



Doing Business in Nepal - 2025



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ACRONYM

AGM	: Annual General Meeting	IRD	: Inland Revenue Department
AoA	: Articles of Association	JVA	: Joint Venture Agreement
BFI	: Bank and Financial Institution	MIGA	: Multi-Lateral Investment Guarantee Agency
BIMSTEC	: Bay of Bengal Initiative for Multi-Sectoral Technical And Economic Co-operation	MoA	: Memorandum of Association
BIPPA	: Bilateral Investment Promotion and Protection Agreement	MoICS	: Ministry of Industry, Commerce and Supplies
BOT	: Build Operate Transfer	MW	: Mega Watt
BRI	: Belt and Road Initiative	N.B.C.	: Nuclear, Biological and Chemical
CIB	: Credit Information Bureau	NFRS	: Nepal Financial Reporting Standards
Covid	: Corona Virus Disease	NRB	: Nepal Rastra Bank
CSR	: Corporate Social Responsibility	NPR	: Nepalese Rupees
Dol	: Department of Industry	NTIS	: National Integrated Trade Strategy
DTA	: Double Taxation Agreements	OCR	: Office of Company Registration
DTAA	: Double Taxation Avoidance Agreements	OSSC	: One Stop Service Center
EIA	: Environment Impact Assessment	PAD	: Project Department Agreement
EPF	: Employee Provident Fund	PAN	: Permanent Account Number
EU	: European Union	PIA	: Project Investment Agreement
FCC	: Financial Credibility Certificate	SAARC	: South Asian Associations for Regional Co-operation
FDI	: Foreign Direct Investment	SEBON	: Securities Board of Nepal
FITTA	: Foreign Investment & Technology Transfer Act	SEZ	: Special Economic Zones
GAAR	: General Anti- Avoidance Rule	SSF	: Social Security Fund
GATT	: General Agreement on Tariffs and Trade	TCS	: Tax Collection on Service
GDP	: Gross Domestic Product	TDS	: Tax Deducted at source
GoN	: Government of Nepal	TTA	: Technology Transfer Agreement
HSN	: Harmonized Commodity Description and Coding System	UNCTAD	: United Nation conference on Trade and Development
IBN	: Investment Board of Nepal	UNESCAP	: United Nations Economic and Social Commission for Asia and the Pacific
ID	: Identification Document	USD	: United States Dollar
IEA	: Industrial Enterprises Act	VAT	: Value Added Tax
IEE	: Initial Environment Examination	VCF	: Venture Capital Fund
IIPB	: Industrial and Investment Promotion Board	WTO	: World Trade Organization
INR	: Indian Rupees		

Foreword

Nepal as an Investment Destination!

Nepal is growing. The importance of production and service delivery has been emphasized by Nepal's consecutive governments as the most crucial factor in the nation's development. The government of Nepal is not only focusing on the home grown investments but also the foreign investments in various sectors like manufacturing, Energy, Infrastructures, Tourism and Information Technology. To entice investments, government of Nepal has implemented a number of reforms in the areas of foreign investment and related taxes. As a result, Nepal has been witnessing the growth of both local and Foreign Investments in various sectors in the last few decades.

In Nepal, domestic consumer demand has significantly increased along with rising per capita income and an expanding middle class. More importantly Nepal has got population of more than 30 million, ranking it as the 49th largest country by population. Further, Nepal is land linked between two largest populous countries in the world, which gives investors an opportunity to leverage the demands arising out of the one third population of the world.

This in-depth document examines Nepal as a potential investment destination. Investing in Nepal now has a lot of advantages. Nepal extends favorable investment regulations and preferential trade benefits to foreign investors. The paper provides a step-by-step guide to the procedures involved in establishing businesses, together with information on available incentives, taxes, financial and economic data, and regulations and policies that must be followed in order to attract investment in Nepal.

As NBSM, a member of Moore Global, we expect that the report will be a useful document for the potential investors who are considering making investments in this beautiful nation. But this publication is essentially meant to be a beginning point as a guide. Our consultants will be pleased to help if you require any additional information. We are eager to support your commercial endeavors in Nepal.

We appreciate your insightful comments and recommendations, and we are always looking to enhance the report.



Nil Saru
Managing Partner

PART I :
ABOUT NEPAL



1.1 NEPAL AT A GLANCE:

Nepal, nestled between the Himalayas and the Ganges Plain, offers a unique blend of cultural richness, natural beauty, and an emerging market brimming with potential. This guide aims to equip entrepreneurs and investors with the necessary knowledge to navigate the landscape of doing business in Nepal in 2025. The geographical position of the country plays a significant role for its development as a business hub as it lies in between the world's two giant economy - India and China. Nepal is one of the world's lesser developed countries and has immense potential for development, especially in the natural resource, tourism and hydroelectricity sectors.

Area	: 147,516 sq. km
Geography	: Situated between China in the North and India in the East, West and South.
Capital	: Kathmandu
Highest Point	: Mount Everest
Lowest Point	: Mukhiyapatti Musharniya
Population	: 29 million(2021 Census)
Currency	: Nepalese Rupees (NPR)
Religion	: Hinduism, Buddhism, Muslim and others
People	: Nepal has more than 125 ethnic groups and over 123 spoken languages.
Language	: Nepali is the national language. However, travel-trade people understand and speak English as well.
Time Zone	: GMT + 5:45

Nepal is of roughly trapezoidal shape, about 800 kilometres (500 mi) long and 200 kilometres (120 mi) wide, with an area of 147,516 sq. km of land and lies between latitudes 26° and 31°N, and longitudes 80° and 89°E. Nepal falls in the temperate zone north of the Tropic of Cancer. Nepal has vast water systems which drain south into India. The country can be divided into three main geographical regions: Himalayan region, mid hill region and the Terai region. The Himalayan region contains highest elevations in the world including 8,848.86 m Mt. Everest (Sagarmatha in Nepali). Seven other of the world's "eight-thousanders" are in Nepal or on its border with Tibet: Lhotse, Makalu, Cho Oyu, Kangchenjunga, Dhaulagiri, Annapurna and Manaslu Pahad is the mountain region that does not generally contain snow. Terai

is the lowland region containing some hill ranges. The plains were formed and are fed by three major Himalayan rivers: the Koshi, the Narayani, and the Karnali as well as smaller rivers rising below the permanent snowline. This region has a subtropical to tropical climate. The outermost range of the foothills called Sivalik Hills or Churia Range, cresting at 700 to 1,000 metres (2,300 to 3,280 ft), marks the limits of the Gangetic Plain; however broad, low valleys called Inner Terai Valleys (Bhitri Tarai Upatyaka) lie north of these foothills in several places.

1.2 GEOGRAPHICAL AND DEMOGRAPHICAL BACKGROUND

Nepal is of roughly trapezoidal shape, about 800 kilometres (500 mi) long and 200 kilometres (120 mi) wide, with an area of 147,516 sq. km of land and lies between latitudes 26° and 31°N, and longitudes 80° and 89°E. Nepal falls in the temperate zone north of the Tropic of Cancer. Nepal has vast water systems which drain south into India. The country can be divided into three main geographical regions: Himalayan region, mid hill region and the Terai region. The Himalayan region contains highest elevations in the world including 8,848.86 m Mt. Everest (Sagarmatha in Nepali). Seven other of the world's "eight-thousanders" are in Nepal or on its border with Tibet: Lhotse, Makalu, Cho Oyu, Kangchenjunga, Dhaulagiri, Annapurna and Manaslu Pahad is the mountain region that does not generally contain snow. Terai is the lowland region containing some hill ranges. The plains were formed and are fed by three major Himalayan rivers: the Koshi, the Narayani, and the Karnali as well as smaller rivers rising below the permanent snowline. This region has a subtropical to tropical climate. The outermost range of the foothills called Sivalik Hills or Churia Range, cresting at 700 to 1,000 metres (2,300 to 3,280 ft), marks the limits of the Gangetic Plain; however broad, low valleys called Inner Terai Valleys (Bhitri Tarai Upatyaka) lie north of these foothills in several places.

1.3 POLITICAL & LEGAL SYSTEM

Nepal is governed according to its current Constitution and is the fundamental law of Nepal. 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 judicial system comprises of three types of court: Supreme Court, High Courts, and District Courts. Judicial power of Nepal is exercised by the courts and other judicial authorities pursuant to the Constitution and other laws and recognized principles of justice.

1.4 ECONOMY

Nepal is among the least developed countries in the world with a developing/emerging economy, with almost one-quarter of its population living below the poverty line. The Gross Domestic Product (GDP) in Nepal was approximately \$ 40.83 Billion US dollars in 2023, according to official data from the World Bank.

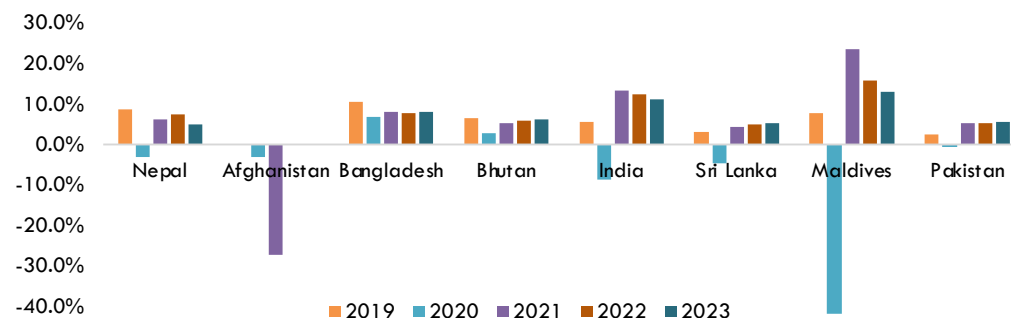
Agriculture is the major economic activity which employs about 65% of the population and contributes to about 26.5% of the GDP. Industrial activity mainly involves the processing of agricultural products, including pulses, jute, sugarcane, tobacco, and grain. Nepal’s natural resources, tourism, and hydroelectricity are regarded as the driving forces of the economy and significant progress has been made in these areas. Nepal has considerable scope for exploiting its potential in hydropower, with an estimated 42,000 MW of feasible capacity.

Other areas of opportunity and expansion include tourism. Nepal, especially its adventure tourism sub sector, has benefited from the recent boom in global tourism. This services sector, too, has enormous potential for future development. The export of readymade garments, woolen carpets, cardomons, pashmina products, leather & leather products, pulses, handicrafts, etc. have increased significantly in recent years. More importantly, in 2020 doing business report, Nepal jumped by 16 spots to 94 out of 190 countries in comparison to 110 rank of previous year in 2018 to 94 in 2020 .

1.5 NEPAL RANKING IN WORLD

S.N.	CREATERIA	RANKING
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5	Registering Property	97
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7	Protecting Minority Investors	79
8	Paying Taxes	175
9	Trading across borders	60
10	Enforcing Contracts	151
11	Resolving Insolvency	87

GDP growth rates of Nepal and regional economies

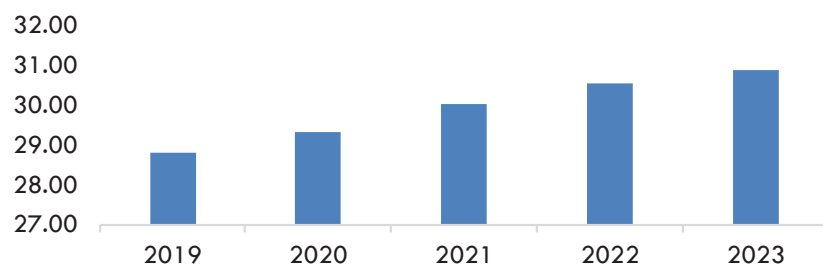


GDP Growth of Nepal in last five years is moderate in comparison to other South Asian Nations. Nepal grew on and average 3%-4% despite the challenges caused by the COVID pandemic. It has now projected to grow above 5% in the years to come.

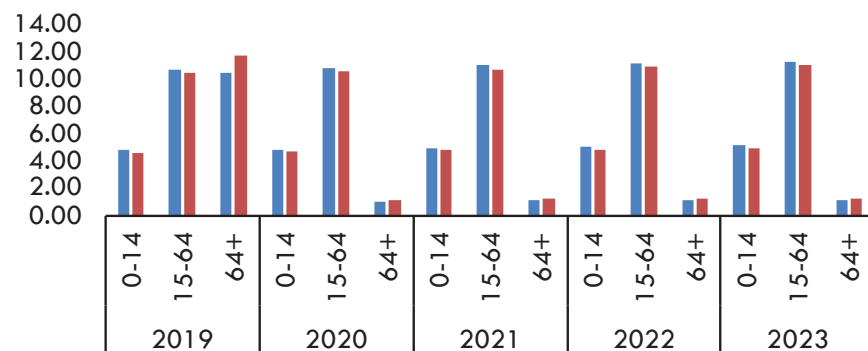
1.6 POPULATION, LANGUAGE, CURRENCY & LABOR PARTICIPATION

Nepal's population stands at approximately 30.9 million people. About 22.1% of the population resides in urban areas, and the sex ratio is 94.2 males per 100 females. While Nepali remains the primary language, English is widely spoken and commonly used for business transactions. The currency of Nepal is Nepalese Rupees (NPR). The currency of Nepal is pegged with Indian Currency (INR).

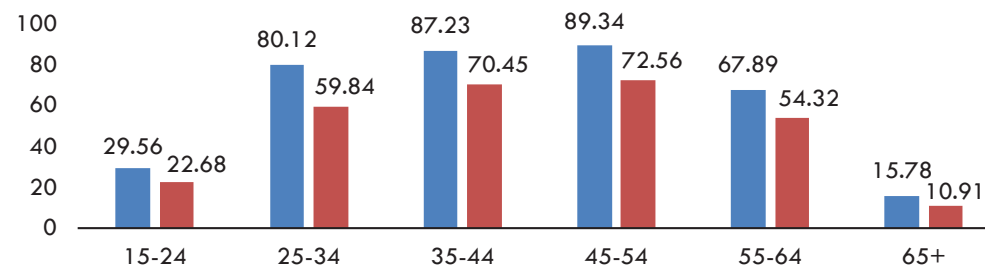
Population of Nepal (in Millions)



Population by age and sex (in Millions)



2023 Labour Force Participation Rate by Age and Sex



1.7 ECONOMIC INDICATOR

Year	Approved FDI (NPR in Billion)	GDP at Producer Price (NPR in Billion)	GDP Growth Rate (%)	GDP Per Capita Current US \$	Foreign Exchange Rate per 1 US \$	Exports (NPR in Billion)	Imports (NPR in Billion)
2018/19	16.5	3,456	6.34%	1,034	110.6	105.8	1,156.4
2019/20	18.2	3,518	-2.42%	1,047	113.5	109.5	1,276.8
2020/21	19.6	3,636	3.83%	1,045	116.2	111.2	1,366.7
2021/22	21	3,814	5.49%	1,051	118.9	115.1	1,456.3
2022/23	22.5	4,012	5.8%	1,075	120.3	120.3	1,546.9

Nepal's GDP growth experienced fluctuations over the past five years. It was strong at 7% in 2019, but the COVID-19 pandemic caused a sharp decline to 2.3% in 2020. A mild recovery followed with growth at 3.8% in 2021, slowing again to 2% in 2022 due to weak investment and industrial performance. In FY2024, growth improved to 3.9%, driven by tourism, hydropower, and agriculture. GDP per capita mirrored this trend, starting at \$1,047 in 2019, rising modestly over the years, and reaching an estimated \$1,232 in 2023, supported by remittances and gradual economic recovery. Further, though the value of export is not very big in comparison to the value of import, but still export are also growing in last few years.

1.8 NEPAL AS AN EMERGING DESTINATION FOR FOREIGN INVESTMENT

✓ Strategic Location

- Strategic location between two most populous countries, India and China
- Easy market access to adjoining borders
- Duty free and open border to India
- Duty free and Quota free access to EU.

✓ Labor Availability

- 57% active population (15-59 years)
- Low cost of labour
- Availability of cheap labor force compared to other peer countries
- Provision of social securities for labor
- Working visa, work permit & labor permit for foreign worker

✓ International and Regional Agreements & Treaties related to trade

- Member country of SAARC, MIGA, BIMSTEC, WTO, UNCTAD, BRI, UNESCAP
- BIPPA signed with France, Germany, UK, Mauritius and Finland
- DTTA signed with Austria, Bangladesh, China, India, Republic of Korea, Mauritius, Norway, Pakistan, Qatar, Sri Lanka & Thailand
- Bilateral agreement under Belt and Road Initiative Framework
- Treaty of trade and treaty of transit with India
- Transit and transport agreement with China

✓ Status in Index and Reports

- 3rd Most Favorable Business Climate in South Asia, Ease of Doing Business 2020
- 4th Most Competitive Economy in South Asia, Global Competitiveness Index 2019
- 5th Most Competitive Trade Logistics Performer in South Asia, Logistics Performance Indicator 2022

1.9 COUNTRY WISE FDI IN NEPAL UPTO FY 2023-24 (TILL JESTHA 2081)

Year	Approved FDI (NPR in Billion)	GDP at Producer Price (NPR in Billion)	GDP Growth Rate (%)	GDP Per Capita Current US \$	Foreign Exchange Rate per 1 US \$	Exports (NPR in Billion)	Imports (NPR in Billion)
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2022/23	22.5	4,012	5.8%	1,075	120.3	120.3	1,546.9

1.10 TREND OF INDUSTRIES ESTABLISHMENT WITH FDI

FY	2080/81 (Till Jestha)	2079/80	2078/79	2077/78	2076/77	2075/76	2074/75	2073/74	2072/73	2071/72	2070/71	2069/70
100% FDI	250	100	58	52	144	212	281	277	232	268	215	205
Domestic & Foreign JV	24	28	10	14	14	60	74	61	39	59	44	60
100 Local Investment	130	194	240	137	119	167	143	170	137	139	112	181
Total	404	322	308	203	277	439	498	508	408	466	371	446

Industry Registration Data



PART II :
**ENTERING
INTO NEPALESE
MARKET**



ENTERING THE NEPALESE MARKET

2.1 Operating as a Nepalese Company:

Wholly-Owned Subsidiary Company

A foreign company can set up a wholly-owned subsidiary company in Nepal to carry out its activities. Such a subsidiary is treated as a Nepali resident and a Nepali company for all Nepali regulations (including Income Tax, Foreign Exchange Regulation Act, 2019 and the Companies Act), despite being 100% foreign-owned.

Joint Venture with a Nepalese Partner (Equity Participation)

Although a wholly-owned subsidiary has proved to be the preferred option, foreign companies have also begun operations in Nepal by forging strategic alliances with Nepalese partners. The trend is to choose a partner who is in the same field/area of activity or who brings synergy to the foreign investor's plans for Nepal. Sometimes joint ventures are also necessitated due to restrictions on foreign ownership in certain sectors.

2.2 Operating as a Foreign Company:

A. Liaison Office

Setting up a liaison or representative office is a common practice for foreign companies seeking to enter the Nepalese market. The role of such offices is limited to collecting information about the possible market and to providing information about the company and its products to prospective Nepalese customers. Such offices act as listening and transmission posts and provides a two-way information flow between the foreign company and the Nepalese customers. A liaison office is not allowed to undertake any business activities other than liaison activities in Nepal and cannot, therefore, earn any income in Nepal, under the terms of approval granted by the NRB.

B. Branch Office

Foreign companies engaged in manufacturing and trading activities abroad can set up branch offices in Nepal for the following purposes, with the prior approval of NRB:

- Export/import of goods.

- Rendering professional or consultancy services.
- Carrying out research work in which the parent company is engaged that promotes technical or financial collaborations between Indian companies and a parent or overseas group company.
- Representing the parent company in India and acting as a buying/selling agent in Nepal.
- Rendering services in information technology and development of software in Nepal.
- Rendering technical support for the products supplied by parent/group companies.
- Acting as a foreign airline/shipping company.
- In general, manufacturing activity cannot be undertaken through a branch office.
- However, foreign companies can establish a branch office/unit for manufacturing in a Special Economic Zone subject to the fulfilment of certain conditions.



PART III :
REGULATION
OF FOREIGN
INVESTMENT

3.1 RELEVANT LAW GOVERNNING FOREIGN INVESTMENT

- The Foreign Investment and Technology Transfer Act, 2075 (2019)
- The Industrial Enterprises Act, 2076 (2020)
- Industrial Enterprises Development Institute Act, 2053 (1996)
- The Companies Act, 2063 (2006)
- Special Economic Zone Act, 2073 (2017)
- Public Private Partnership and Investment Act, 2076 (2019)
- The Environment Protection Act, 2076 (2019)
- Private Firm Registration Act, 1958 (2014)
- Bonus Act, 2030 (1974)
- Partnership Act, 2020 (1964)
- The Patent, Design and Trade Mark Act, 2022 (1965)
- Nepal Standards (Certification Mark) Act, 2037 (1980)
- Nepal Petroleum Act, 2040 (1983)
- Mines & Minerals Act, 2042 (1985)
- Standard Measurement and Weight Act, 2025 (1968)
- Accreditation Act, 2079 (2023)

There is no restriction on who can invest in Nepal. It can be individuals, corporate entities or firms. However, in certain sectors like financial institutions, investment can be made only by foreign financial institutions.

3.2 REGULATORY BODIES FOR FOREIGN INVESTMENT

- Department of Industries (“DOI”).
- Investment Board of Nepal (“IBN”).
- Nepal Rastra Bank (“NRB”)

3.3 FOREIGN INVESTMENT & TECHNOLOGY TRANSFER ACT (FITTA) 2019

The FITTA was enacted by GON to reform the existing legal framework of foreign investment in Nepal to attract more foreign investments. The new act has included other forms of foreign investment; in addition to the earlier provision of investment and re-investment in shares and Technology Transfer, such as Incorporating a Branch Office, Lease Financing, Investment in secondary stock market, Investment in equity through Venture Capital Fund and investment by issue of securities in foreign stock markets.

Negative List of FITTA 2019:

In the following sectors foreign investment is not allowed in Nepal:

- Poultry farming, fisheries, bee-keeping, fruits, vegetables, oil seeds, pulse seeds, milk industry and other sectors of primary agro-production,
- Cottage and small industries,
- Personal service business (hair cutting, tailoring, driving etc.),
- Industries manufacturing arms, ammunition, bullets and shell, gunpowder or explosives, and nuclear, biological and chemical (N.B.C.) weapons; industries producing atomic energy and radio-active materials,
- Real estate business (excluding construction industries), retail business, internal courier service, local catering service, money changer, remittance service,
- Travel agency, guide involved in tourism, trekking and mountaineering guide, rural tourism including homestay,
- Business of mass communication media (newspaper, radio, television, and online news) and motion picture of national language,
- Management, account, engineering, legal consultancy service and language training, music training, computer training, and
- Consultancy services having foreign investment of more than fifty-one percent.
- Ride sharing with foreign investment more than 70%

Mode of Investment in Nepal as per FITTA:

Foreign investment is allowed in industrial sector which has been classified as “Industry” under Industrial Enterprises Act, 2076 (2020) and includes the

- Investment in shares of an industry, in foreign currency,
- Reinvestment of dividend/profits from foreign currency,
- Investment through lease financing in airlines, ships, plant & machineries, and construction equipment (up to the prescribed threshold),
- Investment in equity through “Venture Capital Funds” (VCFs) by institutional foreign investors with approval of SEBON,
- Investment in listed securities through secondary market by VCFs,
- Investment through acquisition of shares or assets of existing companies registered in Nepal,
- Issuance of securities in foreign capital market through Banking Channels,
- Investment made through technology & know-how transfer agreement, and
- Investment maintained by establishing and expanding an industry in Nepal.

Approving Authority for Foreign Investment:

The FITTA requires that foreign investment and technology transfer should be approved by the approving authority according to the investment amount which is as follows:

- Foreign investment to be made as per this act shall be approved by the Department of Industry (DOI)

Limit on ownership:

Foreign investment can be made by purchasing upto 100 % of shares or property of an industry other than those listed in the negative list of FITTA 2019. However, there are certain sectors which has ceiling of foreign ownership, for example:

S. N.	Sectors	Maximum foreign ownership %	Relevant law
1	Telecommunication	80	Tele communication Policy, 2004.
2.	Aviation		Aviation Policy, 2006
	i. Domestic air passenger service	49	
	ii. International air passenger service	80	
	iii. Flying School	95	
	iv. Repair & Maintenance Institutions	95	
3.	Insurance	80	Directives on Registration of Insurer and Operation of Insurance Services 2019.

Time taken for a Foreign investor to obtain approval and set up business:

It generally takes about 2-3 months to obtain approval from DOI and NRB and set up business in Nepal for Foreign investors. However, if approval from IIPB/IBN is necessary, it may take up to 6 months.

Process: Setting up a foreign investment project in a new industry

The process of obtaining approval for foreign investment in Nepal for establishing a new Industry is as follows:

- Identify a project and initial consultation with approving authority stated above.
- File an application in the prescribed form together with the relevant document (foreign investment approval document) with the approving authority. The timeframe for the receipt of the investment must also be provided.
- An approval letter will be obtained within 7 days from the date of the application, if the application is complete in all respects.
- 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.
- Once approval of foreign investment is obtained, the investor must incorporate a company under the Companies Act 2006 and submit the relevant documents.
- Register the entity with the Inland Revenue Department and obtain a Permanent Account Number (PAN).
- Open Bank Account with the prior approval of NRB.
- Register the industry with the DOI and obtain an industry registration certificate.
- Register the business with the local authority.
- 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].
- Other approvals may be required prior to commencement of business, for Environmental clearances where applicable, and licenses for specific industries.
- Project Development Agreement (PDA) for PPP Projects and Project Investment Agreement (PIA) for Private Projects shall be negotiated for industries with project of more than NRP 6 Billion.

3.4 DOCUMENTS REQUIRED TO OBTAIN APPROVAL FOR FOREIGN INVESTMENT - NEW COMPANY

At IBN for FDI approval for projects above NPR 6 Billion:

- Preliminary Feasibility Report (must include following information)
 1. Project Design
 2. Estimated Cost of the Project
 3. Proposed Financial Resources
 4. Business/Operation Plan
 5. Preliminary EIA Report
 6. Proposed Revenue model
 7. Proposed Royalty / Fee to Government
- Joint Venture Agreement (JVA), in case of more than one investor,
- Citizenship certificate of local investor or Certificate of Incorporation, including Memorandum of Association and Articles of Association, Shareholder's register, tax clearance certificate if the local investor is a company
- Notarized Copy of passport of foreign investor or Certificate of Incorporation, including Memorandum of Association and Articles of Association if the party is a company
- Bio-data / Company profile of the foreign party
- Financial Credibility Certificate (FCC) of the Foreign Investor provided by a home country bank or domiciled country bank.
- Authority letter from the concerned companies or individuals to carry out any necessary work on their behalf, if applicable
- Other documents as demanded later based on the progress.

The refundable amount to be deposited at the time of Foreign Investment Approval after the operation of industry are as follows::

Range of Fixed Asset	Deposit
Fixed assets ≤2,500,000	4,000
2,500,000 < Fixed assets ≤5,000,000	7,000
5,000,000 < Fixed assets ≥ 10,000,000	10,000
10,000,000 < Fixed assets	20,000

The non-refundable fees for the Company Registration are as given below:

Range of Authorized Capital	Fee
500,000 < Authorized Capital ≤ 2,500,000	9,500
2,500,000 < Authorized Capital ≤ 10,000,000	16,500
10,000,000 < Authorized Capital ≤ 20,000,000	16,500
10,000,000 < Fixed assets	20,000

Similarly, the additional fee will be calculated at the rate of Rs. 30 per Rs. 100,000 of Authorized Capital

Credit: <https://www.doind.gov.np>

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- Preliminary Feasibility Report (must include following information)
 1. Project Design
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 3. Proposed Financial Resources
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 6. Proposed Revenue model
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- Joint Venture Agreement (JVA), in case of more than one investor,
- Citizenship certificate of local investor or Certificate of Incorporation, including Memorandum of Association and Articles of Association, Shareholder's register, tax clearance certificate if the local investor is a company
- Notarized Copy of passport of foreign investor or Certificate of Incorporation, including Memorandum of Association and Articles of Association if the party is a company
- Bio-data / Company profile of the foreign party
- Financial Credibility Certificate (FCC) of the Foreign Investor provided by a home country bank or domiciled country bank.
- Authority letter from the concerned companies or individuals to carry out any necessary work on their behalf, if applicable
- Other documents as demanded later based on the progress.

At DOI for Industry Registration

- Dully filled up online form,
- Copies of Company Registration, Tax registration, FDI approval, Memorandum & Articles of Association,
- No objection Certificate from Local Authority,
- Other documents of the Foreign Investment, as required by DOI.

At Nepal Rastra Bank for FDI approval

- FDI approval letter from DOI,
- Notarized copy of the Charter, certificate of incorporation, Memorandum & Articles of Association of the foreign company, and Nepalese translation thereof,
- Notarized copy of citizenship of local investor and notarized copy of passport of foreign investor or their authorized representative
- Tax Registration Certificate (PAN Certificate).
- Copy of Industry Registration of Local company
- Commitment letter from Foreign investor, for not taking back the investment for 1 year.
- Bank Statement of foreign bank of investor and proof of the Source of investment
- If Money is not coming at once, then should submit the investment schedule or a commitment to do investment as prescribed by the Industrial Enterprise Regulation
- Audit report of the Foreign Company as applicable (if more than one year of operation)
- Credit Information Bureau (CIB) report for not being blacklisted for Local Company
- Documents showing ultimate beneficiary in case foreign investor is a company

At Office of Company Registrar (OCR) for Company Incorporation

- Online Application to reserve the Name of the Company,
- Application along with Approved Name of the Company, Articles of Association and Memorandum of Association in 2 sets,
- Unanimous Agreement between promoters, if any,
- Promoters' minutes to register a company, if applicable
- FDI approval letter and JV if applicable from DOI,

- Citizenship certificate of local party or Certificate of Incorporation including Memorandum of Association and Articles of Association, if local party is a company,
- Copy of passport of foreign party/or Certificate of incorporation, including Memorandum of Association and Articles of Association, if participant is a company,
- Any additional documents as required by the OCR.

At Local Authority for Business registration

- Board minute for registration,
- Forms dully filled up,
- Copies of company registration certificate,
- Copies of Articles and Memorandum of Association,
- Copy of rental agreement (office),
- Deposit of TDS of Rent amount,
- Stamp of the company,
- Any additional documents as required by the Local Authority.

At Inland Revenue Department (IRD) for PAN registration

- Dully filled up online form and acknowledgement received online from IRD's website.
- Copies of company registration certificate,
- Copies of Articles and Memorandum of Association,
- Copy of rental agreement (office) with TDS deposit slip,
- Stamp of the company,
- Any additional documents as required by the IRD.

At Department of Industry

- Proposed Business Plan and Shareholding Structure
- Request from the Investor
- Request from the Seller
- Share Purchase Agreement (2 copies)
- In case foreign investor is a natural person, his/her notarized copy of the Passport or other ID proving citizenship and personal bio-data
- In case foreign investor is a company, notarized copy of Certificate of Incorporation, including Memorandum of Association and Articles of Association, Directors and shareholders register, company profile and

- Minute of board meeting deciding to invest in Nepal.
- In case foreign investor is a firm, notarized copy of certificate of registration, documents evidencing the partners of the firm, firm profile and minute of partners meeting deciding to invest in Nepal,
- In case foreign investor is a foreign citizen of Nepalese origin or Nepalese citizen residing abroad, documents evidencing such status.
- In case foreign investor is an International organization, charter documents of such organization, documents showing introduction of its directors, profile of the organization and its decision to make investment in Nepal.
- Original Financial Credibility Certificate (FCC) of the Foreign Investor provided by a home country bank or domiciled country bank
- Where the foreign investor cannot be present for application, authority letter from the concerned companies or individuals to carry out any necessary work on their behalf and documents showing identification of the individual who is given such authority.
- Any additional documents required by the FDI approving authority.
- Current Share Holders' List of local company as certified by the Company Registrar's Office
- Current Directors' List of local company as certified by the Company Registrar's Office
- Latest Auditor's Report of the local company
- Tax registration and Latest Tax clearance certificate of local company
- Valuation Report of local company

At Nepal Rastra Bank

- FDI approval letter from DOI
- Company Registration certificate
- Articles and Memorandum of the company
- Tax registration certificate and Tax clearance certificate
- Credit Information Bureau (CIB) report for not being black listed for Local Company
- Financial Credibility Certificate of the Foreign Investor provided by the bank
- Payment Schedule if the investment is coming in phases/tranches of as prescribed.
- Notarized Passport copy of Investor or Passport of the Authorized Representative if investor is a company
- Registration documents of the investor, if investor is a company

- Audit Report of the foreign company if investor is a company (if more than one year of operation)
- Letter of Commitment from Foreign investor
- Letter of declaration and proof of source of investment from Foreign investor
- Valuation Report of local company
- Documents showing ultimate beneficiary of foreign company with their IDs or Passport

3.5 THRESHOLD, TIME LIMIT TO BRING FDI, REINVESTMENT & PROVISION OF VISAS

Minimum & Maximum threshold for foreign investment

The current minimum investment threshold for a foreign investor is NPR 20 million (approximately USD 155,000). The amount can be invested in tranches within prescribed time frame.

No maximum ceiling of the amount to be invested and the share of investment by a foreign investor wishing to make investment in Nepal shall be prescribed. However, a limit may be imposed for investments:

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

Time limit to bring FDI into Nepal

FDI approval amount	Minimum amount to be brought within 1 year of approval
Up to minimum threshold (i.e., NPR 20 Million)	25% of approved amount
More than the threshold limits up to NPR 250 Million	15% of approved amount
More than NPR 250 Million up to 1,000 Million	10% of approved amount
More than NPR 1,000 Million	5% of approved amount

However, in any case, at least 70 percent of the approved amount must be brought prior to the commercial production or transaction and balance amount to be brought within two years from the date of the commencement of commercial production or transaction from such industry or business.

In case any foreign investor has taken approval for foreign investment by purchasing shares of an existing operating industry, then the investor has to make the investment within 1 year of such approval.

In case any industry with FDI has not brought foreign investment at the start of this FITTA RULES 2077, then such industry has to submit and get approved its foreign investment plan and bring the foreign investment according to that approved plan.

Reinvestment of Earnings from foreign investment

Foreign investor can invest, out of its earnings, in same industry or other industry where foreign investment is allowed. For such re-investment, the minimum threshold shall be adjusted as below:

Particulars	Minimum amount to be invested
Re-investment made in same industry	10% of existing threshold
Re-investment made in other Industry	Equal to the existing threshold

Provisions for Visas

Non-tourist Visa: Is allowed up to 6 months to the foreign national for conducting study, research and survey for foreign investment and for the period as per the industry requirements to high-skilled specialist, technical or managerial personnel after evidencing that equivalent workers are not available in Nepal after undergoing a vacancy procedure as per the prevailing laws.

Business visa: Is allowed up to the period of foreign investment to the investor and his/her family member or 1 authorized representative of the investor and his/her family member. Maximum of 2 person and their family members can obtain business visas if the investor is a company.

Residential Visa: Is allowed up to the period of foreign investment to foreign investors who invest greater than USD 1 Million at a time or its equivalent to the investor or its authorized representative and his dependent family members.

3.6 OTHER MODE OF INVESTMENTS AND REPATRIATION OF CAPITAL & DIVIDENDS

Other Mode of investment:

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. This provision will be applicable after the Nepal Government publishes a notice in Nepal Gazette.

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 the approval from the Ministry of Industry, Commerce and Supplies (MOICS) and NRB.

Repatriation of Capital and Dividends:

The foreign investor can repatriate capital and income earned from its operations after payment of all the taxes pursuant to Nepalese Laws and by using a bank transfer or transfers in the currency in which the investments were made, after obtaining approval.

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

- Amount received from the sale of share of foreign investment,
- Amount received on account of profit or dividend from foreign investment,
- In cases of liquidation, on cancellation of the company – the amount

- remaining after fulfilling all obligations,
- Royalty amount received from a technology transfer. (However, 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 rentals amount, amount received as compensation after the settlement of legal disputes or arbitration,
- Amount received from the auction of property situated in Nepal accepted as collateral in providing loan to any industry or company, in case of default of such loan,
- An amount prescribed by any prevailing laws.

Procedure for repatriation

Step I - Apply to DOI for approval of repatriation with following documents

- Application in the prescribed format
- Copy of the Board of Director's resolution
- Updated Shares and Directors Register from the OCR
- Latest Audited Financial Statements & Tax Clearance Certificate
- Endorsement letter from NRB as a proof of Foreign investment made and recorded in NRB
- Approved Share Sale/Purchase agreement
- Approval letter of Share sale/purchase form DOI/OCR
- Proof of payment of required tax in the concerned tax office,
- Decision of the BOD and AGM for the dividend and Bonus allocation / approval, in case of repatriation of dividend income
- Proof of distribution of bonus to employees as required by the Bonus Act, in case of repatriation of dividend income.
- In case company has gone into liquidation, Tax Clearance certificate and the proof of any residual amount,
- Share Valuation Report
- Approved technology transfer documents along with the calculation of the fees and Approved TTA/ lease rent agreement for repatriation of fees as per Technology Transfer Agreement (TTA),
- Letter of approval of the loan agreement, for sending out the principal and interest on foreign loan obtained with the approval of DOI,
- CIB Report whether blacklisted or not,
- Any other documents as may be required by the DOI.

Step II - Get Approval letter from DOI.

Step III - Apply to NRB for Repatriation for final approval along with the approval letter from DOI and all the documents submitted to DOI for the approval.

Step IV - After getting final approval from NRB, repatriate the sale proceed/loan/ income as the case may be.

3.7 MISCELLANEOUS PROVISION OF FITTA 2019

Single Point Service Centre

Government of Nepal through FITTA 2019 has introduced Single Point (One Window) Service Center to provide necessary concessions, facilities, rebates, services or incentives to the Foreign Investor 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

- Industry Registration, industry administration & its related services,
- Foreign Investment and loan approval,
- Company registration, administration & its related services,
- Labour & work permission (Work Permit),
- Visa Facilities,
- Environment Impact Assessment (EIA) Approval,
- Focal Point for energy & infrastructure development & necessary facilitation,
- Provide Permanent Account Number (PAN)
- Quality Measurement and control of products of the industry
- Concession, rebate & facilities for the Industries
- Approval for Foreign Exchanges
- Any other services required under FITTA and its rules.

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 issued in the capital market of the foreign country;
- Repatriation of foreign investment or income 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 citizens are not available for such positions. The concerned industry must provide the training and development to Nepali staff to eventually replace such expatriates and shall provide particulars of hired expatriates to the DOI. 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 can 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 arrangements, approvals and facilitations to identify the required land.

Funding opportunities in Nepal

Foreign entities can conveniently get access to funding from local financial institutions for short and long-term investments, including loans for working capital and trade financing.

Currently, the financial sector has 20 Class 'A' Commercial Banks, 17 Class 'B' Development Banks, 17 Class 'C' Finance Companies, 52 Class 'D' Micro Finance Financial Institutions and 1 Infrastructure Development Bank.

Apart from raising debt-based funding, investors may also consider securing equity based financing from the country's capital market. Nepal currently has one stock exchange, which is growing in tandem with the country's growth. As of January 2024, 249 companies are listed with market capitalisation of USD 25 billion.

3.8 INDUSTRIAL ENTERPRISES ACT (IEA) - 2020

Registration of an Industry

Industrial Enterprises Act, 2020 has been introduced repealing the Industrial Enterprises Act, 2016 (the "Previous Act"). The Act is a principal legislation for registration, establishment and pre/post operational compliances of industry. No person (either natural or legal) is permitted to operate its business without establishing industry under this Act. The IEA 2020 has decentralized the registration process by granting authority to provincial levels for registration, renewal and regulation of industries. However, following industries related to atomic energy, radioactive materials and industries related to atomic energy and uranium-based energy production shall be established and operated under GON:

- Industry requiring permission as listed in of the IEA 2020
- Established with Foreign Investment
- Related to the Schedule 5 of constitution
- Industry operating in two or more province
- Providing educational consultancy services pertaining to diplomatic matters.

However, the DOI, federal authority shall continue to be responsible for registration, renewal and regulation until the provincial governments make necessary arrangement in the provincial laws.

Every industry has to apply for registration before establishment or operation. The registration document has to be issued by the authority within 5 days if all documents are submitted along with application. Investor, if required, needs to conduct Environmental Impact Assessment (EIA) or Initial Environmental Examination (IEE), in some instance may require to give Brief Environmental Report without going to IEE or EIA process. IEA 2020 has introduced a new concept of unit industry, eliminating the concept branch industry. Any industry desirous of operating an industry at a different location from that of main industry shall do so by registering a unit of the industry. IEA 2020 requires all existing branch industries to either register itself as a separate industry within a year from the date of enactment of this act or establish it as a unit of the main industry.

Industry Classification on the Basis of Fixed Capital

S.N.	Industry	Fixed Capital (NPR in Million)	Other Criteria
1.	Cottage	-	Traditional skill and tech based, labor intensive using local resources, technology and energy usage of <50kwh
2.	Micro	< 2	Value excluding house and land owned by proprietor, 9 employees, annual transaction less than NPR 10 Million
3.	Small	< 150	Industries other than micro and small industries
4.	Medium	150 - 500	-
5.	Large	500	-

Industry Classification on the Basis of Nature of Product or Services

S.N.	Industry	Criteria
1.	Energy based	Industries mentioned in Schedule III
2.	Manufacturing	Industries producing goods using raw materials or semi or processed raw materials.
3.	Agro Forest based	Industries based on agriculture or forest products: Industries prescribed in Schedule IV
4.	Mineral Industry	Industry producing metal or minerals other than metals through excavation or processing.
5.	Construction Industry	Industries prescribed in Schedule - V operated using constructed physical infrastructure
6.	Tourism Industry	Industries related to tourism services as prescribed in Schedule VI.
7.	Information Technology, Information Transmission and IT service-based industry	Industries prescribed in Schedule VII
8.	Service Oriented Industry	Service production or service provider-based industries as prescribed in Schedule VIII

National Priority Industries

The following have been classified as national priority industries:

- Cottage Industries, Energy- Based Industries, infrastructure Industries
- Industries based on Agriculture and Forest Products
- Export Oriented Industries
- Adventure Tourism with Infrastructure, Rural Tourism, Environmental Tourism, Golf Course, Polo, Pony Trekking, Hiking Tourism, Rafting, Shaja Conference

Tourism, Sports Tourism, Religious Tourism, Cultural Tourism, Amusement Park Construction and Operation, Wildlife Sanctuary

- Mining and mineral industries, petroleum and natural gas and fuel exploration and production of clinker and cement using exotic limestone, lead fiber (pulp) and paper, sugar, chemical fertilizers (excluding mixtures), organic fertilizers, slippers, yarn production, animal husbandry, fish farming, poultry and bee keeping, Floriculture, early processing of rubber based on indigenous raw materials and production of rubber products, powdered milk, pharmaceutical products, waste and waste treatment, fuel saving equipment manufacturing industries, pollution reducing equipment manufacturing industries and equipment manufacturing equipment for the disabled, agricultural machinery and industrial machinery manufacturing industries, electricity.
- The industry of producing moving vehicles, the industry of making medicine for snake bites, the industry of producing artificial eye lenses.
- Hospitals, Nursing Homes, Veterinary Hospitals and Hospitals, Health Testing Services, Health Laboratories, Biological Research and Teaching and Training Institutions to be establishment outside of Kathmandu Valley, Area of Metropolitan and Sub metropolitan city of Terai area.
- Information Technology Industry, Film making
- Industrial zones to be built and operated by the private sector, special economic zones and industries established in industrial villages,
- The GON has set the required criteria and identified the high price and low weight volume (High Price Low Weight /Volume) and published the information in the Nepal Gazette.
- Industries manufacturing goods or services as determined by the National Integrated Trade Strategy (NTIS) approved by the GON.

Fixed Capital of Industry

Following asset shall be taken as base for determining the fixed capital of an industry:

- Infrastructures in land, underground, space, water or underwater
- Infrastructures on land (like sewage, Internal road, water canal)
- Industry's office, factories, building or warehouse.
- Housing constructed for employees or worker, capital equipment and objects
- Machineries and system, related with supply of electricity

- Machinery, equipment and their parts, Transportation vehicles, Furniture & fixtures
- Communication tools and so related equipment
- Also following expenses incurred during or before commencement of industry can also be considered as fixed capital.
- Capital nature technical and supervision expenses
- Previous investment or operational expenses, interest expenses of capitalised nature
- Environment research and study expenses before operation of industry

Other Highlights of Industrial Enterprises act

- The GON assured no nationalization, directly or indirectly acquire industries established under the IEA except for public interest after following the specified procedures.
- GON shall provide industrial security to all the industries.
- Medium or large-scale industry or cottage/ small scale industry with annual turnover of more than NPR 150 Million has to allocate at least 1% of its net profit for CSR activities every year. The amount so allocated should be used for the specified areas and shall be allowed as expenses for the purpose of tax provisions. Also, detailed progress report of CSR activity planned and performed during the year should be submitted to registering authority within 6 months of end of financial year.
- Notwithstanding anything provided in any prevailing laws, exemptions either fully or partially from payment of tax, duty, fees etc. shall be provided to industries which have been declared as sick with respect to the import of plant & machinery and tools for the purpose of extension, re-structuring or diversification of such sick industries.
- Industry can hire a foreign national for a maximum period of five years (may be extended for further two years), in a high level managerial position, where no Nepalese national can be hired because of the lack of skill and expertise, and recommended by the DOI with the permission from the Department of Labor.
- A foreign national, working in any industry with prior approval of the Department of Labor, may repatriate his/her salaries, allowances, emoluments, etc. in convertible foreign currency in an amount not exceeding 70% percent of such salaries, allowances and emoluments.

PART IV :
**TAXATION OF
NEPAL**



4.1 DIRECT TAX

Corporate Tax Rates:

Industry / Nature of Business	
Corporate tax rate	25%
Banks & Financial Institutions	30%
Entities Carrying out the Financial Transactions (Bittiya Karobar)	
General Insurance Business	
Merchant Banks, Telecommunication and Internet Services Industry, Money Transfer Capital Market, Commodity Future Market, Securities Brokers and Companies involved in securities business	
Entities producing/transacting in cigarettes, cigars, liquors and other related products	
Entities engaged in Petroleum Business under Petroleum Act, 2040	
Entities engaged in telecommunication and internet related services	
Dividend Distribution Tax rate	5%
Non resident carrying on air and water transport and Telecommunication services in Nepal : a.) If the goods and Passengers embarking from Nepal b.) If a person books a ticket from Nepal but the departure is from any foreign country	a.) 5% b.) 2%
Repatriation by Foreign Permanent Establishment (FPE) of a Non-resident	5%

Business Income

Income from business or profession is computed in accordance with the method of accounting regularly followed and subject to the adjustments/deductions as prescribed in the Ordinance. The income is subject to tax at the rates as mentioned above.

Tax on Cooperatives:

Co-Operatives	Tax Rate for FY 2080/81
Exempt Co-operatives covered under Section 11	Nil
Saving & Credit Co-operatives operated in Metropolitan City	20%
Saving & Credit Co-operatives operated in Sub-Metropolitan City	15%
Saving & Credit Co-operatives operated in Sub-Metropolitan City	10%
Other than Exempt/Saving & Credit Co-operatives operated in Metropolitan City	10%
Other than Exempt/Saving & Credit Co-operatives operated in Sub-Metropolitan City	7%
Other than Exempt/Saving & Credit Co-operatives operated in Sub-Metropolitan City	5%

Forward of Losses

Losses can be carried forward up to 7 years from the year of occurrence. However, in case of projects carried out under BOT (build-operate-transfer), projects involved in Electricity Power House, Generation and Transmission and business extracting petroleum products are allowed to carry forward up to 12 years. In case of long term contract obtained from international bidding losses can be carried back.

Annual Tax Returns

All taxpayers (assesses) are required to submit their tax return within three months from the end of financial year i.e. by 15 October (Approx.) of each year. An extension of three months may be requested and is generally granted. The financial statements 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 specified 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.

For Resident Person

Assessed as Individual			
Income Level (NPR)	Tax Rate FY 2081/82	Income Level (NPR)	Tax Rate FY 2080/81
Up to 5,00,000	1%*	Up to 5,00,000	1%*
Next 2,00,000	10%	Next 2,00,000	10%
Next 3,00,000	20%	Next 3,00,000	20%
Next 10,00,000	30%	Next 10,00,000	30%
Next 30,00,000	36%	Next 30,00,000	36%
Above 50,00,000	39%	Above 50,00,000	39%
Assessed as Couple			
Income Level (NPR)	Tax Rate FY 2081/82	Income Level (NPR)	Tax Rate FY 2080/81
Up to 6,00,000	1%*	Up to 6,00,000	1%*
Next 2,00,000	10%	Next 2,00,000	10%
Next 3,00,000	20%	Next 3,00,000	20%
Next 9,00,000	30%	Next 9,00,000	30%
Next 30,00,000	36%	Next 30,00,000	36%
Above 50,00,000	39%	Above 50,00,000	39%

* Does not apply to Proprietorship Income, Pension Income, Income from Contribution based Pension Fund, and the employment income of the person depositing the amount in the Social Security Fund (SSF)

For Non-Resident Person

S. N.	Nature of transaction	FY 2081/82	FY 2080/81
1.	Income earned from normal transactions.	25% flat rate	25% flat rate
a.	Income earned from providing shipping, air transport or telecommunication services, postage, satellite, optical fiber project.	5%	5%
b.	Income earned providing shipping, air transport of telecommunication services through the territory of Nepal.	2%	2%
c.	Repatriation by Foreign Permanent Establishment.	5%	5%

Other Points

1. Natural person working in remote areas is entitled to get a deduction from taxable income to a maximum of Rs. 50,000.
2. Social Security Tax shall not be applicable for natural persons having Pension income, Persons contributing to SSF & Proprietorship Firm.
3. Incapacitated natural persons shall be entitled to get a deduction from taxable income an additional 50% of the amount prescribed under the first tax slab.
4. A Resident natural person who has procured life insurance and paid the premium amount thereon shall be entitled to a deduction of the actual annual insurance premium or Rs. 40,000 whichever is less from gross taxable income.
5. A Resident natural person who has procured Health Insurance and paid the premium amount thereon shall be entitled to a deduction of the actual annual insurance premium or Rs. 20,000 whichever is less from gross taxable income.
6. A Resident natural person who has procured an Insurance Policy for his house and premium thereon shall be entitled to a deduction of the actual annual insurance premium of Rs. 5,000 whichever is lower from his gross taxable income.
7. In the case of the employee employed at the foreign diplomatic mission of Nepal only 25% of the foreign allowances are to be included in the income from salary.

8. In case the employee posted outside Nepal is getting a foreign allowance will get a 75% rebate of such allowance.
9. In the case of the female employee whose taxable income is only from employment then a 10% rebate is allowed on tax liability.
10. Any resident natural person having pension income will get an additional deduction from taxable income of the amount equivalent to 25% of the amount of the first slab from the taxable income.
11. In case of gain on disposal of listed securities owned by a resident natural person, the concerned stock exchange at the time of settlement of transaction shall levy tax at the rate of:
 - ✓ 5% of profit if held for more than 365 days and
 - ✓ 7.5% of profit if held for a period of 365 days
12. In case of gain on disposal of Non Business Chargeable Asset (Land & Building) tax shall be levied at the rate of:
 - ✓ 5% of profit if held for 5 years or more than 5 years
 - ✓ 7.5% of profit if held for less than 5 years
13. Tax shall be levied at the rate of 5% on any resident natural person not involved in the operation of the business but receiving payment in foreign currency for providing software or similar kind of other electronic service outside Nepal.
14. Tax shall be levied at the rate of 5% on any resident natural person not involved in the operation of the business but receiving payment in foreign currency for providing consultancy service outside Nepal.
15. Tax shall be levied at the rate of 5% on any resident natural person not involved in the operation of the business but receiving payment in foreign currency for uploading audio-visual material in social network.

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 Installment	Poush end (14th January approx.)	40% of total estimated tax liability of the year
2nd Installment	Chaitra end (13th April approx.)	70% of total estimated tax liability of the year
Final Installment	Ashad end (15th July approx.)	100% of total estimated tax liability of the year
Repatriation by Foreign Permanent Establishment.	5%	5%

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 instalments 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).

SECTION	CIRCUMSTANCE	FY 2023 - 24
Non filing of:		
117(1)(Ka)	Estimated Tax Return under Section 95 (1)	Higher 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

Residential Status

Individual:

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

Withholding Taxes

S. N.	Nature of transaction	FY 2081/82	FY 2080/81
A.	Interest income from deposit up to Rs 10000 under 'Micro Finance Program', 'Rural Development Bank', 'Postal Saving Bank' & Co-Operative (u/s-11(2ka) in Village Municipality areas	Exempt from tax	Exempt from tax
B.	Wind fall gains Wind fall gains from Literature, Arts, Culture, Sports, Journalism, Science & Technology and Public Administration amount received up to 5 lacs	25% Nil	25% Nil
C.	Payment of rent by resident person having source in Nepal However, no TDS on payment of rent to natural person.	10%	10%
D.	On dividend paid by the resident entity. -To Resident Person -To Non Resident Person	5% for both	5% for both
E.	On payment of gain in investment insurance	5%	5%
F.	On payment of gain from unapproved retirement fund	5%	5%
G.	On payment of interest or similar type having source in Nepal to natural person [not involved in any business activity by Resident Bank, financial institutions or debenture issuing entity, or listed company	6%	6%
H.	Payment for articles published in newspaper	No TDS	No TDS
I.	Interest payment to Resident bank, other financial institutions	No TDS	No TDS
J.	Interregional interchange fee paid to credit card issuing bank	No TDS	No TDS
K.	Interest or fees paid by Government of Nepal under bilateral agreement	No TDS	No TDS
L.	On payment of general insurance premium to resident insurance company	No TDS	No TDS
M.	On payment of premium to non-resident insurance company	1.5%	1.5%
N.	Contract payment exceeding Rs 50,000 for a single contract within 10 days.	1.5%	1.5%
O.	Interest & Dividend paid to Mutual Fund	No TDS	No TDS
P.	Payment of consultancy fee: - to resident person against VAT invoice - to resident person against non VAT invoice	1.5% 15%	1.5% 15%
Q.	Payment on contract to Non Resident Person -On repair of aircraft & other contract -Other than above	5% 5%	5% 5%
R.	TDS deducted on payment of dividend made by Mutual fund to natural Person	5%	5%

S. N.	Nature of transaction	FY 2081/82	FY 2080/81
S.	TDS on Payment by Resident Person for utilizing services related with Satellite, Bandwidth, Optical Fiber, equipment relating to telecommunications or electric transmission	10%	10%
T.	Dividend Paid by Partnership Firm to its Partners	5%	5%
U.	Payment for the freight to transportation service or Renting of Transportation vehicle (In case Service provider is Not registered in VAT)	2.5%	2.5%
V.	Payment for the freight to transportation service or Renting of Transportation vehicle (Service provider Not registered in VAT)	2.5%	2.5%
W.	Payment for the freight to transportation service or renting of Transportation vehicle (Service provider registered in VAT)	1.5%	1.5%
X.	Renting of Passenger Vehicle -VAT Registered -No VAT Registered	1.5% 10%	1.5% 10%
Y.	Payment made against question setting, answer evaluation	15%	15%
Z.	Payment to Non Resident Company against Commission paid for Reinsurance	1.5%	1.5%
AA.	Payment made to Consumer Committee	1.5%	1.5%
AB.	Interest paid by resident bank and financial institution to foreign Bank/ FI	5%	10%
AC.	Encouragement amount received by consumer of good and services for the payment made through payment cards, E-Money (Wallet), Mobile Banking and electronic payment during purchases as per the prevailing laws, no tax shall be deducted.	No TDS	No TDS
AD.	Interest on Deposit of Life Insurance Companies	5%	5%
AE.	Royalty to resident person for Literary articles or write up (Rachana)	1.5%	15%
AF.	Interest on Loan paid to Foreign Bank/FIs by the reservoir or semi reservoir based Hydropower above 200 MW,	5%	5%

Tax Collection on Services (TCS)

S. N.	Nature of transaction	FY 2081/82	FY 2080/81
A.	Profit and Gain from Transaction of commodity future market	10%	10%
B.	Payment made against question setting, answer evaluation	15%	15%
C.	Payment to Non Resident Company against Commission paid for Reinsurance	1.5%	1.5%
D.	Payment made to Consumer Committee	1.5%	1.5%
E.	Commercial Import of Buffalo, Goat, Sheep, Fresh & Frozen Fish, Fruits,	5% of Custom Value	5% of Custom Value
F.	On Import of Meat, Milk Product, Egg, Honey, Millet, Buckwheat, Junelo, Rice, Wheat Flour, Meslin Flour, Other Flours, Herbs, Sugarcane, Herbal products	2.5%	2.5%
G.	Foreign Currency Exchange service by resident bank for students going abroad for study making payment for language exam and standardized test	15%	15%
H.	Interest paid by resident bank and financial institution to foreign Bank/Fl	10%	10%
I.	In case of the encouragement amount received by consumer of good and services for the payment made through payment cards, E-Money (Wallet), Mobile Banking and electronic payment during purchases as per the prevailing laws, no tax shall be deducted.	No TDS	No TDS
J.	Payment received by a person in foreign currency for providing software or other electronic services of similar nature outside Nepal.	1% To be Collected by Bank/Fl/Money T/F	1% To be Collected by Bank/Fl/Money T/F
K.	Interest on Deposit of Life Insurance Companies	5%	5%
L.	Royalty to resident person for Literary articles or write up (Rachana)	1.5%	1.5%
M.	Interest on Loan paid to Foreign Bank/Fls by the Dam or PROR based Hydropower subject to certain condition	5%	5%
N.	A resident e-commerce operator while making payment for sale of goods, services or goods & services from its platform.	1% To be collected by the E-Commerce Operator	1% To be collected by the E-Commerce Operator
O.	Profit and Gain from Disposal of Shares: In case of Natural Resident Person <ul style="list-style-type: none"> ▪ Listed Shares held for more than 365 days ▪ Listed Shares held for 365 days or less ▪ Non Listed Shares Resident Entity <ul style="list-style-type: none"> ▪ Listed Shares ▪ Non Listed Shares Others <ul style="list-style-type: none"> ▪ Listed Shares ▪ Non Listed Share 	5% 7.5% 10%	5% 7.5% 10%

4.2 INDIRECT TAX

Value Added Tax (VAT):

Standard VAT rate of 13% is applicable on supply of both goods and services in Nepal. Certain prescribed goods and services are chargeable at 0%. Also, there are some items that are exempted from VAT. VAT is imposed on goods and services at each stage of import, manufacturing, supply and trading. Input tax credit is available at each stage where goods and services are supplied at standard VAT rate of 13% & 0%. Recipient of service is liable to pay VAT under reverse charge in respect of import of service.

Goods and services notified in Schedule 1 of the Act are charged VAT at 0% & Schedule 2 of the Act are exempt from payment of VAT.

Person supplying the goods crossing transaction threshold of NPR 5 million and supplying services or goods & services both crossing the limit of NPR 3 million are required to be registered under VAT. However, certain prescribed good & service providers are required to mandatorily register themselves in VAT regardless of the transaction threshold.

VAT is payable on a monthly/ trimester basis within 25th of next month/ trimester and monthly/ trimester VAT return is also required to be filed within 25th of next month. At present VAT return can be filed online through IRD's website.

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.

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

Custom Duty

Customs duty is levied on the import of goods into, and export from Nepal. The rate of customs duty applicable to a product to be imported/exported depends upon on its classification under the Schedule 1 & 2 of Finance Act, 2081. The Customs Tariff is aligned with the internationally recognized Harmonized Commodity Description and Coding System of Tariff Nomenclature (HSN) provided by the World Customs Organisation.

Customs Duty is calculated at the Nepal border on the import of goods and is based on the transaction value. The valuation system is aligned with the WTO/ General Agreement on Tariffs and Trade (GATT) valuation. On items that are commonly imported, duty is levied on an ad valorem basis. There are few exceptions, where duty is based on quantity (volume or weight).

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 0% to 80% of the transaction value.

4.3 ANTI-TAX AVOIDANCE ARRANGEMENTS

Bilateral Double Taxation Avoidance Agreements (DTAA)

For foreign investors, double taxation may be avoided on the basis of Bilateral Double Taxation Avoidance Agreements (DTAA). GON is authorized to negotiate Double Taxation Agreements (DTA) with foreign countries to promote FDIs in Nepal. The DTA is an agreement between two countries seeking to avoid double taxation by defining the taxing rights of each country with regard to crossborder flows of income and providing for tax credits or exemptions to eliminate double taxation. DTAA enable exchange of information between treaty partners regarding evasion of tax. Currently Nepal has signed bilateral tax treaties with 11 countries (Austria, Bangladesh, China, India, Republic of Korea, Mauritius, Norway, Pakistan, Qatar, Sri Lanka and Thailand).

General Anti-Avoidance Rule (GAAR)

General Anti-Avoidance Rule means any arrangement, one of the main purposes of which is the avoidance or reduction of the liability to tax. For the purpose of determining tax liability under the Income Tax Act, the IRD may:

- Re-characterize an arrangement or a part of an arrangement that is entered into or sought to be entered into as part of a tax avoidance scheme,
- Disregard an arrangement or a part of an arrangement that does not have substantial economic effect, or
- Re-characterize an arrangement or a part of an arrangement that does not reflect its substance.

Income Splitting

In case a person attempts to split income with another person, and in case it is found that will cause a reduction in the amount of tax payable, the Department may, by notice in writing, adjust amounts to be included or deducted in calculating the income of each person to prevent any such reduction in the amount of tax payable.

The attempt to split the income includes, but not limited to, a transfer of the following amounts so as to reduce the total tax payable by the person or an associate, either directly or indirectly through one or more interposed entities:

- Amounts to be derived or costs to be incurred, or
- An amount received or enjoyed by the transferee of an asset (i.e., derived from the asset); or the amount paid or expenses incurred in owning the assets.

To determine whether the person is splitting his/her income, IRD or IRO shall consider the market value of any payment made for the transfer.

Transfer Pricing

In any arrangement between persons who are associates, the Department may, by notice in writing, distribute, apportion, or allocate amounts to be included or deducted in calculating 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.

In making any adjustment, 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 person in conducting a business that benefit an associate or associates in conducting a business to the associates based on the comparative turnovers of the businesses.

Income Tax Act, 2002, contains provisions as to the power conferred to IRD to re-characterize any transactions between associates in case IRD thinks that the transactions are not in arm's length. A detailed Transfer Pricing Guidelines 2081 has been issued by IRD.

In case a tax jurisdiction does suspect that the transaction between the entities of an Multi National Enterprises group is not in arm's length, then the taxation authority may re-characterize the transactions based on Arm's Length.

Foreign Tax Credit

In case that a resident person has paid overseas income tax on its taxable income derived from sources outside Nepal, the income tax paid overseas can be adjusted against its tax payable in Nepal. However, the adjustable amount of overseas income tax cannot exceed the amount of income tax otherwise payable in Nepal in respect of non-Nepal sourced income. If the taxpayer wishes for deduction of foreign tax from its foreign income, the deduction is permitted.

PART V :
**EXEMPTIONS,
BENEFITS &
FACILITIES**



5.1 UNDER INCOME TAX ACT

Tax incentives are given under the Income Tax Act for various category of industries including tax concessions for establishment in rural and remote areas and also on the basis of employment generation etc. The summary of such incentives are given below:

Industries based on tobacco and alcohol are not entitled to receive any income tax facilities and concessions. However, their expenses on employee welfare, expenses or investment on system or machinery tools to reduce environmental impact, R&D, expenses to increase energy efficiency is deductible.

Industry will have a choice of selecting any one of the exemptions if it is eligible for multiple exemption for same income.

Except for the industry based on tobacco, liquor and casinos, all other industries shall utilize its accumulated profits for expansion of its capacity or investment in equity of production based, energy based, agricultural/forest produce based industry and dividends received from such investments will be exempt from dividend distribution tax.

Cottage and small-scale industries registered and in operation before enactment of this Act and those registered with fixed capital up to NPR 10 Million shall get tax concession of 50%.

S.N	Aseeesee	Criteria	Exemption
1	Any person other than Registered Firm, Company, Partnership & Corporate	Agricultural Activities Earning agricultural Income other than earned on agricultural business in land as referred to in clauses (d) and (e) of section 12 of Land Act, 2021. But As per clause 1 of negative list of FITTA, foreign investment is disallowed in agricultural activities.	100%
2	Registered firm, company, partnership & corporate	Activities related to agricultural business, vegetable dehydration and Cold Storage BUT As per clause 1 of negative list of FITTA, foreign investment is disallowed in agricultural activities.	100%
3	Any Cooperatives or Association registered with Cooperative Act 2074	a) Income derived from sericulture and silk production, fruit farming, production and processing of fruits, animal husbandry, dairy farming, poultry farming, fish farming, tea farming and processing, coffee farming and processing, ginger farming and processing, vegetable seed production, beekeeping, honey production, rubber farming, and community forestry, as well as businesses related to agricultural and forest products, b) Dividend distributed by such organization	100%

4	Any Person	Interest Income Earning interest income from deposits in a micro financial institution, rural development bank, postal saving bank and cooperative pursuant to sub-section (2) upto Rs. 25000 p.a	100%
5	Special Industries	Agricultural production or manufacturing industry not producing alcohol or tobacco product Fully operated throughout the year But As per clause 1 of negative list of FITTA, foreign investment is disallowed in agricultural activities.	20%
6	Special Industry and Information technology industry (Employment Based)	Direct employment to: a) 100 or more Nepali Citizens in a year b) 300 or more Nepali Citizens in a year c) 500 or more Nepali Citizens in a year d) 1000 or more Nepali Citizens in a year	a) 90% b) 80% c) 75% d) 70%
		100 or more Nezdisable	10% Additional
7	Special Industry (Area Based)	Exemption for 10 Year after commencing production or transactions located in: a) Remote b) Undeveloped c) Less Developed But If any other person has used the properties for the operation of the industry of the same type previously, the period during which they have been so used shall also be reckoned, while reckoning the time-limit	a) 90% b) 80% c) 70%
8	Special Industry (Established on mountainous areas of Karnali and Farwestern Province)	Direct employment to: a) 100 or more Nepali Citizens in a year	100% for first 15 Years from the date of start of operation of business
9	Special Industry (Based on new or additional investment)	a) Newly setup industry or tourism industry (except Casino) - Invested more than 1000 million rupee, gives direct employment to more than 500 persons b) Existing industry - Increased its current capacity by at least 25%, make its existing capital more than 2000 million rupee and give direct employment to more than 300 persons	After commencement of operations a) First 5 years-100% Next 3 years-50% b) First 5 Years- 100% Next 3 Years-50% (On income from enhanced capacity)

S.N	Aseessee	Criteria	Exemption
10	Industry located in Special Economic Zone (Transaction or operation have already started)	a) Mountainous and hilly district specified by GON	a) First 10 years-100% Subsequently -50%
		b) SEZ other than specified above	b) First 5 years-100% Subsequently-50%
		c) Dividend distribution	First 5 years-100% Next 3 years-50%
		d) Foreign technology or management service charge or royalty income of foreign investor	50%
		But If the property is an old property used by other person for the operation of industry or business of the same kind or other kind, the facilities shall not be available	
11	Any Person engaged in exploration and excavation of minerals,petroleum product, natural gas and fuel	Business started till Chaitra 2080(mid-April 2024)	After commencement of operation First 7 years-100% Next 3 years-50%
12	Industry located in specified zoological, geological, biotech park, operation and technology park	Income from Software development, data processing, cybercafe, digital mapping fees But If the property is an old property used by other person for the operation of industry or business of the same kind or other kind, the facilities shall not be available	50%
13	Licensed person or entity engaged in electricity business	a. Production, transmission or distribution of electricity (Hydro, solar, wind & biological substance) started till chaitra 2084 (mid march 2028).	After commencement of business First 10 years-100% Next 5 years-50%
		b. Reservoir and semi reservoir water Hydropower projects with a capacity of 40 megawatts whose financial closure has been completed within chaitra 2085 and lower coastal hydropower projects that will be operated in tanam with those projects.	First 15 Years- 100% Next 6 Years- 50%
14	Export Oriented Industries	Income earned from exportation of goods or services a) By resident individual taxable @ 20% b) By resident individual taxable @ 30% c) other entity d) Earning foreign currency by Business process outsourcing, software programming, cloud computing, etc	a) 25%b) 50%c) 20% d) Till FY 2084/85, 50% on Foreign Currency earnings.

S.N	Aseessee	Criteria	Exemption
15	Any Entity	Income earned from following activities are exemted for 10 year after the commencement of operation	
		a) operation of a tram or trolley bus	a) 40%
		b) build and operation of a ropeway, cable car or sky bridge	b) 40%
		c) construction and operation of road, bridge,tunnel road, tunnel, railway and airport	c) 50%
16	Listed entity	Income from a) production based, tourism service, hydropower generation,distribution and transmission b) software development, data processing, cybercafe, digital mapping located in zoological, geological, biotech park operationand technology park63 specified by the Government of Nepal	15%
17	Entity engaged in brandy, cider & wine based on fruits	Located in a) Remote area b) underdeveloped area	After commencement of operation a) 40% b) 25%
18	Any person	Income from Intellectual property right by way of a) Royalty Income b) Transfer/sale of IPR	a) 25% b) 50%
19	Entity engaged in tourism or airlines company	Operating international flight or tourism related company with capital investment more than 1000 million rupee	After commencement of operation First 5 years-100% Next 3 years-50%
		Operating international flight tourism related company with capital investment more than 3000 million rupee	After commencement of operation First 10 years-100% Next 5 years-50%
		Operating international flight tourism related company with capital investment more than 5000 million rupee	After commencement of operation First 15 years-100%
20	Special industry or industry related to tourism sector	Dividend Distribution Capitalizes its accumulated profit into shares for increase in capacity have distributed dividend from such capitalization	100%
21	Company (Conversion from Private to Public)	Paid up capital 500 million or more. However, companies established under the Company Act, 2063 shall not be eligible for these benefits.	First 3 years-10%
22	Entity engaged in tea, dairy or textile industry	1. Domestic tea producing and processing industry, dairy industry having transaction in milk products 2. Textile industry	50%
23	Community Institution	Health institution operation	20%

S.N	Aseessee	Criteria	Exemption
24	Micro-enterprise	Commencement of Business/Transactions But Due to clause 2 of negative list of FITTA 2019, such investment is disallowed for foreign investor	First 7 Years-100% Additional 3 Years (If operated by women entrepreneur)
25	Entity	1. operates any project such as building 2. operate public infrastructure to be transferred to GON 3. Building powerhouse 4. Generation & Transmission of electricity	20%
26	Special Industry(Industrial region or village)	Established and operated on industrial region or industrial village	After commencement of operation or transaction First 3 years-50% Next 5 Years- 25%
27	Any Person	Raw material or Auxillary Raw material produced in nepal and sold to special industries.	20% on such income
28	Start up Business with annual income upto 1 crore Nepali rupees	a.) with innovative knowledge, thinking, skills, diversity etc.	100% for first 5 Years after commencement of operation.
29	Any special industry operating in the Kathmandu Valley	Relocates outside the valley	After commencement of operation after relocation First 3 years-100% Next 2 Years- 50%
30	Industries	Producing new products that have a significant impact on the environment	After commencement of operation For first 3 years-50% Next two years-25%
31	Industries	Producing vaccines, oxygen gas, and sanitary pads	After commencement of operation For first 5 years-100% Next two years-50%
32	Indutry established with in Ashar 2082	Production and assembly of electric vehicles	After commencement of operation For first 5 years-100%
33	Industries	Production of agricultural tools	After commencement of operation For first 5 years-100%
34	Any person engaged in construction or operation of infrastructure	Agreement with Government of Nepal for construction and operation of any infrastructure and income earned from such activities till its conclusion	The tax facilities provided by the relevant laws in effect at the time of that agreement

Notes:

1. If any person carries on transactions qualifying for different tax exemption facilities as mentioned above, income shall be computed to obtain such facility as if that income were derived by separate persons
2. A person who is in a position to have more than one exemption in respect of the same income pursuant this Section shall enjoy only one exemption chosen by him.

Meaning:

1. "Agricultural business" means a business of producing crops from a public or private land or acquiring rent or crops from a tenant using the land.
2. "Special industry" means a production based industry, industry based on agriculture and forest products and mineral industry as classified in subsection (2) of Section 15 of the Industrial Enterprises Act, 2076 (2019) other than any industry producing cigarette, Bidi, cigar, tobacco, Khaini, Gutkha, Pan Masala, other goods of the same nature involving tobacco as the principal raw materials, liquors, beer and products of similar kind.

5.2 UNDER CUSTOM ACT

Industries registered under this IEA will be entitled to the following exemptions, benefits or facilities:

- Export industries not utilizing the bonded warehouse facility or cash deposit can claim duty drawback through One Stop Service Centre (OSSC).
- Industry not using bonded warehouse facility but exports its products through proper banking channel or sells its goods inside the country in foreign currency, can import raw materials, auxiliary raw materials or packaging materials (provided it is certified and recommended by DOI that packaging material is not produced in Nepal) by providing guarantee in line with customs regulation.
- Customs duty of raw materials, auxiliary raw materials and packaging materials will be one slab lower than applicable for the imported finished goods made from such materials.
- Industry can import machinery, transformer, generator with the capacity of more than 10 KW and industrial tools in the lowest slab of customs duty.
- Quality testing laboratory can import machinery and scientific equipment for the purpose of testing quality as well as machinery and equipment for

research and development in the lowest slab of customs duty.

- Those industries producing Intermediate goods used for exporting industrial goods shall be eligible for refund of duty paid in input goods on the ratio of actual export. Such application is to be made within 1 year of export.

5.3 BENEFITS AND CONCESSIONS FOR MICRO INDUSTRIES

No registration charges and fees is levied on micro industries and are entitled to receive full income tax exemption from the date of its enactment.

5.4 CONCESSION FOR WOMEN ENTREPRENEURS

Industry, with ownership of women entrepreneurs only, is entitled to 35% discount on industry registration and 20% discount on industrial property registration. Priority is given to women entrepreneurs in allocating areas for establishment of industry in industrial zones and are entitled to receive export loan as per their credibility to export their industrial products.

5.5 ADDITIONAL BENEFITS AND CONCESSIONS UNDER INDUSTRIAL ENTERPRISE ACT

The following additional exemptions, benefits and concessions are available to specific industries:

- Right to use of Particular forest area can be provided on lease with agreed terms and conditions to forest products-based industry as per the prevailing law.
- No royalty or charges will apply to electricity produced for own consumption and any spill-over electricity produced can be sold in mutually agreed rate.
- GON via official gazette can provide additional concession or benefits to export industry, industry established in SEZ, governmental or private industrial area.
- Additional exemption, benefits and concession can be provided after recommendation by Board to the industry under national priority, industry using domestic raw materials, industry doing optimum utilization of labor and skills and industry established by invention of goods & technology.
- Depending upon the proportion of non-supply of electricity to the industry, concession on demand charges levied on bills paid by the industry for electricity, may be provided by the GON.
- GON shall provide seed capital to cooperative, micro industry, cottage and

small industry to establish industry in Remote areas.

- Industry established with foreign investment, or multi-national company, can import new products or goods, produced by its mother company in other country, into Nepal for limited period with stated terms and conditions, to promote it or for its market development.
- Except for the industry based on tobacco, liquor, industry mentioned in Section 17(2) like production based, agricultural/forest produce based industry & mining industry can be provided exemption, facility and concession specified by GON.
- Concession on import duty can be provided on import of machinery, equipment, tools and new technology for increasing capacity of a micro, cottage & small industry.
- The GON can provide for additional exemption, facilities and concession for industrial area, product specific zone and industrial village.
- The GON can provide for additional exemption, facilities and concession for industry registered in extremely undeveloped, undeveloped and underdeveloped areas.
- Industry established in industrial area, cluster, corridor or village can be provided specific benefits by GON.

PART VI :
**OTHER
RELEVANT LAW
FOR ENTITIES
BRINGING
FDI**

50%

20%

30%



6.1 LABOR ACT 2017

Labor 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 services, Nepal army, Nepal police, Armed police force etc.
- Entities incorporated under other prevailing laws or situated in Special Economic Zones (SEZ) to the extent separate provisions are provided.
- Working Journalists, unless specifically provided in the contract.

Types of Employment

- Regulars: 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.

Foreign National Employees

Foreign National cannot be appointed as an employee without getting permission from the Labor Department through employment agreement either in a language understandable by the foreign national or in English.

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

Prior to engaging a foreign national in work, the entity must publish an advertisement in national level Daily Newspaper to fill the vacant posts by Nepali citizens. If no application is submitted or if no local skilled person is available for any work after the vacancy publication foreign national can be hired for the work with the approval of Labor Department.

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.

Probation Period

The probation period is 6 months.

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.

Minimum Wages / Remuneration

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

1. Tea Estate Minimum Wages:

Period	Basic Pay	Dearness Allowance	Total
Monthly	8,934	4,959	13,893
Daily	323	177	500
Hourly	43	23	66
Daily Allowances for the workers at tea refinery and tea factories including Sardar, Naike and Gatekeeper working in the tea estate			63

2. Other Enterprises Minimum Wages:

Period	Basic Pay	Dearness Allowance	Total
Monthly	10,820	6,480	17,300
Daily	418	250	668
Hourly	56	33	89
Per hour minimum remuneration of the part time employees			95

Retirement Benefits

A. Provident Fund

- Rate: 10% of basic remuneration.
- Eligibility: since the first day of employment.
- Time of Allocation: Every month (time of payment of remuneration)
- Deposited in Social Security Fund (Previously deposited in EPF or any other approved Retirement Fund; or paid in cash along with remuneration).

B. Gratuity

- Rate of Gratuity: 8.33% of basic remuneration
- Eligibility: since the first day of employment
- Time of Allocation: Every month (time of payment of remuneration)
- Deposited in: Social Security Fund(Previously deposited in EPF or any other approved Retirement Fund; or paid in cash along with remuneration).

C. Leave Encashment

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

D. Leave and Holidays

Employee shall get paid leave as below:

- Weekly leave of 1 day in each month.
- 13 days of public holiday including May 1st for (male workers) and 14 days of public holiday including international Women day for female employees
- Home leave at a rate of 1 day for every 20 days of service
- Fully paid sick leave of 12 days per year
- Pregnant woman can get leave up to 14 weeks, fully paid for 60 days. Male employee can get up to 15 days, fully paid paternity leave if his wife is pregnant
- Mourning leave of 13 days if father/mother died in case of male worker. Also, allowed to female worker if she is required to stay in mourning on the death of her father/mother or her father-in-law/mother-in-law.
- Leave in lieu for the employees put in work on public holiday or weekly off Employee can accumulate leave up to 90 days of home leave and 45 days of sick leave and excess accumulation should be en-cashed every year.

Other Benefits

Other benefits are provided in the table below:

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

6.2 BONUS ACT - 2030 (1974)

Amount of Bonus to Employees

Each profit-making enterprise (factories and commercial establishments other than a government owned enterprise) must allocate an amount equivalent to 10% of its net annual income of the financial year to be paid as a bonus to its employees.

Conditions

Employees should have worked at least half of the total period during the financial year to be eligible for bonus. Overtime is not counted for this purpose. For Employees working less than the prescribed period, Bonus amount shall be deducted proportionately

Limit of Bonus Amount

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

Employee shall not get bonus in excess of:

- Amount up to 8 months of salary or remuneration or wage if the monthly salary or remuneration or wage is up to two times of the minimum remuneration fixed by the GON.

- Amount up to 6 months of salary or remuneration or wage if the monthly salary or remuneration or wage is more than two times of the minimum wage fixed by the GON.

Payment

A bonus is required to be paid 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. The bonus shall be paid in cash.

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 of Nepal); and,
- 30% must be deposited with the national level welfare fund.

Reporting to Labor Department

After completion of Bonus distribution, a report in the prescribed form shall be submitted to the Labor Department within 7 days.

6.3 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:

Bhairahawa SEZ	Dhanusha SEZ
Simara SEZ	Kapilvastu SEZ
Nuwakot SEZ	Rautahat SEZ
Nepalgunj SEZ	Jumla SEZ
Panchkhal SEZ	Siraha SEZ
Jhapa SEZ	Dhangadi SEZ
Biratnagar SEZ	Gorkha SEZ

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 to the industries inside SEZ are briefly set out as follows:

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

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

Income Tax Concessions under the SEZ Act:

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).

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.

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.

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:

- Amounts received from a partial or complete disposal of the shares acquired with a foreign currency;
- Dividends received from the foreign investment; and,
- 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.

Others

Opening of bank account

Foreign investors are required to transfer their investment amount to the bank account of the local company. In order for the local company to open a bank account, a decision of the board of directors, along with signatories, will need to be submitted along with other documents such as certificate of registration of company, MOA, AOA, PAN certificate etc.

Business specific license (if required)

A private company can commence its business once it is registered. Only certain types of businesses require a business-specific license. For example, energy, telecommunication services, banking, insurance, travel etc. require license from the specified government agency or regulator. In addition to applicable licenses, a public limited company is required to obtain a certification of commencement of business from the OCR before starting the business.

Sector	License Authority
Hydropower	Department of Electricity
Banking and Financial Institutions	NRB
Information & Communication Technology	Nepal Telecommunication Authority
Transport	Department of Roads
Education	Department of Education
Health Care	Department of Health Services
Agriculture	Department of Agriculture
Tourism	Department of Tourism
Mines and Minerals	Department of Mines and Geology

Environmental Clearance

Only certain industries that may have an impact on health & the environment are required to obtain environmental clearance. There are two types of environmental studies: Initial Environment Examination (“IEE”) & Environmental Impact Assessment (“EIA”). The Environment Protection Rules 1998 has listed the industries which are required to conduct IEE or EIA. The list of industries required to conduct IEE and EIA are regularly updated by the GON by publishing a notice in the official Gazette. Generally, EIAs are conducted in large scale projects like hydropower generation plants with capacity of more than 50 MW whereas hydropower generation projects with capacity of less than 50 MW are required to conduct IEE. Similarly, hotels with 50-100 beds are required to conduct IEE and hotels with more than 100 beds have to conduct EIA. Further, the law also provides for requirement to obtain pollution control certificate. However, this provision has not been implemented in actual practice.

PART VII :
**EXIT
PROVISIONS**



6.1 EXIT PROVISIONS

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.



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