Doing Business in Nepal

2019



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Where we operate

440 cities

150 countries

5 continents

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Abbreviations of terms used

BO	Branch Office
CSR	Corporate Social Responsibility
DG	Director General
DOED	Department of Electricity Development
DOI	Department of Industry
EIA	Environmental Impact Assessment
EOI	Expression of Interest
FDI	Foreign Direct Investment
FITTA	Foreign Investment and Technology Transfer Act 2019
GON	Government of Nepal
IBN	Investment Board Nepal
ICAN	Institute of Chartered Accountants of Nepal
IEA	Industrial Enterprises Act 2016
IEA	Initial Environmental Assessment
IRD	Inland Revenue Department
IRO	Inland Revenue Office
ISA	International Standard on Auditing
LO	Liaison Office
ITA	Income Tax Act 2002
MoA	Memorandum of Association
NBCA	Non- Business Chargeable Assets
NFRS	Nepal Financial Reporting Standards
NRB	Nepal Rastra Bank (Central Bank)
NSA	Nepal Standard on Auditing
OCR	Office of Company Registrar
PAN	Permanent Account Number
PE	Permanent Establishment
PPP	Public Private Partnership
SEBON	Securities Board of Nepal
SEZ	Special Economic Zone
SSF	Social Security Fund
TDS/WHT	Withholding Tax
VAT	Value Added Tax
VCF	Venture Capital Fund

Foreword

Nepal is one of the world's most exciting, captivating and unforgettable places. From the lush green jungles of the Indian plains to the snow-capped peaks of the towering Himalayas, Nepal fuses rich cultural diversity with natural beauty.

Nepal features eight of the world's ten highest mountains, including Mount Everest (Sagamatha), it has the largest Shiva temple in the world, it is the birthplace of Siddhartha Gautama (Buddha), and it is home to elusive snow leopards, rare one-horned rhinos, and beautiful tigers.

A stable political environment, investment promotion, and strong economic development is continuing Nepal along the path of prosperity.

Nestled in the following pages is a brief overview of the economic and regulatory landscape of Nepal, along with nuggets of information on some of the pearls of Nepal like the World Heritage temples and spectacular Buddhist stupas found amongst the rambling streets of Kathmandu, Bhaktapur and Patan, the diverse wildlife found in the Chitwan and Bardia National Parks, and the remote fortress-like settlements steeped in shamanistic traditions.

We, at PKF in Nepal, hope this booklet will help in providing readers with an insight on setting up businesses in Nepal.

PKF in Nepal

PKF T.R. Upadhya & Co. ('PKF Nepal') is a member of PKF International Limited, a network of legally independent firms. PKF Nepal was established in 1971 as a partnership firm established under the laws of Nepal and today it has over 90 professionals as well as many other experienced professionals working on a contractual basis within the firm.

We are a leading provider of audit, tax, business, and financial advisory services in Nepal. The firm's approach to service delivery helps us respond efficiently and comprehensively to any client's complex business challenges. Our clients include a large number of local, regional and international clients.

PKF Nepal provides its clients with full access to the resources and the infrastructure of a major firm and our team is uniquely positioned to integrate in-depth expertise in international accounting and business practices with local know how.

Our objective is to provide services of the highest possible standard to companies in Nepal and also bring an international perspective to the management of their business.

Range of Services

We offer a wide range of services that include audit and related legal, tax, management, business, and financial advisory services. We provide professional services to organizations across a wide variety of industry groups which include financial services, banking, power and energy, infrastructure, manufacturing and trading, communication, government, non-profit and philanthropic organizations and many more.

In summary, our services include:

Audit and assurance services:

PKF Nepal's audit and assurance practice helps clients manage risks, as well as identify areas for operational improvement so they can focus on their core businesses. Our understanding each client's business enables us to provide value added insights to clients to improve client efficiency, performance and profitability.

Tax services:

PKF Nepal's tax practice is aimed to create value for our clients and to bring competitive advantage to their activities and helps clients find opportunities for tax savings that will have significant impact on the financial statements.

Financial and business advisory services:

PKF Nepal's financial and business advisory services can provide valuable insights into how companies can grow and enhance their shareholder value. TRU assists clients to mitigate risks, improve performance and create value.

Contact Us in Nepal

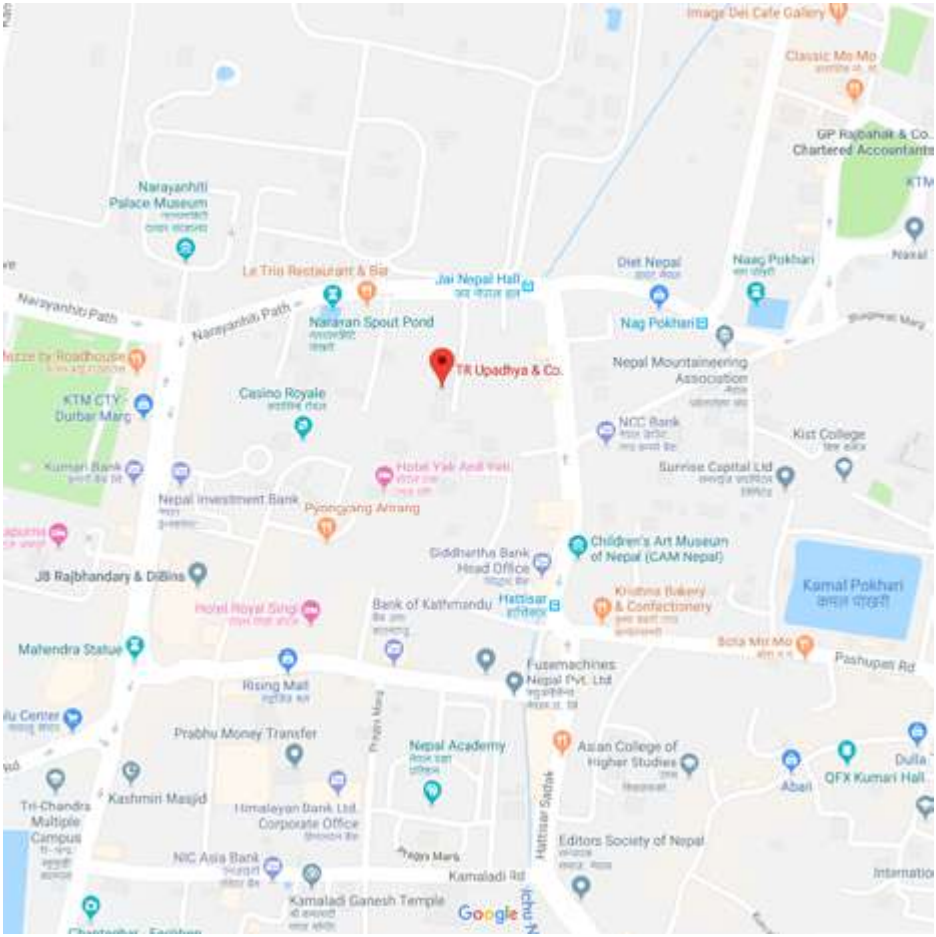
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Nepal


The Great Himalaya Range
Mahendranagar
Dhangarhi
Nepalgandj
Pokhara
Kathmandu
Mt. Everest
Butwal
Bharatpur
Hetauda
Bhairahawa
Birganj
Janakpur
Dharan Bazar
Biratnagar

Introduction

Geography

The Federal Democratic Republic of Nepal is a landlocked country in South Asia. The north part of the country has a border with China, whilst the rest of the country has a border with India. One of the main entry points for goods into Nepal from India is the 'Birgunj' border crossing, known as the 'Gateway to Nepal'. Birgunj is approximately 850 kilometres from the Indian seaport in Kolkata, West Bengal.

Nepal has a diverse geography, including fertile plains, subalpine forested hills, and eight of the world's ten tallest mountains, including Mount Everest (Sagamatha). The country is divided into three main geographical regions:

- Himalayan region;
- Mid Hill region; and
- Terai region.

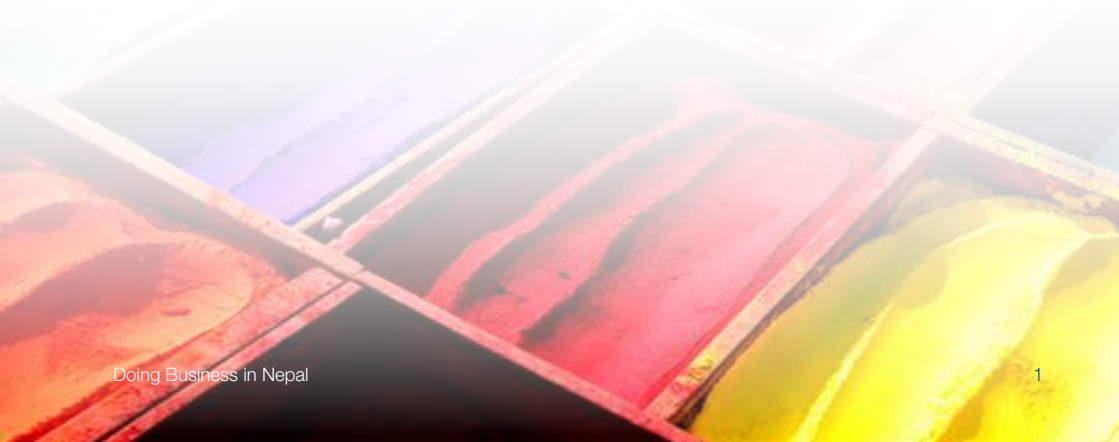
The capital city of Nepal is Kathmandu, which is also its largest city. The total land area is 147,181 square kilometres.

Nepal has an estimated current population of 29.9 million (2019 United Nations estimate).

Language and Currency

The official language is Nepali (in the Devnagari script) which is the most widely spoken language in the country. However, there are numerous other indigenous languages spoken in the country, including Maithili, Bhojpuri, Awadhi, Bhojpuri, Bajjika, Doteli, Gurung, Kiranti, Limbu, Magar, Maithili, Newar, Rai, Tharu, and Urdu.

The currency of Nepal is Nepalese Rupee (NPR). The currency of Nepal is pegged with Indian Currency (INR).



Government and Legal System

Nepal is governed according to its current Constitution, which came into effect on 20 September 2015, and is the fundamental law of Nepal which defines it as having multi-ethnic, multi-lingual, multi-religious, and multi-cultural characteristics.

The governance of Nepal is based on a multi-party, competitive, federal democratic republican parliamentary system with an elected Prime Minister responsible to Parliament as executive head.

The body responsible for enacting legislation in Nepal is the Federal Parliament of Nepal which consists of two chambers; the 'National Assembly' referred to as the upper house and the 'House of Representatives' referred to as the lower house.

The judicial system comprises of three types of court: Supreme Court; High Courts; and, District Courts.

Communication and Transportation

Communication in Nepal is well developed. Around 59% of the population have access to the internet (according to the MIS report issued by the Nepal Telecom Authority) and access to a telephone is possible in most parts of the country.

The major cities and major customs ports of Nepal are linked by road transportation. All the major cities are served by a domestic airport and there is an international airport in Kathmandu.

An expressway, improved rail transportation and two other international airports are all currently under construction.

Economic Status

Nepal is a developing economy. Its GDP in FY 2018 was around USD 27.59 billion and its GDP growth rate was around 6.3% (according to Nepal Rastra Bank's (NRB) Macroeconomic Indicators).

Agriculture remains Nepal's principal economic activity, employing about 65% of the population and contributing to about 30% of the GDP. Nepal's natural resources, tourism, and hydroelectricity are regarded as the driving forces of the economy and significant progress has been made in these areas. A series of five year plans have been used by the Government to make progress and strategically develop Nepal's economy.

The development of Nepal's infrastructure, communication, transportation, industrialization, agriculture, and tourism are major priorities of the Government. With reference to the World Bank's report, Nepal ranks 110 out of 190 countries surveyed in the 'Ease of Doing Business' index (2018).

In the past, the economy of Nepal had been sluggish due to social unrest, political instability, the earthquake in 2015, and the alleged blockade from India. Today however, with a stable government commanding a two thirds majority, a strong government plan in place and good leadership, the economic development of Nepal is picking up pace.

Major Exports and Imports

Major trading partners for exports are: India, United States, Turkey, Germany, China, France, United Arab Emirates .

Major trading items for exports are: Accessories, coffee, clothing, fruit preparations, manmade staple fibers, nut preparations, tea, textile floor coverings, and vegetable preparations.

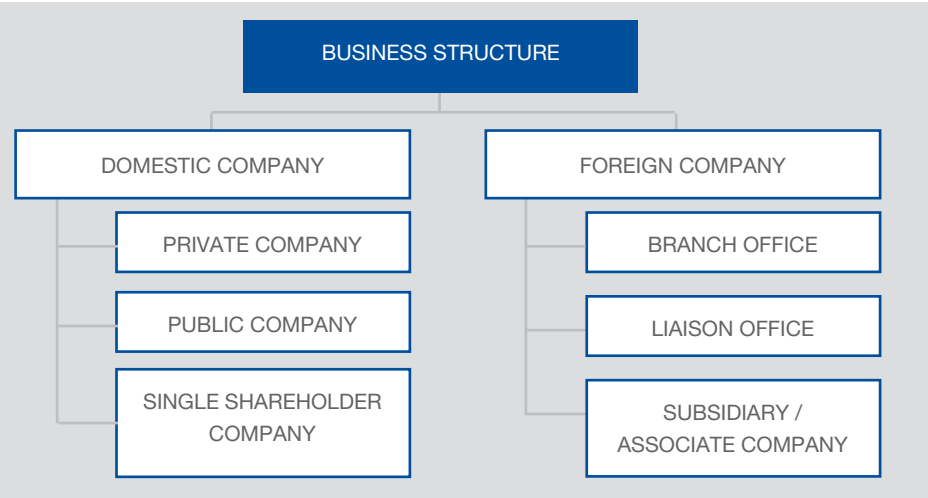
Table 1: Major exports and imports from Nepal

Major Exports	Major Imports
Carpet, Cardamom, Yarn, Coffee, Tea, Jute	Petroleum products (Diesel, Petrol, LPG), Motor Vehicles, Motorbikes, Iron, Steel, Gold, Cement Clinkers, Mobiles phones, Rice

Source: Foreign Trade Statistics for 2018/19 published by Department of Customs

Types of business structure

Chart 1: Types of Business Structure



Domestic Company

Companies incorporated under the Companies Act 2006 fall into two broad categories, namely, private companies and public companies. There is also the concept of a single shareholder company.

Private Company

A private company is a company which has a restriction on the right to transfer shares, has a limit of 101 shareholders, and cannot sell its shares or debentures to the general public. All private companies must add the words “private limited” to its name. Certain facilities and relaxations in compliance are however enjoyed by a private company compared to a public company.

Public Company

A public company is a company which is not a private company. Public companies must have a minimum of 7 shareholders as signatories to the MOA, and have a minimum paid up capital of NPR 10 million. The paid up capital can however be higher for companies which are regulated by other regulations e.g. a company carrying on a business involving banking & financial transactions, insurance, stock exchange, pension funds, or mutual funds.

Compliance under the Companies Act is more stringent for public companies as compared to private companies. A public company may be a listed company i.e. its shares may be listed on a stock exchange and traded.

Single Shareholder Company

The Companies Act permits the incorporation of a company with only one shareholder. All the acts and decisions normally required to be performed by a board of directors, or at a general meeting of the company, is decided in writing by the shareholder, and therefore no such meetings are required to be called for this type of company.

Holding and Subsidiary Company

A holding company is a company which has control over a subsidiary company. A holding company may control its subsidiary in any of the following ways:

- By holding direct or indirect control over the formation of the board of directors; or
- By holding majority shares of the company.

A subsidiary company is any company controlled by a holding company. A subsidiary of a subsidiary also becomes a subsidiary of the holding company controlling the later.

Modes of Incorporation

A company may be incorporated under the Companies Act using the following alternative modes:

a. Incorporating a Nepali company with 100% foreign equity, operating it as a wholly owned subsidiary.

b. Incorporating a joint venture company with a Nepali partner, and/or with the general public, and operating as a public company listed on the stock exchange.

c. Incorporating a joint venture company with a Nepali partner and operating it as a private company or a non-listed public company.

Foreign Company

Foreign companies are companies which are incorporated outside Nepal (100% foreign owned) and have established a place of business in Nepal. A foreign company's place of business in Nepal includes a liaison office or branch office of such companies or its subsidiaries.

Foreign companies must register with the OCR within 30 days of the establishment of a place of business in Nepal or the appointment of a resident agent to deal with matters on behalf of the company.

Branch Office

Foreign companies may operate in Nepal by opening a branch office subject to approval from a competent government authority. Following approval, an application in the prescribed form should be made to the OCR to register the branch office with the appropriate fee paid.

Liaison Office

A liaison office can be established by a foreign company in Nepal under the Companies Act 2006.

At the time of registration, the OCR may direct the foreign company to seek a specific authorisation, for instance, in the case of a power company, permission must be obtained from the Department of Electricity Development (DOED) to operate in Nepal.

A liaison office is not permitted to carry out any income earning activity in Nepal and all its expenses are required to be met through inward foreign currency remittances.

Comparison of a Liaison Office, Branch Office and Subsidiary:

	Liaison Office (LO)	Branch Office (BO)	Subsidiary
Meaning	A Liaison Office (also known as representative office) can undertake only liaison activities i.e. work as a channel of communication between Head Office abroad and parties in Nepal.	Branch Offices are permitted to be set up, after obtaining specific approval from GoN or with a valid contract with the GoN or its agencies, to execute a contact.	An entity can be incorporated under the Companies Act, 2006 as a distinct legal entity with limited liability. Approval of DOI is required for entities to be incorporated under foreign direct investment.
Constitution	LO is an extension of the Head Office, has a simple structure and has no separate legal standing of its own.	BO is an extension of the Head Office with right to accrue income in Nepal with separate legal standing of its own.	Incorporated under the Companies Act 2006 as a separate legal entity with limited liability and a resident company in Nepal.

Comparison of a Liaison Office, Branch Office and Subsidiary: (continued)

	Liaison Office (LO)	Branch Office (BO)	Subsidiary
Permitted activities	1. Representing in Nepal the parent company/Group companies. 2. Promoting technical/ financial collaboration between parent/ group companies and companies in Nepal. 3. Acting as a communication channel between the parent company and Nepalese companies. 4. Carrying out research work, in areas in which the parent company is engaged. 5. Provide training on company products and its use to customers and distributors. 6. Collect market information and provide to parent company.	1. Carrying out specific activities under the agreement or contract approved by the GON or its agencies. 2. Other activities carried out by the LO.	As per its objective approved by the DOI and specified in the Object Clause of the MOA.

Comparison of a Liaison Office, Branch Office and Subsidiary:

	Liaison Office (LO)	Branch Office (BO)	Subsidiary
Criteria for set up	Submit application in standard format along with specified documents.	Submit application in standard format along with specified documents and approval from the GoN or its agencies. Specific contracts executed with the GON or its agencies for implementing projects in Nepal is construed as deemed approval from GoN.	A company can be incorporated with investment of NPR 50 million, which is the minimum investment for FDI. Approval of the following entities are required: • DOI • Nepal Rastra Bank
Registration Requirements	The following registrations / approvals will be required: 1. OCR Registration 2. PAN 3. Municipality registration	The following registrations / approvals will be required: 1. OCR Registration 2. GoN approval or contract 3. PAN / VAT 4. Municipality registration 5. Exim Code	The following registrations / approvals will be required: 1. DoI approval for FDI 2. OCR Registration 3. PAN / VAT 4. DOI registration as an Industry 5. NRB approval for FDI 6. Municipality registration 7. Excise registration 8. Exim Code
Liabilities of parent company / head office	All liabilities of the LO pass through to the Head Office.	All liabilities of the BO pass through to the Head Office if its assets are not sufficient to discharge such liabilities.	The liability of the parent company as a shareholder is limited to the extent of its shareholding in the subsidiary. The assets of the foreign company are not subject to any attachments.

Comparison of a Liaison Office, Branch Office and Subsidiary: (continued)

	Liaison Office (LO)	Branch Office (BO)	Subsidiary
Permitted income	The entire expenses of the LO in Nepal will be met out of the funds received from Head Office through normal banking channels. There will be no income in the LO.	The expenses of the BO shall be met out of the income generated from the business activities of the BO. If funds are not sufficient, it can finance it through: • Advances from the Head office • Loan from commercial banks	All income arising out of its business activities as per its objectives.
Corporate tax rates	Since there is no income accrual, there is no taxable income and income tax. However, annual Nil tax returns are to be filed.	A branch office of a foreign company is taxed on the taxable income of the branch office @ 25%.	Any Nepalese company is taxed @ 25% for general business. For manufacturing entities the tax rate is 20%. For certain business such as banking and finance, insurance, telecommunication the rate of tax is 30%.
Remittance of profit to parent company	Not applicable	Repatriation of profits after withholding the applicable taxes.	1. By way of dividend royalty / fees for technical services, 2. Management fees, and 3. Related party transactions
Management	Managed by Authorized Representative, resident in Nepal (Country Manager).	Managed by Authorized Representative, resident in Nepal (Country Manager).	BOD as defined by AOA for private company and BOD of 3-11 directors (can be foreign national, no need to be resident in Nepal).

Comparison of a Liaison Office, Branch Office and Subsidiary:

	Liaison Office (LO)	Branch Office (BO)	Subsidiary
Statutory audit	The financial statements prepared under NFRS for SMEs to be audited as per Nepal Standards on Auditing (NSA) and submitted to OCR within 6 months from the end of the financial year.	The financial statements prepared under NFRS/ NFRS for SMEs to be audited as per NSA and submitted to OCR within 6 months from the end of the financial year.	The financial statements prepared under NFRS/ NFRS for SMEs to be audited as per NSA and submitted to OCR within 6 months from the end of the financial year.
Tax audit	Applicable	Applicable in all cases of filing tax return.	Applicable in all cases of filing tax return.
Transfer pricing	Not Applicable	Applicable	Applicable
Annual compliance for filing returns	1. Yearly filings include the filing of audited statement of expenses within 6 months from year end and certified statement of expenses and withholding taxes from auditor with OCR within 3 months from the end of the fiscal year. 2. Annual report of the parent company with OCR within 3 months of finalization. 3. Monthly TDS returns. 4. Annual tax returns. 5. Monthly social security returns.	1. Yearly filings include the filing of audited financials of BO, with OCR within 6 months from the end of the fiscal year. 2. Annual report of the parent company with OCR within 3 months of finalization. 3. Advance tax returns with IRD. 4. Monthly TDS returns. 5. Annual tax return with the IRD. 6. Monthly VAT returns. 7. Monthly social security returns.	1. Yearly filings include the filing of audited financials of BO, with OCR within 6 months from the end of the fiscal year. 2. Other data to be filed with OCR as per requirement of Companies Act. 3. Advance tax returns. 4. Annual tax return with IRD. 5. Monthly TDS returns. 6. Monthly excise duty returns. 7. Monthly VAT returns. 8. Monthly social security returns.

Comparison of a Liaison Office, Branch Office and Subsidiary: (continued)

	Liaison Office (LO)	Branch Office (BO)	Subsidiary
Deregistration	Application with the prescribed fees for cancellation of registration shall be submitted to the OCR along with a certificate of no liability due to any person, organization or governmental or non-governmental organization. After publishing a notice two times in the national newspaper the OCR shall cancel the registration when no claims are received.	Application with the prescribed fees for cancellation of registration shall be submitted to the OCR along with a certificate of no liability due to any person, organization or governmental or non-governmental organization. After publishing a notice two times in the national newspaper the OCR shall cancel the registration when no claims are received.	The subsidiary can be liquidated under sections 126 and 136 the details of which are given in section 2.5.

Exit from the Industry

Voluntary liquidation of the Company

A company may be voluntarily liquidated under section 126 of the Companies Act 2006. Where a voluntary liquidation is not possible or desired, a company may still be liquidated under the Insolvency Act 2006 where certain circumstances are met.

Voluntary liquidation of a company requires the passing of a Special Resolution at a General Meeting, or it may be liquidated pursuant to satisfying the conditions stipulated in the company's MOA/AOA.

Eight steps of a Voluntary Liquidation of a Company:

Step 1 Pass a Special Resolution

Pass a special resolution in the General Meeting of the shareholders to voluntarily liquidate the company. Amongst other matters the General Meeting shall also:

a. Appoint the liquidator and agree remuneration;

b. Appoint the auditor to audit the statement of the liquidators account and fix the remuneration;

c. A declaration from the directors that the company will settle its debt and liabilities within one year should be provided and ratified.

Step 2 Submit application to Office of Company Registrar

An application should be submitted to the OCR and DOI for the voluntary liquidation, to obtain agreement in principle and a no objection letter from the DOI for the liquidation, to be provided to the OCR, together with the following documents within 7 days from adopting the special resolution:

a. Special resolution passed by the general meeting of the shareholders;

b. Audited financial statements showing true and fair view until at least 15 days before the director's written declaration;

c. Appointment of the liquidator;

d. Appointment of the auditor to audit the statement of the liquidator's account;

e. The directors written declaration confirming the ability of the company to pay off its debt and fully settle its liabilities within one year from the date of adopting the special resolution.

Step 3 Notification to the Inland Revenue Office (IRO) and filing of final tax returns

a. The Company shall notify the IRO that the liquidation process has been initiated and of the appointment of the liquidator;

b. The tax returns for the period will be submitted along with the audited financial statements and tax clearance certificate shall be obtained.

Step 4 The liquidator starts the process of liquidation

a. Under the special resolution, a Liquidator is appointed from the list of licensed practitioners under the prevailing law on insolvency to conduct liquidation proceedings of a company and their remuneration agreed and fixed (see Step 1).

b. This information shall be given to OCR within 7 days the appointment (Step 2).

c. The power related to the operation and management of company is exercised by the Liquidator and the services of all employees are terminated except those retained by liquidator for assistance.

d. The liquidator shall complete the liquidation process within the period specified at the time of appointment.

e. An auditor should also be appointed under the provisions of Section 111 of Companies Act, 2006 at the time of appointing the liquidator for auditing the statement of the liquidator's accounts.

The rights and duties of the directors shall cease on appointment of the liquidator.

Rights of the liquidator

- Recover all the amounts from the disposal of the assets and liquidate all debts and liabilities;
- Remaining funds shall be distributed to the shareholders after approval in the annual general meeting by 75% of the shareholders;
- Submit the following reports to the OCR.

a. Half yearly reports

- Statement of liquidators account
- Progress report on liquidation for submission to the annual general meeting

b. Final reports:

- The certified final report of the liquidator shall be sent to the OCR together with the statement of liquidator's account and details of the recoveries made from assets, liabilities liquidated, and the amount distributed to the shareholders. There shall be no assets or liabilities of the company in the liquidator's account.
- Audit report of the statement of liquidator's account.
- The statement of the liquidator's account along with an application for the deregistration of the Company shall be submitted to the IRD.

Step 5 OCR's action after receiving the report from the liquidator

Following receipt of the Liquidator's report, the OCR shall strike off the name of the Company from the register and issue the order that registration of Company has been cancelled. A notice to this effect shall be published in the national daily newspaper.

Step 6 DOI

The DOI shall strike off the name of the Company from the register and inform the investor company that the cancellation has been completed.

Step 7 Submission of original certificates

All original documents must be submitted to the respective offices prior to liquidation:

At OCR: Certificate of Incorporation, MOA, AOA certified shareholders register

At DOI: Approval of FDI, Project Proposal, Industry Registration Certificate

At IRO: Original PAN certificate.

A letter may then be obtained from the OCR (and the respective offices) that the liquidation has been completed.

Step 8 Repatriation

For the purposes of repatriation of funds/profits, an application must be made to the DOI. Based on the recommendation of the DOI, application to NRB shall be filed for the repatriation.

After paying applicable taxes on the repatriation of profit, the company may repatriate the amount outside Nepal.

Sales of Shares

There are two stages to the sale of company shares (and repatriation of the proceeds):

Step 1 Recommendation from DOI

A company may repatriate its investment by selling its shares as a whole or in part. To affect a sale of a company's shares, an application must be filed to the DOI with following details:

- Application
- Decision of Board of Directors
- Approved Share Purchase Agreement (SPA) for shares sold
- Shareholders register (Share Lagat) endorsed by OCR
- Proof of investment through banking channel
- Audit Report and Tax Clearance Certificate

Based on the recommendation of the DOI, application shall be filed to the NRB for repatriation of the sales proceeds.

Step 2 Approval from NRB

For the purpose of a repatriation, NRB requires the following documents:

a. Approval of doing business from DOI;

b. Approval from NRB to bring foreign investment in Nepal;

c. Proof of investment by submitting bank statement or a certificate from the respective BFI;

d. Approved copy of Sale and Purchase Agreement from DOI;

e. Valuation report of assets and liabilities of the company of which shares are sold;

f. Copy of PAN, MOA, and AOA;

g. Tax clearance certificate;

h. Certified copy of share register (Lagat) from OCR;

i. Proof that the buyer is not blacklisted by Credit Information Bureau (CIB) of Nepal;

j. For unlisted companies, valuation of share price based on fair value of assets and liabilities pursuant to NFRS 3 - Business Combinations.

After obtaining approval from the NRB, the investor may repatriate the amount abroad.

Foreign Investment and Technology Transfer Act (2019)

The new Foreign Investment and Technology Transfer Act 2019 (2075) ("FITTA") is expected to provide the impetus to Nepal's quest to attract more foreign investment into the country through streamlined and simplified procedures and clarity of law.

Definition of Foreign Investment

Foreign investment has been defined to include the following investments made by a foreign investor in Nepal:

a. Investment in shares of a company in foreign currency;

b. Reinvestment of earnings from foreign investments;

c. Lease financing in airlines, ships, plant, machinery, construction equipment and other similar equipment up to the prescribed threshold;

d. Investment in venture capital funds (VCF) by institutional foreign investors with approval of SEBON;

e. Investment in listed securities through the secondary market by VCFs;

f. Investment through acquisition of shares or assets of a company registered in Nepal;

g. Amounts received by public or listed companies mentioned in Section 11 through the banking channel by issuing securities in foreign capital markets;

h. Investments made through the transfer of technology;

i. Establishment and the expansion of industry.



Approving Authority for Foreign Investment

The approval of any foreign investment is required from the following approving authorities:

- Department of Industries (DOI) for investments up to NPR 6 billion.
- Investment Board of Nepal (IBN) for investments above NPR 6 billion.

Minimum Threshold for Foreign Investment

The maximum limit for foreign investment in Nepal has not been prescribed in the law, however, pursuant to Section 13 of FITTA, a limit may be imposed for investments:

- For investment made through a Venture Capital Fund as per Section 10;
- For investment in the Service Sector which shall nevertheless be not lower than the commitment given by Nepal in its WTO agreement.

The current minimum investment threshold for a foreign investor is NPR 50 million (approximately USD 450,000).

Investment through a Venture Capital Fund

A foreign investor can invest in the equity shares of a company in Nepal after obtaining approval from Securities Board Nepal (SEBON) by establishing a venture capital fund.

Dealing in Securities Transactions

Entities establishing a venture capital fund may transact in securities through the stock exchange's secondary market after registering with the SEBON. The minimum shares to be purchased, the investment limit, minimum share holding period, and foreign currency reserve fund, is yet to be prescribed.

Issue of Foreign Currency Bonds, Debentures or Securities

Only public and listed companies established in Nepal (or a company obtaining approval for issuing debentures in accordance with the relevant Act) can issue bonds, debentures, or securities to obtain a loan or foreign currency. Such loan amounts, or foreign currency, must be invested in Nepal.

Raising Foreign Currency Loans

Any company with foreign investment can raise loans from foreign governments, banks, and financial institutions to fulfill a project loan or project financing agreement (after obtaining approval from the Ministry of Industry, Commerce and Supplies and NRB).

FITTA does not permit companies with foreign investment to raise money as loans from their parent companies or other associated companies. Companies can borrow money from local sources.

Process: Setting up an entity with foreign investment

The process of obtaining approval for foreign investment is as follows:

a. File an application in the prescribed form together with the relevant document (foreign investment approval document) with the approving authority stated above. The timeframe for the receipt of the investment must also be provided.

b. An approval letter will be obtained within 7 days from the date of the application, if the application is complete in all respects.

c. Approval for reinvestment in the same company, or in other industries, from profits earned, not included in the negative list is not required by an industry which has already been granted approval.

d. Once approval of foreign investment is obtained, the investor must incorporate a company under the Companies Act 2006 and submit the relevant documents.

e. Register the entity with the Inland Revenue Department and obtain a Permanent Account Number (PAN).

f. Register the industry with the DOI and obtain an industry registration certificate.

g. Register the business with the local authority.

h. After obtaining foreign investment approval, the foreign investor should notify NRB when the investment can be obtained in Nepal (through the banking channel) in a convertible currency [except for Indian investors who can invest in Indian currency].

i. Other approvals may be required prior to commencement of business, for Environmental clearances where applicable, and licenses for specific industries.

j. Once approval is granted, re-approval is not required for reinvestment in the same industry or another industry (exceptions apply).

Repatriation of Capital and Dividends

The foreign investor can repatriate capital and dividends earned from its operations in Nepal (net of taxes) using a bank transfer or transfers in the currency in which the investments were made, after obtaining approval from NRB.

In addition, the following amounts can be repatriated by the foreign investor:

- In cases of liquidation, on cancellation of the company – the amount remaining after fulfilling all obligations.

- Royalty amount received from a transfer of technology (except in case of an industry exporting 100% of its liquor or liquor products, an industry producing liquor and/or liquor products, which shall not repatriate income not more than prescribed).
- Lease / rental amount.
- Amount received as compensation after the settlement of legal disputes or arbitration.
- An amount prescribed by any relevant prevailing laws.

Single Point Service Centre

As specified in Industrial Enterprises Act 2016, the Ministry of Industry, Commerce & Supplies (Ministry) has established a Single Point Service Center (Centre). All services required by an industry including concessions, facilities and incentives shall be provided through this Centre in an easy and spontaneous manner. In addition, other administrative services such as approval, registration, expansion and approvals for industries will be provided from the Centre on a timely manner.

Services provided by the Centre

a. Services such as registration, establishment, approval, license renewal, transaction approval, capacity enhancement and classification of company, firm, industry which were earlier provided by Office of Company Registrar, DOI and Department of Commerce, Supply & Protection of Consumers.

b. Accepting document required for business registration in electronic form which can be used by various units internally.

c. Approval of foreign investment and repatriation thereof. Where departmental limit is above the center's authority, take initiative to get the approval from appropriate authority.

d. Providing concessions on tax and duties and such other facilities, services and incentives as per prevailing laws.

e. Facilitating the process of getting approval to hold land beyond the approved ceiling for the purpose of establishment of an industry. The Center shall also facilitate to obtain government land on lease and other approval necessary for environment examination.

f. Facilitate infrastructure such as connection of electricity, communication, water, access road etc..

g. Providing work permits and visa related facilities to foreign investors and employees.

h. Issue Export and Import Code Number (EXIM code).

i. Facilitation in import and providing necessary approvals for all kinds of raw materials required in an industry.

j. Approval for Initial Environment Examination (IEE) and if delegated from the concerned ministry, approve, scoping documents and Terms of Reference (TOR).

k. Facilitate approval of Environment Impact Assessment (EIA).

l. Approval of foreign exchange up to US$ 100,000 at a time and facilitation for approval above USD 100,000 at a time.

m. Establish an investment portal to provide necessary information on investment.

n. Provide Permanent Account Number (PAN).

o. Provide export subsidy etc.

Foreign Exchange Facilities for the Foreign Investor

Foreigners and companies can open and operate bank accounts in any commercial bank in Nepal and transact in the Nepalese currency, foreign currency or both (with prior approval of NRB). Foreign investors can utilize a range of foreign exchange facilities in the open market for the following purposes:

- Payment to experts, highly skilled technicians, managerial level employees;
- Payment of the principal, or interest, of bond or debenture;
- Repatriation of income invested and earned by an entity.

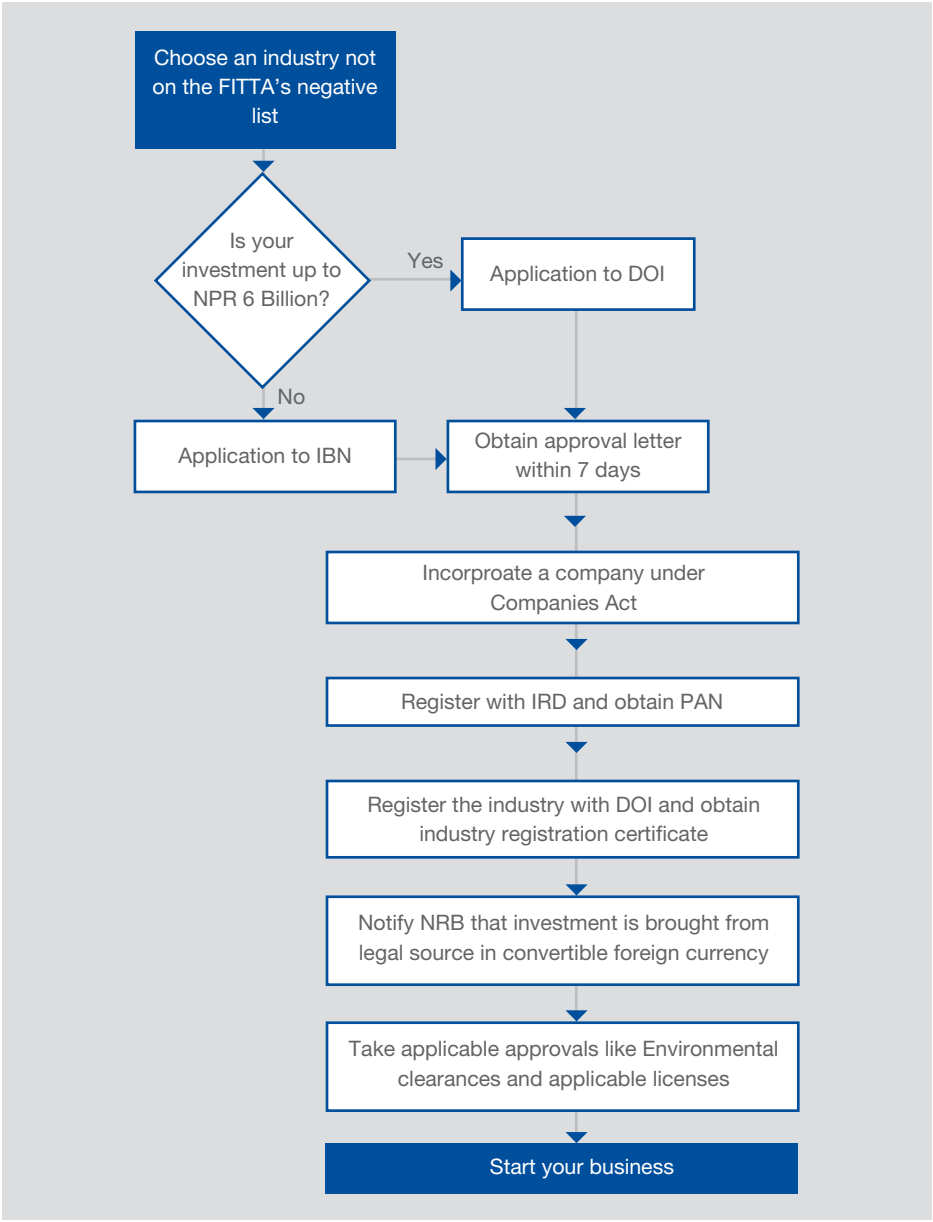
Hiring Expatriates

Hiring of expatriates as management experts, technical experts, managerial, and technical staff can be undertaken by entities only when qualified Nepali nationals are not available for such positions. The entities must provide the training and development to Nepali staff to eventually replace such expatriates. Furthermore, the labour law has restricted the number of expatriates that can be hired by an entity to a maximum of 5% of the total workforce.

Setting Up Company: Acquisition or Lease of Land

An entity with approved foreign investment can acquire land for setting up an industry, or alternatively lease land for this purpose. Where land cannot be identified by the investor, or where the land required is in excess of the prescribed ceiling, the approving authority shall provide necessary arrangement, approval and facilitation to identify the required land.

Process: approval for foreign investment and setting up a company



Negative List of Foreign Investment

Foreign Investment is permitted only in such sectors classified as 'industries' by the Industrial Enterprises Act 2016 with the exception of the following industries which are included in the 'negative list' of the FITTA.

- Primary agriculture sectors such as fish farming, animal husbandry, horticulture, milk business and others.
- Small and cottage enterprise.
- Personal Service Business such as Hair saloon, Tailoring, Driving etc.
- Arm and ammunition industry, industry producing biological and chemical weapons, Industries related to explosives, gunpowder, radio-active materials, atomic energy.
- Real estate businesses (excluding construction industries), Retail business, internal courier services, local catering services, money changer, remittance services.
- Travel agency, trekking agency expedition service provider, home stay and rural tourism.
- Mass-media business such as newspapers, radio, TV and online news.
- Movies of national language.
- Business and organizations providing management, accountancy, engineering and legal consultancy services and language training, music training, computer training.
- Business having more than 51% foreign investment in consultancy services.

Visa Facilities

The visa facilities available to expatriates are as follows:

VISA TYPE	ISSUED TO	DURATION
Non-Tourist Visa	A foreign national visiting Nepal for conducting research or survey study, for investment in Nepal.	Up to 6 months
Business Visa	A foreign investor or dependent family member or authorized representative of such foreign investor or dependent family of such authorized representative. In case investment is made by a company in excess of the prescribed amount, visa facility shall be granted to maximum two persons and their immediate family member.	Until the foreign investment is retained

Visa Facilities (continued)

VISA TYPE	ISSUED TO	DURATION
Residential Visa	Foreign investor who, at a time, makes an investment in excess of US$ 1 million (previously one hundred thousand dollar) or in equivalent convertible foreign currency.	Residential visa granted to the investor and dpendent family until such investment is retained
Non-Tourist Visa	Foreign specialist, technician or managerial staff working in industry	As per necessity

Other Facilities Granted under FITTA

An industry established through foreign investment will be recognized and granted certain facilities relating to the investment, management, maintenance, use, transfer and sale, and generally in doing business. Industries incorporated under the previous law shall continue to receive those facilities (provided under such law and prevailing at the time of the incorporation of such an industry). In addition, there are further facilities granted under FITTA to industries established through foreign investment.

Industrial Enterprises Act (2016)

To establish an industry under the Industrial Enterprises Act 2016 (IEA) an application form must be submitted in the prescribed form to the DOI (for registration of industries) along with the required documents. The DOI, after examination, and being satisfied that all the prescribed documents and information has been received and all the specified procedures for registration, and any directive laws, have been complied with, will, within 15 days from the date of the application, register such an industry and issue an industry registration certificate to the applicant.

After obtaining the certificate of registration, if there may be an effect on the environment, the applicant must conduct an EIA/IEE test first, before the commencement of operations.

Classification of Industries by size

Micro Industries

Details:

- Maximum NPR 0.5 million investments in fixed assets (except land and building).
- Entrepreneur self-involved in management.
- Maximum 9 employees including entrepreneur.
- Yearly transaction less than NPR 5 million.
- If such industry has used engines, equipment, or machines then energy used in such devices in the form of electricity, fuel or oil shall not exceed 20 Kilowatt.

Approving Authority: DCSI



Cottage Industries

- The traditional industries utilizing specific skill or local raw materials and resources, and labor intensive and related with national tradition, art and culture;
- If such industry has used engines, equipment's or machines then energy used in such devices in the form of electricity, fuel or oil shall not exceed 10 Kilowatt.

Approving Authority: DCSI.

Small Industries

Details:

Fixed capital up to NPR 100 million (except micro and cottage industries).

Approving Authority: DCSI.

Medium Industries

Fixed capital is more than NPR 100 million but up to NPR 250 million.

Approving Authority: DOI.

Large Industries

Fixed capital more than NPR 250 million.

Approving Authority: DOI.

Fixed Capital comprises:

a. Land and land improvement (works such as land levelling, filling and fencing),

b. Physical infrastructures (such as sewerage, internal road),

c. Office, factory building, godown, electric distribution, water distribution system and residential buildings,

d. Machinery, equipment and tools,

e. Means of transportation,

f. Electrical equipment and office equipment,

g. Furniture, fixture, communication system and equipment.

Classification of Industries by nature

The IEA further classifies industries by nature into the following 8 categories:

TYPE	DESCRIPTION	REFERENCE TO ANNEX OF IEA
Energy based Industry	Industry generating energy from water resources, wind, solar, coal, etc.	III
Manufacturing Industry	Industries producing goods using raw materials or semi or processed raw materials (Not prescribed schedule, but provided more facilities).	
Agro and Forest based Industry	Industries based on agriculture or forest products.	IV
Minerals based Industry	Industry based on minerals excavation or processing thereof other than metal.	
Construction based Industry	Industries prescribed in Schedule V operated with Physical infrastructure.	V
Tourism based Industry	Industries related to tourism services	VI
Information Technology, Information Transmission and IT Service transmission and communication based industry	Industries related to information technology, transmission and telecommunication.	VII
Service based industry	Service production or service provider based industries	VIII

Corporate Social Responsibility (CSR)

All large and medium industries, including small and cottage industries with annual turnover in excess of NPR 150 million, are required to allocate at least 1% of their annual profit for the purpose of CSR. The progress report of the utilization of the fund collected for CSR is required to be submitted to the DOI/DCSI within three months from the end of the financial year. The Industrial Enterprises Rules 2019 has specified the following 8 areas where CSR activities can be focused on:

a. Natural disaster prevention and rescue related activities.

b. Providing medicine and health equipment to community health organizations, conducting heath awareness programs, health camps and other health related activities.

c. Preservation and conservation of Nepali art, cultural heritage and monuments.

d. Skill development and income generating programs for people with low income, from backward areas, rural women, differently abled, minority groups and marginalized society.

e. Scholarships for community schools and Universities, distribution of educational equipment & materials and other activities related to development of education sector.

f. Pollution control, waste management, tree plantation, preservation of water source, alternative energy promotion and other environment conservation activities.

g. Production and broadcasting of documentaries and awareness programs against social disorders such as smoking and drinking.

h. Construction of rural drinking water, road, drainage & sewage, patipauwa, old age home, sports ground, religious site, community health building, other community building (including its repair and maintenance), orphanage, park, meditation centers, bus park, bus stand, other physical infrastructure for social welfare.

At least 25% of such set aside CSR amount should be expensed in the areas affected by the industry.

Industry can deposit amount (limited to maximum 10% of the set aside amount for CSR) in any fund recommended by DOI and such deposited amount can be claimed as expensed from related planned CSR areas.

Public Private Partnership and Investment Act (2019)

With the objective of encouraging private investment in various priority projects, the Government of Nepal introduced the Public Private Partnership and Investment Act 2019. One of the prominent areas where the public private partnership is prevalent, is the Hydropower sector.

Infrastructures Covered Under the Act

Infrastructures covered under the Act include roads, tunnels, bridges, canals, dams, sewerage, cable cars, railways, tramways, metro rail, mono rail, sky rail, trolley bus, rapid bus transit, dry port, dock, airports, hospitals, cold stores, stadiums, entertainment parks, waste treatment plants, telecommunication, agriculture, education, etc. and other infrastructures of similar nature.

Investment Approval

Investment above NPR 6 billion shall be approved by Investment Board of Nepal, whereas investments up to NPR 6 billion are approved by the DOI.

For the purposes of implementing a project, the authorities responsible are:

a. Local Level Government: For projects within the jurisdiction of local level government.

b. State Government: For projects within the jurisdiction of state government.

c. Respective Ministry of GON: For projects except hydroelectric project with cost up to NPR 6 billion and for hydroelectric project which has capacity up to 200 MW.

d. Investment Board: For project except hydroelectric project above NPR 6 billion and for hydroelectric project which has capacity beyond 200 MW.



Forms of Private Investment

The private investments can take any of the following forms:

- Build and Transfer (BT);
- Build, Operate and Transfer (BOT);
- Build, Own, Operate and Transfer (BOOT);
- Build, Transfer and Operate (BTO);
- Lease, Operate and Transfer (LOT);
- Lease, Build, Operate and Transfer (LBOT);
- Develop, Operate and Transfer (DOT);
- Manage, Operate and Transfer (MOT);
- Re-establish, Operate and Transfer ROT).

License Period

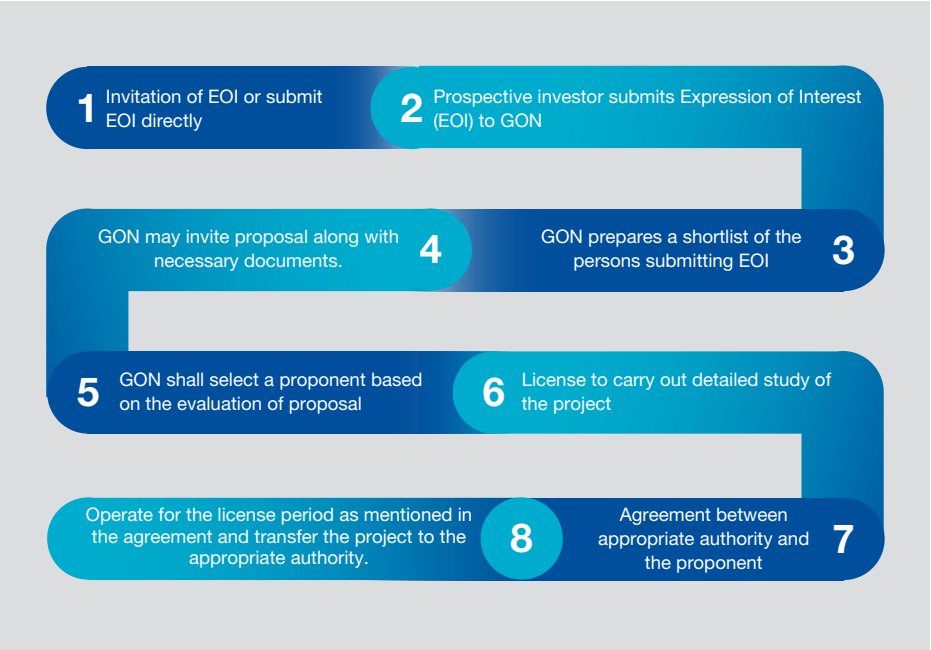
The license period shall be as specified in the respective agreement. In the erstwhile Private Financing in Build and Operation Infrastructure Act 2006, the license period was for a maximum of 30 years which could be extended for an additional period of 5 years under special circumstances. However, the period of license has not been fixed under this new law.

Invitation of EOI By GON

Nepal Government may, if it deems appropriate to implement any project with a cost more than NPR 20 million, invite the private developers or operators through an Expression of Interest (EOI) to participate in the infrastructure project in accordance with the provisions specified in the law.

Process

The process for undertaking an infrastructure project under this law is as follows:



This process is set out in more detail below:

- The appropriate authority (Investment Board, GON, State Government or Local Government) will short list projects in which a PPP is sought.
- The list of projects will be published and an EOI is invited for the research and study of the project.
- Alternatively, any entity desirous of implementing a project under this Act may submit their EOI directly to the appropriate authority (without having received any Public Notice).
- An entity desirous of submitting an EOI should furnish the required details within the stipulated time stated in the Notice.

- The appropriate authority, after the preparation of a short list of potential candidates, will publishes a public notice and invite proposals from them.
- The appropriate authority will, after evaluating the technical proposal, the proposed royalty, and the financial proposal (including details of tariffs to customers), select the proposing entity.
- The appropriate authority will grant a license to carry out the detailed study of the project and will obtain a performance bond from the proponent.
- The entity enters into a PPP agreement with the respective authority. Such an agreement includes the details of project, the commencement and completion date, the facilities and the exemptions, the license period, milestones, a timetable, technical standards and quality, the conditions to transfer the project to the appropriate authority, royalties, etc.

Labour Act (2017)

The Labour Act 2017 applies to a company, private firm, partnership firm, cooperatives, association or other organization ("entity") operating, established, incorporated, registered, or formed under the prevailing laws to undertake industry, or business, or provide a service (or services) with or without a profit motive. It also applies to entities registered in foreign countries and engaged in the promotion of trade, the sale of products, or the promotion of other works in Nepal.

The act is not applicable to:

- Civil service;
- Nepal army;
- Nepal police;
- Armed police force;
- Entities incorporated under other prevailing laws or situated in Special Economic Zones (SEZ) to the extent separate provisions are provided.

Types of Employment

Regular Persons hired for work or services other than work based, time bound, casual, or piece rate employment.

Work Based Persons hired for rendering a specific service.

Time Bound Persons hired for rendering services for a definite time period.

Casual Persons hired for seven days or less in a month.

Part-time Persons hired for 35 hours or less in a week.



Hiring Foreign Nationals

No foreign national may be engaged in work without an employment agreement (in a language understandable by the foreign national or in English).

A foreign skilled worker is hired only if a Nepalese citizen is not available for such a position.

A work permit is required and compulsory for all foreign nationals wishing to work, except for foreign nationals having diplomatic immunity or for those exempted from the requirement for a work permit under a treaty or agreement entered into with the Nepal Government.

Minimum Wages / Remuneration

The Ministry of Labour, Employment and Social Security has prescribed separate minimum remuneration / wage for the workers / employees working:

a. other than tea estate ('Minimum Wage Other than Tea Estate'); and,

b. in the tea estate ('Minimum Wage Tea Estate').

The minimum wages prescribed are as follows:

Minimum wages - tea estates:

Minimum Remuneration / Wage	Basic Pay	Dearness Allowances	Total
Monthly	6,469	4,312	10,780
Daily	231	154	385
Hourly	31	20	51

Minimum wages - other than tea estates:

Minimum Remuneration / Wage	Basic Pay	Dearness Allowances	Total
Monthly	8,455	4,995	13,450
Daily	325	192	517
Hourly	43	26	69

A daily allowance of NPR 42 to workers of a tea factory or a refinery (as head and watchman).

Probation Period

The probation period is 6 months (previously it was 240 days).

Working Hours

Working hours continue to be 8 hours a day and 48 hours a week.

Overtime has been increased to 24 hours per week and overtime pay is provided 1.5 times of regular remuneration.

A 30 minutes' break is provided after 5 hours of work, where the work can be interrupted. Where the work cannot be interrupted, a break is provided after shifts.

The facility of replacement (in-lieu-of) leave is available for workers working on public or weekly holidays.

Terminal Benefits

Provident Fund

- Rate: 10% of basic remuneration.
- Eligibility: since the first day of employment.
- Deposited in Social Security Fund.

Gratuity

- Rate of Gratuity: 8.33% of basic remuneration
- Time of Allocation: Every month (time of payment of remuneration)
- Eligibility: since the first day of employment
- Deposited in: Social Security Fund.

Leave Encashment

- Accumulation: Home Leave up to 90 days, sick Leave up to 45 days
- Encashment: At the time of discontinuation of service, the rate of last drawn salary.

Leave and Holidays

The leave and holiday provisions are set out in the table below:

Particulars	Provisions
Weekly Off	1 day every week
Public Holidays	13 days for male employees (incl. International Labour Day) 14 days for female employees incl. International Women Day
Home Leave	1 day for every 20 working days
Sick Leave	Fully paid up to 12 days in a year Eligibility: on a proportional basis for those employees who has not completed 1 year of service
Maternity Leave	Up to 14 weeks, (fully paid leave of 60 days)
Paternity Leave	Up to 15 days, fully paid
Mourning Leave	13 days
Leave in lieu	For the laborers put in work on public holiday or weekly off
Accumulation	Home Leave- 90 days Sick Leave- 45 days Excess Accumulation- Encashed every year.

Other Benefits

Other benefits are provided in the table below:

Particulars	Provisions
Festival Expenses	An amount equivalent to the monthly remuneration, once a year. The employee not completing 1 (one) year service is entitled to the expenses on a proportional basis.
Death Compensation	The nearest successor is entitled to the applicable amount of accident insurance.
Medical Insurance	Coverage: At least one hundred thousand rupees (NPR 100,000) per year for every worker. Premium: Half by the employer, and half by the employee.
Accident Insurance	Coverage: At least seven hundred thousand rupees (NPR 700,000) for every worker. Premium: Fully paid by employer.

Social Security Act (2017)

The Social Security Act 2017 was enacted:

1. To ensure the rights of the workers (based on the concept of contributory social security); and,
2. To provide social security to the contributors.

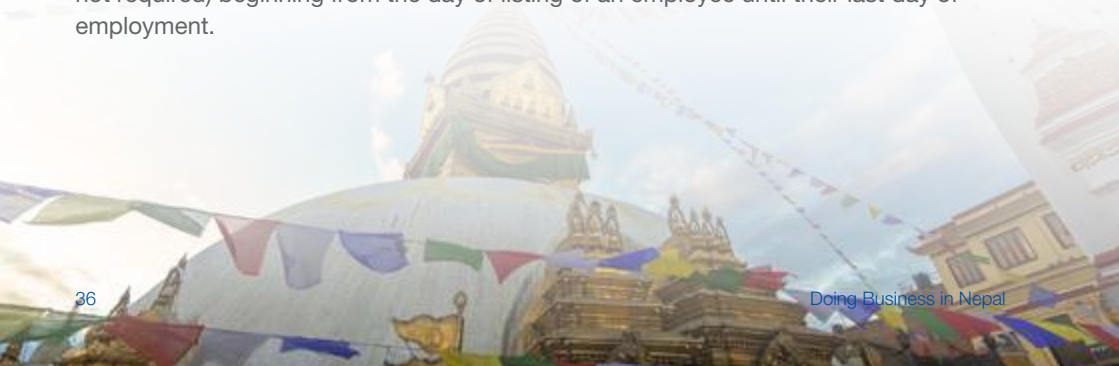
Establishment of the Social Security Fund

The Social Security Fund (SSF, or Fund) was established for the operation and management of social security for employees (contributors). The fund is established by contributions or amounts from:

- Contributors and employees (contributions);
- Provident Fund contributions from an employee and employer;
- Gratuity, severance, etc. under the Labour Act;
- Social Security Tax collected to date (and to be collected in future);
- Donations from the Nepal Government;
- Loans, assistance, and donations from foreign Governments and international organizations (note: prior approval is required from the Nepal Government before receiving such amounts);
- A bonus from the national level 'Kalyankari' Fund (note: utilisation is restricted to such a contributor only);
- The gain and interest received from an investment of the amount of the Fund;
- Loans from the Nepal Government;
- Any other sources.

Contribution to the Fund

Listed employers shall regularly deposit contributions to the Fund as specified on a monthly basis (unless otherwise specified or where a full month's contribution is not required) beginning from the day of listing of an employee until their last day of employment.



Contributions shall be deposited to the Fund within 15 days from the end of the month.

Delay in the Contribution Deposit

Interest at the rate of 10%, in addition to the amount of the contribution, shall be charged by the Fund for failure to deposit the contribution within 15 days from the month end.

An enlisted employer can, within 30 days following the due date for depositing the contribution, file an application in writing specifying the reasons and the basis of the occurrence of the uncontrollable event, resulting in the delay.

If the explanation so provided is considered reasonable, the Fund shall provide a full, or partial, waiver of the interest amount and permit the deposit with or without interest.

Failure to Deposit the Contribution

Where contributions are not deposited, the Fund will notify the related institution of the following actions to be complied within 15 days of the notification:

- Freeze bank accounts of such employers;
- Freeze movable and immovable properties of such employers;
- Abrogate all the facilities received by law;
- Cancel the license of such employers; and,
- Freeze the passport of the concerned personnel.

Contribution by Employer on behalf of Employees

An enlisted employer should contribute to the fund on behalf of an employee, for a maximum period of 3 months, where, for any reason, the related employee is not entitled to a salary and fails to deposit his/her contribution into the fund on a regular basis.

Entitlement in Social Security Programme

A contributor to the fund is entitled to receive all benefits as prescribed under the Social Security Act 2017 (and in the social security programme rules) on a proportionate basis of contribution and for period as specified in the fund.

Recovery of Contributions

If any person, who is not associated with the social security programme, is facilitated with benefits under this scheme, or, associated under the scheme, is facilitated with benefits in excess of his contribution, and such information is obtained by the Fund in any manner, then such an amount is recoverable from such person as specified by the Fund and deposited in the Fund.

Contribution to Social Security Fund (SSF)

SSF contributions of 31% of the basic pay should be distributed between the employer and employee as follows:

Schemes	Employer	Employee	Total Contribution
Medical Treatment, Health and Maternity Protection Scheme (Social Security Fees)	-	1	1%
Accident and Disability Protection Scheme	1.40	-	1.40%
Dependent Family Protection Scheme	0.27	-	0.27%
Old Age Protection Scheme (Gratuity 8,33% and Provident Fund 20%)	18.33	10	28.33%
TOTAL	**20**	**11**	**31%**

Broadly, there are four different kinds of schemes covered under the SSF, namely:

- Medical Treatment, Health and Maternity Protection Scheme;
- Accident and Disability Protection Scheme;
- Dependent Family Protection Scheme;
- Old Age Protection Scheme.

A key feature of the SSF is the Old Age Protection Scheme under which pension and retirement benefits are covered. This scheme applies from 17 July 2019.

Upon retirement, the employee will be provided a pension every month for life which is equal to the amount derived after dividing the total amount of contributions made by the employer and the employee and the amount accrued from the investment made by the Fund, by 180 months.

To receive pension benefits the contributor should be 60 years (or older) and should have contributed for at least 180 months or 15 years.

Bonus Act (1974)

The Bonus Act 1974 provides a legal basis for the payment of a bonus to the workers and employees of factories and commercial establishments.

Amount of Bonus to Employees

Each profit making enterprise (other than a government owned enterprise) must allocate an amount equivalent to 10% of its net annual income (fiscal year) to be paid as a bonus to its employees.

The 'bonus' to be received by an employee should not exceed the following amounts:

Remuneration	Maximum bonus payable
Monthly salary or wage up to 2 times of the minimum wage fixed by the GON	Amount up to 8 months of salary or wage
Monthly salary or wage more than 2 times of the minimum wage fixed by the GON	Amount up to 6 months of salary or wage

Payment

A bonus is required to be paid (in cash) every year within a period of eight months from the end of fiscal year or in certain cases, it can be paid the following year as an accumulated bonus for both years.

A bonus is not paid for a period of absence from work (unless the period is an exempted one) or for a period of staging an illegal strike.

Staff Welfare Fund

From the balance remaining after the distribution of a bonus to the staff:

- 70% must to be deposited into the welfare fund (established in accordance with the prevailing laws); and,
- 30% must be deposited with the national level welfare fund.



Special Economic Zone

The 'Special Economic Zone Authority' serves as the primary regulator for the operation and management of Special Economic Zone (SEZ) and industries inside an SEZ.

Areas identified by the Government of Nepal (GON) for SEZ's include the following:

1. Bhairahawa SEZ;
2. Simara SEZ;
3. Nuwakot SEZ;
4. Nepalgunj SEZ;
5. Panchkhal SEZ;
6. Jhapa SEZ;
7. Biratnagar SEZ;
8. Dhanusha SEZ;
9. Kapilvastu SEZ;
10. Rautahat SEZ;
11. Jumla SEZ;
12. Siraha SEZ;
13. Dhangadi SEZ; and,
14. Gorkha SEZ.

Determination of SEZ

Pursuant to the Special Economic Zone Act 2016, a SEZ may be developed and operated either by the GON exclusively, or by the GON and the private sector (joint investment), or by the private sector exclusively.

Criteria and procedures for setting up industries inside an SEZ

The regulations will set out the list of industries that can be established and operated inside an SEZ under the "add inverted" approach.

In addition to the industries included in the "positive list", the Act has authorized the authority to provide approval for the establishment of industries of a special nature inside the SEZ, even if such an industry has not been included in such a list.



Licensing Requirements and Arrangements

Investors wishing to establish industries inside an SEZ are required to submit an application to the Authority for a license. The Authority grants the license to establish an industry inside the SEZ after conducting a necessary evaluation of the application. The investor must furnish reports of environmental studies (IEE/ EIA) to the authority along with the application.

The duration of a license is a maximum of 30 years, depending upon the nature of industry.

An expired license can be renewed for up to 10 years at a time, if required.

Where industries of similar nature apply for license to set up an industry in the SEZ, the authority shall issue license on a priority basis, if it is unable to provide licenses to all applicants.

Relocation of Industries in a SEZ

Relocation of any industry already established and operating inside a SEZ is not permitted. The use or transfer of tools or equipment previously used in other industries within a SEZ is also not allowed.

Mandatory Export Requirement

Industries established inside the SEZ are required to export 60% of their products or services outside of Nepal. Such industries can however sell up to 40% of their goods or services to the domestic market, subject to meeting certain conditions. The GON has also permitted the license holder within SEZ to sell 100% of the goods or services in the domestic market in the first year of production.

Facilities and Incentives to Industries established inside a SEZ

The tax incentives, benefits and facilities provided to the industries established, and operated, inside a SEZ are outlined below:

One Window Service

Services related to tax concessions and other benefits, company and industry registrations, renewals, administrative formalities in relation to a company, industry licenses, and visa requirements, will all be provided via a one-window service.

Tax incentives and benefits

Tax incentives and benefits provided to the industries inside a SEZ are briefly set out as follows:

a) Concessions in the rent of the land and buildings inside a SEZ:

- First year: 50%
- Second year: 40%
- Third year: 25%

b) Income Tax Concessions under the SEZ Act:

Industries	Exemptions
All Industries	100% Income Tax exemption for the first 5 years from the commencement of a commercial transaction. 50% Income Tax exemption for the next 5 years. 50% exemption for the next 10 years if the industry utilizes a minimum of 60% domestic raw materials.
Industries inside SEZ of Himalayan Region and Government specified Hilly regions	100% income tax exemption for the first 10 years from the date of commencement of a commercial transaction. 50% exemption for the next 10 years (note 1).

Note 1:
In accordance with Section 11 of the Income Tax Act 2002, the 100% exemption has been provided for the first 10 years whereas the 50% exemption has been given for the remaining years. Accordingly, the 50% exemption is not restricted to 10 years (in accordance with the Income Tax Act 2002).

c) Dividend:

100% tax exemption on dividends distributed for the first 5 years from the date of commencement of a commercial transaction and 50% exemption for the next 3 years for the industries inside a SEZ.

Note: The industries relocated from a SEZ are not entitled to the income tax exemptions listed above.

d) VAT Exemption:

- 0% VAT on goods and services exported by industries in a SEZ.
- 0% VAT on raw materials and finished goods purchased by industries in a SEZ.

e) Customs Duty Exemption:

Industries inside a SEZ are entitled to a Custom Duty exemption under a Bank Guarantee and other facilities on the following goods:

- Raw materials, auxiliary raw materials, packaging and other materials used for producing export products.
- Plants, machineries, equipment, tools and spare parts and maximum 3 vehicles depending upon the nature and size of industry.
- Custom Duty paid on any goods imported is refunded if such goods are sold to industries inside SEZ under prescribed conditions.
- Products of the industries established in SEZ, if sold to other industries established in SEZ will be treated as export and customs concession will be provided.

In addition to the SEZ Act, the Industrial Enterprises Act 2016 and the Income Tax Act 2002 sets out benefits and incentives for industries inside a SEZ.

Industries set up in SEZs are guaranteed on the stability of the tax incentives, benefits, and other concessions, irrespective of any subsequent changes in the laws after setup.

Repatriation

A foreign company established in a SEZ can repatriate:

a) Amounts received from a partial or complete disposal of the shares acquired with a foreign currency;

b) Dividends received from the foreign investment; and,

c) The principal and interest of a loan in convertible foreign currencies.

The currency for the repatriation would be 'as per the agreement' made between the license holder and the Authority.

A foreign investor can open bank accounts in any commercial bank in a foreign currency, with the recommendation of the SEZ authority and can carry out transactions in foreign currency.

Taxation – Direct Tax

The main objective of the tax system is to enhance revenue mobilization through an effective revenue collection procedure for the economic development of the nation. Income is taxed in accordance with the provisions of Income Tax Act 2002 ('the Act', or ITA).

The salient features of the ITA are as follows:

a. Various concessions and incentives which were allowed under different laws have been repealed and provided under the ITA;

b. The tax liability of residents and non-residents are clearly defined;

c. Worldwide income of a resident, whether an individual or a company, is now made taxable in Nepal;

d. Specific provisions for taxing capital gains are introduced;

e. Procedures for the granting of credit for international tax are prescribed;

f. General anti-avoidance provisions and income splitting rules have been introduced; and

g. Tax administration, compliance, and payment procedures are provided and clearly defined.

The tax authority in Nepal is the Inland Revenue Department (IRD). The Director General (DG) of the IRD has the responsibility for the general administration of the Act.

Tax is levied on windfall gains and on income accrued or received from a business, investment, or employment. All individuals and legal entities with assessable income are required to register with the IRD, obtain a Permanent Account Number (PAN), and file a tax return annually. Both individuals and companies are required to follow a uniform income year that runs from16th July to the following 15th July.



Returns are filed under a self-assessment system. Under this system the IRD considers a return final unless it carries out a detailed audit of the taxpayer's affairs. In practice, Assessing Officers conduct a tax audit assessment and make adjustments in the majority of the cases.

Income tax payments are made in the year in which the income is earned in the form of withholding tax and advance tax. Companies are subject to a flat rate of tax, whereas individuals are taxed at progressive rates.

Taxation of Companies

Tax is levied under the ITA, which provides for the imposition and collection of tax on the income of companies.

Resident companies are subject to tax on their worldwide income. Non-residents are required to pay tax on their net income acquired or earned in Nepal or income received from Nepal. Tax is levied on the net income after making deductions for certain expenses and allowances as specified in the Act.

"Company" means a body corporate or a company formed under the Companies Act 2006 and includes a foreign company and other institutions such as a unit trust, co-operatives society, or group of persons other than a partnership having less than 20 partners, and proprietorship firm.

A "partnership" is a group of persons carrying on a business jointly; having fewer than 20 partners. A partner is characterized as having (like a beneficiary) an interest in the firm.

Distribution of profits by a firm to its partners is taxed as dividend @ 5% which is final withholding tax. The partners are not taxed on the share they receive from the firm.

Residential Status

A resident company is a company formed or established in Nepal or is effectively managed in Nepal during the income year. A resident company is taxed on worldwide income. Dual residence is not recognized for the purposes of Nepalese tax.

Corporate Tax Rates

#	PARTICULARS	FY 2019 - 20		
		NORMAL RATE	CONCESSION	APPLICABLE RATE
1	Normal business	25%	-	25%
2	Entity operating as Special Industry under section 11 for whole year	25%	20%	20%
3	Other entities involved in business of operating (after construction) of ropeway, cable car, railway, tunnel or sky bridge	25%	20%	20%
4	Entity investing and operating trolley bus or trams	25%	52%	12%
5	Entity involved in construction and operation of airport	25%	40%	15%
6	Entity operating trolley bus or trams	25%	20%	20%
7	On transactions of cooperatives (other than tax exempted transactions) registered under Cooperative Act, 2074) (sub-metropolitan/ metropolitan cities, respectively)	20%	50%	10%
8	On transactions of cooperatives (other than tax exempted transactions) registered under Cooperative Act, 2074) (municipality)	20%	75%	5%
9	Taxable income of Export of entity having income source from Nepal	25%	20%	20%
10	Entity those involved in construction or operation of public infrastructure and to be transferred to Nepal Government or involved in construction of hydropower house and its generation and transmission.	25%	20%	20%
11	Entity involved in the construction and operation of road, bridge or tunnel-way	25%	52%	12%
12	Banks and financial institutions (Commercial Banks, Development Banks and Finance Companies, non life insurance, petroleum business, alcohol, cigarette, pan masala, telecommunication services, capital market business)	30%	-	30%

By Finance Act 2019-20, tax rates of special industry, entities involved in the operation business of road, bridge, tunnel, ropeway, railway, or sky bridge; operation of trolleybus and tram; export business, construction of infrastructures and construction, production, and distribution of electricity has been removed from the Schedule -1 of the ITA. Normal tax rate applicable to the above entities is 25%. However, these entities can avail various concessions given under Section 11 of the ITA.

*Above industry-wise applicable tax rate is presented after considering concession available under section 11 of ITA except entities falling under tax holiday period. However, in case of special industry and industry other than presented above, entity can choose any one tax concession available under section 11 of ITA.

Withholding Taxes

Under Chapter 17 (Sections 87 to 93) of the Act, the payer (withholding agent) is required to withhold taxes (deduct TDS) on certain specified payments at the prescribed rate. Should the payer (withholding agent) fail to withhold tax, they will be subject to a penalty (including interest).

Withholding tax rates vary from 1.5% to 25% depending on the nature of payments.

Withholding Tax by an Employer

Under Section 87(1) of ITA, the following withholding tax conditions must be satisfied by an employer:

a. The employer should be resident;

b. The net payment should be received by an employee; and

c. The payment should have a source in Nepal.

Withholding Tax on the Payment of a Service Fee and Investment Return

Under Section 88(1) of ITA, the following withholding tax conditions must be satisfied:

a. The person making the payment (withholding agent) should be resident; and

b. The payment that is being made by the withholding agent should have source in Nepal.

Payments covered under Section 88(1) of ITA

The general rate for withholding tax of 15% applies to: commissions or sales bonuses, interest, payments for natural resources, rent, retirement payments (non- contributory), royalties, and service fees.

Payments covered under Section 88(2) of ITA

Payments covered under Section 88(2) of ITA include:

- Dividends;
- Gains from investment insurance; and
- Gains from an unapproved retirement fund.

Non-applicable TDS

No TDS (withholding tax) shall be deducted from the following amounts:

a. Payments made by a natural person relating to activities other than business activities;

b. Payments for articles published in a newspaper;

c. Interest payments to a resident bank and other financial institutions;

d. Inter-regional inter-change fees paid to a credit card issuing bank;

e. Interest or fees paid by the GON under a bilateral agreement;

f. Tax exempt payments or TDS deductible;

g. Dividends or interest paid to a mutual fund or collective investment.

Concession and Incentives

Section 11 of ITA provides business concessions as incentives to stimulate industrial growth and development. Following are the key incentives designed to attract inward investment:

In the given section, AR stands for Applicable Rate which should be used in the context of special industry as the rate after 20% concession given under Section 11(2Kha) and NR stands for Normal Rate in the context of Industry / business other than Special Industry

#	PARTICULARS	FY 2018 - 19
1	Concessions based on employment provided	
	• Special industries and information technology industries providing direct employment to 100 or more Nepalese citizens throughout the year	*10 % of AR / NR
	• Special industries and information technology industries providing direct employment to 300 or more Nepalese citizens throughout the year	*20% of AR / NR
	• Special industries and information technology industries providing direct employment to 500 or more Nepalese citizens throughout the year	*25% of AR / NR
	• Special industries and information technology industries providing direct employment to 1000 or more Nepalese citizens throughout the year	*30% of AR / NR
* Additional 10% concession is provided if direct employment is provided to 100 or more Nepalese citizens including at least 33% of women, oppressed or handicapped person.		
2	Concessions to Special industries based on locations	
	• Special industries established in remote areas	90% of the AR (for 10 yrs from the year of establishment)
	• Special industries established in undeveloped areas	80% of the AR (for 10 yrs from the year of establishment)
	• Special industries established in under developed areas	70% of the AR (for 10 yrs from the year of establishment)

#	PARTICULARS	FY 2018 - 19
3	Concessions to Special industries based on investment amount	
	• Special industry with capital of NPR 1 billion or more and providing direct employment to more than 500 persons throughout the year	100% exemption for first five years from the date of operation of business and 50% concession for next 3 years
	• For special industry existing at the advent of this Section, if capital is increased to NPR 1 billion, installed capacity is increased by 25% and provided direct employment to more than 500 persons throughout the year	100% concession for first 5 years and 50% concession for next 3 years on income generated due to increased capacity
	• Industry related to tourism industry or international flight operation established with capital investment of more than NPR 2 billion	100% concession for 5 years from commencement of business and 50% concession for next 3 years
	• For industry related to tourism industry or international flight operation existing at the advent of this Section, if capital is increased to NPR 2 billion and installed capacity is increased by 25% at minimum	100% concession for 5 years and 50% concession for next 3 years on income generated due to increased capacity.
4	Concessions based on establishment in special area	
	• Entity established in Technology park, Bio tech park and IT Park engaged in Software development or, data processing or, Cyber Café or, Digital Mapping	50% on NR
5	Concession related to hydropower project	
	• Person or entity having license to generate, transmit or distribute electricity shall be provided concession if the commercial operation commences before 12 April 2024 (Provisions shall be applicable for electricity generated from solar, wind or organic material)	100% exempt up to 10 years and 50% rebate in subsequent 5 years

#	PARTICULARS	FY 2018 - 19
6	Concession to Petroleum Industry	
	• Person involved in exploration and extraction of petroleum, natural gas and starts commercial operation by 12 April 2024.	100% exempt up to 7 years and 50% rebate in subsequent 3 years
7	Other Specific concessions	
	• On capitalization of accumulated profit through bonus share by Special Industry or industry related with tourism for expansion of capacity of industry	No tax on dividend distribution
	• Income from export of manufactured goods by Manufacturing Industries	Additional Concession of 25% on rate derived after normal concession
	• Income of Manufacturing Industry, tourism service industry and hydropower generation, distribution and transmission industry listed in capital market and entities mentioned in section 11 (3 Ga)	15% on AR/NR
	• Private company with capital of NRS 500 million or more which conducts its operation by converting into public company	10% on AR / NR for 3 years from the date of conversion

1. If any entity is entitled to more than one benefit under section 11 of the Income Tax Act, 2002 only one benefit shall be availed. However, in case of Special Industries, apart from the concessions of 20% given in section 11(2Kha), any one of other benefits available in section 11 can also be availed.

2. Special industry" refers to all the manufacturing industries as classified in section 3 of the Industrial Enterprises Act, 2016 except the industry related to the manufacturing of cigarette, bidi, cigar, chewing tobacco, tobacco, gutkha, pan masala other products having main ingredient as tobacco, alcohol, beer and other such related products but includes agriculture, forestry and mineral industries

Annual Tax Returns

All taxpayers (assesses) are required to adopt a uniform income year ending 15 July and submit their tax return within three months from this year end. i.e. by 14 October of each year. An extension of three months may be requested and is generally granted.

The financial statements (accounts) shall be audited by an auditor holding certificate of practice. Tax returns shall be certified by the auditor and submitted along with the audited accounts within the stipulated time.

If there is any discrepancy in the income tax return submitted by a person within due date, such return can be amended within 30 days from the date of filing of return.

Advance Tax

Income tax shall be paid in three advance instalments by all entities during an income year. The payment deadlines are 14 January, 13 April, and 15 July.

The income tax to be paid should be calculated at the applicable rates on the estimated profits of the entity for the entire year. Advance tax shall be deposited is as follows:

PARTICULARS	DUE DATE	AMOUNT
1st instalment	14 January	40 percent of the total estimated tax liability for the year.
2nd instalment	13 April	70 percent of the total estimated tax liability for the year.
Final instalment	15 July	100 percent of the total estimated tax liability for the year.

Tax Payments and Refunds

Income tax payments are made in the year in which the income is earned in the form of withholding tax and advance tax.

The taxpayer is required to estimate their taxable income and make advance payments in three installments spread over the year. Income from services including contract payments is subject to tax withholdings that may be adjusted for the purposes of calculating advance tax. Arrangements have been made by the IRD to refund (within 60 days) the excess money deposited by taxpayers (in practice may take longer).

Fines and Interest

Fines and interest are imposed for non-compliance of the tax laws by the tax payers. Fines are imposed under the following sections.

SECTION	CIRCUMSTANCE	FY 2019 - 20
Non filing of:		
117(1)(Ka)	Estimated Tax Return under Section 95 (1)	Lower of Rs 5000 or 0,1% of assessable income 1.5% p.a. of the WHT amount Higher of Rs 100 per month or 0.1% on the amount of inclusions 0.1% p.a. on the amount of receipts
117(1)(Kha)	Advance Withholding Tax Return	
117(1)(Ga)	Income Tax Return	
117(1)(Gha)	Financial Statement	
117(2)	Failure to maintain proper documentation	Higher of Rs 1000 or 0.1% of the amount of inclusions
117(3)	Failure to file withholding tax returns	2.5% p.a.of the the WHT amount
118(1)(Ka)	Instalment tax to be deposited under Section 94 is not made as prescribed	15% p.a. on the outstanding amount
119(1)(4)(ka)	Failure to pay tax on or before the date on which the tax is payable.	15% p.a. on the outstanding amount
120(ka) & (Kha)	Making false or misleading statements to the IRD knowingly, recklessly or unknowingly	100% & 50% of the amount of short tax for knowingly and unknowingly, respectively
121	A person who knowingly or recklessly aids or abets another person to commit an offence under the law.	100% of the underpayment of tax

Review and Appeal

An application for an 'Administrative Review' may be submitted to the IRD against a revised assessment or an assessment of fees, interest, and penalties within 30 days from the date of receipt of then Notice (about the decision). When filing an application, it is mandatory to deposit one fourth of the tax amount.

Taxation of Individuals

As with a company, tax on individuals is levied under the ITA. Resident individuals are subject to tax on their worldwide income derived from employment, business or investment. Non-residents are subject to tax on their net income earned or sourced in Nepal.

Residential Status

A person is deemed resident in Nepal if they have resided in Nepal for a period of 183 days or more in any financial year, or their normal place of abode is in Nepal. Dual residence is not recognized for the purposes of Nepalese tax.

Short-term visitors

There is no separate provision for taxing the income of short-term visitors. Depending on the duration of stay, they will be classified as resident or non-resident and Nepal sourced income shall be taxed accordingly.

Tax Rates

Tax rate for resident

TAX BANDING	INDIVIDUAL		COUPLE / MARRIED	
(a) Band 1	First 400,000	1%	First 450,000	1%
(b) Band 2	Next 100,000	10%	Next 100,000	10%
(c) Band 3	Next 200,000	20%	Next 200,000	20%
(d) Band 4	Next 1,300,000	30%	Next 1,250,000	30%
(e) Additional Tax	Remaining above 2,000,000	36%	Remaining above 2,000,000	36%

Taxation – Indirect Taxes

Value Added Tax (VAT)

Value Added Tax in Nepal is governed by Value Added Tax Act 1996 and Regulation 1997.

VAT is an indirect tax, which means the person making the payment of tax does not directly deposit the tax in government treasury.

VAT applies to the following transactions:

- Supply of goods or services within the state of Nepal;
- Import of goods or services inside the state of Nepal;
- Export of goods or services from the state of Nepal.

VAT is charged on the import and supply of goods and services at each stage of production and distribution, unless specified by the law as tax-exempt. As a multi-stage tax, VAT is applied throughout the supply chain and is transferred from stage-to-stage until the end-consumer ultimately bears the full cost.

Broadly, in a period, VAT registered entities must deduct VAT included on VAT invoices from their suppliers, or paid on imports, from the VAT they charge on VAT invoices to their customers. The net amount remaining in a period will then be paid to the government treasury, or, where more VAT has been invoiced to the entity or paid by it over that which it has been charged its customers, a VAT credit (refund) may be claimed.

Requirement for VAT Registration

VAT shall only be collected by a person who is registered for VAT purpose. Section 10 of the Act has prescribed the conditions for compulsory registration for VAT purpose:

1. Compulsory registration regardless of turnover threshold:

The following persons must compulsorily register (regardless of their annual turnover):

- The operation of the following business within the state of Nepal:
  Brick production, wine shop, rafting, tourist vehicle, slate, alcohol, software, crusher, stone, trekking, paragliding, and sand mine.



- Dealing in any of the following businesses in the metropolitan city, sub-metropolitan city, the municipality area, or areas prescribed by the IRD: Hardware, sanitary, furniture, automobiles, motor parts, marble, electronics, educational consultancy, health club, massage therapy, beauty parlour, catering service, party palace, parking service, dry cleaners using machinery, restaurant with bar, ice cream industry, colour lab, boutique, tailoring with shirting suiting materials.

2. Compulsory registration due to exceeding the turnover threshold:

The condition requiring compulsory registration arises only when the turnover of the person exceeds the limit as follow:

- For a person dealing only in goods: NPR 5 million during last 12 months period;
- For a person dealing only in services: NPR 2 million during last 12 months period;
- For a person dealing only in goods and services: NPR 2 million during last 12 months period.

Rate of VAT

The rates of VAT are as follows:

- Items specified in Schedule 1 of the Act (VAT exempted): No VAT
- Items specified in Schedule 2 of the Act (exported goods or services): 0%
- For all other items (not specified in Schedule 1 and 2): 13%

Tax Credit

To avoid double taxation, a credit is given for VAT paid on goods and services used for the purpose of making any taxable supply (Input VAT).

A refund is also given for VAT paid in respect of certain exempt supplies, e.g., exports.

The principal mechanism for collecting the tax requires the taxable supplier to charge VAT on the goods or services supplied (Output VAT) to take credit for VAT paid on business expenditure (Input VAT), and to pay the net tax over to the authorities.

Requirements under VAT

VAT registrants are required to:

a. Submit VAT returns (and pay any VAT) by the 25th day of the following month;

b. Provide their customers with a tax invoice;

c. Maintain a purchase book, sales book, and VAT account;

d. Keep their VAT records for a period of 6 years;

e. Inform the IRD of changes to the business including a new address, telephone number, or a reorganization of a partnership, within 15 days.

Government bodies or entities in which the government has full or partial ownership, while making payment for contract, services or goods procured, shall deposit 50% of the VAT amount directly to the IRD on behalf of the supplier and only remaining 50% VAT amount shall be paid to the supplier.

Customs Duty

Customs Duty is calculated at the Nepal border on the import of goods and is based on the transaction value, which includes the cost, insurance, and freight (CIF).

The valuation is determined by a valuation committee which generally enhances the transaction value declared by the parties by 5% to 10% or as the case may be. In case there is under invoicing, the Customs official can revalue the goods based on the current market value and collect customs duty on such an amount.

Custom duty is levied on the basis of following methods:

- **Specific rate:** Duty is levied based on the size, weight, or volume of the item imported. Such items, where a specific rate is applied, include cigarettes, liquor, noodles, and tobacco.
- **Ad-valorem duty:** Duty is levied based on the value of the goods. Such items where an ad-valorem duty is applied include paints, and vehicles.

A Customs service fee of NPR 500 applies per declaration (form) and is charged at the time the goods are imported into Nepal. (NPR 100 per declaration (form) is charged at the time goods are exported from Nepal).

Custom Duty is revised each year by the Finance Act.

Customs Duty ranges from 1% to 80% of the transaction value.

Excise Duty

Excise Duty is payable on the local manufacture of movable goods and on the import of certain goods.

Excise Duty is governed and regulated by the Excise Act 2002, and the Excise Regulation 2003. As provisioned in the law, Excise commodities are closely controlled and supervised by the GoN, from the production stage through to the selling stage.

License required:

No one can manufacture, import, sell, or store excisable goods or deliver a related service without obtaining a license. Similarly, the law prohibits the import of excisable services without a license.

A person, firm, or institution that requires such a license may submit an application in the prescribed form before an Excise Officer at the concerned IRD office.

Returns submission:

Every registered person must file an Excise Duty return by the 25th day of following month, even where transactions have not occurred.

Anti-Tax Avoidance Arrangements

General Anti-avoidance Rules

The Income Tax Act 2002 contains general anti-avoidance rules which gives authority to the IRD to:

- Re-characterize an arrangement, or part of an arrangement, that is entered into or carried out as part of a tax avoidance scheme;
- Disregard an arrangement, or part of an arrangement, that does not have substantial economic effect; or,
- Re-characterize an arrangement, or part of an arrangement, the form of which does not reflect its substance.

For the purposes of these provisions, a 'tax avoidance scheme' means any arrangement, one of the main purposes of which is the avoidance or reduction of the liability to tax.

Transfer Pricing

In any arrangement between persons who are associates (related parties), the IRD may, by notice in writing, distribute, apportion, or allocate amounts to be included or deducted in calculating the income between the persons as is necessary to reflect the taxable income (or tax payable) that would have arisen for them if the arrangement had been conducted at arm's length.

The IRD may:

- Re-characterize the source and type of any income, loss, amount, or payment; or,
- Allocate costs, including head office expenses, incurred by one party in conducting business with their associate or associates (related party or related parties) based on the comparative turnovers of the businesses.



Double Taxation Avoidance Agreement (DTAA)

Nepal has concluded tax treaties (DTAA's) with 11 countries (Austria, Bangladesh, China, India, Korea, Mauritius, Norway, Pakistan, Qatar, Sri Lanka, and Thailand).

The purposes of tax treaties are to avoid international double taxation on the same income and to prevent tax avoidance. Generally, tax treaties include the following rules:

- The definition of a resident, non-discrimination rule, source of income rule;
- Rules on the taxation of a permanent establishment, taxation of business income, and income from international transportation;
- The definition and taxation rules for dividends, interest, royalties, real estate income, and capital gains;
- Rules on the taxation of independent professional income, employment income, and tax-exemption on short stay, professors, students, government officers, and diplomats;
- The mutual consultation by competent authorities, and the exchange of information.

Other Miscellaneous Provisions

Registration of a Trademark

Industries using a trademark on their products can register it with the Department of Industry under the Patent, Design and Trademark Act, 1965. Applicants should make an application in the prescribed form and submit this together with the required documents (see www.doind.gov.np).

Environmental Clearance

Manufacturing entities may have to conduct an environmental impact assessment (EIA) or an initial environment examination (IEE).

Environmental Impact Assessment (EIA):

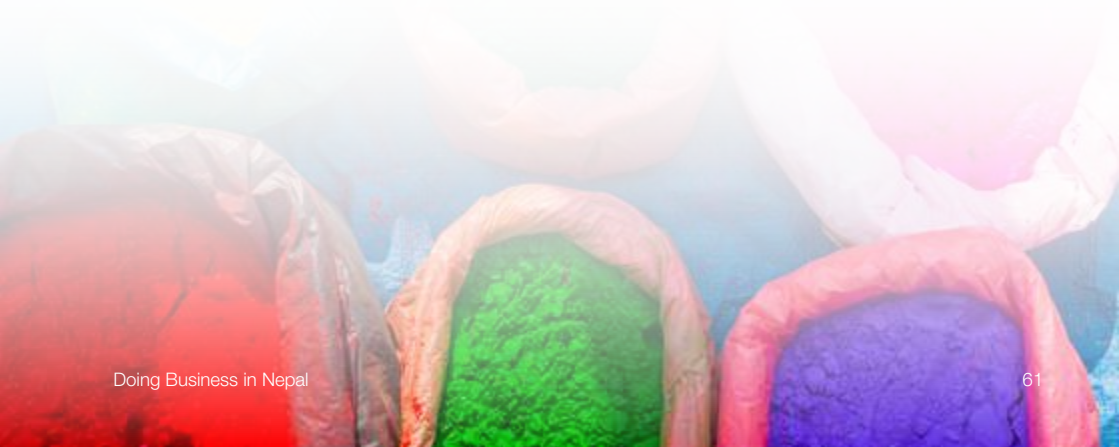
An EIA is required for manufacturing entities that are likely to have greater environmental consequences (those that fall under Schedule 2 of Environment Protection Rules, 1997) and involves the preparation of a scoping document before finalising the terms of reference and conducting a detailed study on the impacts of mitigation measures.

During the EIA study, it is mandatory to conduct a public hearing at the project-affected area. The EIA is then submitted to the concerned department or ministry, which will forward it to the Ministry of Population and Environment for approval.

Initial Environment Examination (IEE):

An IEE applies to manufacturing entities that have less of an environmental impact (those that fall under Schedule 1 of Environment Protection Rules, 1997).

An IEE involves the preparation of terms of reference, followed by an analytical study of the impacts and mitigation measures. The IEE is then submitted to the concerned Department or Ministry for approval.



Food Security

Any person who intends to produce, sell, distribute, store, or process food for commercial purposes is required to obtain a license before starting the process (Food Rules, 1970). The following procedure must be followed to obtain a license:

Make an application:

Prepare a scheme setting out the information regarding the type of industry, machinery required, raw materials required, and other relevant information.

Send this to the Department of Food Technology and Quality Control (DFTQC).

Obtain recommendation:

The DFTQC will review and make any necessary changes to the scheme of the proposed food industry (and obtain agreement to the changes), and make a recommendation for the issuance of the license to establish the industry.

The recommendation of the DFTQC must be obtained prior to making an application to the Department of Industry to establish the industry.

Obtain license:

A license must be obtained from the Department of Industry (by payment of the prescribed fee based on the authorised capital of the business) prior to commencement of food production.

Land Acquisition

Land may be acquired in the name of the entity for the purpose of setting up a manufacturing industry in the following ways:

1. Private land:

To obtain land or buildings owned by private individuals, the investor must negotiate with the owner to either purchase or lease the land. Under the existing law, foreign individuals are not permitted to acquire property, but foreign companies can purchase and own land in Nepal. The purchase deeds are registered at the Land Revenue Office.

2. Forest land:

If forest land needs to be obtained, the investor must follow the process prescribed by the Ministry of Forests and Soil Conservation. The Ministry may ask for an equal amount of private land to be procured for use as forest land and afforestation in the same area.

3. Government (non-forest land):

In the case of government (non-forest) land, the land can be leased by the investor according to the Land Leasing Policy, 2014. Lease terms range from 10 to 50 years. The lease can be renewed after the term expires.

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PKF is a global family of legally independent firms bound together by a shared commitment to quality, integrity and the creation of clarity in a complex regulatory environment. We specialize in providing high quality audit, accounting, tax, and business advisory solutions to international and domestic organizations in all our markets. Our regions are Africa, Asia Pacific, Europe, Middle East and the Indian sub-continent, Latin America, and North America and the Caribbean.

Our family consists of over 400 offices, operating in 150 countries across five regions and our member firms have an aggregate fee income of over USD 1 billion. The network is a member of the Forum of Firms - an organization dedicated to consistent and high-quality standards of financial reporting and auditing practices worldwide.



We work closely with our clients on issues ranging from risk advisory to corporate finance and restructuring, to provide strong support for growth, and to guide them through potential obstacles such as tax and regulation. PKF's services extend everywhere from a company's inception and formation to its small-business phase, all the way to its needs as a large corporation working with large financial deals and mergers.

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right people
right size
right solutions

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