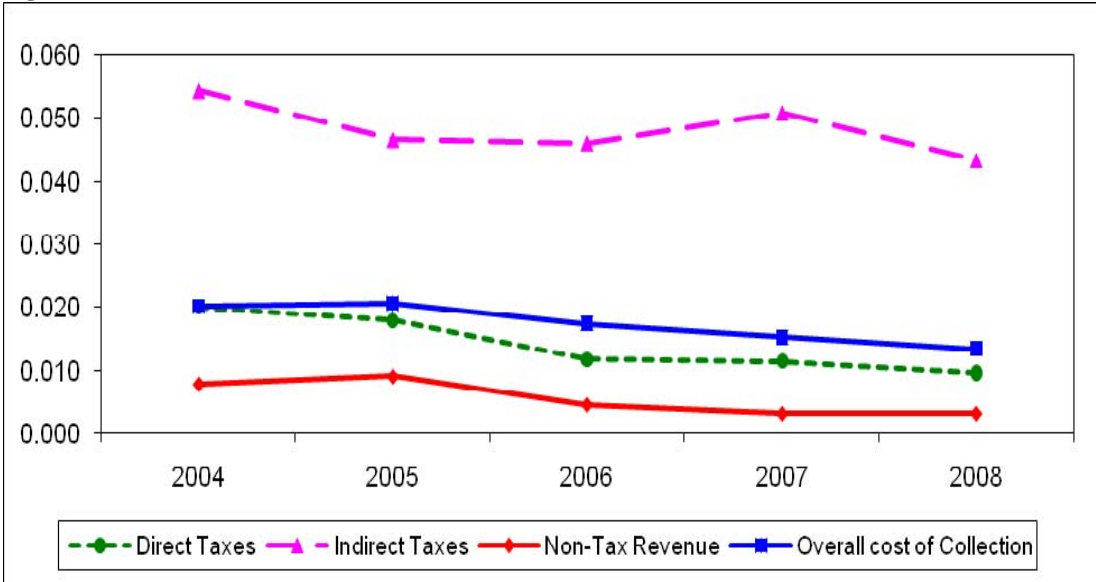
Ideally, a tax system is considered efficient if the cost of collection is less, compliance cost is minimum and the excess burden is small. The cost of collection, inter alia, is used as a yardstick to measure the efficiency and effectiveness of the tax administration efforts. Taking into account the *actual* current and capital expenditures incurred vis-à-vis total revenue collected during the period; the cost of collection incurred for collecting 1 Ngultrum is about 1 Chetrum for direct tax revenue, 4.3 Chetrum for indirect tax revenue, and 0.3 Chetrum for non tax revenue. It means that in order for the govt to collect direct tax revenue of Nu 3,857.8 million (computed on a calendar year basis), 0.96% is being incurred as the collection cost.

Table 18: Cost of Collection details

Tax Type	2004	2005	2006	2007	2008
Direct Taxes	0.020	0.018	0.012	0.011	0.010
Indirect Taxes	0.054	0.047	0.046	0.051	0.043
Non-Tax Revenue	0.008	0.009	0.005	0.003	0.003
Overall cost of Collection	0.020	0.021	0.017	0.015	0.013

The cost of collection for direct taxes has decreased by 0.01 chetrum indicating improved tax administration efforts and good compliance by the taxpayers. Cost of collection for indirect tax has also decreased by 0.08 chetrum while non tax revenue has remained the same like the previous year. On the whole, the overall cost of collection has decreased by 0.02 Chetrum.

Figure 13: Trend Line Cost of Collection



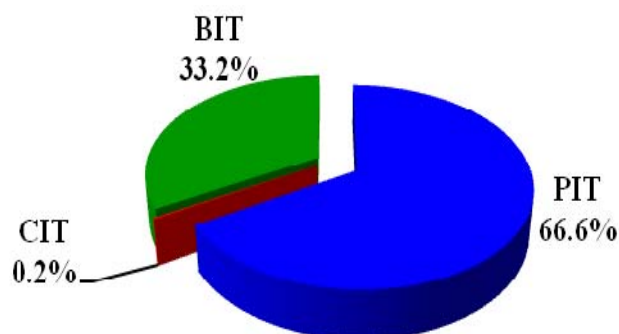
PART IV

IY 2009 (Information up to 31st March 2010)

4.1 TAXPAYER HIGHLIGHTS

As of 31st March 2010, a total of 51,045 taxpayers had filed returns with the RRCO concerned. However, this number is expected to increase as and when the extended filing period for some of the taxpayers is due. The taxpayer composition for the IY 2009, based on the returns received till 31st March 2010, is given below.

Figure 14: Taxpayer Composition



PIT filers constituted the largest taxpayers at 66.6%, followed by BIT filers at 33.2%, and CIT filers at 0.2% only. Amongst the regional offices, RRCO Thimphu recorded the highest number of taxpayers at 34.3%, followed by RRCO Phuentsholing and RRCO Gelephu at 15% and 12.6% respectively. RRCO Bumthang recorded the lowest number of taxpayers at 4.2%.

Table 19: Taxpayer Details:

RRCOS	PIT			CIT		BIT					Total	% Distn.
	Filer	E-Filers	D ⁶	Filer	E ⁷	Non Estimated	Estimated	NoP	Closed units	F ⁸		
Thimphu	11251	1981	315	27	0	465	2617	842	0		17497y 8	34.3%
P/ling	5338	117	0	45	10	311	1580	228	21		7650	15.0%
Samtse	2145	25		9	4	156	1399	100	15		3853	7.5%
Gelephu	3254	105	0	1	0	100	2872		55	20	6407	12.6%
S/Jongkhar	2373	110		5	1	78	1424	266	1		4258	8.3%

⁶ D = Transferred from RRCOs /closed files

⁷ E = NoP/Closed units/non estimated

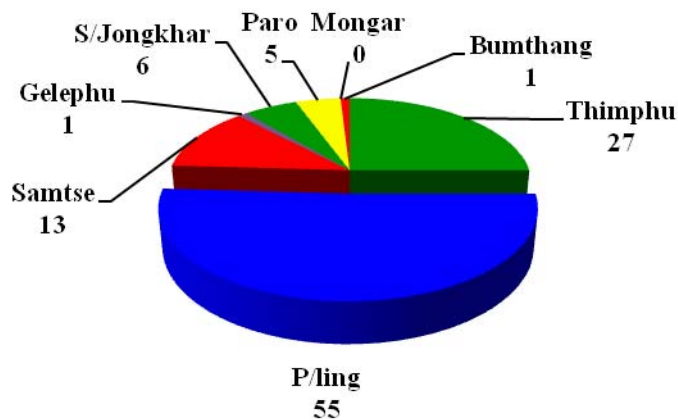
⁸ F = Transferred to other RRCOs/ converted to BIT

Paro	2371	96	15	3	2	50	1201	182	29		3949	7.7%
Mongar	3107	134	0			23	1792	241			5297	10.4%
Bumthang	1213	55	0	1		37	713	109	5		2133	4.2%
Total	31,052	2,623	330	91	17	1,220	13,598	1,968	126	20	51,045	100%
Percentage	66.62%			0.21%		33.17%					100%	

4.1.1 CIT PAYERS

The number of CIT filers, as of 31st March 2010 was recorded as 108 units. This is a decrease of 9.2% when compared to the previous year i.e. till 31st March 2009. A detailed CIT payer's distribution among the eight regional offices is shown below.

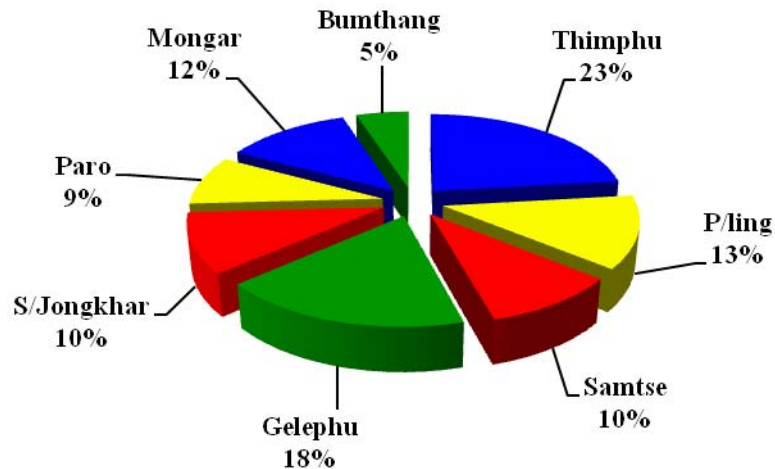
Figure 15: Distribution of CIT Taxpayer



4.1.2 BIT PAYERS

BIT units accounted for 33.2% of the total filers with most of the taxpayers registered under RRCO Thimphu, followed by RRCO Gelephu, RRCO Phuentsholing, RRCO Mongar, RRCO S/Jongkhar, RRCO Samtse, RRCO Paro and RRCO Bumthang.

Figure 16: BIT filer Distribution



Out of a total of 16,932 BIT filers for the IY 2009, 80.3% paid their BIT under estimation, 7.2% submitted book of accounts and paid on a self assessed basis, 11.6% was reported as non operational and 0.8% as units closed or transferred to other RRCOs.

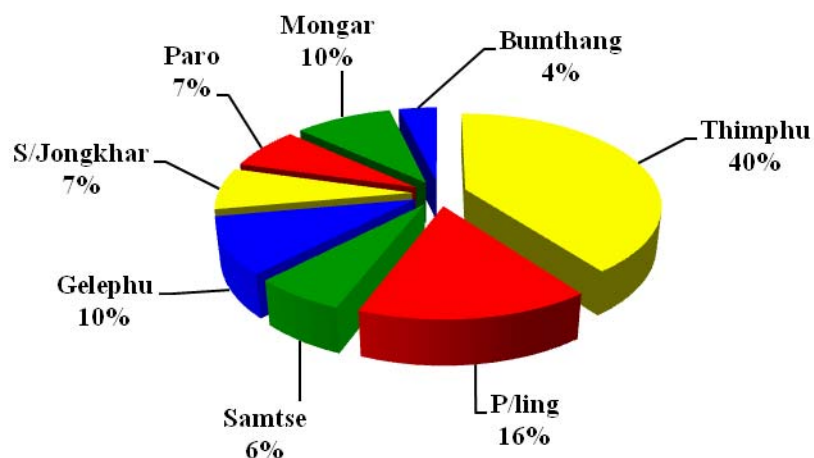
Table 20: BIT Profile

RRCOs	Non Estimated	Estimated	NoP	Closed units	Transferred to other RRCOs	Total
Thimphu	465	2,617	842	0	0	3,924
P/ling	311	1,580	228	21	0	2,140
Samtse	156	1,399	100	15	0	1,670
Gelephu	100	2,872	0	55	20	3,047
S/Jongkhar	78	1,424	266	1	0	1,769
Paro	50	1,201	182	29	0	1,462
Mongar	23	1,792	241	0	0	2,056
Bumthang	37	713	109	5	0	864
	1,220	13,598	1,968	126	20	16,932
	7.2%	80.3%	11.6%	0.7%	0.1%	100.0%

4.1.3 PIT PAYERS

The division recorded a total of 34,005 PIT filers for IY 2009 as of 31st March 2009. Thimphu RRCO had the highest number of filers at 40%, followed by RRCO Phuentsholing at 16% and RRCO Mongar and RRCO Gelephu at 10%. A detailed region wise PIT filer distribution is shown in the figure below.

Figure 17: PIT filer Distribution

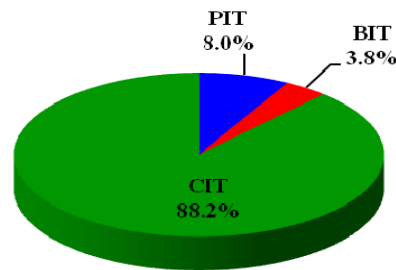


4.2 SELF DECLARATION HIGHLIGHTS FOR IY 2009

Taxes are either collected in the form of advance tax, provisional tax or Tax Deducted at Source (TDS). The tax collection figure under this part refers to the self declared amount computed from the returns received as of 31st March 2010.

The total self declared BIT, CIT and PIT amounted to Nu. 4,479.2 million posting an increase of 44.5% as compared to the previous year. Going by category of direct tax, CIT recorded the highest at Nu. 3,954.13 million, followed by PIT at Nu. 354.5 million, and BIT at Nu.170.5 million. Compared to the previous year, PIT recorded the maximum increase with 59.6% followed by CIT with 46.7%. The increase in PIT collection is attributed to completion of desk assessment (DA) in some RRCOs. The additional PIT raised after DA amounted to Nu. 0.26 million. However, BIT collection has decreased by 6.8% due to increased number of time extension cases.

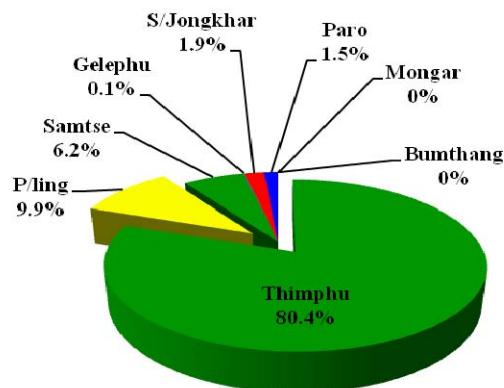
Figure 18: Tax Revenue Composition



4.3 CIT COLLECTION

The total CIT collection amounted to Nu. 3,954.13 million. This accounts for 88% of the total direct tax revenue collected from 1st January 2010 till 31st March 2010. PIT and BIT taxpayers, who constitute 99.8% of the total filers, accounted for only 12% of the total tax revenue.

Figure 19: Region wise CIT collection:



Amongst the RRCOs, RRCO Thimphu collected 80.4% of the total CIT declared for the IY 2009 followed by RRCO Phuentsholing at 9.9% and RRCO Samtse 6.2%. RRCO S/Jongkhar

and RRCO Paro collected 1.9% and 1.5% respectively. RRCO Gelephu realised only 0.1% while RRCO Mongar and RRCO Bumthang did not receive any CIT as of 31st March 2010.

4.3.1 TOP FIVE CIT PAYERS

The top five CIT payers contributed Corporate Income Tax of Nu. 2,184.7 million representing 55.3% of the total self declared CIT amount received as on 31st March 2010. M/s Druk Green Power Corporation Ltd., M/s Druk Holding and Investments Ltd. and M/s Bhutan Power Corporation Ltd. remained the top CIT contributors. Bank of Bhutan Ltd contribution was ranked fourth which was previously held by M/s Bhutan National Bank Ltd. M/s Penden Cement Authority Ltd. Remained the 5th highest contributor of CIT as in the previous year. The top five CIT payers vis-à-vis self declared tax amount are given in table below.

Table 21: Top Five CIT Payers as per Self declaration

Name of the company	Tax Amount	RRCO	Remarks
Druk Green Power Corporation	928,567,693.52	Thimphu	Self declared
Druk Holding and Investments	646,646,049.90	Thimphu	Self declared
Bhutan Power Corporation Ltd	242,074,345.89	Thimphu	Self declared
Bank of Bhutan	203,742,342.34	Phuentsholing	Self Declared
Penden Cement Authority Ltd.	163,657,474.00	Samtse	Self Declared
Total	2,184,687,905.65		

4.4 BIT COLLECTION

The total self declared BIT amounted to Nu. 170.5 million. Compared to the previous year BIT collection has decreased by 6.8% mainly due to increased number of time extension cases. From the total collection of Nu.170.5 million, 70% was realised from the accounts filers and the balance 30% realised from the estimated taxpayers. Among the regions, the highest collection was recorded under RRCO Thimphu with 35.6 %, followed by RRCO Phuentsholing with 32.5%, and RRCO S/Jongkhar with 10.7%. RRCO Bumthang realised the lowest BIT collection at 1.5 % of the total BIT collection.

Table 22: Region wise BIT Collection as of 31st March 2009

RRCO	Estimated	Non Estimated	Total	% Distribution
Thimphu	20,242,628	40,429,381	60,672,009	35.6%
P/ling	11,780,145	43,686,592	55,466,738	32.5%
Samtse	1,906,920	9,885,754	11,792,674	6.9%
Gelephu	6,051,751	2,968,553	9,020,304	5.3%
S/Jongkhar	2,589,921	15,709,166	18,299,087	10.7%
Paro	3,862,673	326,682	4,189,355	2.5%
Mongar	2,930,630	5,596,795	8,527,425	5.0%

Bumthang	2,370,790	155,914	2,526,704	1.5%
	51,735,458	118,758,838	170,494,296	100.0%
	30%	70%		

4.4.1 TOP FIVE BIT PAYERS

The total collection from top five BIT payers amounted to Nu. 38.9 million. This represents 22.9% of the total BIT collection. M/s Sherja Equipment Hiring Unit topped the list, followed by M/s TCC HO. M/s Lhaki Cement retained the third position while M/s Bhutan Hyundai Motors took the 4th position from the previous year's 5th. M/s Nima Construction also joined the list in the fifth position.

Table 23: Top Five BIT Payers as per self declaration

Name of unit	Tax Amount	RRCO	Remarks
Sherja Equipment Hiring Unit	13,031,608.04	S/Jongkhar	Self declared
TCC HO	9,200,000.00	Phuentsholing	Assessed
M/s Lhaki Cement	6,885,362.39	Samtse	Self declared
Bhutan Hyundai Motors	5,207,934.74	Thimphu	Self declared
Nima Construction	4,642,154.28	Thimphu	Self declared
Total	38,967,059.45		

4.4.2 ESTIMATED COLLECTION

The total estimated collection amounted to Nu. 51.7 million, making up 30% of the total BIT collection and 1.15% of the total self declared direct tax revenue. Amongst the RRCOs, the contribution to the total direct tax revenue from RRCO Thimphu was the highest at 0.45%, followed by RRCO Phuentsholing at 0.26% and RRCO Paro at 0.16%.

The national average collection per estimated unit was Nu.4,169 and the lowest and highest amount collected at Nu.856 and Nu.133,881 respectively. The lowest collection recorded was Nu. 100 under RRCO Thimphu and RRCO Mongar and the highest amount collected Nu. 230,63 under RRCO Thimphu.

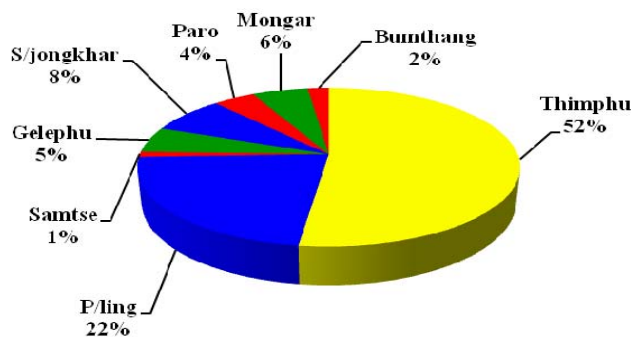
Table 24: Average Estimated Collection in 20 Dzongkhags

	Dzongkhags	No. of units from whom tax was collected	Actual estimated collection for 2008	% of Total Tax Rev (Nu.3219.78 mill)	Average Tax Collected in 2008	Min. Tax Collected per TP	Max. Tax Collected per TP
Thimphu	Thimphu	1843	16,256,711	0.36%	8821	100	230,637
	Wangdue	423	2,084,946	0.05%	4929	100	54,160
	Punakha	284	1,849,448	0.04%	6512	120	78,720
	Gasa	67	51,524	0.00%	769	400	5,000
	Subtotal	2617	20,242,628	0.45%	7735	720	368,517
P/Ling	Chhukha	1456	11,780,145	0.26%	8091	300	200,630
	Subtotal	1456	11,780,145	0.26%	8091	300	200,630
Samtse	Samtse	1399	1,906,920	0.04%	1363.0593	200	11,500
	Subtotal	1399	1,906,920	0.04%	1363	200	11,500
Bumthang	Bumthang	541	2,703,786	0.06%	4998	520	51,000
	Trongsa	281	842,993	0.02%	3000	500	39,200
	Subtotal	822	3,546,779	0.08%	4315	1,020	90,200
Gelephu	Dagana	406	1,086,220	0.02%	2675	500	15,900
	Sarpang	1571	3,282,658	0.07%	2090	500	36,000
	Tsirang	483	856,852	0.02%	1774	500	28,000
	Zhemgang	412	826,020	0.02%	2005	500	13,800
	Subtotal	2872	6,051,751	0.14%	2107	2,000	93,700
S/Jongkhar	Pemagatshel	662	950,157	0.02%	1435	500	3,500
	S/Jongkhar	841	1,639,763	0.04%	1950	500	49,500
	Subtotal	1503	2,589,921	0.06%	1723	1,000	53,000
Paro	Haa	330	1,623,039	0.04%	4918	500	33,500
	Paro	1273	5,524,701	0.12%	4340	455	69,000
	Subtotal	1603	7,147,740	0.16%	4459	955	102,500
Mongar	Mongar	641	2,222,193	0.05%	3467	200	50,000
	Trashigang	787	2,133,377	0.05%	2711	250	65,000
	Tashiyangtse	345	956,495	0.02%	2772	100	22,000
	Lhuntse	188	765,177	0.02%	4070	100	14,000
	Subtotal	1961	6,077,242	0.14%	3099	650	151,000
OVERALL		14233	59,343,127	1.32%	4,169	856	133,881

4.5 PIT COLLECTION

PIT collection (self declared plus additional raised through DA in some RRCOs) amounted to Nu.354.8 million recording an increase of 59.8% from Nu.222.1 million in the previous year. PIT collection constituted 8% of the total direct tax collection as of 31st March 2010.

Figure 20: Region wise PIT Collection: (in million Ngultrum)



RRCO Thimphu alone contributed 52% of the total PIT collection notching an increase of 4% over the previous year. The second highest contributor was RRCO Phuentsholing at 22% followed by RRCO S/Jongkhar at 8% and RRCO Mongar at 6%. The self declared tax from top 10 PIT filers for IY 2009 accounted for 7% of the total PIT revenue.

4.6 TAX REFUND

Total direct tax collection as of 31st March 2010 amounted to Nu.4,479.43 million for the IY 2009. This is an increase of 69% from previous year's collection of Nu.3100.3 million. Total refund amount claimed as of 31st March 2010 amounted to Nu. 79.77 million, which accounts for 1.8% of the total tax collection.

PIT refund claim accounted for 75.02% of the total refund claim, followed by BIT refund claim at 17.75% and CIT refund claim at 7.23%. Amongst the regional offices, RRCO Thimphu recorded the highest refund claim at Nu. 45.03 million followed by RRCO Phuentsholing at Nu. 16.96 million. The lowest refund claimed was in RRCO Paro amounting to Nu. 0.49 million.

Table 25: Region wise Refund claimed as per self declaration

Refund	PIT	BIT	CIT	Total	% distribution
Thimphu	31,603,074	8,201,468	5,229,684	45,034,226	52.8%
P/ling	10,962,222	5,455,450	540,000	16,957,672	18.3%
Samtse	744,293			744,293	1.2%
Gelephu	2,848,091			2,848,091	4.8%
S/Jongkhar	4,142,468	501,787		4,644,255	6.9%
Paro	493,759			493,759	0.8%
Mongar	6,260,858			6,260,858	10.5%
Bumthang	2,789,256			2,789,256	4.7%
	59,844,020	14,158,705	5,769,684	79,772,409	100.0%
	75.02%	17.75%	7.23%	100.00%	

PART V

TAX HOLIDAYS AND INCENTIVES

5.1 Fiscal Incentives

The Royal Government, with an objective to stimulate private sector growth, generate employment, and attract foreign investments, announced various fiscal incentives on 2nd April 2010. The present incentive package, unlike the 2002 incentive scheme, is targeted and poised to promote thrust sectors of the economy viz. ICT, Tourism, CSI's, etc for balanced economic growth.

As on 31st December 2009, 8 corporations, 13 incorporated companies, 5 registered manufacturing business units, 9 hotels, and 5 schools and institutes were under the tax holiday. The Companies & Businesses are currently under tax holiday as per the 2002 Incentive Scheme. The lists of units availing the tax holiday are given in the table below.

Table 26: List of Corporations availing Tax Holiday

Sl. No	Name of Unit	Location	Holiday Period		No. of years
			From	To	
1	Druk Seed Corporation	Paro	2002		
2	Bhutan Eco Ventures Pvt. Ltd	Paro	2004	2009	5
3	Bhutan Broadcasting Services Ltd.	Thimphu	2006	2013	5
4	Bhutan Development Finance Corporation	Thimphu	2002	2009	7
5	Handicrafts Development Corporation	Thimphu	2002		
6	Bhutan GRC	Thimphu	2004	2011	7
7	Bhutan Times Ltd.	Thimphu	2006	2010	5
8	Bhutan Observer Pvt. Ltd	Thimphu	2006	2010	5

Table 27: List of Manufacturing Units availing Tax Holiday

Sl. No.	Name of Unit	Location	Holiday Period		No. of years
			From	To	
1	Rabten Wire Industries	Phuentsholing	2006	2009	3
2	Om Chips & Food Processing Unit	Phuentsholing	2006	2009	3
3	Bhutan Concrete Bricks	Thimphu	2007	2010	3
4	Barma Chemical Industry	S/Jongkhar	2003	2009	7
5	Satar Poultry & Animal Feeds	Gelephu	2007	2009	3

Table 28: List of Incorporated Companies availing Tax Holiday

Sl. No.	Name of Unit	Location	Holiday Period		No. of years
			From	To	

1	Druk Plaster and Chemicals	S/Jongkhar	2003	2010	7
2	SD Eastern Bhutan Ferro Silicon Pvt. Ltd.	S/Jongkhar	2007	2010	3
4	Bhutan Brewery Pvt. Ltd	Phuentsholing	2006	2009	3
5	RSA Pvt. Ltd (Marble processing unit)	Phuentsholing	2006	2009	3
7	Kenpa Pvt. Ltd (Vanaspati)	Phuentsholing	2006	2009	3
8	Mega Pvt. Ltd (Vanaspati)	Phuentsholing	2006	2009	3
9	Bhutan Cable Industries Pvt. Ltd.	Phuentsholing	2007	2009	3
11	Bhutan Health Food Products Ltd.	Phuentsholing	2007	2009	3
12	Bhutan Rolling Mills Pvt. Ltd	Phuentsholing	2007	2009	3
13	K.L.S Wire Private Ltd.	Phuentsholing	2007	2009	3

Table 29: List of Schools and Institutes availing Tax Holiday

Sl. No.	Name of Unit	Location	Holiday Period		No. of years
			From	To	
1	Kuen-Gaa Higher Secondary School	Paro	2004	2009	5
2	K. Gangri Pry. School	Paro	2006	2009	5
3	Tenzin Primary School	Paro	2006	2009	3
4	Bhutan Centre for Excellence	Thimphu	2007	2010	3
5	E-Druk IT Institute	Thimphu	2007	2010	3

Table 30: List of Hotels availing Tax Holiday

Sl. No.	Name of Unit	Location	Holiday Period		No. of years
			From	To	
1	Rinchenling Lodge	Paro	2004	2009	5
2	Namsay Choling Resort	Paro	2005	2010	5
3	Risum Resort	Paro	2004	2009	5
4	Hotel Jigmeling	Paro	2006	2009	3
5	Hotel Paro	Paro	2007	2009	3
6	Bhutan Resort Corporation Limited:				
	i. Amankora, Punakha	Punakha	2005	2010	5
	ii. Amankora, Gangtey	Wangdue	2005	2010	
	iii. Amankora, Paro	Paro	2004	2009	
7	Hotel Dewachen	Wangdue	2004	2009	5
8	Yangkhil Resort	Trongsa	2004	2009	
9	Yoezerling Hotel	Bumthang	2006	2010	5

5.2 Exempted Organizations

Donations made to the following organizations are exempted from taxes as per Rule No.1.7, Part III of the Rules on the Income Tax Act 2001. However, the exemptions are not automatic

and shall be required to be registered under the relevant act and authorities governing such entities.

- a. Youth Development Fund
- b. Bhutan Health Trust Fund
- c. National Women's Association of Bhutan,
- d. Royal Society for the Protection of Nature
- e. Bhutan Trust Fund
- f. HRH Prince Namgyal Wangchuk Charitable Trust
- g. World Peace Moenlam Tshokchen
- h. India-Bhutan Foundation Trust Fund
- i. RENEW
- j. Tarayana Foundation

Similarly, the shareholding and fixed deposits in the name of the following organizations were also exempted from PIT as per Part III Rule No. 1.7 of the Income Tax Rules, 2001.

- a. Royal Government of Bhutan
- b. Royal Bhutan Army
- c. Central Monastic Body
- d. Other monk bodies such as Rabdeys under the administrative control of the Central Monastic Body
- e. Kajung Phunsum Lhakang, Kurje, Bumthang
- f. Yum Rani Choing Wangmo Dorji's Trust Fund